Petro Welt
Technologies

WE SPECIALIZE

Integrated Annual Report 2018

Financial Key Figures

in EUR thousand	**2018**	**2017**	**Change**
Gross sales	291,820	353,023	-17.3%
Gross profit	40,083	63,043	-36.4%
EBIT	11,093	36,753	-69.8%
EBIT margin	3.8%	10.4%	
EBITDA	52,521	83,103	-36.8%
EBITDA margin**	18.0%	23.5%	
Group result	10,809	31,015	-65.1%
Earnings per share (EUR)	0.22	0.63	
Balance sheet total*	381,826	437,944	-12.8%
Equity*	205,358	241,956	-15.1%
Equity ratio*	53.8%	55.2%	
Cash flow from operating activities	41,921	77,736	-46.1%
Cash flows (used in) / from investing activities	27,149	(104,781)	-125.9%
Cash flow used in financing activities	-	-	
Cash and cash equivalents	125,574	68,887	82.3%
EUR exchange rate at the end of the reporting period	79.4605	68.8668	15.4%
EUR average exchange rate for the reporting period	73.9546	65.9014	12.2%
Employees (average)	3,112	3,535	-12.0%

* As at 31 December
**Here and further all margin indexes are based on Gross sales

Stock Key Figures

German securities ID no. (WKN)	A00Y7
ISIN	AT0000A00Y78
Ticker symbol	O2C
Share class	No par value bearer shares
Authorized capital	EUR 48,850,000
Share capital	EUR 48,850,000
Free float	12.94%
Number of shares	48,850,000
Year’s high (15 January 2018)	EUR 7.42
Year’s low (23 August 2018)	EUR 4.55
Closing price (29 December 2018)	EUR 5.10
Stock exchange listings	SDAX, Prime Standard

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Highlights 2018

April 2018

Results 2017: Petro Welt Technologies AG posts strong increases in both sales revenues and consolidated net result

Petro Welt Technologies AG significantly improved sales revenues and the net result. Total Group revenues in Russian rubles rose by 3.0% in the fiscal year 2017. Revenues in the Group's reporting currency, the euro, rose by 16.0% to EUR 353.0 million, up from EUR 304.4 million in the previous year.

May 2018

Petro Welt Technologies AG's Ba3 rating confirmed by Moody´s

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

Results Q1/2018: Petro Welt Technologies AG posts strong EBIT increase

The higher reduction in the optimized cost of sales by 8.1% relative to the revenue decrease enabled the gross profit to grow by 26.6% year-on-year.

August 2018

Petro Welt Technologies AG plans to double production capacities of WellProp Russia

A project documentation dedicated to the construction of a second manufacturing line at the Kopeysk plant is approved. Annual production capacities shall increase from 50000 to 100000 metric tons of proppant.

Petro Welt Technologies AG established business entity in Romania

Petro Welt finalizes the registration of its local business entity PEWETE EVO EUROPE S.R.L. in Bucharest, in order to provide the company's services in Romania and the European market.

November 2018

Q1–Q3 2018 Results: Petro Welt Technologies AG develops overseas projects to resist to deteriorating market environment

The management continues to follow its overseas expansion to alleviate regional economic risks.

Content

Dear Shareholders,

2018 was a challenging year. While the macroeconomic situation in both Russia and Kazakhstan remained stable and oil production in both countries remained high, a number of factors such as the devaluation of the ruble against the US dollar and the euro, the decrease in volumes in the Sidetracking segment of the Russian oilfield services (OFS) market coupled with continued price pressures on our services had a negative impact on the business of Petro Welt Technologies. Over the past year, it has become clear that the entire sector will need to fundamentally rethink its business models.

Petro Welt Technologies AG has already initiated this process in recent years. The acquisition in 2017 of the Kopeysk proppant production facility was a first step. In 2018, we commissioned a project documentation for WellProp to evaluate the expansion of the production capacity. The central question here is the aim to double the output from 50,000 to 100,000 tons per year by building a second manufacturing line.

The demand for our proppant in Russia and internationally is rising steadily in the course of the past year as well. Group diversifies its proppant sales on the export side paying attention to the markets of the Ukraine, Kazakhstan, and several African countries. Export potential, sustainable presence in the Russian market combined with the use of an alternative, cheaper raw material can more than double sales revenues to between EUR 27 million and EUR 30 million by 2022.

Besides investing in technology and production, Petro Welt Technologies AG also continued its expansion into new markets in 2018. The establishment of PEWETE EVO EUROPE S.R.L in Bucharest, Romania, represents a significant step towards reducing regional risks and fostering the Group's further expansion abroad. Moreover, it is a first step in the Group's aim to competently serve the important European domestic market from an EU member state through the highly specialized offerings and services of Petro Welt Technologies.

Given the contradictory economic conditions and the challenging business environment as well as investments in promising projects, this led to a decline in sales revenues. Gross sales generated in Russian rubles were down by 7.2%. The consolidated financial statements in EUR show that the Group underperformed in terms of both the original guidance and the expected results. Gross sales for 2018 were EUR 291.8 million, and EBITDA and EBIT were EUR 52.5 million and EUR 11.1 million, respectively.

The management expects gross sales to reach approximately EUR 302 million to EUR 306 million in 2019.

Yury Semenov	**Valeriy Inyushin**
Chief Executive Officer	Chief Financial Officer

Dear Stakeholders,
As a company that focuses on techniques, technologies, and services for extracting essential raw materials, Petro Welt Technologies AG faces both intense and challenging competition. We believe, therefore, that success in the market requires not only the right price but also the right quality.

Hence we at PeWeTe focus on the development and production of materials and services that constitute a unique selling proposition (USP) relative to the competition. The production of proppant can serve as a meaningful example here. Not only does the material turn out to be indispensable—especially in connection with fracking—it also meets high requirements with respect to environmental protection. In addition, the company is working intensively and successfully to improve quality at a lower cost.

All of this shows which approaches will gain importance in the market today and even more so in the future: specifically, the knowledge and methods for developing and promoting valuable and non-renewable resources using innovative and intelligent technologies and products.

Several sections of the present annual report address these developments, especially those regarding strategy and sustainability. We firmly believe that the two are complementary and do not contradict each other. Petro Welt Technologies sees itself as a responsible company: As an integrative and active part of society and the economy, our future thus lies in this and the strategies aligned with it.

This report highlights all of these different aspects and brings them together in a meaningful way. It outlines the many challenges we face—both as Petro Welt Technologies AG and as society.

Maurice Dijols
Chairman of the Supervisory Board

Remi Paul
Member of the Supervisory Board

Ralf Wojtek
Member of the Supervisory Board

Group Structure

The Petro Welt Technologies Group consists of Petro Welt Technologies AG (PeWeTe)—the Austrian holding and parent company of the three wholly-owned operating subsidiaries, KATKoneft, KATOBNEFT, and KAToil-Drilling—as well as of the other wholly-owned subsidiaries, which are registered in Russia as limited liability companies (LLCs). Petro Welt Technologies AG also holds 100% of Cyprus-based Pewete Evolution (formerly Sonamax LIMITED) and 99.9% of Wellprop Cyprus LIMITED which, in turn, holds 100% of LLC Wellprop in Russia (formerly CARBO Ceramics Eurasia).

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

On 20 August 2018, Petro Welt finalized the registration of its local subsidiary, PEWETE EVO EUROPE S.R.L., Bucharest, in order to offer the company's services in Romania too. This company will provide mobile drilling rigs of various capabilities suitable for the European market.

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

The Petro Welt Technologies Share

The Petro Welt Technologies AG share is traded on the Prime Standard of the Frankfurt Stock Exchange. On 2 January 2018, the share opened the stock trading year at EUR 6.68 per share and closed at EUR 6.70 per share. The highest share price for 2018 (EUR 7.42) was recorded on 15 January 2018 and the lowest (EUR 4.55) on 23 August 2018. For most of the first half of 2018, the value of the Petro Welt Technologies AG share developed in tandem with the crude oil price and the EUR/RUB exchange rate. The publishing of the semi-annual report for 2018 on 21 August 2018, with the information that sales revenues in euros had fallen due to unexpected call-offs of previously contracted volumes, had a negative impact on the share price. Additionally, the crude oil price fell in the fourth quarter of 2018. By the end of the year, the share price had declined by 23.7% overall, ending at EUR 5.10 on the year's last trading day (28 December 2018). In 2018, a total of 302,196 shares of Petro Welt Technologies AG stock were traded and the total daily trading volume on average was 1,204 shares.

The performance of the TECDAX in 2018 was minus 3.12%, and the DAX declined by 18.3%. The company's peers demonstrated very poor stock dynamics: Nabors lost 70.7% of its share price, Calfrac 62.1%, and Trican 73.4%. All three underperformed the Petro Welt Technologies share. Generally speaking, OFS companies including industry leaders were faced with a strong market and financial difficulties. The price of Schlumberger's share, for example, fell by 47.4%, that of Halliburton's share by 46.7%, and that of Weatherford's share by 88.4%. (Source: https://finance.yahoo.com/)

Shareholder Structure

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

Stable Ratings Outlook

In May 2018, the rating agency Moody's confirmed its Ba3 rating of Petro Welt Technologies AG with a stable ratings outlook. Petro Welt Technologies AG's Ba3 rating, Moody's summary points out, reflects the proven resilience of demand for oilfield services in Russia to the extended period of volatility in the global oil sector over 2015–2017. The company keeps a necessary flexibility to weather risks related to difficult market conditions and its sizeable exposure to the Russian ruble and Kazakh tenge volatility due to its strong market position in the core niche segments based on advanced technologies, successful historical financial performance and sound liquidity profile. Moody's expects Petro Welt Technologies AG to maintain its adjusted debt/EBITDA below the threshold of 2.0x. The rating takes into account the company's continuous adherence to its traditionally conservative financial policy and prudent approach to development strategy.

Mission

More than 20 years on, the PeWeTe Group maintains its leading position as an independent service provider for oil field services in Russia and Kazakhstan. Benefiting from its market advantages, both industrial players and reputed financial institutions welcome the company's performance. Listed on the Frankfurt Stock Exchange and headquartered in Vienna, Austria, in 2018 Petro Welt Technologies AG had more than 3,100 employees, most of them living and working in Russia and Kazakhstan.

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

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

Since its founding in 1991, Petro Welt Technologies AG has built up a leading position in hydraulic fracturing in both Russia and Kazakhstan and has emerged as a reliable and recognized business partner. Following its initial public offering (IPO) in 2006, the company established sidetrack drilling as a second mainstay of its range of services in just two years. Between 2014 and 2016, the Group substantially expanded its capacities in conventional drilling.

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

Mission Statement

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

Group Strategy for the Coming Years

The sustainable development of its international presence as well as the substantial growth of its market share are the main goals of Petro Welt Technologies AG for the next three to four years. Special attention will be paid to its business in Romania, Central Europe, and the Republic of Kazakhstan.

The company wants to become the leading provider of oil field services in Kazakhstan (mostly proppant production and acid fracturing) and to diversify its proppant and guar supply business. Our success in Kazakhstan is critical to our ability to expand further into both Central Asia and the Middle East.

In Russia, Petro Welt Technologies AG plans to update its service assets and to innovate front and back-end support functions such as engineering, logistics as well as the procurement infrastructure for maintenance and repairs. The establishment of a management holding company has allowed the operating companies to focus solely on making continuous improvements to both quality and performance. The company plans to leverage synergies based on closer cooperation between business units within drilling segments.

We place a lot of trust in our personnel. PeWeTe has developed training programs for its staff in order to be able to achieve its new targets in the most effective way possible. The newly implemented KPI system will continue to be the main tool for enhancing motivation and guidance. This system will continue to cascade through our core Russian entities and will cover our new assets, WellProp Russia and PeWeTe Kazakhstan.

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

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

We hope that the recovery of crude oil prices will help the oilfield services industry in the medium term, because oil and natural gas majors are expected to pay greater attention to reliable partners that offer high-quality services.

Sustainability Report

Business Model

Well Services Segment

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

In Russia, PeWeTe is a segment leader that uses advanced pumping technologies including multi-stage fracturing. A longer, horizontal well design allows for greater reservoir contact. Both exploration and field development are possible at a much lower cost when employing this technique.

Offered as an added service during hydraulic fracturing, remedial or squeeze cementing is a sealing practice that serves to prevent the migration of water inside a bond by insulating the oil zone from the water zone so that it does not mix with hydrocarbons and to avoid any direct contact of other undesirable fluids with the well casing. It also serves to avoid fast corrosion effects and to extend the well's exploration life cycle. Sealing the borehole prepares the well for efficient production at a later point in time.

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

Drilling, Sidetracking, and IPM segment

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

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

Special procedures are applied during conventional drilling operations to reduce both the number and the potential environmental impact of liquid spills that occur during drilling operations. Only environmentally friendly drilling fluids are used. Upon completion of the drilling operations, the drilling site is cleaned up and re-cultivated.

In order to avoid environmental damage as well as work accidents, Petro Welt Technologies AG uses modern blowout prevention equipment from Shaffer Oil Tools, California, USA. No blow-out was reported in 2018.

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

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

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

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

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

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

Proppant Production Segment

In 2017, Petro Welt Technologies AG acquired the production facility of CARBO Ceramics Eurasia and renamed it WellProp. It offers products and services for the oil and natural gas industry and produces different kinds of proppant in Kopeysk, Russia. The plant was built using state-of-the-art CARBO Ceramics technologies and produces proppant that meets the highest quality standards in compliance with HSE regulations and thus is well known in the world market. The company's product portfolio of proppant, which is engineered to maximize and sustain hydrocarbon flow rates, includes micro-proppant and ceramic proppant of different densities and strength as well as resin-coated proppant.

PeWeTe uses a portion of this proppant for its own purposes, but currently plans to sell most of it to third parties worldwide, including CIS countries, Europe, and Africa. During the reporting year, the company filed several patent applications for IP rights related to its own activities. WellProp holds around 5% of the Russian proppant market. In 2018, the plant both reached a new production high. WellProp plans to expand its production facilities and to develop its product portfolio.

CSR Strategy

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

Sustainability Topics

The main CSR issues which the company is reporting on were assessed based on the concept of materiality. This impact assessment was carried out internally with the support of external experts. Involving diverse representatives of the company ensured a balanced outcome of the assessment.

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

Compliance

- Anti-Corruption & Anti-Bribery
- Legal Compliance
- IT Strategy and Data Protection
- Human Rights

Human Resources

- Training & Education
- Occupational Health & Safety

Environment

- Energy & Emissions
- Effluents & Waste
- Soil Protection

Products and Production

- Technology
- Procurement
- Quality & Management Systems
- Customer Relations

In keeping with legal requirements, Petro Welt Technologies AG will describe the main impacts on these materiality topics below.

Compliance

Compliance Strategy

Petro Welt Technologies AG has set itself the goal of engaging in fair, transparent, and sustainable business practices. A groupwide Compliance management system was set up, especially in order to comply with legal regulations applicable to the Petro Welt Technologies Group on the whole. The Compliance unit is headed by a full-time Chief Compliance Officer. Written Compliance reports are submitted to both the Management Board and the Supervisory Board on a regular basis. Work on the continued development of the Compliance management system was actively pursued in fiscal year 2018. In particular, this process was supported by ongoing internal exchanges of experience as well as external consultations and assessments.

Preventive measures are at the forefront of PeWeTe's Compliance management system. In 2018, training and presentations, numerous individual consultations as well as information on specific issues were important focal points of the Compliance work. To address Group concerns, the Chief Compliance Officer provided information in person and/or by telephone and email about what is and what is not appropriate conduct. In this connection, the most frequent topics included invitations, attending events, gifts, and other benefits as well as questions about conflicts of interest.

In order to further strengthen security in dealing with Compliance issues, the Compliance regulations were addressed in a targeted training program throughout the Group. In 2018, a total of 57 training sessions were completed in English and Russian. In addition to the general Compliance training (especially for new managers and new employees as well as employees of subsidiaries), special workshops were conducted on issues such as introduction to Compliance, market behavior, conflicts of interest, and directors' dealings. Thomson Reuters's Web-based e-learning program was a key pillar of this training. It includes three Compliance courses on anti-corruption and market behavior. All Group executives and administrative staff from particularly affected areas (e.g. people who are in charge of procurement or order placement as well as those who have signing authority) are required to complete the corresponding online courses and to pass a final test each year.

Anti-Corruption & Anti-Bribery

The prevention of corruption plays an essential role in the company's Compliance management. Extensive internal communications and a whole range of training courses on corruption prevention took place in 2018. All Group administrative and managerial staff are trained at regular intervals on the issue of anti-corruption. Internal control system checks are carried out to verify whether the prescribed value limits and approval requirements have been met.

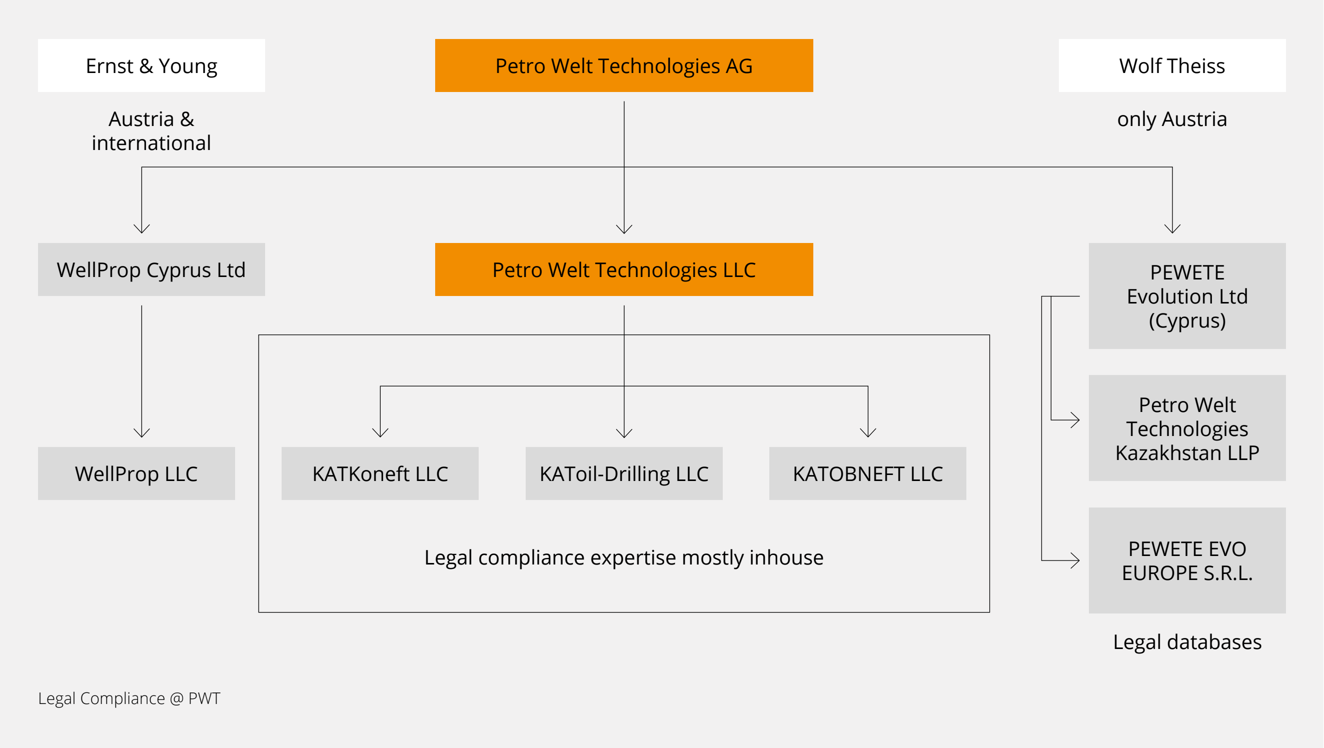
Antibribery and corruption are addressed specifically in a document entitled "Management and the Code of Conduct." This document, which is binding to all employees, contractors, freelancers, and other collaborators, details the rules and regulations that have been put in place to avoid bribery and corruption. The Compliance Officer supports the team and monitors implementation. Petro Welt Technologies AG offers online training to newcomers.

Integrity audits collect the relevant information systematically and effectively. The audit findings enable a broader assessment of business partners. The process of business partner integrity checks is constantly evolving. In the fiscal year ended, top priority was given to adjustments to the working processes through further optimization and efficiency improvements in the workflow.

Legal Compliance

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

Relevant legal information is updated and managed using both external support (Ernst & Young, Wolf Theiss) and internal legal expertise as well as legal databases at the operating sites (see graph below):



Legal Compliance @ PWT

In order to strengthen business ethics throughout its operations, Petro Welt Technologies AG periodically updates its Code of Conduct and re-introduced a Suppliers Code of Conduct in 2018, which embodies the most important principles that apply to the company. These Codes of Conduct are designed, in particular, to provide guidance for employees in critical situations.

PeWeTe still has an open court case. It filed a civil claim on 17 March 2015 against the former members of its Management Board (Manfred Kastner, Ronald Harder, and Leonid Mirzoyan) with the Commercial Court of Vienna. The unlawful and premature payment of compensation in the amount of EUR 1,539,603.50 to the defendants is the cause of action. In 2018, three court hearings took place and first witnesses were heard. The next court hearing is scheduled for 4 June 2019.

