Petro Welt
Technologies

TOUGH CONDITIONS GOOD WORK

Annual Report 2016

Key figures

in EUR thousand	2016	2015	Change
Sales revenues	304,379	322,475	-5.6%
Gross profit	56,735	51,006	11.2%
	18.6%	15.8%	
EBIT	39,717	30,963	28.3%
EBIT margin	13.0%	9.6%	
EBITDA	81,474	81,489	0.0%
EBITDA margin	26.8%	25.3%	
Group result	25,499	20,304	25.6%
Earnings per share (EUR)	0.52	0.42	
Balance sheet total*	420,775	301,260	39.7%
Equity*	233,333	145,475	60.4%
Equity ratio*	55.5%	48.3%	
Cash flow from operating activities	78,378	67,328	16.4%
Cash flows from investing activities	(15,411)	(67,027)	77.0%
Cash flow from financing activities	(664)	(29,715)	97.8%
Cash and cash equivalents	102,964	28,465	261.7%
EUR exchange rate at the end of reporting period	63.8111	79.6972	-19.9%
EUR average exchange rate for the reporting period	74.2310	67.7767	9.5%
Employees (average)	3,313	3,303	0,3%

* as at 31 December 2016 and 31 December 2015

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	13%
Number of shares	48,850,000
Year's high (7 March 2016)	EUR 8.03
Year's low (20 January 2016)	EUR 5.15
Closing price (30 December 2016)	EUR 6.06
Stock exchange listings	SDAX, Prime Standard

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Annual Report 2016

Financial calendar 2017

- **April 25, 2017**
  Publication of consolidated annual report 2016
- **May 16, 2017**
  Analyst conference
- **May 22, 2017**
  Publication of Q1 interim report 2017
- **June 16, 2017**
  12th Annual Shareholders Meeting
- **August 22, 2017**
  Publication of half-year report 2017
- **November 21, 2017**
  Publication of Q3 interim report 2017

Content

The company

The Petro Welt Technologies Group is one of the leading independent service providers of oil field services in Russia and Kazakhstan. The company is very well positioned on the market and is considered to be the most important market player in its segment. The headquarters is located in Vienna, and Petro Welt Technologies AG is listed on the Frankfurt Stock Exchange. At the end of 2016, the Petro Welt Technologies Group had 3,351 employees, most living and working in Russia and Kazakhstan.

Our company is specialized in services which increase the productivity of new and existing oil and gas formations. We offer a broad range of high-quality services for large and selected medium-sized oil and gas companies. Over many years, we have developed strong customer relationships with key oil and gas producers in the region.

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 EU and 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 the Company was founded in 1991, Petro Welt Technologies AG has built up a leading position in hydraulic fracturing in Russia and Kazakhstan and emerged as a reliable and recognized business partner. Following its initial public offering in 2006, the company created a second mainstay in its range of services in just two years – sidetrack drilling. With hydraulic fracturing and sidetracking, Petro Welt Technologies AG offers services that provide optimal price-to-quality alternatives for enhancing the productivity of existing wells or reactivating idle and abandoned wells.

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

Mission

Our objective is to offer our customers services at the highest technological level based on state-of-the-art solutions and innovation-oriented engineering quality. The underlying goal here is to enable the profitable extraction of oil and gas deposits and to contribute to a safer and a more efficient use of existing resources which ensures a stable and economical energy supply. We work tirelessly every day to provide our customers with ongoing care and support, while at the same time striving for further expansion of long-term relationships with major oil and gas producers. To reach these goals, we employ only the most highly qualified and committed professionals, and we support their further training and professional development.

We also aim to make a sustainable contribution to meeting international energy needs by increasing the efficiency of production of hydrocarbons and optimizing the exploitation of oil and gas wells.

Group strategy for the upcoming 3 to 4 years

For the next three to four years, Petro Welt Technologies AG will concentrate on sustainable development of its international footprint and growth of market shares. Special focus will be dedicated to business on the territory of the Republic of Kazakhstan. The Company intends to become the leading provider of oil field services in Kazakhstan, mostly in proppant and acid fracturing. To address multiple clients' needs, the Management has taken the decision to integrate the branch of KATKoneft into PeWeTe Kazakhstan. The integration offers many advantages for both the Company and clients. The Company will have the professional management on site, and will be able to react faster to market needs. One point of operational control will step up quality and operational efficiency of equipment.

The success of Kazakhstan is critical. The strong presence in Kazakhstan can support for further expansion in Central Asia and the Middle East.

In Russia, Petro Welt Technologies AG plans to update its service assets and innovate front and back-end support functions such as engineering, logistics, procurement infrastructure for repair and maintenance. The company will continue its technological diversification in Russia.

The establishment of a management company has allowed operating companies to focus solely on continuous improvements to quality and performance. We do trust in our personnel. To be able to address the new targets in the most effective way, the Company has developed training programs for the staff. The newly implemented KPI system will stay the main leverage for management motivation and guidance.

Continuing improvement of quality and and reduction of non-productive time (NPT), safety in operations for people, equipment, and environment, and cost control will remain our strategic priorities by objective.

The Management Board of Petro Welt Technologies understands that international diversification and a multi-segment portfolio is the best mitigation against the market today. Each step has to be verified and should offer some benefit to the Company. In some cases the Management Board is planning to consider M&A deals as the shortest and most economically effective way to achieve the objectives, but each case will be subjected to individual and comprehensive analysis.

Yury Semenov
Chief Executive Officer

Valeriy Inyushin
Chief Financial Officer

Dear Stakeholders,

Despite the challenging industry environment in 2016, Petro Welt Technologies AG continued the sound development of its business operations and significantly improved its level of profitability. This positive development is attributable to management's efforts to optimize the cost of sales, to limit administrative and financial expenses, to increase synergies among the companies of the Petro Welt Technologies Group, and to enhance the proportion of multistage fracturing operations. Other growth contributors were the geographic drilling expansion of operations in Siberia and southern Orenburg and the acquisition of a fracturing company in Kazakhstan in September 2016.

— **Satisfactory Profitability**

We can report that we accomplished the most important goals of reorganizing the company and reaching a satisfactory level of profitability under the most difficult market conditions. From this basis, which we will continually improve, we can take the opportunity to enter into new ventures and further expand Petro Welt Technologies AG under the precondition of sustainable profitability.

— **Acquisitions**

Petro Welt Technologies AG completed the acquisition of the Kazakh fracturing subsidiary of Trican Well Service Ltd., Calgary, on 1 September 2016. The acquired business, which was renamed to Petro Welt Technologies Kazakhstan LLP, specializes in fracturing and actively serves a number of international and local customers throughout Kazakhstan. The integration of the acquired company into the corporate structure of Petro Welt Technologies AG was completed by the end of the year.

— **Results**

Revenues in Russian roubles increased 3.4% in 2016 compared to the same period of the previous year. In euros, revenues decreased by 5.6%, which was less than the 9.5% depreciation of the rouble on the annual average basis. EBITDA margin rose to 26.8% and the equity ratio improved from 48.3% to 55.5%.

— **Outlook**

The positive development of the company's financial performance indicators during 2016 creates a sound basis for reliable profit generation. The management anticipates that revenues will reach approximately EUR 335–345 million in 2017.

Maurice Dijols
Chairman of the Supervisory Board

Remi Paul
Member of the Supervisory Board

Ralf Wojtek
Member of the Supervisory Board

Interview with Maurice Dijols, the Chairman of the Supervisory Board

How satisfied are you with the new Management Board and the company result in 2016?

— **Maurice Dijols**

The new Management Board has successfully reorganized the management of the Group, bringing about greater efficiency and the improvement of overall results. In addition, by acquiring the Kazakh operations from Trican, management has opened the door to foreign expansion of the Group's activities.

How will the market environment develop over the next few years? What do you think?

— **Maurice Dijols**

We hope that the price of oil – a key indicator for the oil market – will stabilize. We have strong confidence in management that the Group will outperform the market.

Will you continue to be invested in the company over the next years? What are your personal goals?

— **Maurice Dijols**

The results of 2016 show that the company is on the right path to success. Together with the new management, we believe that the company has a great future not only in Russia but in neighboring countries as well. The new management needs patience and endurance to pursue these goals, and I support this development.

What strategic course will you be working on with the Management Board of Petro Welt Technologies in the upcoming years?

— **Maurice Dijols**

We will emphasize the consolidation and strengthening of business in Russia as well as development of new business and technologies in Russia and abroad.

Financial & Operational Highlights 2016

1. Sales revenue in rouble increased
2. EBITDA margin improved
3. Equity base increased
4. Strong liquidity position
5. Acquired Kazakh operations contribute to revenue and net profit
6. Positive financial performance creates solid basis for reliable profit generation in the year 2017

Key Events 2016

February 2016
Drilling business segment of the Group received the Best Health, Safety and Environment Award in February 2016

April 2016
Moody's confirmed the rating of Petro Welt Technologies AG. Rating confirmation comprises the Ba3 corporate family rating (CFR) of the Group with stable outlook.

August 2016
Change in the company name of C.A.T. Oil AG, now Petro Welt Technologies AG, was entered into the commercial register

September 2016
Acquisition of the Kazakh fracturing subsidiary of Trican Well Service Ltd.

December 2016
Launch of the new website

The Petro Welt Technologies AG Share

The Petro Welt Technologies AG shares are traded on the Prime Standard at the Frankfurt Stock Exchange. On 4 January 2016, the Petro Welt Technologies AG share started the stock market year at a price of EUR 6.36 per share and closed at EUR 6.06 per share. The highest share price in 2016 of EUR 8.03 was recorded on 7 March 2016. The lowest price for the year of EUR 5.15 was recorded on 20 January 2016. For the most part, the value of the Petro Welt Technologies AG share developed parallel to the oil price and EUR/RUB exchange rate and was supported by good quarterly financials. As a result, share price development showed an increase of 10% in one year and ended the last day of trading at EUR 6.99. Trading of Petro Welt Technologies AG totaled 2.85 million shares in 2016, which does not include shares transferred in due course within the context of the mandatory offer. Total daily trading volume in 2016 amounted to an average of 11,259 shares.

Shareholder structure

Joma and Petro Welt Holding Ltd. control 87.07% of shares of Petro Welt Technologies AG. The remaining 12,93% are in free float. The ultimate beneficiary owner of the Group is Mr Maurice Dijols.

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

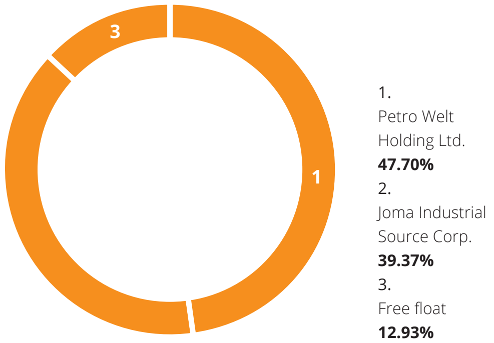
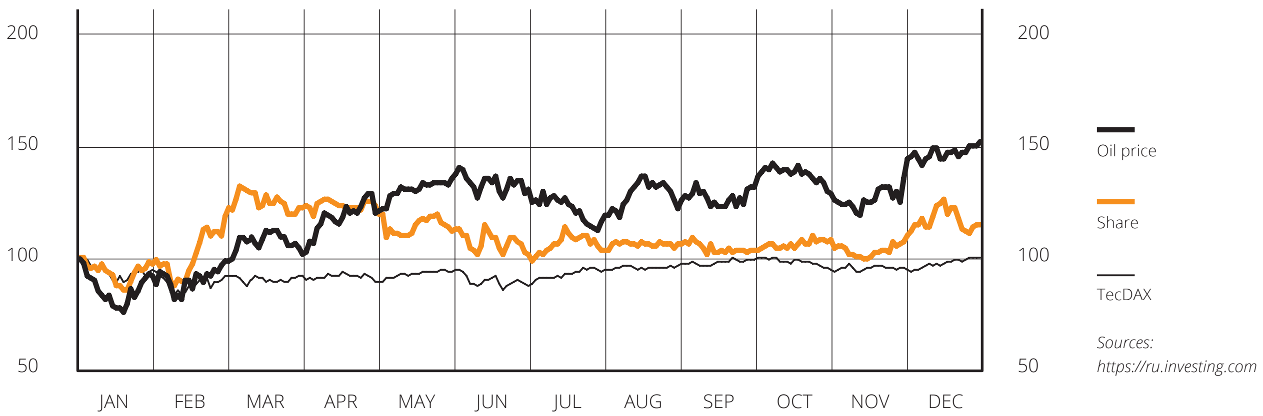


Chart 2: **Development of the Petro Welt Technologies AG share 2016 compared to the oil price**



Stable rating outlook

The rating agency Moody's confirmed in April 2016 the Ba3 rating of Petro Welt Technologies AG with a stable rating outlook. The ratings rationale for the positive conclusion mentioned in particular the robust business model, the strong market position and the conservative financial policy of the company. The strong order book and the comfortable debt maturity profile were highlighted.

In 2016, the Petro Welt Technologies AG share outperformed the development of TecDAX, the German index containing technological companies which increased only by 1% (from 1,793.6 as of 1.01.2016 to 1,811.72 as of 31 December 2016).

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, which 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

Appointed on 25 February 2015:
- Maurice Gregoire Dijols, Chairman of the Supervisory Board, born 1951
- Remi Paul, Member of the Supervisory Board, born 1966
- Ralf Wojtek, Member of the Supervisory Board, born 1945

The current members of the Supervisory Board appointed on 25 February 2015 were elected to the Supervisory Board until the close of the Annual General Meeting resolving on the formal approval for the 2016 financial year.

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% 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 appointed on 25 February 2015:

- Yury Semenov, Chairman of the Management Board, born 1977, responsible for key company functions such as business strategy, business development, and business policy
- Valeriy Inyushin, Deputy Chairman of the Management Board, born 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.

