Petro Welt Technologies

WE GO HIGH

Integrated Annual Report 2017

Financial Key Figures

in EUR thousand	2017	2016	Change
Sales revenues	353,023	304,379	16.0%
Gross profit	63,043	56,735	11.1%
	17.9%	18.6%	
EBIT	36,753	39,717	-7.5%
EBIT margin	10.4%	13.0%	
EBITDA	83,103	81,474	2.0%
EBITDA margin	23.5%	26.8%	
Group result	31,015	25,499	21.6%
Earnings per share (EUR)	0.63	0.52	
Balance sheet total*	437,944	420,775	4.1%
Equity*	241,956	233,333	3.7%
Equity ratio*	55.2%	55.5%	
Cash flow from operating activities	77,736	78,378	-0.8%
Cash flows (used in) / from investing activities	(104,781)	(15,411)	579.9%
Cash flow used in financing activities	-	(664)	-100.0%
Cash and cash equivalents	68,887	102,964	-33.1%
EUR exchange rate at the end of the reporting period	68.8668	63.8111	7.9%
EUR average exchange rate for the reporting period	65.9014	74.2310	-11.2%
Employees (average)	3,535	3,313	6.7%

* As at 31 December

Stock Key Figures

German securities ID no. (WKN)	A00Y7
ISIN	AT0000A00Y78
Ticker symbol	O2C
Share class	No par value bearer shares
Authorized capital	EUR 48,850,000
Share capital	EUR 48,850,000
Free float	12.94%
Number of shares	48,850,000
Year's high (27 February 2017)	EUR 8.97
Year's low (27 September 2017)	EUR 6.00
Closing price (29 December 2017)	EUR 6.70
Stock exchange listings	SDAX, Prime Standard

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Highlights 2017

April 2017

Results 2016: Petro Welt Technologies AG significantly improved its level of profitability
Petro Welt Technologies AG significantly improved all kinds of margins. Revenues in Russian rubles increased by 3.4% in 2016 compared to the same period of the previous year. Revenues in EUR for the year 2016 totaled EUR 304.4 million.

May 2017

Moody's again confirmed Petro Welt Technologies AG's Ba3 rating with stable outlook
Moody's Investors Service (Moody's) confirmed its Ba3 corporate family rating (CFR) with stable outlook for Petro Welt Technologies AG in its annual update.

Results Q1/2017: Petro Welt Technologies AG with strong increase in sales revenues und EBITDA
In the first quarter of 2017, consolidated revenues in euros showed a 30.7% increase compared to the prior-year period.

September 2017

Petro Welt Technologies AG and CARBO Ceramics Inc. close proppant plant sale transaction—antitrust approval of the purchase granted
The transaction was completed on 21 September 2017 through the acquisition of all shares of CARBO Ceramics Cyprus Ltd. at a purchase price of already paid USD 22 million (the provisional purchase price is USD 24 million). The company was consolidated in the third quarter of 2017 and was financially effective for PeWeTe from the fourth quarter of 2017 onwards.

November 2017

Q1–Q3 2017 Results: Petro Welt Technologies AG posted strong increase in sales revenues and EBITDA
In the first nine months of 2017, consolidated revenues increased by 15.3% compared with the previous year to EUR 263.1 million. The number of jobs executed by Pewete Kazakhstan increased more than 3.5 times during the first nine months of 2017 compared to the same period of 2016.

Content

Dear Stakeholders,
strengthened by the favorable economic environment in 2017, Petro Welt Technologies AG continued to pursue the sound development and growth of its business operations and the significant improvement in its profitability. This positive development was achieved thanks to the company's management maintaining its strategy of optimizing the cost of sales, limiting administrative and financial expenditures, boosting synergies among the Petro Welt Technologies Group companies, increasing operational efficiency in drilling and enhancing the share of multistage fracturing.

Having accomplished our goals of transforming the company and reaching a satisfactory level of profitability the previous year, we have set our sights on our next goal: sustainability. This is the first time we are publishing a sustainability report as an integral part of our annual report. As a team of likeminded people, we have worked to develop an optimized approach towards ensuring the sustainability of Petro Welt Technologies' businesses.

The acquisition of CARBO Ceramics in the Russian Federation, a global technology company that provides products and services to the oil and gas market, by Petro Welt Technologies on 21 September 2017 was definitely one of the highlights of 2017. CARBO Ceramics' proppant manufacturing facility is in Kopeysk, Russia. The products it manufactures have a very strong reputation among international service companies and are very much in demand by oil and gas operators. Petro Welt Technologies is evaluating its options to increase the volume of proppant manufacturing for both internal and external purposes and to diversify the plant through associated products.

In 2017, revenues in Russian rubles climbed by 3.0% compared with the same period of the previous year. In euros, revenues rose by 16.0%. The EBITDA margin was 23.5% and the equity ratio was stable at 55.2% compared to 55.5% in 2016.

The positive development of the company's key performance indicators (KPIs) in 2017 creates a solid basis for reliably generating profit. The Management Board anticipates that revenues will reach approximately EUR 335–345 million in 2018.

Yury Semenov
Chief Executive Officer

Valeriy Inyushin
Chief Financial Officer

Dear Stakeholders,
as a company specializing in the provision of services to oil and gas companies, Petro Welt Technologies AG deals with precious and increasingly scarce resources – resources which the world economy in general and day-to-day life in particular, especially in the industrialized world, depend on.

Taking these facts into account, Petro Welt Technologies acknowledges its obligation towards the general public, its stakeholders as well as the environment. This obligation translates into acting responsibly in each and every aspect of the company's business operations as well as into thinking and acting sustainably.

The present integrated annual report contains the group management report 2017, the report on non-financial information as well as the consolidated financial statements. Our principles concerning fair management are set out in the corporate governance report. In addition to economic and legal information, this integrated business report addresses the proper conduct of business as well as aspects of sustainability.

Sustainability, first and foremost, describes the pairing of responsibility with accountability. Petro Welt Technologies AG views itself as a company that is responsible for the well-being of its employees, the people who live in the areas where its operations are located, its partners and last but not least the environment it is working in.

This report highlights the various segments and relevant topics related to sustainability. It serves to lay the foundation for and define the benchmarks against which we will be measured in the years to come.

Maurice Dijols
Chairman of the Supervisory Board

Remi Paul
Member of the Supervisory Board

Ralf Wojtek
Member of the Supervisory Board

Company Group Structure

The Petro Welt Technologies Group consists of Petro Welt Technologies AG, the Austrian holding and parent company of the three wholly-owned operating subsidiaries, KATKoneft, KATOBNEFT and KAToil-Drilling, as well as of the three other wholly-owned subsidiaries, KAT.oil Leasing, Trading House KAT.oil and Petro Welt GEODATA. With the exception of Petro Welt GEODATA which is registered in Vienna, Austria, all subsidiaries are registered in Russia as limited liability companies (LLCs). Petro Welt Technologies also holds 100% of Cyprus-based Pewete Evolution (formerly known as Sonamax LIMITED) and 99.9% of WELLPROP CYPRUS LIMITED which, in turn, holds 100% of LLC WELLPROP in Russia (the former CARBO Ceramics (Eurasia)).

Pewete Evolution Limited serves as the central management company and sole owner of PeWeTe Kazakhstan LLP. Petro Welt Technologies LLC was founded in 2015 to serve as a central management company for the three Russian LLCs, KATKoneft, KATOBNEFT and KAToil-Drilling. Petro Welt Technologies LLC is responsible for allocating functions and responsibilities to the various operating companies. It is also tasked with ensuring that the management board as well as the operating companies have a clear and efficient structure. Petro Welt Technologies LLC is also responsible for strategic planning and accounting (i.e. budgeting and forecasting as well as reporting and consulting on financial and commercial activities). From an operational perspective moreover, the company is responsible for technological standards, commercial and marketing tasks, human resources, procurement and trading.

The management holding headquartered in Vienna, Petro Welt Technologies AG, carries out general and administrative services for the Group, including monitoring and supervision, management accounting, strategic planning, corporate financing, central sales and marketing, risk management and strategy.

Acquisition of CARBO Ceramics (Eurasia) LLC

This deal, which was closed in September 2017, will make a significant beneficial contribution to Petro Welt Technologies' growth strategy. CARBO Ceramics (Eurasia) LLC, which has been rebranded "LLC WELLPROP (Russia)," operates a proppant manufacturing facility in Kopeysk, Russia. The manufactured products have a very good reputation among hydrofracking companies and are well received by oil and gas producers.

The company is evaluating its options to increase the volume of proppant production for both internal and external purposes.

The Petro Welt Technologies AG Share

The Petro Welt Technologies AG share is traded on the Prime Standard of the Frankfurt Stock Exchange.
On 2 January 2017, the Petro Welt Technologies AG share started and closed the stock trading year at EUR 7.07 per share and EUR 7.09 per share, respectively. The highest share price for 2017 (EUR 8.97) was recorded on 27 February 2017. The lowest share price for 2017 (EUR 6.00) was recorded on 27 September 2017. For the most part, the value of the Petro Welt Technologies AG share developed parallel to the crude oil price and the EUR/RUB exchange rate based on good quarterly financials. The share price declined briefly by 5.2% in the course of the year and ended at EUR 6.70 on the year's last trading day. A total of 479,863 shares of Petro Welt Technologies AG stock were traded in 2017. The total daily trading volume on average in 2017 was 1,904 shares.

Shareholder structure

Joma and Petro Welt Holding Ltd. control 87.06% of the shares of Petro Welt Technologies AG. The remaining 12.94% are in free float. The ultimate beneficial owner of the Group is Maurice Dijols.

Stable rating outlook

In May 2017, the rating agency Moody's confirmed its Ba3 rating of Petro Welt Technologies AG with a stable rating outlook. According to the summary rating rationale, Petro Welt Technologies AG's Ba3 rating reflects the proven resilience of demand for oilfield services in Russia despite the extended period of extreme stress in the global oil sector in 2015 and 2016. Petro Welt Technologies' strong market position in its niche segments—with a well-invested modern asset base, a track record of solid financial performance and a sound liquidity profile—provides the company with sufficient flexibility to weather risks related to adverse market conditions and its high exposure to the volatility of the ruble.

Overall, Moody's expects Petro Welt Technologies AG to maintain its adjusted debt/EBITDA ratio below 2.0x on a sustainable basis. The rating also factors in the company's continual adherence to its historically conservative financial policies and its prudent approach to strategic development.

Chart 1: **Shareholder Structure (in percent)**

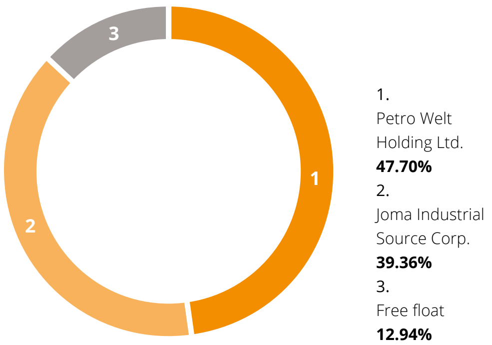
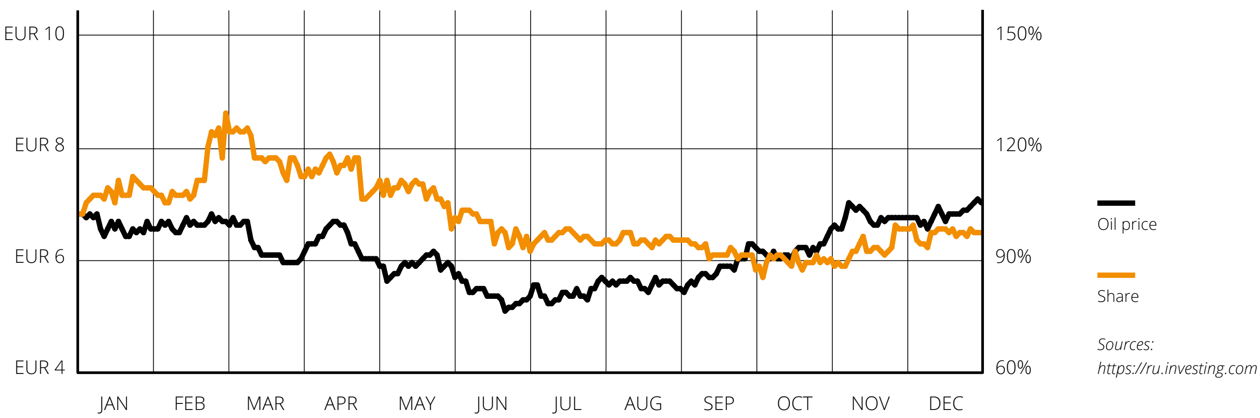


Chart 2: **Development of the Petro Welt Technologies AG share 2017 compared to the oil price**



The Company Mission

More than 20 years on, the Petro Welt Technologies Group maintains its leading position as an independent service provider for oil field services in Russia and Kazakhstan. Benefiting from its market advantages, both industrial players and reputed financial institutions welcome the company's performance. Listed on the Frankfurt Stock Exchange and headquartered in Vienna, in 2017 Petro Welt Technologies AG had more than 3,500 employees, most of them living and working in Russia and Kazakhstan.

Petro Welt Technologies AG, one of the first oilfield services (OFS) firms to be founded in Russia and the CIS, is an industry leader. The company's hydraulic fracturing and sidetracking activities and services provide low-cost possibilities for enhancing the productivity of existing wells or for reactivating idle and/or abandoned wells. High-quality drilling services were added to our service portfolio in 2011. Over many years, we have developed strong customer relationships with key oil and gas producers in the region which gives us a unique competitive edge.

The business model of Petro Welt Technologies AG is based on state-of-the-art technologies and first-class equipment, most of which is sourced from the European Union (EU) and the United States (US). After the collapse of the Soviet Union, we were one of the first western companies to support and service the oil and gas industry in Russia and the CIS.

Since its founding in 1991, Petro Welt Technologies AG has built up a leading position in hydraulic fracturing in both Russia and Kazakhstan and has emerged as a reliable and recognized business partner. Following its initial public offering in 2006, the company established sidetrack drilling as a second mainstay of its range of services in just two years. Between 2014 and 2016, the Group substantially expanded its capacities in conventional drilling. As a result, Petro Welt Technologies AG offers services which provide low-cost alternatives for enhancing the productivity of existing wells or reactivating idle and/or abandoned wells.

Petro Welt Technologies AG strives to generate robust growth in shareholder value by profitably expanding fracturing, sidetracking and drilling along with a series of additional services.

Mission Statement

Our aim is to satisfy the world's ever-growing hunger for energy by increasing the production of hydrocarbons and making the best possible use of oil and gas wells. Ongoing uncertainties and rising tensions in oil-producing countries, mostly in the emerging regions of the world, have contributed to the shift of oil and gas production to safer regions like Russia and the CIS. Our objective is to make a sustainable contribution to the satisfaction of global energy needs by boosting the production volume of hydrocarbons and optimally exploiting oil and gas wells. We strive to assist in achieving robust growth in shareholder value on the basis of the farsighted, profitable expansion of our fracking, sidetracking and drilling activities as well as our complementary services.

Group Strategy for the upcoming 3 years

The sustainable development of its international presence as well as the substantial growth of its market share are the main goals of Petro Welt Technologies AG for the next three to four years. The company will concentrate on expanding its international footprint and boosting its market share. Special attention will be paid to its business in the Republic of Kazakhstan and other overseas countries. The company wants to become the leading provider of oil field services in Kazakhstan, mostly in proppant and acid fracturing.

The company's success in Kazakhstan is critical to its further expansion in both Central Asia and the Middle East.

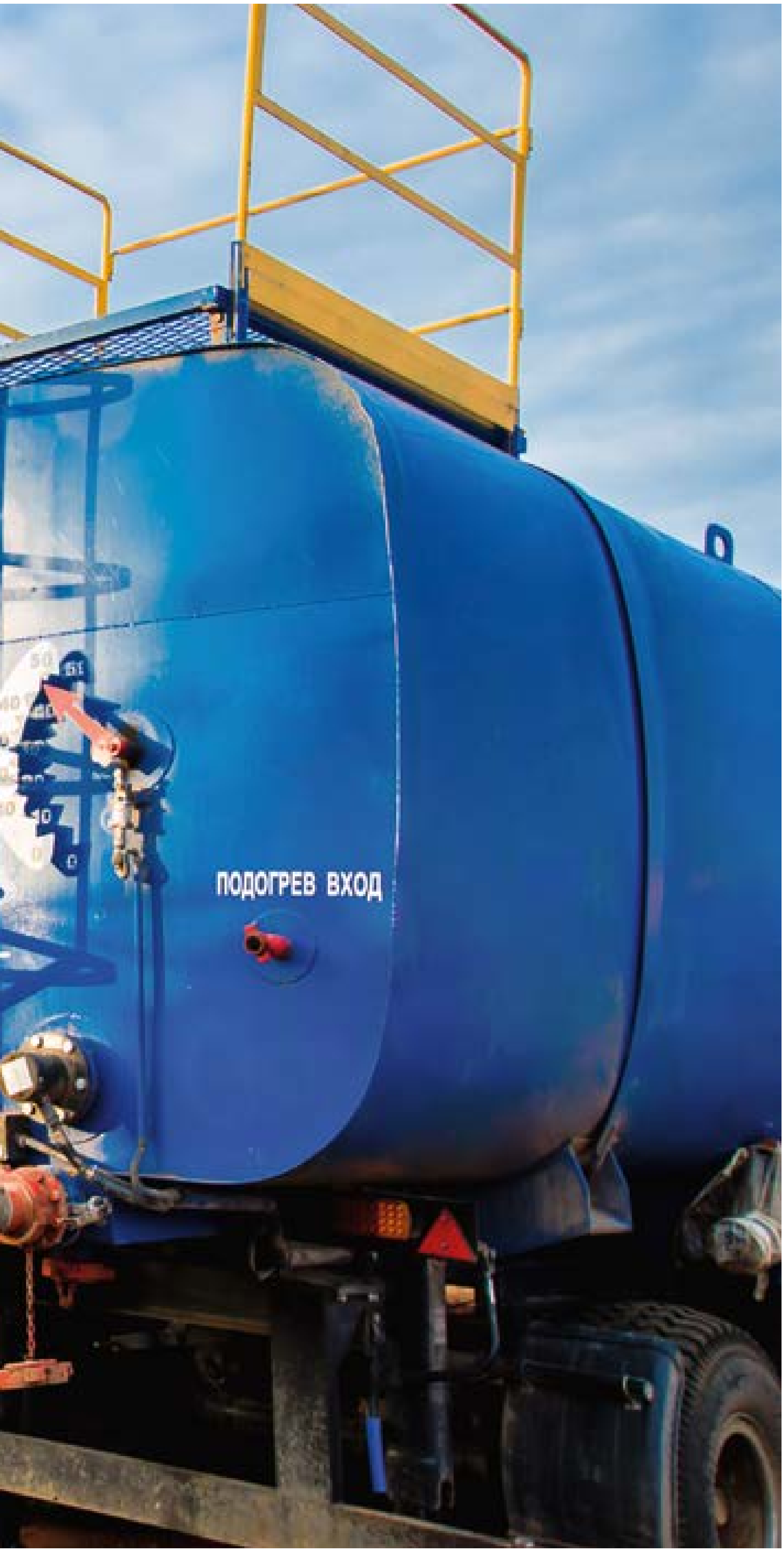
Petro Welt Technologies AG plans to update its service assets and to innovate both front and back-end support functions such as engineering and logistics as well as the procurement infrastructure for maintenance and repairs. Establishing a management holding company has allowed our operating companies to focus solely on the continuous improvement of both quality and performance. We plan to leverage existing and resulting synergies by intensifying the cooperation of different business units within each drilling segment.

We place a lot of trust in our personnel. Petro Welt Technologies AG has developed a range of staff training programs in order to ensure that we will achieve our new targets in the most effective way possible. The KPI system, which was implemented a while ago, will continue to be the main tool for leveraging our staff's motivation and guidance. This system will be applied not only to all of the company's core Russian entities but also to our new assets, WELLPROP Russia and PeWeTe Kazakhstan.

Ongoing improvements in quality, the reduction of non-productive time (NPT), operational safety for people, equipment, and the environment alike as well as cost controls remain strategic priorities.

The Management Board of Petro Welt Technologies AG understands that international diversification and a multi-segment portfolio offer the best protections against the vicissitudes of today's market. Every step must be verified and should offer some benefit to the company. To some extent, the Management Board will consider M&A deals as the shortest and most economically effective way to achieve its objectives, but each case will be subjected to a comprehensive due diligence.

We hope that the recovery of crude oil prices will help the oilfield service industry in the medium term, because oil and gas majors should pay greater attention to its reliable partners which offer quality service.



Sustainability Report

Description of the Business Model

Well Services segment

Petro Welt Technologies AG's Well Services segment comprises hydraulic fracturing, multi-stage fracturing, cementing, and coiled tubing. The segment's core business is hydraulic fracturing, a highly effective method of well stimulation. It significantly boosts oil and gas recovery by fracturing the formation with fluids and proppant that are pumped into the fracture at high pressure.

In Russia, Petro Welt Technologies AG is an industry leader and uses multi-stage fracturing technologies. A longer, horizontal well design allows for greater reservoir contact. Both exploration and field development are possible at a much lower cost when employing this technique.

Offered as an added service during hydraulic fracturing, remedial or squeeze cementing is a sealing practice that serves to prevent migration of water inside a bond and other undesirable fluids to contact with a well casing directly and avoid fast corrosion effect and extend exploration life period of a well. from mixing with hydrocarbons by insulating the oil zone from the water zone. Sealing the borehole prepares the well for efficient production at a later point in time.

The Company has carried out over ten thousand well-cementing jobs since 1996 and is the largest independent fracking services provider in Russia by number of jobs.

Drilling, Sidetracking and IPM segment

The Drilling, Sidetracking, and IPM segment encompasses conventional drilling, sidetrack drilling, and integrated project management (IPM). In conventional drilling, an oil or gas well is created by drilling a vertical, horizontal hole using a drilling rig that contains all necessary equipment and generates the required onsite power for all operations.

In conventional drilling, after the hole is drilled, sections of steel tubing ("casing"), which are slightly smaller in diameter than the borehole, is placed into the hole and barriered with cement that is inserted between the casing's exterior and the borehole. The casing provides stability to the newly drilled wellbore and isolates potentially hazardous high-pressure zones both fromeach other and from the surface. Thus, the well can be drilled deeper with a smaller bit and also encased with a smaller casing.

Special procedures are applied during the drilling operations to reduce the number as well as the potential environmental impact of liquid spills that occur during drilling operations. Only environmentally friendly drilling fluids are used. Upon completion of the drilling operations the drilling site is cleaned up and recultivated

In order to avoid environmental harm as well as work accidents, Petro Welt Technologies AG uses modern blow-out prevention equipment (Shaffer Oil Tools, California). No blow out was reported in 2017.

Sidetracking describes the drilling of a new wellbore from the upper section of an existing well, which has stopped producing hydrocarbon because of either reservoir problems or the irreparable failure of downhole equipment. Sidetracking makes it possible to bypass a problematic well section or to reach a not yet exhausted area of the reservoir and thus is a cost-effective way for producers to reactivate idle wells and rebuild production capacity.

Our Russian customers' demand for sidetracking is enormous. The Russian government has encouraged oil producers to cut the percentage of idle wells from the current level of approximately 20% to around 10% of total production well stock. According to the Russian Energy Ministry, currently there are around 30,000 idle wells. After starting this service in 2005 with only two sidetracking rigs, by now Petro Welt Technologies AG has increased its market share to 15% and become one of the leading sidetracking companies in Russia.

Sidetracking is done without mud pits but with metal tanks, so there is no contact of spills with the ground and/or artificial ponds and no negative environmental impact at all.

Ensuring both safety and environmental protection at the operation's sites is very important to Petro Welt Technologies AG. All relevant operations have been issued quality, environmental, and work safety (BSI NEBOSH) certificates. All employees are trained regularly on work safety and environmental protection. Clients' experts are on site continuously to collaborate on maintaining safety standards and to guarantee swift communication.

Each well pad or rig facility is equipped with band walls around the rig. Special tankers for collecting oil spills are in place.

Integrated Project Management (IPM) enables Petro Welt Technologies AG to provide single-source solutions rather than individual services, primarily using its own drilling capacities and personnel that are complemented by third-party services as needed, i.e. high-class drilling or sidetracking services on a turnkey basis. This involves procurement, contracting, and management of all third-party drilling-related services, e.g. programs for mud drilling; drill bits, casings and liners; down-hole motors and turbines; measurement while drilling (MWD) and logging while drilling (LWD); as well as liner cementing.

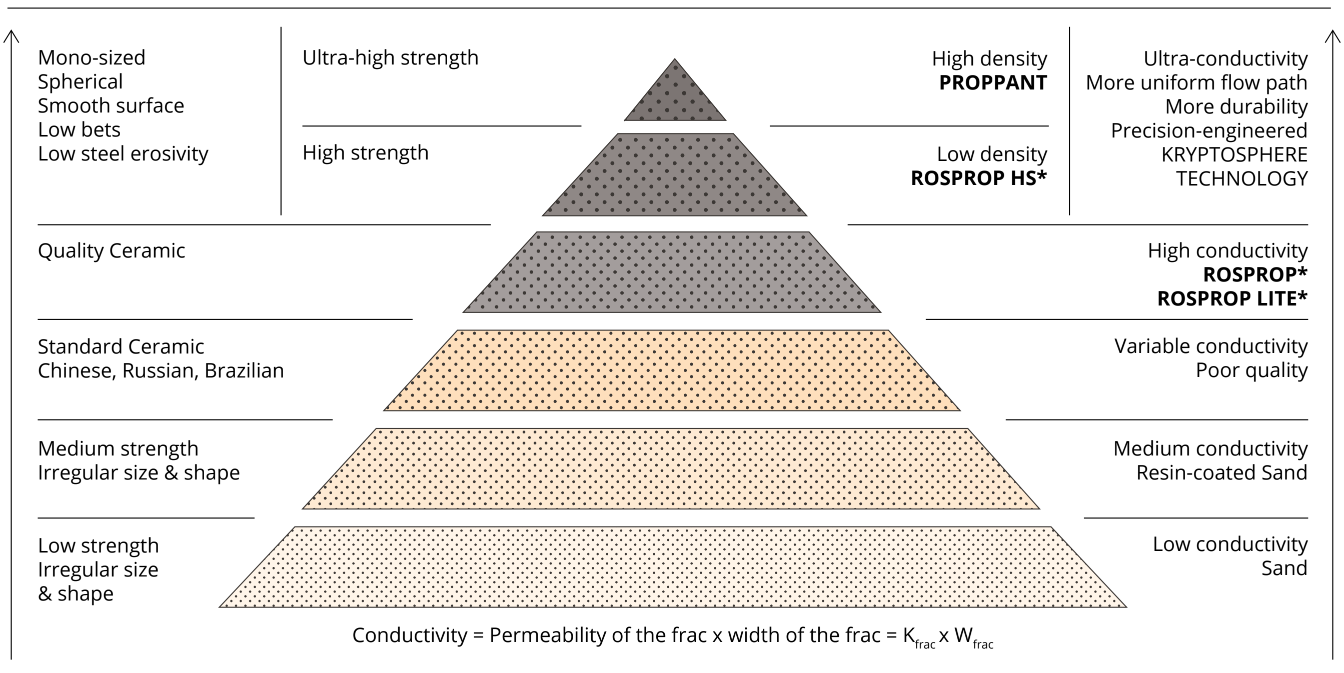
"Green" Company: The Company stays "green" in every aspect of the life cycle of its operations. "Green" in operations stands for maximizing operational efficiency with "zero harm" to the environment.[1)] When decommissioning an area, any surface areas containing spilled oil are cleaned with sand, which is then disposed of. "Green" also means no harm to the employees, no harm to the environment, and ensuring that all equipment is in good working order.