IT Strategy & Data Protection

Currently, the company identifies the following strategic issues: centralized IT infrastructure, information security, and business process automation. These major goals provide the platform for its IT strategy roadmap. The IT infrastructure was newly created using hardware from worldwide leaders. This solution has made it possible to establish safe storage, processing, and exchange of data and thus to achieve best practices with respect to the company's IT infrastructure library (ITIL). Group-wide corporate standards on information security and data protection were developed and implemented. The key principles of centralization are continuity, safety and security as well as high capability.

The fiscal year ended was critical for switching from the "infrastructure as a service" (IaaS) model to IT equipment co-location in industrial-level TIER III data centers and creating unified secure networks.

The following resources were used as per the IaaS model at the beginning of 2018: 110 cores, 576 GB RAM, 50 TB HDD SATA (hard disk drive serial AT attachment). To achieve the transition to the co-location model, the use of leased virtual resources was optimized more than ten times to 13 cores, 60 GB of RAM, and 1400 GB of HDD SATA.

Additionally, a system of internal corporate communication was set up. This capital investment will result in significant operational savings. Thanks to the consistent implementation of Petro Welt Technologies AG's new IT strategy, in 2018 there were no cases of key IT systems being unavailable for more than two hours. There were also zero information security breaches that entailed economic consequences (losses) and the disruption of IT systems resulting in the irreparable loss of company data.

The company has completed the important transition to new production software to reach new levels of operational efficiency. The work to implement the manufacturing execution system and enterprise resource planning (ERP) has commenced. All IT projects carried out during 2018 have made it possible to boost the level of data protection within the company.

Complaints

The employees of Petro Welt Technologies AG have different options for filing complaints about workplace issues: They may do so by email, by secure telephone line, or by placing anonymous cards in so-called "green boxes." In 2018, no complaints were recorded (compared to seven complaints in the previous year).

Human Rights

Petro Welt Technologies AG fully complies with the labor laws of the countries it is operating in. To ensure respect for human rights in the supply chain as well, the company has expanded its contracts by a human rights clause.

It is aware that field operations are the most sensitive area in this respect. The relevant employees must deal with a wide range of contractors and clients. Challenging tasks might entail the risk of human rights violations. PeWeTe takes this risk seriously and employs preventive measures to mitigate it. For example, such preventive measures include the promotion of tolerance, the observation and analysis of behavior as well as feedback, and compliance with the Code of Conduct. Well-established human resource (HR) policies are also in place.

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

Human Resources

Most of the employees of Petro Welt Technologies AG work for the three subsidiaries (KATKoneft, KATOBNEFT, and KAToil-Drilling) as well as the management company, a total of 3,112 employees. This corresponds to a decrease of 12% from the previous year (2017: 3,535).

The breakdown by female and male employees is very stable due to the specific industrial environment. Female employees accounted for 10.7% of the workforce at the start of 2018 and for 11.3% by the end of the year. However, the total number of women declined by 37 individuals.

It is also important to PeWeTe to provide equal opportunities for differently abled people. A total of eight employees fell into this category in 2018 (2017: 16).

The company always aims to optimize its operational efficiency, maintaining a support ratio that is as low as possible. Hence a mere 12.4% of its employees work in administrative capacities.

Our compensation policy—which includes setting and targeting ambitious KPI goals to progress in accordance with the strategy, plus variable incentives linked to their attainment—once again proved effective in reaching the goals we had set for ourselves in fiscal year 2018. The terms and conditions of employment, including all incentives and benefits, are defined in the collective compensation agreements between the operating subsidiaries and their employees. We strive to be an employer of choice for our employees in the long term.

Training & Education

Given the importance of employee training and education to the operations of Petro Welt Technologies AG, the company places great emphasis on this issue. Its budget for training in 2018 was EUR 476.5 thousand.

Special training programs are offered to our internal auditors to ensure that the organization continues to improve. Overall, in 2018 about 527 employees participated in technical training programs (2017: 435 employees) such as JOIFF “Stuck pipe” and IWCF “Well Control,” whose purpose is to train employees on safe and efficient working methods.

In addition to technical training, PeWeTe also trains its employees on issues relevant to Compliance. Compliance training supports the process of embedding tolerance and proper professional behavior in the organization. This training also includes employee tests.

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

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

Occupational Health & Safety

The company follows a Zero Harm policy with respect to both personal safety and environmental issues and has developed a detailed program to prevent workplace accidents. Safety training is conducted on a monthly basis for the employees and subcontractors of Petro Welt Technologies AG. The cost of workplace safety measures was EUR 1.6 million in 2018, up from EUR 1.2 million in 2017.

To increase workplace safety, the company also builds on employee awareness. All PeWeTe employees undergo a rigorous training program to learn about the hazards in connection with their work. Our Hazard and Effects Management Process encompasses the regulations and training programs for all operating segments as well as the guidance on implementing the worksite hazard management process for all rigs and frack fleets.

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

In order to monitor the number of accidents and incidents in the field, the lost time injury frequency rate (LTIFR), which compares the number of injuries to the number of working hours, is determined on a regular basis. The rate for the Group companies in 2018 is as follows: KATKoneft 2.39%; KATOBNEFT 1.76%; KAToil-Drilling 8.98%—for a total LTIFR in Petro Welt Technologies AG of 4.49%. This means that the LTIFR improved yet again group-wide compared with the previous year.

We also introduced two new indicators in 2018: for one, the reduction in the amount of fines from customers and regulatory bodies, which shows a 40% decrease compared to the previous year and, for another, the number of repeat orders from state regulatory authorities resulting in sanctions for the Group; there were zero in 2018.

The occupational health and safety certificates for our subsidiaries, KAToil-Drilling and KATOBNEFT LLC, were modified from the old OHSAS 18.001 standard to the new ISO 45001 standard.

Environment

Environmental Responsibility

When it comes to sustainability, we believe that our responsibility toward the environment is of great importance in securing the Group’s financial success through sustainable entrepreneurial practices. The continuous improvement of the environmental situation on the sites and throughout the value chain is our main concern. Internal ecological audits and inspections are carried out in the field to ensure compliance with all rules and regulations—whether internal or external.

To improve environmental performance, we are using environmental management systems for our subsidiaries, KAToil-Drilling and KATOBNEFT LLC. The certificates for both operations were updated to the new ISO 14001:2015 standard in the reporting year.

Energy & Emissions

All of the core business activities of Petro Welt Technologies AG encompass energy-intensive processes. In some cases, we generate energy ourselves, in others it is supplied by the client using autonomous power sources. Our total energy consumption rose from 33,098,926 MWh in 2017 by around 10% to 36,173,722 MWh in 2018. This increase is due to the fact that more power had to be generated through our own diesel generators. In the previous year, more energy was supplied to us by our clients.

In 2018, the increase in the amount of energy used went hand in hand with an increase in air emissions. The company's total air emissions were 420.4 tons, up from 349.7 tons in 2017. This number includes solids (4.5%, up from 3.4% in 2017); sulphur dioxide (9%, up from 8.6% in 2017); carbon dioxide (63.7%, down from 69.4% in 2017); nitrogen oxides (19.2%, up from 12.6% in 2017); and hydrocarbons (3.6%, down from 6% in 2017). All air emissions caused by our activities are within the permitted levels.

Effluents & Waste

Oil spills represent a major potential negative impact that is linked to our activities. Petro Welt Technologies AG has defined a range of precautionary measures to prevent oil spills. Among other things, it has committed to using only environmentally friendly drilling fluids. It has also implemented the legally required, mandatory training programs for its employees in order to equip them with the necessary know-how on how to prevent oil spills. In addition, blow-out preventers (BoPs), special adjustable plugs, and tanks are deployed in the field. Client representatives are also regularly on site to review the processes.

Once field operations have been completed, PeWeTe has contractual obligations to clean and re-cultivate the area of activity. In fiscal year 2018, no cleaning and re-cultivating activities took place (compared to cleaning expenses of EUR 1.1 million in the year 2017).

The company has implemented waste management policies to limit its negative impact on the environment. The total amount of waste produced by our operations in 2018 was 2,106.85 tons (2017: 2,110.45 tons). The share of hazardous waste in 2018 was 21.3%. Starting in 2018, we began to monitor compliance with waste generation standards and limits on their disposal and on permissible emissions, which is a permit that specifies the waste disposal and emissions limits. We keep within these limits.

Soil Protection

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

As there were no oil spills again in 2018, there were no major effects on the soil that stem directly from the company's activities.

Products & Production

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

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

Besides the aforementioned production drilling, PeWeTe is also active in the field of oil and gas exploration drilling for purposes of regional research and exploration associated with the development of oil and gas fields.

Technology

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

Both the cementing of wells and remedial cementing are important parts of our Well Services. The company has completed more than ten thousand well-cementing jobs since 1996 and operates six mobile cementing fleets. Remedial/squeeze cementing includes the sealing of casing to prevent crossflows by insulating the oil zone from the water zone to restore production. In 2018, a total of 759 remedial operations (2017: 1,244) and 4,214 fracturing jobs (2017: 4,558) were completed.

Drilling refers to the classical technology of drilling vertical, inclined, and horizontal wells for extracting oil and gas at depths of up to 5,000 meters. An oil or gas well is created by drilling a hole into the earth. While no new rigs were put into operation in 2018, 123 conventional drilling wells were made and 95 sidetracking jobs performed.

Procurement

2018 was a year of big changes in the company. Petro Welt Technologies AG has initiated the move to a new stage of its development, specifically, transforming the procurement function into a supply chain organization. The word "Services" is included in the very name of the function: "Supply Chain Services" (SCS). This is not accidental. The Supply Chain organization is of service to the field, and the field personnel are its customers. The main objective of Supply Chain Services is to make their life simpler by allowing them to focus on their main goal, which is to deliver top-quality oilfield services to the oil companies at the lowest possible cost.

Hence Supply Chain activities are aimed at meeting the company's operations requirement, thus providing better services to our external customers. Supply Chain activities are synchronized with the operations requirement, and are carried out in collaboration with our Quality, Health, Safety and Environmental (QHSE) management and Finance functions.

Nowadays, given the rather complicated economic environment, the significant increases in the cost of fuel, materials, equipment, and supplies, and, at the same time, the inclusive focus on lowering costs while maintaining quality at the appropriate level, Supply Chain Services is a function that

- effectively leverages the purchasing power of the company;
- efficiently manages the supply chain for all equipment, materials, supplies, and services used by the company; and
- generates substantial and measurable savings for the company.

SCS activities are primarily focused on sourcing, procurement and logistics as well as materials management. Splitting the procurement process into two parts, sourcing and procurement, enables Petro Welt Technologies AG to make the process more transparent and to achieve the desired cost optimization overall, because “procurement” encompasses purchases, negotiations, and acquisitions, whereas “sourcing” deals with supplier selection and management. Introducing this organizational change will allow the company to incorporate modern practices pursuant to which these are two different spheres of activity that can be optimized by segregating the respective responsibilities. Doing so also reduces potential conflicts of interest.

The next step in setting up Supply Chain Services entails centralizing all activities and both unifying and standardizing all systems and processes. Centralizing supply chain activities translates into clear cost and efficiency benefits because it enhances purchasing power, consolidates shipping, and minimizes storage locations.

The import substitution initiative that PeWeTe launched and developed about two years ago has already brought cost reductions as well as delivery lead time improvements that reduce the risk of unavailability of supplies and/or rising costs due to the devaluation of the ruble and the ongoing sanctions regime; the list of import substitutions is continuously expanding.

Another item in the Supply Chain Services to-do list is the centralization of both transportation and logistics management. It entails unifying and standardizing all systems and processes which, in turn, requires proper vendor management, implementation of effective contracting strategies, and establishing standard KPIs for operational control purposes and suppliers.

Both the changes that have already been introduced and those that will be implemented soon will usher in a new era for Petro Welt Technologies AG that will boost its market strength.

2019 Implementation Plan

Materials Management

As part of setting up Supply Chain Services, at present PeWeTe is working on centralizing the materials management function with the aim of achieving full transparency and full visibility of inventories in each warehouse in near real-time to prevent overstocking, which allows restocking other regions in the case of an emergency or if it is economically beneficial to do so. As expected, the implementation of sophisticated warehouse management system software and the automation of certain business processes will streamline inventory, labor, and facilities management within the company’s warehouses. Proper order management, timely minimum/maximum spare parts planning and storage as well as enhancement of the technological infrastructure of warehouses will cut down on production stoppages and reduce shortages of tangible assets. In turn, this will enable the company to realize additional economic benefits.

Imports

The import substitution strategy of our Russian operating companies is designed for the long term and thus should make it possible to achieve the objectives of Petro Welt Technologies AG with respect to the capacity and structure of domestic production while at the same time reducing its reliance on imported goods. However, the modern global economy does not allow countries to develop effectively using solely their own resources and abandoning imports in toto. In fact, because Russian production lags far behind that of other countries, it is still cheaper and more profitable to import goods from abroad.

PeWeTe is changing this approach to the purchasing of foreign commodities by launching a pilot project that entails importing goods in its own name instead of buying high-value equipment on delivery duty paid (DDP) terms from foreign agents engaged in economic activities. Successful implementation of the project would allow the company to increase transparency and ensure that all processes from the supplier's point of origin to the final destination are executed in a compliant manner, thus achieving efficiency in terms of both costs and timing.

Quality & Management Systems

The quality management system certificate for our subsidiary, KAToil-Drilling, has been updated to the new ISO 9001:2015 standard, and the environmental management certificate has been updated to the new ISO 14001:2015 standard. The occupational health and safety certificate, for its part, is currently being updated from the old standard (OHSAS 18001:2007) to the new one (ISO 45001). All of these certificates apply to all drilling activities in connection with oil and gas wells.

The same changes to the standards newly applicable to the quality, environmental as well as health and safety certificates have been made for our subsidiary, KATOBNEFT LLC, as well as for all well reconstruction activities by means of sidetracking.

Customer Relations

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

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

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

Risk Analysis

Material Non-Financial Risks

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

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

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

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

In 2018, there were again no blow-outs at our sites.

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

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

In order to maintain its competitive advantages, the company continues to further develop its risk management system. It aims to optimize nonfinancial aspects of its business activity. We have identified five crucial areas in this respect, specifically, sales and marketing, legal and supply chain, operational performance, health, safety and environment, management and efficiency. We apply the most appropriate set of measures to mitigate each type of risk.

The following Table describes the distribution of responsibility for non-financial risk management:

Non-Financial Risks

Business process		**Name of risk**	**Risk owner**
Sales & Marketing	Tenders	Unsuccessful tenders	CEO
	Contracting	Lack of clear definitions and protections	
	Market share	Loss of competitiveness and market share	
Legal & Supply Chain	Clients	Unfavorable contracts	CEO
	State authorities	Non-compliance with regulations	
	Suppliers & contractors	Unqualified delivery of services or products	
Operational	Subsurface	Non-compliance with operational processes and approved job designs	General Directors
	Surface & manufacturing	Failure to follow instructions and manufacturers’ manuals Ignorance of preventive maintenance	
	Operational	Non-compliant actions regarding job design	
Health, Safety & Environment	People	Lack of trained and committed personnel No culture of intervention	General Directors
	Assets & equipment	Noncompliance with equipment specs	
	Reputation	Failure to deliver proper quality Personnel mismanagement	
Management & Efficiency	Tone	Lack of established moral and ethical values	CEO & General Directors
	Business environment	Business pressures that threaten jobs	
	Staff turnover	High turnover of personnel	
	KPI & goals	Not effectively established and communicated	

Vienna, 29 April 2019

Yury Semenov
Chief Executive Officer

Valeriy Inyushin
Chief Financial Officer

Corporate Governance Report

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

To ensure a high degree of transparency and clarity for all capital market players, the company's corporate bodies decided in 2006 to apply the German Corporate Governance Code (the "Code").

This report is based on the Code as amended 7 February 2017, which may be downloaded at www.dcgk.de.

The Executive Bodies of Petro Welt Technologies AG

Upon submission of proof of shareholding (section 10a Stock Corporation Act [AktG] and section 16 of the Articles of Association), the shareholders are entitled to exercise their rights, in particular their voting rights, at the Annual General Meeting (AGM). Each share in the company entitles the owner 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 AGM, 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 corporations 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 requirements, the company is managed on the basis of a dual board system that is characterized by the strict separation of the management and supervisory bodies. Under this system, members of one corporate body may not simultaneously be a member of the other one.

Members of the Supervisory Board

Re-appointed on 16 June 2017:

- Maurice Gregoire Dijols, Chairman of the Supervisory Board, born 1 August 1951
- Remi Paul, Member of the Supervisory Board, born 16 February 1966
- Ralf Wojtek, Member of the Supervisory Board, born 29 May 1945

The current members of the Supervisory Board, who were re-appointed on 16 June 2017, were elected to the Supervisory Board until the end of the Annual General Meeting resolving the discharge of their liability for the 2021 fiscal year.

Other Supervisory Board positions 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 impartiality requirements. The following Supervisory Board members are deemed independent:

- Remi Paul
- Ralf Wojtek

Maurice Gregoire Dijols is the sole owner of Joma Industrial Source Corp. He controls 87% of the shares of Petro Welt Technologies AG indirectly through his company.

The Supervisory Board supervises and advises the Management Board with respect to its management of Petro Welt Technologies AG. The company's Articles of Association govern individual tasks and responsibilities as well as the convening, scheduling, and chairing of Supervisory Board meetings. The responsibilities of the Supervisory Board include appointing and dismissing members of the Management Board and setting the salaries of the members of the Management Board. The Supervisory Board has formed an Audit Committee, which is responsible for fulfilling the auditing duties assigned to it at the Supervisory Board's behest, to the extent legally permitted. The formation of this committee is mandatory under Austrian law.

Members of the Management Board

The current members of the Management Board were re-appointed effective as at 24 February 2018.

- Yury Semenov, Chairman of the Management Board, born 1 October 1977, responsible for key corporate functions such as business strategy, business development, and business policy.
- Valeriy Inyushin, Deputy Chairman of the Management Board, born 11 September 1972, responsible for central planning, corporate finance and accounting, internal control system, investor relations.

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

All matters of fundamental or significant importance require the approval of all members of the Management Board. The Management Board abides by the company's Articles of Association and the guidelines issued by the Supervisory Board that regulate the tasks and responsibilities of the Management Board members, in particular, procedures regarding the decision-making process and rules on the avoidance of conflicts of interest.

Petro Welt Technologies AG has purchased 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.

Compensation of Supervisory Board and Management Board

Petro Welt Technologies AG follows the recommendations of the Code, which states that the compensation of the Supervisory Board and the Management Board should be disclosed individually for each member. The amounts of compensation awarded are disclosed in the compensation report, which is part of the Notes to the Consolidated Financial Statements.

The compensation of the Management Board members comprises fixed and variable elements. The base salary and benefits form the fixed compensation based on prevalent market practice. The variable compensation drives and rewards best-in-class performance by setting ambitious and stretched targets. These targets encompass both short and long-term objectives such as contract portfolio expressed in revenue, benchmarks versus peers, profit, etc.

Risk Management

The responsible handling of risk is one of the fundamental principles of good corporate governance. Both the Management Board of Petro Welt Technologies AG and the managerial employees within the PeWeTe Group have at their disposal comprehensive reporting and control systems specific to the Group and the company for monitoring, assessing, and controlling risks. These systems are continuously refined and adapted to changing parameters. Furthermore, they are regularly checked for efficiency and functionality as part of the annual audit. The Management Board briefs the Supervisory Board on a regular basis with respect to all existent 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. It also includes the mandatory report on the internal control and risk management systems as they apply to accounting procedures.

Transparency

Petro Welt Technologies AG informs capital market players, interested parties, and the general public immediately, regularly, and simultaneously of the Group's current financial position. The management report, semi-annual report, and 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 notices. Information is made available in German, Russian, and English. The company's website, www.pewete.com, also offers in-depth information on the PeWeTe Group and on the Petro Welt Technologies AG share. Petro Welt Technologies AG regularly runs Compliance training sessions for the PeWeTe Group.

Financial Calendar

Our financial calendar offers a transparent overview of all scheduled important events and publications. The calendar is published and made available on PeWeTe's website.

Directors' Dealings

Current directors

None of the directors listed below hold any shares of the company:

- Yury Semenov – Chairman of Petro Welt Technologies AG
- Valery Inyushin – Deputy Chairman of Petro Welt Technologies AG
- Rinat Mazitov since 24.07.2018 – Vladimir Kalinin till 23.07.2018 – General Manager of LLC Petro Welt Technologies. LLC Petro Welt Technologies is a management company that serves as the sole executive body of KAToil-Drilling LLC, KATOBNEFT LLC, and KATKoneft LLC.
- Olga Matsukevich – General Manager of Trading House KAToil, a limited liability company (LLC)
- Irina Belyaeva – General Manager of KAT.oil Leasing LLC
- Anna Nikitina – General Manager of LLC WellProp
- Androulla Papadopoulou and Eliana Giannakou Hadjisavva – Directors of PEWETE EVOLUTION Limited
- Eliana Giannakou Hadjisavva – General Manager of Wellprop Cyprus LIMITED
- Uzim Ilyasova – General Manager of PeWeTe Kazakhstan LLP

Supervisory Board of Petro Welt Technologies AG

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

Table 1: **Shareholders**

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

Diversity Management

Petro Welt Technologies AG is committed to the equal treatment of all people—regardless of gender, age, disability, religion, culture, skin color, education, social background, sexual orientation, or nationality. The company resolutely opposes all forms of discrimination, bullying, and sexual harassment. In management development, special attention is paid to communicating these leadership values. The fact that it is active in an industry with a strong technical focus makes it particularly challenging for the company to achieve a satisfactory gender balance in all areas of its activities. Given the sometimes adverse working conditions, the PeWeTe Group has adopted a policy of granting special leave above and beyond annual leave where applicable. Work is underway to develop and implement gender equality goals and measures. In 2018, no cases of discrimination were reported to the management.