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' holdings

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
- Natalya Kobetz – GM of LLC "Pe-We-Te"; GM functions executed by managing company LLC "Pe-We-Te" for "KAToil-Drilling" LLC; GM functions executed by managing company LLC "Pe-We-Te" for "KATOBNEFT" LLC; GM functions executed by managing company LLC "Pe-We-Te" for "KATKOneft" LLC
- Valery Kobetz – GM of Limited Liability Company "Trading House KAToil "
- Ekaterina Fedorova – GM Limited Liability Company "KAT.oil Leasing"
- Androulla Papadopoulou and Eliana Giannakou Hadjisavva –Directors of Sonamax Limited
- Stanislav Zagranichny – 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	23,448,000	47.70%
Joma Industrial Source Corp.	19,051,500	39.37%
Free float	6,350,500	12,93%
Total	**48,850,000**	**100%**

Statement on recommendations of the Corporate Governance Code
Recommendation 2.2.4 section 2: In the interests of all participants in the Annual General Meeting, the targeted and efficient organizational procedure and guidance remains unchanged. A time limitation to a predefined number of hours is considered not to be appropriate.

Recommendation 2.3.2 section 2, paragraph 2 and Recommendation 2.3.3: It is ensured that the representative nominated by the Company is available by fax until the starting time of the Annual General Meeting. Considering the size of the Company, the possibility of following the Annual General Meeting via electronic communication media is currently not available, as this would require a disproportionately high additional expense.

Recommendation 3.7 paragraph 3: In the event of a takeover bid, the management considers it in principle advisable to convene an Extraordinary General Meeting, which offers the shareholders the opportunity to discuss and, if applicable, to resolve on the matter according to corporate law.

Recommendation 5.1.2 paragraph 2/1: The recommendation to abstain from nominating new members of the Management Board for the maximum period of five years had already been applied by the Company previously.

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 version of 5 May 2015 have been and are being met, save for the recommendations listed below.

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: 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.

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. In future amendments to existing employment contracts or in new employment contracts of Management Board members, the Company shall aspire to follow this recommendation. In the event of Change of Control, the existing employment contracts of Management Board members include severance compensation for the agreed term of the respective employment contracts but at least for the duration of two years.

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

3. Recommendation 5.2, 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.

4. Recommendations 4.1.5, 5.1.2 section 1 and 5.4.1 section 2 and 3: In the revised version of 5 May 2015, 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 not follow the recommendation to draw up, consider and publish specific objectives. There is no legal obligation to follow these recommendations, as the underlying laws apply to German-based companies only. The Company is based in Austria and follows the applicable Austrian rules, which do not provide for such obligation. 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, 24 April 2017

Management Board **Supervisory Board**

Report of the Supervisory Board for 2016

Throughout 2016, 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 five meetings during 2016 together with all members of the Management Board being present, i.e. on 18 March 2016, 22 April 2016, 20 June 2016, on 9 September 2016 and on 9 December 2016.

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 balance sheet meeting on 24 April 2017, the Supervisory Board examined the 2016 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 24 April 2017 and after comprehensive review and discussions with the auditors at the Audit Committee and the Supervisory Board, which did not give rise to any qualifications, the Supervisory Board approved the Company’s management report, prepared in accordance with section 96 (1) Stock Corporation Act, and the financial statements of Petro Welt Technologies AG for 2016. Thereby the 2016 financial statements have been approved pursuant to section 96 (4) of the Stock Corporation Act. The same applies to the 2016 consolidated financial statements. Further, the Supervisory Board accepted the proposal to retain dividends of 2016. The Supervisory Board likewise approved the Corporate Governance Report following its consideration by the Audit Committee.

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 2016 as well as all shareholders, customers and partners for their trust.

Vienna, 24 April 2017
Maurice Gregoire Dijols
on behalf of the Supervisory Board

Group Management Report

Economic environment

Global

On a global scale, 2016 can be summarized as a year of surprises ranging from Brexit, the outcome of the US election, and an increase in commodity prices. Global growth is estimated to decelerate to 2.3% in 2016 — the weakest performance since the global financial crisis and 0.1 percentage points below June 2016 (2015: 2.7%). Key risks to growth in 2017 include potential protectionist policies in the US, global monetary policy tightening, and a number of geopolitical events like the upcoming elections in Germany and France.

Russia's economy in 2016

Growth in Russia equaled approximately -0.6% in 2016, compared to -3.7% in 2015. Economic activity picked up in the second half of 2016, supported by rising oil prices, strong improvement in the manufacturing PMI reading, and a return of foreign capital inflows. In 2017, growth in Russia is expected to rebound to 1.1–1.5%.

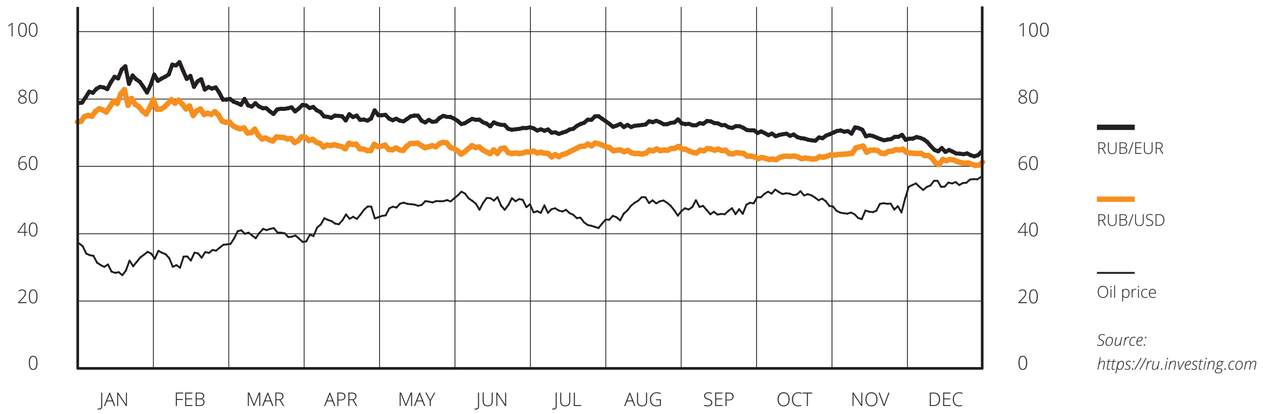
Industrial growth is mainly driven by mining and other extraction activities. Weak consumption and a relatively strict central bank policy provided for a significant reduction in the CPI. The slowing pace of investments has eased somewhat. The trade balance and current account remain strong, providing support to the rouble from a fundamental point of view. On the yearly average basis (2016/2015), the exchange rate for the rouble continues to devalue, however viewed from the beginning to the end of the year, the rouble showed appreciation, performing particularly well in Q4 2016.

Table 2: **Growth**

	2016/2015 year on year	2015/2014 year on year	2014/2013 year on year
GDP	-0.6%	-3.7%	0.7%
Industrial production	2.5%	-3.4%	1.7%
Oil production	2.6%	1.3%	0.8%
Investment	-2.3%	-8.4%	-1.5%
CPI	7.1%	15.5%	7.8%
Production price index (PPI)	4.0%	12.4%	6.1%
Real disposable income	-5.9%	-4.0%	-0.7%

Sources: Rosstat, IMF, World Bank

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



Source: https://ru.investing.com

Kazakhstan's economy in 2016

Kazakhstan is fairly rich in minerals and raw materials. Kazakhstan is able to meet its needs for mineral resources and also to export certain volumes of various raw materials and products thereof. In Kazakhstan's economy, industry accounts for 33.5%, agriculture comprises 4.8% and services – 61.7%. During 2016 Kazakhstan's economy demonstrated clear features of improvement. Investments growth of 5.1% reflected a revival of the business environment. Kazakhstan's economy also benefited from an increasing trend of energy and metals prices which boosted growth in mining and stabilized the manufacturing sector. Extraction of natural gas expanded by 4.8% and metal production by 6.6%. Manufacturing output and electricity generation increased marginally both by 0.7%. Private consumption also stabilized leading to an increase of retail trade volume by 0.9%. As a result, according to the preliminary estimations of Committee on Statistics of Kazakhstan, GDP growth in 2016 amounted to 0.4%.

Global oil market

The difference between global oil supply and demand squeezed from 1.65 million barrels per day (annual average) in 2015 to 0.45 million barrels per day. This fundamental factor combined with decelerating economic growth and fuel consumption in China and South Asia became the main reason for an increase in oil prices during 2016. Fuel consumption growth is also affected because vehicles are becoming more fuel efficient due to technological improvements like electric engines, autonomous driving and car sharing.

At the same time, the overall abundance of oil resources and the prospect of slowing oil demand may prompt a change in global oil supplies. In particular, low-cost producers may use their competitive advantage to increase market shares. Although costs vary significantly within resource categories, the majority of the lowest-cost resources are located in large, conventional onshore oil field, particularly in the Middle East and Russia. The share of OPEC crude oil production reached about 41%. Brent crude oil prices continued to grow in the range of USD 52 to USD 56 after the announcement of reduced production. Oil prices were bolstered by the decision of the Organization of Petroleum Exporting Countries (OPEC) of 30 November to reduce oil production by 1.2 million barrels per day from January 2017 onwards. They also gained additional impetus from the agreement of the non-OPEC producers of 12 December to reduce production by 0.6 million barrels a day. The market participants' expectations for a time horizon beyond six months were largely unaffected by the OPEC decision, which suggests that no fundamental changes had taken place on the oil market. Global oil supplies amounted to 98.2 million barrels a day in November. This was a record value since the lower production of the non-OPEC countries was offset by an expansion in the OPEC countries. The increase in oil demand (by 1.3 million barrels a year compared with the previous year) should have continued in the fourth quarter of 2016 as well. One of the reasons for this was the upturn in consumer spending in China. Prices for raw materials excluding oil have increased slightly since mid-December. This was mainly attributable to a sharp rise in iron ore and copper prices associated with an unexpectedly high demand for metal in China as well as some supply bottlenecks.

At a price of USD 57 per barrel at the end of 2016, the price of oil increased by 46% (compared to USD 39 per barrel of Brent in 2015). The price of oil is forecast at USD 59 per barrel for 2017.

Russia and Kazakhstan oil production

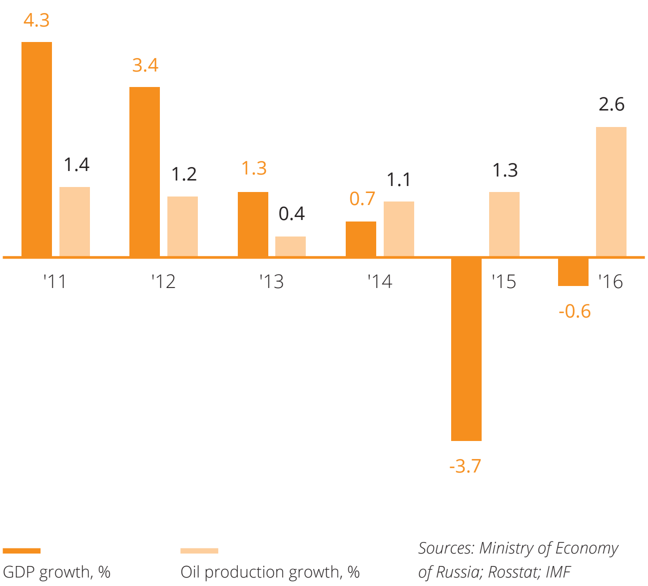
As a low-cost producer, Russia continued to increase its oil output which grew 2.6% in 2016. As a result, its share in the global oil supply reached about 12%. Oil production in Kazakhstan has fallen for the last three years. However, it seems that efforts by the Kazakhstan government aimed to alleviate the crisis in the oil industry are having some effect. Kazakh oil production declined by 2.3% in 2014, by 2% in 2015 and only by 1.8% in 2016. Together, Russia and Kazakhstan account for around 13% of global oil supply. Kazakhstan started production exploration of the largest oil field Kashagan in Caspian in October 2016 which is estimated at about 5 billion of tons of reserves.

Record year for oil production

In the past, oil production and GDP growth developed more or less in parallel. After oil production started to regain momentum after hitting a record low in 2013, oil output growth lost direct correlation with GDP growth in 2015 and 2016. There was a decrease in GDP in 2015 by 3.7%. This was the beginning of a recession which also continued in 2016 with GDP declining by 0.6%. On the other hand, the growth in oil production rose after the low in 2013 and reached the highest growth rate in 2016 with a growth rate of 2.6%. (see Chart 4).

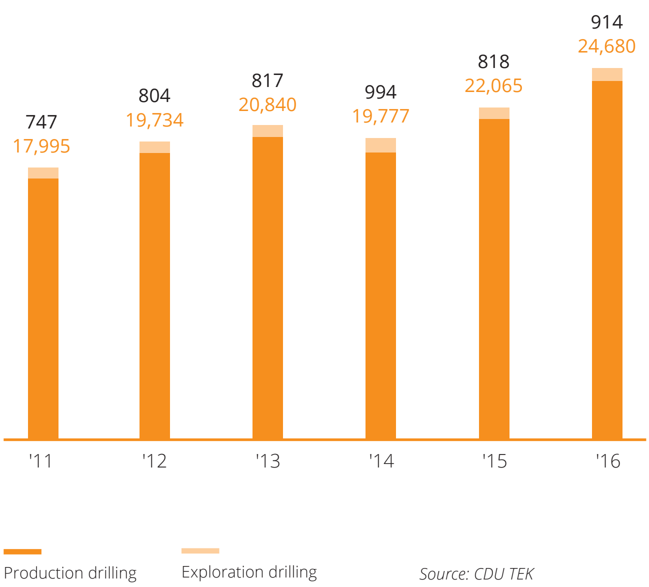
In 2016, Russian oil companies achieved a high level of 97.9 million barrels per day by the end of the year. Russian oil output registered 2.6% year-on-year growth (2015: +1.3%) for the entire year of 2016. The record oil output in 2016 was reached due to a significant increase in exploration drilling by 11.8% year on year, (2015: -17.7% yoy) while overall drilling volume increased by 11.8% year on year and achieved 25,594 thousand meters. A slight expansion of production drilling which grew also by 11.8% year on year (2015: 11.6% yoy) was additionally reached. (see Chart 5).

