Petro Welt Technologies

WE EXPAND OUR SCOPE

Integrated Annual Report 2019

FINANCIAL KEY FIGURES

in EUR million	2019	2018	Change
Revenue	298.4	276.0	8.1%
Gross profit	38.3	40.1	(4.5%)
EBIT	7.6	11.1	(31.5%)
EBIT margin	2.5%	4.0%	
EBITDA	45.6	52.5	(13.1%)
EBITDA margin	15.3%	19.0%	
Group result	5.4	10.8	(50.0%)
Earnings per share (EUR)	0.11	0.22	(50.0%)
Balance sheet total*	452.7	381.8	18.6%
Equity*	254.3	205.4	23.8%
Equity ratio*	56.2%	53.8%	
Cash flow from operating activities	36.1	41.9	(13.8%)
Cash flows (used in)/from investing activities	(38.6)	27.1	(242.4%)
Cash flow used in financing activities	(0.2)	-	-
Cash and cash equivalents*	138.6	125.6	10.4%
EUR exchange rate at the end of the reporting period	69.3406	79.4605	(12.7%)
EUR average exchange rate for the reporting period	72.5021	73.9546	(2.0%)
Employees (average)	3,360	3,112	8.0%

* As of December 31

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 (January 3, 2019)	EUR 5.48
Year's low (December 16, 2019)	EUR 3.30
Closing price (December 30, 2019)	EUR 3.40
Stock exchange listings	SDAX, Prime Standard

WE EXPAND OUR SCOPE

HIGHLIGHTS 2019

Moody's confirmed PeWeTe's Ba3 rating
In its annual update published in May 2020, Moody's Investors Service (Moody's) once again confirmed its Ba3 corporate family rating (CFR) with stable outlook for Petro Welt Technologies AG (PeWeTe). According to Moody's, the Ba3 rating reflects the Group's strong market position in its niche segments, and its sound liquidity profile provides it with sufficient flexibility to weather risks related to difficult market conditions.

PeWeTe's certification process in Romania completed
PeWeTe EVO EUROPE S.R.L. obtained all certifications (API, ISO ANMR, etc.) required for operating in Romania and joined the Romanian Petroleum Exploration and Production Companies Association (ROPEPCA) as well as the International Association of Drilling Contractors (IADC). All equipment being ready for use, operational activities started in the first quarter of 2020. The first few jobs won clients' recognition for PeWeTe's high quality work, putting it on a par with the best European contractors.

Debt restructuring measures improved PeWeTe's financial sustainability
In September 2019, PeWeTe strengthened its financial structure by extending the term of the loan from Petro Welt Holding Limited (Cyprus) to December 31, 2023, and by lowering the interest rate to 3.41% above the 6-month EURIBOR rate. The loans from PeWeTe to KAT.oil Leasing were restructured as well: Two of them – one denominated in euros, the other in US dollars – were converted to rubles for reasons of intragroup financing and to lower the Russian entity's currency risk exposure; the terms of all loans were extended to December 31, 2025.

PeWeTe's equity ratio rose from 53.8% at the end of 2018 to 56.2% at the end of 2019. As a result, the Company's net debt-to-equity ratio improved from 13% on December 31, 2018, to 9.6% on December 31, 2019.

PeWeTe's proppant exports on the rise
Rising proppant exports generated higher revenues in 2019. As a result, the Group's proppant exports accounted for 26.4% of revenues in 2019, up from 12.8% in 2018.

CONTENT

Yury Semenov — CEO

Despite the deteriorating business climate PeWeTe delivered a solid performance in 2019.

Valeriy Inyushin — CFO

Besides investing in technology and products, PeWeTe also moved forward on its internationalization strategy.

CHALLENGE ACCEPTED

Dear Shareholders,

Petro Welt Technologies AG (PeWeTe) delivered a solid performance in 2019 despite the deteriorating business climate.

While the macroeconomic situation in Russia, Kazakhstan, and Romania remained stable, oil production in these three countries stagnated on account of curtailed consumption both globally and domestically. Particularly in Russia, this caused the negative dynamics in such core oilfield services segments as drilling to accelerate in 2019 compared to 2018.

Faced with an oil market in transition, PeWeTe continued to adapt its business model to the new, complex realities of its industrial environment. The commoditization of the oilfield services market has intensified, as has clients' diversification with respect to businesses and regions.

In 2019, PeWeTe managed to counteract these adverse market trends by boosting its revenue and improving its contracting services as well as by continuing to expand its exports, especially in the proppant segment. The cost of sales was adversely affected due to rising prices among crucial project executors, particularly in connection with infrastructure projects that involve state companies and natural monopolies. At the same time, the Group further optimized its general and administrative expenses and restructured its financial debts. In addition, hard currency reserves were created to mitigate potential foreign exchange risks.

Besides investing in technology and products manufacturing, PeWeTe also moved forward on its internationalization strategy and completed all necessary steps for doing business in Romania from the first quarter of 2020. By establishing a business entity in Romania in 2018, the Group made a significant step toward reducing regional risks and serving the important European market from an EU member state. As a next step, PeWeTe has also entered another new market, Oman, where it established a business entity in 2019.

Despite the challenging business environment and the decline in the Russian well services and stimulation market, in 2019 PeWeTe boosted total Group revenue by 8.1% to EUR 298.4 million.

Yury Semenov __ Chief Executive Officer

Valeriy Inyushin __ Chief Financial Officer

TRULY COMMITTED

Dear Stakeholders,
Focusing on techniques, technologies, and services for extracting essential raw materials, PeWeTe faces a challenging environment. It is all the more important that PeWeTe successfully develops and produces services and materials that provide clients with a unique selling proposition relative to the competition.

The manufacturing of proppant is a good example of this commitment. Not only does the material turn out to be indispensable – especially in connection with fracturing – it also meets high requirements with respect to environmental protection. In addition, PeWeTe is continuously improving the quality of its services and materials, especially in the conventional drilling and proppant manufacturing segments, to the satisfaction of its core customers.

In 2019, PeWeTe entered a transitional period that entails adapting its business model to the process of commoditization in the market and lower profitability. The Management Board is well aware that the work required to transform the Group's income base is vital to resisting pressure from the market.

At the same time, PeWeTe continues to keep a close eye on its competitors and pays additional attention to international events, developments in product lines, and financial risks.

Given that the oil industry is in transition, good relationships with key clients will become more important than ever. In fact, they already are one of the PeWeTe Group's major assets.

This Report highlights both the challenges PeWeTe faces and its strategy for mastering them.

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 comprises 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 the other wholly-owned subsidiaries, which are registered in Russia as limited liability companies (LLCs). PeWeTe also holds 100% of Cyprus-based PEWETE Evolution LIMITED (formerly Sonamax LIMITED) and 99.99% of Wellprop Cyprus LIMITED, which, in turn, holds 100% of Wellprop LLC in Russia (formerly CARBO Ceramics Eurasia).

PEWETE Evolution LIMITED serves as the central holding Company, which controls all of the Group's non-Russian business assets – PeWeTe Kazakhstan LLP, PeWeTe EVO EUROPE S.R.L. in Romania, and PeWeTe EVO SERVICES LLC in Oman.

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 sales activities). From an operational perspective, moreover, the Company is responsible for technological and QHSE standards, commercial and marketing tasks, human resources, procurement, and legal.

On August 20, 2018, PeWeTe finalized the registration of its local subsidiary, PeWeTe EVO EUROPE S.R.L., Bucharest, in order to offer its services in Romania too. In 2019, PeWeTe obtained all necessary certifications for its Romanian subsidiary, with real operational activity starting in the first quarter of 2020. This Company provides drilling services with mobile rigs of various capabilities suitable for the European market.

On August 5, 2019, PeWeTe finalized the registration of its new business entity, PeWeTe EVO SERVICES LLC, in Muscat, which is to provide the Company's services in the Sultanate of Oman. Using the experience PeWeTe acquired over the past 20 years, the Company will provide coiled tubing, nitrogen, and fracturing equipment of various capabilities suitable for the Omani market.

The management holding Company headquartered in Vienna, Austria – PeWeTe – carries out general and administrative services for the Group, including monitoring and supervision, strategic planning, key corporate finance matters, overall marketing policy and risk management.

Please see the chart regarding the Group's structure on page 51.

THE PETRO WELT TECHNOLOGIES AG SHARE

The PeWeTe share is traded on the Prime Standard of the Frankfurt Stock Exchange. On January 2, 2019, the share opened the stock trading year at EUR 4.91 per share and closed at EUR 5.12 per share. The highest share price for 2019 (EUR 5.48) was recorded on January 3, 2019, and the lowest (EUR 3.30) on December 16, 2019. Except for two distinctive, short-term upticks at the end of July and in the first half of October 2019, the share price followed a continual downward trend throughout the year. The price of the PeWeTe share thus developed more or less in tandem with the EUR/RUB exchange rate, albeit subject to a steeper downward trend. The slight recovery of the oil price in the last quarter of 2019 did not have a positive impact on the share. By the end of the year, the share price had declined by 33.6% overall, ending at EUR 3.40 on the year's last trading day (December 30, 2019). In 2019, a total of 201,786 shares of PeWeTe stock were traded, and the average daily trading volume was 807 shares.

In 2019, the TECDAX gained 22.3% and the DAX 25.2%. PeWeTe's peers once again demonstrated poor stock dynamics: Calfrac's stock lost 53.2% of its value, thus even underperforming PeWeTe's share; Nabors was down 23.7%; and Trican declined by 5%. Generally speaking, oilfield services (OFS) companies including industry leaders showed a heterogeneous performance: The price of Schlumberger's stock, for example, grew by 12.1% and that of Baker Hughes gained 21.8%, while Halliburton's stock price lost 10% and that of National Oilwell Varco 2.5%. (Source: https://finance.yahoo.com)

SHAREHOLDER STRUCTURE

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

STABLE RATINGS OUTLOOK

In May 2020, the rating agency Moody's confirmed its Ba3 rating with stable outlook for PeWeTe. According to Moody's summary, PeWeTe's Ba3 rating reflects the proven resilience of demand for oilfield services in Russia as well as the Company's strong market position in its niche segments, and its sound liquidity profile provides the Company with sufficient flexibility to weather risks related to difficult market conditions. Overall, Moody's expects PeWeTe to maintain its adjusted debt/EBITDA below 1.0x on a sustainable basis. The rating also factors in the Company's continuous adherence to its historically conservative financial policy and prudent approach to development strategy.

Yet the rating also takes into account both the inherent volatility of the OFS industry and its dependence on potential changes in oil and gas market conditions, including the oil price environment, which still involves a high degree of uncertainty over its future development. The rating is also constrained by the Company's small size compared with its global peers, its highly concentrated customer base, the intensifying price pressure from its customers, the Company's lack of offerings with respect to horizontal drilling services, and its exposure to Russia's less-developed regulatory, political, and legal framework.

MISSION

Almost three decades on, the PeWeTe Group maintains its leading position as an independent service provider for oilfield services in Russia and Kazakhstan. Benefiting from its market advantages, the Group's performance is appreciated by both industrial players and renowned financial institutions. Listed on the Frankfurt Stock Exchange and headquartered in Vienna, Austria, in 2019 PeWeTe had 3,360 employees, most of them living and working in Russia and Kazakhstan.

The Company – one of the first oilfield services firms to be founded in Russia and the Commonwealth of Independent States (CIS) – is an industry leader. After the collapse of the Soviet Union in 1991, we were one of the first Western companies to support and service the oil and natural gas industry in Russia and Kazakhstan. Our 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. In 2011, we expanded our portfolio to include high-quality drilling services.

PeWeTe's business model 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). 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.

Since its founding in 1991, PeWeTe 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.

Given the dramatic changes in the global economy, in general, and in the oil sector, in particular, the Group pays close attention to the difficult market and industrial environment in which it operates and adjusts as necessary. Management's flexibility, its proactive decision-making processes, and prompt reactions to extraordinary obstacles enable us to protect our business and carry out our obligations toward clients and personnel alike.

PeWeTe 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 make a sustainable contribution to the satisfaction of global energy needs by fulfilling companies' requirements in the production of hydrocarbons and making the most efficient use of oil wells. Rampant uncertainties and rising tensions in oil-producing countries, mostly in the world's emerging regions, have contributed to the shifting of oil and natural gas production to safer areas such as Russia and other CIS members. We strive to defend and maximize shareholder value on the basis of the farsighted, profitable expansion of our fracturing, sidetracking, and drilling activities as well as our complementary services.

GROUP STRATEGY FOR THE COMING YEARS

Ensuring the stable development of its international presence and the reasonable growth of its market share are PeWeTe's main goals for the next three to four years. Special attention will be paid to its business in Oman, Romania, Central Europe, and the Republic of Kazakhstan.

The Company wants to become the leading provider of oilfield services in Kazakhstan (mostly hydraulic and acid fracturing) and to diversify its proppant and frac chemicals supply business. Our success in Kazakhstan is critical to our ability to expand further into both Central Asia and the Middle East.

In Russia, PeWeTe 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 Company plans to leverage synergies based on closer cooperation between business units within drilling segments.

The people working at PeWeTe are our biggest asset and we place a lot of trust in them. PeWeTe has developed training programs for its staff in order to be able to achieve its targets in the most effective way possible. The key performance indicator (KPI) system implemented in 2018 continues to be the main tool for enhancing both motivation and guidance. This system continues to cascade through our core Russian entities and also covers Wellprop Russia, PeWeTe Kazakhstan, and PeWeTe EUROPE. In the future, we will consider a rollout to our Omani entity as well.

Our strategic priorities focus on ongoing improvements in quality and in the reduction of non-productive time (NPT); ensuring operational safety for people, equipment, and the environment alike as well as maintaining disciplined cost controls.

The Management Board of PeWeTe understands that international diversification and a multi-segment portfolio offer the best protection 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.

PeWeTe has a successful track record of international expansion: In 2016 and 2017, respectively, it acquired Trican Kazakhstan and CARBO Ceramics in Russia. In 2018, the Company finalized the registration of its Romanian subsidiary, PeWeTe EVO EUROPE S.R.L., Bucharest. The most recent step in its expansion followed on August 5, 2019, when it finalized the registration of its new local business entity, PeWeTe EVO SERVICES LLC, in Muscat, Oman. With its international footprint, PeWeTe is well positioned in the highly competitive OFS market.

In addition to the price pressure on its services that continues unabated, PeWeTe faces increasingly difficult market conditions. The COVID-19 pandemic and the dramatic plunge in oil prices have become major threats to the global economy and the oil and gas industry. Currencies and financial markets are responding with extraordinary volatility. Given these global and industrial uncertainties, oil and natural gas majors are expected to pay greater attention to reliable partners that offer high-quality services.

Continuously optimizing structures and processes, PeWeTe is a powerful and profitable organization that supports its people in making the right decisions.

NON-FINANCIAL REPORT

ABOUT THIS NON-FINANCIAL REPORT

The Non-Financial Report of Petro Welt Technologies AG for the 2019 fiscal year has been prepared in accordance with the legal requirements governing publication of a consolidated non-financial report (section 267a of the Austrian Commercial Code (UGB)). The reference table on page 21 links material topics and non-financial matters pursuant to section 267a of the Austrian Commercial Code to the respective pages in this Report.

BUSINESS MODEL

The activities of the PeWeTe Group are divided into three business lines:
- Well Services and Stimulation
- Drilling, Sidetracking, and Integrated Project Management (IPM)
- Proppant Manufacturing

WELL SERVICES AND STIMULATION SEGMENT

The Well Services and Stimulation segment comprises hydraulic fracturing, cementing, and coiled tubing, with a focus on hydraulic fracturing, a highly effective method of well stimulation. This method significantly boosts oil and gas recovery by fracturing the formation of fluids with the help of both a gel and a 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 a greater rate of oil production. 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.

The Company has carried out over ten thousand well-cementing jobs since 1996, and it is the largest independent fracturing 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.

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, PeWeTe uses modern blowout prevention equipment from Shaffer Oil Tools, California, USA. No blow-out was reported in 2019.

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.

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 and logging while drilling as well as liner cementing.

PROPPANT MANUFACTURING SEGMENT

In 2017, PeWeTe acquired the production facility of CARBO Ceramics Eurasia and renamed it Wellprop. It offers goods for the oil and natural gas industry and manufactures different kinds of proppant in Kopeysk, Russia. The plant was built using state-of-the-art CARBO Ceramics technologies. It manufactures 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, encompasses micro-proppant and ceramic proppant of different densities and strength as well as resin-coated proppant.

Wellprop holds around 5% of the Russian proppant market. While PeWeTe uses a portion of the manufactured proppant for its own purposes, currently it sells the most of it to third parties worldwide, including CIS countries, Europe, and Africa. In 2019, its total share of exports exceeded 26%; shipments to West Africa accounted for 18.1% thereof. During the reporting year, the Company finalized the development of several new products and, at the end of 2019, commenced sales of one of them. The Company plans to bring the other new invention to market during 2020. In 2019, Wellprop also completed the development and certification of frac chemicals. These products, which primarily aim to cover internal group needs, will be manufactured under the Wellprop brand.

BUSINESS MODEL

Petro Welt Technologies

Well Services and Stimulation

- Hydraulic fracturing aims to maximize the flow rate of oil production.
- Cementing and coiled tubing: insulation of the oil zone from the water zone

Drilling, Sidetracking, and Integrated Project Management

- Conventional drilling: exploration of new reservoirs
- Sidetracking: reactivation and optimization of existing wells
- Integrated project management: provision of all drilling and sidetracking services as turnkey solution

Proppant Manufacturing

Ceramic solid material added in the fracturing fluid during well stimulation

Tender

Clients

Petroleum and natural gas companies in Russia, Kazakhstan, Romania and Oman

General Market

CSR STRATEGY

PeWeTe 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.

QUALITY & MANAGEMENT SYSTEMS

PeWeTe has embarked on a systematic approach to loss prevention by introducing a Quality, Health, Safety & Environment (QHSE) management system. The aim is to identify and report incidents and risks, conduct root cause analyses, and continuously implement improvement measures to prevent losses.

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.

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 45001:2018). All of these certificates apply to all drilling activities in connection with oil and gas wells. In 2019, 23% of PeWeTe's employees were covered by ISO 45001.

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.

In the reporting year, Wellprop was certified in accordance with the Integrated Management System (IMS) to the new ISO 9001:2015 standard, the ISO 14001:2015 standard, and the ISO 45001:2018 standard for the development, manufacture, and supply of ceramic proppants.

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. In this assessment, several potential sustainability topics have been rated regarding their impact on the environment and society. External stakeholders' views have been taken into account in this assessment.

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

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

Human Resources
- Training & Education
- Occupational Health & Safety

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

Products & Production
- Technology
- Supply Chain

CUSTOMER RELATIONS

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

We work with our clients under service contracts. 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. The given contracts cover not only issues of compliance and anti-corruption, they also contain complaint mechanisms for the contractors.

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

The following table links the material topics and the non-financial matters pursuant to section 267a of the Austrian Commercial Code with the respective chapter in this Report.