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

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

Diversity Strategy for the Supervisory Board and the Management Board

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

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

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

At present, the company's Supervisory Board and Management Board do not have any female members. The promotion of women to management positions is not restricted. As at 31 December 2018, the percentage of women in management positions was 15% at the Group level. Four women hold general management positions within the Group as disclosed in the Director's Dealings above. The percentage of women among employees throughout the Group was 10% as at 31 December 2018. The members of the Supervisory Board are between 53 and 73 years old, with an average age of 64 years, whereas the members of the Management Board are between 41 and 46 years old.

Both the Management Board and the Supervisory Board, respectively, were recently re-appointed and re-elected. The current members of the Management Board were re-appointed effective as at 24 February 2018, and the current members of the Supervisory Board were re-elected on 16 June 2017. Upon completion of the current Supervisory Board members' terms of office and approval of their actions by the Annual General Meeting, all relevant aspects of diversity will be considered with respect to the composition of the next Supervisory Board as well as, subsequently, that of the Management Board.

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

Petro Welt Technologies AG (hereinafter the "company") is a company organized under Austrian law and is subject to Austrian laws, rules, and regulations. As such, the company's compliance with the recommendations of the German Corporate Governance Code (the "Code") is contingent on the Code's compatibility with Austrian laws, rules, and regulations that govern the company. The company's Management Board and Supervisory Board 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 as amended 7 February 2017 have been and are being complied with, save for the recommendations listed below. For the period from 20 May 2017, the following Declaration refers to the recommendations of the Code as amended 7 February 2017, which was published in the Federal Gazette on 24 April 2017 and 19 May 2017 (amended version).

1. Recommendation 3.8

The company does not follow the Code's recommendation to introduce a reasonable deductible in its D&O insurance policy, because the company does not expect such a deductible to have a positive impact on the performance by the members of the Management Board and the Supervisory Board of their duties of care and loyalty. In addition, the company notes that deductibles in D&O insurance policies are not widely used outside Germany and might hinder its ability to recruit key personnel.

The corresponding German laws do not apply in Austria and the company thus does not abide by this recommendation.

2. Recommendations 4.2.3, 4.2.4, and 7.1.3

Currently, the company does not follow the Code's recommendation to include a compensation cap in the director's contracts of Management Board members in case they prematurely step down from their Management Board functions without good cause.

The corresponding German laws do not apply in Austria and the company thus does not abide by this recommendation.

The monetary compensation elements granted to the members of the company's Management Board do not include stock options or comparable instruments, nor participation in any corporate pension schemes. Therefore, recommendations as to stock options or comparable instruments (e.g. requests for compliance with relevant benchmarks; no retroactive modification of performance targets or benchmarks; agreement on a cap for extraordinary, unforeseen developments) have not been implemented. Consequently, the company's Compensation Report does not contain any details regarding the value of stock option plans or similar long-term incentives and high-risk components of its directors' compensation, nor details of payments into pension schemes. In addition, the company's Corporate Governance Report does not disclose any stock option programs and similar security-based incentive systems. If stock option plans or programs for the Management Board are implemented, the strict standards of the Code shall apply.

3. Recommendations 5.3.1 and 5.3.3

The company and the Supervisory Board believe, because the latter has only a limited number of members that establishing additional committees—aside from the mandatory Audit Committee—would not be appropriate and would not enhance the efficiency of the Supervisory Board's work. A nomination committee has not been established for the same reason.

Recommendation 5.3.2, last paragraph

The company does not comply with this recommendation because its Supervisory Board has a limited number of members. The Chairman of the Supervisory Board thus also chairs the Audit Committee.

4. Recommendations 4.1.5, 5.1.2 (section 1), and 5.4.1

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

The company does follow the recommendation to draw up, consider, and publish specific objectives pursuant to applicable Austrian law. The Supervisory Board's composition ensures effective consulting and monitoring of the Management Board in line with the company's interests. In order to ensure the dutiful performance of its tasks as required by law, in the future the Supervisory Board's nomination proposals to the AGM will focus primarily on the knowledge, skills, and experience of the nominees. In addition, the Supervisory Board will reasonably take into account 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 of the end of the fiscal year, nor are its interim reports publicly accessible within 45 days of the end of the reporting period. This is due to the complex reporting requirements in Russia, Kazakhstan, and other jurisdictions in which the company does business.

Vienna, 29 April 2019

Management Board **Supervisory Board**

Report of the Supervisory Board for 2018

Throughout 2018, the Supervisory Board thoroughly monitored the conduct of Petro Welt Technologies AG's business by the Management Board and advised the Management Board in its 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 operational environment as well as business opportunities and risks for Petro Welt Technologies AG and its Group. The Supervisory Board held seven meetings during 2018, with all members of the Management Board being present, i.e. on 23 March 2018 (Supervisory Board), on 20 April 2018 (Supervisory Board and Audit Committee), on 15 June 2018 (Supervisory Board), on 31 August 2018 (Supervisory Board), on 14 September 2018 (Supervisory Board), on 13 December and 14 December 2018 (Supervisory Board on 13 December 2018 and both Supervisory Board and Audit Committee on 14 December 2018).

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 comprehensive information about the current business situation and material business events from the Management Board.

During the scheduled meeting on 17 April 2019, the Supervisory Board examined the 2018 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 17 April 2019—after comprehensive reviews and discussions with the auditors at the meetings of the Audit Committee and the Supervisory Board, which did not give rise to any qualifications—the Supervisory Board approved the financial statements of Petro Welt Technologies AG for 2018. As a result, the single-entity financial statements for 2018 have been approved pursuant to section 96 (4) of the Stock Corporation Act. The same applies to the consolidated financial statements for 2018. Further, the Supervisory Board accepted the proposal to retain dividends for 2018 and approved the Corporate Governance Report following its consideration by the Audit Committee.

The Supervisory Board also examined the Non-Financial Information Report 2018 with respect to lawfulness, correctness, and adequacy of purpose on 17 April 2019. The Supervisory Board had no objections to this report.

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

Further information about the Supervisory Board's composition and work as well as 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 fiscal year 2018 as well as all shareholders, customers, and partners for their trust.

Vienna, 29 April 2019
Maurice Gregoire Dijols
on behalf of the Supervisory Board

Group Management Report

Economic Environment

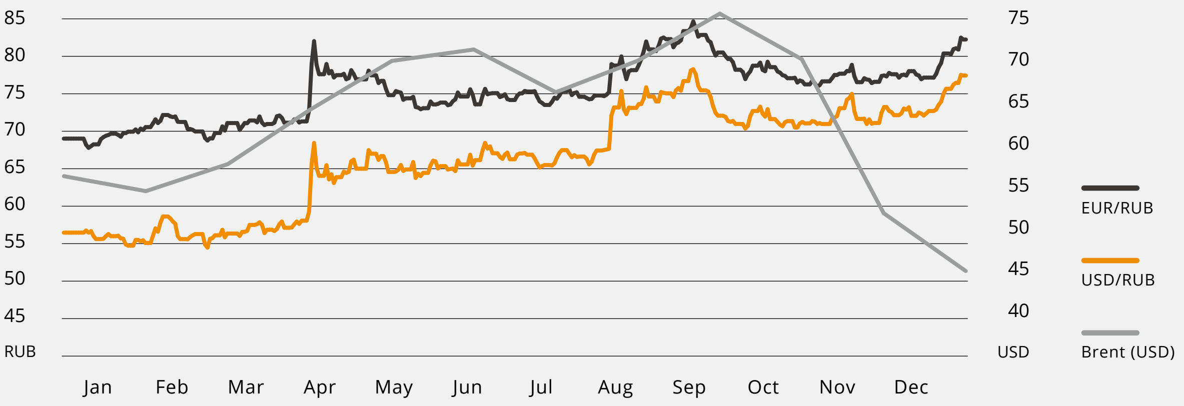
"The global economy is navigating rough seas," is how the OECD has summarized the year 2018. "Global GDP growth is strong but it has peaked. In many countries unemployment is well below pre-crisis levels, labor shortages are biting, and inflation remains tepid. Yet, global trade and investment have been slowing on the back of increases in bilateral tariffs while many emerging market economies are experiencing capital outflows and a weakening of their currencies. The global economy looks set for a soft landing, with global GDP growth projected to slow from 3.7% in 2018 to 3.5% in 2019–20. However, downside risks abound and policy makers will have to steer their economies carefully towards sustainable, albeit slower, GDP growth." (Source: https://www.oecd-ilibrary.org/sites/eco_outlook-v2018-2-en/index.html?itemId=/content/publication/eco_outlook-v2018-2-en)

Russia's Economy in 2018

Russia's economy gained momentum in 2018, delivering GDP growth of 2.3% (2017: +1.6%). Increased investments in fixed assets and industrial production by 4.1% and 2.9%, respectively, were the main drivers of economic activity. Growth in the mining sector, which was 4.1% and due mainly to metals mining, had the greatest impact on industrial output. Expressed in USD, it grew by 27.4% thanks primarily to the favorable dynamics of metal and energy prices as well as the surge in hydrocarbon exports in the second half of 2018 as Russia's oil production reached an all-time high. Oil prices averaged USD 72/bbl in 2018 (up 11% from the 2017 average). Yet Russia continued to face the ongoing devaluation of its currency. On the annual average, the ruble lost 7.5% against the US dollar und 12.2% against the euro.

Chart 1

Exchange Rates and Oil Price Development



In 2018, the country's monetary policy remained consistent with the established inflation-targeting regime. Rising since July 2018, inflation reached 4.26%—slightly higher than the Russian Central Bank's target of 4% in annualized terms, with non-food products contributing the most to headline inflation. Inflationary risks stemmed from the increase in value-added taxes (VAT), a higher-than-expected rise in gasoline prices, the closing of the output gap, elevated inflation expectations, and heightened external volatility.

Overall, relatively sound macroeconomic parameters combined with the country's ability in the medium term to adjust to the Western sanctions enabled it to absorb external shocks more or less successfully. In 2018, Russia's international reserves rose by 8% to USD 466.9 billion. While the country's total external debt was kept at about 39% of GDP, the external exposure of government debt remained very low—at USD 56 billion or about 5% of GDP.

Kazakhstan's Economy in 2018

Kazakhstan's economy accelerated slightly. In 2017, its GDP grew by 4%. In 2018, it expanded by 4.1% year on year driven by the impressive increase in investments by 17.2% (2017: 5.8%) and the improvement in retail trade dynamics from 2.7% in 2017 to plus 6.5% in 2018. The national currency (tenge) depreciated to a lesser degree on the annual average (2018 vs 2017) compared to the ruble versus the euro and the US dollar—by 10.4% and 5.7%, respectively. As a result, the tenge appreciated 1.6% against the ruble. Buoyant oil production coupled with strong oil prices have kept exports at a robust pace of 26%. Moderate inflationary pressures coupled with decelerated devaluation have boosted households' purchasing power and likely spurred the increase in private spending.

Global Oil Market

Demand

Worldwide demand for oil peaked in the first quarter of 2018 at 1.6 mb/d yet declined to 1.3 mb/d in the fourth quarter of 2018, thus confirming the global slowdown due to relatively high prices and the slowing economy. The price impact was offset, however, by slightly lower economic growth assumptions and downward revisions to our projections for certain countries impacted by weak currencies (such as Turkey) or countries facing a collapse (such as Venezuela).

Following modest growth of 0.5 mb/d year on year in the second quarter of 2018, global oil demand is estimated to have expanded by 1.3 mb/d and 1.6 mb/d, respectively, in the third and fourth quarter of 2018. European and Asian demand continued to be impacted by higher oil prices and a slowdown in economic activity. Supported by new petrochemical projects, US demand, by contrast, remained robust. However, provisional data for the third quarter point to a significant slowdown in the US, particularly the demand for gasoline.

Non-OECD demand has picked up noticeably according to recent data. China is still showing robust growth, and some other non-OECD countries are seeing a slight recovery after the summer weakness. Non-OECD demand was projected to increase by 895 kb/d in 2018, accelerating to 1.1 mb/d in 2019, with Asia contributing 880 kb/d and 905 kb/d, respectively. China and India are, as always, the main sources of growth.

Supply

The global oil supply fell 360 kb/d month on month to 101.1 mb/d in November 2018 due to lower output in both the North Sea and Canada and as Russia pulled back from record levels. Saudi Arabia and the UAE, however, cranked up to historic highs in the run-up to a new OPEC/non-OPEC agreement to curb output.

While the non-OPEC supply averaged 60.4 mb/d (+2.4 mb/d year on year) in 2018, following the pledge by ten non-OPEC countries to reduce their output by 400 kb/d it slowed down starting in October. Russia agreed to cut supplies by 230 kb/d from October's record high of 11.4 mb/d in the subsequent months, putting the expected ramp-up of its new projects at risk. The output cuts came as welcome news for US shale producers, this after domestic crude prices plunged in November near or below levels deemed necessary to profitably drill new wells.

Record production in Saudi Arabia and the UAE as well as higher flows from Nigeria, Iraq, Kuwait, and Libya pushed OPEC's November output up by a net 965 kb/d compared to May 2018, i.e. just before the Vienna Agreement countries agreed to ease cuts. Saudi Arabia's production rose by just over 1 mb/d in response to stronger demand. Iran, on the other hand, saw supply fall by 840 kb/d as customers were deterred by the imposition of unilateral US sanctions. OPEC's loftier supply in November, the highest since July 2017, cut spare production capacity to just 1.64 mb/d—less than 2% of global demand.

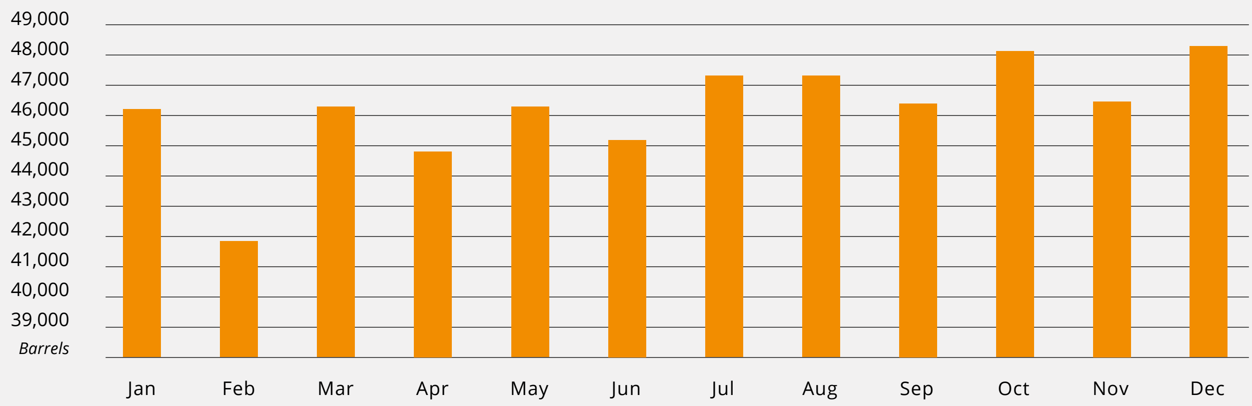
The price of crude oil (Brent) reached USD 54 at the end of 2018, after peaking at USD 86 in late September/early October.

Oil and Gas Production in Russia and Kazakhstan

In 2018, Russia's oil production rose by 1.7% compared to the previous year. This moderate growth is an outcome of the Vienna Agreement, which cut production in both OPEC and non-OPEC countries. The production of natural gas, meanwhile, rose by 16.5% year on year, delivering fairly even growth over the course of the year.

Chart 2

Oil Production Russia 2018



Following its impressive growth in 2017, Kazakhstan's oil production rose yet again in 2018, albeit by a mere 6.2%. The production of natural gas fell slightly by 0.9% year on year.

While the Kazakh economy benefited from higher energy prices throughout 2018, the slight reduction in oil prices in the fourth quarter was offset in part by the increase in crude oil production thanks to the growing volumes at the Kashagan oil field.

Oilfield Services

International

Due to the increase in oil supplies, 2018 was an ambivalent year for the global oilfield services (OFS) market despite rising oil prices. On the one hand, offshore oilfield services experienced a positive impact from the demand side that maintained and pushed up contractors' prices. During 2018, the subsea market was still leading the field with more sanctioned offshore projects than in all of 2017. Day rates continued to rise up to the end of the year, reaching highs of 80,000 barrels per day in the Gulf of Mexico. Yet some major projects had to be postponed—a development that was felt in Russia as well as in other countries such as Uganda. Experts expect growing offshore investments in 2019 to lead to an increase in revenues for specialized offshore service companies. Investments by the shale industry are projected to rise by 8%, while other onshore markets expect moderate growth of around 1%.

On the other hand, the momentum in onshore oilfield services was very limited. The rig capacity utilization rate in US land drilling was less than 90%. Europe, for its part, will not only continue to lag, reflecting a maturing asset base and limited opportunities for investment, it also suffered a significant decline of 7.6% in its average rig count during the downturn and is the only region that failed to add rigs in 2018. The number of operations and prices in well stimulation (including fracturing) continued to be under pressure.

The profitability of land OFS players remained weak and all our peers (Nabors, Calfrac, and Trican) posted significant losses in 2018.

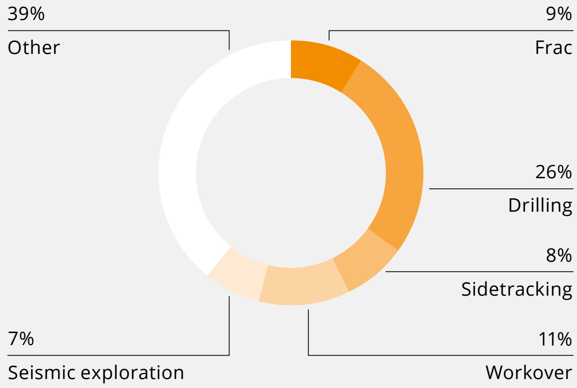
Russian OFS Market

Because of the devaluation of the ruble, the reduction in physical volumes in some segments as well as continuing price pressures from the oil majors, the Russian oilfield services market shrank in 2018 by 1% expressed in EUR and by 7% expressed in USD compared with 2017.

At an output of 547 million tons or 4 billion barrels, the production of oil and natural gas in Russia remained stable in 2018 year on year. This development was largely due to OPEC’s restraint in the past year which, in turn, led producers to revise their production and drilling plans, consequently affecting the oilfield services market in Russia.

Chart 3

Total Russia OFS Market (USD 19.4 billion)



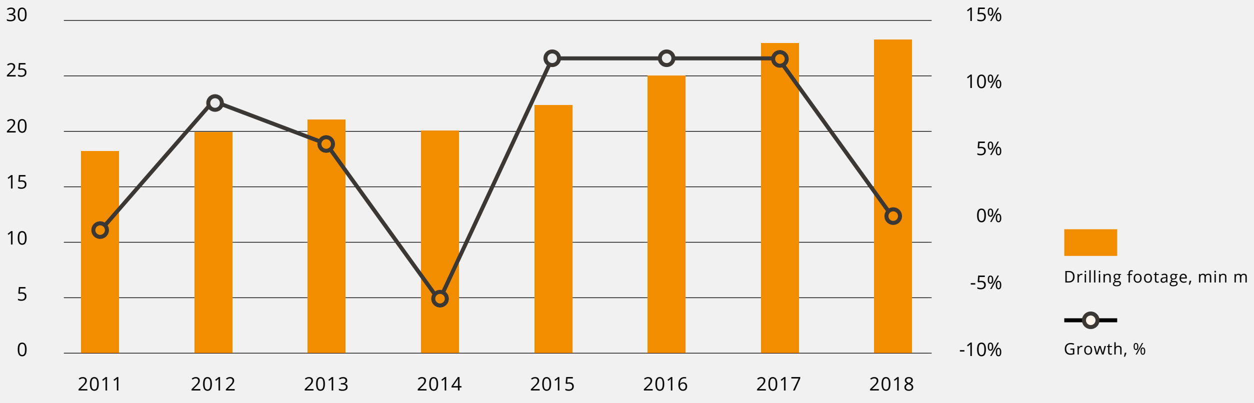
Production Drilling

Even though Russia’s oil production grew by 1.7% in 2018, the production drilling segment experienced a slight decrease of 0.6% year on year (compared to the increases of 11.8% and 12.6% in 2016 and 2017, respectively), reaching 27,635 thousand meters in 2018 (compared with 27,800 thousand meters in 2017).