Chart 4: **Russian GDP and oil output dynamics 2011–2016 (in percent)**



Sources: Ministry of Economy of Russia; Rosstat; IMF

Chart 5: **Drilling dynamics in Russia – overall drilling volume 2016 (in thousand meters)**



Source: CDU TEK

The major players in the Russian oil industry demonstrated varying dynamics with respect to production drilling. Rosneft was still the undisputed leader, reporting a market share of 36.9% and a further growth compared to the previous year (2015: market share 30.5%). Surgutneftegaz was the second major player to dominate this segment of the oil field market with a market share of 18.2% but a steady decline in recent years. Lukoil, the second largest Russian oil company, showed the worst performance, losing 4.4% of its drilling volumes compared to 2015 and a market share of 10.7% by the end of the year 2016. The state-owned company Rosneft accounted for 35.2% of production drilling increases in 2016, strongly supporting the oil field industry. However, the second state-owned company Gazprom Neft lost 2.7% of its market share and held 10.4% by the end of 2016. (see Table 3).

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

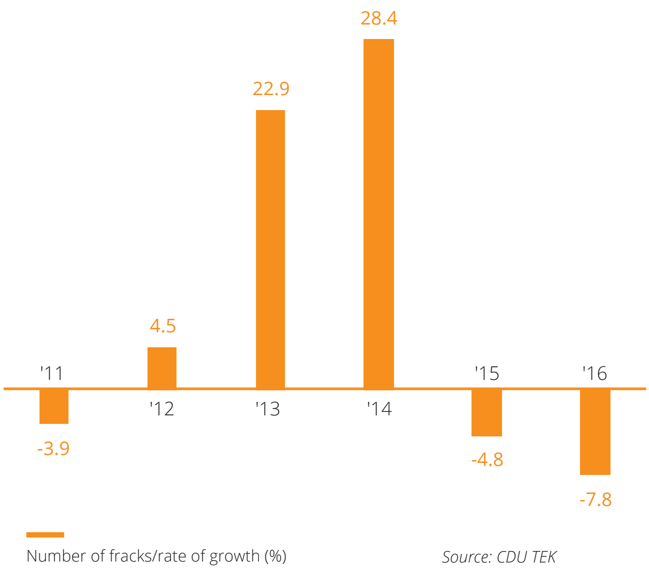
	2012	2013	2014	2015	2016
Rosneft	20.7%	28.6%	26.2%	30.5%	36.9%
Surgutneftegaz	24.9%	24.8%	21.8%	19.6%	18.2%
Lukoil	18.2%	18.0%	20.2%	12.5%	10.7%
Gazprom Neft	12.5%	14.1%	14.0%	13.1%	10.4%
Others	23.7%	14.6%	17.8%	24.3%	23.8%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Source: CDU TEK, calculation of PeWeTe Group

In the past five years, the dynamics of the hydraulic fracture segment varied. The number of fracking wells increased rapidly in the years 2012–2014 and then declined considerably in the years 2015 and 2016. There was a decline in number of fracks in 2015 by 4.8% and in 2016 by 7.8% (see Chart 6).

There was a further reduction of demand for onshore oil field services during the past year. Rosneft remained the leading oil company in the segment of fracturing. However, its market share declined each year over the last five years, amounting to 26.0% in 2016 (2015: 26.5%). Surgutneftegaz and Lukoil rank second and third but also lost shares. The leaders were Tatneft and Gazprom Neft within the fracturing business. The companies gained 3.1% and 2.3% of market shares and held 13.0% and 7.4% of the market at the end of 2016 (see Table 4).

Chart 6: **Growth rate of number of fracks in 2011–2016** **(in percent)**



Source: CDU TEK

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

	2012	2013	2014	2015	2016
Rosneft	33.3%	31.6%	32.4%	26.5%	26.0%
Surgutneftegaz	14.0%	13.7%	16.7%	20.9%	21.4%
Lukoil	19.8%	18.2%	14.9%	14.1%	13.9%
Tatneft	8.6%	11.3%	10.2%	9.9%	13.0%
Bashneft	3.5%	5.4%	7.7%	9.3%	8.9%
Gazprom Neft	7.4%	7.5%	6.1%	5.1%	7.4%
Others	13.4%	12.3%	12.0%	14.2%	9.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: CDU TEK, calculation of PeWeTe Group

As one of the key drivers of the oil industry, drilling sustained the financial results of the oil field service market in 2016.

Outlook

In the base case, world GDP almost doubles over the next 20 years driven by rapidly growing emerging economies, as more than two billion people are lifted out of poverty. This rising prosperity drives an increase in global energy demand, although the extent of this growth is substantially offset by rapid gains in energy efficiency: energy demand grows by only around 30%. The fuel mix continues to adjust, although oil and gas together with coal remain the dominant sources of energy. Renewables, with nuclear and hydroelectric power, provide half of the additional energy required through 2035. Gas grows more quickly than oil and coal, led by US shale gas; the rapid expansion of LNG is likely to lead to a globally integrated gas market, anchored by US gas prices. Oil demand grows throughout the outlook, but the pace of demand slows with non-combusted use replacing transport as the main source of demand growth. The increasing penetration of electric cars and the broader mobility revolution will have an important bearing on future oil demand. The abundance of oil resources may prompt low-cost producers to use their competitive advantage to increase market share.

Oil demand continues to increase, although the pace of growth is likely to slow as vehicles become more efficient, and technological improvements, such as electric vehicles, autonomous driving and car sharing, potentially herald a mobility revolution. The overall demand for energy looks set to continue to expand, as increasing prosperity in fast-growing emerging economies lifts billions of people from poverty. Plentiful supplies of energy enable this improvement in living standards, with virtually all of the growth in energy demand expected to come from outside the developed world. The extent of this increase is likely to be curbed by improvements in energy efficiency, as increasing attention around the world is devoted to using energy more sustainably.

Outlook for Kazakh oil field services

Reduction of oil production and the oil field services market is considered to be temporary. We anticipate a recovery of the market due to an increase in and stabilization of oil prices and the compensation effect. We consider the Kazakh oil field services market to be an attractive opportunity in the medium and long term. We would like to participate in the redistribution of this market. We have a competitive advantage as a company with rich experience in the Russian market; history shows that technology innovations in Kazakhstan's oil field services market are seven to ten years behind that of Russia. Applying this trend to horizontal drilling gives rise to the hope that intense growth of up to 15–20% will be seen in upcoming years in Kazakhstan horizontal drilling. Hence, the Russian companies focusing on horizontal drilling have a unique opportunity to enter the developing market with competitive service prices. The primary competitors are Russian drilling companies. And not only in sophisticated drilling but also in fracturing which can be considered our driver of development in Kazakhstan.

Development of PeWeTe Group

Highlights in 2016

2016 was a good year for Petro Welt Technologies AG. In spite of challenging economic conditions, the PeWeTe Group developed satisfactorily, both in terms of its operating business as well as from a financial point of view.

Revenues generated in Russian roubles were up by 3.4%. The consolidated financial statements in euros show a performance slightly above the original guidance and the expected results. Revenues in EUR for the year 2016 totaled EUR 304.4 million, whereas EBITDA and EBIT amounted to EUR 81.5 and 39.7 million respectively. The revenue increase in RUB terms was mostly due to expansion of the drilling customers program and growth of revenues per job in well service segment. There was also a change of revenues over performed cost of sales dynamics. In combination with limited development of administrative expenses it led to an impressive growth of the EBIT margin. So even despite the continuing RUB depreciation in annual average basis, the Group demonstrated spectacular growth of EBIT and net profit in EUR by 28.3% and 25.6% respectively.

The most important business achievements of the PeWeTe Group in 2016 were as follows:

- Sales revenues in rouble increased by 3.4%, in EUR they declined by 5.6% despite year-on-year depreciation of the rouble of 9.5% on an average annual basis
- EBITDA margin improved from 25.3% to 26.8%
- Consolidated net result increased by 25.6% to EUR 25.5 million
- Equity base increased by 60.4% – equity ratio at 55.5%
- Strong liquidity position: Managerial cash position grew from January to December by 182.1% to EUR 113.7 million
- Acquired Kazakh operations contribute to revenue and net profit
- Positive financial performance strengthens the economic base and the development of the company in the year 2017

Figures are based on the following exchange rates:

Table 5: **Exchange rate**

	Closing rate as at 12/31/2016	Closing rate as at 12/31/2015	Average rate 2016	Average rate 2015
1 Euro (EUR)				
= Russian rouble (RUB)	63.8111	79.6972	74.2310	67.7767
= Kazakhstan tenge (KZT)	352.42	371.31	378.32	246.48
= US dollar (USD)	1.0520	1.0935	1.1073	1.1100
1 US dollar (USD)				
= Russian rouble (RUB)	60.6569	72.8827	67.0349	60.9579
= Kazakhstan tenge (KZT)	333.29	339.47	341.76	222.25

Group structure

The PeWeTe Group consists of Petro Welt Technologies AG, the Austrian holding and parent company of the three wholly owned operating subsidiaries, KATKONEFT, KATOBNEFT KAToil-Drilling, as well as the three other wholly owned subsidiaries, KAT.oil Leasing, Trading House KAToil and Petro Welt GEODATA. All subsidiaries are registered in Russia as limited liability companies with the exception of Petro Welt GEODATA which is registered in Vienna, Austria. PeWeTe Kazakhstan LLP is a new subsidiary with indirect ownership of Petro Welt Technologies AG.

Furthermore, Petro Welt Technologies LLC was founded in September 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 the division of functions and responsibilities between the various operating companies. The company is also tasked with overseeing the operational organization. Beyond this, the company conducts accounting tasks such as budgeting and forecasting, reporting and consulting on financial and commercial activities. From an operational perspective, the company is responsible for technological standards, commercial and marketing tasks, human resources and procurement.

The tasks of the management holding headquartered in Vienna, Petro Welt Technologies AG, include monitoring and supervision, management accouting, strategic planning, corporate financing, central sales and marketing, risk management and strategy.

New brand and new website

The new name "Petro Welt Technologies" underlines the Company's emphasis on technological services in the oil and gas industry as well as the global reach of the Company. At the same time, the name refers to the area where the Company is registered and where its shares are listed on the stock exchange – in the German-speaking region of Europe. With the new name, the Company accentuates its special position in the market and its technological direction. In December 2016, the new website was launched and the rebranding process was finished. It provides more information about the Petro Welt Technologies Group, underscoring the significance of technological services in the oil and gas industry. Special focus is placed on procurement, health and safety, and the environment – the core values and key priorities for the coming years.

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% ↓	**100% →**	**Petro Welt GEODATA GmbH** Vienna, Austria
Sonamax LIMITED Limassol, Cyprus	**100% →**	**LLP Petro Welt Technologies Kazakhstan** Kyzylorda, Kazakhstan

* Management company

Operating segments and their activities

PeWeTe Group is operating in the upstream business in the oil and gas industry and presents its activities in two reportable segments: the Well Services segment and the Drilling, Sidetracking, and IPM segment.

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. By pumping a mixture of fluids called proppant into the borehole under extreme pressure, rock formations are fractured, significantly boosting the recovery of oil and gas deposits which are forced to the surface.

In Russia, Petro Welt Technologies AG is at the forefront of a technique known as multi-stage fracking and the supporting technology. A longer horizontal well design allows for greater reservoir contact and reduces the number of wells required to be drilled. Exploration and development of fields is 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 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 about 23% (based on 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. The conventional drilling rig rotates a drill string with a drill bit attached. After the hole is drilled, sections of steel tubing ("casing") slightly smaller in diameter than the borehole, are placed in the hole and secured with cement between the outside of the casing and the borehole. The casing provides stability to the newly drilled wellbore and isolates potentially dangerous high pressure zones from each other and from the surface. Thus, the well can be drilled deeper with a smaller bit, and also cased with a smaller sized casing. The Group is expanding its market share in conventional drilling.

Sidetrack drilling, also known as inclined drilling, is a term used to describe 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. The Group is maintaining its market position in this segment.

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. IPM also includes all drilling fluids, drill bits, casing and liner programs, downhole motors and turbines, etc.

Operating performance of the group

In 2016, the operating subsidiaries of Petro Welt Technologies AG demonstrated their competitiveness on the market providing services for top producing clients and benefited from a successful season of tenders. The business's scope of services has been redistributed in terms of physical volumes on the Russian oil field services market due to the weakening positions of several market players, for example, in the fracturing segment. Some service companies have been disqualified from the market due to quality reasons and low performance. On the macroeconomic side, operating and financial performance was supported by the increase in oil prices and continuing growth of oil production.

The dynamics of the Russian rouble also affected key performance indicators of the Group. On the annual average basis, the rouble lost 9.5% of its value. There were significant fluctuations in exchange rates during the year. From the beginning to the end of 2016, the Russian rouble appreciated by 19.9%, seeing a particularly strong fourth quarter with a positive impact on revenue generation.

The customers of Petro Welt Technologies AG, which include the leading oil companies in the Russian Federation, benefitted from the favorable correlation between rising oil prices and a generally weak rouble. OPEX budgets for oil companies were the biggest challenge. Most of the clients were, however, able to find the right balance and managed to withstand service programs. The state-owned companies switched completely into rouble contracts and even increased their financial numbers, stabilizing capital expenditures.

In spite of such positive factors, the major Russian oil companies were helping to create a buyer's market favoring the low price supplier. At the moment, clients are not interested in technological innovations and are fully focused on increasing the quantity of commodity operations. The Well Services market was mostly affected by this in the past year.