Material topic	Non-financial matters	Pages in this Report
Anti-Corruption & Anti-Bribery	Anti-corruption and bribery	22–23
Legal Compliance	Anti-corruption and bribery, respect for human rights	23
IT Strategy & Data Protection	Social matters	23–24
Human Rights	Respect for human rights, employee-related matters	24
Training & Education	Employee-related matters, social matters	25
Occupational Health & Safety	Employee-related matters, social matters	25–26
Energy & Emissions	Environmental matters	26–27
Effluents, Waste & Soil Protection	Environmental matters	27
Technology	Environmental matters, social matters	28
Supply Chain	Environmental matters, social matters	28–29

In keeping with legal requirements, PeWeTe will describe its main activities regarding these material topics below.

COMPLIANCE

COMPLIANCE STRATEGY

PeWeTe 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 PeWeTe 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 2019.

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 2019, 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 2019, a total of 121 employees were trained on these regulations. Ninety-five employees took part in anti-bribery training sessions. Of these, seven people were upper management and 40 were middle management. Furthermore, 26 employees participated in a compliance induction course. Of these, two were upper management and ten were middle management.

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' 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, those who have signing authority as well as newcomers and promoted employees) are required to complete the respective 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. PeWeTe's goal is to have zero cases of corruption and bribery. Extensive internal communications and a whole range of training courses on corruption prevention took place in 2019. All Group administrative and managerial staff are trained at regular intervals on the issue of anti-corruption. Internal Control System (ICS) checks are carried out to verify whether the prescribed value limits and approval requirements have been met. In 2019, there were no identified cases of corruption or bribery.

Anti-bribery and corruption are specifically addressed in a document entitled "Code of Conduct." This document – which is binding on all employees, contractors, freelancers, and other collaborators – details the rules and regulations that have been put in place to prevent bribery and corruption. The Compliance Officer supports the team and monitors implementation. PeWeTe offers online training to newcomers. In the reporting period, 95 new employees were trained with respect to anti-corruption and anti-bribery.

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. Having put in place further workflow efficiency improvements in 2019, PeWeTe introduced the "World Check" application by Refinitiv, a screening platform designed to help meet regulatory obligations, in 2019. This application will help the Company identify potential risks associated with the engagement of new suppliers.

LEGAL COMPLIANCE

PeWeTe strives to achieve full compliance with all relevant rules and regulations in the countries where it operates. Information on legal rules and training is provided by the Chief Compliance Officer who supervises legal compliance. Relevant legal information is updated and managed using both external support and internal legal expertise as well as legal databases at each operating site.

Employees are trained in compliance on a regular basis either in person or by electronic means. In 2019, 26 employees participated in such training and took the relevant tests.

2019 REPORT ON LEGAL DISPUTES

In the Company's lawsuit against its former board members, Manfred Kastner, Ronald Harder, and Leonid Mirzoyan (Vienna Commercial Court, docket no. 43 Cg 40/17f-54) for repayment of a total of EUR 1,589,603.50, the court handed down an interim judgment in the Company's favor, which finds that the distribution of this amount to the respondents was unlawful. On January 3, 2020, the respondents appealed this interim judgment. Should the appellate court confirm the interim judgment, the lower court will move forward and rule on the respondents' counterclaim, which the Company is disputing in terms of both its merits and the amount of the claim.

The Company has filed action against its former authorized signatory, Edward Brinkmann, and a Company attributed to him (Majab Development LLC) before the Twentieth Judicial Circuit for Collier County in Florida, USA, (docket no. 11:2018-CA-002531) for damages due to fraud in connection with orders for equipment. The respondent, Edward Brinkmann, is accused of having purchased equipment, particularly in the United States, at excessive prices for his own profit during his tenure with the Company. The lawsuit is still in the so-called "discovery" phase, which allows each party to request information from the other concerning facts and circumstances material to the charge of fraud. The discovery procedure will likely be completed by the end of 2020. An oral hearing is scheduled for February 10, 2021.

An investigation by the Vienna District Attorney's Office for Economic and Corruption Matters ("WKStA") was pending against Anna and Edward Brinkmann for embezzlement. PeWeTe and Coraline Limited are private parties to the investigation. The WKStA office has closed this investigation. The private parties have appealed the closing and have petitioned the Vienna District Criminal Court to order the WKStA to continue its investigation. The chamber of the court now responsible for the matter is expected to rule on this matter in the spring of 2020. The WKStA has also closed its investigation regarding Dr. Walter Höft, another accused party. Once the Company receives the grounds for the closing, it has 14 days to file an appeal and request that the investigation be continued.

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 in the field. 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). Groupwide 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.

In 2019, more than a dozen global IT projects aimed at coordinating and facilitating communications within the PeWeTe Group were implemented. IT infrastructure centralization projects were of the greatest importance in this context: a single domain, data center, and intranet for the whole Group. The implementation of these projects made it possible to switch to modern means of digital audio and video communication, with the result that the cost of mobile communication within the Group is expected to be reduced by more than 20%.

As part of the project, the Data Processing Center put into operation new servers and data storage systems: 256 cores, 2048 GB of RAM, 134 TB on a SATA hard drive (serial connection of an AT hard drive). A modern, centralized virtualization system uses all available capacities to ensure fault tolerance and high availability of the information systems. The Group's key IT systems were migrated to these resources, making it possible not only to unify and delimit access rules but also to speed up the transition to a production management system and enterprise resource planning (ERP).

Thanks to the implementation of both the aforementioned security and information security measures and the consistent pursuit of PeWeTe's IT strategy, in 2019 there was not a single instance of an IT system downtime of more than one hour. There were also zero information security breaches that would have entailed adverse economic consequences (losses) and the disruption of IT systems resulting in the irreparable loss of Company data.

The Company also completed an important transition to new production software in order to achieve new levels of operational efficiency. All IT and information security projects implemented during 2019 have made it possible to boost the level of data protection in the Company.

HUMAN RIGHTS

PeWeTe fully complies with the labor laws of the countries it is operating in and respects human rights. To ensure respect for human rights along the supply chain as well, the Company has expanded its contracts by a human rights clause. Specifically, Russian legislation provides for strict regulations on labor law including human rights protections.

PeWeTe takes this risk seriously and takes preventive measures to mitigate it. Such 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.

All employees are checked as to their suitability for their individual jobs, their health, and their ethical behavior. Their skills and competence are also checked early on. Numerous processes based on quality management (ISO) are also in place. When it works on a client's property, the Company must fully comply with that client's regulations, which often are stricter than applicable law.

The employees of PeWeTe 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 2019, the Company received five complaints by email and ten via secure telephone line.

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. The Spark Interfax information system is updated periodically and provides new information as soon as it becomes available in official sources.

HUMAN RESOURCES

Continuously optimizing structures and processes, PeWeTe is a powerful and profitable organization that supports its people in making the right decisions. To attract and retain the right people, the Company has introduced state-of-the-art HR development processes focused on developing specific training programs, strengthening employee relations, and defining a job grading system. HR priorities include fostering teamwork and entrepreneurship, making the Company more agile in less predictable markets. Shared values aim to create a common identity and contribute to a "one-Company" culture. Conflict resolution processes and zero tolerance policies improved management's decision-making for the Company's benefit.

Most of PeWeTe's personnel work for the Group's three subsidiaries (KATKoneft, KATOBNEFT, and KAToil-Drilling) as well as the management Company, for a total of 3,360 employees. This corresponds to an increase of 8.0% from the previous year (2018: 3,112).

The breakdown by female and male employees remains unchanged due to the specifics of the industrial environment in which the Company operates. Women accounted for 9.4% of all employees at the end of 2019, down from 10.1% at the end of 2018, and the total number of female employees declined by 17 individuals.

It is also important to PeWeTe to provide equal opportunities for differently abled people. A total of seven employees fell into this category in 2019 (2018: eight).

The Company always aims to optimize its operational efficiency, maintaining a support ratio that is as low as possible. Hence a mere 11.6% of its employees worked in administrative capacities in 2019.

Our compensation policy – which includes setting ambitious KPI targets in keeping with its overall strategy and offering variable incentives linked to their attainment – once again proved effective in reaching the goals we had set for ourselves in fiscal year 2019. 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 2019 training budget was TEUR 156.6.

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 16 on fracturing fleets, 18 on mobile sidetracking rigs, and 15 on drilling rigs, which are operated by the Company's subsidiaries for clients in Russia and Kazakhstan.

Special training programs are offered to the Company's internal auditors to ensure that the organization continues to improve. 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.

In 2019, a total of 609 employees participated in technical training programs (2018: 527 employees) such as JOIFF "Stuck pipe," IWCF "Well Control," "Preventive maintenance system (PMS)," including internal training programs (for 107 employees) aimed at teaching them safe and efficient working methods.

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 2.0 million in 2019, up from EUR 1.6 million in 2018.

To increase workplace safety, the Company also builds on employee awareness. All PeWeTe employees undergo a rigorous training program to learn about the hazards related to their work. Our Hazard and Effects Management Process encompasses regulations and training programs for all operating segments as well as guidance on implementing the worksite hazard management process for all rigs and frac 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 2019 rates for the Group companies are as follows: KATKoneft 2.39%, KATOBNEFT 1.76%, and KAToil--Drilling 8.98% – for a total LTIFR in PeWeTe of 4.49%. This means that the LTIFR improved yet again groupwide compared with the previous year. In 2019, a total of six work-related accidents occurred.

Special attention is paid in oilfield service clusters to security rules related to fire, power supply, and fountain safety. These measures are monitored by a four-level security commission. In keeping with the principle of continual improvement, all operating companies offer regular training with respect to service quality and work safety.

On December 21, 2019, Wellprop celebrated 11 years without a single lost time accident (LTA). The measures taken include continuous monitoring of the use of protective equipment and gear:

- A licensed Company performs regular emissions measurements;
- Filtering devices are changed regularly;
- All production personnel use cleaning and protective creams;
- The water quality is checked regularly;
- All special vehicles are equipped with lightning alarms;
- All areas are equipped with the required signage; and
- The shower rooms were repaired.

During the year, protective fencing was placed near all moving mechanisms in accordance with new legal requirements.

Additionally, we continued to monitor the two indicators that were introduced in 2018: for one, the reduction in the amount of fines from customers and regulatory bodies, which shows a 48% decrease compared to the previous year and, for another, the number of repeat orders from state regulatory authorities resulting in sanctions for the Group.

ENVIRONMENT

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. Our main concern is to continually improve the environmental situation on the sites and throughout the value chain. Internal ecological audits and inspections are carried out in the field to ensure compliance with all rules and regulations – whether internal or external.

Our subsidiaries, KAToil-Drilling and KATOBNEFT LLC, use environmental management systems to improve the Company's environmental performance. Both operations have been certified according to the ISO 14001:2015 standard.

ENERGY & EMISSIONS

All of the core business activities of PeWeTe encompass energy-intensive processes. We strive to keep all emissions as low as possible. In some cases, we generate energy ourselves, in others it is supplied by the client using autonomous power sources. Our total energy consumption decreased from 43,873,722 MWh in 2018 by around 10% to 39,583,182 MWh in 2019 because a portion of the power used by rigs in operation was covered by the utility itself.

The Company's total air emissions were 664,555 tons in 2019, up from 604,373 tons in 2018. This number includes solids (14.89% in 2019, down from 19.37% in 2018); sulphur dioxide (9.03% in 2019, down from 12.57% in 2018); carbon dioxide (33.72% in 2019, down from 36.82% in 2018); nitrogen oxides (34.14% in 2019, down from 39.13% in 2018); and hydrocarbons (0.13% in 2019, down from 0.2% in 2018). All air emissions caused by our activities are within the permitted levels.

EFFLUENTS, WASTE & SOIL PROTECTION

Oil spills represent a major potential negative impact of our activities. PeWeTe 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. There were no oil spills in 2019, just as in 2018.

Once field operations are completed, PeWeTe has contractual obligations to clean and re-cultivate the area of activity. No cleaning and re-cultivating activities took place in fiscal year 2019.

The Company has implemented waste management policies to limit its negative impact on the environment. In 2018, our operations produced 2,106.85 tons of waste. In 2019, hazardous waste accounted for 81.27% of a total of 11,690.62 tons of all waste because the responsibility for drilling cutting was transferred from customers to our own operating companies. All waste has been disposed of. Starting in 2018, we have been monitoring compliance with waste generation standards and limits on both waste disposal and emissions. Since then, we have consistently stayed within these limits.

Soil protection is usually the responsibility of the clients of Petro Welt Technologies AG. They install the band walls around the well pad, which ensure that there are no adverse effects on the soil surrounding the operations. All of the measures the Company, for its part, takes to prevent oil spills thus can also be classified as activities aimed at soil protection.

Our oilfield service companies implement all necessary measures required under applicable laws and industrial standards:

- Ecological emissions monitoring to avoid soil pollution through heavy fractions;
- Production measures and controls to satisfy the state's and clients' requirements regarding environmental protections (especially soil and air);
- Special ecological security training for managers and specialists; and
- Additional waste utilization measures.

Wellprop does not produce any industrial effluents. It has implemented the following measures:

- Sewage water is collected in designated tanks and delivered to licensed cleaning facilities;
- All diesel oil lubricant storage tanks are equipped with protection plates to prevent spills; and
- All lubricant waste is collected in special tanks and delivered to licensed companies for further utilization.

All of our business entities meet mandatory governmental requirements.

As there were no oil spills in 2019, there were no major effects on the soil stemming 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, PeWeTe 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 and Stimulation is hydraulic fracturing, a highly effective well stimulation method. 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

PeWeTe is at the forefront of Russian multi-stage fracturing technology and strives to remain the industry’s technology leader. This modern form of fracturing utilizes longer, horizontal well designs to maximize the flow rate of oil production. The increased flow rate reduces the number of wells required for field development as well as associated development costs. By providing state-of-the-art technologies, PeWeTe helps to mitigate negative impacts of its operations on the environment and on its employees.

Both the cementing of wells and remedial cementing are important elements of our Well Services and Stimulation. 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 2019, a total of 528 remedial operations (2018: 759) and 3,941 fracturing jobs (2018: 4,214) were completed (these figures include Kazakhstan).

Drilling refers to the conventional 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. Two new sidetracking rigs were put into operation in 2019 thanks to the increase in contracting in Russia. They also replaced two rigs that were relocated from Russia to Romania.

SUPPLY CHAIN

2019 was another year of big changes in the Company’s Supply Chain management. PeWeTe continued the move to a new stage of its development, specifically, transforming the procurement function into a veritable supply chain organization. Procurement and sourcing measures include categorizing product names, developing specific procurement strategies for each major category, accounting for the total cost of ownership regarding all assets purchased, and improving the supplier base. In addition, improved planning and coordination with Operations should help to radically reduce emergency orders, and building better relationships with internal clients should improve transparency and service quality, including delivery time reductions.

Hence Supply Chain activities are aimed at meeting the Company’s operations requirements, thus providing better services to our external customers. All Supply Chain activities are synchronized with Operations and are carried out in collaboration with the Company’s QHSE management and Finance functions. Efficient Supply Chain management helps to reduce potential environmental effects of sourcing, logistics, and storage.

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

- effectively leverages the Company's purchasing power;
- efficiently manages the Supply Chain for all equipment, materials, supplies, and services that the Company uses; and
- generates substantial and measurable savings for the Company.

SCS activities are primarily focused on sourcing, procurement, and logistics, as well as on materials management. Splitting the procurement process into two parts – procurement and sourcing – enables PeWeTe 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.

Pursuing the sourcing strategies, volume synergies, centralized purchases, and partnerships with key suppliers made it possible to increase the function's efficiency and thus reduce overall spending to RUB 360 million (EUR 5 million) compared to the budget.

The import substitution initiative that PeWeTe launched and developed a few years ago has already brought cost reductions as well as delivery lead time improvements that reduce the risk of any 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. In 2019, savings from import replacement initiatives were RUB 96.2 million or EUR 1.3 million (excluding VAT).

Another item in the SCS 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, implementing effective contracting strategies, and establishing standard KPIs for both operational control purposes and suppliers. By screening suppliers, improving contracts, monitoring the market, and automating certain business processes, PeWeTe aims to improve transportation services and reduce logistics costs.

Both the changes that have already been introduced and those that will be implemented soon will usher in a new era for PeWeTe 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 and obsolescence. This allows restocking other regions in an emergency or if it is economically beneficial to do so.

As expected, the implementation of sophisticated software, an address storage system based on the first in, first out (FIFO) method, and the automation of certain warehouse management processes will streamline inventory, labor, and facilities management in 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. A number of measures aimed at systematization, regulation and accounting of slow-moving and obsolete inventories will reduce the percentage of illiquid asset stocks. 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 PeWeTe's objectives with respect to both 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 procurement 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.

In 2019, the Company carried out two trial shipments with a total of three frac pumps and two blenders; this trial already succeeded in lowering its costs by RUB 7.6 million (EUR 105,000). Further important criteria for the evaluation of our direct imports are the timeliness of deliveries and any deficiencies such as the lack of shipping documents, shortages, or excess quantities. Overall, this initiative could significantly improve our supplier management and give us better control over the timeliness and correctness of deliveries.

The PeWeTe Group is pursuing the very ambitious goal of becoming the recognized industry leader in Supply Chain Services. This can only be achieved by developing a continuous improvement culture, proactively identifying and reporting all SCS-related events as well as investigating and taking corrective actions. We believe that all SCS-related non-compliance can be prevented through systematic loss minimization.

The objectives are:
- Identify and report all opportunities for SCS improvements;
- Identify and systematically analyze SCS risks;
- Determine root causes;
- Implement corrective actions to reduce SCS risks to an acceptable level;
- Closure of associated remedial work plans to prevent recurrence;
- Achieve SCS excellence through continuous improvements;
- Establish responsibilities and accountability;
- Communicate the relationship between the delivery of services and products to internal customers and the delivery of services and products to external customers;
- Establish targets for investigation and development/terminate action plans to prevent recurrence;
- Define requirements for management review;
- Determine how lessons learned will be communicated throughout the organization;
- Provide direction for continuous improvements in the delivery of services and products to internal customers;
- Promote quality management concepts.

One of the major targets of PeWeTe's SCS management is to establish full visibility of and control over purchases. It is crucial for the Company to know how, where, and how much it spends on materials and services.

RISK ANALYSIS

MATERIAL NON-FINANCIAL RISKS

PeWeTe 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.

As in the year before, there were no blow-outs at our sites or mail server breakdowns in 2019.

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 issues of data security. PeWeTe has developed appropriate measures to counter this risk. It 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 addition, the Company may face risks when it enters new territories without any previous experience, local resources, or knowledge of local operations. Its approach in dealing with such risks in a targeted way includes direct reporting lines, staged expansion and resource utilization, closely monitored project and risk management processes, as well as project-by-project approval of investments. Where suitable candidates exist, furthermore, acquisitions of local businesses will take precedence over organic growth.

In order to maintain its competitive advantages, the Company continues to enhance its risk management system. It aims to optimize non-financial 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 the environment; and management and efficiency. While non-financial risks in sales and marketing refer to tenders, contracting, and market share, non-financial legal and supply chain risks affect clients, governmental authorities, suppliers, and contractors. The Company's operational performance concerns subsurface, surface, and manufacturing activities as well as operating areas. Non-financial risks associated with health, safety, and the environment affect people, assets, and equipment as well as the Company's reputation. Management and efficiency risks concern the work and business environment, employee turnover, KPIs, and targets. We apply the most appropriate measures to mitigate each type of risk.