Consequently, the drilling performance of the Russian oil industry in 2018 mirrors that of 2017. Of the “Big 4” (Rosneft, Surgutneftegaz, Lukoil, and Gazprom Neft), Rosneft again emerged as the leading company. In 2018, its market share rose to 43.3% (2017: 42.9%), followed by Surgutneftegaz with a market share of 17.5% (2017: 16.9%), Lukoil with a market share of 10.8% (2017: 10.6%), and Gazpromneft with a declining market share of 7.3% (2017: 8.7%) due to a dramatic drop in drilling activity by 16.9%. Other companies managed to gain 21.0% of the market (2017: 20.9%). The main reason for the decline in drilling were the OPEC restraints that made oil and natural gas producers revise their production plans and, consequently, drilling plans.

Chart 4

Russia Drilling Dynamics



Well Stimulation (mainly represented by hydraulic fracturing)

Hydraulic fracturing has displayed changing dynamics over the past eight years. While it experienced growth of 28.4% in 2014, it declined by 4.8% and 7.8%, respectively, in 2015 and 2016, only to rise again by 2.1% in 2017. In 2018, finally, it changed direction once again with an overall decrease of 4.3%.

However, this downturn did not affect all companies. Rosneft, the leading player in this field, managed to expand its market share in 2018 to 36.9% (2017: 34.1%). Coming in second, Surgutneftegaz closed the year with a lower market share of 21.7% (2017: 25.1%). Tatneft follows with a share of 14.7% (2017: 13.3%) and Lukoil with a share of 11.6% (2017: 12.2%). Gazprom Neft, for its part, again ranks fifth with a share of 6.5% (2017: 6.7%). Other companies hold a combined market share of 8.7%, remaining unchanged from the previous year (2017: 8.7%).

The Russian stimulation market still is a strongly contested one. The large number of competing companies has led to constant price reductions in order to secure both orders and volumes in the years ahead. This plays a major role in longer-term contracts (4 to 5 years), because any misstep will lead to further price reductions to secure long-term contracts.

Chart 5

Fracs Rate of Growth in %

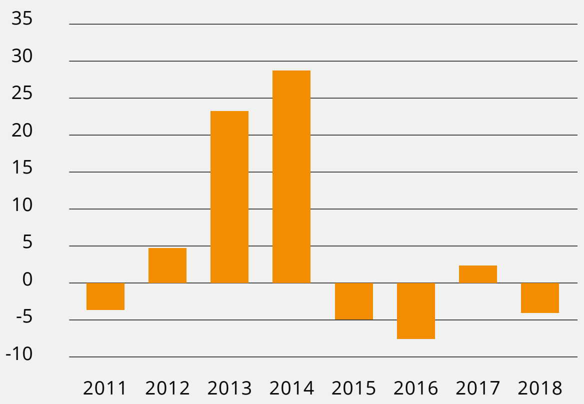
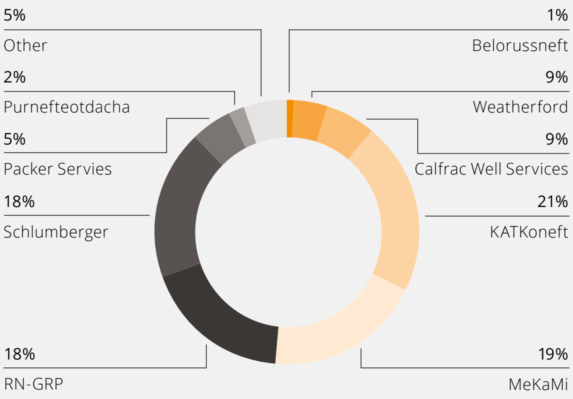


Chart 6

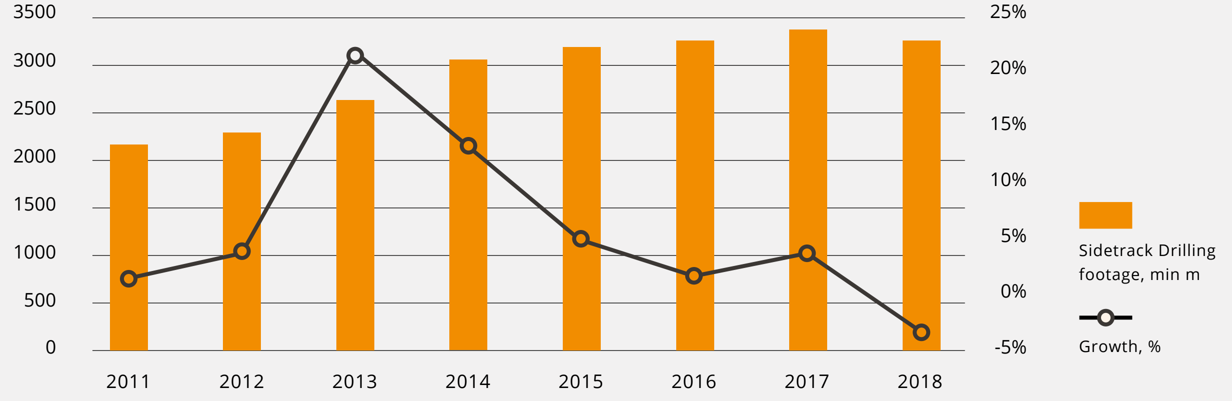
Russia Stimulation Market



Sidetrack Drilling
For the first time since 2008, sidetrack drilling in Russia was characterized by negative dynamics that led to a loss of 3% in physical volumes in 2018. This technology, which represents a cost-effective way of reactivating idle wells and rebuilding production capacities, has been a driving force in the market.

But sidetracking has become less and less efficient given the law of diminishing returns, especially as regards ageing wells. Oil producers have thus decided to offset the phenomenon of lower returns through incremental increases in oil production in the brown fields where oil production rates are low, compared to less expensive methods of oil recovery enhancement. As a result, oil companies have switched more intensively to other ways of maintaining the productivity of oil fields as, for example, increases in horizontal drilling for multi-stage frac completion compared with deviated well drilling. Coupled with the oversaturated market, the reduction in sidetrack drilling activities has led to the significant decline in prices that continues unabated.

Chart 7
Sidetrack Drilling Russia 2011–2018



Development of the PeWeTe Group

Highlights of 2018

For the PeWeTe Group, the year 2018 was characterized by the following factors: While oil production in Russia rose by 1.7% in 2018 compared to the previous year, most of the increase occurred in the year's second half. Following its impressive growth in 2017, Kazakhstan's oil production rose yet again in 2018, but by a mere 6.2%. Crude oil prices averaged USD 72/bbl in 2018 (up 11% from the 2017 average). Then again, Russia continued to face the ongoing devaluation of its currency. On the annual average, the ruble lost 7.5% against the US dollar and 12.2% against the euro.

The drilling volume in Russia decreased marginally by 0.6% in 2018. Expressed in monetary terms, the volume of the Russian oilfield services market declined by 1% in EUR and by 7% in USD. At the same time, the oil majors' tight investment scenarios continued to put pressure on niche prices.

The sidetracking market in Russia also declined in 2018 as the number of operations fell by 3% due to substitution by other types of drilling (especially horizontal drilling) that stimulate well returns. The PeWeTe Group owns 26 sidetracking rigs which, historically, have contributed a stable and significant share of total revenues yet were deeply exposed to developments in sidetracking in 2018.

The key trends governing PeWeTe Group's gross sales and revenue dynamics thus were the continuing depreciation of the ruble, price pressure from customers, and unexpected call-offs of previously contracted volumes by a number of key clients in Well Services and Sidetracking. As a result, consolidated gross sales recognized in RUB were down by 7.2% in 2018. Gross sales in EUR were EUR 291.8 million—a year-on-year drop of 17.3%. But active cash management and strict cost control made it possible to mitigate the impact of the tough external environment.

The consolidated financial statements in EUR show that the Group underperformed in terms of both the original guidance and the expected results. Gross sales for 2018 were EUR 291.8 million, and EBITDA and EBIT, respectively, were EUR 52.2 million and EUR 11.1 million, which corresponds to margins of 18.0% and 3.8%. The operating expenses in 2018 were in the planned range and were down by 13.0%, closely tracking the decrease in gross sales, which resulted in weaker gross profits of EUR 40.1 million (decline of 36.3% compared with 2017). The increase in administrative expenses by 0.9% was related to the need to create new management and business opportunities, at home and abroad. The net financial income was EUR 4.2 million, which corresponds to a plus of 41.8% due to the decrease in finance costs by 26.2%. The Group posted net profit of EUR 10.8 million—down 65.1% year on year.

As per the Group's strategy and in view of addressing clients' growing demand for WellProp's products, in 2018 the Management Board of Petro Welt Technologies AG prepared project documentation regarding the construction of a second manufacturing line at the Kopeysk plant in order to boost annual production capacities from 50,000 metric tons of proppant to 100,000 metric tons. Russian and international customers recognize the quality of our proppant and provide stable and growing demand for it. PeWeTe is developing an alternative raw material base for the new production line, which can lower the cost of sales but sustain the product's well-known quality. According to the company's projections, the launch of the second line may allow it to boost annual revenue in the Proppant Production segment from EUR 10.9 million in 2018 to between EUR 27 million and EUR 30 million by 2021/2022. The new production capacities should create a reliable framework for expanding exports. Up to EUR 18 million will be required for this investment. Currently, the project is in the documentation development and project team engagement stage.

The increased attention being paid to the Proppant Production segment is tied to the rise in the annual EBIT margin for overseas shipments of proppant, which reached 24%.

In 2018, the management of Petro Welt Technologies AG also continued to pursue its foreign expansion plans to alleviate regional economic risks, for example, by finalizing the registration of its local subsidiary, PEWETE EVO EUROPE S.R.L., Bucharest, Romania. Two mobile drilling rigs destined for the Romanian project are in the process of being modernized and registered in the EU.

Additionally, on 11 July 2018, PeWeTe signed an agreement to amend the terms of the EUR 100 million loan, fixing interest rates at 3.42% above the 6-month EURIBOR rate and extending the term until 31 December 2022. Moody's noted that the company maintains its ability to generate strong cash flow sufficient to cover all of its financial liabilities, including debt service. Considering both the improved debt service conditions and the future investment plans, which serve to expand production capacities, the Group's financial flexibility is solid.

The key financial indicators (KPIs) of the PeWeTe Group for 2018 are as follows:

- Gross sales decreased by 7.2% in RUB and by 17.3% in EUR.
- EBITDA declined by 36.8% from EUR 83.1 million in 2017 to EUR 52.5 million in 2018.
- The consolidated net result dropped by 65.2% to EUR 10.8 million.
- The equity base declined by 15.1%, but the equity ratio remained at a relatively stable level of 53.8%.
- The previously acquired proppant manufacturer, WellProp (formerly CARBO Ceramics Eurasia), contributed EUR 10.9 million to revenue.
- PeWeTe Kazakhstan generated EUR 5.5 million in revenues, which corresponds largely to the 2017 level, thanks to the stronger tenge/EUR exchange rate compared, for example, to the average RUB/EUR rate.

All figures are based on the following exchange rates:

Table 2: **Exchange Rates**

	Closing rate as at 12/31/2018	Closing rate as at 12/31/2017	Average rate 2018	Average rate 2017
1 Euro (EUR)				
= Russian ruble (RUB)	79.4605	68.8668	73.9546	65.9014
= Kazakhstan tenge (KZT)	439.37	398.23	406.77	368.52
= US dollar (USD)	1.1438	1.1956	1.1794	1.1294
1 US dollar (USD)				
= Russian ruble (RUB)	69.4706	57.6002	62.7078	58.3529
= Kazakhstan tenge (KZT)	384.2	332.33	344.9	326.08

Group Structure

Chart 8: **Structure of the Group**

Petro Welt Technologies AG		**100% →**	**LLC Petro Welt Technologies***
Vienna, Austria			Moscow, Russia
		100% →	**LLC KATKoneft**
			Kogalym, Russia
		100% →	**LLC KATOBNEFT**
			Nizhnevartovsk, Russia
		100% →	**LLC KAToil-Drilling**
			Kogalym, Russia
		100% →	**LLC KAT.oil Leasing**
			Kogalym, Russia
		100% →	**LLC Trading House KAToil**
			Kogalym, Russia
		100% →	**Petro Welt GEODATA GmbH****
	100% ↓		Vienna, Austria
	PEWETE Evolution LIMITED	**100% →**	**LLP Pewete Kazakhstan**
	Limassol, Cyprus		Kyzylorda, Kazakhstan
99.99% ↓	**0.01% ↓**	**99.99% →**	**PEWETE EVO EUROPE S.R.L.**
Wellprop Cyprus LIMITED		**0.01% →**	Bucharest, Romania
Limassol, Cyprus		**100% →**	**LLC WELLPROP**
			Kopeysk, Russia

* Management company
** sold 1 July 2018

Reference to the text in the chapter “Company Overview.”

On 1 July 2018, Petro Welt Technologies AG sold and transferred its shares in Petro Welt GEODATA GmbH for one euro. GEODATA had been inactive for more than three years and thus was disclosed in the financial statements as discontinued operations. On 20 August 2018, Petro Welt finalized the registration of its local subsidiary, PEWETE EVO EUROPE S.R.L. in Bucharest in order to offer the company’s services in Romania too. Based on experience acquired over the past 20 years, the company will provide mobile drilling rigs of various capabilities suitable for the European market. As all subsidiaries conform to HSE management systems certified under OHSAS 18001:2007, ISO 14001:2015, and ISO 9001:2015, PEWETE EVO EUROPE S.R.L. will quickly be in the position to offer all suitable services to Romanian and other European clients.

Operating Performance of the Group

In 2018, the operating subsidiaries of Petro Welt Technologies AG delivered a weaker performance with respect to gross sales and revenue than a year earlier in the Russian OFS market for top oil-producing clients although the latter—the leading oil companies in the Russian Federation—benefited from the favorable correlation of rising oil prices and stable demand in core markets such as Europe. However, oil companies continued to put pressure on prices in oilfield services, especially in fracturing. While their budgets for operating expenditures (OPEX) posed the biggest challenge, most of PeWeTe's clients were able to find the right balance and managed to withstand service programs; some failed. The state-owned companies switched in toto to denominated contracts in 2018. Clients were not interested in technological innovations, but instead were fully focused on stabilizing the volume of their commodity operations.

Decreasing Number of Jobs

The number of service jobs at Petro Welt Technologies AG in the Drilling, Sidetracking, and Integrated Project Management (IPM) segment fell by 36.4% to 218 jobs in 2018, down from 343 jobs in 2017. The key factors for this decrease were the lower demand for sidetracking and conventional drilling as well as the fact that the fracturing segment had to adjust to the rise in the number of multistage operations with the associated reduction in the overall number of jobs. At KAToil-Drilling, the number of drilled wells fell by 7.9%, and at KATOBNEFT, which is specialized in sidetracking, the number of operations dropped by 58.5%. Average segment revenues per job increased in 2018 by 5.6% to EUR 508.7 thousand (2017: EUR 481.6 thousand).

The total number of service jobs in fracturing and remedial services in the Well Services segment, which comprises KATKoneft and PeWeTe Kazakhstan, declined by 15.9%, from 5,834 in 2017 to 4,909 in 2018. The most noticeable changes in this segment include both an increase in the share of multi-stage fracs to 59% in terms of the job count (2017: 53%) and the transition to fee-for-service proppant injection. But the segment succeeded in boosting gross sales per job by 9.5%, raising it to EUR 34.6 thousand in 2018.

The equipment operated by Petro Welt Technologies AG as at 31 December 2018 consisted of 15 drilling rigs (2017: 15), 26 sidetracking rigs (2017: 26), and 18 fracturing fleets (2017: 18).

Revenue Development

The fact that the share of open market transactions has contracted is one of the factors adversely affecting the Russian oilfield services market. In 2015, the volume put up for tender was about 60%, but in 2018 this figure dropped to 40%.

The PeWeTe Group generates income in two currencies: the Russian ruble and the Kazakhstan tenge. Both currencies have been subject to volatility. In 2018, the average RUB/EUR exchange rate was 73.95 rubles per euro. This means that the ruble depreciated by 12.2% compared to the 2017 level. As at 31 December 2018, the RUB/EUR exchange rate was 79.46 rubles per euro. The Group generates 2% of its revenues in Kazakhstan tenge. The average exchange rate of the Kazakhstan tenge against the euro fell in 2018, showing a negative trend of 10.4% compared with 2017.

Total Group gross sales recognized in Russian rubles declined by 7.2% in the 2018 fiscal year due to unexpected call-offs of client orders. Gross sales in the Group reporting currency (the euro), which were also affected by devaluation, fell by 17.3% to EUR 291.8 million, from EUR 353.0 million in the previous year. However, active cash management and strict cost controls within the PeWeTe Group made it possible to mitigate the impact of the difficult market environment.

Segment Reporting

The downward trend in the development of the Group's revenue, calculated in euros, is fully correlated within the Well Services and the Drilling, Sidetracking, and IPM segments. Ambivalent industrial conditions, the devaluation of the ruble and the tenge as well as the inability to complete the production program due to call-offs by key customers led to decreases in both the number of jobs and revenues.

In 2018, the Well Services segment posted a 7.9% decline in gross sales to EUR 170.0 million (2017: EUR 184.6 million). While the number of jobs fell by 15.9%, the average gross sales per job rose by 9.5% to EUR 34.6 thousand thanks to the rise in proppant injection per operation.

Revenue generated in the Drilling, Sidetracking, and IPM segment fell by 32.9% to EUR 110.9 million in 2018 due to the aforementioned reasons. Yet average revenue per job in euros rose by EUR 27.1 thousand or 5.6% on account of the increase in the average meterage of drilled wells.

WellProp generated proppant revenue of EUR 10.9 million in 2018.

Table 3: **Revenue Development 2018 by Quarter and Segment**

in EUR million	Q1/2018	Q2/2018	Q3/2018	Q4/2018	2018	2017
Petro Welt Technologies (consolidated)	76.6	77.8	73.6	63.8	291.8	353.0
Well Services	41.8	47.7	44.0	36.5	170.0	184.6
Drilling, Sidetracking, and IPM	31.7	28.3	26.1	24.8	110.9	165.2
Proppant Production	3.1	1.8	3.5	2.5	10.9	3.2

Chart 9

Gross Sales 2018 (in EUR million)

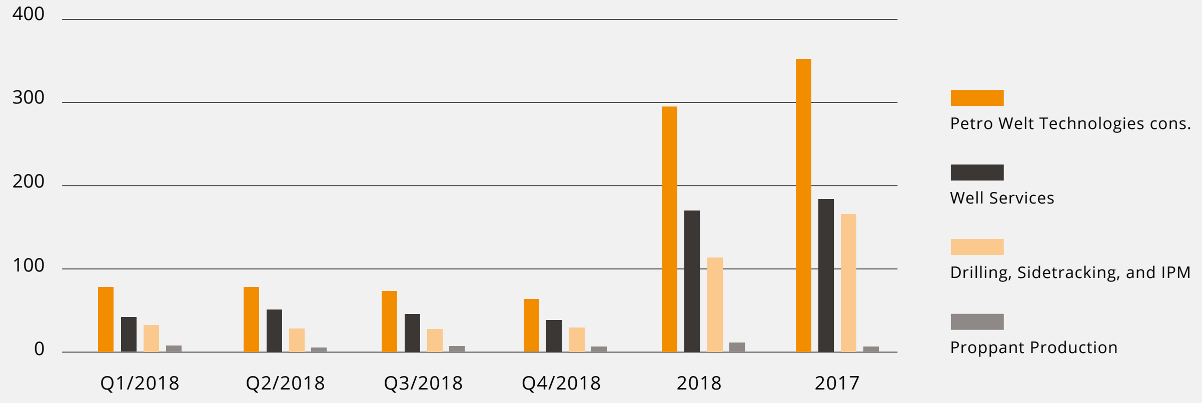


Chart 10
Quarterly Development of the Service Job Count

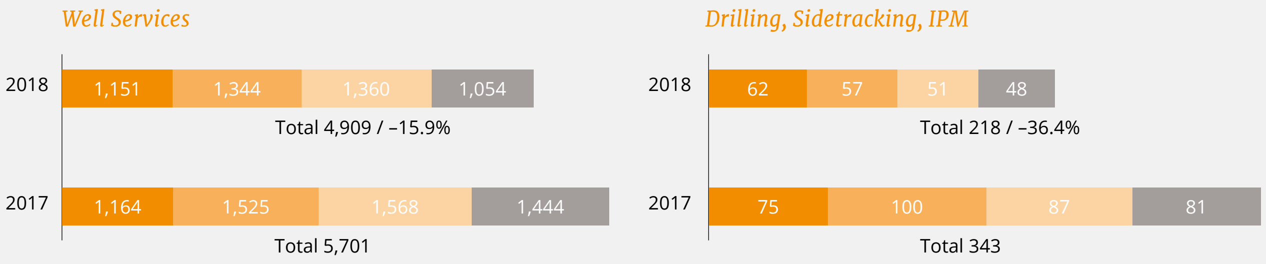


Table 4: **Major Products/Service Lines**

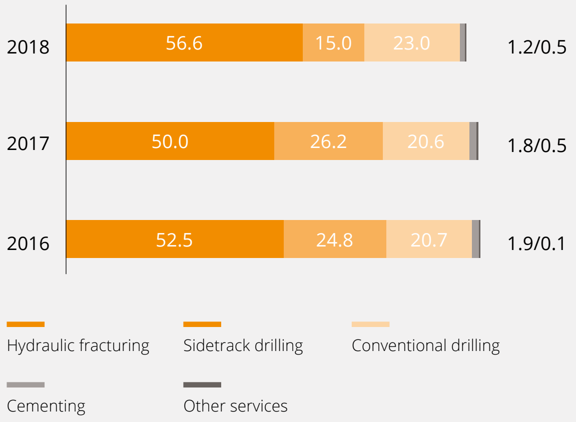
in EUR million	**Q1/2018**	**Q2/2018**	**Q3/2018**	**Q4/2018**	**2018**	**2017**
Hydraulic fracturing	40.6	46.3	42.7	35.5	165.1	176.5
Sidetrack drilling	16	11.5	8.7	7.5	43.7	92.5
Conventional drilling	15.7	16.8	17.4	17.3	67.2	72.6
Cementing	1.2	1.1	0.8	0.5	3.6	6.5
Sale of proppant	3.1	1.8	3.5	2.5	10.9	3.3
Other services	0	0.3	0.5	0.5	1.4	1.6
Total gross sales	**76.6**	**77.8**	**73.6**	**63.8**	**291.8**	**353.0**

The breakdown of PeWeTe's gross sales from by service lines between 2017 and 2018 shows the substantial increase in fracturing and the decline in the Drilling and Sidtracking segment. Gross proppant sales accounted for 3.7% (see Table 4).