Increased number of jobs
The number of service jobs at Petro Welt Technologies in the Drilling, Sidetracking and Integrated Project Management (IPM) segment was up by 13.2% to 325 jobs in 2016 versus 287 jobs in 2015 (see Chart 8). One of the key drivers of this growth was the overall demand for conventional drilling. At KAToil -Drilling, total drilled meters jumped by 34%, and KATOBNEFT, specialized in sidetracking, showed a 17% growth in operations. Due to the special focus on the service quality equipment of non-productive time, KAToil - Drilling has reached the best operational track record in its history. In general, this segment has achieved the sufficient scope of drilling for its effective utilization of equipment throughout the year.

The total number of service jobs in fracturing and remedial services in the Well Services segment, represented by KATKoneft and PeWeTe Kazakhstan, also rose slightly by 0.6%, from 4,688 in 2015 to 4,717 in 2016. At the same time, the core fracturing segment showed an increase in operations from 3,460 in 2015 to 3,732 in 2016, or 8%, despite uncertain market conditions. The share of more profitable multistage fracturing rose from 32% to 40%. Recognized by the clients for its excellent performance, KATKoneft had the chance to participate in the redistribution of the market and to improve clients' diversity.

The equipment capacities operated by Petro Welt Technologies AG per 31 December 2016 consisted of 15 drilling rigs (2015: 15), 26 sidetracking rigs (2015: 26) and 16 fracturing fleets (2015: 16).

Revenue development
The Group generates income in two currencies: Russian rouble and Kazakhstan tenge. Both currencies have been subject to volatility. The average exchange rate of the Russian rouble to the euro in 2016 amounted to 74.23 roubles per euro. In the fourth quarter of 2016, the rouble showed significant strengthening, as evidenced by the average exchange rate of 68.13 roubles to the euro. As of 31 December 2016, the exchange rate was 63.81 roubles to one euro.

The Group generates 99% of its revenues in the Russian rouble and 1% in Kazakhstan tenge. The rate of the Kazakhstan tenge against the Russian rouble has fallen as of 31 December 2016, showing a negative trend of 15.1% compared to 31 December 2015.

Total Group revenues measured in Russian roubles increased by 3.4% in the 2016. The revenue increase in terms of the rouble became possible mostly due to the expansion of the drilling customers program and revenue growth per job in the Well Services segment. In contrast, revenues in the Group reporting currency, the euro, fell by 5.6% to EUR 304.4 million from EUR 322.5 million in the previous year. Revenue growth in roubles partially eliminated the effect of the decline in the average exchange rate of the Russian rouble to the euro in 2016 compared to 2015. The quarterly revenue development and seasonality of the operating business is presented in the following table. The best quarterly result was achieved in the third quarter with revenues of EUR 87.4 million. The weakest quarter, like every year, was the first one.

Table 6: **Revenue development 2016 per quarter and segment**

in EUR million	Q1	Q2	Q3	Q4	2016	2015	+/-%
Petro Welt Technologies consolidated	61.1	79.7	87.4	76.2	304.4	322.5	-5.6%
Well Services	35.1	44.8	47.3	39.0	166.2	175.2	-5.1%
Drilling, Sidetracking, IPM	26.0	34.9	40.1	37.2	138.2	147.3	-6.2%

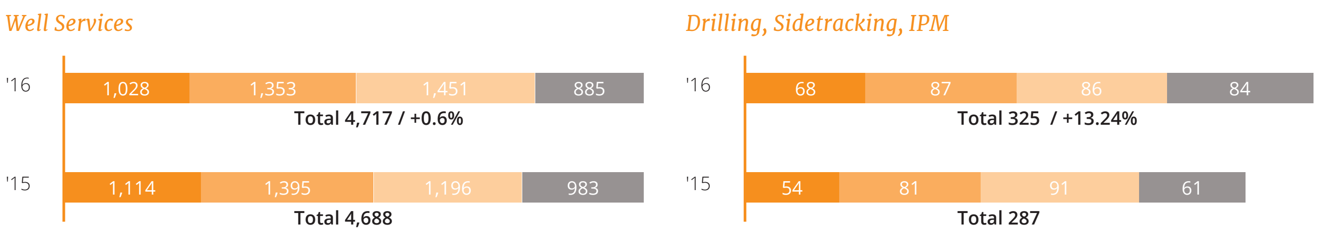
Segment Reporting

The downward trend of the development of the Group's revenue, calculated in euros, is fully correlated within the two segments of Well Services and Drilling, Sidetracking and IPM. Instability in the economy forced major customers to maintain a conservative financial policy that has influenced the dynamics of revenue per job. While the Well Services segment showed an increase in average revenue per job in roubles by 3.1%, the average revenue per job in euros declined by -5.9%. In the Drilling, Sidetracking and IPM segment, average revenue per job fell by 17.1%.

In the Well Services segment, the successful completion of the production program in 2016 is to be mentioned. There was also a rise in the share of multistage fracturing operations, accounting for 38% of total fracturing volume or 1,115 jobs. In the Drilling, Sidetracking and IPM segment, revenues increased because of the 13.2% rise in the job count in connection with the geographical expansion of conventional drilling services.

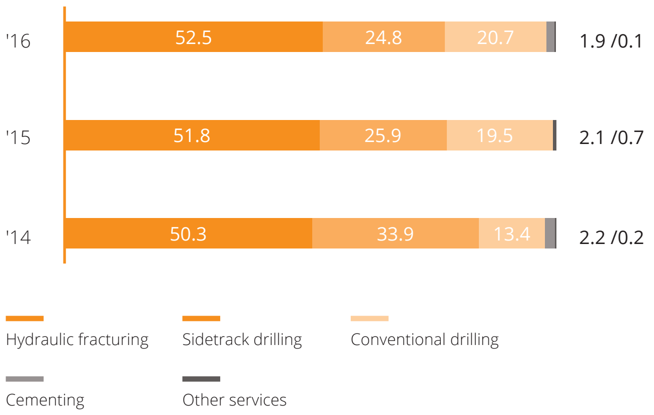
However, the Well Services segment showed an increase of average per job revenue expressed in Russian roubles by 3.1% to RUB 2,615 thousand (2015: 2,537 thousand). Expressed in euros, this indictor declined by -5.9% to EUR 35.2 thousand per job against the backdrop of a 0.6% rise in the number of service jobs. In the Drilling, Sidetracking and IPM segment, average per job revenue in euros fell by 16.9%, with the number of jobs increasing by 13.2%.

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



The share of the company's revenues generated by its service lines in the years ended 31 December 2014, 31 December 2015 and 31 December 2016 show some increase in the contribution made by fracturing and an important growth of the share of conventional drilling which partially replaced sidetracking (see Chart 9).

Chart 9: **Revenue development by service line 2014–2016 (in percent)**



Reduced costs and increased efficiency

Strong operating activity was supported by a cautious financial policy. The cost of sales declined by 8.8% or EUR 23.9 million to EUR 247.6 million from EUR 271.5 million in the previous year. This decrease is comparable to the devaluation of the Russian rouble during 2016 (9.5%). However, the cost of sales showed almost no change in Russian rouble (decrease by 0.1%) in the presence of a slightly inflationary pace in the Russian economy in 2016. This evolution was due to strict budgetary discipline, holding the share of imported stocks and components on the low-risk level and the strengthening of the Russian rouble towards the end of 2016.

Raw material costs declined by 2.0% or EUR 2.0 million to EUR 95.6 million in 2016. The average number of employees increased by 0.3% to 3,313 people in 2016 from 3,303 in the previous year. In parallel, personnel costs increased slightly by 2.0%, from EUR 39.9 million to EUR 40.7 million in 2016 due to staff motivation which permitted greater operating efficiency and adjustment of salaries to industrial benchmarks in order to retain key people.

Direct costs, which include expenditures for production services, transport, maintenance, and repair, fell by 15.1% or EUR 9.7 million, from EUR 64.3 million in 2015 to EUR 54.6 million in 2016 in spite of the increased capacities. This change is due to a reduction in production services from the service providers and the simultaneous increase in the share of in-house services.

Administrative costs, primarily incurred in euros, were down to EUR 19.6 million from the prior-year figure of EUR 20.3 million due to the cost optimization mainly related to the Austrian activities.

Development of earnings

The Group's basic profitability improved as expressed in the rise of all margins. The gross profit increased by 11.2% in 2016 to EUR 56.7 million, up from 51.0 million in the previous year (see Table 7). The gross profit margin reached 18.6% (up from 15.8% in 2015), providing a reliable basis for the successful P&L dynamics in the risky external environment.

EBITDA demonstrated perceptible progress in 2016. Firstly, its margin was increased at 26.8%, just significantly above the level of 25.3% in 2015. Secondly, the EBITDA increase in the Russian rouble was 9.5%. Accordingly, EBITDA expressed in remained at level of last year of EUR 81.5 million as a result of the lower revenues offset by even lower expense.

The operating result reported as earnings before interest and taxes (EBIT) increased signficantly by 28.3% in the year under review to EUR 39.7 million, up from the prior-year level of EUR 31.0 million. This was due to the change in revenues over the actual cost of sales dynamics. In combination with improvements in administrative costs, this led to an impressive growth of the EBIT margin.

Including the effect of the positive financial result in 2016 of EUR 1.1 million (2015: negative effect of EUR -1.9 million), the Group recognized net profit before tax in 2016 of EUR 40.8 million (2015: EUR 29.0 million).

So, even despite the continuing depreciation of the rouble on an annual average basis, the Group showed spectacular growth of EBIT and net profit in EUR by 28.3% and 25.6% respectively. Earnings per share equalled EUR 0.52 for the 2016 , higher than the level of EUR 0.42 per share in 2015.

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

Key positions		2016	2015	+/-	+/-%
Sales revenues	in EUR million	304.4	322.5	-18.1	-5.6%
Gross profit	in EUR million	56.7	51.0	5.7	+11.2%
EBITDA	in EUR million	81.5	81.5	-	-
EBIT	in EUR million	39,7	31.0	8.7	+28.3%
Gross profit margin		18.6%	15.8%		
EBIT margin		13.0%	9.6%		
EBITDA margin		26.8%	25.3%		
Group result	in EUR million	25.5	20.3	5.2	+25.6%
Earnings per share	in EUR	0.52	0.42	0.10	+23.8%

Proposal of Management Board on distribution of dividends for the year 2016

After careful deliberation, the Management Board proposes to carry forward all profits and not to distribute a dividend for the year 2016. This proposal is based on the following considerations:

The Management Board has the strong intention to meet shareholders' expectations regarding the development and growth of the Company. Overseas expansion is considered a necessary measure towards successful business development in the short and medium term. The first step was taken with the acquisition of Trican Kazakhstan in 2016. Further international projects are being planned and are under preparation in Kazakhstan as well as other oil and gas producing countries.
Apart from international expansion, it is necessary to strengthen the position of the Company in its core markets in Russia through investments in technology, infrastructure, software and personnel training in order to maintain the Company's 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 ratio strengthened from 48.3% in 2015 to 55.5% in 2016. The main reason is associated with the reduction of the currency translation provision from EUR 210.9 million in 2015 to EUR 148.6 million in 2016. The non-current assets of Petro Welt Technologies AG also increased slightly, whereas the current liabilities rose sharply by 51.3%. Group equity rose to EUR 233.3 million as of 31 December 2016 compared to EUR 145.5 million at the end of 2015. The non-current assets of Petro Welt Technologies AG amounting to EUR 170.1 million showed a moderate growth by 8.8% due to renovation of fixed assets. At the end of 2016, total net debt amounted to EUR 35.9 million, which corresponds to a 0.44 of net-to-EBITDA ratio.

All financial stocks (assets, capital and liabilities) experienced a positive impact from rouble appreciation by the end of 2016. Total assets showed growth of 39.7% to EUR 420.8 million during 2016 thanks to an improved cash position and an increase of inventories. The equity ratio could be improved due to growth of retained earnings by EUR 25.5 million. There were also limited acquisitions of property, plant and equipment (see Table 8).

Table 8: **Group balance sheet structure**

Balance sheet positions	12/31/2016 in EUR million	12/31/2016 percentage	12/31/2015 in EUR million	12/31/2015 percentage
Current assets	250.7	59.6%	144.9	48.1%
Non-current assets	170.1	40.4%	156.4	51.9%
Assets	**420.8**	**100.0%**	**301.3**	**100.0%**
Current liabilities	78.1	18.6%	51.6	17.1%
Non-current liabilities	109.3	26.0%	104.2	34.6%
Equity	233.3	55.4%	145.5	48.3%
Liabilities and equity	**420.8**	**100.0%**	**301.3**	**100.0%**

Table 9: **Development of debt and debt/equity ratio**

Key figures		12/31/2016	12/31/2015
Liabilities against C.A.T. Holding (Cyprus) Ltd.	in EUR million	108.7	104.8
Trade payables	in EUR million	37.8	25.5
Other liabilities with the exception of accrued liabilities	in EUR million	3.1	2.8
Less: cash and cash equivalents	in EUR million	(103.0)	(28.5)
bank deposit	in EUR million	(10.7)	(11.9)
Net debt	**in EUR million**	**35.9**	**92.7**
Total equity	in EUR million	233.3	145.5
Net debt to equity ratio		**15.4%**	**63.7%**

Cash flow development

Solid EBITDA amounting to EUR 81.5 million in 2016 (2015: EUR 81.5 million) provided improvement of the cash flow from operating activities which reached EUR 78.4 million, up from the prior-year figure of EUR 67.3 million. This served as the basis for financing OPEX and CAPEX programs and other vital purchases. The positive influence of the increase in the profit before tax was partly limited by the higher change in inventories (2016: EUR -10.4 million, 2015: EUR -2.5 million).

On the other hand, cash flows from investing activities declined to EUR -15.4 million. Following the trend of oversaturated production capacities in the oil field services market, our investment activity continued to be cut back in 2016. Capital expenditures in property, plant and equipment totalled EUR 20.9 million compared to EUR 57.6 million in the previous year.

The cash flow from financing activities was EUR -0.7 million, down from EUR 29.7 million in 2015.