In addition to the five areas addressed above, we have identified the following eleven material topics and the non-financial risks they may pose to both the environment and society.

Material topics	Non-financial risks to environment/society	Description of non-financial risks	Mitigation measures (or reference to chapter)
Anti-Corruption & Anti-Bribery	— Reputational risk	— Risk of losing sales contracts with customers and service contracts with vendors — Risk of being disqualified from tenders — Risk of unscheduled inspections by supervisory agencies — Risk of criminal liability on the part of Company officials	— Training — Code of Conduct — Contracts containing anti-bribery clauses — Responsibility matrix limiting the number of individuals authorized to execute contracts — Regular internal audits of the ISO system to ensure a sufficient number of internal auditors — Regular internal audits by economic safety departments
Legal Compliance	E.g., non-compliance with laws & regulations		
IT Strategy & Data Protection	— Risk of personal data leakage — Data loss risk — Risk of long downtime	— Violation of the laws of the countries in which the Company is active — Risk of late reporting, risk of losing production data — Long recovery periods for key IT services	Successful implementation of projects to centralize IT infrastructure. Implementation of information security processes in accordance with GDPR and preparation for certification according to ISO 27001
Human Rights	E.g., forced labor, extreme health risks		
Training & Education	E.g., poor knowledge of technologies on the part of workers		
Occupational Health & Safety	Health and safety risks	— Risk of occupational diseases — Risk of unplanned audits by supervisory agencies — Risk of fatal accidents resulting in Company officials' personal responsibility — Risk of disqualification from tenders and loss of current contracts Risk of lack of sufficient and qualified personnel — Risk associated with possible injuries or occupational diseases resulting in non-compliance with laws & regulations	— Implemented operational, labor, and environmental safety control system — Regular medical check-ups — Regulations regarding drivers' work and rest periods — Strict compliance with legal requirements for particular employee categories (e.g., pregnant employees, child workers, differently abled personnel)

Material topics	Non-financial risks to environment/society	Description of non-financial risks	Mitigation measures (or reference to chapter)
Energy & Emissions	E.g., unexpected emissions		
Effluents, Waste & Soil Protection	Environmental risk	— Risk of causing environmental harm due to emergencies and equipment malfunctions — Risk of technical non-compliance due to inefficient system of monitoring the changes in legislation	— Implemented system of monthly operational, labor, and environmental safety controls — Regular audits of technical equipment by Rostechnadzor pursuant to legal requirements
Technology	E.g., poor environmental technology standards		
Supply Chain	E.g., poor management of social and environmental risks along the supply chain		
Security	Fraudulent activities		— The most important production facilities are equipped with modern video systems. The depth of the archive and coverage area allow for effective controls of the movement of equipment and goods. — Tracking of transport vehicles using satellite monitoring system, and confirmation of routes

Vienna, June 3, 2020

Yury Semenov __ Chief Executive Officer

Valeriy Inyushin __ Chief Financial Officer

CORPORATE GOVERNANCE REPORT

Corporate governance is of high importance to Petro Welt Technologies AG (PeWeTe) above and beyond its obligations to fulfill the requirements of applicable laws. 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 ("Code").

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

THE EXECUTIVE BODIES OF PEWETE

Upon submission of proof of shareholding (section 10a of the Austrian Stock Corporation Act (AktG) and section 16 of the Company's Articles of Association), the shareholders are entitled to exercise their rights, particularly 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, as well as all reports and information required for the resolutions to be voted upon, are published pursuant to the applicable provisions of the AktG and made available on the website of PeWeTe (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 requires strictly separating 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

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

The current members of the Supervisory Board, who were re-appointed on June 16, 2017, were elected to the Supervisory Board up to the conclusion of the Annual General Meeting tasked with formally approving the actions of the Supervisory Board members regarding the 2021 fiscal year.

The members of the Company's Supervisory Board hold the following positions in domestic or foreign companies:
Ralf Wojtek
- GO! Holding AG, Berlin, Germany – member of the Supervisory Board

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

Maurice Gregoire Dijols
- Alussa Energy Acquisition Corp, Cayman Islands – Non-Executive Director

In its current composition, the Supervisory Board fulfills 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 PeWeTe indirectly through this company.

The Supervisory Board supervises and advises the Management Board with respect to its management of PeWeTe. 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 established 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 of February 24, 2018. They are:

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

None of the current Management Board members listed above holds board positions 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.

PeWeTe has purchased a D&O insurance policy for all members of its Supervisory Board and its Management Board. The insurance policy has no deductibles in the event of claims.

COMPENSATION OF SUPERVISORY BOARD AND MANAGEMENT BOARD

PeWeTe follows the recommendations of the Code, pursuant to which the compensation of the Supervisory Board and the Management Board should be disclosed individually for each member. The specific compensation paid is disclosed in the Compensation Report, which is a 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 prevailing 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 PeWeTe and the managerial employees of 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 continually refined and adapted to changing parameters, and 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, which is a part of the annual report of PeWeTe, 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

PeWeTe 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, PeWeTe also notifies 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 PeWeTe share. PeWeTe regularly runs Compliance training sessions for the PeWeTe Group.

FINANCIAL CALENDAR

The Company's 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 (PeWeTe)
- Valery Inyushin – Deputy Chairman of Petro Welt Technologies AG (PeWeTe)
- Rinat Mazitov – General Manager of Petro Welt Technologies LLC (PeWeTe) until March 3, 2020 (Petro Welt Technologies LLC 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 LLC
- Irina Belyaeva – General Manager of KAT.oil Leasing LLC
- Anna Nikitina – General Manager of Wellprop LLC
- 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
- Christian Jennevin – Administrator of PeWeTe EVO EUROPE LLC, Romania
- Christian Jennevin – General Director of PeWeTe EVO SERVICES LLC, Oman

Supervisory Board of Petro Welt Technologies AG (PeWeTe)

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

__ 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

PeWeTe is committed to the equal treatment of all people – regardless of gender, age, different ability, religion, culture, 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 2019, no cases of discrimination were reported to 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.

PeWeTe 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. The Company has installed an effective whistle-blowing system.

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. PeWeTe 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 of December 31, 2019, 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. As of December 31, 2019, the percentage of women among employees throughout the Group was 10%. The members of the Supervisory Board are between 54 and 74 years old, with an average age of 64 years, whereas the members of the Management Board are between 42 and 46 years old.

The current members of the Management Board were re-appointed as of February 24, 2018, and the current members of the Supervisory Board were re-elected on June 16, 2017. Upon completion of the current Supervisory Board members' terms of office and formal 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

PeWeTe is committed to the recognized principles of corporate governance. As a foreign issuer on the Frankfurt Stock Exchange with headquarters in Austria, PeWeTe 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.

PeWeTe (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 latter's compatibility with the 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) – as amended February 7, 2017, and as published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette on April 24, 2017, and May 19, 2017 (amended version) – have been and are being complied with, save for the recommendations listed below. For the period from May 20, 2017, the following Declaration refers to the aforementioned recommendations of the Code as amended February 7, 2017.

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 of the members of the Management Board and the Supervisory Board regarding their duties of care and loyalty. Note, in addition, that deductibles in D&O insurance policies are not common outside Germany and thus might hinder the Company in its ability to recruit key personnel.

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

The monetary elements of the compensation paid 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

Given that the Company's Supervisory Board has only a limited number of members, the Company and the Supervisory Board believe 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 bodies as well as nominations for the Management Board take these objectives into consideration. The Company's Corporate Governance Report reflects the aforementioned objectives, especially regarding a women's quota, and the state of their realization.

The Supervisory Board's composition ensures effective consulting and monitoring of the Management Board in accordance with Austrian law and in line with the Company's interests. In order to ensure the dutiful performance of its tasks as required by law, the Supervisory Board's nomination proposals to the AGM focus primarily on the knowledge, skills, and experience of the nominees. In addition, the Supervisory Board reasonably takes into account the Company's international operations as well as 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, June 3, 2020

Management Board Supervisory Board

REPORT OF THE SUPERVISORY BOARD FOR 2019

Throughout 2019, the Supervisory Board diligently monitored the Management Board's stewardship of Petro Welt Technologies AG's (PeWeTe's) business and advised the Management Board in its decision-making process on the basis of detailed oral and written reports as well as 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 operational environment as well as business opportunities and risks for PeWeTe and its Group. The Supervisory Board held five meetings during 2019, with all members of the Management Board being present in person: on March 22, 2019 (Supervisory Board alone); April 17, 2019 (Supervisory Board and Audit Committee); July 5, 2019 (Supervisory Board alone); September 20, 2019 (Supervisory Board alone); and December 13, 2019 (Supervisory Board and Audit Committee).

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

The Supervisory Board reviewed the Company's financial statements prior to 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 Company's current business and material business events from the Management Board.

During the scheduled meeting on April 28, 2020, the Supervisory Board examined the Company's 2019 annual financial statements; the management report; the audit report prepared by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, Austria; as well as the proposed resolution regarding the distribution of profits. Following 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, on April 28, 2020, the Supervisory Board approved the financial statements of PeWeTe for 2019. As a result, the single-entity financial statements for 2019 have been adopted pursuant to section 96 (4) of the Austrian Stock Corporation Act; the same applies to the consolidated financial statements for 2019. Furthermore, the Supervisory Board accepted the proposal to retain dividends for 2019 and approved the Corporate Governance Report following its consideration by the Audit Committee.

On April 28, 2020, the Supervisory Board also reviewed the Non-Financial Report 2019 as to its lawfulness, accuracy, and adequacy of purpose.

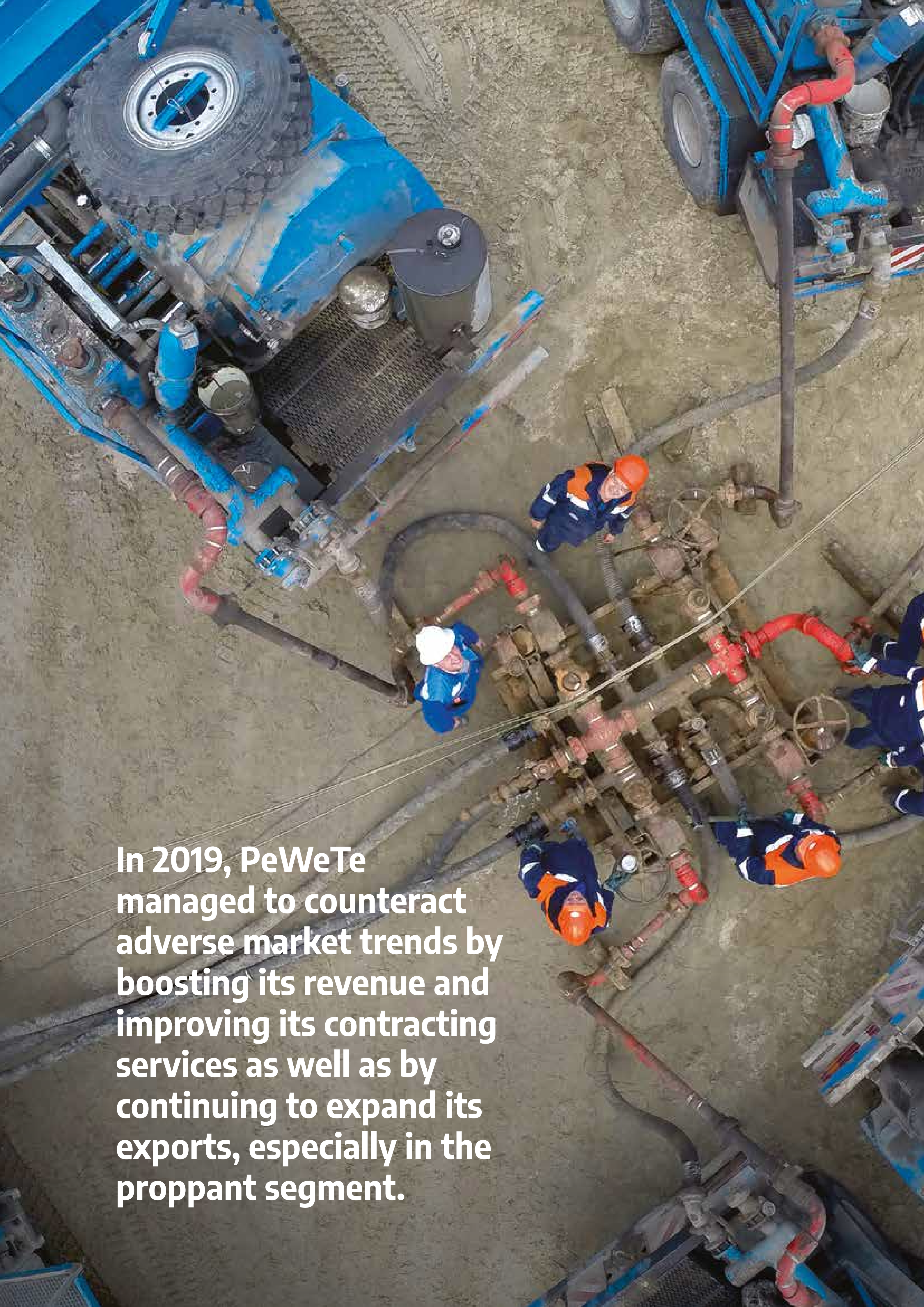
Neither the financial statements nor the reports it reviewed gave rise to any complaints.

Additional information regarding the Supervisory Board's composition and work as well as its compensation can be found in the Notes and the Corporate Governance Report.

Finally, we sincerely thank the Management Board and all of the Group's employees for their commitment and support in the 2019 fiscal year as well as all shareholders, customers, and partners for their trust.

Vienna, June 3, 2020

Maurice Gregoire Dijols
on behalf of the Supervisory Board



In 2019, PeWeTe managed to counteract adverse market trends by boosting its revenue and improving its contracting services as well as by continuing to expand its exports, especially in the proppant segment.

GROUP MANAGEMENT REPORT

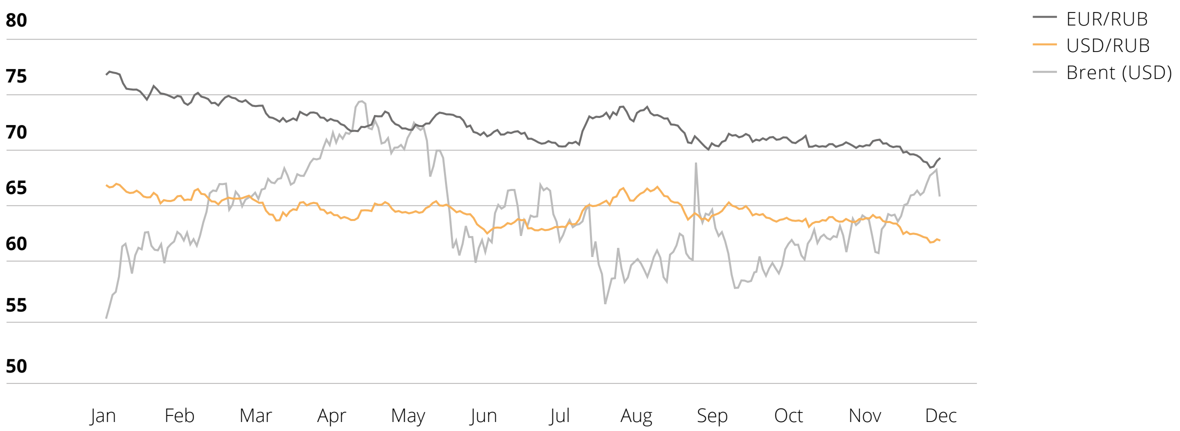
ECONOMIC ENVIRONMENT

The global economy continued to decelerate in 2019 following the trend toward lower business activity in China and weak GDP growth in the eurozone. The intensification of international trade contradictions, the stagnation of world consumption, as well as limited monetary options to boost growth in the developed countries became key factors in a deteriorating economic and investment environment. As a result, according to the IMF's estimates, the global GDP is expected to increase by only 2.9% in 2019 compared to 3.6% in 2018. The eurozone's economic performance remains poor and its GDP growth is expected to be 1.2% in 2019 down from 1.9% in 2018. The GDP of China, a main driver of worldwide economic growth, fell from 6.7% in 2018 to 6.1% in 2019. India's growth also fell from 6.1% in 2018 to 4.2% in 2019. These two countries contribute most to the increase in commodity consumption, including energy resources such as oil, gas, and coal. On balance, this led to a year-over-year decrease in annual average Brent crude prices by 10.5% in 2019.

RUSSIA'S ECONOMY IN 2019

In Russia, all main economic indicators reflected stagnating dynamics in 2019. Russian economic authorities and businesses are unable to come up with a new growth model that is less dependent on the international trade of commodities. The acceleration of inflation, from 2.9% in 2018 to 4.5% in 2019, combined with the relative stability of the ruble in relation to the euro (appreciation of 2.0%) and the US dollar (depreciation of 3.4%) on the annual average, was not accompanied by an increase in consumption. In fact, retail sales grew by a mere 1.6% in 2019 compared to 2.8% the previous year. The pace of industrial output declined as well, from 2.9% in 2018 to 2.4% in 2019. At a marginal increase of 0.7%, the investment climate did not show any sign of improving. According to Rosstat's preliminary data, therefore, Russia's GDP grew by 1.3% in 2019, down from 2.5% in 2018. Another negative trend to be reported is the narrowing of the trade and current account balances by 16% and 38%, respectively, as estimated by the Bank of Russia.

_ Exchange Rates and Oil Price Development



KAZAKHSTAN'S ECONOMY IN 2019

Kazakhstan is working to diversify its economic model and make it more resistant to the volatility of the global commodities' market. The government is continuing its policy of stimulating both state and private investments, with the result that growth in this area remained at a high level of 8.5% in 2019. At 4.4%, manufacturing was the main contributor to industrial production, which increased by 3.8% overall. The natural resources sector grew by 3.7%. The increase in real disposable income by 5.8%, coupled with stable inflation of 5.4% in 2019 compared to 5.3% in 2018, and the managed devaluation of the tenge in relation to the US dollar and the euro by 11% and 5.4%, respectively, on the annual average helped to maintain continued growth in personal consumption. Retail sales rose by 5.8%, correlating strongly with GDP growth of 4.3%.

ROMANIA'S ECONOMY IN 2019

Romanian GDP growth in 2019 reached 4.1% (2018: 4.4%), mainly driven by strong private consumption thanks to increases in both public sector spending and minimum wages. As a result, retail sales climbed by 7.1% and investments by 2.5%. Inflation was kept at a comfortable level of 3.8%.

THE GLOBAL OIL MARKET

DEMAND

While global oil demand was 98.75 million barrels per day (mb/d) and 98.56 mb/d in the first and second quarters of 2019, respectively, it gained momentum at 100.55 mb/d in the third quarter and peaked at 101.07 mb/d in the fourth quarter. Overall, global demand for oil is estimated to have grown by 0.91 mb/d to an average of 99.74 mb/d in 2019, up from 98.84 mb/d in 2018. In January and February 2020, OPEC revised its figures for oil demand growth in the OECD regions, lowering them by 0.02 mb/d for 2019 across all four quarters. All of the downward revisions concern OECD America as a result of slower industrial demand for fuel, slower-than-expected demand for gasoline and warmer weather in the fourth quarter of 2019. At the same time, the numbers for OECD Europe were restated upward. The 2019 data for oil demand growth in the non-OECD regions was revised downward a bit to account mainly for slower-than-expected demand in Asia in the second half of 2019.