Proppant production

In 2017, Petro Welt Technologies AG acquired the production facility of CARBO Ceramics, which offers products and services for the oil and gas industry. CARBO Ceramics produce different kinds of proppant in Kopeysk, Russia. The product portfolio of proppant, which is engineered to maximize and sustain hydrocarbon flow rates, includes microproppant and ceramic proppant as well as resin-coated proppant.

1) Zero harm refers to the prevention of leakages outside of the well pods/contaminated areas.

The pinnacle of proppant technology



** New trade marks in Russia registered in 2018 / Source: CARBO Ceramics Inc.*

Petro Welt Technologies AG utilizes this proppant for its own activities. Our new business entity WELLPROP (renamed from CARBO Ceramics Eurasia) holds around 5% of the Russia proppant market.

CSR Strategy

Petro Welt Technologies AG is well aware of the fact that it is a part of the society in which it operates and thus must also take responsibility for its operations. The company aims to have a positive impact and to avoid adverse effects to the greatest possible extent. It strives to create value on a continuous basis while also considering environmental, social, and economic aspects – the three dimensions of corporate social responsibility (CSR). The CSR agenda of Petro Welt Technologies AG focuses on the four areas that are key to both the company's operations and the stakeholders' interests: Green Money, Zero Harm to people, Zero Harm to the environment, Clean Money.

Green Money

"Green Money" describes the company's financial success, which is built on sustainable operations. It is the company's goal to stay green in every aspect of value creation. Consequently, the company seeks to implement green operations. This means optimizing operational efficiency and providing competitive solutions while causing zero harm to the environment and zero harm[2)] to its employees as well as respecting business ethics. Petro Welt Technologies AG uses state-of-the-art and efficient management methods to maximize the benefits of each business action and management decision it takes. Its aim is to guarantee financial gains for its shareholders and investors in order to stay financially attractive.

2) "Zero" refers to the absence of leakages outside of the well pods/contaminated areas

Zero Harm to people

Both the health and the safety of people are a top priority for Petro Welt Technologies AG. As a result, the company strives to sustain a high level of safety and security measures to avoid any negative impact on people's health. The equipment and new technological methods that are an integral part of its operational activities require highly qualified staff. The company continuously promotes professional training and self-improvement programs. Petro Welt Technologies AG provides equal career opportunities to all of its employees. This includes options for professional growth based on training and development. For existing and future personnel, the company wants to stay a preferable employer that offers fair and competitive pay.

Zero Harm to the environment

As regards sustainability, Petro Welt Technologies AG believes that ecological responsibility is of great importance to the company's ability to secure its financial success through sustainable entrepreneurial practices. The continuous improvement of the environmental situation at the sites and throughout the value chain is a main concern. Petro Welt Technologies AG strives to ensure that its operating companies are always in compliance with the national laws and regulations concerning the environment that apply in those countries where we operate. Above and beyond that, the company also fulfils all additional, more stringent environmental standards applicable to the oil fields as required by its clients.

Clean Money

Legal compliance is something that Petro Welt Technologies AG takes for granted in its operations. The company fosters transparency with its clients, contractors, and shareholders alike. The fair treatment of all parties and a professional attitude are an essential part of its daily business. In order to strengthen business ethics throughout its operations, Petro Welt Technologies AG periodically updates its Code of Conduct, which embodies the most important principles that apply to the company. In particular, this Code of Conduct is designed to provide guidance for employees in critical situations.

Main CSR Issues

Materiality

The main CSR issues, which the company is reporting on, were determined based on the concept of materiality. In a first step, the company's relevant sustainability issues were identified. They have several dimensions including social, environmental, and legal aspects. Subsequently, the identified sustainability issues were assessed with respect to their impact on the environment and on humans. The impact assessment was carried out internally with the support of external experts. Involving diverse representatives of the company ensured a balanced outcome of the assessment.

The following are the Company's material issues in terms of sustainability:

Market
- Technology
- Procurement
- Quality Management
- Customer Relationship Management

Compliance
- Anti-Corruption & Anti-Bribery
- Legal Compliance

Human Resources
- Training and Education
- Diversity and Equal Opportunity
- Occupational Health & Safety

Environment
- Energy & Emissions
- Effluents & Waste
- Soil Protection

In keeping with legal requirements, Petro Welt Technologies AG is also going to report on human rights. Given the company's business activities, no social issues were classified as material during the impact assessment. The main impacts on society are related to environmental issues. As a result, there will be no separate information on social topics.

Petro Welt Technologies has just started to formally integrate issues of sustainability more widely into its corporate activities. The company is committed to developing a solid sustainability reporting system, including due and proper data management, in the coming years. In so doing, it aims not only to further improve the quality of its sustainability management and reporting, but also to provide our stakeholders with more detailed information on sustainability.

Market

Technology

We endeavor continuously to optimize our production processes and improve their efficiency. Using innovative well-stimulation methods, we have been able to multiply the productivity of existing wells and/or access the untapped portion of reservoirs.

We are committed to the growth and diversification of our business. In addition to the ongoing expansion of our hydraulic fracturing operations, we also pursue lucrative opportunities in other segments to provide our clients with diversified integrated services. Thanks to its technological edge, Petro Welt Technologies AG is a recognized leader in some areas. As a result, clients now consider the company a “provider of technological solutions” rather than a “low cost contractor.”

Our core business in well services is hydraulic fracturing, a highly effective method of well stimulation. It significantly boosts oil and gas recovery by fracturing the formation with fluids and proppant that are pumped into the fracture at high pressure.

Petro Welt Technologies AG is at the forefront of Russian multi-stage fracturing technology. This modern form of fracturing utilizes longer, horizontal well designs to maximize reservoir contact. The added reservoir contact reduces both the amount of wells required for field development and associated development costs.

Both the cementing of wells and remedial cementing are important parts of our well services. The company has completed more than ten thousand well-cementing jobs since 1996 and operates six mobile cementing fleets. Remedial/squeeze cementing includes the sealing of casing to prevent cross-flows by insulating the oil zone from the water zone to restore production. A total of 1,244 remedial operations and 4,425 frac jobs were completed in 2017.

Drilling refers to the classical technology of drilling vertical, inclined, and horizontal wells for extracting oil and gas at depths of up to 5,000 meters. An oil or gas well is created by drilling a hole into the earth. While no new rigs were put into operation in 2017, 135-well drilling program was carried out. Besides the aforementioned production drilling, Petro Welt Technologies AG is also active in the field of oil and gas exploration drilling for purposes of regional research and exploration associated with the development of oil and gas fields.

Sidetracking (inclined drilling). This refers to the drilling of a new wellbore from the upper section of an existing well, which has stopped producing hydrocarbon either because of reservoir problems or because of an irreparable failure of down-hole equipment. For producers, it is a cost-effective way of reactivating idle wells and rebuilding production capacity, either by bypassing a problematic well section or by reaching a not yet exhausted area of the reservoir. Having launched this service with only two sidetracking rigs in 2005, Petro Welt Technologies AG succeeded in boosting its market share to 15% in 2017, thus becoming one of the leading sidetracking companies in Russia.

In order to ensure that only high-quality technology is used in the field, all new technical or technological processes are tested ahead of time. The given processes are applied in the company’s operations only if the testing was successful. While this is a client requirement, it helps Petro Welt Technologies AG to identify and minimize the risks associated with new technologies.

Procurement

Customer relations are a key factor in all sustainable development. The company embraces a policy of long-term relations with suppliers and customers alike, values its business partners, and respects its competitors. As a stock corporation, the company follows the rule that the procurement of goods and the provision of services must be carried out in accordance with both the principles of open and fair competition and the use of competitive procurement procedures.

Petro Welt Technologies AG proactively endeavors to avoid conflicts of interest as well as to eliminate any potential for corruption and bribery to the best of its ability, giving clear guidelines in its Code of Conduct for such issues. A Compliance Officer is available to the company's employees to clarify provide support in ambiguous situations. The Compliance Officer, in cooperation with the Management Board, sees to it that the Code is complied with and is authorized to monitor such compliance. Furthermore, the company requires all of its team members to comply strictly and in good faith with antitrust and competition laws.

The Company continuously tries to improve its procurement activities and to reduce normative and real delivery time. A reduction of delivery was achieved e.g. by localizing spare parts and components. The supply chain is a significant part of our cost optimization process. The mechanism of the initial maximal price is implemented in our tender procedures.

Moreover, Petro Welt Technologies AG has developed rules and regulations that apply to all operating companies and are in the process of being implemented in the recently acquired entity.

Under these rules, all main processes start with an initial internal request ("demand") for a specific service or a specific piece of equipment and end with the closing of the respective contract. The requirements for participating in tenders are determined as part of this process. This means that any bidding process requires a minimum number of participants, which must be qualified as legally valid and reliable with a transparent history. Several factors are used, moreover, to determine the final bidder. Every tender must be registered with complete documentation, including the price, the names of the respective employees as well as information on all discussed and resolved issues. Requests for specific goods or equipment must be submitted to external technical experts or consultants for an expert opinion.

Quality Management

Petro Welt Technologies AG works with brand new equipment of the highest quality and thus has a significant edge over its competitors. The company aims to improve the quality of its services on a continuous basis. In keeping with this goal, it is implementing and updating measures under the Quality Management System Regulation and Training Program that applies to all operating segments and serves to optimize non-production time (NPT). This system entails data analysis preparation and monthly controls by operating companies and quarterly controls by management team leaders.

Our subsidiary KAToil-Drilling holds the management system certificates for quality management (ISO 9001:2008), environmental management (ISO 14001:2004), as well as occupational health and safety (OHSAS 18001:2007) applicable to all drilling activities in connection with oil and gas wells. The subsidiary KATOBNEFT LLC, in turn, holds the management system certificates ISO 9001:2008, ISO 14001:2004, and OHSAS 18001: 2007 for all well reconstruction activities by means of sidetracking.

Additional information on quality management can be found in the chapter "Internal Control System."

Customer Relationship Management

Customer relations are a key factor in sustainable development. The company embraces a policy of long-term relations with suppliers and customers alike, values its business partners, and respects its competitors.

The Company works under service contracts with clients. Every contractor is required to establish a group of sub-contractors, and all requirements applicable to us (including mandatory compliance) are cascaded down to each of our contractors. All contracts not only cover the topics of compliance and anti-corruption, they also contain complaint mechanisms for the contractors.

By implementing the rules and regulations of the aforementioned Code of Conduct, the company takes on additional obligations to the community as well as to its clients and contractors.

Compliance

Compliance strategy

As an expression of its business ethics, Petro Welt Technologies AG has set itself the goal of engaging in fair, transparent, and sustainable business practices. A group-wide Compliance management system was set up several years ago for this purpose, especially in order to comply with legal regulations. The Compliance guidelines apply to the entire Petro Welt Technologies Group. The Compliance unit is headed by a full-time Chief Compliance Officer. Written Compliance reports are submitted to the Management Board and the Supervisory Board on a regular basis. Work on the continued development of the Compliance management system was actively pursued in fiscal year 2017. In particular, this process was supported by ongoing internal exchanges of experience as well as external consultations and assessments.

Preventive measures are at the forefront of Petro Welt Technologies' Compliance management system. In 2017, training and presentations, numerous individual consultations as well as information on specific issues were important focal points of the Compliance work. To address Group concerns, the Chief Compliance Officer provided information in person and/or by telephone and e-mail about what is and what is not appropriate conduct. The most frequent topics included invitations, attending events, gifts, and other benefits as well as questions about conflicts of interest.

In order to further strengthen security in dealing with Compliance issues, the Compliance regulations were addressed in a targeted training program throughout the Group. The Chief Compliance Officer held ten workshops in the course of the year. In addition to the general Compliance training (especially for new managers and new employees as well as employees of subsidiaries), special workshops were conducted on issues such as induction to Compliance, market behavior, conflicts of interest, and directors' dealings. Thomson Reuters's web-based e-learning program was a key pillar of the training. This program includes three Compliance courses on anti-corruption and market behavior Compliance induction. All Group executives and administrative employees from particularly affected areas (e.g. people who are in charge of procurement or order placement as well as those who have signing authority) are required to complete the corresponding online courses and to pass a final test each year.

With the group-wide implementation of standardized business partner integrity checks, Petro Welt Technologies AG actively controls integrity risks. In addition to fulfilling legal requirements, protecting the company's reputation is at the forefront of its concerns. Integrity audits collect the relevant information systematically and effectively. The audit findings enable a broader assessment of business partners. The process of business partner integrity checks is constantly evolving. In the fiscal year ended, top priority was given to adjustments to the working processes through further optimization and efficiency improvements in the workflow.

Petro Welt Technologies AG makes no financial contributions to political parties, political organizations, or political officials.

The Company intends to increase its presence and to enter markets beyond Russia and Kazakhstan. In order to achieve this goal, it aims for a good reputation; compliance with high ethical standards in all business activities; the creation and maintenance of an atmosphere of trust and mutual respect; sticking to the principle of fair competition; and compliance with legal rules and regulations as well as contractual obligations.

Anti-Corruption & Anti-Bribery

Management fully supports the anti-corruption way of doing business. The Management Board has committed to a culture of transparency, fair treatment, and professionalism in all dealings with our clients, contractors, and shareholders. It is the company's aim to prevent all instances of corruption and bribery. This is supported by measures such as the four-eyes principle, the internal control system, and procurement/tender committees.

Petro Welt Technologies AG aims to avoid Compliance incidents. The prevention of corruption thus plays an essential role in the company's Compliance management. Extensive internal communications and a whole range of training courses on corruption prevention took place in 2017. All Group administrative and managerial employees are trained at regular intervals on the issue of anti-corruption. In implementing the anti-corruption requirements, the Chief Compliance Officer pays close attention particularly to the rules governing the acceptance and granting of gifts and invitations. Internal control system checks are carried out to verify whether the prescribed value limits and approval requirements have been met.

Anti-bribery and corruption are addressed specifically in a document entitled “Management and the Code of Conduct.” This document, which is binding on all employees, contractors, freelancers, and other collaborators, details the rules and regulations that have been put in place to avoid bribery and corruption. The Compliance Officer supports the team and monitors implementation. Petro Welt Technologies AG offers online training to newcomers. This guidance shows employees how they are expected to behave in different situations (whether standard or non-standard), serves to protect them from unintentional misconduct, and helps them to learn and better understand Group values.

Legal Compliance

Current status

Petro Welt Technologies AG is compliant with all relevant rules and regulations in its countries of operation. As the company is headquartered in Vienna, Austria, and its shares are listed in Frankfurt, Germany, the company must also comply with both Austrian and German laws. The applicable laws impose certain obligations on Petro Welt Technologies AG, in particular, capital market requirements. These requirements are also relevant to the Group’s companies outside of Austria.

In recent years, Compliance and Compliance management systems have become increasingly significant. The Code of Conduct was revised in 2017. The company plans to update it in the second quarter of 2018, also to reflect the acquisitions that were made in 2016 and 2017.

Petro Welt Technologies AG filed a civil claim on 17 March 2015 against the former members of its Management Board, Mr. Manfred Kastner, Mr. Ronald Harder, and Mr. Leonid Mirzoyan, with the Commercial Court of Vienna. The unlawful and premature payment of compensation in the amount of EUR 1,539,603.50 to the defendants is the cause of action. These proceedings are currently on hold due to a change in the competent judge. The next court hearing is scheduled for 13 June 2018.

The lawsuit that Mr. Kastner had filed against Petro Welt Technologies AG was settled at a hearing on 19 October 2017. These proceedings concerned Mr. Kastner’s request that several paintings in the Vienna office of Petro Welt Technologies AG, to which he claimed ownership, be returned to him. As part of the settlement, the paintings were handed over to Mr. Kastner. Monetary claims were not at issue in these proceedings.

Data protection

Several standards have been implemented to ensure data protection and privacy in the Company. First, all employees are required to take the necessary steps to protect their computing assets. The guidelines cover topics such as protection against theft and damage as well as the usage of encryption for storage devices. Moreover, there are strict regulations on file sharing. Owing to these measures, the protection of both customer and corporate data is at a very high level at Petro Welt Technologies. In addition, the company makes sure that employees’ personal data are stored only in defined cases, e.g. when legally required or to protect the given person’s vital interests.

The defined data protection strategy is a part of the Company's IT strategy. Both the centralization and the protection of business-critical applications and clients as well as the protection of corporate and personal data are key principles. Consequently, Petro Welt Technologies outsourced a few critical applications (including corporate e-mail and messaging) to an industrial-level TIER III datacenter. The other applications will be migrated in 2018. Additionally, the company has also invested in leading corporate-level data protection and anti-virus solutions (Veritas Backup Exec and Kaspersky). Alerts are issued in case of virus attack threats along with appropriate ad hoc directions and rules of conduct. The company also developed an Information Security Policy and implemented the requisite rules and regulations. The IT team also organizes appropriate training for computer users.

Complaints
The employees of Petro Welt Technologies AG are given different options for filing complaints about workplace issues: by email, by secure telephone line, or by placing anonymous cards in so-called "green boxes."

In 2017, there were seven phone calls. One was related to Compliance and three others were routed to the relevant departments. In addition, we received five email complaints, two of which were found to be substantiated and have been followed up on; the three others were routed to the relevant departments.

Human Resources
At the end of 2017, a total average number of 3,535 people were employed with the entire PeWeTe Group. This corresponds to an increase of 6.7% from the prior year (2016: 3,313). The breakdown by female and male employees is very stable due to the specific industrial environment. Female employees accounted for 10.2% of the workforce at the start of 2017 and for 10.9% by the end of the year. The total number of women increased by 25 individuals.

Our employees are the key to our success. Qualified personnel enable us to be a reliable provider for our customers. As a result, attracting and retaining employees is crucial to our company's continued success. We provide our services in a dynamic business environment in which we aim to further expand and diversify our business operations.

Maintaining our position in a competitive marketplace requires that we operate in accordance with an established set of guiding principles. These principles are focused on the professional development and performance of our employees as well as on such basic values as individual responsibility and respect.

Our Human Resources (HR) unit is designed to be consistent throughout the PeWeTe Group, allowing proactive involvement in personnel development through a range of relevant tools and processes. The goal of the HR department is to develop an increasing number of points of contact with individual staff members. In order to foster employee loyalty and retention, the PeWeTe Group offers performance-oriented compensation, corresponding benefits, and an open corporate culture with a range of social and support services.

The culture of Petro Welt Technologies AG is one of top priorities. Our compensation policy—setting and targeting ambitious KPIs' goals to progress in accordance with the strategy, plus variable incentives linked to their attainment—once again proved effective in reaching the goals we had set for ourselves in fiscal year 2017. The terms and conditions of employment including all incentives and benefits are defined in the collective remuneration agreements between the operating subsidiaries and their employees. We strive to be an employer of the choice for our employees in the long-term perspective.

Petro Welt Technologies AG maintains stringent safety and quality standards in the workplace. These serve not only to create the best work environment possible by eliminating hazards and minimizing risks to our employees, our assets, and the environment, but also to protect the company's reputation as a partner to its suppliers and customers in the long term. Our employees undergo a rigorous training program to educate them about the hazards in connection with their work. The operating companies and processes of the PeWeTe Group are certified in accordance with ISO 9001.

Almost all our employees live in Russia and Kazakhstan. They are combining extensive technical expertise with the local knowledge they have acquired at numerous oil fields in almost all oil production areas of these two countries. The majority of the employees of Petro Welt Technologies AG work for the three subsidiaries (KAT-Koneft, KATOBNEFT, and KAToil-Drilling) as well as the management company, for a total of 3,240 employees.

Petro Welt Technologies AG always aims to optimize its operational efficiency, including with respect to human resources. A mere 11.7% of its employees work in administrative capacities.

Training & Education

Our employees are the key to our success. As a result, Petro Welt Technologies AG works with highly qualified and committed employees who are familiar with the equipment and new technological methods. Qualified personnel enable us to be a preferred service executer to our customers to provide modern solutions and best industry approaches. Maintaining our position in a competitive marketplace requires that we ensure the continuous development of our employees. Petro Welt Technologies AG fosters professional training and self-improvement programs on an ongoing basis to address challenges in the industry.

Given the importance of employee training and education to the operations of Petro Welt Technologies AG, the company places great emphasis on this issue. The training budget for 2017 alone exceeded EUR 120,000.

Based on their responsibilities and functions, employees must pass defined mandatory training programs. Operational personnel undergoes special training on stuck prevention; well control and well integrity; drilling fluids; hydraulic fracturing technologies; as well as the repair and maintenance of the utilized equipment. Electronic training software has been introduced at Petro Welt Technologies AG to ensure a smooth training process. Special training programs are offered to our internal auditors. This ensures the organization's continuous improvement. Overall, in 2017 about 435 employees participated in technical training programs such as JOIFF "stuck pipe" and IWCF "Well Control," whose purpose is to train employees on safe and efficient working methods.

In addition to technical training, Petro Welt Technologies AG also trains its employees on issues relevant to Compliance. In 2017, the company bought web-based compliance training programs from Thomson Reuters. Compliance training supports the process of embedding tolerance and proper professional behavior in the organization. The training also includes tests for the employees.

It is our goal to provide our employees with ongoing training opportunities in order to boost their skills and expertise. Most of our employees are of Russian nationality and work in teams of 18 on fracturing fleets, 26 on mobile side-tracking rigs, or 15 on drilling rigs, which are operated by the subsidiaries for clients in Russia and in Kazakhstan.

The company only works with the most highly qualified and committed employees. The company is continuously promoting professional training and self-improvement programs to address challenges in the industry.

The equipment and new technological methods require top qualification of Petro Welt Technologies AG's personnel. Petro Welt Technologies AG is very strong in the provision of continuous training of employees on quality, environmental and safety issues, new technologies, business ethics, etc. There are equal career opportunities to all employees and a high ability for professional growth via trainings and professional development.

Mandatory trainings are assigned and need to be passed based on function. Tolerance and proper professional behavior are part of compliance training, especially for the top management: plus, possibility of filing complaints through a hot line.

Operation personnel undergoes special trainings on stuck prevention, well control and well integrity, drilling fluids, hydraulic fracturing technologies, as well as on the repair and maintenance of the utilized equipment.

Diversity and Equal Opportunity

Petro Welt Technologies AG considers diversity one of its strengths. Employing a diverse range of people brings new perspectives to the company which, in turn, supports its ongoing development. We are always open to new people, regardless of their origin, religion, and age. Knowledge and skills are the factors that determine the staffing of vacancies. The fact that it embraces diversity and equal opportunity allows Petro Welt Technologies AG to attract the best human resources on the market.

It goes without saying that equal career opportunities are offered to both male and female employees. In order to promote diversity, the recruitment of employees is based solely on their qualification for a given job. We abide by Russian labor laws and do not place women in positions where working conditions are harmful and difficult. Employees are developed based on their competency and performance. No attention is paid to criteria such as gender, age, religion, or other categories. The Company also has full tolerance to religion views.

The Company promotes a multicultural workforce and can see only advantages in doing so. Special attention is paid to the integration of different regional and cultural backgrounds in order to ensure team spirit amongst the employees.

Tolerance and proper professional behavior are part of the corporate Compliance training. In addition, there is a dedicated hotline that allows employees to file complaints. Petro Welt Technologies AG does not condone offensive behavior or harassment of any kind.

It is also important to Petro Welt Technologies AG to provide equal opportunities for differently-abled people. Currently, a total of 16 employees fall into this category.

Employee Health & Safety

Service quality and safety measures are core values for Petro Welt Technologies AG, and the company seeks to create the best possible working environment for its employees and assets. The company follows a "zero harm" policy with respect to both personal safety and environmental issues and has developed a detailed program to prevent workplace accidents. We have developed strategic corporate regulations and instructions to minimize risks and improve the quality of operating processes in the field at all times. Our ultimate goal is to achieve "zero accidents." This issue will be one of our main priorities in the coming years.

Our Company strategic program aims to minimize risks and improve the quality of operating processes. We want to achieve zero accidents in the field.

The Company has developed stringent corporate safety regulations and instructions to guarantee safety and quality in the field operations. These serve to minimize risks in the workplace and to improve the quality of operating processes. As already mentioned in the "Quality Management" section, subsidiaries of Petro Welt Technologies AG also hold certificates for occupational health and safety (OHSAS 18001:2007).

Safety training is conducted on a monthly basis for the employees and sub-contractors of Petro Welt Technologies AG. The cost of workplace safety measures in 2017 was EUR 1.2 million. To increase workplace safety, the company also builds on employee awareness. All employees of Petro Welt Technologies AG undergo a rigorous training program to learn about the hazards in connection with their work.

The majority of field personnel deals with heavy physical workloads. These activities are carried out in accordance with state labor regulations that define the maximum weight and operating time for employees, based on gender and age. Moreover, these regulations also spell out additional benefits for employees involved in such activities.

The improvement of our quality, health, safety, and environmental (QHSE) competence and culture consists of a number of steps that include the implementation of observation and intervention practices in the field as well as the Online Training Program Implementation (OLIMP) for all operating segments.

Our Hazard and Effects Management Process (HEMP) contains the regulations and training program for all operating segments as well as the worksite hazard management process implementation for all rigs and frack fleets.

To prevent any kind of blow-outs, Petro Welt Technologies AG utilizes modern blow-out prevention equipment, including NL Shaffer and Integrated 13 ram-type preventers as well as control units and prevention packages. These blow-out prevention systems are in place in all of our operations and are always in proper working order. No blow-out occurred during the reporting period.

As stated above, Petro Welt Technologies AG follows a Zero Harm Policy with respect to safety and the environment and thus has also developed a detailed program to prevent workplace injuries. In order to monitor the number of accidents and incidents in the field, the lost time frequency, which compares the number of injuries to the number of working hours, is determined on a regular basis. The lost time injury frequency rate (LTIFR) for the different companies is as follows: KATKoneft: 1.8%; KATOBNEFT: 2.5%; KAToil-Drilling: 5.8%—for a TOTAL LTIFR in PeWeTe of 2.9% in 2017. This means that the LTIFR improved throughout the Group compared with the previous year.

Human Rights

It is the company's aim to support respect for human rights, not only in its own operations, but also in the supply chain.

Petro Welt Technologies AG fully complies with the labor laws of the countries it is operating in. To our knowledge, there have been no labor law violations in the company. To ensure respect for human rights in the supply chain as well, Petro Welt Technologies AG has expanded its contracts by a human rights clause. The company insists on the implementation of defined standards in order to provide a humane and safe working environment. For example, these standards include regular breaks, especially for drivers or employees who work in cold conditions.

Petro Welt Technologies AG is aware that field operations are the most sensitive area in this respect. The relevant employees must deal with a wide range of contractors and clients. Challenging tasks might entail the risk of human rights violations. The company takes this risk seriously and takes preventive measures for risk mitigation. Examples of such preventive measures include the teaching of tolerance, observation and analyses of behavior as well as feedback and compliance with the Code of Conduct. Well-established HR policies are also in place.