By the end of 2016, the Group was able to considerably improve free cash flow (cash flow remaining after costs incurred for maintaining and expanding production capacity) up to EUR 57.5 million. As of 31 December 2016, the Group held bank deposits of EUR 101,8 million (2015: EUR 16.4 million) with maturity of three months or less included on the balance sheet as Cash and cash equivalents.

Human resources and corporate responsibility

At the end of 2016, a total of 3,351 people were employed with the entire PeWeTe Group. This corresponds to an increase of 2.8% from the prior-year level (2015: 3,260). Almost all the employees of the company live in Russia and Kazakhstan. They combine extensive technical expertise and local knowledge acquired at numerous oil fields in almost all oil production areas of Russia and Kazakhstan. The majority of the employees of Petro Welt Technologies AG work in the three subsidiaries KATKOneft, KATOBNEFT and KAToil-Drilling. Employees of those three subsidiaries total 3,077.

Petro Welt Technologies is very efficient in the area of human resources. The number of employees working in the administration is only 8.5% of the total employees.

Human resources measures implemented and planned

The Petro Welt Technologies Group was completely restructured in 2016. Regional offices of the management company were set up at each operational location of Russia. The process of human resources administration was unified in the management company, and internal rules for personal data protection, social benefits, etc., were established.

In addition, the company introduced a KPI system for the top management. The company plans to implement further human resources measures in 2017. Departmental rules and regulations will be established. The KPI system will be expanded to middle management and certain field management staff. The company will focus on recruitment and training, including the introduction of its own training program. Administration will be strengthened through an audit of human resources records in the operating companies.

Employee retention measures

Our employees are the key to our success. Qualified personnel enable us to be a reliable partner for our customers, therefore, attracting and retaining employees is crucial for the continued success of our company. We provide our services in a dynamic business environment, one where we aim to further expand and diversify our business operations. Maintaining our position in a competitive marketplace requires that we operate according to an established set of guiding principles. These principles are focused on the professional development and performance of our employees and on such basic values as individual responsibility and respect. In terms of its structure, our human resources organization is designed to be consistent throughout the Petro Welt Technologies Group, allowing our proactive involvement in personnel development by means of a range of relevant tools and processes. The goal of the Petro Welt Technologies HR department is to develop an increasing number of points of contact with the individual staff members. In order to foster employee loyalty and retention, the Petro Welt Technologies Group offers performance-oriented remuneration, corresponding benefits, and an open corporate culture with a range of social and support services.

Clear legal foundation and certification
The culture of Petro Welt Technologies AG is one of top performers. Our remuneration philosophy – setting ambitious goals for KPIs and variable incentives linked to their attainment – once again proved effective in reaching the goals we set for ourselves in 2016. The terms and conditions of employment including all such incentives and benefits are defined in the collective wage agreements between the operating subsidiaries and their employees. We strive to be a reliable partner for our employees in the long term.

Petro Welt Technologies promotes 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 over the long term. Our employees undergo a rigorous training program to educate them about the hazards in connection with their work. Within the Petro Welt Technologies Group, our operational companies and processes are certified in accordance with ISO 9001.

Environmental protection and responsibility
When it comes to sustainability, we consider our responsibility toward the environment to be of great importance in securing the financial success of the Group through sustainable entrepreneurial practices. Our values and business principles as set forth in the Group's code of ethics form the basis of our global responsibility. Beyond our own environmental goals, we want to ensure that our operating companies are always in compliance with the valid national laws and regulations concerning the environment in those countries where we operate. And beyond that, the Group also fulfills any additional, more stringent, environmental standards applicable to the oil fields as required by the customers.

Risk management
Petro Welt Technologies AG developed a Group-wide Opportunities and Risk Management System and has documented the system in the Group's Risk Management Handbook since 2005. The system is an essential part of the Group's business planning and controlling processes.

Since 25 February 2015, CFO Valeriy Inyushin has been empowered by the Management Board to act as the Group's Chief Risk Manager (CRM), responsible for the Group's risk reporting on a regular and an ad-hoc basis. This appointment has enabled the Management Board to obtain 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 refer to the note 28 "Financial risk management objectives and policies" of the Consolidated financial statements for the year ended 31 December 2016.

Risk factors and risk measurement
Risks arise from the Group companies
Petro Welt Technologies 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 taken by 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 could include a recurrence of the global financial crisis, an intensification of political tensions between Russia and Western countries, or an increase in political turmoil in the

surrounding geographies. 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.

Potential adverse changes in the exchange rates of the Russian rouble or the Kazakh tenge against the euro, the Group's reporting currency, may directly impact the Group's results of operations. Therefore, the Group-wide Opportunity and Risk Management System continues to address financial risks and promote the development of countermeasures to mitigate these risks.

Certain assets or goodwill may become fully or partly impaired given a deterioration of the operating environment or the reversal of the global economic recovery. Such impairment could make it difficult or impossible to attain forecasted business goals, significantly impacting the Group's financial results. Economic crisis in general and misguided regulation in particular have overridden market pricing rules, making it more difficult to compete on the market. By expanding its business model and regional presence, Petro Welt Technologies is entering into new areas of risk, although new opportunities are likewise opening up for the Group.

A certain amount of sales risk is integral to ordinary business activities and is likely to rise during an economic crisis. The Group depends on a limited number of key customers within the oil field services market. Failure to achieve our operating objectives or to meet our targets could potentially result in the loss of key customers and in significantly lower revenue. To counter this risk, Petro Welt Technologies focuses on innovative services, technologies, and processes that are tailored to customers' 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 Group companies is maintained and improved by continuous innovation, quality control, compliance management and assurance measures, and by expanding the scale and scope of services with key customers. For customers, the opportunity costs associated with switching from the services provided by 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 the Group's in-depth working knowledge of Russian and Kazakh oil fields.

With the foundation of the management company Petro Welt Technologies LLC in Russia, the company's risk management principles are rigorously implemented in all Group subsidiaries.

Liquidity and credit quality risks
The unique liquidity management approach used by the management company to ensure the liquidity of the operational companies has also been reinforced. The main risk is potential customer default.

On the Group side, the primary goal consisted of maintaining key performance indicators at satisfactory levels, such as the net debt to EBITDA ratio.
Due to the unclear situation in the Russian banking system, the Group implemented basic rules for managing free cash and limited bank pull for placement by TOP 20 credit institutions.

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

Possible Group's liquidity risks include the ability to meet its ability to meet the financial obligations, for instance those related to trade payables or interest-bearing liabilities. In order to assess the liquidity risk, 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 results. The Group follows a zero-debt policy concerning funding from purely external sources over the medium term. The financial stability of the Group is founded in its strong cash position and ability to fund its own operations.

Liquidity management is currently based on pooling financial resources for the timely fulfilment 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 is the ongoing automation of treasury processes, which in turn helps to optimize repayment planning. Liquidity management is also facilitated by up-to-date information provided about the current liquidity of the subsidiaries.

Noteworthy risks of the Group

Market risks

The ongoing volatility on the international oil field services market is confirmed by the sustained M&A activities in the industry. The GE deal involving the acquisition of Baker Hughes is evidence of this.

On the other side, some of the biggest oil players operating on the markets where our company is geographically represented promote a policy of vertical integration which also aims to integrate oil field services within its production units.

Downward pressure on the prices of oil field services also remains strong. Russia, for example, has seen increasing pressure on prices in the fracturing segment in particular.

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

Russia’s support of the OPEC decision to cut oil production could reduce the physical volumes of oil field services.

Rising geopolitical tensions contribute to the global economic effects, reinforced by the new political reality following the outcome of the presidential election in the US. Increased production in the US may impact the price of oil in Russia, too.

The entire industry faces significant challenges resulting from the low oil price environment. 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, and to capital spending by oil and gas companies in general. Lower oil prices as witnessed in 2016 may result in diminished upstream activities by the Group customers. As a result, the Group’s operating subsidiaries could be exposed to higher downside risks to their service orders and prices. As a consequence, consolidated revenue and earnings may deteriorate.

The Group predominantly operates in Russia and Kazakhstan, providing services to all major oil and gas corporations in the region. Hydrocarbon production volumes are often defined by producers’ long-term strategic plans and sometimes 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, Gazprom (Gazpromneft) and Lukoil which have demonstrated greater resilience of their upstream activities and budgets to the decreases in energy prices.

The future success of the Group, first of all, depends on its ability to create efficient contract portfolio. Sometime, it is difficult to predict when an order will be awarded in response to a bid submitted by a subsidiary. Contract awards may be affected by events beyond the scope of the Group's influence, such as energy prices, the global political and general economic environment, the customers' 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 customers may even decide to cancel tenders.

The key technical challenge remains the necessity to adapt technology integration in order to reduce costs. The low oil price environment may accelerate the trend to 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 of consolidation within the sector will continue to determine the global landscape for the most part of market players.

Foreign currency risks

Risks

The rouble and tenge zones are exposed to commodity price dynamics. The economic approaches taken by the US government and the Fed are likely to be out of alignment. An unclear future of free trade principles may foster the emergence of currency zones even in developed countries.

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

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

The Group's reporting currency is the Euro. Almost all of the Group's revenue and expenses are in Russian Rouble and partly in Kazakh tenge. Fluctuations in exchange rates between the euro, the Russian rouble and the tenge will affect the translation of the Group's financial results into the euro. Further instability in exchange rates between the US dollar, the euro and the Russian rouble 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) On 2 February 2011, Caterpillar Inc. of Peoria, Illinois, instituted legal proceedings against Petro Welt Technologies AG before the District Court of Hamburg for the alleged trademark infringement in Germany regarding the use of the brands Petro Welt Technologies, Petro Welt Technologies energy in motion, etc. On 27 September 2013, Caterpillar Inc. filed a similar trademark lawsuit in Canada.

Both parties entered into a coexistence agreement signed on 23 May 2016, settling the lengthy litigation with Caterpillar Inc.

Upon entering into this coexistence agreement, the company was renamed Petro Welt Technologies AG. Russian affiliates of Petro Welt Technologies AG changed the letter "C" in the English version of their name to "K".

(b) 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 providing that 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.

(c) In the meantime, the investigation being carried out by the Vienna Public Prosecutor's Office for Combating Economic Crimes and Corruption was expanded to include the 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).

(d) 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.

(e) 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. The legal dispute is still pending

(f) 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.

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

Shareholder structure and 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 2016 (31 December 2015: 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 2016, 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% (2015: 47.7%) of the shares of Petro Welt Technologies AG directly. 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 (2015: 39.36%). Dijols directly holds 5,850 shares (2015: 5,850 shares) of Petro Welt Technologies.

As a result, Joma Industrial Source Corp. directly and indirectly controls a total of 42,534,561 voting rights in Petro Welt Technologies AG (corresponding to 87.07% 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) is 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 team of 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 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 Moskow management company, which in turn regularly reports about 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 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 about 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 2016–2019

Service quality and safety measures were core values for Petro Welt Technologies AG during 2016. It is also 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 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 operation companies and quarterly controls by management team 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 2016, 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 31 December 2016

No material events occurred after the balance sheet date.

Economic expectation and guidance

Global economy and oil prices in 2017

In 2016 the world economy experienced another difficult year which was affected by weak performance of international trade, subdued investment, stagnated consumption and global political uncertainty. According to the World Bank global GDP growth is estimated at 2.3%. A moderate recovery is anticipated in the current year due to acceleration in emerging markets and developing economies (EMDEs) from 3.4% in 2016 to 4.2% in 2017. Among EMDEs, growth in commodity importers is expected to remain solid, while growth in commodity exporters is projected to pick up in 2017 from near stagnation in 2016. As a result, global growth in 2017 is forecasted at the level of 2.7%. The oil market continues to rebalance. After averaging $43/bbl in 2016 which signified an annual decline of 15 % compared to 2015, oil prices are expected to average $55/bbl in 2017, up to 28% from 2016 levels also driven by further increase of consumption in EMDEs. (Sources: World Bank, IMF)

Russian and Kazakhstan economies in 2017

Preliminary estimations of such respected institutions like IMF and Bank of Russia show that Russian economy contracted between 0.4% and 0.7% in 2016. After two years of recession, the economy will return to expansion in 2017, and IMF and the World Bank forecast that GDP growth can reach 1.1–1.5% in 2017 which is better compared to previous estimations. It is mainly due to the improvement in investment activity and stabilization of consumption. Successful reduction of inflation to 7.1% in 2016 from 15.5% in 2015 made it possible to achieve lower interest rates supporting an increase of overall lending. Fluctuations of the Russian rouble are dependent on the price of oil, which along with gas, is Russia's main commodity export. The currency took a dramatic fall to an all-time low of 83.59 RUB per USD on 22 January 2016, as oil prices fell to lows not seen in over a decade. It has gradually stabilized between 60 and 70 RUB per USD as the economy has improved and oil prices have crept back up since January 2016.

However, structural bottlenecks continue to hinder further diversification of the economy. The strength of the recovery will also remain dependent on the rebound of oil prices. The poverty rate, which increased from 11% in 2014 to 13% in 2015, will progressively decline as the labor market strengthens and inflation slows down.

We also expect that the Kazakhstan economy in 2017 will be able to demonstrate a moderate GDP growth close to 2% also based on the recovery of oil production due to the launching of Kashagan oil field in October 2016 and the rise of commodity prices. (Sources: World Bank, IMF, OECD, November 2016, Bank of Russia.)

Guidance for revenues and earnings levels

The positive development of the company's financial performance indicators during the year 2016 creates a sound basis for reliable profit generation. The management anticipates sales revenues will reach approx. EUR 335–345 million in 2017, and the management hopes to maintain the improved EBIT margin in the range of 10–12%. In turn, this could enable the company to keep main indicators of profitability in 2017. This forecast does not take account of potential external economic shocks.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Consolidated Financial Statement

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 2016, and the consolidated profit or loss statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code).

Basis for our Opinion

We conducted our audit in accordance with Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the "Auditors' Responsibility" section of our report. We are independent of the audited entity within the meaning of Austrian commercial law and professional regulations, and 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. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

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 of any (reversal of) impairment to the carrying value of property, plant and equipment requires significant estimation by management.

Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment, this is a key judgmental area that our audit is concentrated on.

Our Response

- Our audit procedures included testing of the Group's budgeting procedures upon which the forecasts are based and the principles and integrity of the group's discounted cash flow model and reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.
- We used our own valuation specialists to assist us in evaluating the assumptions and methodologies 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, cost inflation and discount rates, as well as performing sensitivity analysis on the 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.

Management's Responsibility and Responsibility of the Audit Committee for the Consolidated Financial Statements
The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and 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, and, where appropriate, to disclose matters that are relevant to the Group's ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Group or closure of operations is planned or cases in which such measures appear unavoidable.

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

Auditors' Responsibility
Our aim is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatements, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered material if they could, individually or in the aggregate, 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 Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

Moreover:
- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation 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 entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as related disclosures made by management.

- We conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In case we conclude that there is a material uncertainty about the entity's ability to continue as a going concern, we are required to draw attention to the respective note in the financial statements in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions however may result in the Company departing from the going concern assumption.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, 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, among 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 in the course of our audit.
- We report to the audit committee that we have complied with the relevant professional requirements in respect of our independence and that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, related measures taken to ensure our independence.
- From the matters communicated with the audit committee we determine those matters that required significant auditor attention in performing the audit and which are therefore key audit matters. We describe these key audit matters in our audit report except in the circumstances where laws or other legal regulations forbid publication of such matter or in very rare cases, we determine that a matter should not be included in our audit report because the negative effects of such communication are reasonably expected to outweigh its benefits for the public interest.

Report on Other Legal Requirements

Group Management Report

In accordance with the Austrian Commercial Code the group management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether it has been prepared in accordance with legal requirements.

The legal representatives of the Company are responsible for the preparation of the group management report in accordance with the Austrian Commercial Code.

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 has been prepared in accordance with legal requirements and is consistent with the consolidated financial statements. 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 the understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Other Information
The legal representatives of the Company are responsible for other information. Other information comprises all information provided in the annual report, with the exception of the consolidated financial statements, the group management report, and the auditor's report on the consolidated financial statements. We expect the annual report to be provided to us after the date of the opinion.

Our opinion on the consolidated financial statements does not cover other information, and we will not provide any kind of assurance on it.

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, and to assess whether it contains any material inconsistencies with the consolidated financial statements and our knowledge gained during our audit, or any apparent material misstatement of fact.

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

Vienna, 21 April 2017
KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

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

Consolidated statement of financial position as at 31 December 2016

in EUR thousand	Notes	12/31/2016	12/31/2015
Assets			
Non-current assets		**170,124**	**156,410**
Property, plant and equipment	7	167,656	154,469
Intangible assets	8	35	97
Other assets		540	21
Deferred tax assets	22	1,893	1,823
Current assets		**250,651**	**144,850**
Inventories	9	36,015	17,017
Trade receivables	10	83,707	75,293
Bank deposits	13	10,695	11,857
Other current assets	11	15,901	11,206
Tax receivables	12	1,369	1,012
Cash and cash equivalents	13	102,964	28,465
Total assets		**420,775**	**301,260**
Equity and liabilities			
Equity		**233,333**	**145,475**
Share capital	14	48,850	48,850
Capital reserve	14	111,987	111,987
Retained earnings		220,874	195,375
Remeasurement of defined benefit plans	23	215	153
Currency translation reserve	14	(148,593)	(210,890)
Non-current liabilities		**109,297**	**104,152**
Non-current financial liabilities to related parties	15	100,000	100,000
Deferred tax liabilities	22	8,244	3,310
Employee benefits	23	1,053	842
Current liabilities		**78,145**	**51,633**
Current financial liabilities to related parties	15	8,709	4,754
Trade payables	15	37,764	25,460
Other current liabilities	15	26,792	20,567
Advance payments received	15	93	-
Income tax payables	15	4,787	852
Total equity and liabilities		**420,775**	**301,260**

Consolidated profit or loss statement for the year ended 31 December 2016

in EUR thousand	Notes	2016	2015
Continuing operations			
Revenue	16	304,379	322,475
Cost of sales	17	(247,644)	(271,469)
Gross profit		**56,735**	**51,006**
Administrative expenses	18	(19,603)	(20,341)
Other operating income	19	4,903	1,261
Other operating expenses	20	(2,318)	(963)
Operating result		**39,717**	**30,963**
Finance income	21	5,645	3,893
Finance costs	21	(4,554)	(5,824)
Net finance income/(costs)		**1,091**	**(1,931)**
Profit before income tax		**40,808**	**29,032**
Income tax expense	22	(15,784)	(7,942)
Profit after tax from continuing operations		**25,024**	**21,090**
Profit/(Loss) after tax from discontinued operation (net of income tax)	18, 22	475	(786)
Profit		**25,499**	**20,304**
Basic earnings per share in EUR	24	0.52	0.42
Diluted earnings per share in EUR	24	0.52	0.42

Consolidated statement of other comprehensive income for the year ended 31 December 2016

in EUR thousand	Notes	2016	2015
Profit		25,499	**20,304**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations:			
Currency translation differences	14	25,719	(7,952)
Net investments	22	37,742	(30,323)
Income tax effect related to net investments	22	(1,164)	375
Items that will never be reclassified to profit or loss:			
Net gains on remeasurement of defined benefit plans	22	78	25
Income tax effect related to defined benefit plans	22	(16)	(5)
Total other comprehensive income		62,359	**(37,880)**
Total comprehensive income		**87,858**	**(17,576)**

Consolidated statement of changes in equity for the year ended 31 December 2016

in EUR thousand	Share capital	Capital reserve	Retained earnings	Remeasurement of defined benefit plans	Currency translation reserve: Functional currency	Currency translation reserve: Net investment	Total equity
As at 1 January 2015	48,850	111,987	180,933	133	(81,132)	(91,858)	168,913
Profit	-	-	20,304	-	-	-	20,304
Currency translation differences:							
Currency translation differences	-	-	-	-	(7,952)	-	(7,952)
Net investments, net of related tax	-	-	-	-	-	(29,948)	(29,948)
Net gains on remeasurement of defined benefit plans	-	-	-	20	-	-	20
Total comprehensive income	**-**	**-**	**20,304**	**20**	**(7,952)**	**(29,948)**	**(17,576)**
Dividends	-	-	(5,862)	-	-	-	(5,862)
As at 31 December 2015	**48,850**	**111,987**	**195,375**	**153**	**(89,084)**	**(121,806)**	**145,475**
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:							
Currency translation differences	-	-	-	-	25,719	-	25,719
Net investments, net of related tax	-	-	-	-	-	36,578	36,578
Net gains on remeasurement of defined benefit plans	-	-	-	62	-	-	62
Total comprehensive income	**-**	**-**	**25,499**	**62**	**25,719**	**36,578**	**87,858**
Dividends	-	-	-	-	-	-	-
As at 31 December 2016	**48,850**	**111,987**	**220,874**	**215**	**(63,365)**	**(85,228)**	**233,333**

Consolidated cash flow statement for the year ended 31 December 2016

in EUR thousand	Notes	2016	2015
Profit before tax		40,691	28,873
Adjustments for:			
Depreciation, amortization and impairment losses	7,8	41,757	50,526
Loss / (gain) on the disposal of property, plant and equipment	19, 20	761	(147)
Non-cash changes from profit tax / other positions		-	(262)
Foreign exchange loss / (gain)	21	540	(773)
Net finance (income) / costs	21	(1,631)	2,704
Negative goodwill	6	(3,249)	-
Income taxes paid		(8,143)	(12,608)
Change in Working Capital		7,652	(985)
Change in inventories		(10,402)	(2,543)
Change in trade and other receivables		9,750	4,207
Change in trade and other liabilities		8,304	(2,649)
Cash flows from operating activities		**78,378**	**67,328**
Purchase of property, plant and equipment		(20,944)	(57,633)
Proceeds from sale of equipment		499	912
Addition to cash deposits		(18,380)	(55,154)
Withdrawal of cash deposits		20,430	41,815
Interest received		4,989	3,033
Purchase of subsidiaries, net of cash transferred	6	(2,005)	-
Cash flows used in investing activities		**(15,411)**	**(67,027)**
Payment of loans		-	(14,746)
Finance interest paid		-	(1,391)
Dividends paid		-	(5,862)
Withholding tax paid	11	(664)	(7,716)
Cash flows used in financing activities		**(664)**	**(29,715)**
Effect of exchange rate changes on cash and cash equivalents		12,196	(359)
Net change in cash and cash equivalents		74,499	(29,773)
Cash and cash equivalents at 1 January		28,465	58,238
Cash and cash equivalents at 31 December		**102,964**	**28,465**
Of which: cash flows from discontinued operation			
Cash flows from operating activities		(76)	(105)

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 3,313 in 2016, including 280 employees of management and office staff (2015: 3,303).

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 particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations.

Russian economy in 2016 showed unstable dynamics. A number of economic figures indicates the reduction of the impact of major negative factors in the development of economy. The factor of reduced investment continues to have a significant negative impact on growth of economy of the Russian Federation. In addition, the duration and depth of the recession was caused by unfavorable raw material conjuncture, in particular low oil prices, as well as the international sectoral sanctions imposed against Russia.

During 2016 the price per barrel of Urals oil has fluctuated in the interval of 24.5–53.9 USD barrel, reaching a local minimum at 24.5 dollars per barrel in January 2016. Dynamics of the Russian ruble exchange rate in 2016 was determined by the dynamics of oil prices and the decline in geopolitical risks. By the end of January 2016, the rate reached 82 rubles per dollar after the fall of oil prices. But for a gradual increase in oil prices and reduced geopolitical tensions around Russia followed the strengthening of the ruble. By the end of December 2016, the rouble appreciated to 60.7 rubles per US dollar, i.e. 16.8% for the year 2016 as a whole.

In addition to Russia, the Group conducts operations in Kazakhstan. The economy of Kazakhstan was influenced by the volatile dynamics of oil prices, but was able to avoid a recession, probably due to the absence of sanctions. GDP growth was 1%. Investments in fixed capital in Kazakhstan by the end of 2016 increased by 5.1%.

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 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 statement 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 9 – inventory obsolescence provisions;
- Note 22 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- Note 23 – measurement of defined benefit obligations: key actuarial assumptions;
- Notes 26 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 28 – allowances for trade receivables.

4. Significant accounting policies

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2016, 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 operations. The Group plans to adopt these pronouncements when they become effective.

New or amended standard	Summary of the requirements	Possible impact on consolidated financial statements
IAS 12 Deferred Taxes	The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Group does not expect any significant impact.
IFRS 9 Financial Instruments	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
IFRS 15 Revenue from Contracts with Customers	IFRS 15 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.* The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. Construction contract revenue currently includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. When a claim or variation is recognised, the measure of contract progress or contract price is revised and the cumulative contract position is reassessed at each reporting date. Under IFRS 15, claims and variations will be included in the contract accounting when they are approved. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.
IFRS 16 Leases	IFRS 16 replaces the existing lease accounting guidance in 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.* It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

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 over the period of up to 3 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 12/31/2016	Closing rate as at 12/31/2015	Average rate 2016	Average rate 2015
Russian Ruble (RUB)	63.8111	79.6972	74.2310	67.7767
Kazakhstan tenge (KZT)	352.42	371.31	378.32	246.48
US-Dollar (USD)	1.0520	1.0935	1.1073	1.1100

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 12/31/2016	Closing rate as at 12/31/2015	Average rate 2016	Average rate 2015
Russian Ruble (RUB)	60.6569	72.8827	67.0349	60.9579
Kazakhstan tenge (KZT)	333.29	339.47	341.76	222.25

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests.

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 (former C.A.T. 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	12/31/2016 % share	12/31/2015 % share	Activity
OOO KATKoneft	Kogalym, Russia	100	100	Oil field services
OOO KATOBNEFT	Nizhnevartovsk, Russia	100	100	Oil field services
OOO Trading House KATоil	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	-	Oil field services
Petro Welt GEODATA GmbH	Vienna, Austria	100	100	Engineering and reconnaissance of geological formations
Sonamax LIMITED	Lymassol, Cyprus	100	-	Management services
OOO Petro Welt Technologies	Moscow, Russia	100	100	Consulting and management services to the Group companies

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

6. Acquisition of subsidiary

On 1 September 2016, the Group acquired 100% of the shares and voting interests in Sonamax Limited. Sonamax Limited was the sole owner of Trican Well Service Kazakhstan Limited Liability Partnership (was renamed to Petro Welt Technologies Kazakhstan Limited Liability Partnership on 27 September 2016) operating in hydraulic fracturing in the territory of the Republic of Kazakhstan. This acquisition will enable the Group to strengthen the position of fracturing in the territory of Republic of Kazakhstan and to attract new customers.

From the date of acquisition to 31 December 2016 Petro Welt Technologies Kazakhstan LLP contributed revenue of TEUR 1,635 and net profit of TEUR 124 to the Group's results. If the acquisition had occurred on 1 January 2016, management estimates that consolidated revenue would have been TEUR 305,634 and consolidated net profit for the period would have been TEUR 25,323. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2016.

Total consideration transferred amounted to USD 2,840,658 (EUR 2,550,191 converted into Euro at the exchange rate 1.1139 on the date of acquisition). The Group incurred acquisition-related costs of TEUR 236 relating to external legal fees. These costs have been included in administrative expenses in the condensed 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, 8	2,233
Deferred tax assets		63
Current assets		
Inventories		2,337
Tax assets		349
Trade and other receivables		1,043
Cash and cash equivalents		545
Non-current liabilities		
Deferred tax liabilities	22	(515)
Current liabilities		
Trade and other payables		(256)
Total identifiable net assets		**5,799**
Total consideration transferred		**(2,550)**
Gain on purchase of subsidiary		**3,249**

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

The trade receivables comprise gross contractual amounts due of TEUR 1,058, of which TEUR 15 was expected to be uncollectable at the acquisition date.