In 2019, China accounted for more than three quarters of the growth in the global demand for oil. It is worth noting that, in recent years, transportation fuels, particularly jet fuel and gasoline, have been major sources of oil demand growth in China. In fact, jet fuel was the petroleum product in the transportation sector that recorded the highest growth in percentage terms – not just in China, but also globally.

SUPPLY

In November 2019, the global oil supply held steady at 101.36 mb/d, down 1.2 mb/d year on year, before tumbling by 780 kb/d from November to December 2019. The decrease resulted from Saudi Arabia's reduced output and a seasonal decline in the production of biofuels. On the whole, the global oil supply averaged 99.0 mb/d in 2019 compared to 99.1 mb/d in 2018.

At 100.7 mb/d in January 2020, the global total was down 1.3 mb/d from a year ago, with the OPEC supply dropping by 2.4 mb/d. Given estimates that the non-OPEC oil supply will rise from 2 mb/d in 2019 to 2.1 mb/d in 2020, the production of OPEC crude oil is expected to fall to 28.5 mb/d during the first half of 2020, down from 29.44 mb/d in December 2019.

On a historic note, in September 2019, the United States momentarily became a net oil exporter to the tune of 89 kb/d. This was a major milestone on the country's path to becoming a sustained net exporter, which is likely to happen late in 2020 or early in 2021. However, this does not mean that energy independence has been achieved: The United States remains a major importer of crude oil. In September 2019, for example, it imported 6.5 mb/d of crude oil (most of it from Canada) and exported 3.1 mb/d; this means that the country imported 3.4 mb/d. Both quality issues and greater competition indicate that the United States will remain a major crude importer.

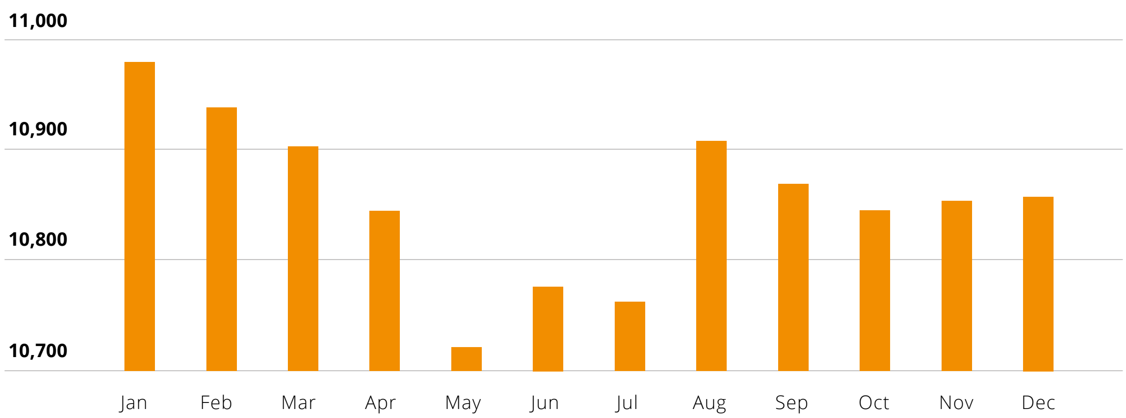
Faced with a potential oversupply in early 2020, in December 2019 the OPEC+ countries agreed to extend the existing cuts to 2.1 mb/d in the first quarter of 2020, deepening existing curbs by 900 kb/d, which includes additional voluntary cuts of 400 kb/d on the part of Saudi Arabia.

After peaking at USD 71.32 in May 2019 and falling to a low of USD 59.04 in August, the price of Brent crude oil was USD 64.32 at the year's end. The price of Brent crude thus averaged USD 64.2/b in 2019, down from USD 71.7/b in 2018.

OIL AND GAS PRODUCTION IN RUSSIA, KAZAKHSTAN, AND ROMANIA

Russian oil production continued to increase in 2019 at its traditional pace of 1%. The average price of Brent crude declined by 10.5% and oil companies were expected to offset the lack of revenue by boosting supplies, especially in the beginning of 2019, despite the OPEC Vienna agreement. However, all Russian oil majors cut oil production month to month as the year wore on. According to Trading Economics, the crude oil production rate in Russia fell gradually from 10,973 kb/d in January 2019 to 10,871 kb/d in December 2019, reaching the lowest level of 10,709 kb/d in May. The rapid decline in the production of crude oil between May and July 2019 was due to the organochlorine pollution of the Druzhba oil pipeline, which made it necessary to limit the quantity of oil being pumped through it. Oil companies thus had to constrain their production volumes. The ongoing decrease in oil production in 2019 was related to the OPEC+ agreement. Given the effects of global warming on Europe and the postponement of "Nord Stream 2," the production of natural gas rose by only 0.8% overall.

_ Oil Production Russia 2019 (in kb/d)



At a mere 0.2%, Kazakhstan's oil production stagnated in 2019 due to constrained exports to the European Union. China's oil imports were unable to offset this, given the decrease in consumption. At the same time, a few companies boosted their oil production levels in regions such as Mangyshlak, Kazakhstan, where the PeWeTe Group has a strong presence. Gas production expanded by 1.7% in 2019.

Thanks to stabilized hydrocarbon production, Romania is close to self-sufficiency. According to European Union estimates, Romania's total energy dependence is 17%, while the EU imports more than one half of the energy it consumes. Only Estonia and Denmark report a smaller energy dependence rate than Romania. Romania produced 3.33 million TOE of crude oil in 2019, down by 1% year on year, and 3.71 million TOE of coal, down by 8.7%. The country also produced 6.69 million TOE of natural gas, down by 2.5% year on year.

The country's current production of oil is 80,000 bbl/day compared to 500,000 bbl/day in 1976. According to the US Energy Information Administration (EIA), Romania is the EU's second-largest oil producer and third-largest gas producer.

OILFIELD SERVICES (OFS)

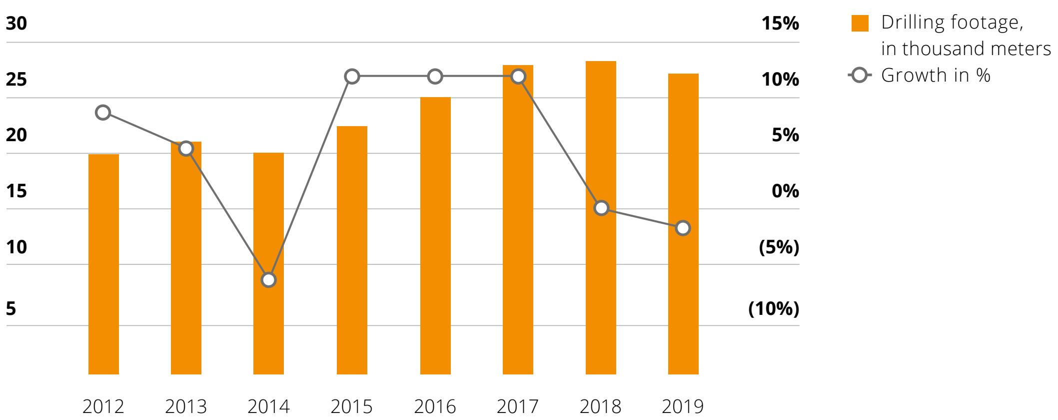
RUSSIAN OFS

Drilling

Production drilling in Russia declined by 1.2% in 2019 (27,298 thousand meters) compared to 2018 (27,600 thousand meters). This decrease was mainly driven by the reduction in the number of fields of Rosneft, Russia's largest oil company, and maintains the month-to-month downward trend in oil production. The actual number of meters drilled was 4% less than the 2019 target for oil companies. The overall difference between oil production and drilling dynamics also is due to the lag between wells that were drilled and commissioned at the end of 2018 and the subsequent exploration phase in 2019. Production in new and brown fields was mainly supported by the larger number of stimulated wells in 2019 (for major oil companies) compared to 2018.

The sidetracking market stabilized in 2019 thanks to an increase in sidetracking activities on the part of Rosneft. The company attempted to maintain production levels in the brown fields by increasing the number of sidetracking rigs, mainly in Rosneft-Yuganskneftegas. The demand for rigs with a load capacity of 160–180 tons remained high, leading to a shortage on the drilling market.

_ Russia Drilling Dynamics



Stimulation

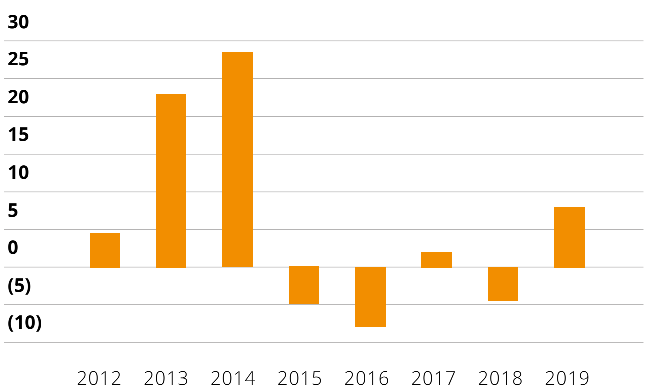
Generally, the Russian oil majors reported increases in stimulation activities in 2019 compared to 2018. Actually, the slight growth in oil production in 2019 was due almost entirely to stimulation treatments. The oil & gas analytics agency, CDU TEK, estimates that average market growth was 8% year on year. According to analytics agency RPI, however, market growth was about 3% year on year. A few oil companies reduced their stimulation activities: LUKOIL announced a decline in fracturing activities by 13% in 2019 compared to 2018, whereas Surgutneftegaz reported a decrease of 7% year on year.

Despite the overall expansion of fracturing activities, the actual loading of the stimulation fleets in Russia (jobs/fleet) fell due to the increase in the number of active fleets provided by oilfield service companies in 2019. Specifically, the average number of stimulation fleets was 121 in 2019, up from 111 in 2018, which represents a growth rate of 9% in available capacity.

Due to the decrease in the stimulation activities of LUKOIL and small independent oil companies, Rosneft provided its own fracturing subsidiary RN-GRP with wells for treatments. This reduced the average job loading per fleet even further.

The overcapacity on the stimulation market also put pressure on prices, which on average declined by 5–7% year on year during the last tendering seasons. This pressure continues to shape the tenders issued by oil companies.

__ Fracs Rate of Growth in %



KAZAKHSTAN OFS

The Kazakhstani stimulation market is stable and delivered growth of between 7% and 10% in 2019. No decline in activities is expected in the near future. Oil companies tend to carry out single-stage acid-prop stimulation jobs due to both the complexity of multi-stage stimulation and poor prior experience with some local service companies.

Drilling activities grew between 10% and 15% year on year, mainly in Western Kazakhstan (i.e., the Caspian region), with an increase in both cementing and remedial cementing work. The focus here is on directional wells that are less expensive and do not require high technology inputs. By contrast, the sidetracking market is small and underdeveloped, with only a few minor jobs per quarter.

ROMANIAN OFS

The Petroleum Law no. 238/2004 and the Electricity and Natural Gas Law no. 123/2012 provide Romania with a stable and predictable legislative framework.

The National Agency of Mineral Resources is responsible for regulation and field administration and has organized ten licensing rounds since 1996. An eleventh concession round for 28 blocks was announced in July 2019. This is a great opportunity for both new investors and drilling campaigns.

Currently, there are production agreements for over 400 blocks, with the following major operators having commercial fields:
- OMV Petrom SA
- Expert Petroleum
- Sand Hill Petroleum
- SNGN Romgaz SA
- Amromco Energy
- Mazarine Energy SRL

A number of smaller companies (ADX Energy, Panfora Energy, Fora Oil, Stratum Energy) with limited drilling activities (one to two wells per year) are active in the country as well.

2019 saw the drilling of 150 new wells and sidetracks, and seven exploration wells, with total investments amounting to about RON one billion. An additional, successful shallow offshore drilling campaign was completed at the same time. The main operators continue to focus on the most profitable targets, streamlining their footprints and focusing on strategic assets.

A large number of tenders released by OMV Petrom in 2019 for pumping services, N2 injections, and coiled tubing services illustrate the high level of investments in the rejuvenation of old wells. With over 3,000 wells, the company is showing its strong commitment to new technologies for enhanced oil recovery. OMV Petrom has transferred 40 marginal fields to Dacian Petroleum, with the deal's closing expected for the second half of 2020. The company used a similar business model with Expert Petroleum, Petro Santander and Mazarine Energy.

DEVELOPMENT OF THE PEWETE GROUP

2019 HIGHLIGHTS

- Revenue growth thanks to Drilling segment's improved performance.
- Debt restructuring measures (including intercompany liabilities) helped to ensure Group's financial sustainability.
- Further decreases in general and administrative expenses.
- Slight rise in net financial result limited some of the pressure on profit before tax (relative to operating result).
- Continued international expansion.

The reduction in the available volumes for tender (open market operations) is one of the factors adversely affecting the Russian oilfield services market. Following dramatic volume decreases in the sidetracking subsegment in 2018, the contracting situation in this business line radically improved in 2019, as did the production performance of the conventional drilling subsegment. The revenue of PeWeTe Kazakhstan expressed in euros rose accordingly by 22.5%. As a result, total Group revenue increased by EUR 22.4 million to EUR 298.4 million in the fiscal year ended despite the slight decrease in the Well Services and Stimulation segment's operating activities. The appreciation of the ruble versus the euro by 2.0% on the annual average helped to mitigate the negative impact of the results of Well Services and Stimulation.

While management's efforts to constrain general and administrative expenses were successful in that these costs were down by 4.0%, earnings before interest and taxes (EBIT) fell to EUR 7.6 million nonetheless, down by 31.5% from EUR 11.1 million in 2018. In 2019, the Group recognized EUR 4.1 million (2018: EUR 0.6 million) in provisions for doubtful debts due to several clients' deteriorating financial position. The net financial result rose by 21.4%, thanks mainly to the positive effect from modification of loan in 2019 in accordance with IFRS 9 toward Petro Welt Holding Limited (Cyprus), which made it possible to constrain financing costs. The positive development of the net financial result helped to mitigate the negative development of the profit before tax, which declined by 17.0%, from EUR 15.3 million in 2018 to EUR 12.7 million in 2019.

PeWeTe has further strengthened its financial structure by extending the term of the loan from Petro Welt Holding Limited (Cyprus) to December 31, 2023, and by lowering the interest rate to 3.41% above the 6-month EURIBOR rate. The loans from Petro Welt Technologies AG to KAT.oil Leasing were restructured as well: Two of them – one denominated in euros, the other in US dollars – were converted to rubles for reasons of intragroup financing, and the terms of all loans were extended to December 31, 2025.

PeWeTe's equity ratio rose from 53.8% at the end of 2018 to 56.2% at the end of 2019. As a result, the Company's net debt-to-equity ratio improved from 13% on December 31, 2018, to 9.6% on December 31, 2019.

As regards its international activities, PeWeTe obtained all necessary certifications in Romania in 2019. All equipment being ready for use, operational activities started in the first quarter of 2020.

In line with its strategy of continuously expanding its international scope, PeWeTe established a subsidiary in Oman in 2019. See below for further information.

__ Exchange Rates

	Closing rate as of 12/31/2019	Closing rate as of 12/31/2018	Average rate 2019	Average rate 2018
1 Euro (EUR)				
= Russian ruble (RUB)	69.3406	79.4605	72.5021	73.9546
= US dollar (USD)	1.1201	1.1438	1.1200	1.1794
= Kazakh tenge (KZT)	426.85	439.37	428.63	406.77
1 US dollar (USD)				
= Russian ruble (RUB)	61.9057	69.4706	64.7362	62.7078
= Kazakh tenge (KZT)	381.18	384.2	382.87	344.90

GROUP STRUCTURE

__ Structure of the Group

Petro Welt Technologies AG, Vienna, Austria	100% →	Petro Welt Technologies LLC*, Moscow, Russia
Petro Welt Technologies AG, Vienna, Austria	100% →	KATKoneft LLC, Kogalym, Russia
Petro Welt Technologies AG, Vienna, Austria	100% →	KATOBNEFT LLC, Nizhnevartovsk, Russia
Petro Welt Technologies AG, Vienna, Austria	100% →	KAToil-Drilling LLC, Kogalym, Russia
Petro Welt Technologies AG, Vienna, Austria	100% →	KAT.oil Leasing LLC, Kogalym, Russia
Petro Welt Technologies AG, Vienna, Austria	100% →	Trading House KAToil LLC, Kogalym, Russia
Petro Welt Technologies AG, Vienna, Austria	100% ↓	PEWETE Evolution LIMITED, Limassol, Cyprus
PEWETE Evolution LIMITED, Limassol, Cyprus	100% →	Pewete Kazakhstan LLP, Kyzylorda, Kazakhstan
PEWETE Evolution LIMITED, Limassol, Cyprus	70% →	PEWETE EVO SERVICES LLC, Muscat, Oman
PEWETE Evolution LIMITED, Limassol, Cyprus	99.99% →	PEWETE EVO EUROPE S.R.L., Bucharest, Romania
Petro Welt Technologies AG, Vienna, Austria	99.99% ↓	Wellprop Cyprus LIMITED, Limassol, Cyprus
PEWETE Evolution LIMITED, Limassol, Cyprus	0.01% ↓	Wellprop Cyprus LIMITED, Limassol, Cyprus
Wellprop Cyprus LIMITED, Limassol, Cyprus	0.01% →	PEWETE EVO EUROPE S.R.L., Bucharest, Romania
Wellprop Cyprus LIMITED, Limassol, Cyprus	100% →	WELLPROP LLC, Kopeysk, Russia

* Management company

On August 5, 2019, Petro Welt Technologies AG finalized the registration of its new business entity, PEWETE EVO SERVICES LLC, in Muscat, which is to provide the Company's services in the Sultanate of Oman. Using the experience PeWeTe acquired over the past 20 years, the Company will provide coiled tubing, nitrogen, and fracturing equipment of various capabilities suitable for the Omani market. Given that all of its subsidiaries comply with HSE management systems and have been certified under OHSAS 18001:2007, ISO 14001:2015, and ISO 9001:2015, PEWETE EVO SERVICES LLC will quickly be in a position to offer its services to clients in Oman.

OPERATING PERFORMANCE OF THE GROUP

In 2019, the performance of the operating subsidiaries of Petro Welt Technologies AG with respect to revenues in the Russian OFS market for top oil-producing clients was stronger than a year earlier. However, state-owned oil companies continued to put pressure on prices for 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 maintain their production targets so as to avoid cuts in oilfield services. Clients were not interested in technological innovations, but instead were fully focused on stabilizing the volume of their commodity operations.