Moreover, a Spark system has been implemented to check subcontractors and suppliers. Spark provides access to information on legal disputes involving potential suppliers and contractors. Petro Welt Technologies AG takes appropriate action if there are any findings. Severe violations of human rights may also lead to the termination of contracts

Environment

Environmental Responsibility

Petro Welt Technologies AG is well aware of the fact that its operations might have an impact on the environment. As we consider ourselves to be an integral part of society and thus assume responsibility for our activities, we aim to create positive impacts and to avoid adverse effects to the greatest extent possible. The company strives for continuous value creation while also considering environmental, social, and economic issues.

When it comes to sustainability, we believe that our responsibility toward the environment is of great importance in securing the Group's financial success through sustainable entrepreneurial practices. Hence we follow a "Zero Harm to People" policy. As a result, the Company considers its ecological responsibility toward to be of great importance in securing its financial success through sustainable entrepreneurial practices. The continuous improvement of the environmental situation on the sites and throughout the value chain is a main concern.

Our values and business principles as set forth in the Group's Code of Conduct form the basis of our global responsibility. Above and beyond our own environmental goals, we want to ensure that our operating companies always comply with applicable national laws and regulations on the environment in those countries where we operate. Furthermore, the Group also fulfills all additional, possibly more stringent environmental standards that our clients require with respect to oil field operations.

Internal ecological audits and inspections are carried out in the field to ensure compliance with all rules and regulations—whether internal or external.

Energy & Emissions

Petro Welt Technologies AG is well aware of the fact that its operations might have an impact on the environment. Our core business activities—well services, drilling, sidetracking, and IPM as well as proppant production—all entail energy-intensive processes.

As we consider ourselves to be an integral part of society and thus assume responsibility for our activities, we aim to create positive impacts and to avoid adverse effects to the greatest extent. We constantly endeavor to improve the energy efficiency of our activities and to reduce the energy they consume. The company thus is dedicated to lowering its direct emissions.

In 2017, our total energy consumption reached 33,098,926 megawatt (MW) hours. This means that we succeeded in decreasing our energy consumption by 1.5% compared with 2016. Petro Welt Technologies AG uses state-of-the-art equipment in all its operations to reduce the consumption of energy. Moreover, each facility has an energy certificate, which evidences that energy-saving processes are in place and that it is fully compliant with government requirements.

Petro Welt Technologies AG closely tracks its air emissions. In 2017, the company's total air emissions were 3,497 tons, which covers solids (3.4%); sulfur dioxide (8.6%); carbon dioxide (69.4%); nitrogen oxides (12.6%); and hydrocarbons (6%). All air emissions caused by the company's activities are within the required quotes.

Effluents & Waste

Oil spills represent a major potential negative impact that is linked to the company's activities. Petro Welt Technologies AG has defined a range of precautionary measures to prevent oil spills.

Among other things, the company has committed to using only environmentally friendly drilling fluids. It has also implemented the legally required, mandatory training programs for its employees in order to equip them with the necessary know-how on how to prevent oil spills. In addition, blow-out preventers (BoPs), special adjustable plugs, and tanks are deployed in the field.

We also cooperate closely with our clients on this issue. Client representatives are regularly on site to review the processes used.

Once field operations have been completed, Petro Welt Technologies AG has contractual obligations to clean and re-cultivate the area of activity. The amount expended in 2017 was EUR 1.1 million.

Petro Welt Technologies AG has implemented waste management policies to limit its negative impact on the environment. All waste is separated based on five different grades. Annual programs that regulate the transportation and utilization of waste are also in place. To ensure legal compliance, these programs also include quarterly reports to government authorities. The total amount of waste produced in 2017 was 1,977.4 tons, 2% of which was hazardous waste.

Soil Protection

Soil protection is usually defined as the responsibility of the clients of Petro Welt Technologies AG. The clients provide band walls around the well pad. This ensures that there are no adverse effects on the soil surrounding the operations. All measures the Company takes to prevent oil spills thus can also be classified as activities aimed at soil protection.

As there were no oil spills in 2017, there were no major effects on the soil that stem directly from the Company's activities.

Material Non-Financial Risks

Petro Welt Technologies AG systematically and regularly assesses and evaluates the risks related to its business activities. This assessment tackles the risks that the company's business activities pose for its environment and society at large as well as the risk to the company of the changing business climate and society's requirements. Both the potential impact and the likelihood of the risks are defined.

The Company's current risk management covers a broad range of risks, including finance, sales & marketing risks; legal & supply chain risks; operational risks; health, safety and environmental (HSE) risks; as well as management efficiency risks. The latest risk assessment shows, in particular, that risks associated with finance, supply chain, and operations are the most important risks we face.

Key risks related to environmental impacts include the potential danger associated with onshore oil production, including blow-outs at oil wells, oil spills during exploration and production activities as well as spills involving production liquids and hazardous waste during exploration and production. Such events might also impact workers on site in the form of accidents and chronic diseases (exposure to substances).

In order to minimize and abate all of these potential HSE impacts potentially associated with onshore oil exploration and production, Petro Welt Technologies AG works closely with its clients on issues such as avoidance, training, and ongoing improvement. Moreover, the company has also taken preventive measures.

In 2017, there were no blow-outs on the sites of Petro Welt Technologies AG.

The company is actively combating both corruption and potential human rights violations not just in the countries in which it operates but also in its procure and supply. It has developed a set of procedures and safeguards to comply with all relevant requirements.

One rather new risk potential arises from data security. Petro Welt Technologies AG has developed appropriate measures to counter this risk. The company has reacted to the threats and challenges posed by computer viruses at the global level by enhancing its antivirus protections and ensuring a more sophisticated and regular approach to backups.

In order to maintain its competitive advantages, the Company continues to further develop its risk management system. It aims to optimize non-financial aspects of its business activity. We are identifying five crucial areas on this matter, which are sales and marketing, legal and supply chain, operational performance, health safety environment, management and efficiency. For mitigation of each type of risk, we apply the most appropriate set of measures. Generally, the approach is described in the table below.

Non-Financial Risks

Business Process		Events leading to higher risk	Risk owner	Measures to Stable & LL Mode
Sales & Marketing	Tenders	Unsuccessful tenders	CEO	• Strengthen sales and BD team • Create positive differentiation relative to the competition
	Contracting	Lack of clear definitions and protections		
	Market Share	Loss competitiveness and markets		
Legal & Supply Chain	Clients	Unfavourable contracts	CEO	• Implement procedures to manage contractors and suppliers
	State authorities	Non-compliance with regulations		
	Suppliers & contractors	Unqualified delivery of services or products		
Operational	Subsurface	Non-compliance with operational processes and approved job design	General Directors	• Review the format and content of regular reports (incl. KPIs) • Review operational business process and improve barriers
	Surface and manufacturing	Failure to follow manu-facturing instructions and manuals Failure to carry out prevention maintenance		
	Operational	Non-compliant actions regarding job design		
Health, Safety & Environment	People	Lack of trained and committed personnel No interventional culture	General Directors	• Update and implement the observation and intervention process ("Green Card") • Identify key positions that have a critical influence on the process
	Asset & equipment	No compliance with technical equipment specs		
	Reputation	Failure to deliver proper quality Personnel mismanagement		
Management & Efficiency	Tone	Lack of established moral and ethical values	CEO & General Directors	• Legalize communication protocol The RULES • Create TOP management appraisal system for assess-ment in addition to the KPIs
	Business environment	Business pressure that threatens employment		
	Employee turnover	High turnover of personnel		
	KPI and goals	Not effectively established and communicated		

Please see the Risk Management Report for additional information on risks.

Vienna, 23 April 2018

Yury Semenov
Chief Executive Officer

Valeriy Inyushin
Chief Financial Officer

Corporate Governance Report

Corporate governance is of high importance to Petro Welt Technologies AG beyond its obligations to fulfil the requirements of the applicable legal regulations. It is the duty of the Company's Management Board, supervised by the Supervisory Board to manage the Company in accordance with applicable national and international standards.

In order to ensure a high degree of transparency and clarity for all persons participating in the capital markets, the Company's bodies decided in 2006 to apply the German Corporate Governance Code.

The basis for this report is the German Corporate Governance Code in the version of 5 May 2015 and 7 February 2017, since the entry of force of the version of 7 February 2017. The German Corporate Governance Code in the version of 5 May 2015 and 7 February 2017 can be downloaded at www.dcgk.de.

The executive bodies of Petro Welt Technologies AG

Upon submission of proof of shareholding (sec. 10a of Stock Corporation Act [AktG] and sec. 16 of the Articles of Association), the shareholders are entitled to exercise their rights, in particular their voting rights, at the Annual General Meeting. Each share in the Company entitles the holder to one vote. There are no multiple or preferential voting rights, and there is no cap on the number of voting rights. All information on the convening of the Annual General Meeting and all reports and information required for the resolutions to be voted upon are published pursuant to the applicable regulations of the law on stock companies and made available on the website of Petro Welt Technologies AG (www.pewete.com).

Functions of the Supervisory Board and the Management Board

Pursuant to the applicable legal provisions, the Company is managed on the basis of a dual board system characterized by a strict separation of management and supervisory bodies. It is not permissible to simultaneously be a member of both bodies.

Members of the Supervisory Board

Re-appointed on 16 June 2017:

- Maurice Gregoire Dijols, Chairman of the Supervisory Board, born 01 August 1951
- Remi Paul, Member of the Supervisory Board, born 16 February 1966
- Ralf Wojtek, Member of the Supervisory Board, born 29 May 1945

The current members of the Supervisory Board reappointed on 16 June 2017 were elected to the Supervisory Board until the end of the Annual General Meeting resolving on the discharge of their liability for the financial year 2021.

Other Supervisory Board functions in domestic or foreign companies are held by:

Ralf Wojtek

- GO! Holding AG, Berlin/Germany – member of the Supervisory Board

Remi Paul

- LLP "Granit Thales Electronics", Kazakhstan – member of the Supervisory Board

In its current composition, the Supervisory Board fulfils all requirements for impartiality. The following Supervisory Board members are deemed independent:

- Remi Paul
- Ralf Wojtek

Mr. Maurice Gregoire Dijols is the sole owner of Joma Industrial Source Corp.; in total he controls 87.06% of the shares of Petro Welt Technologies AG indirectly through his company.

The Supervisory Board supervises and advises the Management Board during the course of the management of the Company. The Bylaws of the Company regulate the individual tasks and responsibilities and the convening, scheduling and chairing of the meetings of the Supervisory Board. The tasks of the Supervisory Board include the appointment and dismissal of members of the Management Board and the awarding of the salaries of the Management Board.

The Supervisory Board has formed an Audit Committee, which is responsible on behalf of the Supervisory Board for fulfilling the auditing duties assigned to it, insofar as this is legally permissible. The formation of this committee is obligatory under Austrian law.

Members of the Management Board

Current members of Management Board were re-appointed with effect as of on 24 February 2018.

- Yury Semenov, Chairman of the Management Board, born 01 October 1977, responsible for key company functions such as business strategy, business development, and business policy
- Valeriy Inyushin, Deputy Chairman of the Management Board, born 11 September 1972, responsible for central planning, corporate finance and accounting, internal control system, investor relations

None of the current Management Board members listed above holds other board mandates outside the Company.

All matters of fundamental or significant importance require the approval of all members of the Management Board. The Management Board follows all Company bylaws and guidelines issued by the Supervisory Board, regulating the tasks and responsibilities of the Board members, in particular procedures of the decision-making process, as well as provisions on the avoidance of conflicts of interest.

Petro Welt Technologies AG has taken out a D&O insurance policy for all members of the Supervisory Board and Management Board. The insurance policy has no deductibles in the event of claims.

Remuneration of Supervisory Board and Management Board

Petro Welt Technologies AG follows the recommendations of the German Corporate Governance Code, stating that the remuneration of the Supervisory Board and the Management Board should be disclosed individually for each member. The amounts of remuneration awarded are disclosed in the remuneration report, which is part of the notes to the consolidated financial statements.

The remuneration of Management Board members consists of fixed and variable elements. The base salary and benefits form the fixed remuneration and are based on prevalent market practice. The variable remuneration drives and rewards best-in-class performance by way of continuously setting ambitious and stretched targets. The variable remuneration consists of short-term and long-term elements, such as: contract portfolio expressed in revenue, benchmarks versus peers, profit.

Risk management

The responsible treatment of risk is one of the fundamental principles of good corporate governance. The Management Board of Petro Welt Technologies AG and the managerial employees within the entire PeWeTe Group have at their disposal comprehensive group and company-specific reporting and control systems for the monitoring, assessment and control of risks. These systems are being constantly developed and adapted to changing framework conditions. Furthermore, these systems are regularly checked for efficiency and functionality by the annual audit. The Management Board updates the Supervisory Board on a regular basis with information on all existing risks and their development.

The risk report as a part of the annual report of Petro Welt Technologies AG contains further details on risk management within the Group. The risk report also includes the obligatory report on the internal control and risk management systems for the accounting procedures.

Transparency
Petro Welt Technologies AG informs the participants in the capital markets, interested parties and the general public immediately, regularly and simultaneously of the current economic situation of the Group. The management report, half-year financial report and interim quarterly reports are all published within the time periods specified by the Frankfurt Stock Exchange. In addition, Petro Welt Technologies AG also informs interested parties of all events and new developments via press releases and, if necessary, ad hoc notifications. Information is made available in the German, Russian and English languages. The Company website www.pewete.com also offers in-depth information on the PeWeTe Group and Petro Welt Technologies AG share prices. Petro Welt Technologies AG regularly runs training on compliance for the PeWeTe Group.

Financial calendar
Our financial calendar offers a transparent overview of all scheduled dates of the important events and publications. The calendar is published and made available on the Petro Welt Technologies AG website.

Directors' Dealings
Current directors
None of the directors listed below hold any shares of the Company:

- Yury Semenov – Chairman of Petro Welt Technologies AG
- Valery Inyushin – Deputy Chairman of Petro Welt Technologies AG
- Vladimir Kalinin – GM of LLC Petro Welt Technologies; LLC "Petro Welt Technologies" is a management company. The Company executes function of sole executive body for "KAToil-Drilling" LLC; for "KATOBNEFT" LLC; for "KATKoneft" LLC
- Olga Matsukevich – GM of Limited Liability Company "Trading House KAToil "
- Irina Belyaeva– GM Limited Liability Company "KAT.oil Leasing"
- Bernd Albrecht – GM Limited Liability Company "Wellprop"
- Androulla Papadopoulou and Eliana Giannakou Hadjisavva – Directors of PEWETE EVOLUTION Limited
- Eliana Giannakou Hadjisavva – GM of WELLPROP CYPRUS
- Stanislav Zagranichnyy – GM of "PeWeTe Kazakhstan" LLP

Supervisory Board of Petro Welt Technologies AG
- Maurice Gregoire Dijols – Chairman of the Supervisory Board
- Remi Paul – 0 shares
- Ralf Wojtek – 0 shares

Table 1: **Shareholders**

	Number of Shares	Share
Petro Welt Holding Limited	23,300,000	47.70%
Joma Industrial Source Corp.	19,228,711	39.36%
Free float	6,321,289	12.94%
Total	**48,850,000**	**100%**

Diversity Management
Petro Welt Technologies AG is committed to the equal treatment of all people – regardless of gender, age, disability, religion, culture, skin color, education, social background, sexual orientation, or nationality. The company resolutely opposes all forms of discrimination, bullying, and sexual harassment. In management development, special attention is paid to communicating these leadership values. The fact that it is active in an industry with a strong technical focus makes it particularly challenging for the company to achieve a satisfactory gender balance in all areas of its activities. Given the sometimes adverse working conditions, PeWeTe Group has adopted a policy of granting special leave above and beyond annual leave where applicable. Work is underway to develop and implement gender equality goals and measures. In 2017, no cases of discrimination were reported to management.

The strategic objective is to achieve a better diversity mix amongst employees. We aim to increase the share of women in management processes, to provide greater access to educational and training programs in all regions in which we operate, and to promote young specialist and prospective students.

Petro Welt Technologies AG continually monitors gender, age, employee background, seniority, relevant knowledge and experience as well as salary equality to ensure fair treatment and equal opportunities at all career stages.

Diversity strategy for the Supervisory Board and for the Management Board
The main criteria for selecting the members of the Management and Supervisory Boards are relevant knowledge on a broad range of issues as well as personal integrity and experience in executive positions. Aspects related to the diversity of the Supervisory Board, specifically, the representation of both genders and the age structure, are taken into account as well.

The members of the Supervisory Board are (re)-elected by the Annual General Meeting. Female managers are evaluated on an equal footing with male managers, and female candidates for the Supervisory Board having the same professional qualifications as male candidates are recommended for election. Petro Welt Technologies AG does not need to have a mandatory quota for women as per the Austrian Equal Treatment Act (GFMA-G). The law prescribes a minimum share of women of 30% only for companies with six or more Supervisory Board members.

The Supervisory Board must take diversity into account when considering the best candidates for the Management Board. In particular, diversity is understood to mean different yet complementary specialist profiles as well as professional and general experience, also in the international domain, with both genders being appropriately represented.

At present, the company's Supervisory Board and Management Board do not have any female members. The promotion of women to management positions is not restricted. As at 31 December 2017, the percentage of women in management positions was 15% at the Group level, four women hold General Management positions within the group as disclosed in the Director's dealings above. The percentage of women among employees throughout the Group was 10%. The members of the Supervisory Board are between 52 and 72 years old, with an average age of 63 years, whereas the members of the Management Board are between 40 and 45 years old.

Both the Management Board and the Supervisory Board, respectively, were recently re-appointed and re-elected. The current members of the Management Board were re-appointed effective as at 24 February 2018, and the current members of the Supervisory Board were re-elected in June 2017. Upon completion of the current Supervisory Board members' term of office and approval of their actions by the Annual General Meeting, all relevant aspects of diversity will be considered with respect to the composition of the next Supervisory Board as well as, subsequently, that of the Management Board.

Declaration of compliance
Petro Welt Technologies AG is committed to the recognized principles of corporate governance. As a foreign issuer on the Frankfurt Stock Exchange with headquarters in Austria, Petro Welt Technologies AG resolved, in accordance with the Austrian Corporate Governance Code, to apply the German Corporate Governance Code. The Annual Declaration of Compliance pursuant to the German Stock Corporation Act (AktG) is an essential part of the German Corporate Governance Code.

Petro Welt Technologies AG (hereinafter the “Company”) is a company organized under Austrian law and subject to laws, rules and regulations in Austria. As such, the Company’s compliance with the recommendations of the German Corporate Governance Code (“Code”) is dependent on the Code’s compatibility with the Austrian laws, rules and regulations, which the Company is subjected to. The Management Board and the Supervisory Board of the Company hereby declare, without being legally obliged to do so, that the recommendations of the German Corporate Governance Code Government Commission (Regierungskommission Deutscher Corporate Governance Kodex) published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette in the versions of 5 May 2015 and 7 February 2017 have been and are being met, save for the recommendations listed below. For the period as of 20 May 2017, the following Declaration refers to the recommendations of the Code as amended on 7 February 2017, which was published in the Federal Gazette on 24 April 2017 and 19 May 2017 (corrected version).

1. Recommendation 3.8
The Company does not follow the Code’s recommendation on the introduction of a deductible in a reasonable amount in its D&O-insurance policy, as the Company does not expect any positive impact on the Management Board’s and the Supervisory Board’s performance of their duty of care and loyalty by introducing such deductible. In addition, the Company notes that deductibles in D&O-insurance policies are not widely used outside Germany and might hinder the recruiting of key personnel by the Company.

The corresponding German laws are not applicable in Austria and thus the Company does not abide by this recommendation.

2. Recommendations 4.2.3, 4.2.4 and 7.1.3
Currently the Company does not follow the Code’s recommendation to include a compensation cap in the employment contracts of Management Board members in case they prematurely terminate their Management Board function without good reason.

The corresponding German laws are not applicable in Austria and thus the Company does not abide by this recommendation.

The monetary compensation elements granted to the Company’s Management Board members do not include stock options or comparable instruments nor the participation in any corporate pension schemes. Therefore, recommendations as to stock options or comparable instruments (e.g. demanding or relevant comparison parameters, no retroactive changing of performance targets or comparison parameters, agreement on a cap for extraordinary, unforeseen developments) were not implemented. Consequently, the Company's Compensation Report does not contain details about the value of stock option plans or similar long-term incentive and high-risk components of remuneration and details about payments into pension schemes. In addition the Company's Corporate Governance Report does not disclose any stock option programmes and similar security based incentive systems. In the event that stock option plans or programmes for the Management Board should be implemented, the strict standards of the Corporate Governance Code shall be applied.

3. Recommendation 5.3.1 and 5.3.3

Due to the limited number of members, the Supervisory Board and the Company are in the opinion, that – beside the mandatory Audit Committee – the constitution of further committees would not be appropriate and would not increase the efficiency of the Supervisory Board's work. For the same reason a Nomination Committee was not founded.

Recommendation 5.3.2, last paragraph

The Company does not comply to the recommendation due to the limited number of members of the Supervisory Board. Therefore the Chairman of the Supervisory Board also chairs the audit committee.

4. Recommendations 4.1.5, 5.1.2 section 1 and 5.4.1

The German Corporate Governance Code contains recommendations in respect of diversity and age limits for board members as well as executive employees. Nomination proposals of the Supervisory Board to the relevant nomination boards, as well as nominations for the Management Board shall consider these objectives. The Company's Corporate Governance Report shall reflect the aforementioned objectives, especially regarding a women's quota and the state of their realization.

The Company does follow the recommendation to draw up, consider and publish specific objectives pursuant to the applicable Austrian law. The constitution of the Supervisory Board ensures effective consulting and monitoring of the Management Board corresponding to the Company's interests. In order to ensure the dutiful performance of the tasks required by law, the Supervisory Board will also in future nomination proposals primarily focus on the knowledge, skills and experience of the nominees. In addition, the Supervisory Board will take into account in an appropriate manner the Company's international operations, potential conflicts of interest, age and diversity.

5. Recommendation 7.1.2

The Company's consolidated financial statements are not publicly accessible within 90 days after the end of the financial year, nor are Interim Reports publicly accessible within 45 days after the end of the reporting period. This is due to the complex reporting requirements in Russia, Kazakhstan and other jurisdictions.

Vienna, 20 April 2018

Management Board **Supervisory Board**

Report of the Supervisory Board for 2017

Throughout 2017, the Supervisory Board thoroughly monitored the conduct of Petro Welt Technologies AG's business by the Management Board and advised the Management Board in the decision-making process on the basis of detailed oral and written reports and constructive discussions between the Supervisory Board and the Management Board.

The Management Board regularly provided the Supervisory Board with timely and comprehensive information on business operations, the overall economic situation in the Company's core markets and the operative environment as well as business opportunities and risks for Petro Welt Technologies AG and its Group. The Supervisory Board held seven meetings during 2017 together with all members of the Management Board being present, i.e. on 17 March 2017 (Supervisory Board), 24 April 2017 (Supervisory Board and Audit Committee), on 22 May 2017 (Supervisory Board), on 17 June 2017 (Supervisory Board), on 8 September 2017 (Supervisory Board), on 22 September 2017 (Supervisory Board) and on 15 December 2017 (Supervisory Board and Audit Committee).

Numerous open discussions in an atmosphere of trust form the foundation for our deliberations and our communication with the Management Board at all times.

The Supervisory Board reviewed the financial statements before publication and was kept informed by the auditors of all audit activities and their results. The members of the Supervisory Board received from the Management Board comprehensive information about the current business situation and material business events.

During the scheduled meeting on 20 April 2018, the Supervisory Board examined the 2017 annual financial statements, the Company’s management report, the audit report prepared by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, as well as the proposed distribution of profits.

On 20 April 2018 and after comprehensive review and discussions with the auditors at the Audit Committee and the Supervisory Board meeting, which did not give rise to any qualifications, the Supervisory Board approved the financial statements of Petro Welt Technologies AG for 2017. Thereby the solo financial statements for 2017 have been approved pursuant to section 96 (4) of the Stock Corporation Act. The same applies to the consolidated financial statements for 2017. Further, the Supervisory Board accepted the proposal to retain dividends of 2017 and approved the Corporate Governance Report following the consideration by the Audit Committee.

The Supervisory Board also examined the non-financial information report 2017 with respect to lawfulness, correctness and adequacy of purpose on 20 April 2018. The Supervisory Board had no objections against this report.

The reviewed financial statements, reports and the proposed distribution gave no cause for any complaints.

Further information about the Supervisory Board’s composition and work, and its remuneration can be found in the Notes and the Corporate Governance Report.

Finally, we sincerely thank the Management Board and the entire staff of the group for their commitment and support in the financial year 2017 as well as all shareholders, customers and partners for their trust.

Vienna, 20 April 2018
Maurice Gregoire Dijols
on behalf of the Supervisory Board

Group Management Report

Economic Environment

Global

2017 was a tumultuous year that was characterized by natural disasters, geopolitical tensions, and deep political divisions in many countries. On the economic front, however, 2017 ended on a high note thanks to the accelerating global gross domestic product (GDP). According to the Organization for Economic Co-Operation and Development (OECD), global growth is estimated to reach 3.6%. The International Monetary Fund (IMF) expects growth to continue in 2018 and predicts an increase of 3.7%. This optimistic outlook is based on broad upward revisions for the euro zone, Japan, the emerging Asian and European economies, and Russia—which more than offset downward revisions for the United States and the United Kingdom.

Russia's economy in 2017

According to Rosstat, the Russian economy returned to modest growth of 1.5% in 2017, compared with -0.6% in 2016. The recovery of the Russian economy is based on positive global growth, the recovery of trade, growing macroeconomic stability, and rising oil prices. World Bank expects economic growth of 1.7% in 2018.

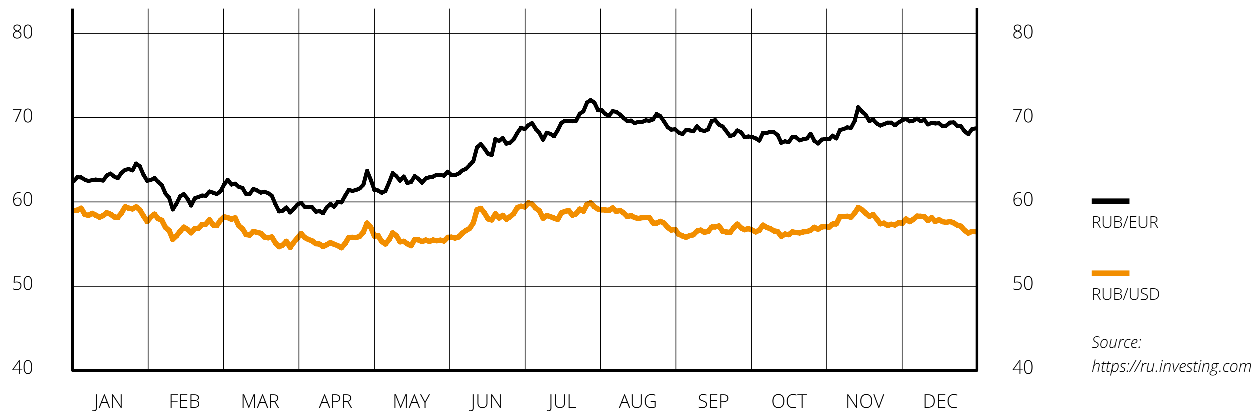
This growth momentum was supported by the rebound of domestic demand in the first half of 2017. On the production side, mineral resource extraction, transportation, as well as state management and provisioning for national security drove growth in the first quarter of 2017. Industrial production expanded too, albeit at a modest pace that contributed to growth nonetheless. The country's monetary policy remained prudent and consistent with the inflation-fighting framework, which enabled Russia's Central Bank to come in below the consumer price index (CPI) inflation year-end target as early as in July 2017. Uneven growth dynamics notwithstanding, positive tailwinds, firming oil prices, and growing macro-stability have allowed both consumer demand and consumption to rise along with the improvement in the business climate, says the World Bank. Over the yearly average (2016/2017), the ruble exchange rate continued to decline, although not as visibly as in the previous year.