The acquisition resulted in a bargain purchase gain (negative goodwill) of TEUR 3,249, which has been recognised in other income in the statement of comprehensive income. This gain is attributable mainly to the synergies expected to be achieved from integrating the acquired entity into the Group's existing business.

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 2015	11,020	13,126	249,053	771	52,600	**326,570**
Additions	1,463	1,736	30,875	91	-	**34,165**
Transfer	-	-	52,584	-	(52,584)	**-**
Disposals	(196)	(179)	(8,659)	(52)	-	**(9,086)**
Exchange differences	(1,764)	(2,071)	(42,419)	(227)	371	**(46,110)**
At 31 December 2015	**10,523**	**12,612**	**281,434**	**583**	**387**	**305,539**
Additions	694	423	16,268	21	2,747	**20,153**
Additions through business combination	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**
Depreciation and impairment						
At 1 January 2015	5,477	10,037	115,797	570	-	**131,881**
Depreciation and impairment losses	1,168	999	45,792	98	-	**48,057**
Disposals	(90)	(157)	(8,025)	(46)	-	**(8,318)**
Exchange differences	(945)	(1,525)	(17,884)	(196)	-	**(20,550)**
At 31 December 2015	**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**
Net book value						
As at 1 January 2015	5,543	3,089	133,256	201	52,600	**194,689**
As at 31 December 2015	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**

Depreciation expense and impairment losses for 2016 year of TEUR 41,359 (2015: TEUR 47,698) has been charged to cost of sales and TEUR 288 (2015: TEUR 359) to administrative expenses.

Impairment of non-financial assets

During 2015, due to changes in economic conditions in Russia and contraction of the economy in general and considering the effects on oil-service industry in Russia, the Company tested its property, plant and equipment and intangible assets for impairment and recognized an impairment loss of TEUR 5,701.

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. 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 cash flow test was performed:

Key assumptions used in impairment test	12/31/2016	12/31/2015
Information used	Actual operating results for the year 2016 and business plans for 2017-2021	Actual operating results for the year 2015 and business plans for 2016-2020
Forecast period	5 years (2017–2021)	5 years (2016–2020)
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	3.96%	4.54%
	Average producer price index in terminal period	
Weighted average cost of capital	16.5%	17.7%
	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.	

As a result of analysis as at 31 December 2015 the carrying amount of CGU (OOO KATOBNEFT) was determined to be higher than its estimated recoverable amount and an impairment loss was recognised in the amount of TEUR 5,701. The existing goodwill as at 31 December 2015 was formed as a result of the acquisition of OOO KATOBNEFT and allocated to this CGU for the purpose of impairment test. The related impairment losses recognised are as follows:

- Impairment loss was allocated to goodwill and recognized through profit and loss in the amount of TEUR 2,323.
- Impairment loss was allocated to machinery and equipment of OOO KATOBNEFT and recognized through profit and loss in amount of TEUR 3,378.

In 2016, following certain positive external favourable effects in the market and economic environment and internal factors (conclusion of additional contracts with customers), 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.

12/31/2016	12/31/2015
Only significant 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.	If the Group fails to fulfill the planned increase in sales volume by 0.5%, a further impairment loss will be approximately TEUR 21,000, including CGU OOO KAToil-Drilling. Growth in the sales volume by 0.14% would lead to equality of value in use and carrying amount of CGU OOO KATOBNEFT.

Discount rate - with all other assumptions held constant.

12/31/2016	12/31/2015
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.	Decrease in the discount rate by 1.4% would lead to equality of value in use and carrying amount of CGU OOO KATOBNEFT. Increase on the discount rate by 1.1%, a further impairment loss will be approximately TEUR 11,217, including CGU OOO KAToil-Drilling.

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

12/31/2016	12/31/2015
The equality of value in use and carrying amount of CGU OOO KAToil-Drilling and CGU OOO KATOBNEFT will be achieved in case of slowing of average operation price growth by 1% and by 1.8% respectively.	If prices increase by 0.9% it would lead to equality of value in use and carrying amount of CGU OOO KATOBNEFT due to increased inflation of CGU's average operation price.

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	12/31/2016	12/31/2015
Less than one year	538	1,158
Between one and five years	741	596
More than five years	2,449	2,178
Total	**3,728**	**3,932**

During 2016 operating rentals expenses of TEUR 622 (2015: TEUR 672) were included in cost of sales, TEUR 839 (2015: TEUR 872) were charged to administrative expenses.

8. Intangible assets and goodwill

in EUR thousand	Software and other intangible assets	Goodwill	Total
Cost or valuation			
At 1 January 2015	**542**	**2,176**	**2,718**
Additions	-	-	**-**
Disposals	(7)	-	**(7)**
Exchange differences	(53)	(201)	**(254)**
At 31 December 2015	**482**	**1,975**	**2,457**
Additions	40	-	40
Disposals	-	-	-
Exchange differences	68	-	68
At 31 December 2016	**590**	**1,975**	**2,565**
Depreciation and impairment			
At 1 January 2015	**283**	**-**	**283**
Amortization and impairment losses	146	2,323	**2,469**
Disposals	(3)	-	**(3)**
Exchange differences	(41)	(348)	**(389)**
At 31 December 2015	**385**	**1,975**	**2,360**
Amortization and impairmentlosses	110	-	110
Disposals	-	-	-
Exchange differences	60	-	60
At 31 December 2016	**555**	**1,975**	**2,530**
Net book value			
As at 1 January 2015	259	2,176	**2,435**
As at 31 December 2015	97	-	**97**
As at 31 December 2016	35	-	35

Intangible assets of the Group comprise the software and rights to use of software products. The Group performed annual impairment test of intangible assets including goodwill as at 31 December 2015. As a result of impairment test as at 31 December 2015 the Group recognized impairment loss of TEUR 2,323.

The goodwill was formed as a result of the acquisition of OOO KATOBNEFT and allocated to this CGU for the purpose of impairment test. The recoverable amount of this CGU was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU. The key assumptions used in the estimation of the recoverable amount are set out above in the note 7 Property, plant and equipment. The carrying amount was higher than its recoverable amount and an impairment loss of TEUR 2,323 was recognised in 2015. The impairment loss was recognized in cost of sales.

9. Inventories

in EUR thousand	12/31/2016	12/31/2015
Spare parts and other materials	29,682	14,119
Raw material	4,188	1,560
Fuel and lubricants	2,145	1,338
Total	**36,015**	**17,017**

As at 31 December 2016 inventories are recorded net of obsolescence provision of TEUR 141 (31 December 2015: TEUR 22). For 2016 the cost of write-down of inventories to net realizable value amounted to TEUR 27 (2015: TEUR 25) and reversals of write-down of inventories amounted to TEUR 17 (2015: TEUR 10).

As at 31 December 2016 no inventories have been pledged as collateral for borrowings (31 December 2015: nil).

10. Trade receivables

Trade receivables comprise the receivables under service contracts ordinary activities in the amount of TEUR 83,707 (31 December 2015: TEUR 75,293), 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	12/31/2016	12/31/2015
Receivables from related parties	362	7,794
Value added tax	3,563	1,510
Advance payments	2,244	944
Deferred expenses	21	66
Other receivables	9,711	892
Total	**15,901**	**11,206**

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	12/31/2016	12/31/2015
Income tax receivables	1,306	962
Other tax receivables	63	50
Total	**1,369**	**1,012**

13. Cash and cash equivalents

Cash and cash equivalents consist of the following:

in EUR thousand	12/31/2016	12/31/2015
Petty cash	1	1
Bank balances	1,135	12,064
Short-term deposits	101,828	16,400
Total	**102,964**	**28,465**

As at 31 December 2016 cash in bank accounts denominated in Euro was TEUR 360, in US Dollar was TEUR 353, in Kazakhstan tenge was TEUR 41 (31 December 2015: in Euro – TEUR 636, in Kazakhstan tenge – TEUR 73, in US Dollar – TEUR 5).

As at 31 December 2016 bank deposits with maturities of three months or less denominated in Russian Rubles were TEUR 86,337, in Euro were TEUR 10,024, in US Dollar were TEUR 3,728, in Kazakhstan tenge were TEUR 1,739 (31 December 2015: in Russian Rubles – TEUR 16,400) and bear interest of 7.6%–10.5% (31 December 2015: 3.6%–10.7%).

Bank deposits with maturities of three months or more were TEUR 10,695 (31 December 2015: TEUR 11,857) and bear interest of 0.01%-1.7%.

There was no significant cash restricted from use as at 31 December, 2016 (31 December 2015: nil).

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:

12/31/2016			12/31/2015		
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 2015: 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 42,534,561 voting rights in the Company (corresponding to approx. 87.07% 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 2015: TEUR 111,987).

Currency translation reserve

Currency translation reserve comprises the following items:

in EUR thousand	2016	2015
Foreign currency reserves at 1 January	210,890	**172,990**
Net investments	(36,578)	29,948
Currency translation differences	(25,719)	7,952
Foreign currency reserves at 31 December	**148,593**	**210,890**

The currency translation reserve comprises all foreign currency differences arising from the translation gain of the financial statements of foreign operations amounted to TEUR 25,719 for 2016 (2015: loss TEUR 7,952).

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 2016 net investment, net of related tax amounted to TEUR 36,578 gain (2015: loss TEUR 29,948).

15. Financial liabilities

Non-current liability to related party comprises euro-denominated borrowing from Petro Welt Holding Limited (Cyprus). amounted to TEUR 100,000 (31 December 2015: TEUR 100,000). The interest rate is 6 month EURIBOR plus 4% (31 December 2015: 6 month EURIBOR plus 4%). The termination date is 31 December 2018.

Current financial liabilities comprise the following items:

in EUR thousand	12/31/2016	12/31/2015
Financial liabilities from related parties	8,709	4,754
Trade payables	37,764	25,460
Other current liabilities	26,792	20,567
Advance payments received	93	-
Income tax payables	4,787	852
Total	**78,145**	**51,633**

Current financial liability to related party represents interest due to Petro Welt Holding (Cyprus). amounting to TEUR 8,709 (31 December 2015: TEUR 4,754). 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 37,764 (31 December 2015: TEUR 25,460).

Other current liabilities consist of the following items:

in EUR thousand	12/31/2016	12/31/2015
Value added tax liabilities	8,021	5,569
Wages and salary liabilities	6,692	2,822
Unused vacations liabilities	4,428	3,996
Social insurance liabilities	1,088	1,001
Other tax liabilities	2,796	2,505
Property tax liabilities	153	177
Provisions for future losses	472	1,714
Other liabilities	3,142	2,783
Total	**26,792**	**20,567**

Provision for future losses
Under IAS 11 management analyzes 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 472 (31 December 2015: TEUR 1,714).

16. Revenue

The components of revenue were as follows:

in EUR thousand	2016	2015
Hydraulic fracturing	160,361	167,087
Sidetrack drilling	74,626	83,598
Conventional drilling	63,265	62,882
Cementing	5,747	6,754
Other services	380	2,154
Total	**304,379**	**322,475**

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 2016 and 31 December 2015:

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 137,891 (2015: TEUR 146,480), including revenue recognized under construction contracts in progress amounting to TEUR 11,601 (2015: TEUR 3,673) 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	2016	2015
Raw materials	95,616	97,585
Direct costs	54,599	64,268
Depreciation	43,762	44,465
Wages and salaries	40,706	39,872
Social tax	11,849	11,932
Other costs	3,405	7,646
Reversal)/impairment of non-financial assets	(2,293)	5,701
Total	**247,644**	**271,469**

Direct costs amounting to TEUR 54,599 (2015: TEUR 64,268) comprise production services, transportation, repair and maintenance expenses.

As at 31 December 2015 the Group recognized impairment loss on machinery and equipment amounting to TEUR 3,378 and goodwill TEUR 2,323. 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" and 8 "Intangible assets and goodwill".

The cost of sales does not include any expenses from discontinued operations (2015: nil).

18. Administrative expenses

in EUR thousand	2016 Continuing operations	2016 Discontinued operation	2015 Contiuing operations	2015 Discontinued operation
Wages and salaries (incl. remuneration for executive bodies)	7,894	-	6,587	4
Consulting fees	2,215	116	3,576	150
Tax expense	1,761	-	1,901	-
Social tax	2,010	-	1,621	-
Rent expense on an operating lease	839	-	872	-
Travel and entertainment expenses	385	1	565	4
Depreciation and amortization	288	-	359	-
Purchase of other materials	267	-	370	-
Services rendered	1,228	-	1,174	-
Bank fees	90	1	175	1
Training costs	10	-	14	-
Audit fees	435	-	460	-
Insurance	36	-	200	-
Maintenance costs	218	-	254	-
Other administrative expenses	1,927	-	2,213	-
Total	**19,603**	**118**	**20,341**	**159**

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. At the moment of publication the Group's financial statements in accordance with IFRS for the year ended 31 December 2016, the cessation process was not completed. All information for Petro Welt GEODATA GmbH in the consolidated financial statements is disclosed separately as a discontinued operation.

Renumeration of the Auditor

Auditor was entitled for the following remuneration based on provided annual audit:

in EUR thousand	2016	2015
Fee for Group end-of-year auditor	291	194
Fee for other auditing services	144	266
Total	**435**	**460**

19. Other operating income

in EUR thousand	2016 Continuing operations	2016 Discontinued operation	2015 Contiuing operations	2015 Discontinued operation
Income from disposal of property, plant and equipment	546	-	395	-
Negative goodwill	3,249	-	-	-
Gain from stocktaking	36	-	81	-
Income from reversals of written-down inventories	17	-	10	-
Income from prior periods	454	-	21	-
Income from reversals of written-down trade receivables	51	-	287	-
Income from penalties	481	-	236	-
Other income	69	-	231	-
Total	**4,903**	**-**	**1,261**	**-**

20. Other operating expenses

in EUR thousand	2016 Continuing operations	2016 Discontinued operation	2015 Contiuing operations	2015 Discontinued operation
Expenses for the disposal of property, plant and equipment	1,307	-	248	-
Write-down of trade receivables	144	-	54	-
Write-down of inventories	27	-	25	-
Other expenses	840	-	636	-
Total	**2,318**	**-**	**963**	**-**

Other expenses in 2015 include provisions for compensation to the former management board in the amount of TEUR 244.