INCREASING NUMBER OF JOBS

The number of service jobs at Petro Welt Technologies AG in the Drilling, Sidetracking, and Integrated Project Management (IPM) segment rose by 22.0% to 266 jobs in 2019, up from 218 jobs in 2018. As already mentioned, this growth was due primarily to increases in the Sidetracking contract volume and continuous improvements in operational activities in conventional drilling, including further reductions in non-performing time (NPT). At KATOBNEFT, which is specialized in sidetracking, the number of operations climbed dramatically by 43.2% or 41 jobs. KAToil-Drilling, which focuses on the conventional drilling subsegment, saw its number of jobs rise from 123 in 2018 to 130 in 2019. While the total number of drilling jobs increased, their distribution over the year showed a different pattern from that in 2018: Lower activity until May was followed by a considerably higher number of jobs in the summer months and the year's last quarter. Average segment revenues per job in 2019 rose by 8.9% to TEUR 554.0 (2018: TEUR 508.7).

The total number of service jobs in fracturing and remedial services in the Well Services and Stimulation segment, which comprises KATKoneft and PeWeTe Kazakhstan, declined by 8.6%, from 4,909 in 2018 to 4,486 in 2019. Apart from the overall reduction in the number of jobs, the distribution curve over the year differs from last year's curve: With the exception of March, activities were lower than a year ago, the strongest reductions being recorded in January, February, and June 2019. Toward the end of the year, however, job numbers started to rise again, recording increases of 12.2% and 9.9%, respectively, in November and December 2019. The share of multi-stage fracs in the job count rose to 65% (2018: 59%). PeWeTe Kazakhstan delivered impressive operating performance growth, more than doubling the number of fracturing jobs by 130 to a total of 253 in 2019.

The equipment that Petro Welt Technologies AG operated as of December 31, 2019, consisted of 15 drilling rigs (2018: 15), 29 sidetracking rigs (2018: 26), and 18 fracturing fleets (2018: 18).

REVENUE DEVELOPMENT

The PeWeTe Group generates income in two currencies: the Russian ruble and the Kazakh tenge. Both currencies have been subject to volatility. In 2019, the average RUB/EUR exchange rate was 72.50 rubles per euro. This means that the ruble appreciated by 2.0% compared to the 2018 level. As of December 31, 2019, the RUB/EUR exchange rate was 69.34 rubles per euro. The Group generates 2.3% of its revenues in Kazakh tenge. The average exchange rate of the Kazakh tenge against the euro fell in 2019, showing a negative trend of 5.4% compared to 2018.

Total Group revenues recognized in Russian rubles increased by 6.0% in 2019. Revenues in the Group reporting currency (the euro) rose by 8.1% to EUR 298.4 million, up from EUR 276.0 million in the previous year.

According to CDU TEK key Russian oil companies raised their fracs by only 5.5%. Coupled with the continued price pressure on oilfield service players, this put a damper on the development of the stimulation market. Some of our key customers in the fracturing segment, e.g., LUKOIL and Russneft, sharply reduced their volumes by 12.6% and 15.4%, respectively. In turn, this caused the number of jobs in our Well Services and Stimulation segment to decline by 8.6% in 2019 compared to 2018 and its revenues to decrease by 9.4%, from EUR 154.2 million in 2018 to EUR 139.6 million in 2019. Not even the significant surge in revenues by 22.5% (in EUR) of PeWeTe Kazakhstan was able to compensate for the difficulties in the Russian market.

The Group's Drilling, Sidetracking, and IPM segment, however, showed impressive growth of 33.1%, soaring from EUR 110.9 million in 2018 to EUR 147.6 million in 2019. This was driven by the gradual improvement in the sidetracking contract volume as well as further improvements in conventional drilling activities. As a result, total Group revenues grew by 8.1% to EUR 298.4 million in 2019.

Proppant exports accounted for 26.4% of revenues in 2019, up from 12.8% in 2018.

SEGMENT REPORTING

The upward trend in the development of Group revenues, calculated in euros, reflects the impressive growth of the Drilling, Sidetracking, and IPM segment, which more than offset the weak Well Services and Stimulation segment.

In 2019, the Well Services and Stimulation segment had to contend with a 9.4% decline in revenues to EUR 139.6 million (2018: EUR 154.2 million). While the number of jobs fell by 8.6%, average revenues per job were largely stable at TEUR 31.1 (2018: TEUR 31.4) thanks to the increase in the share of multi-stage fracs which led, in turn, to the rise in proppant injection per well. However, due to the deterioration in production efficiency, the segment's EBIT dropped from EUR 17.9 million in 2018 to EUR 7.3 million in 2019.

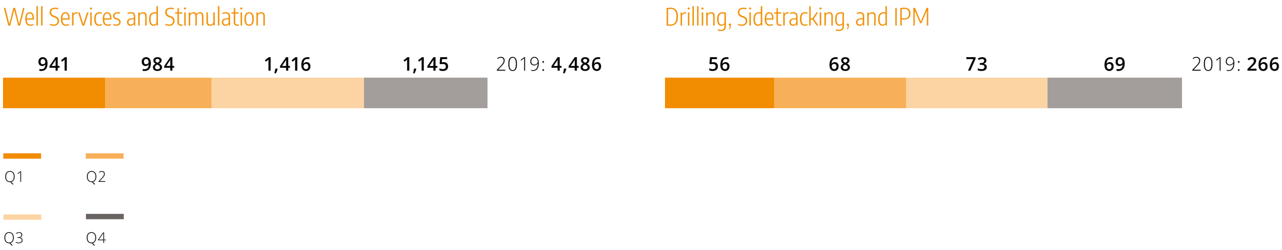
Conversely, revenues generated by the Drilling, Sidetracking, and IPM segment rose by 33.1% to EUR 147.6 million in 2019 due to the gradual growth in the sidetracking contract volume as well as further improvements in the operating activities of the conventional drilling subsegment. In addition, average revenues per job in euros rose by 8.9% to TEUR 554.0 on account of the increase in the average meterage of drilled wells. The segment turned its negative EBIT of EUR 1.1 million in 2018 into a positive EBIT of EUR 7.2 million in 2019, making a substantial contribution to the Group's profit indicators.

Wellprop generated proppant revenues of EUR 11.2 million in 2019, a year-over-year increase of 2.8%. In 2019, Wellprop raised the share of export sales providing higher prices.

__ Revenue Development 2019 by Quarter and Segment

in EUR million	Q1	Q2	Q3	Q4	2019
Petro Welt Technologies (consolidated)	62.2	74.7	81.4	80.1	298.4
Well Services and Stimulation	28.8	35.4	38.7	36.7	139.6
Drilling, Sidetracking, and IPM	30.8	36.9	39.8	40.1	147.6
Proppant Manufacturing	2.6	2.4	2.9	3.3	11.2

Quarterly Development of the Service Job Count

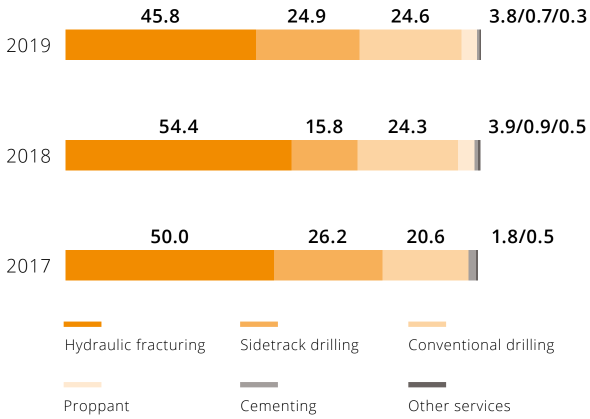


Major Products/Service Lines

in EUR million	2019		2018	
Hydraulic fracturing	136.7	45.8%	150.2	54.4%
Sidetrack drilling	74.3	24.9%	43.7	15.8%
Conventional drilling	73.3	24.6%	67.2	24.3%
Proppant	11.2	3.8%	10.9	3.9%
Cementing	2.1	0.7%	2.6	0.9%
Other services	0.9	0.3%	1.4	0.5%
Total revenue	**298.4**	**100.0%**	**276.0**	**100.0%**

The breakdown of PeWeTe's revenues by service line in 2018 and 2019 shows a substantial increase in drilling activities and a decline in fracturing activities. This was the first time the Drilling, Sidetracking, and IPM segment overtook the Well Services and Stimulation segment. Its contribution to total revenues was 49.5% as compared to fracturing's contribution of 46.8%. Proppant sales accounted for 3.8% (see table).

Revenue from Customers by Service Line 2017-2019 (in %)



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.

The cost of sales climbed by 10.3% (or EUR 24.2 million) to EUR 260.1 million in 2019, up from EUR 235.9 million (see note 17 in the Notes to the Consolidated Financial Statement for 2019) in the previous year.

The cost of sales grew year over year. Expenses dependent on the number of operations – such as direct costs, and wages and salaries – rose by EUR 24.3 million. This increase was mainly driven by the expansion of the Drilling segment's production program, which was also due to better contracting in sidetracking. These components together with raw materials accounted for 91.8% of the overall increase in the cost of sales.

The average number of employees rose by 8.0% to 3,360 in 2019, up from 3,112 in the previous year. Expenses related to personnel shot up by 20.6% because the sidetracking subsegment's use of production capacities returned to normal levels thanks to better contracting levels.

The drop in the number of fracturing operations substantially reduced the economies of scale, in turn increasing unit costs in the Well Services and Stimulation segment. As a result, the segment's gross profit fell from EUR 27.6 million in 2018 to EUR 14.7 million in 2019. Conversely, the gross profit of the Drilling, Sidetracking, and IPM segment increased by EUR 12.0 million, but was unable to cover the weaker operating efficiency of the fracturing business.

Depreciation declined by 6.1% or EUR 2.5 million in 2019 due to the ageing of equipment.

DEVELOPMENT OF EARNINGS

The negative performance of the Well Services and Stimulation segment largely accounts for the decline in the gross profit margin of 12.8% (2018: 14.5%). In absolute terms, gross profit decreased by 4.5% to EUR 38.3 million in 2019, down from EUR 40.1 million in the previous year (see table).

The Group's administrative costs declined by 4.0% to EUR 23.9 million in 2019, down from EUR 24.9 million in 2018, due to lower consulting fees and rental expenses. But the need to write down receivables raised the other operating expenses, in turn pushing EBIT down by 31.5% to EUR 7.6 million (2018: EUR 11.1 million).

The positive effect of the improved financial result in 2019 (up by 21.4% to EUR 5.1 million compared to the previous year) enabled the Group to show a profit before tax of EUR 12.7 million in 2019, down by 17.0% from EUR 15.3 million in 2018.

The Group saw a decrease of 50.0% in net profit. In absolute terms, net profit fell from EUR 10.8 million in 2018 to EUR 5.4 million in 2019. Income tax expense jumped from EUR 4.4 million in 2018 to EUR 7.3 million in 2019 due to the rise in withholding taxes on dividends and interest. Earnings per share were EUR 0.11 for 2019, down from EUR 0.22 in 2018.

The EBITDA margin declined to 15.3% during the reporting period, down from 19.0% in the previous year.

__ Group Figures EBITDA and EBIT

Key positions		2019	2018	+/-	+/- %
Revenue	in EUR million	298.4	276.0	22.4	8.1
Gross profit	in EUR million	38.3	40.1	(1.8)	(4.5)
EBITDA	in EUR million	45.6	52.5	(6.9)	(13.1)
EBIT	in EUR million	7.6	11.1	(3.5)	(31.5)
Gross profit margin	in %	12.8	14.5		
EBIT margin	in %	2.5	4.0		
EBITDA margin	in %	15.3	19.0		
Group result	in EUR million	5.4	10.8	(5.4)	(50.0)
Earnings per share	in EUR	0.11	0.22	(0.11)	(50.0)

INTERNATIONALIZATION AND STRENGTHENING OF MARKET POSITION

The Management Board is strongly committed to satisfying shareholders' expectations as to the development and growth of Petro Welt Technologies AG. It considers the Company's international expansion necessary for the successful development of its 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 in Russia. In a third step, PeWeTe finalized the registration of its Romanian subsidiary, PEWETE EVO EUROPE S.R.L., Bucharest, in 2018. The fourth step in the Company's expansion followed on August 5, 2019, when PeWeTe finalized the registration of its new local business entity, PEWETE EVO SERVICES LLC, in Muscat, which is to provide the Company's services in the Sultanate of Oman.

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 BALANCE SHEET STRUCTURE AND EQUITY

As of December 31, 2019, total assets jumped by 18.6% to EUR 452.7 million compared to the close of 2018. This is due to increases in both non-current assets (specifically, property, plant, and equipment) and current assets (specifically, cash and cash equivalents, trade receivables, and inventories). The growth in trade receivables from oil companies' expansion of their transactional cycle was mitigated by the improvement in commercial conditions with project executors. The increase in inventories by EUR 11.2 million is due mostly to the Well Services and Stimulation segment's production underperformance compared to the initial plan.

The current liabilities of Petro Welt Technologies AG jumped by 31.2% as of December 31, 2019, while its non-current liabilities rose slightly by 3.8% due to the extension of the loan from Petro Welt Holding (Cyprus) Limited – accrued interest for the loan becomes payable at the end of the term.

Equity increased by 23.8%, from EUR 205.4 million in 2018 to EUR 254.3 million in 2019. This growth is mainly due to the improvement of 19.7% in the currency translation reserve, from minus EUR 218.5 million in 2018 to minus EUR 175.5 million in 2019. The reason for the increase in the translation reserve is the appreciation of the ruble against the euro in 2019 versus 2018. Compared to December 31, 2018, therefore, the equity ratio rose by 2.4 percentage points to 56.2% as of December 31, 2019.

PeWeTe has strengthened its financial structure by extending the loan from Petro Welt Holding Limited (Cyprus) to December 31, 2023, and reducing the interest rate to 3.41% above the 6-month EURIBOR rate. This improved debt service conditions. The managerial cash position, which is calculated as the sum of cash and cash equivalents and bank deposits, climbed by 13.8% to EUR 144.0 million as of December 31, 2019, up from EUR 126.5 million as of December 31, 2018. The improved debt service conditions have enabled the Group to improve its overall financial flexibility. Future investment plans will contribute to more flexibility.

Besides enhancing the Company's liquidity management and financial flexibility, the aforementioned loan extensions will also help to maintain its credit rating. In turn, this strengthens the Group's ability to manage its working capital and secure its liquidity position.

As of December 31, 2019, total net debt was EUR 24.2 million, which corresponds to a net debt-to-EBITDA ratio of 53.1%, which is almost the same as the figure for 2018 (51.0%) but higher than the figure for 2017 (31.0%). The net debt-to-equity ratio was 9.6% in 2019, after 13.0% in 2018 and 10.5% in 2017.

__ Group Balance Sheet Structure

Balance sheet positions	12/31/2019 in EUR million	12/31/2019 share in %	12/31/2018 in EUR million	12/31/2018 share in %
Current assets	285.8	63.1	241.2	63.2
Non-current assets	166.9	36.9	140.6	36.8
Assets	**452.7**	**100.0**	**381.8**	**100.0**
Current liabilities	73.2	16.2	55.8	14.6
Non-current liabilities	125.2	27.6	120.6	31.6
Equity	254.3	56.2	205.4	53.8
Liabilities and equity	**452.7**	**100.0**	**381.8**	**100.0**

__ Development of Debt and Debt-to-Equity Ratio

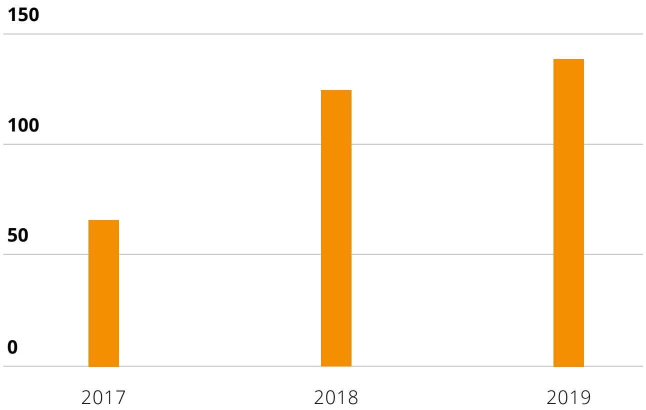
Key figures		12/31/2019	12/31/2018
Liabilities to C.A.T. Holding (Cyprus) Ltd.	in EUR million	119.3	116.3
Trade payables	in EUR million	44.3	32.8
Other liabilities with the exception of accrued liabilities	in EUR million	4.6	4.2
Less: cash and cash equivalents	in EUR million	(138.6)	(125.6)
Less: bank deposits	in EUR million	(5.4)	(0.9)
Net debt	**in EUR million**	**24.2**	**26.8**
Total equity	in EUR million	254.3	205.4
Net debt-to-equity ratio as of December 31		**9.6%**	**13.0%**

CASH FLOW

In addition to the decrease in the profit before tax, several other factors affected the operating cash flow in 2019 as well, lowering it year over year. Working capital continued to deteriorate, from minus EUR 1.4 million in 2018 to minus EUR 1.6 million in 2019. The operating cash flow thus decreased by 13.8% to EUR 36.1 million in 2019, down from EUR 41.9 million in 2018.

Overall, the cash flow was also reduced by an increase of EUR 5.1 million in purchases of property, plant, and equipment. As of December 31, 2019, the Group held bank deposits of EUR 5.4 million (2018: TEUR 931). As a result, cash and cash equivalents showed net growth of EUR 13.0 million in the course of 2019, rising from EUR 125.6 million at the beginning of the year to EUR 138.6 million as of December 31, 2019. The overall liquidity position, which also includes bank deposits, increased by EUR 17.5 million to EUR 144 million. The net increase in cash and cash equivalents was impacted by a positive exchange rate effect of EUR 15.6 million.

__ Cash and Cash Equivalents (in EUR million)



RISK MANAGEMENT REPORT

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

Petro Welt Technologies AG (PeWeTe) 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 February 25, 2015, the Company's Chief Financial Officer (CFO), Valeriy Inyushin, has been authorized by the Management Board to act as the Group's Chief Risk Manager (CRM) 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 December 31, 2019.

RISK FACTORS AND RISK MEASUREMENT

Risks arise from the Group companies that PeWeTe operates in Russia and Kazakhstan, Romania and Oman. 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 continuing deterioration of political relations between Russia and Western countries, especially the United States and the United Kingdom.

As before, the currency risk arising from the volatility of the Russian ruble and the Kazakh tenge is 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 these risks.

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 of or reduction in 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. The PeWeTe Group is incurring new risks by expanding its activities in Kazakhstan, Romania, and Oman and by participating in the proppant market, even though this strategy 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, PeWeTe 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 the range of our services and our 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 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, PeWeTe provides clear guidance for use in its 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 keep the key liquidity, credit, and capital indicators such as the liquidity position, the net debt-to-EBITDA ratio, and the equity ratio within defined ranges.

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.

Groupwide 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 the second half of 2019, the Group implemented stricter rules regarding the establishment of credit lines for clients and strengthened the requirements applicable to both its market position and its financial statements. Besides shortening the intervals at which the required financial information is reported, we also improved our ability to monitor our key debtors by introducing communication reports based on CRM approaches.

Collaborating with EY Austria, in 2018 the Group also developed and launched an intergroup funding policy that serves to provide a transparent and reliable method for defining intergroup interest rates based on the arm's-length principle. All intercompany financing agreements 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 borrower's risk profile, 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; and
- 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 being reviewed.

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

Against this backdrop, we restructured the loan from Petro Welt Holding Limited (Cyprus) as well as the portfolio of loans PeWeTe made to KAT.oil Leasing.