Table 2: **Growth**

	2017/2016 year on year	2016/2015 year on year	2015/2014 year on year
GDP	1.5%	-0.6%	-3.7%
Industrial production	1.0%	2.5%	-3.4%
Oil production	-0.3%	2.6%	1.3%
Investment	4.2%	-2.3%	-8.4%
CPI	2.5%	7.1%	15.5%
Real disposable income	-1.7%	-5.9%	-4.0%

Sources: Rosstat, IMF, World Bank

Chart 3: **Nominal exchange rates of foreign currencies against the rouble** **(rubles per unit of currency)**



Kazakhstan's economy in 2017

Kazakhstan's statistics agency declared that domestic GDP grew by 4.0% in 2017 driven by accelerated oil and gas production growth. Kazakhstan's corporate sector as a whole also benefited from this trend. Thus, the increase of industrial output and investments reached 7.1 and 5.5% accordingly. The positive economic development was also based on the limited inflation of 7.1%, and the considerable pace of retail trade reached 6.3%.

Global oil market

The growth in worldwide demand for oil is estimated to have reached 1.53 million barrels per day in 2017, well above the initial forecast and at a rate that maintained the consistently healthy growth seen over the past three years. OECD Europe contributed most of the upward revisions due to solid progress in the industrial sector in addition to strong demand from the transportation sector. In non-OECD countries, China recorded robust demand for oil in 2017, as both the petrochemical and the transportation sectors continued to expand at a healthy pace and overall economic activity outpaced initial expectations. For 2018, the main assumption driving the forecast is firm economic growth that lends support to industrial and construction fuels in both OECD and non-OECD countries. The expansion of the transportation sector is expected to provide the bulk of oil demand growth while petrochemical demand growth is projected to be one of the fastest-rising contributors in the US, China, South Korea, and the Middle East. As such, world oil demand growth is estimated at 1.51 million barrels per day in 2018, up from 1.26 million barrels per day as initially forecast.

Non-OPEC oil supply growth in 2017 was well above initial market expectations and now stands at 0.81 million barrels per day. Higher-than-expected supply growth in the US, Canada, and Kazakhstan have been the key contributors to the upward revisions, particularly US tight oil. As a result, US oil output is now expected to grow at 0.61 million barrels per day in the current year. The momentum that made itself felt in 2017 is expected to continue in 2018 on the back of rising investments in US tight oil and improved well efficiency. Higher output from Canada, due to previously approved oil sands projects, will also contribute to the growth in 2018. As a result, the non-OPEC supply is expected to expand by 0.99 million barrels per day in 2018. The forecast is fraught with considerable uncertainties, particularly regarding US tight oil developments.

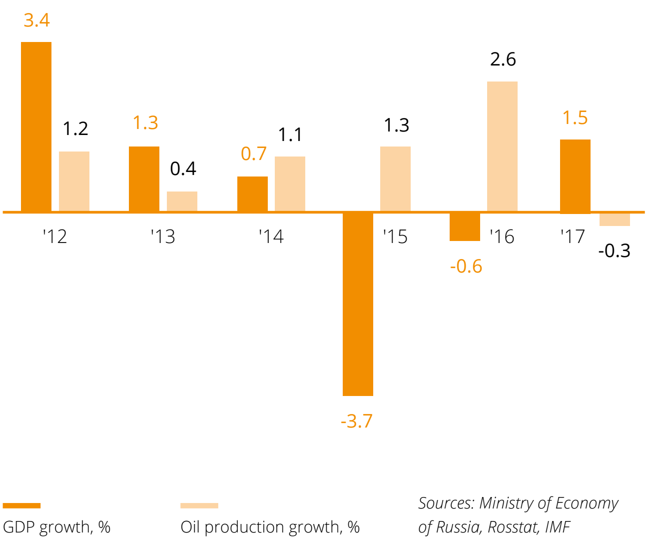
At the end of 2017, the average price of crude oil per barrel surged above USD 60 per barrel for the first time since June 2015. The oil price is expected to average USD 62 per barrel in 2018.

Oil and gas production in Russia and Kazakhstan
Oil production in Russia reduced slightly by 0.3% in 2017 because joining to OPEC agreement. This agreement on the global level led to a sensitive oil production correction in Nov-Dec 2017. By contrast, Russian gas production increased by 8.7% due to the strong demand from the European Union.

As we forecast, Kazakhstan's oil production showed impressive growth of 11.2% in 2017. Gas production experienced spectacular increase of 14%. While domestic demand improved marginally, the contribution of net exports to GDP growth rose substantially as a result of a significant rebound in oil exports. Both the ongoing economic recovery in Russia and higher demand for oil in EU countries improved external demand.

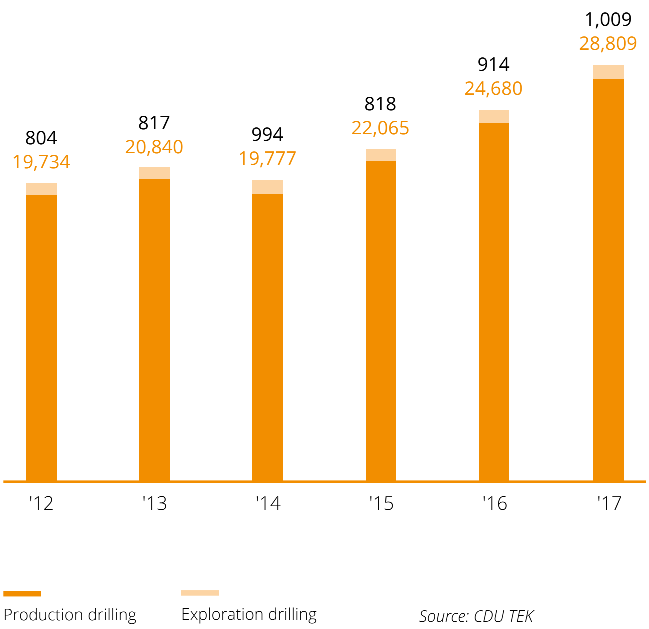
In past years, oil production and GDP growth have developed more or less in tandem with each other—except for 2015 and 2016, when oil output growth lost its direct correlation with GDP growth. In both of these years, the onset of the recession lowered GDP by 3.7%. Yet Russia's oil production continued to rise and to hit new highs year after year.

Chart 4: **Russian GDP and oil output dynamics 2012–2017** **(in percent)**



Sources: Ministry of Economy of Russia, Rosstat, IMF

Chart 5: **Drilling dynamics in Russia – overall drilling volume 2017** **(in thousand meters)**



Source: CDU TEK

The high level of oil output in 2017 was achieved yet again thanks to the increase in exploration drilling by 10.4% year on year (2016: 11.8% year on year). The overall drilling volume also rose by 12.6% year on year, reaching 28,809 thousand meters. Production drilling in turn grew by 12.6% year on year (2015: 11.8% year on year) (see Chart 5).

The major players in the Russian oil industry demonstrated varying degrees of momentum with respect to production drilling. Rosneft remained the undisputed leader, reporting a market share of 42.9% in 2017, up from a market share of 36.9% the previous year. While Surgutneftegaz, another major player in this segment of the oil field market, ranked second with a market share of 16.9%, the steady decline in its market share continued unabated. Lukoil, the second-largest Russian oil company, achieved a market share of 10.6% as of the end of 2017, down from 10.7% in 2016. The other state-owned company, Gazprom Neft, lost 2.3% of its market share, coming in at 8.7% as of the end of 2017 (see Table 3).

Table 3: **Breakdown of market shares in production drilling by company**

	2013	2014	2015	2016	2017
Rosneft	28.6%	26.2%	30.5%	36.9%	42.9%
Surgutneftegaz	24.8%	21.8%	19.6%	18.2%	16.9%
Lukoil	18.0%	20.2%	12.5%	10.7%	10.6%
Gazprom Neft	14.1%	14.0%	13.1%	10.4%	8.7%
Others	14.5%	17.8%	24.3%	23.8%	20.9%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

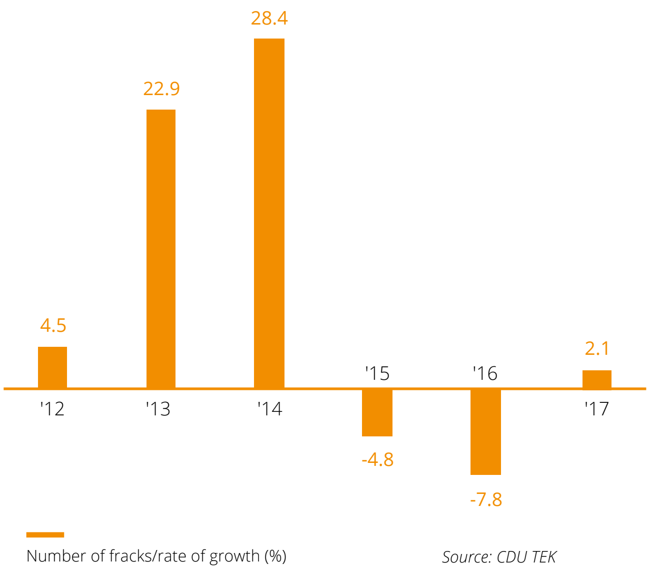
Source: CDU TEK, calculation of PeWeTe Group

In the past seven years, the hydraulic fracture segment was buffeted by changing dynamics. The number of fracking wells rose rapidly between 2012 and 2014, fell considerably in 2015 and 2016, and then increased again in 2017 by 2.1% (see Chart 6).

Rosneft remained the leading oil customer in the fracturing segment. Having experienced a steady decline from a market share of 31.6% in 2013 to a market share of 26.0% in 2016, its market share rose to 34.1% in 2017 due to the takeover of Bashneft in late 2016. Surgutneftegaz, Tatneft and Lukoil follow after Rosneft occupying close market shares (market share estimation depends strongly on the methodology of calculation of number of fracs – how multistage operations are included – like one job or according to a number stages). Gazprom Neft ranks fifth in the fracturing business losing its market share (see Table 4).

Generally, the Russian oilfield service industry experienced some revival in 2017 but mostly due to Rosneft's contribution.

Chart 6: **Growth rate of number of fracks in 2012–2017** **(in percent)**



Source: CDU TEK

Table 4: **Breakdown of fracturing operations by company**

	2013	2014	2015	2016	2017
Rosneft*	31.6%	32.4%	26.5%	26.0%	34.1%
Surgutneftegaz	13.7%	16.7%	20.9%	21.4%	25.1%
Tatneft	11.3%	10.2%	9.9%	13.0%	13.3%
Lukoil	18.2%	14.9%	14.1%	13.9%	12.2%
Gazprom Neft	7.5%	6.1%	5.1%	7.4%	6.7%
Others	17.7%	19.7%	23.5%	18.3%	8.6%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

** Including Bashneft in 2017, which had been acquired in October 2016 / Source: CDU TEK, calculation by the PeWeTe Group*

Industrial outlook

Future developments in both the energy and the oil markets will be driven by a number of factors. The key factors are population growth, changing demographics, the anticipated trajectory of economic growth, industry policy changes, technological advancements as well as energy and oil prices. Overall population growth is expected not only to expand at a very low rate compared with the previous century, but also to decelerate further as the outlook moves to 2040. At the same time, the world's population continues to age as fertility rates decline and people live longer the world over. In addition, more people are relocating not only from country to country, but also increasingly from the countryside to urban areas.

The global population is estimated to soar from 7.3 billion in 2015 to 9.2 billion in 2040. The additional 1.8 billion people will come mainly from developing countries.

Against this backdrop, in the Reference Case global gross domestic product between 2016 and 2040 is expected to increase at a rate of 3.5% p.a. on average. Most of the global growth will be driven by the developing countries, which are expected to grow by an average of 4.5% p.a. during this period on the back of higher labor productivity growth and a more optimistic demographic outlook. The evolution of energy markets over time is significantly impacted by government policies, which are used as mechanisms to stimulate change beyond purely market-driven forces. The current trend is expected to lead toward a long-term global convergence that focuses on energy efficiency and the increasing adoption of clean energy, including renewables. Moreover, policies in developing countries are also expected to entail energy poverty eradication measures. At the global level, the largest contribution to the demand for energy in the future is projected to come from natural gas. In absolute terms, the demand for natural gas will rise by almost 34 mboe/d, reaching a level of 93 mboe/d by 2040. Its share in the global energy mix will increase by a significant 3.6 percentage points.

According to the World Oil Outlook 2040, the medium-term oil demand outlook up to 2022 shows an increase of 6.9 million barrels per day, from 95.4 million barrels per day to 102.3 million barrels per day. This corresponds to a healthy average annual increase of almost 1.2 million barrels per day. Demand in developing countries is expected to be strong, soaring from 43.2 million barrels per day in 2016 to 49.6 million barrels per day in 2022.

Outlook for Kazakhstan oil field services

The 2017 oil price recovery helped not only to reduce Kazakhstan's current account deficit but also to devise a more active policy towards domestic oil production. As the country's proven oil reserves stay at 30 billion barrels and exports are to be increased from 67 million tons in 2017 to 69 million tons in 2018, the country plans to start production on the Tengiz, Karachaganak, and Kashagan oil fields. In 2018, the Kazakh government is expected to invest USD 6 billion in the modernization and expansion of its refineries. Along with the focus on the Kashagan field and considering the long history of Russian companies in the country, those focusing on horizontal drilling have a unique opportunity to enter the developing market based on competitive service prices—not only with respect to sophisticated drilling but also with respect to fracturing, which may be considered the main driver of development in Kazakhstan.

Development of the PeWeTe Group

Highlights of 2017

For the PeWeTe Group, 2017 was characterized by the following four factors: The macroeconomic situation in Russia and Kazakhstan stabilized, and the average exchange rate of the Russian ruble versus the euro even increased by 11%. Both higher and stable crude oil prices ensured sustainable demand from the oil majors. At the same time, however, oil companies continued to put pressure on oilfield service prices, especially in fracturing. Generally speaking, the oilfield service sector is experiencing intensive changes and, faced with this challenge, oilfield service companies must prepare to rebuild their management model and look for new business opportunities that may require additional expenditures. Given such conditions, the PeWeTe Group developed satisfactorily in terms of both its operating business and its finances.

Revenues generated in Russian rubles were up by 3.0%. The consolidated financial statements in EUR show that the Group outperformed both the original guidance and the expected results. Revenues for 2017 were EUR 353.0 million, and EBITDA and EBIT were EUR 83.1 million and EUR 36.8 million, respectively. Expressed in RUB, the revenue increase was mostly due to revenue growth per drilling services job and the increase in the number of well service segment operations. The cost of sales was in the planned range, closely tracking the growth of revenue, which resulted in pushing gross profits up by 11.1% compared with 2016. The accelerated increase in administrative expenses is related to the need to create new management and business opportunities, thus leading to lower EBIT and EBITDA margins. Thanks to the rise in its financial income and its efficient risk management, the Group posted spectacular net profit growth of 21.6%.

The most important business achievements of the PeWeTe Group in 2017 were as follows:

- Sales revenues increased by 3.0% in RUB and by 16.0% in EUR.
- EBITDA rose by 2.0% from EUR 81.5 million in 2016 to EUR 83.1 million in 2017.
- The consolidated net result increased by 21.6% to EUR 31.0 million.
- The equity base rose by 3.7% and the equity ratio is 55.2%.
- The previously acquired proppant manufacturer, CARBO Ceramics, contributes to both revenue and net profit.
- The company’s positive financial performance will boost both its economic base and its performance in 2018.

All figures are based on the following exchange rates:

Table 5: **Exchange rate**

	Closing rate as at 12/31/2017	Closing rate as at 12/31/2016	Average rate 2017	Average rate 2016
1 Euro (EUR)				
= Russian ruble (RUB)	68.8668	63.8111	65.9014	74.2310
= Kazakhstan tenge (KZT)	398.23	352.42	368.52	378.32
= US dollar (USD)	1.1956	1.0520	1.1294	1.1073
1 US dollar (USD)				
= Russian ruble (RUB)	57.6002	60.6569	58.3529	67.0349
= Kazakhstan tenge (KZT)	332.33	333.29	326.08	341.76

Group structure

Chart 7: **Structure of the Group**

Petro Welt Technologies AG Vienna, Austria			**100% →**	**LLC Petro Welt Technologies*** Moscow, Russia
			100% →	**LLC KATKoneft** Kogalym, Russia
			100% →	**LLC KATOBNEFT** Nizhnevartovsk, Russia
			100% →	**LLC KATOil-Drilling** Kogalym, Russia
			100% →	**LLC KAT.oil Leasing** Kogalym, Russia
			100% →	**LLC Trading House KATOil** Kogalym, Russia
			100% →	**Petro Welt Geodata GmbH** Vienna, Austria
	100% ↓			
		Pewete Evolution Limited Limassol, Cyprus	**100% →**	**LLP Pewete Kazakhstan** Kyzylorda, Kazakhstan
99.99% ↓	**0.01% ↓**			
WELLPROP CYPRUS LIMITED Limassol, Cyprus			**100% →**	**LLC WELLPROP** Kopeysk, Russia

* Management company

Reference to the text in the chapter "Company".

Operating Segments and their Performance

The PeWeTe Group is operating in the upstream business in the oil and gas industry and presents its activities in three reportable segments: the Well Services segment; the Drilling, Sidetracking, and IPM segment and segment of proppant production.

Well Services segment

The Well Services segment comprises hydraulic fracturing, multi-stage fracturing and remedial cementing. Hydraulic fracturing is a very effective method for conveying hydrocarbons to the surface, i.e. well stimulation. In Russia, Petro Welt Technologies AG is at the forefront of a technique known as multi-stage fracking and the supporting technology.

Offered as an added service during hydraulic fracturing, remedial or squeeze cementing is a sealing practice aimed at preventing the mixture of water and other unwanted fluids with hydrocarbons by insulating the oil zone from the water zone. By sealing the borehole, the well is prepared for efficient production at a later time. The Company has performed over ten thousand well cementing jobs since 1996 and is the largest independent fracking services provider in Russia with a market share of about 24% (based on the number of jobs).

Drilling, Sidetracking, and IPM segment

The Drilling, Sidetracking and IPM segment encompasses conventional drilling, sidetrack drilling, and integrated project management (IPM). In conventional drilling, an oil or gas well is created by drilling a vertical, horizontal or inclined hole into the earth to a depth of up to 5,000 meters using a drilling rig which contains all necessary equipment and generates the required onsite power for all operations.

Sidetrack drilling, also known as inclined drilling, is a term used to describe the drilling of a new wellbore from the upper section of an existing well that no longer produces oil either due to reservoir problems or irreparable damage in the borehole. For producers, this method represents a cost-effective way of reactivating idle wells and rebuilding production capacity, either by bypassing a problematic well section or reaching new reservoirs. Integrated Project Management (IPM) enables Petro Welt Technologies AG to provide single-source solutions primarily using our drilling capacities complemented by third-party services where needed, i.e. top quality drilling or sidetracking services on a turnkey basis. These services include order processing, contract management, and the management of services rendered by subcontractors including measurement while drilling (MWD), logging while drilling (LWD), and liner cementing.

Production of proppant

WELLPROP (Russia) is focusing 95% of its sales on the intermediate-density ceramic proppants used in hydraulic fracturing. The high efficiency of the production process is the key advantage of these proppants relative to the company's main competitors. The plant is located in Kopeysk, Russian Federation, and has one installed production line with a capacity of 50,000 tons. Historically, the company has produced 45,000 to 50,000 tons per year.

Operating Performance of the Group

In 2017, the operating subsidiaries of Petro Welt Technologies AG demonstrated their competitiveness in the services market for top oil-producing clients and benefited from a host of successful tenders. The company's scope of services in the Russian oil field services market has been redistributed in terms of physical volumes due to the weakening of several market players, for example, in the fracturing segment. Some service companies have withdrawn from the market due to quality issues and low performance.

The clients of Petro Welt Technologies AG, which are the leading oil companies in the Russian Federation, benefited from the favorable correlation of rising oil prices and stable demand on core markets such as Europe. Oil companies' budgets for operating expenditures (OPEX) were the biggest challenge. But most of our clients were able to find the right balance and managed to withstand service programs. The state-owned companies switched fully to ruble-denominated contracts and even boosted their financial performance, stabilizing capital expenditures.

In spite of such positive factors, the major Russian oil companies helped to create a buyer's market favoring low-price suppliers. During the first nine months of 2017, clients were not interested in technological innovations and instead were fully focused on increasing the quantity of commodity operations. But the situation may change in 2018, because Russia and other key oil countries have reached maximum oil production levels.

Increasing number of jobs

The number of service jobs at Petro Welt Technologies AG in the drilling, sidetracking, and integrated project management (IPM) segment rose by 5.5% to 343 jobs in 2017, up from 325 jobs in 2016 (see Chart 8). One of the key factors for this increase was the higher demand overall for conventional drilling. At KAToil Drilling, the number of drilled wells rose by 9.9% and KATOBNEFT, which is specialized in sidetracking, boosted operations by 1.4%. Average segment revenues per job soared by 13.2% to EUR 481.6 thousand (2016: EUR 425.2 thousand).

The total number of service jobs in fracturing and remedial services in the Well Services segment, which comprises KATKoneft and PeWeTe Kazakhstan, increased by 23.7%, from 4,717 in 2016 to 5,834 in 2017. At the same time, the core fracturing segment in Russia also showed an increase in operations by 18.6% from 3,732 in 2016 to 4,425 in 2017. The share of more profitable multistage fracturing rose from 40% to 56% and the average segment revenues per job fell by 10.2% to EUR 31.6 thousand. The negative development of revenue per job was related to a less than average re-injection of proppant per well. Recognized by clients for its excellent performance, KATKoneft had the opportunity to participate in the redistribution of the market and to improve the range of its clients.

The equipment operated by Petro Welt Technologies AG as at 31 December 2017 consisted of 15 drilling rigs (2016: 15), 26 sidetracking rigs (2016: 26) and 18 fracturing fleets (2016: 19).

Revenue development

The Group generates income in two currencies: the Russian ruble and the Kazakhstan tenge. Both currencies have been subject to volatility. In 2017, the average ruble/euro exchange rate was 65.90 rubles per euro. As at 31 December 2017, the exchange rate was 68.87 rubles per euro.

The Group generates 99% of its revenues in Russian rubles and 1% in Kazakhstan tenge. The rate of the Kazakhstan tenge against the euro has fallen as at 31 December 2017, showing a negative trend of 13.0% compared with 31 December 2016.

Total Group revenues measured in Russian rubles rose by 3.0% in the 2017 fiscal year. The revenue increase in rubles was made possible mostly by the revenue growth per job in the Drilling, Sidetracking, and IPM segment as well as a record number of operations in the fracturing segment. In contrast, revenues in the Group reporting currency, the euro, rose by 16.0% to EUR 353.0 million, from EUR 304.4 million in the previous year. The quarterly revenue development and seasonality of the operating business are presented in the following table. The best quarterly result was achieved in the second quarter with revenues of EUR 95.9 million. Like every year, the weakest quarter was the first one due to cold winter in Siberia.

Table 6: **Revenue development 2017 per quarter and segment**

in EUR million	Q1	Q2	Q3	Q4	2017	2016	+/-%
Petro Welt Technologies consolidated	79.8	95.9	87.3	90.0	353.0	304.4	+16.0%
Well Services	38.8	49.5	49.4	46.9	184.6	166.2	+11.1%
Drilling, Sidetracking, IPM	41.0	46.4	37.9	39.9	165.2	138.2	+19.5%
Proppant Production				3.2	3.2		-

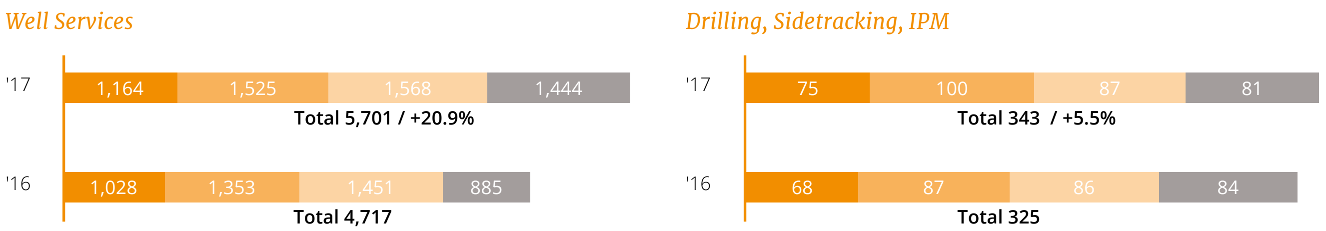
Segment Reporting

The upward trend in the development of the Group's revenue, calculated in euros, is fully correlated within the Well Services and the Drilling, Sidetracking and IPM segments.

The stability of the economy and the risk of a downgrade in quality in the Drilling segment allowed major customers to choose a less aggressive budget policy, which had a positive impact on per-job revenues, boosting them by 13.2% in connection with the geographical expansion of our conventional drilling services.

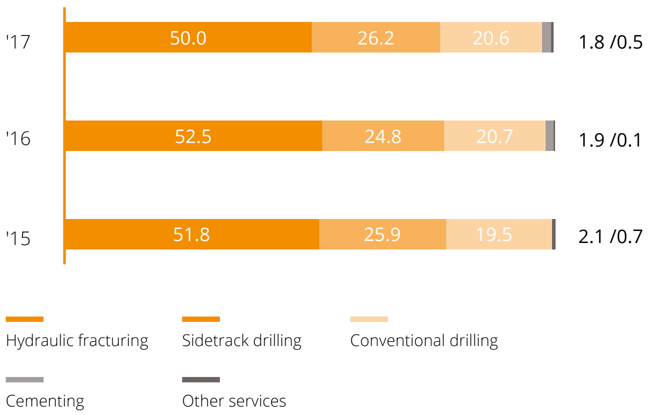
In the Well Services segment, the production program was successfully completed in 2017 supported by the increase of overall number of jobs and the share of multistage fracks.

Chart 8: **Quarterly development of the service job count**



The share of the company's revenues generated by its service lines between 2015 and 2017 shows some increase in revenues from fracturing and substantial growth in revenues from conventional drilling, which partially replaced sidetracking (see Chart 9).

Chart 9: **Revenue development by service line 2015–2017** (in percent)



Cost of sales performance

Strong operating activity was supported by a cautious financial policy. The cost of sales rose by 17.1% (or EUR 42.4 million) to EUR 290.0 million, up from EUR 247.6 million in the previous year. This increase is in line with the growth of sales revenues in 2017 (16.0%). However, the cost of sales showed marginal growth in Russian rubles (increase by 4.0%), given the Russian economy's slightly inflationary dynamics in 2017. This development was due to strict budgetary discipline, the fact that the share of imported stocks and components was kept at a low-risk level, and the weakening of the Russian ruble since June 2017.

In 2017, raw material costs rose by 8.0% or EUR 7.7 million to EUR 103.3 million. The average number of employees increased by 6.7% to 3,535, up from 3,313 in the previous year. At the same time, personnel costs grew by 16.2%, from EUR 40.7 million to EUR 47.3 million, due to the increases in both staff and incentive payments, which enabled greater production efficiency and made it possible to adjust salaries to industry benchmarks in order to retain key personnel.