Cost of Sales Performance

The increasing complexity of services necessary for oil and natural gas companies due to the steady increase in the share of hard-to-recover reserves is the main trend in the Oilfield Services market in Russia. Both the number of "simple" deposits and the quality of reserves are declining, in some cases rapidly so. The adequate response to these challenges is to expand the requirements for equipment and technologies. As a result, both investment and operating costs may increase.

Chart 11 **Gross Sales from Customers by Service Line 2016-2018** **(in %)**



At Petro Welt Technologies AG, declining operating activities were supported by cautious financial policies. The cost of sales fell by 17.0% (or EUR 48.4 million) to EUR 235.9 million in 2018, down from EUR 284.3 million (adjusted, see note 17 in the consolidated financial statement 2018) in the previous year. This decrease is in line with the 2018 decrease in sales (–17.3%) and even with reductions across all cost components. The cost of raw materials declined year on year by 16.9% to EUR 81.1 million due to the excluded cost of proppant supplied by customers. The cost of sales showed a marginal decrease of 2.6% in rubles, which was limited by the constrained price dynamics of our main contractors and executors in 2018. This development was due to strict budgetary discipline, the fact that the share of imported inventories and components was kept at a low-risk level, and the weakening of the ruble in 2018.

The average number of employees fell by 12.0% to 3,112 in 2018, down from 3,535 in the previous year. At the same time, personnel costs dropped by 17.0%, from EUR 47.3 million in 2017 to EUR 39.3 million in 2018, due to the decreases in both staff and incentive payments.

Direct costs (which include expenditures for production services, transport, maintenance, and repairs) declined by 17.5% or EUR 12.6 million, from EUR 72.1 million in 2017 to EUR 59.5 million in 2018.

Administrative costs were relatively stable and rose only slightly to EUR 24.9 million in 2018, from EUR 24.7 million in the previous year, due to the registration of our local subsidiary, PEWETE EVO EUROPE S.R.L., Bucharest, in order to provide the company’s services in Romania, the creation of the associated organizational and legal infrastructure as well as the development of other opportunities abroad.

Development of Earnings

The gross profit decreased by 36.3% to EUR 40.1 million in 2018, down from EUR 63.0 million in the previous year (see Table 5). The gross profit margin was 13.7% (2017: 17.9%). The operating result, which is reported as earnings before interest and taxes (EBIT), declined by 69.8% to EUR 11.1 million (2017: EUR 36.8 million) due to the reduction of revenues coupled with the increase in administrative costs and the recognition of provisions for several accounting issues such as impairment of goodwill and other write-offs. This caused the EBIT margin to drop in 2018 to 3.8% (2017: 10.4%).

The positive effect of the improved financial result in 2018 (up by EUR 1.2 million to EUR 4.2 million compared with the previous year) allowed the Group to post a profit before tax in 2018 of EUR 15.3 million.

The Group had to contend with a decline of 65.2% in net profit due to the aforementioned reasons. Net profit fell to EUR 10.8 million in 2018, down from EUR 31.0 million in 2017. Income tax expense decreased from EUR 8.7 million in 2017 to EUR 4.4 million in 2018. Earnings per share were EUR 0.22 for 2018, down from EUR 0.63 in 2017.

The EBITDA margin declined to 18.0% during the reporting period compared to 23.5% in the prior-year period. The gross profit margin decreased as well (to 13.7% in 2018 compared with 17.9% in 2017) because the cost of sales in relation to the aforementioned decrease in sales revenues was higher. The cash flow from operating activities was cut in half to EUR 41.9 million in the reporting period (down 46.1% compared to the prior-year period).

Table 5: **Group Figures EBITDA and EBIT**

Key positions		2018	2017	+/-	+/-%
Gross sales	in EUR million	291.8	353.0	-61.2	-17.3
Gross profit	in EUR million	40.1	63.0	-22.9	-36.3
EBITDA	in EUR million	52.5	83.1	-30.6	-36.8
EBIT	in EUR million	11.1	36.8	-25.7	-69.8
Gross profit margin		13.7%	17.9%		
EBIT margin		3.8%	10.4%		
EBITDA margin		18.0%	23.5%		
Group result	in EUR million	10.8	31.0	-20.2	-65.2
Earnings per share	in EUR	0.22	0.63	-0.41	-65.1

Proposal of the Management Board on the Distribution of Dividends for 2018

The Management Board strongly intends to meet shareholders' expectations regarding the development and growth of Petro Welt Technologies AG. It considers the company's expansion abroad necessary for the successful development of business in both the short and the medium term. The first step was taken with the acquisition of Trican Kazakhstan in 2016 and the second step with the acquisition of CARBO Ceramics. On 20 August 2018, PeWeTe finalized the registration of its local Romanian subsidiary, PEWETE EVO EUROPE S.R.L., Bucharest. As per the Group's strategy, the Management Board of PeWeTe has also approved the development and documentation of a project dedicated to the construction of a second manufacturing line at the Kopeysk plant in order to boost annual production capacities from 50,000 metric tons of proppant to 100,000 metric tons. Furthermore, international projects aimed at the production of oil and natural gas are being planned and prepared in Kazakhstan as well as in other countries. Aside from the company's international expansion, it is also necessary to strengthen its position in its core markets in Russia through investments in technology, infrastructure, software, and personnel training in order to maintain its reputation as a technology leader. 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

As at 31 December 2018, total assets decreased by 12.8% to EUR 381.8 million compared to the end of 2017. This is due to reductions in both non-current assets (specifically, property, plant and equipment, impairment of goodwill) and current assets (specifically, trade receivables). Compared to 31 December 2017, the equity ratio fell by 2.7% points to 53.8% as at the 31 December 2018 reporting date. Equity was EUR 205.4 million (minus 15.1% compared to the end of 2017). This decrease is mainly due to the decrease by 27.8% in the currency translation reserve, from minus EUR 171.0 million in 2017 to minus EUR 218.5 million in 2018. The non-current liabilities of Petro Welt Technologies AG rose sharply as at 31 December 2018, whereas the current liabilities dropped dramatically by 70.8%, due to the extension of the loan from Petro Welt HOLDING (CYPRUS) LIMITED.

On 11 July 2018, Petro Welt Technologies AG signed an agreement to amend the terms of the EUR 100 million loan, fixing interest rates at 3.42% above the 6-month EURIBOR rate and extending the loan up to 31 December 2022. This improves debt service conditions. The managerial cash position, which is calculated as the sum of cash and cash equivalents and bank deposits, declined by 5.9% to EUR 126.5 million as at 31 December 2018, down from EUR 134.4 million as at 31 December 2017. Taking into account the improved debt service conditions and future investment plans that aim to expand production capacities, the Group has improved its overall financial flexibility.

Besides improving the company's liquidity management and financial flexibility, the aforementioned loan extension will also maintain its credit rating. No debt matures over the next four years. This strengthens the Group's possibilities to manage its working capital and secure its liquidity position.

As at 31 December 2018, total net debt was EUR 26.8 million, which corresponds to a net debt/EBITDA ratio of 51.0%; this surpasses the figures for both 2017 and 2016, which were 31% and 44%, respectively. Although the net debt-to-equity ratio in 2018 was 13.0% and thus higher than in 2017 (10.5%), it did not reach the 2016 level (15.4%).

Table 6: **Group Balance Sheet Structure**

Balance sheet positions	12/31/2018 in EUR million	12/31/2018 percentage	12/31/2017 in EUR million	12/31/2017 percentage
Current assets	241.2	63.2	278.2	63.5
Non-current assets	140.6	36.8	159.7	36.5
Assets	**381.8**	**100.0**	**437.9**	**100.0**
Current liabilities	55.8	14.6	191.4	43.7
Non-current liabilities	120.6	31.6	4.6	1.1
Equity	205.4	53.8	242.0	55.2
Liabilities and Equity	**381.8**	**100.0**	**437.9**	**100.0**

Table 7: Development of Debt and Debt/Equity Ratio

Key figures		**12/31/2018**	**12/31/2017**
Liabilities toward Petro Welt Holding (Cyprus) Ltd.	in EUR million	116.3	112.5
Trade payables	in EUR million	32.8	43.4
Other liabilities with the exception of accrued liabilities	in EUR million	4.2	3.8
Less: cash and cash equivalents	in EUR million	-125.6	-68.9
Less: bank deposits	in EUR million	-0.9	-65.5
Net debt	**in EUR million**	**26.8**	**25.4**
Total equity	in EUR million	205.4	242.0
Net debt-to-equity ratio as at 31 December		**13.0%**	**10.5%**

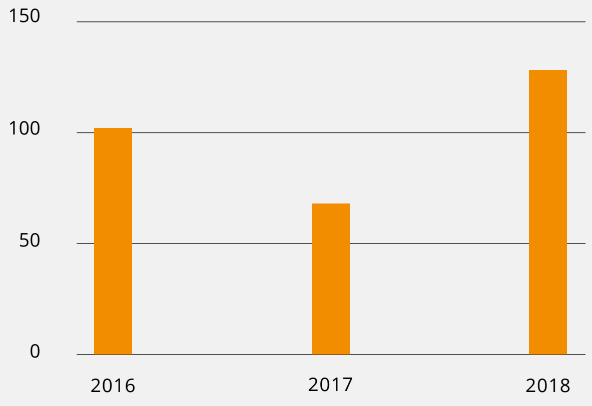
Cash Flow

Both the lower EBITDA and the profit before tax generally determined the cash flow from operating activities, which was EUR 41.9 million, down 46.1% from the prior-year figure of EUR 77.7 million. The management kept the working capital relatively stable mainly by lowering trade receivables in order to reduce the aforementioned effects on the cash flow. In 2018, the cash flow from investing activities was EUR 27.1 million (2017: minus EUR 104.8 million). Mostly, this indicator was affected by cash withdrawals in the amount of EUR 110.8 million.

As at 31 December 2018, the Group held bank deposits of EUR 931 thousand (2017: EUR 65.5 million); those with maturities of three months or less are included in the balance sheet as cash and cash equivalents totaling EUR 125.6 million.

Chart 12

Cash and Cash Equivalents (in EUR million)



Risk Management Report

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

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

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

For further information, see note 28 "Financial risk management objectives and policies," in the Notes to the Consolidated Financial Statements for the year ended 31 December 2018.

Risk Factors and Risk Measurement

Risks arise from the Group companies that Petro Welt Technologies AG operates in Russia and Kazakhstan. Material risks to the Group's net assets, financial position, and results of operations stem from the monetary policies and economic actions of the Russian and Kazakh governments. Measures undertaken by the Russian government in different spheres such as taxation, technology, and environmental policy to improve federal budget parameters and ensure safe and secure oil and natural gas production may indirectly affect the service providers in the region. Further risks to the business prospects, earnings, and financial performance of the PeWeTe Group might arise from the continued deterioration of political relations between Russia and Western countries, especially the US and the UK.

The currency risk related to the volatility of the Russian ruble and the Kazakhstan tenge remains one of the key risks to the PeWeTe Group's financial stability. The group-wide Opportunities and Risk Management System addresses financial risks and helps to develop countermeasures aimed at mitigating these risks. Just-in-time planning in the supply chain, maintaining a balanced assets/liabilities structure, and efforts to generate revenue in hard currencies are the main ways to alleviate this risk.

Certain assets or goodwill may become fully or partly impaired in case of a deterioration in the industrial environment, which now includes not only the Oilfield Services segment but also the Russian proppant market. In turn, any such impairment could make it difficult or impossible to attain forecast business goals, significantly impacting the Group's financial results. The deceleration or reduction of oil production in Russia and the related, potential limitation of oil majors' capital expenditure (CapEx) programs have become additional significant risk factors that define prospective demand for oilfield services. By expanding its activities in Kazakhstan and participating in the new proppant market, the PeWeTe Group is incurring new risks, even though this creates new opportunities for it at the same time.

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

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

Liquidity and Credit Quality Risks
The management company's unique approach to liquidity management, which serves to ensure the liquidity of all operating companies, has been reinforced. The main remaining risk is that of potential defaults on the part of clients and/or (sub)contractors.

In this context, Petro Welt Technologies AG provides clear suggestions for use in the subsidiaries' credit policies. Both the financial statements and the legal status of each and every client and agent are checked by financial and security experts before any agreements are made. At the top Group level, the primary goal is to maintain the key liquidity, credit, and capital indicators within satisfactory ranges, such as the liquidity position, the net debt-to-EBITDA ratio, the equity ratio, etc.

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

The Group has successfully maintained its Moody's credit rating of Ba3 with stable outlook. Potential Group liquidity risks are associated with its ability to meet its financial obligations, for instance, those related to trade payables or interest-bearing liabilities. In order to assess the liquidity risks, the budgeted operating, financial, and investment cash inflows and outflows are analyzed on a monthly basis throughout the Group, and the budgeted net liquidity is compared with the actual net liquidity. The Group follows a zero-debt policy with respect to funding from purely external sources over the short and medium term.

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

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

In 2018, the Group together with EY Austria also developed and launched the intergroup financing policy that is aimed at providing a transparent and reliable method of defining intergroup interest rates based on the arm's-length principle. Any intercompany financing agreement as well as all items stipulated under this policy must be considered and approved by the PeWeTe Group's Treasury and/or the CFO.

The economic analysis required to determine an arm's-length interest rate for an intercompany loan transaction between Group entities includes the following main steps:

- Determine the risk profile of the borrower, taking into account their financials for the most recent full year prior to the closing of the given loan agreement.
- Adjust the credit rating in the light of subordination or collateralization.
- Carry out a benchmarking analysis using the Bloomberg and Thomson Reuters databases to obtain an arm's-length interest rate, given the determined credit rating and the characteristics of the intercompany loan transaction under review.

This approach helps to optimize the management of working capital and to alleviate tax risks in a given country where the Group maintains a presence.

Petro Welt Technologies AG places free cash only in bank current accounts and deposits. The use of financial instruments is not material to the company's earnings and financial position.

Material Group Risks

Market risks

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

Russia's support for OPEC's decision to cut oil production might reduce the physical volume of oilfield services. This means that the risk of a possible drop in crude oil prices has evolved into the risk that oil production in Russia and other countries may decelerate or decrease, thus potentially limiting oil majors' CapEx and demand for oilfield services, with the related effect on pricing. Our fears concerning the price pressure on the fracturing segment in Russia were confirmed at the end of 2017 and during 2018.

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

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

Presently, the Group operates mainly in Russia and Kazakhstan, providing services to all major oil and natural gas companies 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 companies such as Rosneft, for example, whose upstream activities and budgets have demonstrated greater resilience to the decreases in energy prices. The Group has started to invest abroad in order to benefit from market trends in Eastern Europe and the Middle East.

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

Foreign Currency Risks

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

Diversification into Kazakhstan and commercial plans in Romania represent one option for the Group to mitigate these risks. Compared with the Russian ruble, the tenge experiences a lag in reacting to corrections in oil and natural gas prices.

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

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

Legal Risks

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

If the suspicion is confirmed, any remeasurement of the affected fixed assets to reflect the residual value would lead to the restatement of their cost with no corresponding impact on profit or loss. Consequently, depreciation, amortization, and impairment for previous periods would decrease, in which case the restatement would be reported cumulatively in retained earnings. Any such restatement of the carrying amount is not feasible at this time, because we are still at an early stage of the proceedings and the related need for clear and transparent data is not yet known.

The investigation being carried out by the Central Public Prosecutor's Office for Combating Economic Crimes and Corruption in Vienna, Austria, is still ongoing. Appropriate measures will be taken as soon as the results of the investigation are available, confirming the suspicion of potential damage to Petro Welt Technologies AG. Once all findings have been evaluated, we will also assess whether adjustments to the list of related parties are necessary.

At present, the PeWeTe is weighing whether to file claims for damages.

(b) The investigation by the Vienna Public Prosecutor's Office for Combating Economic Crimes and Corruption was terminated without charges in July 2018. The appeal filed by the company is still pending before the Vienna Public Prosecutor's Office.

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

(d) In connection with another contract order, Petro Welt GEODATA GmbH filed claims for damages of USD 3,118,642 against GeoEnpro Petroleum Ltd. with a court in New Delhi, India. In turn, the defendant has filed counterclaims in the amount of USD 944,841. By award dated 29 December 2017, the court decided that GeoEnpro Petroleum Ltd. must pay USD 56,923.65 (including interest) to Petro Welt GEODATA GmbH, but rejected all other claims. On 24 July 2018, all shares in Petro Welt GEODATA were acquired by an independent investor together with all potential claims and liabilities.

(e) In the course of the change of control, three former members of PeWeTe's Management Board—specifically, its former Chairman Manfred Kastner, its former Vice-Chairman Ronald Harder, and its former member Leonid Mirzoyan—gave notice of resignation, invoking the change-of-control clause stipulated in their director's contracts. The respective contracts were terminated effective 31 March 2015.

Prior to their termination, these former members of the Management Board initiated a total of EUR 1,539,603.50 in payments to themselves on 13 February 2015, i.e. prior to the stipulated due date. Subsequently, the three individuals were dismissed effective immediately for cause from the Management Board by resolution of the Supervisory Board dated 25 February 2015.

On 17 March 2015, Petro Welt Technologies AG sued the former members of its Management Board for EUR 1,539,603.50. The lawsuit claims unjust enrichment, compensation for damages, and repayment of the unlawfully issued paymenst. It also includes a claim to declaratory relief in that no further compensation payments are owed to the affected former members of the Management Board. The outcome of these legal proceedings is uncertain.

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

Shareholder Structure and Share Capital Information

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

As at 31 December 2018, the share capital of Petro Welt Technologies AG was EUR 48,850,00 (31 December 2017: EUR 48,850,000) and 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 share voting or transfer rights. As at the 31 December 2018 balance sheet date, Petro Welt Technologies AG had not bought back any of its treasury shares.

Since its successful initial public offering in 2006, PeWeTe has voluntarily complied with the German Corporate Governance Code ("Code"). Apart from a few exceptions, which are disclosed in its Declaration of Compliance, the company has fully complied with the recommendations of the Code.

Petro Welt Holding Limited (Cyprus) directly holds 47.7% (2017: 47.7%) of the shares of Petro Welt Technologies AG. The majority owner of Petro Welt Holding Limited (Cyprus) is Joma Industrial Source Corp.

Joma Industrial Source Corp., in turn, directly holds 39.36% of the shares of Petro Welt Technologies AG (2017: 39.36%). Maurice Gregoire Dijols directly holds 5,850 shares (2017: 5,850 shares) of Petro Welt Technologies AG.

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

Internal Control System

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

The basic characteristics of the internal control system (ICS) and the risk management system (RMS) of Petro Welt Technologies AG are described on the basis of the five components of the Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework).

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

The ICS is subject to supervision by the regulatory authority regarding all issues of management accounting and financial accounting; the regulator has authority to issue instructions in order to ensure that uniform standards are adopted 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 that applies to subsidiaries in accordance with Russian GAAP, the IFRS accounting manual, the 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, data processing and the exchange of information as well as monitoring and supervision. The management accounting environment, for its part, encompasses business policies, employees' ethical values and authorizations, 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 of the company's subsidiaries.

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

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

Financial Accounting

Financial accounting in Russia is carried out using the so-called "1C program." Inventory management and disposal of assets are the responsibility of the local inventory managers at the level of the individual subsidiary. Their roles are stipulated in the inventory guidelines that apply 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, amortization, and impairment of non-current assets are automatically recorded in 1C.

Accounts payable uses the main document entry function of 1C for entering and reviewing creditor's invoices as well as preparing payment orders. Particular importance is attached to checking legal requirements, sales and corporation tax data as well as the Group's internal regulations such as instructions related to payments, signing authorizations, and value limits. The accounting for subsidiaries is carried out in line with Russian GAAP by the respective accounting department in close cooperation with Group accounting.