PeWeTe deposits free cash with the banks in both short-term and long-term financial instruments exceeding three months. Financial instruments are not material to the Company's earnings and financial position.

MATERIAL GROUP RISKS

MARKET RISKS

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 confirm the ongoing volatility of the international oilfield services market. The GE deal involving the acquisition of Baker Hughes is one example of these trends.

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, in particular, to the level of activities in exploration, development, and production and, in general, to the capital spending activities of oil and natural gas companies. Any reduction in Group clients' upstream activities may lead to a situation where the PeWeTe Group's operating subsidiaries are increasingly exposed to higher downstream risks regarding 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, the PeWeTe 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, will be one important factor in the Group's ability to mitigate market risks. The Group has started to invest in Eastern Europe and the Middle East to benefit from market trends in these regions.

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.

Throughout 2019, Russia supported OPEC's decision to cut oil production, which led to a reduction in drilling activity. Given the fluctuations in the global oil supply and demand, oilfield services are quite sensitive to possible changes in oil majors' CapEx programs. Our fears concerning the price pressure on the fracturing segment in Russia were confirmed at the end of 2018 and throughout 2019. In the first quarter of 2020, the COVID-19 shock combined with the breakup of the OPEC+ deal created a perfect storm in the global oil industry. High levels of management and operational flexibility coupled with an ability to adapt one's business model to the new realities could be one way to approach these big challenges.

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. The uncertainty as to whether the principles of free trade will survive these crises 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 triggering yet more volatility in foreign exchange markets.

The Group's diversification into Kazakhstan and its commercial plans in Romania provide one option for it 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 improving the 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 generated in Russian rubles and partly in Kazakh 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 with respect to operating equipment and machinery. The exchange rate volatility may also affect the Group’s consolidated balance sheet.

Our Russian entities have used regular monitoring of foreign exchange markets and fresh forecasts to build up their hard currency reserves so that they can continue to purchase imported equipment and parts as well as boost their dividends to the level customary for the parent Company. Portions of these hard currency reserves are also earmarked for helping to fund the development of our international programs.

LEGAL RISKS

1. In the Company's lawsuit against the former board members Manfred Kastner, Ronald Harder and Leonid Mirzoyan (Commercial Court of Vienna file no.: 43 Cg 40/17f-54) for repayment of an amount of EUR 1,589,603.50, an interim judgment has been issued by the court in favor of the Company, which finds that the distribution of this amount to the Respondents was unlawful. On January 3, 2020 the respondents lodged appeal against this interim judgment. Should the appellate court confirm the interim judgment, then the lower court will move forward and decide on the counterclaim asserted by the respondents, which the Company is disputing both with regard to its merits and the amount of claim.

2. The Company has filed action against its former Prokurist, Edward Brinkmann, and a company attributed to him (Majab Development LLC) before the Twentieth Judicial Circuit for Collier County in Florida (USA) for damage compensation due to fraud in connection with orders for equipment (file no. of court: 11:2018-CA-002531). The respondent Edward Brinkmann is accused of having purchased equipment, in particular in the US, at excessive prices for his own profit during his time with the Company. The lawsuit is currently in the "discovery" phase, which allows each party to obtain information from the other party concerning facts and circumstances underlying the charge of fraud. The discovery procedure will likely be completed by the end of 2020. The oral hearing is scheduled for February 10, 2021.

3. An investigation by the District Attorney's Office in Vienna for Economic and Corruption Matters ("WKStA") was pending against Anna and Edward Brinkmann for embezzlement. Private parties to the investigation are Petro Welt Technologies AG and Coraline Limited.

The WKStA office has closed this investigation. The private parties have filed objection to the closure and introduced a petition for its continuance; the petition asks the District Criminal Court in Vienna to order the WKStA to continue its investigation. It is expected that the court chamber now responsible for the matter will make a decision in this regard in the spring of 2020.

With regard to Dr. Höft, another defendant, the WKStA has in the meantime also closed its investigation. The grounds for the closure have not yet been provided. Once the grounds for the closure are received, a petition for the continuation of the investigation can be filed within 14 days.

SHAREHOLDER STRUCTURE AND SHARE CAPITAL INFORMATION

IN ACCORDANCE WITH SECTION 243 A (1) OF THE AUSTRIAN COMMERCIAL CODE

As at December 31, 2019, the share capital of Petro Welt Technologies AG was EUR 48,850,00 (December 31, 2018: 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 of the December 31, 2019 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% (2018: 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 (2018: 39.36%). Maurice Gregoire Dijols directly holds 5,850 shares (2018: 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 2019, 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.

NON-FINANCIAL REPORT

The Non-Financial Report for 2019 prepared in accordance with section 267a of the Austrian Commercial Code (UGB) starts on page 14 of this Report.

IMPORTANT EVENTS AFTER THE BALANCE SHEET DATE

No material events occurred after the balance sheet date.

OUTLOOK 2020

THE GLOBAL ECONOMY AND CRUDE OIL PRICES IN 2020

Strict measures related to the coronavirus (COVID-19) pandemic will have a dramatic effect on the service sector; non-food, offline retail sales; the hotel and tourism industry and air travel; as well as a large number of small and medium-sized businesses. Coupled with factors such as shutdowns in manufacturing and the squeezing of global demand, this will trigger significant medium-term decreases in international trade which, in turn, will also affect the transportation sector. Most raw material production, including oil and gas, will be negatively impacted by these developments.

According to the IMF's most recent estimates,[1] global GDP growth may drop by 3% in 2020. The eurozone economy is expected to shrink by 7.5%, and Russia's economy by 5.5%. These figures correspond more or less to the pandemic scenario Bloomberg Economics outlined earlier.[2] The Romanian economy is expected to contract by 5%, whereas Kazakhstan's GDP may escape serious damage and decline by 2.5%.

Conditions in the industrial sector are also changing dramatically. Following the failure of OPEC+ to extend its oil cooperation agreement in February 2020, the price of Brent crude plunged from between USD 40/bbl and USD 45/bbl to about USD 20/bbl. Lower consumption in the first quarter of 2020 led to large overstocks of crude oil at the global level. Given the fragility of the world's finance sector, this led in turn to stock market crashes and a wave of currency devaluations in both emerging countries and those dependent on raw material exports.

At an extraordinary, virtual OPEC+ meeting, Russia and Saudi Arabia agreed to cut daily oil production by 9.7 million barrels from May 1, 2020, to the beginning of May 2022; other key oil producers joined in. The overall reduction thus will reach 15.4 million barrels per day, which corresponds more or less to the sharp decrease by about 20 million barrels per day or 20% in the current global demand for oil. The key players in the oil industry hope that this unprecedented decision will help to hold the oil price at between USD 35/bbl and USD 40/bbl in the medium term. As a result, this may cause the ruble/euro exchange rate to fluctuate around 80–82 rubles per euro.

It is also expected that oil companies will begin to cut their production volumes starting at the end of April 2020. Demand for oilfield services, especially in the segments related to the intensification of production, will thus be substantially lower too.

GUIDANCE FOR REVENUES AND EARNINGS

These developments will negatively affect the Company's fracturing activities and sidetracking business. Group revenues expressed in rubles could decrease from the initially projected level of RUB 25.2 billion to about RUB 22.4–23.7 billion. The anticipated EUR/RUB exchange rate of between RUB 80 and RUB 82 per euro means that Group revenues, as expressed in euros, are expected to be between EUR 278 million and EUR 285 million in 2020 – a decrease by 3%–6% compared with 2019. In such a scenario, the EBITDA margin is projected to be between 16% and 16.5%.

[1] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020
[2] https://www.bloomberg.com/graphics/2020-coronavirus-pandemic-global-economic-risk/

CONSOLIDATED FINANCIAL STATEMENTS

AUDITOR’S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

QUALIFIED 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 2019, and the Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flow for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, except for the effects of the matters described in the “Basis for our Qualified Opinion“ section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code).

BASIS FOR OUR QUALIFIED OPINION

In the course of our audit we have observed, that the process for the physical inventory count in relation to a part of the inventories of one of the significant components of the group has not been operating in due form. A reperformance of the physical inventory count after the balance sheet date was not possible, due to, among others, the wintery conditions at the external storage areas and the Covid-19 crisis and the related restrictions on the freedom of movement. As a result, we were not able to obtain sufficient appropriate audit evidence in relation to the completeness and the existence of a portion of the inventory balance attributable to a significant subsidiary of the Group and which has been included in the consolidated financial statements as of 31 December 2019 in the amount of TEUR 4.577, and related materials expenses included in cost of sales in the amount of TEUR 11.885.

Except for the matter described in the preceding paragraph, 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 (ISAs). Our responsibilities under those standards are further described in the "Auditor’s Responsibilities" section of our 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 qualified 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. In addition to the section of our report “Basis for our Qualified Opinion“, we have identified and described the below key audit matters.

Impairment of property, plant and equipment

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

Risk for the Consolidated 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.

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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

We have evaluated the impairment of property, plant and equipment as follows:

- 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.
- We have evaluated 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.

Completeness and Existence of Inventories

Refer to Note 4, 10 and 17 to the consolidated financial statements.

Risk for the Consolidated Financial Statements

A change in the composition of customer orders of the Group, has resulted in a higher number of customer projects with, on average, lower volume per order, and geographically broader dispersed project sites. Due to this reason, among others, the Group has increased the volume of inventories stored at decentralized locations related to two of the group’s subsidiaries, in order to hold the necessary material available closer to the respective project sites. The book value of the related inventory amounts to TEUR 10.046 as of 31 December 2019. This change in the storage of inventory resulted in a higher portion of the inventory balances stored at partially difficult to reach sites. In addition, this change has not been accompanied by adequate changes in the necessary processes and controls to ensure a complete and timely recording of inventory movements in relation to inventory that has been stored decentralized. The timely and correct recording of movements in inventory has a significant impact on the Group’s assets and earnings position.

Our Response

- We have adjusted our risk assessment and audit strategy, in order to address the change in risk profile.
- As a result, we have:
  - Significantly increased our sample sizes, as well as the selection of physical locations, at which we have examined the physical inventory stock take in the context of the Group’s annual inventory count, which have been performed before as well as after the balance sheet date, in order to address the change in circumstances;
  - Based on statistical sampling methods, which resulted in large sample sizes, we have verified, where appropriate, the rollforward as well as rollback of the inventory from the date of the physical inventory count to the balance sheet date.

Regarding our related conclusions we refer to the section of our report “Basis for our Qualified Opinion“.

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 (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and 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

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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.

AUDITOR'S RESPONSIBILITIES

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 ISAs), 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 AP 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

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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 Austrian company law.

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, on which we have issued a qualified audit opinion, 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, on which we have issued a qualified audit opinion, 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 is all information provided in the annual report, other than the consolidated financial statements, the group management report, and the auditor's report.

Our qualified opinion on the consolidated financial statements does not cover 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

We were elected as auditors at the Annual General Meeting on 18 June 2019 and were appointed by the supervisory board on 27 June 2019 to audit the financial statements of the Company for the financial year ending 31 December 2019.

We have been auditors of the Company, without interruption, since the consolidated financial statements as at 31 December 2015.

We declare that our qualified 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, June 3, 2020

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Signed by
Mag. Yann Georg Hansa
Wirtschaftsprüfer
(Austrian Chartered Accountant)

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2019

TEUR	Notes	12/31/2019	12/31/2018
Assets			
Non-current assets		**166,897**	**140,604**
Property, plant and equipment	7	161,107	135,530
Intangible assets	8	2,010	2,112
Right-of-use assets	9	360	-
Goodwill	6	611	611
Other assets		78	60
Deferred tax assets	22	2,731	2,291
Current assets		**285,844**	**241,222**
Inventories	10	43,530	32,346
Trade receivables	11	77,049	68,220
Contract assets	11	14,556	8,696
Bank deposits	13	5,350	931
Other current assets	12	5,752	4,745
Income tax receivable		997	710
Cash and cash equivalents	13	138,610	125,574
Total assets		**452,741**	**381,826**
Equity and liabilities			
Equity		**254,272**	**205,358**
Share capital	14	48,850	48,850
Capital reserve	14	111,987	111,987
Retained earnings		268,609	262,698
Remeasurement of defined benefit plans	23	321	368
Currency translation reserve	14	(175,495)	(218,545)
Non-current liabilities		**125,239**	**120,644**
Non-current financial liabilities to affiliated parties	15	119,298	116,303
Non-current lease liabilities		221	-
Deferred tax liabilities	22	5,339	3,704
Employee benefits	23	381	637
Current liabilities		**73,230**	**55,824**
Trade payables	15	44,344	32,801
Other current liabilities	15	27,216	21,897
Current lease liabilities		146	-
Advance payments received	15	827	154
Income tax payables	15	697	972
Total equity and liabilities		**452,741**	**381,826**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2019

TEUR	Notes	2019	2018
Revenue	16	298,424	275,986
Cost of sales	17	(260,118)	(235,903)
Gross profit		**38,306**	**40,083**
Administrative expenses	18	(23,911)	(24,911)
Selling expenses		(2,353)	(1,383)
Other operating income	19	2,181	2,589
Other operating expenses	20	(6,673)	(5,285)
Operating result		**7,550**	**11,093**
Finance income	21	9,808	8,429
Finance costs	21	(4,695)	(4,266)
Net finance income		**5,113**	**4,163**
Profit before income tax		**12,663**	**15,256**
Income tax expense	22	(7,252)	(4,410)
Profit after tax from continuing operations		**5,411**	**10,846**
Loss after tax from discontinued operation (net of income tax)	18	-	(37)
Profit		**5,411**	**10,809**
Basic earnings per share in EUR	24	0.11	0.22
Diluted earnings per share in EUR	24	0.11	0.22

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

TEUR	Notes	2019	2018
Profit		**5,411**	**10,809**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences from:			
Translation of a foreign operation	14	30,119	(31,052)
Net investments in foreign operations	22	14,968	(16,180)
Income tax effect related to currency translation differences	22	(2,037)	(280)
Items that will never be reclassified to profit or loss:			
Net gains on remeasurement of defined benefit plans	23	(59)	131
Income tax effect related to remeasurement of defined benefit plans	22	12	(26)
Total other comprehensive income		**43,003**	**(47,407)**
Total comprehensive income		**48,414**	**(36,598)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019

					Currency translation reserve		
TEUR	Share capital	Capital reserve	Retained earnings	Remea-surement of defined benefit plans	Translation of a foreign operation	Net investment in foreign operations	Total equity
As of January 1, 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 of December 31, 2018	**48,850**	**111,987**	**262,698**	**368**	**(108,028)**	**(110,517)**	**205,358**
Adjustment on initial application of IFRIC 23	-	-	500	-	-	-	500
As of January 1, 2019	48,850	111,987	263,198	368	(108,028)	(110,517)	205,858
Profit	-	-	5,411	-	-	-	5,411
Currency translation differences	-	-	-	-	30,119	12,931	43,050
Net gains on remeasurement of defined benefit plans	-	-	-	(47)	-	-	(47)
Total comprehensive income	**-**	**-**	**5,411**	**(47)**	**30,119**	**12,931**	**48,414**
As of December 31, 2019	**48,850**	**111,987**	**268,609**	**321**	**(77,909)**	**(97,586)**	**254,272**

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2019

TEUR	Notes	2019	2018
Profit before tax		**12,663**	**15,219**
Adjustments for:			
Depreciation, amortization and impairment losses	7, 8, 9	38,031	41,428
Net loss/(gain) on the disposal of property, plant and equipment	19, 20	114	(976)
Loss from inventory write-off and obsolescence provision	20	-	1,052
Foreign exchange loss	21	970	429
Net finance income	21	(6,083)	(4,592)
Income taxes paid		(7,987)	(9,244)
Change in working capital		**(1,600)**	**(1,395)**
Change in inventories		(6,181)	653
Change in contract assets		(4,391)	(8,696)
Change in trade and other receivables		378	18,041
Change in trade and other liabilities		8,594	(11,393)
Cash flows from operating activities		**36,108**	**41,921**
Purchase of property, plant and equipment		(47,244)	(42,178)
Proceeds from sale of equipment		2,511	1,722
Addition to cash deposits		(5,443)	(51,248)
Withdrawal of cash deposits		1,020	110,783
Interest received		8,814	8,537
Purchase of subsidiaries, net of cash transferred	6	-	(2,268)
Refund of advance payment from supplier		1,764	-
Cash proceeds from repayment of loans granted		-	1,801
Cash flows (used in)/from investing activities		**(38,578)**	**27,149**
Payment of lease liabilities		(166)	-
Cash flows used in financing activities		**(166)**	**-**
Effect of exchange rate changes on cash and cash equivalents		15,672	(12,383)
Net change in cash and cash equivalents		13,036	56,687
Cash and cash equivalents at January 1		125,574	68,887
Cash and cash equivalents at December 31		**138,610**	**125,574**

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 the 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 the Russian Federation and in Kazakhstan.

Average number of employees was 3,360 in 2019, including 395 employees of management and office staff (2018: 3,112, including 386 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

RUSSIAN BUSINESS ENVIRONMENT

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display the characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which contribute together with other legal and fiscal impediments to the challenges faced by entities operating in the Russian Federation.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

KAZAKH BUSINESS ENVIRONMENT

The Group's operations are also located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. Depreciation of the Kazakh tenge and volatility in the global price of oil also increases the level of uncertainty in the business environment.

The consolidated financial statements reflect management's assessment of the impact of the Russian and Kazakh business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3. BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) as well as the additional requirements in accordance with section 245a of the UGB (Austrian Commercial Code). Petro Welt Technologies AG and its subsidiary companies maintain their accounting records according to the regulations applicable in their country of registration. These consolidated financial statements are based on such financial books and records adjusted in order to comply with IFRS as adopted by the EU.

A 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.

(B) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in euro, which is the functional currency of the parent Company. A functional currency of the Russian foreign subsidiaries is the Russian ruble ("RUB"). A functional currency of Petro Welt Technologies Kazakhstan LLP is the Kazakh tenge ("KZT").

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

(C) USE OF ESTIMATES AND JUDGMENTS

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 recognized 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: intragroup loans, which are part of the net investments in foreign operations;
- Note 4, 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 customer must be capitalized as an asset and amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

The Group provides oil field services, 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 manufacturing of proppant.

(i) 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.

(ii) Rendering of oil field services

The Group's well services and stimulation 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 fulfillment 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

(i) Recognition and initial measurement

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification – Financial assets

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

A financial asset is measured at amortized 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 amortized 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 recognizes 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 recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes 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 recognized as a separate asset or liability.

(iii) Non-derivative financial liabilities

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

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

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

(iv) Impairment – Financial assets, contract assets and lease receivables

The Group recognizes loss allowances for ECLs on:
- Financial assets measured at amortized cost;
- Contract assets;
- Lease receivables, which are disclosed as part of trade receivables.

Loss allowances are measured on the base of lifetime expected credit losses (ECLs), except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, and which are measured at 12-month ECLs.

Lifetime ECLs are ECLs that result from all possible default events over the expected life of a financial instrument. For further information refer to note 28 Financial risk management objectives and policies.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

The Group considers a financial asset, contract asset or lease receivable to have low credit risk when the credit risk rating of the counterparty is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be Baa3 or higher per Moody's.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due or when the credit risk rating of the counterparty has been downgraded below investment grade.