Direct costs, which include expenditures for production services, transport, maintenance, and repair, rose by 32.0% or EUR 17.5 million, from EUR 54.6 million in 2016 to EUR 72.1 million in 2017, in spite of the expansion of the production program and the change in its operational structure. Spending related to production services also rose due to higher executor prices which, in turn, were driven by increases in both tariffs and taxes.

Administrative costs rose to EUR 24.7 million from EUR 19.6 million in the previous year due to the launch of new business opportunities, including the acquisition of CARBO Ceramics Eurasia and the creation of the associated organizational and legal infrastructure. These expenses were also affected by re-class of some part of main production personnel of KAToil Drilling to management staff.

Development of earnings
The gross profit increased by 11.1% in 2017 to EUR 63.0 million, up from EUR 56.7 million in the previous year (see Table 7). The gross profit margin was 17.9% (2016: 18.6%), thus providing a reliable basis for successful P&L dynamics in a risky external environment.

Even though its margin decreased to 23.5%, down from 26.8% in 2016, EBITDA grew in 2017 thanks to higher revenue generation.

The operating result, which is reported as earnings before interest and taxes (EBIT), decreased by 7.3% to EUR 36.8 million (2016: EUR 39.7 million) due to the change in revenues relative to the actual cost of sales. In combination with increased administrative costs, this caused the EBIT margin to decline to 10.4% (2016: 13.0%), a level that is in the planned range.

The positive effect (EUR 1.8 million) of the positive financial result of EUR 2.9 million in 2017 enabled the Group to post a profit before tax in 2017 of EUR 39.7 million (2016: EUR 40.8 million).

The Group showed strong net profit growth of 21.6% due to the decrease in the effective tax rate from 38.7% in 2016 to 21.8% in 2017. Earnings per share were EUR 0.63 per share for 2017, up from EUR 0.52 per share in 2016.

Table 7: **Group figures EBITDA and EBIT**

Key positions		2017	2016	+/-	+/-%
Sales revenues	in EUR million	353.0	304.4	48.6	+16.0%
Gross profit	in EUR million	63.0	56.7	6.3	+11.1%
EBITDA	in EUR million	83.1	81.5	1.6	+ 2.0%
EBIT	in EUR million	36.8	39,7	-2.9	-7.5%
Gross profit margin		17.9%	18.6%		
EBIT margin		10.4%	13.0%		
EBITDA margin		23.5%	26.8%		
Group result	in EUR million	31.0	25.5	5.5	+21.6%
Earnings per share	in EUR	0.63	0.52	0.11	+21.2%

Proposal of the Management Board on the distribution of dividends for 2017
The Management Board has the strong intention to meet shareholders' expectations regarding the company's development and growth. Overseas expansion is considered necessary for the successful development of business in both the short and the medium term. The first step was taken with the acquisition of Trican Kazakhstan in 2016 and the second step with the acquisition of CARBO Ceramics. Additional international projects are being planned and in preparation in Kazakhstan as well as in other countries that produce crude oil and natural gas. Apart from the company's international expansion, it is also necessary to strengthen its position in its core markets in Russia through investments in technology, infrastructure, software, and personnel training in order to maintain its reputation as a leader in technology. The company's strong cash position will strengthen its ability to negotiate long-term credit facilities and to further reduce its financing costs.

Development of equity and balance sheet structure
The equity rose by 3.7% from EUR 233,3 million in 2016 to EUR 242,0 in 2017, mainly due to the increase in retained earnings of 14.0%, from EUR 220.9 million in 2016 to EUR 251.9 million in 2017. The non-current assets of Petro Welt Technologies AG decreased by 6.1%, whereas the current liabilities rose sharply by

144.9%. This increase is due to the reclassification of the loan received from Petro Welt HOLDING (CYPRUS) LIMITED to short-term liabilities as at 31 December 2017. However, an addendum on postponing the maturity of the loan to 31.12.2022 is currently in the process of being negotiated and signed. At the end of 2017, total net debt was EUR 25.4 million, which corresponds to a net debt/EBITDA ratio of 0.31.

All financial stocks (assets, capital, and liabilities) developed positively despite the depreciation of the ruble at the end of 2017. Total assets rose by 4.1% to EUR 437.9 million in 2017 thanks to both the improved cash position and the increase in current assets. The equity ratio improved owing to the growth in retained earnings by EUR 31.0 million.

Table 8: Group balance sheet structure

Balance sheet positions	12/31/2017 in EUR million	12/31/2017 percentage	12/31/2016 in EUR million	12/31/2016 percentage
Current assets	278.2	63.5%	250.7	59.6%
Non-current assets	159.7	36.5%	170.1	40.4%
Assets	**437.9**	**100.0%**	**420.8**	**100.0%**
Current liabilities	191.4	43.7%	78.1	18.6%
Non-current liabilities	4.6	1.1%	109.3	26.0%
Equity	242.0	55.2%	233.3	55.5%
Liabilities and equity	**437.9**	**100.0%**	**420.8**	**100.0%**

Table 9: Development of debt and debt/equity ratio

Key figures		12/31/2017	12/31/2016
Liabilities against Petro Welt Holding Limited	in EUR million	112.5	108.7
Trade payables	in EUR million	43.4	37.8
Other liabilities with the exception of accrued liabilities	in EUR million	3.8	3.1
Less: cash and cash equivalents	in EUR million	(68.9)	(103.0)
bank deposits	in EUR million	(65.5)	(10.7)
Net debt	**in EUR million**	**25.4**	**35.9**
Total equity	in EUR million	242.0	233.3
Net debt to equity ratio		**10.5%**	**15.4%**

Cash flow development
Higher EBITDA of EUR 83.1 million in 2017 (2016: EUR 81.5 million) kept the cash flow from operating activities, which reached EUR 77.7 million, achieved the prior-year figure of EUR 78.4 million. This served as the basis for financing OPEX and CAPEX programs and other vital purchases. The negative development of the cash flow from operating activities is related to the lower inflow of working capital.

Cash flows from investing activities rose to EUR 104.8 million. Mostly, this indicator was affected by the addition to cash deposits (EUR 73.3 million) and the acquisition of the Carbo production facility (EUR 17.9 million).

There was no cash outflow from financing activities in 2017 (2016: EUR 0.7 million).

As at 31 December 2017, the Group held bank deposits of EUR 66.4 million (2016: EUR 101.8 million); those with maturities of three months or less are included in the balance sheet as cash and cash equivalents.

Risk Management

The material non-financial risks are described in the chapter "Non-Financial Information Report."

Petro Welt Technologies AG maintains a group-wide Opportunities and Risk Management System, which it has documented in the Group's Risk Management Handbook since 2005. This system is an essential part of the Group's business planning and controlling processes.

Since 25 February 2015, the company's CFO, Valeriy Inyushin, has been authorized by the Management Board to act as the Group's Chief Risk Manager (CRM), who is responsible for the Group's risk reporting on a regular and an ad-hoc basis. This appointment has enabled the Management Board to gain access to all risk-related information at any time in order to identify and assess various risk events, take appropriate actions, and respond to different developments and scenarios.

For further information, please see note 28, "Financial risk management objectives and policies," in the consolidated financial statements for the year ended 31 December 2017.

Risk factors and risk measurement
Risks arise from the Group companies that Petro Welt Technologies AG operates in Russia and Kazakhstan. Material risks to the Group's net assets, financial position, and results of operations stem from the monetary policies and economic actions of the Russian and Kazakh governments. Measures aimed at strengthening the Russian government's control over the oil and gas extraction industries may indirectly affect the service providers in the region. Further risks to the business prospects, earnings, and financial performance of the Petro Welt Technologies Group might arise from the continued deterioration of political relations between Russia and Western countries, especially the UK and the US. Petro Welt Technologies proactively monitors all countries and associated regions in which it operates. Furthermore, local management teams are put in place in all countries to ensure proximity to each country's regulatory environment.

Despite the increase in the average ruble exchange rate and the decrease in the volatility of the Kazakhstan tenge, the currency risk remains one of the most important risks to the financial stability of the PeWeTe Group. The group-wide Opportunities and Risk Management System addresses financial risks and helps to develop countermeasures to mitigate these risks.

Certain assets or goodwill may become fully or partly impaired in case of a deterioration of the industrial environment, which now includes not only the oil field service segment but also the Russian proppant market. Any such impairment could make it difficult or impossible to attain forecast business goals, significantly impacting the Group's financial results. The deceleration or even probable reduction of oil production in Russia has become another significant risk factor that defines prospective demand for oil field services. By expanding its activities in Kazakhstan and participating in the new proppant market, Petro Welt Technologies is incurring new risks, although this creates new opportunities for the Group at the same time.

A certain level of sales risk is integral to ordinary business activities and is likely to arise as a result of ongoing changes in the oil field service segment. The Group depends on a limited number of key clients presented by oil majors. Any failure to achieve our operating objectives or to meet our targets could potentially result in the loss of key clients and in significantly lower revenues. To counteract these risks, Petro Welt Technologies focuses on innovative services, technologies, and processes that are tailored to clients' needs. Our strategically broad range of services as well as our excellent market and production know-how should help us to remain independent in our markets. We are also expanding our service range and markets into attractive niches where innovative solutions and premium quality are a must.

The competitiveness of the Group companies, including their ability to keep prices attractive, is both maintained and improved by continuous innovation, quality control as well as Compliance management and assurance, and by expanding the scale and scope of the Group's services to key clients. For clients, the opportunity costs associated with switching from the services provided by our Group companies to those of alternative service providers are relatively high due to years of cooperation, the Group's proprietary technology and expertise, as well as its in-depth working knowledge of Russian and Kazakh oil fields.

The founding of the management company, Petro Welt Technologies LLC, in Russia serves to rigorously implement the Group's risk management policies in all Group subsidiaries.

Liquidity and credit quality risks

The management company's unique approach to liquidity management, which serves to ensure the liquidity of all operating companies, has been reinforced. The main remaining risk is that of potential client default.

As regards the Group, the primary goal consisted of maintaining the key performance indicators at satisfactory levels, such as the net debt to EBITDA ratio.

Due to the lack of clarity in the Russian banking system, the Group has implemented basic rules for managing free cash and depositing it with the TOP 20 credit institutions. WELLPROP is also integrated into our Group system of monitoring and managing liquidity risk.

The Group has successfully maintained its Moody's credit rating of Ba3 with stable outlook.

Potential Group liquidity risks are associated with its ability to meet its financial obligations, for instance, those related to trade payables or interest-bearing liabilities. In order to assess the liquidity risks, the budgeted operating, financial, and investment cash inflows and outflows are analyzed on a monthly basis throughout the Group, and the budgeted net liquidity is compared with the actual net liquidity. The Group follows a zero-debt policy with respect to funding from purely external sources over the medium term.

Liquidity management is currently based on pooling financial resources for the timely fulfillment of obligations to contractors. Management monitors the predicted and actual cash flows and analyzes the repayment schedules for financial obligations.

Another measure designed to improve the quality of liquidity management entails the ongoing automation of treasury processes which, in turn, helps to optimize repayment planning. A relevant automation project has been launched in Kazakhstan.

The Company place free cash only in the bank current accounts and deposits. The use of financial instruments is not material to the Company's earnings and financial position.

Noteworthy Group risks

Market risks

The ongoing volatility of the international oil field service market is confirmed by the continued exit of some of the largest international companies from certain emerging markets and certain market niches, the bankruptcy of local players, and sustained M&A activities throughout the industry. The GE deal involving the acquisition of Baker Hughes is but one example of these trends.

Russia's support of the OPEC decision to cut oil production might reduce the physical volume of oil field services. This means that the risk of a possible drop in crude oil prices changed into the risk of a deceleration or decrease of oil production in Russia and other oil countries that can limit demand for oil field services and related pricing. Our fears concerning the price pressure on the fracturing segment in Russia were confirmed at the end of 2017.

Heightened uncertainty surrounds the future CAPEX plans of oil companies, as their ability to make investment decisions is also impacted by a number of political and economic factors.

The entire industry faces significant challenges resulting from the low oil field services price environment. Exploration & production (E&P) companies have been pushing the supply chain to aggressively lower costs which, in turn, impacts margins. The resulting implications for the service sector include reductions in capacity utilization and lower rates, forcing service companies to respond by downsizing.

For these reasons, demand for the Group's services is closely linked to the level of exploration, development, and production activity, as well as to capital spending by oil and gas companies in general. Diminished upstream activities of Group clients may lead to a situation where the Group's operating subsidiaries are increasingly exposed to higher downside risks to their service orders and prices. As a consequence, both consolidated revenue and earnings may deteriorate.

The Group predominantly operates in Russia and Kazakhstan, providing services to all major oil and gas companies in the region. Hydrocarbon production volumes are often defined by producers' long-term strategic plans and sometimes defined by international contracts. In the near term, an important way to mitigate market risks includes the Group's significant exposure to national oil and gas companies such as Rosneft and Gazprom (Gazpromneft) whose upstream activities and budgets have demonstrated greater resilience to the decreases in energy prices.

The future success of the Group depends, first and foremost, on its ability to create an efficient contract portfolio. Sometimes, it is difficult to predict when a contract will be awarded in response to a bid submitted by a subsidiary. Contract awards may be affected by events that are beyond the scope of the Group's influence, such as energy prices, the global political and general economic environment, clients' ability to obtain required permits and licenses, and the availability of funding at a reasonable cost. In such cases, contract awards may be delayed and some of the Group's clients may even decide to cancel tenders.

The need to adapt technology integration in order to reduce costs remains the key technical challenge. The low oil price environment may accelerate the trend toward new operating models, leading oil field service companies to form new partnerships out of mutual necessity with the aim of sharing risk and optimizing project performance on a longer term life-of-field basis. As a result, the trend toward consolidation within the sector will continue to determine the global landscape for most of the market players.

Foreign currency risks

Risks

The ruble and tenge zones are exposed to commodity price dynamics. The economic steps taken by both the US government and the Federal Reserve are likely to be out of alignment. An unclear future as regards free trade principles may foster the emergence of currency zones even in developed countries. The new tariff regimes that are being implemented by the US, the EU, and China make the world trade system more fragile, with the potential risk of additional currency volatility.

Diversification into Kazakhstan represents one option to mitigate these risks. Compared with the Russian ruble, the tenge experiences a lag in reacting to oil and gas price corrections.

In addition, the Group will work toward achieving a greater correlation between the currency of earnings and the currency of costs: In other words, revenues in the local currency should be covered by costs in the local currency.

The Group's reporting currency is the euro. Almost all of the Group's revenue and expenses are in Russian rubles and partly in Kazakhstan tenge. Fluctuations in exchange rates between the euro, the Russian ruble, and the tenge affect the translation of the Group's financial results into euros. Any further instability in exchange rates between the US dollar, the euro, and the Russian ruble may impact the Group's supply costs, in particular, for operating equipment and machinery. Exchange rate volatility may also affect the Group's consolidated balance sheet.

Legal risks

(a) As reported in the previous year, there is a suspicion that the Group could have been overcharged for certain fixed assets. In the event that this suspicion is confirmed, and it is established that some of the Group's fixed assets were in fact overvalued, this could result in the revision of the carrying amount of these fixed assets and in corresponding claims for damages.

If the suspicion is confirmed, remeasurement of the affected fixed assets to the corresponding residual value would lead to restatement of their cost with no corresponding impact to profit or loss. As a consequence, depreciation and amortization for previous periods would decrease, in which case the restatement would be reported cumulatively in retained earnings. Such a revision of the carrying amount is not feasible at this time due to the early stage of the proceedings and the related need for clear and transparent data.

The investigation being carried out by the Central Public Prosecutor's Office for the Prosecution of Economic Crimes and Corruption in Vienna is still ongoing. Appropriate measures will be taken as soon as the results of the investigation are available and provided the suspicions of potential damage to Petro Welt Technologies AG are confirmed. Once all findings are evaluated, it will also be assessed whether adjustments to the list of related parties are necessary.

At present, the potential assertion of claims for damages is being assessed.

(b) In the meantime, the investigation being carried out by the Vienna Public Prosecutor's Office for the Prosecution of Economic Crimes and Corruption was expanded to include certain business transactions of Petro Welt GEODATA GmbH headquartered in Vienna, a fully-owned subsidiary of Petro Welt Technologies AG. The Vienna Public Prosecutor's Office is currently investigating procurement transactions and the use of financial resources made available by the parent company. The Managing Directors of this company were Ronald Harder (up to 13 March 2015) and Edward Brinkmann (up to 13 February 2015).

(c) Within the context of carrying out a contract order in India, Petro Welt GEODATA GmbH filed claims for damages of USD 817,409 from Essar Oil Ltd. with a court in Mumbai. In turn, Essar Oil Ltd. has filed counterclaims to the amount of USD 832,500. The legal dispute is still pending.

(d) Within the context of another contract order, Petro Welt GEODATA GmbH filed claims for damages of USD 3,118,642 from GeoEnpro Petroleum Ltd. with a court in New Delhi. In turn, the defendant filed counterclaims to the amount of USD 944,841. With award dated 29 December 2017, it was decided that GeoEnpro Petroleum Ltd is obliged to pay USD 56,923.65 (together with interest) to Petro Welt GEODATA GmbH. All additional claims of Petro Welt GEODATA GmbH were rejected. All counterclaims of GeoEnpro Petroleum Ltd were also rejected.

(e) In the course of the change of control, three former members of the Management Board, namely former Chairman Manfred Kastner, former Vice-Chairman Ronald Harder and former member Leonid Mirzoyan, gave notice of resignation, invoking the change-of-control clause stipulated in their Management Board employment contracts. The respective employment contracts were terminated effective 31 March 2015. According to this change-of-control clause, the former directors would have been entitled to compensation payments. These payments would have been due by 31 March 2015 at the earliest.

However, the former members of the Management Board initiated payment to themselves for the total amount of EUR 1,539,603.50 on 13 February 2015 prior to the stipulated due date. Subsequently, the former members of the Management Board were dismissed for good cause from the Management Board with immediate effect by resolution of the Supervisory Board dated 25 February 2015.

On 17 March 2015, Petro Welt Technologies AG filed a lawsuit against the former members of the Management Board to the amount of EUR 1,539,603.50. The lawsuit is based on unjust enrichment, compensation for damages and repayment of the unlawfully issued payment. The claim also consists of a declaratory claim that no further compensation payments are owed to the former members of the Management Board. The outcome of the legal proceedings is uncertain.

(f) Legal risks that may arise from normal business operations are sufficiently covered by existing insurance policies.

Shareholder Structure and Share Capital Information

in accordance with Section 243a(1) of the Austrian Commercial Code

Petro Welt Technologies AG's share capital amounted to EUR 48,850,000 as of 31 December 2017 (31 December 2016: EUR 48,850,000) and is divided into 48,850,000 issued and outstanding no-par-value shares. The shares are listed on the official market of the Prime Standard at the Frankfurt Stock Exchange. All of the shares are admitted for trading. No preferred shares have been issued. There are no restrictions regarding voting rights or transmission rights of the shares. As of the balance sheet date of 31 December 2017, Petro Welt Technologies AG had not acquired any of its treasury shares to date.

Since its successful initial public offering in 2006, Petro Welt Technologies AG has voluntarily adhered to the German Corporate Governance Code. Apart from a few exceptions, which are disclosed in the declaration of compliance of Petro Welt Technologies AG, the company has fully complied with the recommendations contained in the code.

Petro Welt Holding Limited (Cyprus) directly holds 47.7% (2016: 47.7%) of the shares of Petro Welt Technologies AG. The majority owner of Petro Welt Holding Limited (Cyprus) is Joma Industrial Source Corp.

Joma Industrial Source Corp. directly holds 39.36% of the shares in Petro Welt Technologies AG (2016: 39.36%). Dijols directly holds 5,850 shares (2016: 5,850 shares) of Petro Welt Technologies.

As a result, Joma Industrial Source Corp. directly and indirectly controls a total of 42,528,711 voting rights in Petro Welt Technologies AG (corresponding to 87.06% of shares).

Internal Control System

in accordance with Section 243a(2) of the Austrian Commercial Code

The essential characteristics of the monitoring and control of the internal control system (ICS) and the Risk Management System (RMS) are described on the basis of the five components of the COSO Framework.

The ICS consists of the organizational structures along with the management accounting principles, methods and procedures which are crucial for implementation by the Group's Management Board, the Audit Committee and the Moscow-based Executive Board of Directors as well as the management teams of the subsidiaries and their audit committees, internal audit departments and top executives.

The ICS is subject to supervision by the regulatory authority on all issues of management accounting and financial accounting and has the authorization to issue instructions to ensure the adoption of uniform standards throughout the Group. Process manuals have been created in the form of Group and individual company guidelines to aid in implementation. These include the accounting manual applying to subsidiaries in accordance with Russian GAAP, the IFRS accounting manual, budgeting manual and schedule, inventory guidelines, a handbook on the circulation of documents, a health, safety and environmental management (HSE) manual, as well as other manuals and internal instructions.

The key components of the Group's internal control system are the management accounting environment, risk assessment and management, management accounting activities, dataware and exchange of information, monitoring and supervision. The management accounting environment encompasses business policies, ethical values, and authorities on the part of employees, the assignment of responsibilities, the organizational structure, as well as guidance.

The following bodies are involved in the management accounting process: the Management Board, the Audit Committee, along with the audit committees, internal audit departments, and authorized employees in the subsidiaries.

The ICS is based on the budgets and financial results of subsidiaries as well as the consolidated budget and financial results of the Group. The departments in the subsidiaries with responsibility for accounting and reporting report directly and regularly to the Executive Board of Directors of the Moscow management company, which in turn regularly reports on business developments to the Management Board of the Petro Welt Technologies Group. The departments of subsidiaries monitor and report on planning, budgeting, reporting processes, as well as on deviation analyses and goal attainment. They put together monthly, quarterly, and annual financial reports in line with Russian GAAP and IFRS requirements.

Quarterly reporting to the Supervisory Board relates to the accounting process, which is the main feature of internal quarterly reporting. However, it also includes a general report on the economic environment in the oil and gas field services industry. Other reports for the Supervisory Board include the Annual Report and the report by the Management Board focusing on the annual budget, including the finance, liquidity, and investment plans.

Financial accounting

Financial accounting in Russia is carried out on the basis of the 1C program. Inventory and disposal of assets are the responsibility of the local inventory managers at the individual subsidiary level. Their roles are stipulated in the inventory guidelines applying to Group subsidiaries. Additions to non-current assets are entered into 1C and are checked against the approved investment plans on a monthly basis. Depreciation and amortization of non-current assets is automatically recorded in 1C. The main document entry in 1C is responsible for checking, entering and payment preparation of all invoices. Accounts payable enters all invoices and payment orders from various creditors. This area attaches particular importance to checking legal requirements, sales and corporation tax data, and the Group's internal regulations such as payment instructions for signing authorization and value limits. Accounting for subsidiaries is carried out in line with Russian GAAP by the accounting staff in the accounting department in close cooperation with Group management accounting.

On a quarterly basis, the financial accounting departments of subsidiaries implement the transformation process on their Russian GAAP financial data and prepare the IFRS packages. Once these have been finalized, they are then passed on for evaluation by the Group's IFRS reporting department. Following the department's approval, the data is forwarded for consolidation.

IT systems

The 1C system is used for financial accounting. The Group uses the Oracle Hyperion planning system for budgeting, management accounting, and reporting.

Safety measures and operational quality monitoring for 2017–2019

Service quality and safety measures were also core values for Petro Welt Technologies AG during 2017 and it is our main priority for the next years. To ensure the safety of PeWeTe staff in the field and maintain the high quality of our operations, we continue to take measures to protect our staff from various possible hazards and to control risks. These measures include the definition of PeWeTe's corporate policies and standards.

A root cause analysis of several of the most serious incidents that occurred in 2016 indicated new threats and new risks. The analysis disclosed new weaknesses in some of the existing safety and quality assurance processes. To address these, the Group strategic program aimed at minimizing risks and improving the quality of operating processes has defined four key phases.

Phase 1: QHSE (Quality, Health, Safety and Environment). This phase addresses the improvement of authorities and the corporate culture. During 2016, all operating segments implemented the OLIMP online training program.

Phase 2: Hazard and effects management process (HEMP). Line of fire and injury prevention training is a part of the HEMP process implemented for KATOBNEFT and KAToil-DRILLING companies.

Phase 3: Service quality process improvements. Monthly controls by operating companies and quarterly controls by management teams have been implemented.

Phase 4: Road safety management. IVMS (In-Vehicle Monitoring System) tracking systems have been installed to 50% of heavy vehicles. All contractor cars used for passenger transportation are equipped with video monitoring systems.

Research and Development (R&D)

in accordance with Section 243(3) of the Austrian Commercial Code

In 2017, Petro Welt Technologies AG did not invest in R&D activities. The company does not perform any research and development activities on its own. The company cooperates with global service providers for the best “fit for purpose” technologies addressing clients’ needs and market trends.

Important Events after the Balance Sheet Date

Petro Welt Technologies AG and Petro Welt HOLDING (CYPRUS) LIMITED entered into a negotiation of amendment of a currently valid loan agreement. The termination date for liability amounting to EUR 100 million and the interest payment date according to the amendment is 31.12.2022. The interest rate will be changed at arm's length. The addendum is currently in the process of negotiation and signing.

Economic Expectation and Guidance

The global economy and oil prices in 2018

The stronger economic momentum in 2017 is expected to carry over into both 2018 and 2019, with global growth having been revised upward to 3.9% for both years (0.2 percentage points higher relative to the fall forecasts). For the two-year forecast horizon, the upward revisions to the global outlook stem mainly from advanced economies, where growth is now expected to exceed 2% in 2018 and 2019. This forecast reflects the expectation that favorable global financial conditions and strong sentiment will help maintain the recent acceleration in demand, especially with respect to investments, which will have a noticeable impact on growth in economies with large exports. In addition, the US tax reform and the associated fiscal stimulus are expected to temporarily boost US growth, with favorable demand spillovers for US trading partners—especially Canada and Mexico—during this period. The expected global macroeconomic effects account for about one-half of the cumulative upward revision of the global growth forecast for 2018 and 2019, with a range of uncertainty around this baseline projection. Growth this year and next in the Commonwealth of Independent States (CIS) is projected to remain above 2%, supported by a slight upward revision of growth prospects for

Russia in 2018. As of early January 2018, both the US dollar and the euro remain close to their August 2017 level in real terms. (Source: International Monetary Fund (IMF), World Economic Outlook (WEO) Update, January 2018)

The improving global growth outlook, weather events in the United States, the extension of the OPEC+ Agreement to limit oil production, and geopolitical tensions in the Middle East have supported crude oil prices. Between August 2017 (the reference period for the October 2017 WEO Update) and mid-December 2017 (the reference period for the January 2018 WEO Update), crude oil prices rose by about 20% to over USD 60 per barrel, with an additional increase in early January 2018. The markets expect prices to gradually decline over the next four to five years; as of mid-December 2017, medium-term price futures stood at about USD 54 per barrel, a modest increase from August 2017. The increase in fuel prices raised headline inflation in advanced economies, but wage and core-price inflation remain weak. In emerging market economies, headline and core inflation have ticked up slightly in recent months after declining earlier in 2017. (Source: IMF, World Economic Outlook Update, January 2018)

Amid mounting fiscal pressures and in view of shale oil's resilience, several OPEC members along with ten non-OPEC countries led by Russia agreed to revert to production cuts to shore up prices (Source: World Bank 2016a). The initial six-month agreement, which went into effect in January 2017, was subsequently extended twice: first to March 2018 and then to December 2018. Relatively high compliance with the agreed cuts, especially by Saudi Arabia (the dominant OPEC member) and Russia (the most important non-OPEC oil producer) contributed to some rebalancing of the oil markets in 2017. However, actual and expected prices did not rise following these policy announcements, illustrating the reduced ability of OPEC to influence market conditions as US shale oil has effectively become the new marginal cost producer. (Source: World Bank, Global Economic Prospects, January 2018).