On a quarterly basis, the financial accounting departments of the subsidiaries implement the adjustment process regarding 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 to Group accounting for consolidation.

IT Systems
As stated above, the 1C system is used for financial accounting. Furthermore, the Group uses the "Oracle Hyperion" planning system for budgeting, management accounting, and reporting.

Safety Measures and Operational Quality Monitoring for 2017–2019
The quality of our services and our safety measures have also been core values of Petro Welt Technologies AG since 2017 and will remain a priority in the future too. To ensure the safety of PeWeTe workers in the field and maintain the high quality of our operations, we continue to take steps to protect our employees from various possible hazards and to control risks. These measures include the definition of the company's corporate policies and standards.

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

Phase 1: Quality, Health, Safety, and Environment (QHSE). This phase addressed the improvement of standards and the corporate culture. In 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 are a part of the HEMP process that has been implemented at KATOBNEFT and KAToil-Drilling.

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

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

Research and Development

in accordance with Section 243(3) of the Austrian Commercial Code
In 2018, Petro Welt Technologies AG did not invest in research and development (R&D). The company does not engage in own R&D activities. Instead, it cooperates with global service providers for the best "fit-for-purpose" technologies that address clients' needs and market trends.

Important Events after the Balance Sheet Date

No material events occurred after the balance sheet date.

Economic Expectation and Guidance

Global Economy and Crude Oil Prices in 2019
The weakness of the global economy in the second half of 2018 will have a lasting effect, with global growth projected to decline to 3.5% in 2019 before rising slightly to 3.6% in 2020. Specifically, growth in the advanced economies is projected to slow to 2.0% in 2019 and 1.7% in 2020, mostly due to downward revisions for the euro area.

Growth in the eurozone is set to moderate to 1.6% in 2019 and 1.7% in 2020. Growth rates have been marked down for many individual economies, notably, Germany, Italy, and France. Substantial uncertainty surrounds the baseline projection of about 1.5% growth for the United Kingdom in 2019–2020. This projection assumes that a Brexit deal will be reached in 2019 and that the UK will transition gradually to the new regime. Growth in the United States is expected to decline to 2.5% in 2019 and to soften further to 1.8% in 2020 with the unwinding of the fiscal stimulus and as the federal funds rate temporarily overshoots the neutral rate of interest.

Economic activity in the Commonwealth of Independent States (CIS) is projected to expand by about 2.25% in 2019–2020, slightly lower than projected in the October 2018 World Economic Outlook (WEO) due to the drag on Russia's growth prospects from the weaker near-term oil price outlook.

Key sources of risk to the global outlook are the outcome of trade negotiations and the direction financial conditions will take in the months ahead. If countries resolve their differences without raising yet more distorting trade barriers and if market sentiment recovers, then improved confidence and the easing of the financial environment could reinforce each other to lift growth above the baseline forecast.

“The global supply surplus is not resolved, and would likely reemerge if OPEC+ let up on its production cuts,” says the International Energy Agency (IEA). Much depends on relentless growth in non-OPEC supply (notably the US). The Energy Information Administration (EIA) expects US output to surge by one-tenth to 12 million barrels per day (bpd) in 2019. Shale producers need to earn between USD 40 and USD 50 per US barrel (bbl) to pay the high-yield bonds they used for financing.

Other important trends to watch over the coming months are whether the muted global output growth is reducing fuel consumption; whether US shale production will maintain its incredible pace; whether the chronic decline in Venezuelan output will continue; what full-blown US sanctions will do to Iranian exports; and whether OPEC+ partners (notably Russia) can satisfactorily enforce output discipline. The 2019 predictions indicate a price range of between USD 60 and USD 65 rather than USD 70–USD 80 per bbl.

Russian and Kazakhstan Economies in 2019

The Russian economy is expected to lose steam in 2019 despite the promised ramp-up in public spending as one-time factors that propped up the expansion in 2018 evaporate. The oil output cut agreed under the OPEC+ deal should materialize in the coming months. Coupled with sanctions-related uncertainty and feebler consumer demand, it will likely eat into activity growth. Economic forecasts for Russia see growth at 1.4% in 2019, climbing to 1.7% in 2020.

Growth in Kazakhstan is expected to moderate in 2019 owing to the more challenging external environment. Moreover, recent announcements of a halt in production at the Kashagan, Karachaganak, and Tengiz oil fields for maintenance purposes will likely cause overall oil production to moderate slightly from the previous year. On the plus side, strong domestic demand should continue to support growth. Downside risks stem from a decline in commodity prices, while uncertainty over the transition of power also clouds the outlook. Analysts expect GDP in Kazakhstan to rise to 3.4% in 2019 and decline slightly to 3.3% in 2020.

Guidance for Revenues and Earnings

In 2019, the company’s management expects sales revenues to reach about EUR 302 to EUR 306 million and hopes to achieve an EBITDA margin between 17% and 19%. This forecast does not take into account potential external economic shocks.

Vienna, 29 April 2019

Yury Semenov
Chief Executive Officer, CEO

Valeriy Inyushin
Chief Financial Officer, CFO

Consolidated Financial Statements

Auditor's report

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of Petro Welt Technologies AG, Vienna, Austria, and its subsidiaries (the Group), which comprise the consolidated Statement of Financial Position as at 31 December 2018, and the Consolidated Profit or Loss Statement and the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement for the year then ended, and the Notes for the year then ended.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as well as the additional requirements stipulated in § 245a UGB (Austrian Commercial Code).

Basis for our Opinion

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

Key Audit Matters

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

Impairment of property, plant and equipment

Refer to Note 4, 6, 7 and 20 to the consolidated financial statements.

Risk for the Financial Statements

The recoverable amounts of the CGUs were determined based on the value in use, estimated by discounting future cash flows to be generated from the continuing use of the CGUs. The assessment, whether any impairment (or reversal of impairment) to the carrying value of property, plant and equipment should be recognized requires significant estimation by management. These mainly comprise estimates with regards to future hydraulic fracturing and drilling operations, development of raw materials and production services price, forecast of capital expenditures, estimate of the terminal growth rate including the underlying average producer price index, as well as the determination of the required discount rate.

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

Our Response

- Our audit procedures included the evaluation of the design and implementation of internal controls as well as the testing of the Group's budgeting process upon which the forecasts are based as well as the group's discounted cash flow model including the underlying assumptions by reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

- We used our own internal valuation specialists to assist us in evaluating the assumptions and methodology used by the Group, in particular those relating to the forecast revenue growth and profit margins.
- We compared the group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, competition, inflation and discount rates, as well as performing sensitivity analysis on these assumptions.
- We also assessed whether the Group's disclosures are complete, especially with regards to the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of property, plant and equipment.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

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

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

Auditors' Responsibility

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

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

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on Other Legal Requirements

Group Management Report

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

Management is responsible for the preparation of the group management report in accordance with the Austrian company law and other legal or regulatory requirements.

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

Opinion

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

Statement

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

Other Information

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

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

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

Additional Information in accordance with Article 10 AP Regulation

At the Annual General Meeting dated 15 June 2018, we were elected as group auditors. We were appointed by the Supervisory Board on 26 September 2018. We have been the Group's auditors from the year ended 31 December 2015, without interruption.

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

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

Engagement Partner

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

Vienna, 29 April 2019
KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

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

This report is a translation of the original report in German, which is solely valid.

Consolidated statement of financial position as at 31 December 2018

in EUR thousand	Notes	12/31/2018	12/31/2017
Assets			
Non-current assets		**140,604**	**159,740**
Property, plant and equipment	7	135,530	153,787
Intangible assets	8	2,112	2,291
Goodwill	6	611	1,110
Other assets		60	1,942
Deferred tax assets	22	2,291	610
Current assets		**241,222**	**278,204**
Inventories	9	32,346	40,132
Trade receivables	10	68,220	97,035
Contract assets	10	8,696	-
Bank deposits	13	931	65,489
Other current assets	11	4,524	5,783
Tax receivables	12	931	878
Cash and cash equivalents	13	125,574	68,887
Total assets		**381,826**	**437,944**
Equity and liabilities			
Equity		**205,358**	**241,956**
Share capital	14	48,850	48,850
Capital reserve	14	111,987	111,987
Retained earnings		262,698	251,889
Remeasurement of defined benefit plans	23	368	263
Currency translation reserve	14	(218,545)	(171,033)
Non-current liabilities		**120,644**	**4,620**
Non-current financial liabilities to affiliated parties	15	116,303	-
Deferred tax liabilities	22	3,704	3,617
Employee benefits	23	637	1,003
Current liabilities		**55,824**	**191,368**
Current financial liabilities to affiliated parties	15	-	112,526
Trade payables	15	32,801	43,427
Other current liabilities	15	21,897	31,429
Advance payments received	15	154	11
Income tax payables	15	972	3,975
Total equity and liabilities		**381,826**	**437,944**

Consolidated profit or loss statement for the year ended 31 December 2018

in EUR thousand	**Notes**	**2018**	**2017 adjusted**
Continuing operations			
Gross sales to customers	16	291,820	353,023
less materials supplied by customers	16	(15,834)	(5,688)
Revenue	16	275,986	347,335
Operating expenses	17	(251,737)	(289,980)
less materials supplied by customers	17	15,834	5,688
Cost of sales	17	(235,903)	(284,292)
Gross profit		**40,083**	**63,043**
Administrative expenses	18	(24,911)	(24,676)
Selling expenses		(1,383)	(510)
Other operating income	19	2,589	2,205
Other operating expenses	20	(5,285)	(3,309)
Operating result		**11,093**	**36,753**
Finance income	21	8,429	8,716
Finance costs	21	(4,266)	(5,781)
Net finance income		**4,163**	**2,935**
Profit before income tax		**15,256**	**39,688**
Income tax expense	22	(4,410)	(8,663)
Profit after tax from continuing operations		**10,846**	**31,025**
Loss after tax from discontinued operation (net of income tax)	18, 22	(37)	(10)
Profit		**10,809**	**31,015**
Basic earnings per share in EUR	24	0.22	0.63
Diluted earnings per share in EUR	24	0.22	0.63

Consolidated statement of other comprehensive income for the year ended 31 December 2018

in EUR thousand	Notes	2018	2017
Profit		10,809	**31,015**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences from:			
Translation of a foreign operation	14	(31,052)	(13,611)
Net investments in foreign operations	22	(16,180)	(11,619)
Income tax effect related to net investments	22	(280)	2,790
Items that will never be reclassified to profit or loss:			
Net gains on remeasurement of defined benefit plans	23	131	60
Income tax effect related to defined benefit plans	23	(26)	(12)
Total other comprehensive income		**(47,407)**	**(22,392)**
Total comprehensive income		**(36,598)**	**8,623**

Consolidated statement of changes in equity for the year ended 31 December 2018

in EUR thousand	Share capital	Capital reserve	Retained earnings	Remeasurement of defined benefit plans	Currency translation reserve		Total equity
					Translation of a foreign operation	Net investment in foreign operations	
As at 1 January 2017	48,850	111,987	220,874	215	(63,365)	(85,228)	233,333
Profit	-	-	31,015	-	-	-	31,015
Currency translation differences	-	-	-	-	(13,611)	(8,829)	(22,440)
Net gains on remeasurement of defined benefit plans	-	-	-	48	-	-	48
Total comprehensive income	**-**	**-**	**31,015**	**48**	**(13,611)**	**(8,829)**	**8,623**
As at 31 December 2017	**48,850**	**111,987**	**251,889**	**263**	**(76,976)**	**(94,057)**	**241,956**
As at 1 January 2018	48,850	111,987	251,889	263	(76,976)	(94,057)	241,956
Profit	-	-	10,809	-	-	-	10,809
Currency translation differences	-	-	-	-	(31,052)	(16,460)	(47,512)
Net gains on remeasurement of defined benefit plans	-	-	-	105	-	-	105
Total comprehensive income	**-**	**-**	**10,809**	**105**	**(31,052)**	**(16,460)**	**(36,598)**
As at 31 December 2018	**48,850**	**111,987**	**262,698**	**368**	**(108,028)**	**(110,517)**	**205,358**

Consolidated cash flow statement for the year ended 31 December 2018

in EUR thousand	**Notes**	**2018**	**2017**
Profit before tax		15,219	39,584
Adjustments for:			
Depreciation, amortization and impairment losses	7, 8	41,428	46,350
Net (gain)/loss on the disposal of property, plant and equipment	19, 20	(976)	40
Loss from inventory write-off and obsolescence provision	20	1,052	-
Foreign exchange loss	21	429	1,913
Net finance income	21	(4,592)	(4,848)
Income taxes paid		(9,244)	(9,427)
Change in working capital		**(1,395)**	**4,124**
Change in inventories		653	(769)
Change in contract assets		(8,696)	-
Change in trade and other receivables		18,041	(5,520)
Change in trade and other liabilities		(11,393)	10,413
Cash flows from operating activities		**41,921**	**77,736**
Purchase of property, plant and equipment		(42,178)	(36,413)
Proceeds from sale of equipment		1,722	1,167
Addition to cash deposits		(51,248)	(73,260)
Withdrawal of cash deposits		110,783	15,078
Interest received		8,537	8,412
Purchase of subsidiaries, net of cash transferred	6	(2,268)	(17,918)
Loans issued		-	(2,800)
Cash proceeds from repayment of loans		1,801	953
Cash flows from / (used) in investing activities		**27,149**	**(104,781)**
Effect of exchange rate changes on cash and cash equivalents		(12,383)	(7,032)
Net change in cash and cash equivalents		56,687	(34,077)
Cash and cash equivalents at 1 January		68,887	102,964
Cash and cash equivalents at 31 December		**125,574**	**68,887**
Of which: cash flows from discontinued operation			
Cash flows from operating activities		-	(98)

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 3,112 in 2018, including 386 employees of management and office staff (2017: 3,535, including 332 employees of management and office staff).

The ultimate beneficiary owner of the Group is Mr Maurice Dijols. The Company's immediate parent companies are Petro Welt Holding Limited (Cyprus) 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. The Russian Federation displays certain characteristics of an emerging market. The acceleration of Russia's GDP growth in 2018 (up to 2.3%) is largely due to one-time factors and is not sustainable. The rise is associated with the implementation of major oil and gas projects. At the same time, domestic consumption showed signs of slowing growth.

The Russian economy is characterized by dependence on oil prices, which remains the main factor of instability. Low efficiency of public administration institutions has a negative impact on economic incentives. Existing sanctions limit access to foreign financial markets.

The average cost of a barrel of Russian Urals crude oil in 2018 increased by 32 percent. The average price of a barrel of Urals was 70.01 dollars for the 12 month 2018 (2017: 53.03 dollars). In December 2018, the average price of a barrel was at the level 57.59 dollars, which is 9.5% below the level in December 2017—63.61 dollar.

Kazakhstan's economy accelerated by 4.1% GDP growth in 2018 (2017: 4%) driven by impressive increase of investments by 17.2% in 2018 (2017: 5.8%). National currency Kazakhstan Tenge showed less significant depreciation on the yearly average basis compared to Ruble versus EUR and USD—by 10.4% and 5.7% accordingly. As a result, tenge appreciated against Rouble by 1.6%.

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

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.

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

Functional and presentation currency

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

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

Use of estimates and judgments

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

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

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

- Note 4 – useful lives of property, plant and equipment;
- Notes 7,8 – impairment test: key assumptions underlying recoverable amounts;
- Note 14 – Equity: intra-Group loans, which are part of the net investment in foreign operations;
- Note 16 – revenue;
- Note 22 – recognition of deferred tax assets: availability of future taxable profit against which tax loss carry-forwards can be used;
- Note 26 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

4. Significant accounting policies

Revenue

Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Incremental costs of obtaining a contract with a customers must be capitalized as an asset and amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

The Group provides oil services which increase the productivity of new and existing oil wells. The main activities of the Group include hydraulic fracturing, sidetrack drilling, drilling, remedial as well as auxiliary services and production of proppant.

Sale of proppant

The sale of proppant is generally a single performance obligation. Revenue is recognized at the point in time when control over the proppant is transferred to the customer, generally upon delivery of the goods.

Rendering of oil field services

The Group's well services segment provides hydraulic fracturing, sidetrack drilling, drilling, remedial as well as auxiliary services.

The Group concluded that sidetrack drilling and drilling services are satisfied over time, given that the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The performance obligation is the drilling services for an individual well. The Group recognizes sidetrack drilling and drilling revenue using the output method by reference to the stage of completion which is calculated in proportion to the physical volume of finished work.

The Group recognizes hydraulic fracturing and auxiliary services revenue when the service has been completed as the period of providing these services is short-term (usually one day or less).

In certain contracts, the Group purchases materials from the customer to facilitate the Group's fulfilment of its performance obligations under a separate contract with the same customer. In management's judgment the Group does not obtain control over such materials and consequently the related costs are excluded from revenue and costs of goods sold.

Financial instruments

Classification—Financial assets

The Group classifies financial assets into the following categories, as appropriate: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss.

A financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However the Company may make an irrevocable election at initial recognition for particular instruments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Group initially recognises as financial assets loans and receivables on the date when they are originated and debt securities on the date when they are acquired. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs.

Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Impairment—Financial assets and contract assets

Loss allowances will be measured on the base of lifetime expected credit losses (ECLs). These are ECLs that result from all possible default events over the expected life of a financial instrument.

Cash and cash equivalent

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

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

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.

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.

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.

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

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

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

Intangible assets

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

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

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

- patents 10–20 years;
- software 3–10 years.

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.

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.

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.

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.

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.

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);
- All resulting exchange differences are recognized as a separate component of other comprehensive income; and
- In the consolidated statement of cash flow, cash balances at the beginning and end of each period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the period presented, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Resulting exchange differences, if any, are presented as Effect of exchange rate fluctuations on cash and cash equivalents within the consolidated cash flow statement.

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 12/31/2018	Closing rate as at 12/31/2017	Average rate 2018	Average rate 2017
Russian Ruble (RUB)	79.4605	68.8668	73.9546	65.9014
Kazakhstan tenge (KZT)	439.37	398.23	406.77	368.52
US-Dollar (USD)	1.1438	1.1956	1.1794	1.1294

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 12/31/2018	Closing rate as at 12/31/2017	Average rate 2018	Average rate 2017
Russian Ruble (RUB)	69.4706	57.6002	62.7078	58.3529
Kazakhstan tenge (KZT)	384.2	332.33	344.9	326.08

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

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

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

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

Provisions
Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that an 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.

Changes in accounting policies and disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial instruments effective as of 1 January 2018.

IFRS 15 replaced the existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. Refer to note 16 for details.

IFRS 9 replaced the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 introduced a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

All financial assets which were classified as loans and receivables under IAS 39 were reclassified to financial assets measured at amortized costs under IFRS 9.

The effect of adopting IFRS 9 had no impact on the carrying amounts of financial assets as of 1 January 2018 resulted from reclassification.

In respect of impairment, IFRS 9 replaced the "incurred loss" model used in IAS 39 with a new "expected credit loss" model. The adoption of IFRS 9 did not result in recognition of additional allowance for expected credit losses as the amount was not significant as at 1 January 2018.

Accounting policies effective before 1 January 2018

Financial instruments

The Group classified 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 classified 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 assets

The Group assessed 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.

Financial assets carried at amortized cost
If there is objective evidence that an impairment loss has been incurred, the amount of the loss was 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 was reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continued to be accrued on the reduced carrying amount and was accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income was recorded within net interest and expenses in profit or loss. Loans and receivables together with associated allowance were 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 was credited to profit or loss.

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

Derecognition of financial assets
The Group derecognised 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 was 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 were 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 included 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 was assessed with reference to surveys of work performed or completion of a physical proportion of the contract work. Contract expenses were recognised as incurred unless they create an asset related to future contract activity. An expected loss on a contract was recognised immediately in profit or loss.

Revenues on sales of spare parts, miscellaneous production and services were 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 were 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 was 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 was recognised in profit or loss.

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

If the maturity date of the respective loans and borrowings is more than 12 months after the reporting date, such loans are classified and presented in consolidated financial statements as long-term loans and borrowings. If the maturity date is less than and 12 months after the reporting date, as short-term.

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

New standards and interpretations
A number of new Standards, amendments to Standards and Interpretations are not yet effective at 31 December 2018, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's financial statements. The Group plans to adopt these pronouncements when they become effective.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces 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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognize a liability representing its obligation to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Currently there is an ongoing discussion within the oil and gas industry with regards to whether certain drilling and fracturing contracts include a leasing component for the equipment used in accordance with IFRS 16. As of the date of these consolidated financial statements, no clear industry practice has yet been established. While based on the preliminary assessment of the Group, the presentation and disclosures of revenue related to drilling and fracturing arrangements could change as a result, the Group does not believe that the final assessment will have a material effect on either total amount of revenue recognized, profit for the period, or total shareholders' equity.

Also, based on initial preliminary assessment the Group as a lessee will potentially recognize certain new assets and liabilities (warehouses and land leases). However, based on the Groups lease commitments as of 31 December 2018, the Group does not expect the effect to be material to the consolidated financial statements (with regards to the amount of future minimum lease payments as of 31. December 2018 refer to Note 7, Property, plant and equipment).

The Group plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying a modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

In June 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments. The IFRIC clarifies that for the purposes of calculating current and deferred tax, companies should use a tax treatment of uncertainties, which will probably be accepted by the tax authorities. IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. The Group is evaluating the effect of the adoption of IFRIC 23 and does not expect any material impact from its application on consolidated financial statements.