The Group considers a financial asset to be in default when:
- The debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- The financial asset is more than 365 days past due.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- Significant financial difficulty of the debtor;
- A breach of contract such as a default;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is probable that the debtor will enter bankruptcy or other financial reorganization.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 365 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery.

(v) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

CASH AND CASH EQUIVALENT

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

SUBSIDIARIES

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

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

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method as of the acquisition date, which is the date on which control is transferred to the Group. Goodwill is initially measured at cost being the excess of the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the aggregate of consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized 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 recognized 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 realizable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprise material, direct labor 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 realizable value. Net realizable 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 labor, 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 capitalized 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 recognized 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 the 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

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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 amortization and accumulated impairment losses.

Amortization is generally recognized 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 (goodwill), 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 a 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 recognized 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 statement of profit or loss.

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 recognized 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 amortization, if no impairment loss had been recognized.

PENSION AND POST-EMPLOYMENT BENEFITS

Defined benefit pension plans

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 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 an 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 statement of profit or loss within operating expenses.

Other liabilities to employees after the termination of their employment

The 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, relocation from Far North territory compensation etc. The size of these payments usually depends 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 the 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 amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized 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 of 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 recognized in profit or loss. The relevant exchange rates for foreign currency transactions in relation to the Russian ruble and the Kazakh tenge are as follows:

Currency (1 USD =)	Closing rate as of 12/31/2019	Closing rate as of 12/31/2018	Average rate 2019	Average rate 2018
Russian ruble (RUB)	61.9057	69.4706	64.7362	62.7078
Kazakh tenge (KZT)	381.18	384.2	382.87	344.9

Currency (1 EUR =)	Closing rate as of 12/31/2019	Closing rate as of 12/31/2018	Average rate 2019	Average rate 2018
Russian ruble (RUB)	69.3406	79.4605	72.5021	73.9546
Kazakh tenge (KZT)	426.85	439.37	428.63	406.77

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 statement of cash flow.

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 of 12/31/2019	Closing rate as of 12/31/2018	Average rate 2019	Average rate 2018
Russian ruble (RUB)	69.3406	79.4605	72.5021	73.9546
Kazakh tenge (KZT)	426.85	439.37	428.63	406.77

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

Exchange differences and related income tax effect resulting from intragroup 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.

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

IFRS 16 Leases

The Group initially applied IFRS 16 Leases from January 1, 2019.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement Contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease described below.

On transition to IFRS 16, the Group elected not to apply the practical expedient under which an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. The definition of a lease under IFRS 16 was applied to all contracts.

(ii) As a lessee

As a lessee, the Group leases many assets including property and transport vehicles. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for some of these leases – i.e. these leases are on balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17
Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application. The Group applied this approach to all leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:
- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognize right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(iii) As a lessor
The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.

POLICY APPLICABLE TO LEASES FROM JANUARY 1, 2019
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

(i) As a lessee
At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as of the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets (e.g., personal computers) and short-term leases. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term (i.e., leases with a lease term of 12 months or less).

(ii) As a lessor

The Group leases out its drilling, sidetracking and some of its fracturing equipment.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset. The Group has classified these leases as operating leases.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of revenue.

POLICY APPLICABLE TO LEASES BEFORE JANUARY 1, 2019

At inception of an arrangement, the Group determined whether such an arrangement was or contained a lease. This was the case if the fulfillment 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 were charged to the profit or loss on a straight-line basis over the period of the lease.

IFRIC 23 TAX CONTINGENCIES

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. The Group applied IFRIC 23 from January 1, 2019.

The requirements of this Interpretation are applied by recognizing the cumulative effect of initially applying them in retained earnings at the start of the reporting period in which the Group first applies them, without adjusting comparative information.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after January 1, 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

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

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3);
- Definition of Material (Amendments to IAS 1 and IAS 8);
- 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/the principal place of business	12/31/2019 % share	12/31/2018 % 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 Technologies 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	Kopeysk, Russia	100	100	Manufacturing of proppant
PEWETE EVO EUROPE S.R.L.	Bucharest, Romania	100	100	Oil field services
PEWETE EVO SERVICES LLC	Muscat, Oman	100	-	Oil field services
PEWETE Evolution LIMITED	Lymassol, Cyprus	100	100	Management services
Wellprop Cyprus LIMITED	Lymassol, Cyprus	100	100	Management services

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

On July 1, 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).

On August 20, 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.

On August 5, 2019, Petro Welt Technologies AG finalized the registration of its new local business entity PEWETE EVO SERVICES LLC in Muscat, which is to provide the Company's services in the Sultanate of Oman.

6. ACQUISITION OF SUBSIDIARY AND GOODWILL

On September 21, 2017, the Group acquired 100% of the shares and voting interests in Carbo Ceramics Cyprus Limited which was subsequently renamed to Wellprop Cyprus LIMITED. As of December 31, 2017 total consideration measured on a provisional basis amounted to USD 24,000,000 (EUR 19,996,675), including paid as of December 31, 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 June 29, 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 during the reporting period resulted in the increase of goodwill and other current liabilities for TEUR 532 as of settlement date, resulting in total goodwill of TEUR 1,642. The total amount of goodwill has been allocated to the cash generating unit OOO Wellprop. The adjustment to consideration in the amount of USD 3,650,000 was fully settled on July 2, 2018.

As of December 31, 2018 the Group performed an impairment test of the above acquired cash generating unit and recognized the impairment of goodwill amounting to TEUR 1,031. For further information refer to note 7 Property, plant and equipment, and note 20 Other operating expenses.

7. PROPERTY, PLANT AND EQUIPMENT

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

TEUR	Land and buildings	Motor vehicles	Machinery, fittings and equipment	Electronic data processing equipment	Advance payments	Total
Cost or valuation						
At January 1, 2018	**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 December 31, 2018	**18,309**	**16,526**	**330,933**	**1,700**	**10,600**	**378,068**
Additions	1,523	1,213	30,749	466	15,195	49,146
Transfer	(452)	-	7,220	-	(6,768)	-
Disposals	(24)	(335)	(9,795)	(24)	(3,092)	(13,270)
Exchange differences	2,567	1,404	47,038	255	1,045	52,309
At December 31, 2019	**21,923**	**18,808**	**406,145**	**2,397**	**16,980**	**466,253**
Depreciation and impairment						
At January 1, 2018	**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 December 31, 2018	**8,549**	**13,070**	**220,219**	**700**	**-**	**242,538**
Depreciation	1,102	1,203	34,974	411	-	37,690
Disposals	(13)	(335)	(8,508)	(24)	-	(8,880)
Exchange differences	1,242	847	31,686	23	-	33,798
At December 31, 2019	**10,880**	**14,785**	**278,371**	**1,110**	**-**	**305,146**
Net book value						
As of January 1, 2018	11,607	4,307	131,095	501	6,277	153,787
As of December 31, 2018	9,760	3,456	110,714	1,000	10,600	135,530
As of December 31, 2019	11,043	4,023	127,774	1,287	16,980	161,107

Depreciation expense for 2019 of TEUR 37,408 (2018: TEUR 40,009) has been charged to cost of sales and TEUR 282 (2018: TEUR 224) to administrative expenses. There were no impairment losses for 2019 and 2018.

IMPAIRMENT OF NON-FINANCIAL ASSETS

As a result of an analysis as of December 31, 2019 indicators of impairment were revealed. Recoverable amounts of cash-generating units were recalculated. In case the carrying amount exceeds the recoverable amount, an impairment loss is recognized.

Based on the impairment tests as of December 31, 2019 no impairment has been identified. As of December 31, 2018 an impairment for goodwill of OOO Wellprop has been identified and a loss in the amount of TEUR 1,031 was recognized through profit and loss.

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	**12/31/2019**	**12/31/2018**
Information used	Actual operating results for the year 2019 and business plans for 2020–2024	Actual operating results for the year 2018 and business plans for 2019–2023
Forecast period	5 years (2020–2024)	5 years (2019–2023)
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 Economist Intelligence Unit	
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%	4.1%–5.3%
	Average producer price index in terminal period	
Weighted average cost of capital (discount rate)	12.9%: CGUs OOO KATKoneft, OOO KATOBNEFT, OOO KAT-oil Drilling 14.3%: CGU OOO Wellprop 15.2%: CGU Petro Welt Technologies Kazakhstan LLP	14.7%: CGUs OOO KATKoneft, OOO KATOBNEFT, OOO KAT-oil Drilling 15.8%: CGU OOO Wellprop 17.4%: CGU LLP Petro Welt Technologies Kazakhstan
	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.	

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.

12/31/2019	12/31/2018
Equality of value in use and carrying amount becomes possible in case of a revenue decrease by 3.0% in each of the years of the forecast period for CGU KATOBNEFT, by 8.1% for CGU KAToil-Drilling, by 2.9% for KATkoneft and by 11.9% and 5% for PWT Kazakhstan and Wellprop respectively	Equality of value in use and carrying amount becomes possible in case of a 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.

Discount rate – with all other assumptions held constant.

12/31/2019	12/31/2018
An increase of the discount rate to 21.4%, 13.7% and 28.5% would result in the 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 17.3%, CGU Wellprop – 16.6%.	An increase of the discount rate to 22.7%, 16.5% and 18.1% would result in the 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%.

8. INTANGIBLE ASSETS

TEUR	The right to use production technology	Software and other intangible assets	Total
Cost			
At January 1, 2018	**2,302**	**554**	**2,856**
Additions	-	9	9
Exchange differences	(38)	(19)	(57)
At December 31, 2018	**2,264**	**544**	**2,808**
Additions	-	63	63
Exchange differences	-	56	56
At December 31, 2019	**2,264**	**663**	**2,927**
Depreciation and impairment			
At January 1, 2018	**38**	**527**	**565**
Amortization	148	16	164
Exchange differences	(1)	(32)	(33)
At December 31, 2018	**185**	**511**	**696**
Amortization	148	17	165
Exchange differences	-	56	56
At December 31, 2019	**333**	**584**	**917**
Net book value			
As of January 1, 2018	**2,264**	**27**	**2,291**
As of December 31, 2018	**2,079**	**33**	**2,112**
As of December 31, 2019	**1,931**	**79**	**2,010**

In 2017 as a result of the acquisition disclosed in note 6, the Group recognized intangible assets represented by the patents used in the manufacturing of proppants by OOO Wellprop.

9. LEASE

The effect of adoption of IFRS 16 as of January 1, 2019 is as follows:

- Right-of-use assets of TEUR 484;
- Lease liabilities were recognized in the amount of TEUR 484;
- Considered adjustments had no effect on the Company's equity.

The lease liabilities as of January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

TEUR	
Operating lease commitments as of December 31, 2018	**2,391**
Less land lease (based on variable payments which do not depend on index or rate)	**(1,873)**
Gross lease liabilities as of January 1, 2019	**518**
Effect from discounting	(34)
Lease liabilities as of January 1, 2019	**484**

The lease liabilities were discounted at the incremental borrowing rate as of January 1, 2019. The weighted average discount rate was 6.6%.

Changes in right-of-use assets between January 1 and December 31, are as follows:

TEUR	Right-of-use: Land	Right-of-use: Buildings	Right-of-use: Transport vehicles	Total
Cost				
As of December 31, 2018	-	-	-	-
Transition to IFRS 16	4	480	-	484
As of January 1, 2019	**4**	**480**	**-**	**484**
Additions	-	16	33	49
Disposals	-	-	-	-
Exchange differences	-	5	-	5
As of December 31, 2019	**4**	**501**	**33**	**538**
Accumulated depreciation				
As of January 1, 2019	**-**	**-**	**-**	**-**
Depreciation	(2)	(172)	(2)	(176)
Disposals	-	-	-	-
Exchange differences	-	(2)	-	(2)
As of December 31, 2019	**(2)**	**(174)**	**(2)**	**(178)**
Net book value				
As of January 1, 2019	**4**	**480**	**-**	**484**
As of December 31, 2019	**2**	**327**	**31**	**360**

10. INVENTORIES

TEUR	12/31/2019	12/31/2018
Spare parts and other materials	28,491	22,584
Raw material	9,683	5,962
Fuel and lubricants	3,177	2,793
Finished goods and goods for resale	2,179	1,007
Total	**43,530**	**32,346**

As of December 31, 2019 no inventories have been pledged as collateral for borrowings (December 31, 2018: nil).

11. TRADE RECEIVABLES, CONTRACT ASSETS AND LEASE RECEIVABLES

Trade receivables comprise the receivables from contracts with customers with unconditional right to payment in the amount of TEUR 77,049 (December 31, 2018: TEUR 68,220). 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 of December 31, 2019.

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 "2018 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 (2018: 45%).

CONTRACT ASSETS

Contract assets were as follows:

TEUR	12/31/2019	12/31/2018
Contract assets	14,556	8,696
Total	**14,556**	**8,696**

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.

The amount of contract assets during the period ended December 31, 2019 was impacted by an impairment charge of TEUR 29 (2018: TEUR 9).

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

12. OTHER CURRENT ASSETS

Other current assets comprise the following items:

TEUR	12/31/2019	12/31/2018
Receivables from related parties	362	362
Value added tax	1,353	292
Advance payments	1,271	1,402
Deferred expenses	44	16
Other receivables	2,722	2,673
Total	**5,752**	**4,745**

Fair value of financial current assets approximate their carrying value.

13. CASH AND CASH EQUIVALENTS AND BANK DEPOSITS

Cash and cash equivalents consist of the following:

TEUR	12/31/2019	12/31/2018
Petty cash	-	1
Bank balances	12,519	3,389
Short-term deposits	126,091	122,184
Total	**138,610**	**125,574**

As of December 31, 2019 cash in current bank accounts denominated in euro was TEUR 8,594, in US dollar was TEUR 1,514, in Russian rubles was TEUR 1,495, in Kazakh tenge was TEUR 598, in Omani rial was TEUR 227, in Romanian leu was TEUR 91 (December 31, 2018: in euro – TEUR 2,167, in US dollar – TEUR 413, in Russian rubles – TEUR 634, in Kazakh tenge – TEUR 175).

As of December 31, 2019 deposits with maturities of three months or less denominated in Russian rubles were TEUR 122,558, in Kazakh tenge was TEUR 691, in US dollar was 2,840, in euro was TEUR 2 (December 31, 2018: in Russian rubles – TEUR 120,492, in Kazakh tenge – TEUR 203, in US dollar – 1,489) and bear interest of 0.8%–6.7% (December 31, 2018: 1.1%–7.9%).

Bank deposits with maturities of more than three months denominated in US dollar were TEUR 4,551, in euro were TEUR 799 (December 31, 2018: in US dollar – TEUR 931) and bear interest of 0.4%–1.49% (2018: 1.6%–2.3%).

There was no significant cash restricted from use as of December 31, 2019 and December 31, 2018.

The cash and cash equivalents are held with bank and financial institution counterparties, which are rated Baa3 to B2, based on Moody's ratings as of December 31, 2019 (December 31, 2018: Ba1 to Ba2). The Group monitors changes in credit risk by tracking published external credit ratings and license 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 license of each financial institution.

The impairment losses for cash and cash equivalents accrued according to IFRS 9 comprised TEUR 147 (December 31, 2018: 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:

12/31/2019			12/31/2018		
No. of shares	Legal statutory value	Carrying amount	No. of shares	Legal statutory value	Carrying amount
48,850,000	EUR 1	TEUR 48,850	48,850,000	EUR 1	TEUR 48,850

The Company's share capital amounts to TEUR 48,850 (December 31, 2018: 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 January 16, 2015 Mr. Maurice Gregoire Dijols has directly and indirectly controlled a total of 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 (December 31, 2018: TEUR 111,987).

CURRENCY TRANSLATION RESERVE

Currency translation reserve comprises the following items:

TEUR	2019	2018
Foreign currency reserves at January 1	**218,545**	**171,033**
Net investments	(12,931)	16,460
Currency translation differences	(30,119)	31,052
Foreign currency reserves at December 31	**175,495**	**218,545**

The currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations and amounts to TEUR 30,119 for 2019 (2018: loss of TEUR 31,052).

Exchange differences and related income tax effect resulting from intragroup loans issued by the Company, which are part of a net investment, are recognized in other comprehensive income. In 2019 gain on net investments in foreign operations, net of related tax, amounted to TEUR 12,931 (2018: loss of TEUR 16,460).

15. CURRENT AND NON-CURRENT LIABILITIES

On September 30, 2019, the Company signed an amendment agreement for the loan of TEUR 116,303 that set interest at 3.41% above 6m EURIBOR rate and prolonged the maturity of the loan and accrued interest until December 31, 2023, interest accruing during the remaining term of the loan is payable at loan maturity date.

As of December 31, 2019 the non-current financial liabilities to Petro Welt Holding (Cyprus) Ltd. amounted to TEUR 119,298, including accrued but unpaid interest (December 31, 2018: TEUR 116,303).

Current liabilities comprise the following items:

TEUR	12/31/2019	12/31/2018
Trade payables	44,344	32,801
Other current liabilities	27,216	21,897
Contract liabilities	973	154
Income tax payables	697	972
Total	**73,230**	**55,824**

The trade payables include obligations of the Group to its suppliers in the amount of TEUR 44,344 (December 31, 2018: TEUR 32,801).

The reversal of the previously accrued tax provision (TEUR 500) was done through equity (as adjustment of the opening balance) in accordance with IFRIC 23, i.e. no restatement of comparative information.

Other current liabilities consist of the following items:

TEUR	12/31/2019	12/31/2018
Value added tax liabilities	6,267	5,461
Wages and salary liabilities	2,473	1,765
Unused vacations liabilities	9,053	7,342
Social insurance liabilities	1,138	775
Other tax liabilities	2,358	2,032
Property tax liabilities	32	227
Provisions for future losses	1,278	124
Other liabilities	4,617	4,171
Total	**27,216**	**21,897**

PROVISION FOR ONEROUS CONTRACTS

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

The provision for onerous contracts related to incomplete wells amounted to TEUR 1,278 (December 31, 2018: TEUR 124).

16. REVENUE

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 note 25).

Lease payments are mostly variable. The contracts are concluded for 1 up to 3 years and the payments are mostly variable and do not depend on index or rate.

The net book value of property, plant and equipment for which operating rent income has been recognized amounts to TEUR 88,398 as of December 31, 2019.

Disaggregated revenue 2019:

TEUR	Well Services and Stimulation	Drilling, Sidetracking, and IPM	Proppant Manufacturing	Total segments	Reconciliation	Group
External sales	139,586	147,652	11,186	298,424	-	298,424
Group sales	1,139	256	2,735	4,130	(4,130)	-
Total sales	**140,725**	**147,908**	**13,921**	**302,554**	**(4,130)**	**298,424**
Primary geographical markets						
Russia	133,859	147,908	10,244	292,011	(3,392)	288,619
Kazakhstan	6,866	-	738	7,604	(738)	6,866
CIS and Ukraine	-	-	913	913	-	913
Central African countries	-	-	2,026	2,026	-	2,026
Total sales	**140,725**	**147,908**	**13,921**	**302,554**	**(4,130)**	**298,424**
Major products/service lines						
Hydraulic fracturing	135,741	-	-	135,741	(1,139)	134,602
Sidetrack drilling	-	66,331	-	66,331	(54)	66,277
Conventional drilling	-	54,644	-	54,644	(202)	54,442
Cementing	3,193	-	-	3,193	-	3,193
Rent income (IFRS 16)	942	26,899	-	27,841	-	27,841
Sale of proppant	-	-	13,549	13,549	(2,735)	10,814
Other services	849	34	372	1,255	-	1,255
Total sales	**140,725**	**147,908**	**13,921**	**302,554**	**(4,130)**	**298,424**
Timing of revenue recognition						
Services transferred at a point in time	-	-	13,921	13,921	(2,735)	11,186
Short-term services	140,725	-	-	140,725	(1,139)	139,586
Services transferred over time	-	121,009	-	121,009	(256)	120,753
Rent income (IFRS 16)	-	26,899	-	26,899	-	26,899
Total sales	**140,725**	**147,908**	**13,921**	**302,554**	**(4,130)**	**298,424**

The revenue from contracts with customers amounted to TEUR 271,525 in 2019 (2018: TEUR 275,986).