The Russian and Kazakhstan economies in 2018

We expect oil price fluctuations of between USD 60 and USD 70 per barrel on the global energy market, because demand will remain relatively stable, as will supply—depending on the ability of shale oil producers to propose optional production levels. Thanks to more or less favorable price conditions, oil producers including Russian players will be able to generate necessary profits without huge efforts related to increases in oil production. Another important aspect is that the OPEC+ Agreement, which limits output, is generally beneficial for most of the producers.

Growth in Russia is expected to stabilize at around 1.8% between 2018 and 2020. Russian industrial production will continue to benefit from trade barriers, because the sanction regime remains in place and because the country has launched investment programs in agriculture, infrastructure, and transportation. Growth in Kazakhstan is projected to reach a moderate 2.6% in 2018 as the one-time effects of both the production increases at the Kashagan oil field and the fiscal stimulus wane. Kazakhstan's growth is expected to rise to 3% by 2020 as the country reaps the benefits of structural reforms. The recovery is maintained by higher production levels at the Kashagan oil field (which is exempt from the production cuts agreed by OPEC and ten non-OPEC producers) as well as by supportive macroeconomic policies. Declining inflation will drive private consumption.

Guidance for revenues and earnings

The positive development of the company's key financial performance indicators in 2017 creates a sound basis for the reliable generation of profits. The company's management expects sales revenues to reach about EUR 335 to EUR 345 million in 2018 and hopes to keep the EBITDA margin between 22% and 24%. In turn, this could enable the company to maintain its main indicators of profitability in 2018. This forecast does not take into account potential external economic shocks.

Vienna, 23 April 2018

Yury Semenov
Chief Executive Officer, CEO

Valeriy Inyushin
Chief Financial Officer, CFO

Consolidated Financial Statements

Auditor's report

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of Petro Welt Technologies AG, Vienna, Austria, and its subsidiaries (the Group), which comprise the consolidated Statement of Financial Position as at 31 December 2017, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as well as the additional requirements stipulated in § 245a UGB (Austrian Commercial Code).

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 ("EU Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our auditor's report. We are independent of the audited Group in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

Impairment of property, plant and equipment

Refer to Note 4, 7 and 17 to the consolidated financial statements.

Risk for the Financial Statements

The assessment, whether any impairment (of reversal of impairment) to the carrying value of property, plant and equipment should be recognized requires significant estimation by management.

Due to the inherent uncertainty involved in forecasting and discounting future cash flows, the valuation of property, plant and equipment represents a key audit matter.

Our Response

— Our audit procedures included testing of the Group's budgeting process upon which the forecasts are based as well as the group's discounted cash flow model including the underlying assumptions by reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.
— We used our own internal valuation specialists to assist us in evaluating the assumptions and methodology used by the Group, in particular those relating to the forecast revenue growth and profit margins.
— We compared the group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, competition, inflation and discount rates, as well as performing sensitivity analysis on these assumptions.

- We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of property, plant and equipment.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as well as the additional requirements stipulated in § 245a UGB. In addition, management responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibility
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISA), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:
- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in

the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
— We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
— We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
— We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
— From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Group Management Report

In accordance with Austrian Standards on Auditing, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with the Austrian legal requirements.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion
In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement
Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Other Information
Management is responsible for other information. Other information comprises all information provided in the annual report, other than the consolidated financial statements, the group management report, and the auditor's report.

Our opinion on the consolidated financial statements does not cover any other information and we do not provide any assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Additional Information in accordance with Article 10 EU Regulation
At the Annual General Meeting dated 16 June 2017, we were elected as group auditors and we were commissioned as group auditors by the Supervisory Board on 13 October 2017. We have been the Group's auditors from the year ended 31 December 2015, without interruption.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

Engagement Partner
The engagement partner is Mr. Mag. Yann-Georg Hansa.

Vienna, 23 April 2018
KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Yann-Georg Hansa
Wirtschaftsprüfer
(Austrian Chartered Accountant)

Consolidated statement of financial position as at 31 December 2017

in EUR thousand	Notes	12/31/2017	12/31/2016
Assets			
Non-current assets		159,740	170,124
Property, plant and equipment	7	153,787	167,656
Intangible assets	8	2,291	35
Goodwill	6	1,110	-
Other assets		1,942	540
Deferred tax assets	22	610	1,893
Current assets		278,204	250,651
Inventories	9	40,132	36,015
Trade receivables	10	97,035	83,707
Bank deposits	13	65,489	10,695
Other current assets	11	5,783	15,901
Tax receivables	12	878	1,369
Cash and cash equivalents	13	68,887	102,964
Total assets		**437,944**	**420,775**
Equity and liabilities			
Equity		241,956	233,333
Share capital	14	48,850	48,850
Capital reserve	14	111,987	111,987
Retained earnings		251,889	220,874
Remeasurement of defined benefit plans	23	263	215
Currency translation reserve	14	(171,033)	(148,593)
Non-current liabilities		4,620	109,297
Non-current financial liabilities to related parties	15	-	100,000
Deferred tax liabilities	22	3,617	8,244
Employee benefits	23	1,003	1,053
Current liabilities		191,368	78,145
Current financial liabilities to related parties	15	112,526	8,709
Trade payables	15	43,427	37,764
Other current liabilities	15	31,429	26,792
Advance payments received		11	93
Income tax payables	15	3,975	4,787
Total equity and liabilities		**437,944**	**420,775**

Consolidated profit or loss statement for the year ended 31 December 2017

in EUR thousand	Notes	2017	2016
Continuing operations			
Revenue	16	353,023	304,379
Cost of sales	17	(289,980)	(247,644)
Gross profit		**63,043**	**56,735**
Administrative expenses	18	(24,676)	(19,603)
Selling expenses		(510)	-
Other operating income	19	2,205	4,903
Other operating expenses	20	(3,309)	(2,318)
Operating result		36,753	**39,717**
Finance income	21	8,716	5,645
Finance costs	21	(5,781)	(4,554)
Net finance income/(costs)		**2,935**	**1,091**
Profit before income tax		**39,688**	**40,808**
Income tax expense	22	(8,663)	(15,784)
Profit after tax from continuing operations		**31,025**	**25,024**
Profit/(Loss) after tax from discontinued operation (net of income tax)	18, 22	(10)	475
Profit		**31,015**	**25,499**
Basic earnings per share in EUR	24	0.63	0.52
Diluted earnings per share in EUR	24	0.63	0.52

Consolidated statement of other comprehensive income for the year ended 31 December 2017

in EUR thousand	Notes	2017	2016
Profit		31,015	25,499
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations:			
Currency translation differences	14	(13,611)	25,719
Net investments	22	(11,619)	37,742
Income tax effect related to net investments	22	2,790	(1,164)
Items that will never be reclassified to profit or loss:			
Net gains on remeasurement of defined benefit plans	22	60	78
Income tax effect related to defined benefit plans	22	(12)	(16)
Total other comprehensive income		(22,392)	62,359
Total comprehensive income		8,623	87,858

Consolidated statement of changes in equity for the year ended 31 December 2017

in EUR thousand	Share capital	Capital reserve	Retained earnings	Remeasurement of defined benefit plans	Currency translation reserve		Total equity
					Functional currency	Net investment	
As at 1 January 2016	48,850	111,987	195,375	153	(89,084)	(121,806)	145,475
Profit	-	-	25,499	-	-	-	25,499
Currency translation differences	-	-	-	-	25,719	36,578	62,297
Net gains on remeasurement of defined benefit plans	-	-	-	62	-	-	62
Total comprehensive income	**-**	**-**	**25,499**	**62**	**25,719**	**36,578**	**87,858**
As at 31 December 2016	**48,850**	**111,987**	**220,874**	**215**	**(63,365)**	**(85,228)**	**233,333**
As at 1 January 2017	48,850	111,987	220,874	215	(63,365)	(85,228)	233,333
Profit	-	-	31,015	-	-	-	31,015
Currency translation differences	-	-	-	-	(13,611)	(8,829)	(22,440)
Net gains on remeasurement of defined benefit plans	-	-	-	48	-	-	48
Total comprehensive income	**-**	**-**	**31,015**	**48**	**(13,611)**	**(8,829)**	**8,623**
As at 31 December 2017	**48,850**	**111,987**	**251,889**	**263**	**(76,976)**	**(94,057)**	**241,956**

Consolidated cash flow statement for the year ended 31 December 2017

in EUR thousand	Notes	2017	2016
Profit before tax		39,584	40,691
Adjustments for:			
Depreciation, amortization and impairment losses	7,8	46,350	41,757
Loss on the disposal of property , plant and equipment	19, 20	40	761
Foreign exchange loss	21	1,913	540
Net finance income	21	(4,848)	(1,631)
Negative goodwill	6	-	(3,249)
Income taxes paid		(9,427)	(8,143)
Change in Working Capital		**4,124**	**7,652**
Change in inventories		(769)	(10,402)
Change in trade and other receivables		(5,520)	9,750
Change in trade and other liabilities		10,413	8,304
Cash flows from operating activities		**77,736**	**78,378**
Purchase of property, plant and equipment		(36,413)	(20,944)
Proceeds from sale of equipment		1,167	499
Addition to cash deposits		(73,260)	(18,380)
Withdrawal of cash deposits		15,078	20,430
Interest received		8,412	4,989
Purchase of subsidiaries, net of cash transferred	6	(17,918)	(2,005)
Loans issued		(2,800)	-
Cash proceeds from repayment of loans		953	-
Cash flows used in investing activities		**(104,781)**	**(15,411)**
Withholding tax paid		-	(664)
Cash flows used in financing activities		**-**	**(664)**
Effect of exchange rate changes on cash and cash equivalents		(7,032)	12,196
Net change in cash and cash equivalents		(34,077)	74,499
Cash and cash equivalents at 1 January		102,964	28,465
Cash and cash equivalents at 31 December		**68,887**	**102,964**
Of which: cash flows from discontinued operation			
Cash flows from operating activities		(98)	(76)

Notes to the Consolidated Financial Statements

1. Business description

Petro Welt Technologies AG (previously named C.A.T. oil AG ("the Company") is a company established under Austrian law (FN 69011 m). The Company's registered office is 1010 Vienna, Kärntner Ring 11-13. The shares of the Company are traded on the Prime Standard at the Frankfurt Stock Exchange.

The consolidated financial statements comprise the Company and its subsidiaries listed in Note 5 (together with the Company referred to as the "Group").

The Group is primarily engaged in supply of technology and integrated project management for the oil and gas production industry. The main activities of the Group include hydraulic fracturing, sidetrack drilling, drilling and remedial as well as auxiliary services.

The group's operations are located in Russian Federation and in Kazakhstan.

Average number of employees was 3,535 in 2017, including 332 employees of management and office staff (2016: 3,313, including 280 employees of management and office staff).

The ultimate beneficiary owner of the Group is Mr Maurice Dijols. The Company's immediate parent companies are Petro Welt Holding Limited (Cyprus) (former C.A.T. Holding Limited (Cyprus) and Joma Industrial Source Corp.

These consolidated financial statements are published in German and English languages. The German version of the consolidated financial statements prevails.

2. Operating environment of the Group

The majority of the Group's operations are conducted in the Russian Federation (Russia). The Russian Federation displays certain characteristics of an emerging market. Its economy is overly dependent on the European market for oil and gas sales, sanctions continue to limit access to technologies. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations.

Russian economy in 2017 is featured by lower level of uncertainty, soft monetary policy and moderate modification of taxation system due to the upcoming presidential elections. However, state influence in the oil & gas sector is high, limiting access for foreign investment and domestic fuel demand remains weak.

The average price of Urals crude oil in January – December 2017 amounted to USD 53,03 per barrel, according to the Ministry of Finance. For the 2016 year it was USD 41,9 per barrel. Thus, during the year, the average price per barrel of Urals crude increased by 26.6% in the reporting period. The average Urals price in December 2017 was USD 63,61 per barrel, which is 22% higher than in December 2016 (USD 52,08 per barrel). In 2017 the ruble rate were stable and fluctuated within the corridor 56-61 rubles per dollar.

In addition to Russia, the Group conducts operations in Kazakhstan. The economy of Kazakhstan was influenced by the volatile dynamics of oil prices, but the exchange rate of tenge against the us dollar strengthened (from 342 to 326 tenge for $1), inflation slowed, the base rate decreased, economic activity is growing following global oil price.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to determine. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current assessment.

3. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU). Petro Welt Technologies AG and its subsidiary companies maintain their accounting records according to the regulations applicable in their country of registration. These financial statements are based on such financial books and records adjusted in order to comply with IFRS as adopted by the EU.

These consolidated financial statements have been prepared under the historical cost basis.

Summary of principal accounting policies applied in the preparation of these financial statements is set out in Note 4. The policies have been consistently applied to all the periods presented, unless otherwise stated.

(b) Functional and presentation currency

The consolidated financial statements are presented in Euro, which is the functional currency of the parent company. A functional currency of the Russian foreign subsidiaries is the Russian Ruble ("RUB"). A functional currency of Petro Welt Technologies Kazakhstan LLP is Kazakhstan Tenge ("KZT").

All financial information presented in Euro has been rounded to the nearest thousand, except when otherwise indicated.

(c) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 16 – revenue;
- Note 4 – useful lives of property, plant and equipment;
- Note 7, 8 – impairment test: key assumptions underlying recoverable amounts;
- Note 22 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- Notes 26 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

4. Significant accounting policies

New standards and interpretations

The following changes to the standards became mandatory on January 1, 2017, but did not have significant influence on the consolidated financial statements:

Disclosure Initiative (Amendments to IAS 7) released on 29 January 2016 and effective for annual periods beginning on 1 January 2017 or after that date. During 2017 there were no cash movement between the opening and closing balances for liabilities arising from financing activities.

The recognition of deferred tax assets for unrealized losses – Amendment to IAS 12 issued on January 19, 2016 and effective for annual periods, beginning on 1 January 2017 or after this date.

Annual improvements to International financial reporting standards for 2014-2016 (released on 8 December 2016 and coming into force, in terms of application of amendments to the IFRS (IFRS) 12 – for annual periods beginning on 1 January 2017 or after this date).

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2017, and have not been applied in preparing these consolidated financial statements. Out of these pronouncements, the following will have a potential impact on the Group's consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

(a) IFRS 15 Revenue from Contracts with Customers
IFRS 15, issued in May 2014, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.

The standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Incremental costs of obtaining a contract with a customers must be capitalized as an asset and amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

The Group provides oil field services. The Group is specialized in services which increase the productivity of new and existing oil and gas formations. The main activities of the Group include hydraulic fracturing, sidetrack drilling, drilling, remedial as well as auxiliary services and delivery of proppant.

(a) Sale of proppant
For contracts with customers in which the sale of proppant is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. The Group expects revenue recognition to occur at the point in time when control of the proppant is transferred to the customer, generally upon delivery of the goods.

(b) Rendering of oil field services
The Group's well services segment provides hydraulic fracturing, sidetrack drilling, drilling, remedial as well as auxiliary services.

The Group concluded that sidetrack drilling and drilling services are satisfied over time given that the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The performance obligation is the drilling services for a well. The Group recognizes sidetrack drilling and drilling revenue using the output method by reference to the stage of completion. The transaction price is determined on the contract level and then allocated to the wells based on the stand-alone price.

The Group recognizes hydraulic fracturing and auxiliary services revenue at a point of time as the period of providing these services is short-term. The transaction price is determined on the contract level and then allocated to each individual fracturing operation based on the stand-alone price.

Based on management's preliminary assessment adoption of IFRS 15 will not significantly impact the Group's revenue recognition for services.

(c) Presentation and disclosure requirements
The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. Many of the disclosure requirements in IFRS 15 are new and the Group is assessing the impact of these disclosures requirements. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. However, on transition, the effect of these changes is not expected to be material for the Group.

(d) Transition
The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

(b) IFRS 9 Financial instruments
IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Classification – Financial assets
IIFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

Impairment – Financial assets and contract assets
IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. Based on the impairment methodology described below, the Group has estimated that application of IFRS 9’s impairment requirements at 1 January 2018 results in additional impairment losses as follows.

Trade and other receivables
Most part of the Group’s trade receivables relates to the largest Russian and Kazakh oil companies – LUKOIL, Gazprom Neft, Rosneft, Tomskneft, Munaifieldservice and others which are rated as B1 to Baa3 based on Moody’s ratings as at 31 December 2017.

The estimated ECLs were calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures.

Probability of default (PD) and loss given default (LGD) were used for the assessment of expected credit losses. Probability of default corresponds to the long-term average default rate for each rating category and was estimated according to a study "2016 Annual Global Default Study and Rating Transitions" by Standard and Poor's. The rating category was determined on the basis of the minimum rating of three international rating agencies (Moody’s, S&P and Fitch). The PD level is calculated for the period before repayment of receivables with indicators of a significant increase in credit risk, otherwise it was calculated for the period until repayment, but not more than a year. LGD parameters generally reflect an assumed recovery rate which is estimated at a constant level of 45% according to "Basel II: International Convergence of Capital Measurement and Capital Standards" for corporate borrowers.

The following table provides information about the estimated exposure to credit risk for trade receivables, including contract assets, as at 1 January 2018:

	Carrying amount of Trade receivables		Estimated impairment loss allowance			
Equivalent to external credit rating by Moody's	**Carrying amount of Trade receivables**	**Estimated weighted-average loss rate**	**Under IFRS 9**	**Recognised under IAS 39**	**Estimated additional impairment recognized at 1 January 2018**	**Credit-impaired**
A1	3,900	0.00%	-	-	-	No
B1–Ba3	400	0.00%	-	-	-	No
Baa3	76,238	0.09%	65	-	65	No
No rating	16,497	3.43%	583	521	62	Yes
Total	**97,035**	**-**	**648**	**521**	**127**	**-**

The following table provides information about the estimated exposure to credit risk and ECLs for trade and other receivables as at 1 January 2018:

	Estimated additional impairment recognised at 1 January 2018
Trade and other receivables	127
Total impairment losses	**127**

	Estimated adjustment to equity at 1 January 2018
Decrease in retained earnings	127
Decrease in equity	**127**

Cash and cash equivalent

The cash and cash equivalents are held with bank and financial institution counterparties, which are rated Ba2- to Ba1, based on Moody's ratings as at 31 December 2017. The Group monitors changes in credit risk by tracking published external credit ratings and licence status of the financial institution.

The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and the validity of a licence of each financial institution.

The Group believes that impairment losses do not increase significantly for cash and cash equivalents in the scope of the IFRS 9 impairment model.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

Hedge accounting

The requirements for hedge accounting have been adjusted for greater consistency with risk management. When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has not applied hedge accounting as of 31 December 2017, and, therefore, the initial application of IFRS 9 will not have a significant effect on the consolidated financial statements.

Transition

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

The determination of the business model within which a financial asset is held have to be made on the basis of the facts and circumstances that exist at the date of initial application.

(c) IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group is currently assessing the potential impact of adopting IFRS 16 on its consolidated financial statements. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

As at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to TEUR 4,541 thousand, on an undiscounted basis (see Note 7).

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

It is expected that the following standards and interpretations will not have significant impact on the group's consolidated financial statements:

IFRIC 22 Transactions in foreign currency and advance payment of compensation released on 8 December 2016 and will become effective for annual periods beginning on January 1, 2018 or after that date. The interpretation will resolve the issue of determining the date transactions for the purpose of determining the exchange rate used for the initial recognition of the relevant asset, expense or income (or part thereof) upon derecognition of a non-monetary asset or a non-monetary obligation arising from prepayment in foreign currency. Currently, the Group is assessing how the interpretation will affect the consolidated financial statements.

IFRS 17 "Insurance Contracts" issued on 18 May 2017 and becomes effective for annual periods beginning on or after 1 January 2021. The group assesses the impact of this standard on its consolidated financial statements.

IFRIC 23 "Uncertainty in the recognition of income tax" issued on 7 June 2017 and is effective for annual periods beginning on 1 January 2019 or after that date. The group is currently assessing the impact of this standard on Its consolidated financial statement.

Sale or contribution of assets to an associate or joint venture by Investor - amendments to IFRS 10 and IAS 28 issued on 11 September 2014 and take effect for annual periods beginning on a date to be determined By the IASB.

Amendments to IFRS 2 Share-Based Payment issued on 20 June 2016 and effective for annual periods beginning on 1 January 2018 or after this date.

Transfers to or from investment property – Amendments to IAS 40 released on 8 December 2016 and will become effective for annual periods beginning on 1 January 2018 or after that date.

Annual improvements to International financial reporting standards, 2014-2016-amendments to IFRS 1 and IAS 28 issued on 8 December 2016 effective for annual periods beginning on or after 1 January 2018 dates.

Characteristics of early redemption, assuming a negative compensation – Amendments to IFRS 9 issued on 12 October 2017 and will become effective for annual periods beginning on or after 1 January 2019 on or after that date.

Long-term interests in associates and joint ventures – Amendments to IAS 28 issued on 12 October 2017 effective for annual periods beginning on or after 1 January 2019.

Annual improvements to IFRS 2015-2017 – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 issued on 12 December 2017 and become effective for annual periods beginning on or after 1 January 2019.

Amendments to IAS 19 "Employee benefits" issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019.

Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intragroup balances and transactions, including income, expenses, dividends and unrealized gains on transactions between Group members are eliminated in full. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Goodwill is initially measured at cost being the excess of the aggregate of consideration transferred any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquire is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of profit and loss. After initial recognition, goodwill is measured at cost less any accumulated impairment.

Discontinued operation
A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

Financial instruments
The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss
are financial assets held for trading and include shares. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Held to maturity
includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity.

Loans and receivables
are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets
are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss.
The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Initial recognition of financial instruments
All financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortized cost; recognised in profit or loss for trading investments and recognised in equity for assets classified as available-for-sale.

Impairment of financial and non-financial assets
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and the loss event has an impact on the estimated cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial assets carried at amortized cost
If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded within net interest and expenses in profit or loss. Loans and receivables together with associated allowance are written of if there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in subsequent years, the amount of the estimated impairment loss decreases because of event occurring after the impairment was recognised, the recovered amount is credited to profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset original effective rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Derecognition of financial assets

The Group derecognises a financial asset when (i) the asset is redeemed or the rights to cash flows from the asset have otherwise expired, or (ii) the Group has transferred substantially all risks and rewards of ownership of the assets, or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without the need to impose additional restrictions on the sale.

Revenue recognition

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, regardless of when the payment is received. Revenue is measured at fair value of consideration received or receivable, excluding discounts, taxes and duty.

Sales are shown net of value added tax (VAT) and discounts, after eliminating sales within the Group.

The following specific recognition criteria must also be met before revenue is recognised:

Contract revenue

includes the initial amount agreed in the contract plus any variations in contract works, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably.

If the outcome of construction contract can be estimated reliably, then the contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed with reference to surveys of work performed or completion of a physical proportion of the contract work. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. An expected loss on a contract is recognised immediately in profit or loss.

Revenues on sales

of spare parts, miscellaneous production and services are recognised when goods are dispatched or services rendered to customers, as this is normally the date when risks and rewards of the ownership are transferred to customers.

Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables and include value added taxes. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due to the original terms of the agreement. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowings. The amount of the provision is recognised in profit or loss.

Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of collection of the receivables from customers, or delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories
Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprise material, direct labour and the appropriate indirect manufacturing costs (based on normal operating capacity). Obsolete and slow-moving inventories are written down, taking into account their expected use and their future realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Cash and cash equivalents
Cash comprises cash on hand, demand deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Property, plant and equipment
Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in the consolidated statement of profit or loss.

Construction in progress is accounted for based on actual costs less provision for impairment. Upon completion, assets are transferred to corresponding category of property, plant and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred through consolidated statement of profit or loss. Costs of replacing of major parts or components are capitalized and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognized as an expense (impairment loss) in the consolidated statement of profit or loss. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over the estimated useful lives:

Useful life	Number of years
Buildings	5 to 33 years
Plant and machinery	2 to 15 years
Operational and office equipment, data processing equipment	2 to 15 years
Vehicles	2 to 7 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated cost of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its useful life. The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in profit or loss as incurred.

Intangible assets
Intangible assets include computer software and rights to use this software. Acquired items of intangible assets are capitalized on the basis of the costs incurred to acquire and bring them to use. The items of intangible assets are amortized using straight-line method.

Patents that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

— patents: 10-20 years;
— software 3-10 years.

Operating leases
At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership of an asset from the lessor to the Group, the total lease payments are charged to the profit or loss on a straight-line basis over the period of the lease.

Pension and post-employment benefits
Defined benefit pension plans
estimate the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The net liability is recognized in the consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the end of the reporting period less fair value of plan assets.

The defined benefit obligations are calculated by independent actuary. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operations of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from measurement of pension benefit obligations are recognized in other comprehensive income. Past service cost is immediately recognized in consolidated profit or loss statement within operating expenses.

Other liabilities to employees after the termination of their employment.

Group pays a one-time financial assistance in connection with the achievement of the employees of the anniversary of age, lump benefits upon retirement or disability, reallocation from Far North territory compensation etc. the size of these payments usually dependent on one or more factors such as age, years of service and minimum wage rates that are used in Group companies.

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions for the calculation of liabilities for these types of payments are recognized in profit or loss in the period in which they arise.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment test for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account.
If no such transactions can be identified, an appropriate valuation model is used. These calculations are collaborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations. These budgets and forecast calculations generally cover a period of five years.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses are recognized in the consolidated profit or loss statement.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's recoverable amount.
A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation and legislation of other jurisdictions in which the Group performs the business during the reporting period. The income tax charge comprises current tax and deferred tax and is recognized in the profit or loss except if it is recognized in other comprehensive income because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits and losses for the current or prior periods.

Deferred income tax is recognized for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recognized for temporary differences on initial recognition of goodwill or any asset or liability if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded in the statement of financial position only to the extent that it is probable that the difference will be available against which the deductions can be utilized.

The recognized deferred tax asset represents amount of income tax which may be recovered through future income tax expenses and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realization of the related tax benefits is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances.

Loans and borrowings

Loans and borrowings are recognized initially at cost which is the fair value of the proceeds received, net of transaction costs incurred. Loans and borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Interest expense, which is currently due, is recorded within short-term loans and borrowings.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised in other comprehensive income.

Foreign operations

The results and financial position of all of the Company's subsidiaries that have a functional currency which is different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each reporting date presented are translated at the closing rate at that reporting date;
- Income and expenses for each statement of profit or loss and each statement of other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of other comprehensive income.

The financial statements of the Russian companies are translated into the presentation currency (EUR) using the official exchange rates of the Russian Federation.