In March 2018, the IASB issued a revised version of Conceptual Framework for Financial Reporting. In particular, the revised version introduces new definitions of assets and liabilities, as well as amended definitions of income and expenses. The new version is effective for annual periods beginning on or after 1 January 2020. The Group is evaluating the effect of the adoption of the revised version of Conceptual Framework and does not expect any material impact from its application on consolidated financial statements.

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

- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- IFRS 17 Insurance Contracts.

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	12/31/2018 % share	12/31/2017 % share	Activity
OOO KATKoneft	Kogalym, Russia	100	100	Oil field services
OOO KATOBNEFT	Nizhnevartovsk, Russia	100	100	Oil field services
OOO Trading House KATOil	Kogalym, Russia	100	100	Procurement of production materials and equipment to operational Group companies
OOO KATOil Leasing	Kogalym, Russia	100	100	Leasing of production equipment to operational Group companies
OOO KAT-oil Drilling	Kogalym, Russia	100	100	Oil field services
TOO Petro Welt Kazakhstan	Kyzylorda, Kazakhstan	100	100	Oil field services
OOO Petro Welt Technologies	Moscow, Russia	100	100	Consulting and management services to the Group companies
OOO Wellprop	Kopeisk, Russia	100	100	Production of proppant
PEWETE EVO EUROPE S.R.L.	Bucharest, Romania	100	-	Oil field services
PEWETE Evolution LIMITED	Lymassol, Cyprus	100	100	Management services
Wellprop Cyprus LIMITED	Lymassol, Cyprus	100	100	Management services
Petro Welt GEODATA GmbH	Vienna, Austria	-	100	Engineering and reconnaissance of geological formations

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

On the 1 July 2018, the Company sold and transferred the Shares of Petro Welt GEODATA GmbH for one euro. Net assets of Petro Welt GEODATA GmbH were not significant at the date of disposal (refer to Note 18).

6. Acquisition of subsidiary

On 21 September 2017, the Group acquired 100% of the shares and voting interests in Carbo Ceramics Cyprus Limited. As at 31 December 2017 total consideration measured on a provisional basis amounted to USD 24,000,000 (EUR 19,996,675), including paid as at 31.12.2017 consideration of USD 22,000,000 (EUR 18,370,674) and total trade and other payables measured on a provisional basis amounting to TEUR 3,365. Share purchase agreement (SPA) includes consideration adjustment, which depends on the specified amounts of net debt, net working capital at closing date determined in SPA. On 29 June 2018, Management completed the process of negotiation with the seller in relation to consideration which finally comprises USD 25,650,000 (EUR 21,371,446) and trade and other payables which finally amounted to TEUR 2,522. The above changes resulted in the increase of goodwill and other current liabilities for TEUR 532. The adjustment to consideration in the amount of USD 3,650,000 was fully settled on 2 July 2018.

As at 31.12.2018 the Group performed impairment test of the above acquired cash generating unit and recognized the impairment of goodwill amounting to TEUR 1,031 (2017: nil). For further information refer to the Note 7 Property, plant and equipment and Note 20 Other operating expenses.

On 20 August 2018, Petro Welt Technologies AG finalized the registration of its local business entity PEWETE EVO EUROPE S.R.L. in Bucharest, in order to provide the company's services in Romania.

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 2017	**14,139**	**16,867**	**352,969**	**723**	**3,196**	**387,894**
Additions	958	1,886	25,591	554	6,554	**35,543**
Additions through business combinations	6,533	329	2,772	-	-	**9,634**
Disposals	-	-	3,095	-	(3,095)	**-**
Disposals	(1)	(314)	(3,214)	(32)	-	**(3,561)**
Exchange differences	(1,342)	(1,317)	(26,316)	(213)	(378)	**(29,566)**
At 31 December 2017	**20,287**	**17,451**	**354,897**	**1,032**	**6,277**	**399,944**
Additions	1,026	1,027	28,728	746	11,389	**42,916**
Transfer	-	-	5,845	-	(5,845)	**-**
Disposals	(49)	(502)	(10,698)	(8)	-	**(11,257)**
Exchange differences	(2,955)	(1,450)	(47,839)	(70)	(1,221)	**(53,535)**
At 31 December 2018	**18,309**	**16,526**	**330,933**	**1,700**	**10,600**	**378,068**
Depreciation and impairment						
At 1 January 2017	**8,302**	**13,254**	**198,081**	**601**	**-**	**220,238**
Depreciation	1,178	1,180	43,826	116	-	**46,300**
Disposals	(1)	(277)	(2,479)	(29)	-	**(2,786)**
Exchange differences	(799)	(1,013)	(15,626)	(157)	-	**(17,595)**
At 31 December 2017	**8,680**	**13,144**	**223,802**	**531**	**-**	**246,157**
Depreciation	1,073	1,282	37,657	221	-	**40,233**
Disposals	(48)	(469)	(9,987)	(7)	-	**(10,511)**
Exchange differences	(1,156)	(887)	(31,253)	(45)	-	**(33,341)**
At 31 December 2018	**8,549**	**13,070**	**220,219**	**700**	**-**	**242,538**
Net book value						
As at 1 January 2017	5,837	3,613	154,888	122	3,196	**167,656**
As at 31 December 2017	11,607	4,307	131,095	501	6,277	**153,787**
As at 31 December 2018	9,760	3,456	110,714	1,000	10,600	**135,530**

Depreciation expense for 2018 of TEUR 40,009 (2017: TEUR 46,153) has been charged to cost of sales and TEUR 224 (2017: TEUR 147) to administrative expenses. There were no impairment losses for 2018 and 2017.

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

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

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

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

Key assumptions used in impairment test	12/31/2018	12/31/2017
Information used	Actual operating results for the year 2018 and business plans for 2019–2023	Actual operating results for the year 2017 and business plans for 2018–2022
Forecast period	5 years (2019–2023)	5 years (2018–2022)
Consolidated forecast of volume of hydraulic fracturing and drilling operations	Based on management forecast of future trends and developments of the business approved by senior management	
Raw materials and production services price	Estimates are obtained from published Producer Price Index by the Ministry of Economic Development of the Russian Federation	
Forecast of capital expenditures	Based on the management forecasts of maintenance capital expenditures for modernization and reconstruction program	
Terminal growth rate	4.1%–5.3% Average producer price index in terminal period	4.15%–6.1%
Weighted average cost of capital (discount rate)	14.7%–17.4% 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.	15.1%–18.1%

As a result of analysis as at 31 December 2018 indicators of impairment were revealed. Recoverable amounts of cash-generating units were recalculated, for those where the carrying amount less than the value in use no impairment is determined. Impairment loss was recognised to goodwill of OOO Wellprop through profit and loss in amount of EUR 1,031 (as at 31 December 2017: nil).

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, drilling operations and sales of proppant;
- Discount rate;
- Index of inflation.

12/31/2018	12/31/2017
Equality of value in use and carrying amount becomes possible in case of revenue decrease by 5.4% for CGU KATOBNEFT, by 34.8% for CGU KATOil-Drilling, by 0.2% for Katkoneft and by 7.7% for PWT Kazakhstan.	Equality of value in use and carrying amount becomes possible in case of revenue decrease by 0.4% for CGU KATOBNEFT, by 11% for CGU KATOil-Drilling.

Discount rate—with all other assumptions held constant.

12/31/2018	12/31/2017
Increase of discount rate to 22.7%, 16.5% and 18.1% would result in equality of value in use and carrying amount of CGU KATOil-Drilling, CGU KATOBNEFT and CGU PWT Kazakhstan respectively. The impairment of CGU KATKoneft is indicated in case of discount rate growth to 16.0%.	Increase of discount rate to 23.2% and 15.5% would result in equality of value in use and carrying amount of CGU OOO KATOil-Drilling and CGU OOO KATOBNEFT respectively.

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

12/31/2018	12/31/2017
The equality of value in use and carrying amount of CGU PWT Kazakhstan will be achieved in case of decrease the index of inflation for operation price by 1.4%. The CGU KATOil-Drilling does not indicate impairment at zero index of inflation. The impairment of CGU KATKoneft is indicated in case inflation index decrease by 0.1%.	The equality of value in use and carrying amount of CGU OOO KATOil-Drilling and CGU OOO KATOBNEFT will be achieved in case of decrease the index of inflation for operation price by 3.4% and by 0.1% respectively.

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	12/31/2018	12/31/2017
Less than one year	799	1,473
Between one and five years	731	798
More than five years	861	2,270
Total	**2,391**	**4,541**

During 2018 operating rentals expenses of TEUR 354 (2017: TEUR 646) were included in cost of sales, TEUR 1,123 (2017: TEUR 941) were charged to administrative expenses.

8. Intangible assets and goodwill

in EUR thousand	The right to use production technology	Software and other intangible assets	Total
Cost or valuation			
At 1 January 2017	-	590	**590**
Additions through business combinations	2,293	-	**2,293**
Additions	-	5	**5**
Exchange differences	9	(41)	**(32)**
At 31 December 2017	**2,302**	**554**	**2,856**
Additions	-	9	**9**
Exchange differences	(38)	(19)	**(57)**
At 31 December 2018	**2,264**	**544**	**2,808**
Depreciation and impairment			
At 1 January 2017	-	555	**555**
Amortization	37	13	**50**
Exchange differences	1	(41)	**(40)**
At 31 December 2017	**38**	**527**	**565**
Amortization	148	16	**164**
Exchange differences	(1)	(32)	**(33)**
At 31 December 2018	**185**	**511**	**696**
Net book value			
As at 1 January 2017	-	35	**35**
As at 31 December 2017	2,264	27	**2,291**
As at 31 December 2018	2,079	33	**2,112**

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

9. Inventories

in EUR thousand	12/31/2018	12/31/2017
Spare parts and other materials	22,584	28,939
Raw material	5,962	7,828
Fuel and lubricants	2,793	2,192
Finished goods and goods for resale	1,007	1,173
Total	**32,346**	**40,132**

As at 31 December 2018 no inventories have been pledged as collateral for borrowings (31 December 2017: nil).

10. Trade receivables and contract assets

Trade receivables comprise the receivables under sales contracts ordinary activities in the amount of TEUR 68,220 (31 December 2017: TEUR 97,035). For further information see note 16 Revenue.

Most part of the Group's trade receivables relates to the largest Russian and Kazakh oil companies – LUKOIL, Gazprom Neft, Rosneft, Tomskneft, Munaifieldservice and others which are rated as B1 to Baa3 based on Moody's ratings as at 31 December 2018.

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

Probability of default (PD) and loss given default (LGD) were used for the assessment of expected credit losses. Probability of default corresponds to the long-term average default rate for each rating category and was estimated according to a study «2017 Annual Global Default Study and Rating Transitions» by Standard and Poor's. The rating category was determined on the basis of the minimum rating of three international rating agencies (Moody's, S&P and Fitch). LGD parameters generally reflect an assumed recovery rate which is estimated at a constant level of 45% according to «Basel II: International Convergence of Capital Measurement and Capital Standards» for corporate borrowers.

The impairment losses for trade receivables and contract assets accrued according to IFRS 9 comprised TEUR 124 as at 31.12.2018.

Contract assets

Contract assets were as follows:

in EUR thousand	12/31/2018	1/1/2018
Contract assets	8,696	22,197
Total	**8,696**	**22,197**

The amount of revenue recognized in the consolidated financial statements in accordance with IAS 11 "Construction contracts" in 2017 is TEUR 165,113 including revenue recognized under construction contracts in progress amounting to TEUR 11,699 and corresponding trade receivables.

The contract assets primarily relate to the Group's rights to consideration for work performed but not yet invoiceable at the reporting date on drilling and fracturing arrangements. The contract assets are transferred to receivables when the rights become unconditional. During the year the contract assets were transferred to receivables or paid by the customers. This usually occurs when the Group issues an invoice to the customer. In prior year, the corresponding amount related contract assets as of 1 January 2018 has been recognized under trade receivables.

All remaining performance obligations relate to contracts with customers with a contractual term of less than 12 months.

11. Other current assets

Other current assets comprise the following items:

in EUR thousand	12/31/2018	12/31/2017
Receivables from related parties	362	362
Value added tax	292	2,782
Advance payments	1,402	1,129
Deferred expenses	16	25
Other receivables	2,452	1,485
Total	**4,524**	**5,783**

Fair value of current assets approximate their carrying value.

12. Tax receivables

Tax receivables comprise the following items:

in EUR thousand	12/31/2018	12/31/2017
Income tax receivables	710	639
Other tax receivables	221	239
Total	**931**	**878**

13. Cash and cash equivalents

Cash and cash equivalents consist of the following:

in EUR thousand	**12/31/2018**	**12/31/2017**
Petty cash	1	1
Bank balances	3,389	2,501
Short-term deposits	122,184	66,385
Total	**125,574**	**68,887**

As at 31 December 2018 cash in bank accounts denominated in Euro was TEUR 2,167, in US Dollar was TEUR 413, in Russian Rubles were TEUR 634, in Kazakhstan tenge was TEUR 175 (31 December 2017: in Euro – TEUR 835, in US Dollar – TEUR 228, in Russian Rubles – TEUR 1,438).

As at 31 December 2018 deposits with maturities of three months or less denominated in Russian Rubles were TEUR 120,492, in Kazakhstan tenge were TEUR 203, in US Dollar was 1,489 (31 December 2017: in Russian Rubles – TEUR 58,727, in Kazakhstan tenge – TEUR 396, in US Dollar – 1,921, in Euro – TEUR 5,341) and bear interest of 1.1%–7.9% (31 December 2017: 6.0%–7.55%).

Bank deposits with maturities of three-five months were TEUR 931 denominated in US Dollar (31 December 2017: TEUR 65,489) and bear interest of 1.6%–2.3% (2017: 6.0%–7.55%).

There was no significant cash restricted from use as at 31 December 2018 and 31 December 2017.

The cash and cash equivalents are held with bank and financial institution counterparties, which are rated Ba2- to Ba1, based on Moody's ratings as at 31 December 2018. The Group monitors changes in credit risk by tracking published external credit ratings and licence status of the financial institution.

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

The impairment losses for cash and cash equivalents accrued according to IFRS 9 comprised TEUR 75.

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:

12/31/2018			12/31/2017		
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 2017: TEUR 48,850) and consists of 48,850,000 issued and outstanding no-par-value shares. The shares are listed on the Prime Standard, Official Market, on the Frankfurt Stock Exchange. All of the shares are admitted for trading. No preferred shares have been issued. There are no restrictions regarding voting rights or transmission rights of the shares. The Company has not acquired any of its own shares to date.

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

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

Capital reserve

The capital reserve comprises the share premium from the issue of shares and amounted to TEUR 111,987 (31 December 2017: TEUR 111,987).

Currency translation reserve

Currency translation reserve comprises the following items:

in EUR thousand	2018	2017
Foreign currency reserves at 1 January	171,033	**148,593**
Net investments	16,460	8,829
Currency translation differences	31,052	13,611
Foreign currency reserves at 31 December	**218,545**	**171,033**

The currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations amounted to TEUR 31,052 for 2018 (2017: gain TEUR 13,611).

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 2018 losses on net investments in foreign operations, net of related tax, amounted to TEUR 16,460 (2017: gain TEUR 8,829).

15. Current and non-current liabilities

On 11 July 2018, The Company signed amendment agreement for the loan of TEUR 100,000 that set interest at 3.42% above 6m EURIBOR rate since 1 January 2019 and prolonged the maturity of the loan and accrued interest until 31 December 2022, interest accruing during the remaining term of the loan are payable at loan maturity date. As a result the prolongation the loan and accrued interest has been reclassified from current financial liabilities to non-current financial liabilities in.

As at 31 December 2018 the non-current financial liabilities against Petro Welt Holding (Cyprus) Ltd. amounted to TEUR 116,303, including accrued but unpaid interest (31 December 2017: current financial liabilities TEUR 112,526, including accrued but unpaid interest).

Current liabilities comprise the following items:

in EUR thousand	12/31/2018	12/31/2017
Financial liabilities to related parties	-	112,526
Trade payables	32,801	43,427
Other current liabilities	21,897	31,429
Advance payments received	154	11
Income tax payables	972	3,975
Total	**55,824**	**191,368**

The trade payables include obligations of the Group to its suppliers in the amount of TEUR 32,801 (31 December 2017: TEUR 43,427).

Other current liabilities consist of the following items:

in EUR thousand	12/31/2018	12/31/2017
Value added tax liabilities	5,461	7,600
Wages and salary liabilities	1,765	5,228
Unused vacations liabilities	7,342	7,082
Social insurance liabilities	775	832
Other tax liabilities	2,032	2,797
Property tax liabilities	227	184
Provisions for future losses	124	1,359
Other liabilities	4,171	6,347
Total	**21,897**	**31,429**

Provision for future losses

Management analyses at each reporting date incomplete wells for the excess of total revenue over the costs incurred. When it is probable that total costs will exceed total revenue, the expected loss is recognized immediately as an expense. Loss for such unprofitable wells in progress as at the reporting date is charged to cost of sales (refer to the 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.

Losses related to incomplete wells amounted to TEUR 124 (31 December 2017: TEUR 1,359).

16. Revenue

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. The Adoption of IFRS 15 did not significantly impact the Group's revenue recognition for oil field services except for presentation of materials supplied by customers. The group adjusted the representation of revenue for 2017 such that costs related to certain materials supplied by customers have been excluded from revenue and cost of sales.

In the following table, revenue is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (refer to the Note 25).

Disaggregated revenue 2018

in EUR thousand	Well Services	Drilling Sidetracking IPM	Proppant production	Total segments	Recon-ciliation	Group
External sales	154,205	110,891	10,890	275,986	-	275,986
Group sales	1,001	161	1,717	2,879	(2,879)	-
Total sales	**155,206**	**111,052**	**12,607**	**278,865**	**(2,879)**	**275,986**
Primary geographical markets						
Russia	149,599	111,052	12,607	273,258	(2,879)	270,379
Kazakhstan	5,607	-	-	5,607	-	5,607
Total sales	**155,206**	**111,052**	**12,607**	**278,865**	**(2,879)**	**275,986**
Major products/service lines						
Hydraulic fracturing	150,195	-	-	**150,195**	(1,001)	**149,194**
Sidetrack drilling	-	43,787	-	**43,787**	(100)	**43,687**
Conventional drilling	-	67,225	-	**67,225**	(61)	**67,164**
Cementing	3,617	-	-	**3,617**	-	**3,617**
Sale of proppant	-	-	12,607	**12,607**	(1,717)	**10,890**
Other services	1,394	40	-	**1,434**	-	**1,434**
Total sales	**155,206**	**111,052**	**12,607**	**278,865**	**(2,879)**	**275,986**
Timing of revenue recognition						
Services transferred at a point in time	-	-	12,607	**12,607**	(1.717)	**10,890**
Short-term services	155,206	-	-	**155,206**	(1.001)	**154,205**
Services transferred over time	-	111,052	-	**111,052**	(161)	**110,891**
Total sales	**155,206**	**111,052**	**12,607**	**278,865**	**(2.879)**	**275,986**

Disaggregated adjusted revenue 2017:

in EUR thousand	Well Services	Drilling Sidetracking IPM	Proppant production	Total segments	Reconciliation	Group
External sales	178,874	165,197	3,264	347,335	-	347,335
Group sales	1,671	499	663	2,833	(2,833)	-
Total sales	**180,545**	**165,696**	**3,927**	**350,168**	**(2,833)**	**347,335**
Primary geographical markets						
Russia	166,604	165,696	3,927	336,227	(2,766)	333,461
Kazakhstan	13,941	-	-	13,941	(67)	13,874
Total sales	**180,545**	**165,696**	**3,927**	**350,168**	**(2,833)**	**347,335**
Major products/service lines						
Hydraulic fracturing	172,383	-	-	**172,383**	(1,671)	**170,712**
Sidetrack drilling	-	92,906	-	**92,906**	(421)	**92,485**
Conventional drilling	-	72,706	-	**72,706**	(78)	**72,628**
Cementing	6,533	-	-	**6,533**	-	**6,533**
Sale of proppant	-	-	3,927	**3,927**	(663)	**3,264**
Other services	1,629	84	-	**1,713**	-	**1,713**
Total sales	**180,545**	**165,696**	**3,927**	**350,168**	**(2,833)**	**347,335**
Timing of revenue recognition						
Services transferred at a point in time	-	-	3,927	**3,927**	(663)	**3,264**
Short-term services	180,545	-	-	**180,545**	(1,671)	**178,874**
Services transferred over time	-	165,696	-	**165,696**	(499)	**165,197**
Total sales	**180,545**	**165,696**	**3,927**	**350,168**	**(2,833)**	**347,335**

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 2018 and 31 December 2017:

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

17. Cost of sales

in EUR thousand	2018	2017
Raw materials	81,089	97,602
Direct costs	59,479	72,094
Depreciation	40,157	46,153
Wages and salaries	39,286	47,319
Social tax	11,415	13,760
Other costs	4,477	7,364
Total	**235,903**	**284,292**

Direct costs amounting to TEUR 59,479 (2017: TEUR 72,094) comprise production services, transportation, repair and maintenance expenses.