21. Net finance income/(costs)

in EUR thousand	2016 Continuing operations	2016 Discontinued operation	2015 Contiuing operations	2015 Discontinued operation
Interest income	5,645	-	3,120	-
Gains from exchange rate differences	-	-	773	-
Total finance income	**5,645**	**-**	**3,893**	**-**
Interest expenses	(4,014)	-	(5,824)	-
Loss from exchange rate differences	(540)	-	-	-
Impairment of other financial assets	-	-	-	-
Total finance costs	**(4,554)**	**-**	**(5,824)**	**-**
Total net finance (costs)/income	**1,091**	**-**	**(1,931)**	**-**

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 2016 was 25% (2015: 25%), for the Russian subsidiaries – 20% (2015: 20%) and for income taxable under tax law in Kazakhstan – 20% (2015: 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	2016	2015
Current tax expenses	8,710	10,164
Deferred tax expense (income) relating to the origination and reversal of temporary differences	2,787	(3,589)
Withholding tax	664	847
Income taxes from previous years	3,031	1,147
Current and deferred tax expenses	**15,192**	**8,569**

Income tax of discontinued operations amounting to gain of TEUR 592 resulting from the tax calculations under Austrian corporate tax law (2015: expense TEUR 627).

The income tax contains withholding taxes of TEUR 664 resulted from intra-Group dividend (2015: TEUR 847).

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	2016 Before tax	2016 Related tax	2016 Net of tax	2015 Before tax	2015 Related tax	2015 Net of tax
Net investments in foreign operations	37,742	(1,164)	36,578	(30,323)	375	(29,948)
Net gains/(losses) on remeasurement of defined benefit plans	78	(16)	62	25	(5)	20

Reconciliation of effective tax rate:

in EUR thousand	2016	2015
Result before income taxes	40,691	28,873
Tax using the Company's domestic tax rate	8,138	5,775
Effect of tax rates in foreign jurisdictions	270	264
Tax free income	(302)	(89)
Non-deductible expenses	1,482	1,797
Change in unrecognized deferred taxes	2,444	(1,787)
Withholding tax on dividends	664	847
Underprovisions in earlier years	3,031	1,146
Other effects	(535)	616
Current and deferred tax expenses	**15,192**	**8,569**
Current and deferred tax expenses according to the profit or loss statement	**15,192**	**8,569**
Tax rate	**37.33%**	**29.68%**

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

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)**

in EUR thousand	12/31/2015				Change in deferred taxes		1/1/2015	
	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	6,709	-	(304)	-	375	(1,116)	7,754	-
Deferred expenses/liabilities	505	(351)	1,841	-	-	(40)	441	(2,088)
Fixed assets/depreciation	-	(8,698)	1,877	-	-	1,428	12	(12,015)
Other	972	(624)	175	-	(5)	(165)	577	(234)
Netting	(6,363)	6,363	-	-	-	-	(7,011)	7,011
Total	**1,823**	**(3,310)**	**3,589**	**-**	**370**	**107**	**1,773**	**(7,326)**

In Russia the tax loss carryforward expires in 10 years after the loss recognition. The tax loss carryforward as at 31 December 2016 in the amount of TEUR 43,997 (31 December 2015: TEUR 78,157) is not expected to be utilized in a future. Deferred tax assets in the amount of TEUR 8,799 (2015: TEUR 15,631) 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	2016 Post-employment benefits	2016 Other longterm employee benefits	2016 Total	2015 Post-employment benefits	2015 Other longterm employee benefits	2015 Total
Defined Benefit Obligation as at 1 January	742	100	842	780	108	888
Included in profit or loss:						
Current service cost	71	19	90	67	19	86
Interest cost	75	10	85	89	11	100
Past service cost	(21)	(2)	(23)	-	-	-
Actuarial (gains)/losses, including:						
Financial assumptions	-	(4)	(4)	-	7	7
Demographic assumptions	-	1	1	-	-	-
Experience adjustments	-	(11)	(11)	-	(12)	(12)
Benefits paid	**(47)**	**(12)**	**(59)**	**(45)**	**(16)**	**(61)**
Included in other comprehensive income:						
Actuarial (gains)/losses, including:						
Financial assumptions	(23)	-	(23)	40	-	40
Demographic assumptions	(6)	-	(6)	-	-	-
Experience adjustments	(49)	-	(49)	(65)	-	(65)
Effect of movements in exchange rates	185	25	210	(124)	(17)	(141)
Defined Benefit Obligation as at 31 December	927	126	1,053	742	100	842

Actuarial assumptions

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

Assumptions	2016	2015
Discount rate	8.5%	10%
The growth rate of fixed payments	5%	7%
The growth rate of benefits as a result of a career growth	1%	1%
Tax rate	Varies from 21% to 23% depending on the Company	Varies from 19% to 23% depending on the Company
Employee turnover rates	Declines from 42% to 0% per year depending on year of service and gender	Declines from 40% to 0% per year depending on year of service and gender
Mortality	Mortality table of the Russian Federation for the year 2013, adjusted by 23%	Mortality table of the Russian Federation for the year 2013, adjusted by 17%

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	9.87	11.94	10.20

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	326	15	341

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%	-4,60%	-6,20%	-4,80%
Decrease in discount rate by 1%	5,00%	6,40%	5,20%
Increase in growth rate of fixed benefits by 1%	5,50%	7,20%	5,70%
Decrease in growth rate of fixed benefits by 1%	-4,80%	-6,40%	-5,00%
Increase in salary growth rate by 1%	3,50%	0,00%	3,10%
Decrease in salary growth rate by 1%	-3,10%	0,00%	-2,80%
Increase in rate of employee's turnover by 1%	-4,70%	-6,90%	-5,00%
Decrease in rate of employee's turnover by 1%	2,20%	4,30%	2,50%
Increase in mortality by 10%	-0,30%	-0,70%	-0,40%
Decrease in mortality by 10%	0,30%	0,70%	0,40%

24. Earnings per share

The calculation of basic earnings per share at 31 December 2016 was based on the profit attributable to ordinary shareholders and a weighted-average number of ordinary shares.

in EUR thousand		2016	2015
Common stock	thousand	48,850	48,850
Profit	in EUR thousand	25,499	20,304
Earnings by share	EUR	0.52	0.42

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).

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 2016 and 31 December 2015 is presented below.

Reporting segments results for 2016

in EUR thousand	Well Services	Drilling Sidetracking 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

Reporting segments results for 2015

in EUR thousand	Well Services	Drilling Sidetracking IPM	Total segments	Recon-ciliation	Group
External sales	174,400	146,688	321,088	1,387	322,475
Group sales	1,562	745	2,307	(2,307)	-
Total sales	**175,962**	**147,433**	**323,395**	**(920)**	**322,475**
Cost of sales	(135,096)	(136,723)	(271,819)	350	(271,469)
Administrative expenses	(4,409)	(6,020)	(10,429)	(9,912)	(20,341)
Other operating income and expenses	455	(272)	183	115	298
Operating result	**36,912**	**4,418**	**41,330**	**(10,367)**	**30,963**
Finance income					3,893
Finance costs					(5,824)
Profit before tax					**29,032**
Income tax					(7,942)
Profit after tax					**21,090**
Segment depreciation and impairment losses	14,845	33,749	48,594	1,932	50,526
Segment assets	97,012	187,329	284,341	16,919	301,260
Segment liabilities	38,007	135,502	173,509	(17,724)	155,785
Capital expenditure	17,136	18,545	35,681	(1,516)	34,165

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	2016	%	2015	%
Russia				
Rosneft	179,535	58.98	155,187	48.12
LUKOIL	45,966	15.1	41,683	12.93
Slavneft	19,466	6.4	30,285	9.39
Gazprom	27,499	9.03	53,309	16.53
Tomskneft	16,014	5.26	25,168	7.80
Russneft	-	-	5,808	1.80
Other customers	11,614	3.82	4,564	1.42
Total revenue within Russia	300,094	99	**316,004**	**97.99**
Kazakhstan				
Kazmunaygaz	4,285	1.41	6,471	2.01
Total revenue within Kazakhstan	4,285	1	**6,471**	**2.0**
Total	**304,379**	**100**	**322,475**	**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 characterised 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.

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	12/31/2016	12/31/2015
Cash and cash equivalents	102,964	28,465
Bank deposits	10,695	11,857
Trade receivables	83,707	75,293
Receivables from related parties	362	7,794
Other receivables	2,046	913
Total	**199,774**	**124,322**

Financial liabilities measured at amortised costs

in EUR thousand	12/31/2016	12/31/2015
Long term debts	100,000	100,000
Short term debts	8,709	4,754
Trade payables	37,764	25,460
Other liabilities	3,142	2,783
Total	**149,615**	**132,997**

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 use of financial instruments exposes the Company to the following risks:

— Credit risk;
— Liquidity risk;
— Market risk.

The Group’s management is developing system and corresponding policies for the early detection and mitigation of risks.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers. Credit risk arises principally in connection with current accounts receivable from customers:

in EUR thousand	12/31/2016	12/31/2015
Trade receivables	83,707	75,293
Other receivables	1,995	892
Other long-term assets	51	21
Total	**85,753**	**76,206**

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The company has established 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.

Trade and other receivables

A significant portion of the Company's revenues relates to three largest customers – LUKOIL, Gazprom Neft, Rosneft (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	12/31/2016	12/31/2015
Domestic	81,243	74,665
Kazakhstan	4,510	1,541
Total	**85,753**	**76,206**

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	12/31/2016	12/31/2015
Neither past nor overdue	197,008	113,631
Past due 0-30 days	2,268	2,131
Past due 31-180 days	136	766
Total	**199,412**	**116,528**

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	2016	2015
Balance at beginning of the year	**333**	**657**
Additions (through profit or loss)	135	21
Reversal/use of value adjustment	(100)	(282)
Foreign currency translation adjustments	58	(63)
Balance at end of the year	**426**	**333**

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 102,964 at 31 December 2016 (31 December 2015: TUER 28,465), 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.

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 optimising 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 credit line 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.

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	-
Liabilities from credit line	-	-	-	-	-	-
Trade payables	37,764	37,764	37,764	-	-	-
Other current liabilities	3,142	3,142	3,142	-	-	-

2015			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)	104,754	116,158	6,105	2,023	4,015	104,015
Liabilities from credit line	-	-	-	-	-	-
Trade payables	25,460	25,460	25,460	-	-	-
Other current liabilities	2,783	2,783	2,783	-	-	-

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 companies within the Group are always exposed to currency risk if payments are made in currencies other than their respective functional currency.

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

in EUR thousand	12/31/2016	12/31/2015
Euro		
Trade receivables	115	
Trade payables and other liabilities	(668)	(511)
US dollar		
Trade receivables	105	
Trade payables and other liabilities	(1,873)	(516)
Kazakhstan Tenge		
Trade receivables	249	1,541
Trade payables and other liabilities	(552)	(222)
Russian ruble		
Trade receivables	-	-
Trade payables and other liabilities	(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	**2016**	**2015**	**2016**	**2015**
Euro denominated	55	51	7,726	10,995
US Dollar denominated	177	52	-	-
Kazakhstan Tenge denominated	30	(132)	-	-
Russian ruble denominated	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	2016	2015
Long-term payables	+/- 376	+/-396
Short-term payables	+/- 33	+/-19

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 2016 and 31 December 2015 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.

The worldwide financial and economic crisis could lead to the complete or partial write-off of individual assets or the value of individual companies, if the targeted levels of business development cannot be achieved. 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.

As at 31 December 2016 the net debt to equity ratio was 15.4% (31 December 2015: 63.7%).

Net debt is calculated on the basis of the total cash and cash equivalents less short-term and long-term financial liabilities:

in EUR thousand	12/31/2016	12/31/2015
Liabilities against Petro Welt Holding Limited (Cyprus)	108,709	104,754
Trade payables	37,764	25,460
Other liabilities with the exception of accrued liabilities	3,142	2,783
Less: cash and cash equivalents	(102,964)	(28,465)
bank deposit	(10,695)	(11,857)
Net debt	**35,956**	**92,675**
Total equity	233,333	145,475
Net debt to equity ratio at 31 December	**15.4%**	**63.7%**

The Group's rating by Moody's is Ba3 with a stable rating outlook (31 December 2015: 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 2016 and 2015.

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	2016	2015
Management Board remuneration	1,695	749
Former Management Board remuneration	-	-
Supervisory Board remuneration	106	121
Former Supervisory Board remuneration	-	-

Members of Management and Supervisory Board have not received any loans or advance payment in 2016. The amount of bonus of Management Board members for 2015, paid in 2016, amounted to 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	2016	2015
Second level management salaries	706	575

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

	Transaction value		Outstanding balance		
in EUR thousand	2016	2015	12/31/2016	12/31/2015	Transaction description
Parent company:					
A2C Treuhand Wirtschafts-prüfungsgesellschaft mbH, Hamburg	-	162	-	-	Accounting services fee
Fairtune East Ltd., Nicosia	-	-	-	-	Rental fee
Subsidiaries:					
C.A.T. GmbH Consulting Agency Trade (Cyprus) Ltd., Nikosia	977	1,281	177	183	Consulting
Fairtune East Ltd., Moscow	356	452	41	33	Rental fee

30. Events after the reporting date

In the opinion of the Group's Management there are no subsequent events, which could have a material effect on the Group's financial position.

Vienna, 21 April 2017
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, 24 April 2017

Yury Semenov
Chief Executive Officer

Valeriy Inyushin
Chief Financial Officer

Memo

Memo

Memo

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