The relevant exchange rates used for foreign currency translation in relation to the Euro are as follows:

Currency (1 EUR=)	Closing rate as at 12/31/2017	Closing rate as at 12/31/2016	Average rate 2017	Average rate 2016
Russian Ruble (RUB)	68.8668	63.8111	65,9014	74.2310
Kazakhstan tenge (KZT)	398.23	352.42	368,52	378.32
US-Dollar (USD)	1.1956	1.0520	1.1294	1.1073

The relevant exchange rates used for foreign currency translation in relation to the U.S. dollar are as follows:

Currency (1 USD=)	Closing rate as at 12/31/2017	Closing rate as at 12/31/2016	Average rate 2017	Average rate 2016
Russian Ruble (RUB)	57.6002	60.6569	58,3529	67.0349
Kazakhstan tenge (KZT)	332.33	333.29	326,08	341.76

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Exchange differences and related income tax effect resulting from intra-Group loans issued by Petro Welt Technologies AG to OOO KAT.oil Leasing, which are part of the net investment, are recognized in other comprehensive income.

Provisions
Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that a significant outflow of resources will be required to settle the obligations, and a reliable estimate of the amount of the obligation can be made.

Segment reporting
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management board to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Management board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Inter-segment pricing is determined on an arm's length basis.

Dividends
Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated financial statements are authorized for issue are disclosed in the subsequent events note.

Earnings per share
Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

5. Subsidiaries

The subsidiaries of the Group and the share held by the Group are as follows:

Entity	Country of incorporation/ principal place of business	12/31/2017 % share	12/31/2016 % share	Activity
OOO KATKoneft	Kogalym, Russia	100	100	Oil field services
OOO KATOBNEFT	Nizhnevartovsk, Russia	100	100	Oil field services
OOO Trading House KATOil	Kogalym, Russia	100	100	Procurement of production materials and equipment to operational Group companies
OOO KATOil Leasing	Kogalym, Russia	100	100	Leasing of production equipment to operational Group companies
OOO KAT-oil Drilling	Kogalym, Russia	100	100	Oil field services
TOO Petro Welt Kazakhstan	Kyzylorda, Kazakhstan	100	100	Oil field services
OOO Petro Welt Technologies	Moscow, Russia	100	100	Consulting and management services to the Group companies
OOO Wellprop	Kopeisk, Russia	100	-	Production of proppant
Petro Welt GEODATA GmbH	Vienna, Austria	100	100	Engineering and reconnaissance of geological formations
PEWETE Evolution LIMITED	Lymassol, Cyprus	100	100	Management services
Wellprop Cyprus LIMITED	Lymassol, Cyprus	100	-	Management services

By the end of 2015, due to internal restructuring and optimization of internal processes all activities and personnel of OOO Trading House KATOil were transferred to OOO Petro Welt Technologies. OOO Trading House KATOil will be liquidated after completion of all legal formalities.

6. Acquisition of subsidiary

On 21 September 2017, the Group acquired 100% of the shares and voting interests in Carbo Ceramics Cyprus Limited. Carbo Ceramics Cyprus Limited (was renamed to WellProp Cyprus Limited on 28 November 2017) is the sole owner of Carbo Ceramics Eurasia Limited Liability Company incorporated in Russian Federation (was renamed to WellProp Limited Liability Company on 8 November 2017) engaged in production of proppant used in the hydraulic fracturing.

From the date of acquisition to 31 December 2017 OOO WellProp contributed revenue of TEUR 3,264 and net profit of TEUR 490 to the Group's results. If the acquisition had occurred on 1 January 2017, management estimates that consolidated revenue would have been TEUR 364,484 and consolidated net profit for the period would have been TEUR 41,031. In determining these amounts, management has assumed that the fair value adjustments, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

Total consideration measured on a provisional basis amounted to USD 24,000,000 (EUR 19,996,675), including already paid consideration of USD 22,000,000 (EUR 18,370,674). Share purchase agreement (SPA) includes consideration adjustment, which depends on the specified amounts of net debt, net working capital at closing date determined in SPA. Management currently is in the process of negotiation with the seller in relation to final amount of consideration adjustment. Trade and other payables were also measured on a provisional basis. The acquisition resulted in the recognition of goodwill in the amount of TEUR 1.110. The Group incurred acquisition-related costs of TEUR 480 relating to external legal fees. These costs have been included in administrative expenses in the consolidated statement of profit or loss.

The following table summarises the recognized amounts of assets acquired and liabilities assumed at the date of acquisition.

in EUR thousand	Note	Recognised fair values on acquisition
Non-current assets		
Property, plant and equipment	7	9,634
Intangible assets	8	2,293
Other assets		35
Current assets		
Inventories		6,296
Trade and other receivables		5,320
Cash and cash equivalents		452
Other assets		33
Non-current liabilities		
Deferred tax liabilities	22	(1,811)
Current liabilities		
Trade and other payables determined provisionally		(3,365)
Total identifiable net assets		**18,887**
Total consideration determined provisionally		**(19,997)**
Goodwill		**1,110**

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Property, plant and equipment	Market comparison technique and cost technique: The valuation model considers quoted market prices for similar items when available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
Inventories	The cost approach: The fair value is determined based on the definition of market value based on the cost required to substitute the valuation object in the market conditions prevailing at the valuation date
Intangible assets	The Relief-from-Royalty method: The Relief-from-Royalty method is a common method to value intangible assets that can be passed for utilization of royalty payments.

7. Property, plant and equipment

Movements of the carrying amount of property, plant and equipment were as follows:

in EUR thousand	Land and buildings	Motor vehicles	Machinery, fittings, equipment	Equipment electronic data processing	Advance payments	Total
Cost or valuation						
At 1 January 2016	10,523	12,612	281,434	583	387	**305,539**
Additions	694	423	16,268	21	2,747	**20,153**
Additions through business combinations	220	215	1,789	8	-	**2,232**
Disposals	(3)	(502)	(9,429)	(22)	(415)	**(10,371)**
Exchange differences	2,705	4,119	62,907	133	477	**70,341**
At 31 December 2016	**14,139**	**16,867**	**352,969**	**723**	**3,196**	**387,894**
Additions	958	1,886	25,591	554	6,554	**35,543**
Additions through business combinations	6,533	329	2,772	-	-	**9,634**
Transfer	-	-	3,095	-	(3,095)	**-**
Disposals	(1)	(314)	(3,214)	(32)	-	**(3,561)**
Exchange differences	(1,342)	(1,317)	(26,316)	(213)	(378)	**(29,566)**
At 31 December 2017	**20,287**	**17,451**	**354,897**	**1,032**	**6,277**	**399,944**
Depreciation and impairment						
At 1 January 2016	5,610	9,354	135,680	426	-	**151,070**
Depreciation and impairment losses	1,064	896	39,590	97	-	**41,647**
Disposals	(3)	(375)	(8,280)	(22)	-	**(8,680)**
Exchange differences	1,631	3,379	31,091	100	-	**36,201**
At 31 December 2016	**8,302**	**13,254**	**198,081**	**601**	**-**	**220,238**
Depreciation and impairment losses	1,178	1,180	43,826	116	-	**46,300**
Disposals	(1)	(277)	(2,479)	(29)	-	**(2,786)**
Exchange differences	(799)	(1,013)	(15,626)	(157)	-	**(17,595)**
At 31 December 2017	**8,680**	**13,144**	**223,802**	**531**	**-**	**246,157**
Net book value						
As at 1 January 2016	4,913	3,258	145,754	157	387	**154,469**
As at 31 December 2016	5,837	3,613	154,888	122	3,196	**167,656**
As at 31 December 2017	11,607	4,307	131,095	501	6,277	**153,787**

Depreciation expense and impairment losses for 2017 of TEUR 46,153 (2016: TEUR 41,359) has been charged to cost of sales and TEUR 147 (2016: TEUR 288) to administrative expenses.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The fair value less costs of disposal calculation is based on available data from binding sales transactions for similar assets or observable market price less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model (DCF model). The cash flows are derived from the budget for the next five years and do not include restructuring activities or significant future investments that will enhance the asset's performance of the cash generating unit (CGU) being tested.

The Group's management believes that the following Group's subsidiaries constitute separate cash generating units: OOO KATKoneft, OOO KATOBNEFT, OOO KAT-oil Drilling, Petro Welt Technologies Kazakhstan LLP.

The recoverable amounts of these CGUs were identified based on the value in use, determined by discounting future cash flows to be generated from the continuing use of the CGUs.

The following key assumptions were used when the impairment test was performed:

Key assumptions used in impairment test	12/31/2017	12/31/2016
Information used	Actual operating results for the year 2017 and business plans for 2018–2022	Actual operating results for the year 2016 and business plans for 2017–2021
Forecast period	5 years (2018–2022)	5 years (2017–2021)
Consolidated forecast of volume of hydraulic fracturing and drilling operations	Based on management forecast of future trends and developments of the business approved by senior management	
Raw materials and production services price	Estimates are obtained from published Producer Price Index by the Ministry of Economic Development of the Russian Federation	
Forecast of capital expenditures	Based on the management forecasts of maintenance capital expenditures for modernization and reconstruction program	
Terminal growth rate	4.15%–6.1% Average producer price index in terminal period	3.96%
Weighted average cost of capital	15.1%–18.1% Current market assessment of the risks specific to cash-generating unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. These factors are evaluated annually based on publicly available market data.	16.5%

The recoverable amount of each CGU within the Group was higher than the book value of property, plant and equipment and net working capital as at 31.12.2017 and 31.12.2016. In 2016 the Group fully reversed impairment loss allocated to machinery and equipment in the amount of TEUR 2,293.

Sensitivity to changes in assumptions

The calculation of value in use for cash-generating units is most sensitive to the following assumptions:

- Consolidated forecast of volume of hydraulic fracturing and drilling operations;
- Discount rate;
- Index of inflation.

12/31/2017	12/31/2016
Equality of value in use and carrying amount becomes possible in case of revenue decrease by 0.4% for CGU KATOBNEFT, by 11% for CGU KAToil-Drilling.	Decrease of revenue by 3% and by 5.7% can lead to equality of value in use and carrying amount of CGU OOO KAToil-Drilling and CGU OOO KATOBNEFT respectively.

Discount rate – with all other assumptions held constant.

12/31/2017	12/31/2016
Increase of discount rate to 23.2% and 15.5% would result in equality of value in use and carrying amount of CGU OOO KAToil-Drilling and CGU OOO KATOBNEFT respectively.	Increase of discount rate to 19% and 23.3% would result in equality of value in use and carrying amount of CGU OOO KAToil-Drilling and CGU OOO KATOBNEFT respectively.

Index of inflation – Management has considered the possibility of greater-than-forecast increases in inflation index.

12/31/2017	12/31/2016
The equality of value in use and carrying amount of CGU OOO KAToil-Drilling and CGU OOO KATOBNEFT will be achieved in case of decrease the index of inflation for operation price by 3.4% and by 0.1% respectively.	The equality of value in use and carrying amount of CGU OOO KAToil-Drilling and CGU OOO KATOBNEFT will be achieved in case of of decrease the index of inflation for operation price by 1% and by 1.8% respectively.

Operating lease

The Group leases a number of land areas owned by local governments and production buildings under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The future lease payments under non-cancellable operating leases are as follows:

in EUR thousand	12/31/2017	12/31/2016
Less than one year	1,473	538
Between one and five years	798	741
More than five years	2,270	2,449
Total	**4,541**	**3,728**

During 2017 operating rentals expenses of TEUR 646 (2016: TEUR 622) were included in cost of sales, TEUR 941 (2016: TEUR 839) were charged to administrative expenses.

8. Intangible assets and goodwill

in EUR thousand	The right to us production technology	Software and other intangible assets	Total
Cost or valuation			
At 1 January 2016	-	482	**482**
Additions	-	40	**40**
Disposals	-	-	**-**
Exchange differences	-	68	**68**
At 31 December 2016	**-**	**590**	**590**
Additions through business combinations	2,293	-	2,293
Disposals	-	5	5
Exchange differences	9	(41)	(32)
At 31 December 2017	**2,302**	**554**	**2,856**
Depreciation and impairment			
At 1 January 2016	-	385	**385**
Amortization and impairment losses	-	110	**110**
Disposals	-	-	**-**
Exchange differences	-	60	**60**
At 31 December 2016	**-**	**555**	**555**
Amortization and impairmentlosses	37	13	50
Exchange differences	1	(41)	(40)
At 31 December 2017	**38**	**527**	**565**
Net book value			
As at 1 January 2016	-	97	**97**
As at 31 December 2016	-	35	**35**
As at 31 December 2017	2,264	27	2,291

In 2017 as a result of the acquisition disclosed in Note 6, the Group recognised intangible assets represented by the patents used in production of proppants by OOO WellProp.

9. Inventories

in EUR thousand	12/31/2017	12/31/2016
Spare parts and other materials	28,939	29,682
Raw material	7,828	4,188
Fuel and lubricants	2,192	2,145
Finished goods and goods for resale	1,173	-
Total	**40,132**	**36,015**

As at 31 December 2017 no inventories have been pledged as collateral for borrowings (31 December 2016: nil).

10. Trade receivables

Trade receivables comprise the receivables under service contracts ordinary activities in the amount of TEUR 97,035 (31 December 2016: TEUR 83,707), including receivables under construction contracts in progress. For further information see note 16 Revenue.

11. Other current assets

Other current assets comprise the following items:

in EUR thousand	12/31/2017	12/31/2016
Receivables from related parties	362	362
Value added tax	2,782	3,563
Advance payments	1,129	2,244
Deferred expenses	25	21
Other receivables	1,485	9,711
Total	**5,783**	**15,901**

Withholding tax liability of TEUR 7,716 related to dividends distributed to its shareholder in prior periods and corresponding receivable from Petro Welt Holding Limited (Cyprus) (shareholder) was accounted in 2015. The liability for withholding taxes related to dividends distributed to its shareholder in prior periods as the Company previously applied tax withholding exemption under Sec 94s Austrian Income Tax Act ("EstG"; Sec 94/2 after 15 December 2012). During 2015 it became doubtful that the Company was meeting the requirements for claiming such tax exemption during prior reporting periods and corresponding withholding tax liability and receivable from shareholder was recognized. As at 31 December 2015 the liability for withholding taxes was fully settled with Tax authorities. Receivable from Petro Welt Holding Limited (Cyprus) (shareholder) as at 31 December 2015 amounted to TEUR 7,716.

During 2016 the Tax authorities accepted the validity of applied exemption and considered to refund full amount of tax paid in 2015. As at 31 December 2016 other receivables include receivable of Withholding tax from Tax authorities of TEUR 7,716 and the amount was returned by Tax authorities in January 2017.

Fair value of current assets approximate their carrying value.

12. Tax receivables

Tax receivables comprise the following items:

in EUR thousand	12/31/2017	12/31/2016
Income tax receivables	639	1,306
Other tax receivables	239	63
Total	**878**	**1,369**

13. Cash and cash equivalents

Cash and cash equivalents consist of the following:

in EUR thousand	12/31/2017	12/31/2016
Petty cash	1	1
Bank balances	2,501	1,135
Short-term deposits	66,385	101,828
Total	**68,887**	**102,964**

As at 31 December 2017 cash in bank accounts denominated in Euro was TEUR 835, in US Dollar was TEUR 228, in Russian Rubles were TEUR 1,438 (31 December 2016: in Euro – TEUR 360, in Kazakhstan tenge – TEUR 41, in US Dollar – TEUR 353).

As at 31 December 2017 bank deposits with maturities of three months or less denominated in Russian Rubles were TEUR 58,727, in Kazakhstan tenge were TEUR 396, in US Dollar was 1,921, in Euro was TEUR 5,341 (31 December 2016: in Russian Rubles – TEUR 86,337, in Euro – TEUR 10,024, in US Dollar – TEUR 3,728, in Kazakhstan tenge – TEUR 1,739) and bear interest of 6.0%-7.55% (31 December 2016: 7.6%-10.5%).

Bank deposits with maturities of three-five months were TEUR 65,489 (31 December 2016: TEUR 10,695) and bear interest of (0.6%-7.55%) in Russian Rubles deposits (2016: 0.01%-1.7%).

There was no significant cash restricted from use as at 31 December 2017 and 31 December 2016.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 28.

14. Equity

The carrying value of share capital and the legal share capital value issued and fully paid up consist of the following:

12/31/2017			12/31/2016		
No. of shares	Legal statutory value	Carrying amount	No. of shares	Legal statutory value	Carrying amount
48,850,000	EUR 1	48,850	48,850,000	EUR 1	48,850

The Company's share capital amounted to TEUR 48,850 (31 December 2016: TEUR 48,850) and consists of 48,850,000 issued and outstanding no-par-value shares. The shares are listed on the Prime Standard, Official Market, on the Frankfurt Stock Exchange. All of the shares are admitted for trading. No preferred shares have been issued. There are no restrictions regarding voting rights or transmission rights of the shares. The Company has not acquired any of its own shares to date.

The shareholders are entitled to exercise their rights, in particular their voting rights, at the Annual General Meeting. Each share in the Company entitles the holder to one vote. There are no multiple or preferential voting rights and there is no cap on the number of voting rights.

Since 16 January 2015 Mr. Maurice Gregoire Dijols directly and indirectly controls in total 42,528,711 voting rights in the Company (corresponding to approx. 87.06% of the issued shares).

Capital reserve

The capital reserve comprises the share premium from the issue of shares and amounted to TEUR 111,987 (31 December 2016: TEUR 111,987).

Currency translation reserve

Currency translation reserve comprises the following items:

in EUR thousand	2017	2016
Foreign currency reserves at 1 January	148,593	210,890
Net investments	8,829	(36,578)
Currency translation differences	13,611	(25,719)
Foreign currency reserves at 31 December	**171,033**	**148,593**

The currency translation reserve comprises all foreign currency differences arising from the translation loss of the financial statements of foreign operations amounted to TEUR 13,611 for 2017 (2016: gain TEUR 25,719).

Exchange differences and related income tax effect resulting from intra-Group loans issued by the Company, which are part of a net investment, are recognized in other comprehensive income. In 2017 losses on net investments in foreign operations, net of related tax, amounted to TEUR 8,829 (2016: gain TEUR 36,578).

15. Financial liabilities

As at 31 December 2016 non-current financial liabilities to related parties comprises euro-denominated borrowing from Petro Welt Holding Limited (Cyprus) amounted to TEUR 100,000. The interest rate was 6 month EURIBOR plus 4%. The termination date was 31 December 2018.

As at 31 December 2017 the above liabilities were classified as part of current financial liabilities to related parties in the amount of TEUR 100,000.

The Company and Petro Welt Holding Limited (Cyprus) entered into negotiations in 2018 to extend the termination date till 31.12.2022.

Current financial liabilities comprise the following items:

in EUR thousand	12/31/2017	12/31/2016
Financial liabilities from related parties	112,526	8,709
Trade payables	43,427	37,764
Other current liabilities	31,429	26,792
Advance payments received	11	93
Income tax payables	3,975	4,787
Total	**191,368**	**78,145**

Current financial liability to related party includes borrowings and interest due to Petro Welt Holding (Cyprus) amounting to TEUR 112,526 (31 December 2016: interest of TEUR 8,709). Interest is accrued on a monthly basis and is payable once in a six month period, the interest rate is 6 month EURIBOR plus 4%.

The trade payables include obligations of the Group to its suppliers in the amount of TEUR 43,427 (31 December 2016: TEUR 37,764).

Other current liabilities consist of the following items:

in EUR thousand	12/31/2017	12/31/2016
Value added tax liabilities	7,600	8,021
Wages and salary liabilities	5,228	6,692
Unused vacations liabilities	7,082	4,428
Social insurance liabilities	832	1,088
Other tax liabilities	2,747	2,796
Property tax liabilities	184	153
Provisions for future losses	1,359	472
Other liabilities	6,347	3,142
Total	**31,429**	**26,792**

Provision for future losses

Under IAS 11 management analyses at each reporting date incomplete wells for the excess of total revenue over the costs incurred. When it is probable that total costs will exceed total revenue, the expected loss is recognized immediately as an expense. Loss for such unprofitable wells in progress as at the reporting date is charged to cost of sales (see note 17) in the period in which management became aware of it and is accumulated in the consolidated statement of financial position as Provision for future losses.

Contract losses related to incomplete wells amounted to TEUR 1,359 (31 December 2016: TEUR 472).

16. Revenue

The components of revenue were as follows:

in EUR thousand	2017	2016
Hydraulic fracturing	176,467	160,361
Sidetrack drilling	92,485	74,626
Conventional drilling	72,628	63,265
Cementing	6,533	5,747
Sale of proppant	3,264	-
Other services	1,646	380
Total	**353,023**	**304,379**

The Group's management assesses the stage of works completion on wells, not completed at the reporting date in accordance with the percentage of completion method of accounting.

The following key assumptions were used when calculating the completion stage for the years ended 31 December 2017 and 31 December 2016:

Operational sub segment	Sidetrack drilling	Conventional drilling
Percentage of completion	The percentage of completion is calculated based on the amount actually drilled as at the reporting date relative to the total planned volume in accordance with the contract.	The percentage of completion is calculated based on the number of days actually worked on the well relative to the schedule of works in accordance with the contract.

The amount of revenue recognized in the consolidated financial statements in accordance with IAS 11 "Construction contracts" is TEUR 165,113 (2016: TEUR 137,891), including revenue recognized under construction contracts in progress amounting to TEUR 11,699 (2016: TEUR 11,601) and corresponding trade receivables (refer to note 10).

The Group's results are not subject to significant seasonal fluctuations.

17. Cost of sales

in EUR thousand	2017	2016
Raw materials	103,290	95,616
Direct costs	72,094	54,599
Depreciation	46,153	43,762
Wages and salaries	47,319	40,706
Social tax	13,760	11,849
Other costs	7,364	3,405
Reversal of impairment of non-financial assets	-	(2,293)
Total	**289,980**	**247,644**

Direct costs amounting to TEUR 72,094 (2016: TEUR 54,599) comprise production services, transportation, repair and maintenance expenses.

Impairment loss on machinery and equipment was fully reversed as at 31 December 2016 in amount of TEUR 2,293. For further information refer to the notes 7 "Property, plant and equipment".

The cost of sales does not include any expenses from discontinued operations (2016: nil).

18. Administrative expenses

in EUR thousand	2017 Continuing operations	2017 Discontinued operation	2016 Contiuing operations	2016 Discontinued operation
Wages and salaries (incl. remuneration for executive bodies)	12,892	-	7,894	-
Consulting fees	2,167	166	2,215	116
Tax expense	2,286	-	1,761	-
Social tax	2,648	-	2,010	-
Rent expense on an operating lease	941	-	839	-
Travel and entertainment expenses	549	1	385	1
Depreciation and amortization	147	-	288	-
Purchase of other materials	348	-	267	-
Services rendered	1,426	-	1,228	-
Bank fees	87	2	90	1
Training costs	34	-	10	-
Audit fees	517	-	435	-
Insurance	60	-	36	-
Maintenance costs	319	-	218	-
Other administrative expenses	255	-	1,927	-
Total	**24,676**	**169**	**19,603**	**118**

In 2007 the Group ventured into engineering services and the reconnaissance of geological formations. For this purpose the Group founded one Russian and one Austrian subsidiaries. The Russian company has been liquidated on 14 August 2012. In 2012 process of liquidation of the Austrian company Petro Welt GEODATA GmbH was initiated. As of the publication of these consolidated financial statements the liquidation process was not yet completed. All information for Petro Welt GEODATA GmbH in the consolidated financial statements is disclosed separately as a discontinued operation.

Renumeration of the Auditor

The Group auditor was entitled for the following remuneration based on services:

in EUR thousand	2017	2016
Audit	451	386
Total	**451**	**386**

19. Other operating income

in EUR thousand	2017 Continuing operations	2017 Discontinued operation	2016 Contiuing operations	2016 Discontinued operation
Income from disposal of property, plant and equipment	247	-	546	-
Negative goodwill	-	-	3,249	-
Gain from stocktaking	534	-	36	-
Income from reversals of written-down inventories	20	-	17	-
Income from prior periods	59	-	454	-
Income from reversals of written-down trade receivables	131	-	51	-
Income from penalties	365	-	481	-
Other income	849	49	69	-
Total	**2,205**	**49**	**4,903**	**-**

20. Other operating expenses

in EUR thousand	2017 Continuing operations	2017 Discontinued operation	2016 Contiuing operations	2016 Discontinued operation
Expenses for penalties	1,408	-	-	-
Expenses for the disposal of property, plant and equipment	287	-	1,307	-
Write-down of trade receivables	427	-	144	-
Write-down of inventories	237	-	27	-
Other expenses	950	-	840	-
Total	**3,309**	**-**	**2,318**	**-**

21. Net finance income

in EUR thousand	2017 Continuing operations	2017 Discontinued operation	2016 Contiuing operations	2016 Discontinued operation
Interest income	8,716	25	5,645	-
Total finance income	8,716	25	5,645	-
Interest expenses	(3,868)	-	(4,014)	-
Loss from exchange rate differences	(1,913)	(5)	(540)	-
Total finance costs	**(5,781)**	**(5)**	**(4,554)**	**-**
Total net finance income	**2,935**	**20**	**1,091**	**-**

The Group's interest income is mainly attributable to interest on cash and cash equivalents, bank deposits.

22. Income tax

The tax rate for the Austrian companies in 2017 was 25% (2016: 25%), for the Russian subsidiaries – 20% (2016: 20%) and for income taxable under tax law in Kazakhstan – 20% (2016: 20%).

Petro Welt Technologies AG is the group parent of a tax group with the fully owned subsidiary Petro Welt Geodata GmbH. Petro Welt Technologies AG has concluded a tax allocation agreement dated 14.12.2007 with the member of the tax group in which the “stand-alone” method was selected.

Income tax expenses recognized in profit or loss are:

in EUR thousand	2017	2016
Current tax expenses	11,304	8,710
Deferred tax expense (income) relating to the origination and reversal of temporary differences	(2,304)	2,787
Withholding tax	73	664
Income taxes from previous years	(410)	3,031
Current and deferred tax expenses	**8,663**	**15,192**

Income tax of discontinued operations amounting to gain of TEUR 96 resulting from the tax calculations under Austrian corporate tax law (2016: expense TEUR 592).

In 2017 the income tax contains withholding taxes of TEUR 73 (2016: TEUR 664) resulted from intra-Group dividend. The rate for withholding tax on dividends in Russia was unchanged at 5%.