The cost of sales does not include any expenses from discontinued operations (2017: nil).

The group adjusted the presentation of cost of sales for 2017.

18. Administrative expenses

in EUR thousand	2018 Continuing operations	2018 Discontinued operation	2017 Contiuing operations	2017 Discontinued operation
Wages and salaries (incl. remuneration for executive bodies)	12,828	-	12,892	-
Consulting fees	3,263	37	2,167	166
Tax expense	1,098	-	2,286	-
Social tax	2,639	-	2,648	-
Rent expense on an operating lease	1,123	-	941	-
Travel and entertainment expenses	571	-	549	1
Depreciation and amortization	240	-	147	-
Purchase of other materials	314	-	348	-
Services rendered	1,640	-	1,426	-
Bank fees	89	-	87	2
Training costs	48	-	34	-
Audit fees	543	-	517	-
Insurance	76	-	60	-
Maintenance costs	410	-	319	-
Other administrative expenses	29	-	255	-
Total	**24,911**	**37**	**24,676**	**169**

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. All information for Petro Welt GEODATA GmbH in the consolidated financial statements is disclosed separately as a discontinued operation. On the 1 July 2018, the Company sold and transferred the Shares of Petro Welt GEODATA GmbH for one euro.

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

in EUR thousand	2018	2017
Audit	461	451
Total	**461**	**451**

19. Other operating income

in EUR thousand	2018 Continuing operations	2018 Discontinued operation	2017 Contiuing operations	2017 Discontinued operation
Income from disposal of property, plant and equipment	1,095	-	247	-
Income from reversals of written-down inventories	197	-	20	-
Income from prior periods	56	-	59	-
Income from reversals of written-down trade receivables	165	-	131	-
Income from penalties	422	-	365	-
Other income	654	-	1,383	49
Total	**2,589**	**-**	**2,205**	**49**

20. Other operating expenses

in EUR thousand	2018	2017
Expenses for penalties	1,102	1,408
Expenses for the disposal of property, plant and equipment	119	287
Write-down of trade receivables	471	427
Provision for doubtful debts, contract assets, cash and cash equivalents	124	-
Loss from inventory write-off and obsolesce provision	1,052	237
Impairment of goodwill	1,031	-
Other expenses	1,386	950
Total	**5,285**	**3,309**

21. Net finance income

in EUR thousand	2018 Continuing operations	2018 Discontinued operation	2017 Contiuing operations	2017 Discontinued operation
Interest income	8,429	1	8,716	25
Total finance income	8,429	1	**8,716**	**25**
Interest expenses	(3,837)	-	(3,868)	-
Loss from exchange rate differences	(429)	(1)	(1,913)	(5)
Total finance costs	**(4,266)**	**(1)**	**(5,781)**	**(5)**
Total net finance income	**4,163**	**-**	**2,935**	**20**

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 2018 was 25% (2017: 25%), for the Russian subsidiaries – 20% (2017: 20%) and for income taxable under tax law in Kazakhstan - 20% (2017: 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 December 2007 with the member of the tax group in which the “stand-alone” method was selected.

Income tax expenses recognized in profit or loss are:

in EUR thousand	2017	2016
Current tax expenses	6,284	11,304
Deferred tax expense (income) relating to the origination and reversal of temporary differences	(1,676)	(2,304)
Withholding tax	731	73
Income taxes from previous years	(929)	(410)
Current and deferred tax expenses	**4,410**	**8,663**

In 2018 the income tax contains withholding taxes of TEUR 731 (2017: TEUR 73) resulted from intra-Group dividend. The rate for withholding tax on dividends in Russia was unchanged at 5%.

Amounts recognised in other comprehensive income were as follows:

	2018			2017		
in EUR thousand	Before tax	Related tax	Net of tax	Before tax	Related tax	Net of tax
Net investments in foreign operations	(16,180)	(280)	(16,460)	(11,619)	2,790	(8,829)
Net gains/(losses) on remeasurement of defined benefit plans	131	(26)	105	60	(12)	48

Reconciliation of effective tax rate:

in EUR thousand	2018	2017
Result before income taxes	15,256	39,688
Tax using the Russian tax rate (20%)	3,051	7,938
Effect of tax rates in foreign jurisdictions	(192)	294
Tax-free income	(235)	(196)
Non-deductible expenses	1,788	2,151
Change in unrecognized deferred taxes	(18)	(1,580)
Withholding tax on dividends	731	73
(Over)/underprovisions in earlier years	(929)	(410)
Other effects	214	393
Current and deferred tax expenses	**4,410**	**8,663**
Current and deferred tax expenses according to the profit or loss statement	**4,410**	**8,663**
Tax rate	**28.91%**	**21.83%**

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

		12/31/2018		Change in deferred taxes		1/1/2018	
in EUR thousand	**Deferred tax assets**	**Deferred tax liabilities**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Effect of movement exchange rates**	**Deferred tax assets**	**Deferred tax liabilities**
Tax loss carryforwards	4,520	-	(1,723)	472	(787)	6,558	-
Deferred expenses/liabilities	3,625	-	1,986	-	(412)	2,051	-
Fixed assets/depreciation	-	(9,497)	1,061	-	1,554	-	(12,112)
Other	930	(991)	352	(752)	(157)	1,153	(657)
Netting	(6,784)	6,784	-	-	-	(9,152)	9,152
Total	**2,291**	**(3,704)**	**1,676**	**(280)**	**198**	**610**	**(3,617)**

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

Due to amendments to the Russian tax legislation, starting from 1+ January 2017 tax losses do not expire, but may be set off only against 50% of taxable profits for a given tax year. The tax loss carryforward as at 31 December 2018 in the amount of TEUR 45,528 (31 December 2017: TEUR 38,560) is not expected to be utilized in a future. Deferred tax assets in the amount of TEUR 9,106 (2017: TEUR 7,712) 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 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	2018 Post-employment benefits	2018 Other longterm employee benefits	2018 Total	2017 Post-employment benefits	2017 Other longterm employee benefits	2017 Total
Defined Benefit Obligation as at 1 January	881	122	1,003	927	126	1,053
Included in profit or loss:						
Current service cost	62	18	80	73	20	93
Interest cost	54	7	61	72	9	81
Past service cost	(130)	(7)	(137)	(9)	-	(9)
Actuarial (gains)/losses, including:						
Financial assumptions	-	-	-	-	2	2
Demographic assumptions	-	-	-	-	2	2
Experience adjustments	-	-	-	-	(12)	(12)
Benefits paid	**(108)**	**(15)**	**(123)**	**(54)**	**(16)**	**(70)**
Included in other comprehensive income:						
Actuarial (gains)/losses, including:						
Financial assumptions	(54)	(12)	(66)	8	-	8
Demographic assumptions	-	-	-	2	-	2
Experience adjustments	(57)	(8)	(65)	(69)	-	(69)
Effect of movements in exchange rates	(101)	(15)	(116)	(69)	(9)	(78)
Defined Benefit Obligation as at 31 December	547	90	637	881	122	1,003

Actuarial assumptions

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

Assumptions	**2018**	**2017**
Discount rate	8.78%	7.8%
The growth rate of fixed payments	4.1%	4.5%
The growth rate of benefits as a result of a career growth	1%	1%
Tax rate	Varies from 20% to 25% depending on the Company	Varies from 16% to 30% depending on the Company
Employee turnover rates	Declines from 41% to 0% per year depending on year of service and gender	Declines from 45% to 0% per year depending on year of service and gender
Mortality	Mortality table of the Russian Federation for the year 2016, adjusted by 77%	Mortality table of the Russian Federation for the year 2015, adjusted by 77%

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

	Post-employment benefits	**Other long-term employee benefits**	**Total**
Duration, years	11.30	11.81	11.39

The next table represents the defined benefit plan payments expected in the next reporting period (2019):

in EUR thousand	**Post-employment benefits**	**Other long-term employee benefits**	**Total**
Defined benefit plan payments expected in the next reporting period	251	11	262

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%	(5.0%)	(6.4%)	(5.2%)
Decrease in discount rate by 1%	5.9%	7.3%	6.1%
Increase in growth rate of fixed benefits by 1%	6.1%	7.6%	6.3%
Decrease in growth rate of fixed benefits by 1%	(5.3%)	(6.8%)	(5.5%)
Increase in salary growth rate by 1%	3.7%	0.0%	3.2%
Decrease in salary growth rate by 1%	(3.2%)	0.0%	(2.8%)
Increase in rate of employee’s turnover by 1%	(0.4%)	(0.7%)	(0.4%)
Decrease in rate of employee’s turnover by 1%	0.4%	0.7%	0.5%
Increase in mortality by 10%	(5.1%)	(7.2%)	(5.4%)
Decrease in mortality by 10%	5.9%	8.2%	6.2%

24. Earnings per share

The calculation of basic earnings per share at 31 December 2018 was based on the profit attributable to ordinary shareholders and a weighted-average number of ordinary shares.

in EUR thousand		2018	2017
Common stock	thousand	48,850	48,850
Profit	in EUR thousand	10,809	31,015
Earnings by share	EUR	0.22	0.63

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

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

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

Segment information as at and for the years ended 31 December 2018 and 31 December 2017 is presented below.

Reporting segments results for 2018

in EUR thousand	Well Services	Drilling Sidetracking IPM	Proppant production	Total segments	Recon-ciliation	Group
External sales	154,205	110,891	10,890	275,986	-	275,986
Group sales	1,001	161	1,717	2,879	(2,879)	-
Total sales	**155,206**	**111,052**	**12,607**	**278,865**	**(2,879)**	**275,986**
Cost of sales	(127,580)	(103,974)	(7,234)	(238,788)	2,885	(235,903)
Administrative expenses	(8,876)	(7,277)	(1,033)	(17,186)	(7,725)	(24,911)
Selling expenses	-	-	(1,383)	(1,383)	-	(1,383)
Other operating income and expenses	(840)	(883)	25	(1,698)	(998)	(2,696)
Operating result	**17,910**	**(1,082)**	**2,982**	**19,810**	**(8,717)**	**11,093**
Finance income						8,429
Finance costs						(4,266)
Profit before tax						**15,256**
Income tax						(4,410)
Profit after tax						**10,846**
Segment depreciation and impairment losses	13,827	26,071	1,757	41,655	(227)	41,428
Segment assets	148,669	154,115	21,443	324,227	57,599	381,826
Segment liabilities	22,897	48,079	3,552	74,528	101,940	176,468
Capital expenditure	27,652	13,135	287	41,074	1,842	42,916

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

Reporting segments results for 2017

in EUR thousand	Well Services	Drilling Sidetracking IPM	Proppant production	Total segments	Recon-ciliation	Group
External sales	178,874	165,197	3,264	347,335	-	347,335
Group sales	1,671	499	663	2,833	(2,833)	-
Total sales	**180,545**	**165,696**	**3,927**	**350,168**	**(2,833)**	**347,335**
Cost of sales	(140,119)	(144,992)	(2,240)	(287,351)	3,059	(284,292)
Administrative expenses	(6,732)	(10,121)	(704)	(17,557)	(7,119)	(24,676)
Selling expenses			(510)	(510)	-	(510)
Other operating income and expenses	(5,629)	(2,551)	69	(8,111)	7,007	(1,104)
Operating result	**28,065**	**8,032**	**542**	**36,639**	**114**	**36,753**
Finance income						8,716
Finance costs						(5,781)
Profit before tax						**39,688**
Income tax						(8,663)
Profit after tax						**31,025**
Segment depreciation and impairment losses	15,851	30,522	223	46,596	(296)	46,300
Segment assets	158,873	187,887	25,076	371,836	66,108	437,944
Segment liabilities	33,701	72,616	6,943	113,260	82,728	195,988
Capital expenditure	22,551	12,444	-	34,995	548	35,543

Inter-segment revenue is eliminated on consolidation. Major part of non-current assets of the Group is located in the Russian Federation. For the purposes of comparability of revenue and cost of sales for the reporting period, the group adjusted revenue and cost of sales for 2017.

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	2018	%	2017	%
Russia				
Rosneft	128,248	46.47	182,252	52.47
LUKOIL	65,671	23.8	75,188	21.65
Slavneft	8,960	3.25	15,146	4.36
Gazprom Neft	16,232	5.88	18,735	5.39
Tomskneft	14,919	5.41	21,684	6.24
Russneft	17,336	6.28	14,584	4.2
Other customers	19,013	6.89	6,960	2.0
Total revenue within Russia	270,379	97.97	**334,549**	**96.32**
Kazakhstan				
Kazmunaygaz	1,571	0.57	8,319	2.4
Other customers	4,036	1.46	4,467	1.29
Total revenue within Kazakhstan	5,607	2.03	**12,786**	**3.68**
Total	**275,986**	**100**	**347,335**	**100**

For the purpose of comperability of revenue for the reporting period, the group adjusted revenue for 2017.

26. Contingencies

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.

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 ssignificant, but in the opinion of the management will not be more than 1% of gross sales to customers.

Taxation contingencies in Kazakhstan

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

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

27. Details and information on financial instruments

Presentation of financial instruments

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

Financial assets measured at amortised costs

in EUR thousand	12/31/2018	12/31/2017
Cash and cash equivalents	125,574	68,887
Bank deposits	931	65,489
Trade receivables	68,220	97,035
Receivables from related parties	362	362
Other receivables	1,676	3,427
Total	**196,763**	**235,200**

Financial liabilities measured at amortised costs

in EUR thousand	12/31/2018	12/31/2017
Long term debts	116,303	-
Short term debts	-	112,526
Trade payables	32,801	43,427
Other liabilities	4,171	3,815
Total	**153,275**	**159,768**

For more details regarding change in short term debts to long term debts refer to note 15. The carrying amount of financial assets and financial liabilities presented above approximates its fair values.

The carrying amounts of trade receivables, current and non-current assets correspond to their fair values. For trade payables, current and non-current liabilities as well as other current liabilities the carrying amounts correspond to the fair values. Financial instruments were not assigned as security both in the reporting year and in the previous year.

28. Financial risk management objectives and policies

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

Credit risk

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

in EUR thousand	12/31/2018	12/31/2017
Cash and cash equivalents	125,574	68,887
Bank deposit	931	65,489
Trade receivables	68,220	97,035
Contract assets	8,696	-
Other receivables	1,616	1,485
Other long-term assets	60	1,942
Total	**205,097**	**234,838**

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

Credit risk management activities in the Group are as follows:

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

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

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

Trade and other receivables

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

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

in EUR thousand	12/31/2018	12/31/2017
Russia	67,433	94,704
Kazakhstan	2,463	5,758
Total	**69,896**	**100,462**

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	12/31/2018	12/31/2017
Neither past nor overdue	199,842	220,264
Past due 0–30 days	3,241	9,485
Past due 31–180 days	690	1,224
Past due over 180 days	1,324	3,865
Total	**205,097**	**234,838**

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 following table provides information about the estimated exposure to credit risk for contract assets, trade receivables, bank deposits and cash and cash equivalents, as at 31 December 2018:

Equivalent to external credit rating by Moody's or Fitch	**Carrying amount, TEUR**	**Estimated weighted-average loss rate, %**	**Impairment loss allowance, TEUR**
Contract assets			
Baa3	7,830	0.03	2
BB (Fitch)	228	0.4	1
B1	343	0.3	1
No rating	295	2.0	6
Total contract assets	**8,696**	**0.1**	**10**
Trade and other receivables			
Baa1–Baa11	53,657	0.02	13
BB (Fitch)	1,112	0.3	3
B1	8,379	0.2	18
B2	416	0.2	1
No rating	6,332	1.3	79
Total trade and other receivables	**69,896**	**0.2**	**114**
Bank deposit			
A2	931	-	-
Total bank deposit	**931**	**-**	**-**
Cash and cash equivalents			
A2	694	-	-
A3	943	-	-
BBB- (Fitch)	26,629	0.008	2
Ba1	82,609	0.05	41
Ba2	2,114	0.1	2
Ba3	12,585	0.2	30
Total cash and cash equivalents	**125,574**	**0.06**	**75**
Total	**205,097**	**0.1**	**199**

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

in EUR thousand	Individual impairments 2018	Individual impairments 2017
Balance at beginning of the year	651	**426**
Additions according to IFRS 9	124	-
Additions through business combinations	-	516
Additions (through profit or loss)	440	479
Reversal/use	(169)	(720)
Foreign currency translation adjustments	(98)	(50)
Balance at end of the year	**948**	**651**

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 125,574 at 31 December 2018 (31 December 2017: TUER 68,887), which represents its maximum credit exposure on cash and cash equivalents assets.

As at 31 December 2018 and 31 December 2017, cash and cash equivalents are held with different banks to prevent concentration of credit risk for the Group.

Liquidity risk

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

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

The Group has borrowings from Petro Welt Holding Limited (Cyprus) amounting to TEUR 100,000. For further information see note 15 Current and non-current 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.

2018

in EUR thousand	Carrying amount	Total cash flow	Contractual cash flows < 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)	116,303	128,907	-	-	-	128,907
Trade payables	32,801	32,801	32,801	-	-	-
Other current liabilities	4,171	4,171	4,171	-	-	-

2017

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

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

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

Currency risk

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

The group is exposed to foreign currency risk as a result of purchases and borrowings made which are denominated in currencies other than Russian ruble. Basically, currency risk arises from transactions in euros and us dollars. The group performs regular analysis of trends in currency exchange rates. The Group's exposure to foreign currency risk was as follows (excluding intra-group balances):

in EUR thousand	12/31/2018	12/31/2017
Euro		
Trade receivables	261	7,100
Trade payables and other liabilities	(577)	(953)
US dollar		
Trade receivables	103	61
Trade payables and other liabilities	(2,144)	(1,023)
Kazakhstan Tenge		
Trade receivables	1,096	
Trade payables and other liabilities	(356)	(565)
Russian ruble		
Trade receivables	-	-
Trade payables and other liabilities	-	(221)

In addition the Group is exposed to foreign currency risk in relation to group internal financing through loans to subsidiaries denominated in EUR or USD (net investment in a foreign operation—see note 4)

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	**2018**	**2017**	**2018**	**2017**
Euro denominated	(32)	615	3,557	4,675
US Dollar denominated	(204)	(96)	-	-
Kazakhstan Tenge denominated	74	(57)	-	-
Russian ruble denominated	-	(22)	-	-

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	2018	2017
Long-term payables	+/- 434	-
Short-term payables	-	+/- 450

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 2018 and 31 December 2017 there were no any significant recognised financial instruments that are subject to the above agreements.

Other market risks

Russia and Kazakhstan

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

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

Capital management

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

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

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

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

Net debt is calculated as the difference between the total amount of debt less cash and cash equivalents and short-term financial investments. Total debt includes short-term and long-term (including current portion) loans and borrowings, and obligation under the defined benefit pension plan. Total equity is the amount of capital owned by the shareholders of the Group. As at 31 December 2018 the net debt to equity ratio was 13,0% (31 December 2017: 10.5%).

in EUR thousand	**12/31/2018**	**12/31/2017**
Liabilities against Petro Welt Holding Limited (Cyprus)	116,303	112,526
Trade payables	32,801	43,427
Other liabilities with the exception of accrued liabilities	4,171	3,815
Less: cash and cash equivalents	(125,574)	(68,887)
bank deposit	(931)	(65,489)
Net debt	**26,770**	**25,392**
Total equity	205,358	241,956
Net debt to equity ratio at 31 December	**13.0%**	**10.5%**

The Group's rating by Moody's is Ba3 with a stable rating outlook (31 December 2017: 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 2018 and 2017.

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 Current and non-current liabilities, note 11 Other current asset.

Key management remuneration

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

Summary of the remuneration of management members in key positions:

in EUR thousand	2018	2017
Yury Semenov, Management Board	1,566	1,606
Valeriy Inyushin, Management Board	579	562
Maurice Gregoire Dijols, Supervisory Board	35	35
Ralf Wojtek, Supervisory Board	35	35
Remi Paul, Supervisory Board	35	35

Members of Management and Supervisory Board have not received any loans or advance payment in 2018 (2017: nil).

The amount of bonus of Management Board members for 2017, paid in 2018, amounted to TEUR 683 (2017: TEUR 821).

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	2018	2017
Second level management salaries	1,909	937

Other related party transactions

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

	Transaction value		Outstanding balance		
in EUR thousand	2018	2017	12/31/2018	12/31/2017	Transaction description
Subsidiaries:					
C.A.T. GmbH Consulting Agency Trade (Cyprus) Ltd., Nikosia	793	937	182	117	Consulting
Fairtune East Ltd., Moscow	357	440	33	38	Rental fee

30. Events after the reporting date

There are no events that occured after the reporting date and until 29 April 2019, which would require disclosure in these consolidated financial statements.

Vienna, 29 April 2019
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, 29 April 2019

Yury Semenov
Chief Executive Officer

Valeriy Inyushin
Chief Financial Officer

Memo

Legal notice

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Financial calendar 2019

- **April 29, 2019**
  Publication of consolidated annual report 2018

- **May 17, 2019**
  Analyst conference

- **May 22, 2019**
  Publication of Q1 interim report 2019

- **June 18, 2019**
  14th Annual Shareholders’ Meeting

- **August 21, 2019**
  Publication of half-year report 2019

- **November 20, 2019**
  Publication of Q3 interim report 2019

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