Amounts recognised in other comprehensive income were as follows:

in EUR thousand	2017 Before tax	2017 Related tax	2017 Net of tax	2016 Before tax	2016 Related tax	2016 Net of tax
Net investments in foreign operations	(11,619)	2,790	(8,829)	37,742	(1,164)	36,578
Net gains/(losses) on remeasurement of defined benefit plans	60	(12)	48	78	(16)	62

Reconciliation of effective tax rate:

in EUR thousand	2017	2016
Result before income taxes	39,688	40,691
Tax using the Austrian tax rate	7,938	8,138
Effect of tax rates in foreign jurisdictions	294	270
Tax free income	(196)	(302)
Non-deductible expenses	2,151	1,482
Change in unrecognized deferred taxes	(1,580)	2,444
Withholding tax on dividends	73	664
(Over)/underprovisions in earlier years	(410)	3,031
Other effects	393	(535)
Current and deferred tax expenses	**8,663**	**15,192**
Current and deferred tax expenses according to the profit or loss statement	**8,663**	**15,192**
Tax rate	**21.83%**	**37.33%**

Deferred taxes result from the individual statement of financial position items as follows

in EUR thousand	12/31/2017				Change in deferred taxes		1/1/2017	
	Deferred tax assets	Deferred tax liabilities	Recognised in profit or loss	Credited / (charged) to retained earnings	Recognised in other compre-hensive income	Effect of movement exchange rates	Deferred tax assets	Deferred tax liabilities
Tax loss carryforwards	6,558	-	(1,177)	-	411	(545)	7,869	-
Deferred expenses/liabilities	2,051	-	3,450	-	-	(49)	431	(1,781)
Fixed assets/depreciation	-	(12,112)	(865)	(2,008)	-	766	-	(10,005)
Other	1,153	(657)	896	197	2,367	(99)	2,012	(4,877)
Netting	(9,152)	9,152	-	-	-	-	(8,419)	8,419
Total	**610**	**(3,617)**	**2,304**	**1,811**	**2,778**	**73**	**1,893**	**(8,244)**

in EUR thousand	12/31/2016				Change in deferred taxes		1/1/2016	
	Deferred tax assets	Deferred tax liabilities	Recognised in profit or loss	Credited / (charged) to retained earnings	Recognised in other compre-hensive income	Effect of movement exchange rates	Deferred tax assets	Deferred tax liabilities
Tax loss carryforwards	7,869	-	725	-	(1,164)	1,599	6,709	-
Deferred expenses/liabilities	431	(1,781)	(1,323)	-	-	(181)	505	(351)
Fixed assets/depreciation	-	(10,005)	1,300	(515)	-	(2,092)	-	(8,698)
Other	2,012	(4,877)	(3,489)	-	(16)	292	972	(624)
Netting	(8,419)	8,419	-	-	-	-	(6,363)	6,363
Total	**1,893**	**(8,244)**	**(2,787)**	**(515)**	**(1,180)**	**(382)**	**1,823**	**(3,310)**

Due to amendments to the Russian tax legislation, starting from 1. January 2017 tax losses do not expire, but may be set off only against 50% of taxable profits for a given tax year. The tax loss carryforward as at 31 December 2017 in the amount of TEUR 38,560 (31 December 2016: TEUR 43,997) is not expected to be utilized in a future. Deferred tax assets in the amount of TEUR 7,712 (2016: TEUR 8,799) have not been recognized in respect of these losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

23. Pensions and other, post-employment benefit plans

The Group provides post-employment benefits as payments of non-government pension to the former employees of OOO KATKoneft through the Fund "NPF "LUKOIL-GARANT" JSC and lump-sum payments upon retirement or disability, lump-sum payments due to the relocation of an employee from the Far North regions to a new place of residence after termination of employment, payments in case of employee's death and payments to the former employees retired upon disability and other long-term benefits (such as payments to employees' jubilees).

The level of some benefits is fixed and does not depend on salary. Since the future payments will be indexed, the plan is subject to inflation and risks of increase in the cost of living. The plan is also exposed to the risk of changes in the life expectancy of the former employees. Therefore, the Group determines the conservative assumption on the expected growth rate of fixed payments and uses mortality tables, which are adjusted to reflect expected increase in life expectancy in the future.

Non-government pension benefits provided through the fund NPF LUKOIL-GARANT

Provision of non-government pension to the employees of OOO KATKoneft (further referred as "Participants") is performed through the fund "NPF "LUKOIL-GARANT" JSC ("the Fund") under the pension scheme №1 with a fixed amount of pension provided on a life long basis.

OOO KATKoneft ("The Depositor") makes pension contributions to the Fund on behalf of the Participants. The Fund accumulates these pension contributions at the solidarity pension account. Upon retirement of a Participant, the pension liability of the Company will be settled by the Fund through transferring lump sum payment equal to the present value of non-government pension from the solidarity pension account to the Participant's individual pension account. The payments of non-government pension to the Participant are made from the individual pension account.

Non-government pensions are the whole-life pensions, which are provided to the Participants on a monthly basis. The amount of a non-government pension to be provided to a particular Participant is determined by the Depositor. The Depositor informs the Fund about the amount of monthly non-government pension and the Fund calculates the amount of the present value of the non-government pension. The Fund uses the mortality table of Russian Federation for the year 1998 and applies the discount rate 6% to calculate the present value of the non-government pension.

If the amount of accumulated liabilities on the solidarity pension account is insufficient to cover the present value of the Participant's non-government pension, the Fund does not award the pension but informs the Depositor about the need to transfer the deficient amount of pension contributions to the Fund.

In case of a Participant's death during the period of pension payments, the Fund provides the benefit at the amount of twelve monthly non-government pensions determined at the time of the Participant's death based on the written request of the applicant.

Movement in net defined benefit (asset) liability

The following table presents roll from the opening balances to the closing balances for net defined benefit liability and its components:

in EUR thousand	2017 Post-employment benefits	2017 Other longterm employee benefits	2017 Total	2016 Post-employment benefits	2016 Other longterm employee benefits	2016 Total
Defined Benefit Obligation as at 1 January	927	126	1,053	742	100	842
Included in profit or loss:						
Current service cost	73	20	93	71	19	90
Interest cost	72	9	81	75	10	85
Past service cost	(9)	-	(9)	(21)	(2)	(23)
Actuarial (gains)/losses, including:						
Financial assumptions		2	2	-	(4)	(4)
Demographic assumptions		2	2	-	1	1
Experience adjustments		(12)	(12)	-	(11)	(11)
Benefits paid	**(54)**	**(16)**	**(70)**	**(47)**	**(12)**	**(59)**
Included in other comprehensive income:						
Actuarial (gains)/losses, including:						
Financial assumptions	8	-	8	(23)	-	(23)
Demographic assumptions	2	-	2	(6)	-	(6)
Experience adjustments	(69)	-	(69)	(49)	-	(49)
Effect of movements in exchange rates	(69)	(9)	(78)	185	25	210
Defined Benefit Obligation as at 31 December	881	122	1,003	927	126	1,053

Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date:

Assumptions	2017	2016
Discount rate	7.8%	8.5%
The growth rate of fixed payments	4.5%	5%
The growth rate of benefits as a result of a career growth	1%	1%
Tax rate	Varies from 16% to 30% depending on the Company	Varies from 21% to 23% depending on the Company
Employee turnover rates	Declines from 45% to 0% per year depending on year of service and gender	Declines from 42% to 0% per year depending on year of service and gender
Mortality	Mortality table of the Russian Federation for the year 2015, adjusted by 77%	Mortality table of the Russian Federation for the year 2014, adjusted by 77%

The next table represents the duration of the liability of the defined benefit plan:

	Post-employment benefits	Other long-term employee benefits	Total
Duration, years	9.98	11.86	10.28

The next table represents the defined benefit plan payments expected in the next reporting period (2017):

in EUR thousand	Post-employment benefits	Other long-term employee benefits	Total
Defined benefit plan payments expected in the next reporting period	378	19	397

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation as shown below.

Assumption	Post-employment benefits	Other long-term employee benefits	Total
Increase in discount rate by 1%	(4.6%)	(6.2%)	(4.8%)
Decrease in discount rate by 1%	5.3%	7.1%	5.5%
Increase in growth rate of fixed benefits by 1%	5.4%	7.3%	5.7%
Decrease in growth rate of fixed benefits by 1%	(4.8%)	(6.5%)	(5.0%)
Increase in salary growth rate by 1%	3.4%	0.0%	3.0%
Decrease in salary growth rate by 1%	(3.1%)	0.0%	(2.7%)
Increase in rate of employee's turnover by 1%	(0.3%)	(0.7%)	(0.4%)
Decrease in rate of employee's turnover by 1%	0.3%	0.7%	0.4%
Increase in mortality by 10%	(4.6%)	(7.0%)	(4.9%)
Decrease in mortality by 10%	2.0%	4.2%	2.3%

24. Earnings per share

The calculation of basic earnings per share at 31 December 2017 was based on the profit attributable to ordinary shareholders and a weighted-average number of ordinary shares.

in EUR thousand		2017	2016
Common stock	thousand	48,850	48,850
Profit	in EUR thousand	31,015	25,499
Earnings by share	EUR	0.63	0.52

The Company has no dilutive potential ordinary shares.

25. Operating segments

For management purposes the Group is organized into business units based on their services, and has the following reportable operating segments:

- well services – services for hydraulic fracturing (operated by OOO KATKoneft);
- drilling, sidetracking, integrated project management (IPM) – services for conventional drilling, sidetrack drilling (operated by OOO KAT-oil Drilling and OOO KATOBNEFT).
- production of proppant (operated by OOO Wellprop).

Management monitors operating results of its business units separately for the purpose of making decisions and performance assessment. Segment performance is evaluated based on financial information prepared in accordance to IFRS.

Transactions between the business segments are conducted on normal commercial terms and conditions. Reconciliation include amounts related to corporate activities which are not allocated to operating segments and the reconciliation of the total reportable segments amounts to the financial statements.

Segment information as at and for the years ended 31 December 2017 and 31 December 2016 is presented below.

Reporting segments results for 2017

in EUR thousand	Well Services	Drilling, Side-tracking IPM	Proppant production	Total segments	Recon-ciliation	Group
External sales	184,562	165,197	3,264	353,023	-	353,023
Group sales	1,671	499	663	2,833	(2,833)	-
Total sales	**186,233**	**165,696**	**3,927**	**355,856**	**(2,833)**	**353,023**
Cost of sales	(145,807)	(144,992)	(2,240)	(293,039)	3,059	(289,980)
Administrative expenses	(6,732)	(10,121)	(704)	(17,557)	(7,119)	(24,676)
Selling expenses			(510)	(510)	-	(510)
Other operating income and expenses	(5,629)	(2,551)	69	(8,111)	7,007	(1,104)
Operating result	**28,065**	**8,032**	**542**	**36,639**	**114**	**36,753**
Finance income						8,716
Finance costs						(5,781)
Profit before tax						**39,688**
Income tax						(8,663)
Profit after tax						**31,025**
Segment depreciation and impairment losses	15,851	30,522	223	46,596	(296)	46,300
Segment assets	158,873	187,887	25,076	371,836	66,108	437,944
Segment liabilities	33,701	72,616	6,943	113,260	82,728	195,988
Capital expenditure	22,551	12,444	-	34,995	548	35,543

Reporting segments results for 2016

in EUR thousand	Well Services	Drilling, Side-tracking IPM	Total segments	Recon-ciliation	Group
External sales	166,220	138,153	304,373	6	304,379
Group sales	1,228	738	1,966	(1,966)	-
Total sales	**167,448**	**138,891**	**306,339**	**(1,960)**	**304,379**
Cost of sales	(132,860)	(118,144)	(251,004)	3,360	(247,644)
Administrative expenses	(5,012)	(7,851)	(12,863)	(6,740)	(19,603)
Other operating income and expenses	(1,062)	(4,133)	(5,195)	7,780	2,585
Operating result	**28,514**	**8,763**	**37,277**	**2,440**	**39,717**
Finance income					5,645
Finance costs					(4,554)
Profit before tax					**40,808**
Income tax					(15,784)
Profit after tax					**25,024**
Segment depreciation and impairment losses	15,432	26,629	42,061	(304)	41,757
Segment assets	141,802	219,726	361,528	59,247	420,775
Segment liabilities	37,404	124,855	162,259	25,183	187,442
Capital expenditure	11,031	8,912	19,943	210	20,153

Reconciliation of segment assets mainly include cash balances of other companies (corporate activities), reconciliation of segment liabilities include loan from Petro Welt Holding Limited (Cyprus) and intercompany elimination between segments.

Inter-segment revenue is eliminated on consolidation. Major part of non-current assets of the Group is located in the Russian Federation. Revenue is earned by the Group exclusively in Russia and Kazakhstan. The breakdown of revenue by geographic area and major customers is presented below:

in EUR thousand	2017	%	2016	%
Russia				
Rosneft	187,940	53.23	179,535	58.98
LUKOIL	75,188	21.3	45,966	15.1
Slavneft	15,146	4.29	19,466	6.4
Gazprom	18,735	5.31	27,499	9.03
Tomskneft	21,684	6.14	16,014	5.26
Russneft	14,584	4.14	-	-
Other customers	6,960	1.97	11,614	3.82
Total revenue within Russia	340,237	96.38	**300,094**	**99**
Kazakhstan				
Kazmunaygaz	8,319	2.36	4,285	1.41
Other customers	4,467	1.26	-	
Total revenue within Kazakhstan	12,786	3.62	**4,285**	**1**
Total	**353,023**	**100**	**304,379**	**100**

26. Contingencies

(a) Litigation

On 10 April 2015 the Company filed a statement of facts at the Central Public Prosecutor's Office for the Prosecution of Economic Crimes and Corruption in Vienna. The statement of facts refers to circumstances, which set out reasons substantiating reasonable suspicion of breach of trust that came to the attention of the new Management Board. With filing dated 9 September 2015 the Company extended its private claim to TEUR 27,500. Since the investigations are still at an early stage, further developments and outcome, including the actual loss of the Company in this regard, are not yet possible to determine reliably.

The criminal complaint relates to transactions in connection with a procurement system, which was established at the Group in recent years. In purchasing fixed assets for business operations of subsidiaries of the Company, companies not belonging to the Group were used as intermediaries. Since the investigations are still at an early stage, further developments and outcome, including the actual loss of the Company in this regard, are not yet possible to determine reliably.

The Company filed against former members of Management Board claim amounting to TEUR 1,540 due to the unlawful and premature payment of compensation. The Company is currently assessing potential claims regarding the activities of its subsidiary Petro Welt GEODATA GmbH, which generated significant operational losses in the past. For that reason, the Company filed a criminal complaint to the Public Prosecutor's Office in Vienna on 17 November 2015 within the pending criminal proceedings. It is uncertain at this stage if at all and in which amount these losses are in connection with potential criminal activities. These questions will be subject to the investigations of the Public Prosecutor.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion in 2014 and thereon).

The compliance of prices with the arm's length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, taxation of controlled foreign companies, tax residency rules, etc. These changes may potentially impact the

Group's tax position and create additional tax risks going forward. This legislation and practice of its application is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

All these circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Taxation contingencies in Kazakhstan

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

27. Details and information on financial instruments

Presentation of financial instruments

The table below contains an overview of carrying amounts and fair values of the individual financial instruments and reconciliations of the corresponding statement of financial position items:

Financial assets measured at amortised costs

in EUR thousand	12/31/2017	12/31/2016
Cash and cash equivalents	68,887	102,964
Bank deposits	65,489	10,695
Trade receivables	97,035	83,707
Receivables from related parties	362	362
Other receivables	3,427	2,046
Total	**235,200**	**199,774**

Financial liabilities measured at amortised costs

in EUR thousand	12/31/2017	12/31/2016
Long term debts	-	100,000
Short term debts	112,526	8,709
Trade payables	43,427	37,764
Other liabilities	3,815	3,142
Total	**159,768**	**149,615**

The carrying amount of financial assets and financial liabilities presented above approximates its fair values.

As at the reporting date there were no financial instruments categories “assets and liabilities valued at fair value through profit and loss”, “financial investments held-to-maturity” and “available for sale”. Also there were no such categories in the previous year. The carrying amounts of trade receivables, current and non-current assets correspond to their fair values. For trade payables, current and non-current liabilities as well as other current liabilities the carrying amounts correspond to the fair values. Financial instruments were not assigned as security both in the reporting year and in the previous year.

28. Financial risk management objectives and policies

The Group’s risk management policies are established to identify, analyse and monitor the risks faced by the Group, including market risk, currency risk, risk of interest rate change, credit risk, liquidity risk and the risk associated with capital management.

Credit risk

Credit risk is the risk of financial loss to the Group if the customer or the counterparty to the financial instrument fails to meet its contractual obligations and arises mainly from cash equivalents, trade receivables and other financial receivables:

in EUR thousand	12/31/2017	12/31/2016
Cash and cash equivalents	68,887	102,964
Bank deposit	65,489	10,695
Trade receivables	97,035	83,707
Other receivables	1,485	1,995
Other long-term assets	1,942	51
Total	**234,838**	**199,412**

The risks of non-repayment of receivables management assesses as the lowest in Russia and middle in Kazakhstan. The revenue generated in Kazakhstan is within 2% of the total revenue of the Group. Russian clients of the Group are holding companies, including state-controlled. Customers are public companies, some of which have credit ratings from international and Russian rating agencies. However, in accordance with the internal regulations on liquidity management, the company weekly analyzes the register of past due but not doubtful (and never impaired) receivables subject to a late payment, and take all measures to comply with contractual terms by clients.

Credit risk management activities in the Group are as follows:

(a) Credit policy under which the creditworthiness of each new customer is analyzed individually before it will be offered standard Company terms and conditions of payment. The company review includes external ratings (if any) and, in some cases, recommendations of banks. In monitoring customer’s credit risk, clients are grouped according to their credit characteristics, including their belonging to private individual or legal entity, their territorial location, loan structure by number of days of payment delays, contractual maturities of debt and fiscal difficulty in the past.

(b) Regular monitoring of credit risk indicators. Credit risk indicators allow early detection of credit risk growth of an individual counterparty (group of counterparties). As a result, the Group may take the necessary steps to prevent financial losses in the event of default by the counterparty. When developing indicators, the company uses methods of quantitative and statistical analysis, predictive models, as well as expert indicators.

(c) Regular reporting on credit risk. Regular reporting is an essential component to enable stakeholders to monitor the effectiveness of risk reduction interventions and the dynamics of risk assessment. Reporting is provided to the management of the Group, interested structural units as well as the Management Board.

Trade and other receivables

A significant portion of the Company's revenues relates to the following largest customers – LUKOIL, Gazprom Neft, Rosneft, Tomskneft (see note 25). The company diversifies its customer base by attracting new reliable customers.

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was as follows:

in EUR thousand	12/31/2017	12/31/2016
Russia	94,704	81,243
Kazakhstan	5,758	4,510
Total	**100,462**	**85,753**

The Group does not possess collateral and other credit enhancements in respect to trade and other receivables. The ageing of financial assets that are past due as at the end of the reporting period but not impaired at the reporting date was as follows:

in EUR thousand	12/31/2017	12/31/2016
Neither past nor overdue	220,264	197,008
Past due 0–30 days	9,485	2,268
Past due 31–180 days	1,224	136
Past due over 180 days	3,865	-
Total	**234,838**	**199,412**

The management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behavior and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available. The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	Individual impairments	
in EUR thousand	2017	2016
Balance at beginning of the year	426	333
Additions (through business combination)	516	-
Additions (through profit or loss)	479	135
Reversal/use of value adjustment	(720)	(100)
Foreign currency translation adjustments	(50)	58
Balance at end of the year	**651**	**426**

Management believes that the credit quality of trade and other receivables is at a sufficient level as the majority of contractors have a long trading relationship with the Group.

The Group held cash and cash equivalents of TEUR 68,887 at 31 December 2017 (31 December 2016: TUER 102,964), which represents its maximum credit exposure on cash and cash equivalents assets.

Cash and cash equivalents and bank deposits are held with financial institutions having a credit rating from international rating agencies from "AAA" to "AA" on a national scale. As at 31 December 2017 and 31 December 2016, cash and cash equivalents are held with different banks to prevent concentration of credit risk for the Group.

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimizing its cash return on investments. The Group aims to maintain the level of cash and cash equivalents and other highly liquid instruments at an amount in excess of expected cash outflows on financial liabilities over the next 60 days.

The company also monitors the level of expected cash flow from the repayment trade and other receivables and the expected outflows in connection with the redemption of trade and other payables.

The Group has borrowings from Petro Welt Holding Limited (Cyprus) amounting to TEUR 100,000. For further information see note 15 Financial liabilities.

Exposure to liquidity risk
The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

2017			Contractual cash flows			
in EUR thousand	Carrying amount	Total cash flow	< 6 months	6 to 12 months	1 to 2 years	2 to 5 years
Non-derivative financial liabilities:						
Liabilities against Petro Welt Holding Limited (Cyprus)	112,526	116,341	14,434	101,907	-	-
Trade payables	43,427	43,427	-	-	-	-
Other current liabilities	3,815	3,815	-	-	-	-

2016			Contractual cash flows			
in EUR thousand	Carrying amount	Total cash flow	< 6 months	6 to 12 months	1 to 2 years	2 to 5 years
Non-derivative financial liabilities:						
Liabilities against Petro Welt Holding Limited (Cyprus)	108,709	116,375	10,611	1,931	103,833	-
Trade payables	37,764	37,764	37,764	-	-	-
Other current liabilities	3,142	3,142	3,142	-	-	-

It is not expected that the cash flows taken into consideration in the maturity analysis may occur significantly earlier or their fair value will differ considerably.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales and purchases are denominated and the respective functional currencies of Group entities. The functional currencies of Group companies are primarily the Russian Ruble (RUB). No currency hedging transactions are carried out.

The group is exposed to foreign currency risk in respect of revenue and purchases and borrowings that are denominated in currencies other than Russian ruble. Basically, currency risk arises from transactions in euros and us dollars. The group performs regular analysis of trends in currency exchange rates.

The Group's exposure to foreign currency risk was as follows:

in EUR thousand	12/31/2017	12/31/2016
Euro		
Trade receivables	7,100	115
Trade payables and other liabilities	(953)	(668)
US dollar		
Trade receivables	61	105
Trade payables and other liabilities	(1,023)	(1,873)
Kazakhstan Tenge		
Trade receivables		249
Trade payables and other liabilities	(565)	(552)
Russian ruble		
Trade receivables	-	-
Trade payables and other liabilities	(221)	(334)

The following sensitivity analysis shows the effects of currency differences affecting income and the effect of the internal Group loan, which was reclassified as net investment in foreign operations (see note 4), in the event of an assumed change of the foreign currency of 10% against the respective functional currency:

	Effect on profit before tax		Effect on pre-tax equity	
in EUR thousand	**2017**	**2016**	**2017**	**2016**
Euro denominated	615	55	4,675	7,726
US Dollar denominated	(96)	177	-	-
Kazakhstan Tenge denominated	(56)	30	-	-
Russian ruble denominated	(22)	33	-	-

The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

Interest risk

Interest rate changes have an impact mainly on borrowed loan with a variable interest rate (see note 15), changing the future cash flows on it. A reasonably possible change of 10 basis points in interest rates at the reporting date would have increased (+) / decreased (-) equity and profit or loss before taxes by the amounts shown below.

in EUR thousand	**2017**	**2016**
Long-term payables	-	+/- 376
Short-term payables	+/- 450	+/- 33

This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

No interest hedging transactions have been carried out during reporting period.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Master netting or similar agreements

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand. As at 31 December 2017 and 31 December 2016 there were no any significant recognised financial instruments that are subject to the above agreements.

Other market risks

Russia and Kazakhstan

Business activities of the Group and focus of these activities on Russia and Kazakhstan imply significant financial risks, in particular during the crisis associated with the financial markets. These risks are primarily interest and liquidity risks, foreign currency risks and the risk of changes to the rating of the Group. There is a particular risk induced by changes in the political situation in Russia and Kazakhstan. The Group-wide risk management system is designed to identify, assess and analyze the risks and their respective probabilities for the Group, also in the area of financial risk, as well as to put into place measures that guarantee limitation of damages and safeguarding of profits in the event of the occurrence of such risk situations. The focus of business activities in Russia and Kazakhstan means that the Group is particularly dependent on specific situations and developments within these countries and the risks accompanying them. In particular the monetary and economic policies introduced by the Russian Government may have a significant effect on the risks to the assets, finances and earnings situation of the Group. Measures for stabilization and strengthening of the economic power of the commodities industry have indirect consequences for the service companies within this field. Possible trends to depreciation of the Russian Ruble against the euro, the reporting currency of the Group, could also have direct consequences for the Group.

Industry profitability remains under pressure from the strict financial and investment behavior of oil companies and the volatility of oil rates, both of which continue unabated. The increased costs resulting from oil majors having to move to more challenging and politically riskier parts of the world is another challenge. Higher employment costs, the increasing complexity of projects, and expanding regulatory requirements are contributing significantly to the rise in overall costs. This could have a significant effect on the development of the Group's earnings.

Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows. With these measures the Group aims for steady profits growth.

The primary objective of Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder's value.

The group manages its capital in order to enable it to operate in the foreseeable future while maximizing the return of its shareholders by optimizing the debt-to-equity ratio of the Group.

Capital management is carried out in comparison with competitors from the oilfield services sector on the basis of net debt to EBITDA indicator.

Net debt is calculated as the difference between the total amount of debt less cash and cash equivalents and short-term financial investments. Total debt includes short-term and long-term (including current portion) loans and borrowings, and obligation under the defined benefit pension plan. Total equity is the amount of capital owned by the shareholders of the Group. As at 31 December 2017 the net debt to equity ratio was 10,5% (31 December 2016: 15.4%).

in EUR thousand	12/31/2017	12/31/2016
Liabilities against Petro Welt Holding Limited (Cyprus)	112,526	108,709
Trade payables	43,427	37,764
Other liabilities with the exception of accrued liabilities	3,815	3,142
Less: cash and cash equivalents	(68,887)	(102,964)
bank deposit	(65,489)	(10,695)
Net debt	**25,392**	**35,956**
Total equity	241,956	233,333
Net debt to equity ratio at 31 December	**10.5%**	**15.4%**

The Group's rating by Moody's is Ba3 with a stable rating outlook (31 December 2016: Ba3).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during 2017 and 2016.

29. Related party transactions

Parent and ultimate controlling party

The Company's immediate parent companies are Petro Welt Holding Limited (Cyprus) and Joma Industrial Source Corp. The ultimate beneficiary owner of the Group is Mr. Maurice Dijols. For further information about transactions with Petro Welt Holding Limited (Cyprus) refer to note 15 "Financial liabilities", note 11 "Other current assets".

Key management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (refer to note 18).

Summary of the remuneration of management members in key positions:

in EUR thousand	2017	2016
Yury Semenov, Management Board	1,606	1,371
Valeriy Inyushin, Management Board	562	324
Maurice Gregoire Dijols, Supervisory Board	35	35
Ralf Wojtek, Supervisory Board	35	35
Remi Paul, Supervisory Board	35	35

Members of Management and Supervisory Board have not received any loans or advance payment in 2017 (2016: nil).

The amount of bonus of Management Board members for 2016, paid in 2017, amounted to TEUR 821 (2016: TEUR 593).

The Management board consists of the following members:

- Yury Semenov – Chairman of the Management Board;
- Valeriy Inyushin, Ph.D. – Deputy Chairman of the Management Board.

The Supervisory board consists of the following members:
- Maurice Gregoire Dijols – Chairman of the Supervisor Board;
- Remi Paul – Member of the Supervisor Board;
- Ralf Wojtek – Member of the Supervisor Board.

The remuneration to the members of the second level of management was as follows:

in EUR thousand	2017	2016
Second level management salaries	937	706

Other related party transactions

Business transactions with related parties are detailed in the following table:

	Transaction value		Outstanding balance		
in EUR thousand	2017	2016	12/31/2017	12/31/2016	Transaction description
Subsidiaries:					
C.A.T. GmbH Consulting Agency Trade (Cyprus) Ltd., Nikosia	937	977	117	177	Consulting
Fairtune East Ltd., Moscow	440	356	38	41	Rental fee

30. Events after the reporting date

Petro Welt Technologies AG and Petro Welt Holding Limited (Cyprus) entered into a negotiation of amendment of currently valid loan agreement. The termination date for liability amounting to EUR 100 million and interest payment date according to amendment is 31.12.2022. The interest rate will be changed at arm's length. The addendum is currently in the process of negotiation.

Vienna, 23 April 2018
Board of Management

Yury Semenov
Chief Executive Officer

Valeriy Inyushin
Chief Financial Officer

Statement of all representatives

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the group faces.

We confirm to the best of our knowledge that the separate financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Vienna, 23 April 2018

Yury Semenov
Chief Executive Officer

Valeriy Inyushin
Chief Financial Officer

Memo

Legal notice

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