Disaggregated revenue 2018:

TEUR	Well Services and Stimulation	Drilling, Side-tracking, and IPM	Proppant Manufacturing	Total segments	Reconciliation	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**

The following key assumptions were used when determining the stage of completion of wells not completed at the reporting date for the years ended December 31, 2019 and December 31, 2018:

Operational subsegment	Sidetrack drilling	Conventional drilling
Drilling, Sidetracking, and IPM	The stage of completion is determined based on the length actually drilled as of the reporting date or on the number of days actually worked on the well as of the reporting date.	The stage of completion is determined based on the number of days actually worked on the well as of the reporting date.

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

17. COST OF SALES

TEUR	2019	2018
Raw materials	79,008	81,089
Direct costs	75,675	59,479
Depreciation	37,688	40,157
Wages and salaries	47,396	39,286
Social tax	14,191	11,415
Other costs	6,160	4,477
Total	**260,118**	**235,903**

Direct costs amounting to TEUR 75,675 (2018: TEUR 59,479) comprise production services, transportation, repair and maintenance expenses.

The cost of sales does not include any expenses from discontinued operations (2018: nil).

18. ADMINISTRATIVE EXPENSES

	2019		2018	
TEUR	Continuing operations	Discontinued operation	Continuing operations	Discontinued operation
Wages and salaries (incl. remuneration for executive bodies)	13,389	-	12,828	-
Consulting fees	2,352	-	3,263	37
Tax expense	224	-	1,098	-
Social tax	2,605	-	2,639	-
Rent expense on an operating lease	927	-	1,123	-
Travel and entertainment expenses	763	-	571	-
Depreciation and amortization	325	-	240	-
Purchase of other materials	337	-	314	-
Services rendered	1,292	-	1,640	-
Bank fees	135	-	89	-
Training costs	51	-	48	-
Audit fees	745	-	543	-
Insurance	88	-	76	-
Maintenance costs	447	-	410	-
Other administrative expenses	231	-	29	-
Total	**23,911**	**-**	**24,911**	**37**

On July 1, 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:

TEUR	2019	2018
Audit	515	461

19. OTHER OPERATING INCOME

TEUR	2019	2018
Gain from disposal of property, plant and equipment	543	1,095
Income from reversals of written-down inventories	3	197
Income from prior periods	70	56
Income from reversals of written-down trade receivables	192	165
Income from penalties	526	422
Other income	847	654
Total	**2,181**	**2,589**

20. OTHER OPERATING EXPENSES

TEUR	2019	2018
Expenses for penalties	-	1,102
Loss from the disposal of property, plant and equipment	657	119
Write-down of trade receivables	3,418	471
Provision for doubtful debts, contract assets, cash and cash equivalents	699	124
Loss from inventory write-off and obsolescence provision	47	1,052
Impairment of goodwill	-	1,031
Other expenses	1,852	1,386
Total	**6,673**	**5,285**

21. NET FINANCE INCOME

TEUR	2019	2018
Interest income	9,808	8,429
Total finance income	**9,808**	**8,429**
Interest expenses	(3,725)	(3,837)
Loss from exchange rate differences	(970)	(429)
Total finance costs	**(4,695)**	**(4,266)**
Total net finance income	**5,113**	**4,163**

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

22. INCOME TAX

The tax rate for the Austrian companies in 2019 was 25% (2018: 25%), for the Russian subsidiaries 20% (2018: 20%) and for income taxable under tax law in Kazakhstan 20% (2018: 20%).

Until July 1, 2018 Petro Welt Technologies AG was the group parent of a tax group with the fully owned subsidiary Petro Welt Geodata GmbH. Upon the sale of Petro Welt GEODATA GmbH the tax group has been terminated.

Income tax expenses recognized in profit or loss are:

TEUR	2019	2018
Current tax expenses	5,498	6,284
Deferred tax expense (income) relating to the origination and reversal of temporary differences	354	(1,676)
Withholding tax	1,641	731
Income taxes from previous years	(241)	(929)
Current and deferred tax expenses	**7,252**	**4,410**

In 2019 the income tax contains withholding taxes of TEUR 1,641 (2018: TEUR 731) resulted from intragroup dividend. The rate for withholding tax on dividends in Russia was unchanged at 5%.

Amounts recognized in other comprehensive income were as follows:

	2019			2018		
TEUR	Before tax	Related tax	Net of tax	Before tax	Related tax	Net of tax
Net investments in foreign operations	14,968	(2,037)	12,931	(16,180)	(280)	(16,460)
Net gains/(losses) on remeasurement of defined benefit plans	(59)	12	(47)	131	(26)	105

Reconciliation of effective tax rate:

TEUR	2019	2018
Result before income taxes	12,663	15,256
Tax using the Russian tax rate (20%)	2,608	3,051
Effect of tax rates in foreign jurisdictions	(186)	(192)
Tax-free income	(67)	(235)
Non-deductible expenses	2,631	1,788
Change in unrecognized deferred taxes	-	(18)
Withholding tax on dividends and interest	1,641	731
Deferred tax liabilities for withholding tax on intra-Group dividend	660	-
Overprovided in previous years	(241)	(929)
Other effects	206	214
Current and deferred tax expenses	**7,252**	**4,410**
Current and deferred tax expenses according to the consolidated statement of profit or loss	**7,252**	**4,410**
Tax rate	**57.27%**	**28.91%**

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

	12/31/2019		Change in deferred taxes			01/01/2019	
TEUR	Deferred tax assets	Deferred tax liabilities	Recognized in profit or loss	Recognized in other compre-hensive income	Effect of movement in exchange rates	Deferred tax assets	Deferred tax liabilities
Tax loss carry-forwards	3,935	-	(1,158)	-	573	4,520	-
Deferred expenses/liabilities	3,150	(415)	(1,404)	-	514	3,625	-
Fixed assets/depreciation	-	(9,061)	1,756	-	(1,320)	-	(9,497)
Other	1,155	(1,372)	452	(688)	80	930	(991)
Netting	(5,509)	5,509	-	-	-	(6,784)	6,784
Total	**2,731**	**(5,339)**	**(354)**	**(688)**	**(153)**	**2,291**	**(3,704)**

	12/31/2018		Change in deferred taxes			01/01/2018	
TEUR	Deferred tax assets	Deferred tax liabilities	Recognized in profit or loss	Recognized in other compre-hensive income	Effect of movement in exchange rates	Deferred tax assets	Deferred tax liabilities
Tax loss carry-forwards	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)**

Due to amendments to the Russian tax legislation, starting from January 1, 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 of December 31, 2019 in the amount of TEUR 43,399 (December 31, 2018: TEUR 45,528) is not expected to be utilized in future. Deferred tax assets in the amount of TEUR 8,680 (December 31, 2018: TEUR 9,106) 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 utilize the benefits therefrom.

The amount of taxable temporary differences in connection with interests in subsidiaries for which no deferred tax liability was recognized is TEUR 75,659 (2018: TEUR 69,635), as the parent company is able to control when the temporary difference is reversed.

23. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

The Group provides lump sum benefits upon retirement or disability, lump sum benefits in case of relocation of an employee from the Far North regions to a new place of residence after employment termination, benefits to the jubilees of the employees, benefits in case of an employee's death and material support to the pensioners retired upon disability. Until May 1, 2019, OOO KATKoneft maintained a pension program for its employees. The employees became eligible for pension after having 7 years of service in the Company (2018: NPF "LUKOIL-GARANT"). All payments described below are provided to the employees for whom the Company of the Group is the main employer.

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 to as "Participants") was performed through the fund NPF "Otkrytiye" JSC ("the Fund") under the pension scheme no. 1 with a fixed amount of pension provided on a life-long basis.

OOO KATKoneft ("The Depositor") made pension contributions to the Fund in favor of the Participants. The Fund accumulated these pension contributions at the solidarity pension account. Upon retirement of a Participant, the pension liability of the Company was settled by transferring by the Fund of a 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 was determined by the Depositor. The Depositor informed the Fund about the amount of monthly non-government pension and the Fund calculated the amount of the present value of the non-government pension. The Fund used the mortality table of the Russian Federation for the year 1998 and 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 was insufficient to cover the present value of the Participant's non-government pension, the Fund did not award the pension but informed the Depositor about the need to transfer to the Fund the deficient amount of pension contributions.

In case of the 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 declarant.

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:

	2019			2018		
TEUR	Post-employment benefits	Other long-term employee benefits	Total	Post-employment benefits	Other long-term employee benefits	Total
Defined benefit obligation as of January 1	547	90	637	881	122	1,003
Included in profit or loss:						
Current service cost	23	15	38	62	18	80
Interest cost	24	8	32	54	7	61
Past service cost	(399)	-	(399)	(130)	(7)	(137)
Benefits paid	**(43)**	**(13)**	**(56)**	**(108)**	**(15)**	**(123)**
Included in other comprehensive income:						
Actuarial (gains)/losses, including:						
Financial assumptions	35	24	59	(54)	(12)	(66)
Demographic assumptions	-	-	-	-	-	-
Experience adjustments	-	-	-	(57)	(8)	(65)
Effect of movements in exchange rates	55	15	70	(101)	(15)	(116)
Defined benefit obligation as of December 31	**242**	**139**	**381**	**547**	**90**	**637**

ACTUARIAL ASSUMPTIONS

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

Assumptions	2019	2018
Discount rate	6.55%	8.78%
The growth rate of fixed payments	4.07%	4.1%
Tax rate	Varies from 21% to 30% depending on the Company	Varies from 20% to 25% depending on the Company
Employee turnover rates	Declines from 38% to 0% per year depending on year of service and gender	Declines from 41% to 0% per year depending on year of service and gender
Mortality	Mortality table of the Russian Federation for the year 2017, adjusted by 77%	Mortality table of the Russian Federation for the year 2016, adjusted by 77%

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

TEUR	Post-employment benefits	Other long-term employee benefits	Total
Duration, years	16.34	12.99	15.16

The next table represents the defined benefit plan payments expected in the next reporting period (2020):

TEUR	Post-employment benefits	Other long-term employee benefits	Total
Defined benefit plan payments expected in the next reporting period	68	16	84

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%	(9.1%)	(7.5%)	(8.5%)
Decrease in discount rate by 1%	11.2%	8.6%	10.3%
Increase in growth rate of fixed benefits by 1%	11.4%	8.8%	10.5%
Decrease in growth rate of fixed benefits by 1%	(9.4%)	(7.7%)	(8.8%)
Increase in mortality by 10%	(0.4%)	(0.7%)	(0.5%)
Decrease in mortality by 10%	0.4%	0.7%	0.5%
Increase in rate of employee's turnover by 1%	(7.7%)	(8.2%)	(7.9%)
Decrease in rate of employee's turnover by 1%	9.1%	9.4%	9.2

24. EARNINGS PER SHARE

The calculation of basic earnings per share at December 31, 2019 was based on the profit attributable to ordinary shareholders and a weighted-average number of ordinary shares.

TEUR		2019	2018
Common stock	thousand	48,850	48,850
Profit	TEUR	5,411	10,809
Earnings per share	EUR	0.11	0.22

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 and Stimulation – services for hydraulic fracturing (operated by OOO KATKoneft and TOO PWT Kazakhstan);
- Drilling, Sidetracking, and Integrated Project Management (IPM) – services for conventional drilling, sidetrack drilling (operated by OOO KAT-oil Drilling and OOO KATOBNEFT).
- Proppant Manufacturing (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 of and for the years ended December 31, 2019 and December 31, 2018 is presented below.

REPORTING SEGMENTS RESULTS FOR 2019

TEUR	Well Services and Stimulation	Drilling, Sidetracking, and IPM	Proppant Manufacturing	Total segments	Reconciliation	Group
External sales	139,586	147,652	11,186	298,424	-	298,424
Group sales	1,139	256	2,735	4,130	(4,130)	-
Total sales	**140,725**	**147,908**	**13,921**	**302,554**	**(4,130)**	**298,424**
Cost of sales	(126,055)	(128,878)	(7,968)	(262,901)	2,783	(260,118)
Administrative expenses	(5,871)	(9,460)	(1,432)	(16,763)	(7,148)	(23,911)
Selling expenses	-	-	(2,353)	(2,353)	-	(2,353)
Other operating income and expenses	(1,452)	(2,384)	123	(3,713)	(779)	(4,492)
Operating result	**7,347**	**7,186**	**2,291**	**16,824**	**(9,274)**	**7,550**
Finance income						9,808
Finance costs						(4,695)
Profit before tax						**12,663**
Income tax						(7,252)
Profit after tax						**5,411**
Segment depreciation and impairment losses	13,690	22,891	1,272	37,853	178	38,031
Segment assets	160,576	179,520	26,204	366,300	86,441	452,741
Segment liabilities	27,191	61,626	4,286	93,103	105,366	198,469
Capital expenditure	25,094	22,688	1,089	48,871	275	49,146

REPORTING SEGMENTS RESULTS FOR 2018

TEUR	Well Services and Stimulation	Drilling, Sidetracking, and IPM	Proppant Manufacturing	Total segments	Reconciliation	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.

Inter-segment revenue is eliminated on consolidation.

Major part of non-current assets of the Group is located in the Russian Federation.

Revenue is earned by the Group exclusively in Russia and Kazakhstan. The breakdown of revenue by geographical area and major customers is presented below:

TEUR	2019	%	2018	%
Russia				
Rosneft	84,855	28.43	128,248	46.47
LUKOIL	87,827	29.43	65,671	23.80
Slavneft	17,960	6.02	8,960	3.25
Gazprom Neft	31,075	10.41	16,232	5.88
Tomskneft	18,279	6.13	14,919	5.41
Russneft	15,556	5.21	17,336	6.28
Other customers	33,067	11.08	19,013	6,89
Total revenue within Russia	**288,619**	**96.71**	**270,379**	**97.97**
Kazakhstan				
Kazmunaygaz	5,150	1.72	1,571	0.57
Other customers	1,716	0.58	4,036	1.46
Total revenue within Kazakhstan	**6,866**	**2.30**	**5,607**	**2.03**
Other countries	**2,939**	**0.99**		
Total revenue	**298,424**	**100**	**275,986**	**100**

26. CONTINGENCIES

(A) LITIGATION

In the Company's lawsuit against the former board members Manfred Kastner, Ronald Harder and Leonid Mirzoyan (Commercial Court of Vienna file no.: 43 Cg 40/17f-54) for repayment of a total EUR 1,589,603.50, an interim judgment has been issued by the court in favor of the Company, which finds that the distribution of this amount to the Respondents was unlawful. On January 3, 2020 the respondents lodged appeal against this interim judgment. Should the appellate court confirm the interim judgment, then the lower court will move forward and decide on the counterclaim asserted by the respondents, which the Company is disputing both with regard to its merits and the amount of claim.

The Company has filed action against its former Prokurist, Edward Brinkmann, and a Company attributed to him (Majab Development LLC) before the Twentieth Judicial Circuit for Collier County in Florida (USA) for damage compensation due to fraud in connection with orders for equipment (file no. of court: 11:2018-CA-002531). The respondent Edward Brinkmann is accused of having purchased equipment, in particular in the US, at excessive prices for his own profit during his time with the Company. The lawsuit is only in the "discovery" phase, which allows each party to demand information from the other concerning facts and circumstances material to the charge of fraud. The discovery procedure will likely be completed by the end of 2020. The oral hearing is scheduled for February 10, 2021.

An investigation by the District Attorney's Office in Vienna for Economic and Corruption Matters ("WKStA") was pending against Anna and Edward Brinkmann for embezzlement. Private parties to the investigation are Petro Welt Technologies AG and Coraline Limited.

The WKStA office has closed this investigation. The private parties have filed objection to the closure and introduced a petition for its continuance; the petition asks the District Criminal Court in Vienna to order the WKStA to continue its investigation. It is expected that the court chamber now responsible for the matter will make a decision in this regard in the spring of 2020.

With regard to Dr. Höft who is also accused, the WKStA has also closed its investigation. We have not yet been provided with the grounds for the closure. Once we have received the grounds, we have 14 days in which to file a petition that the investigation be continued.

(B) TAXATION CONTINGENCIES

Taxation contingencies in the Russian Federation

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

The tax authorities have the power to impose fines and penalties for tax arrears. A tax year is generally open for review by the tax authorities during three subsequent calendar years. Currently the tax authorities are taking a more assertive and substance-based approach to their interpretation and enforcement of tax legislation.

Current Russian transfer pricing legislation requires transfer pricing analysis for the majority of cross-border intercompany and major domestic intercompany transactions. Starting from 2019, transfer pricing control, as a general rule, is applied to domestic transactions only if both criteria are met: the parties apply different tax rates, and the annual turnover of transactions between them exceeds RUB 1 billion.

The Russian transfer pricing rules are close to OECD guidelines, but have certain differences that create uncertainty in practical application of tax legislation in specific circumstances. A very limited number of publicly available transfer pricing court cases in Russia does not provide enough certainty as to the approach to applying transfer pricing rules in Russia. The impact of any transfer pricing assessment may be material to financial statements of the Group, however, the probability of such impact cannot be reliably assessed.

Russian tax authorities may review prices used in intragroup transactions, in addition to transfer pricing audits. They may assess additional taxes if they conclude that taxpayers have received unjustified tax benefits as a result of those transactions.

Russian tax authorities continue to exchange transfer pricing as well as other tax related information with tax authorities of other countries. This information may be used by the tax authorities to identify transactions for additional in-depth analysis.

In addition, changes aimed at regulating tax consequences of transactions with foreign companies have been introduced, such as the 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.

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 the reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant, but in the opinion of management will not be more than around up to 3.8% of revenue to customers.

Taxation contingencies in Kazakhstan

The taxation system in Kazakhstan is relatively new and is characterized 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 AMORTIZED COSTS

TEUR	12/31/2019	12/31/2018
Cash and cash equivalents	138,610	125,574
Bank deposits	5,350	931
Trade receivables	77,049	68,220
Receivables from related parties	362	362
Other receivables	2,605	1,676
Total	**223,976**	**196,763**

FINANCIAL LIABILITIES MEASURED AT AMORTIZED COSTS

TEUR	12/31/2019	12/31/2018
Long-term debts	119,298	116,303
Trade payables	44,344	32,801
Lease liabilities (short-term, long-term)	367	-
Other liabilities	4,616	4,171
Total	**168,625**	**153,275**

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, analyze 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:

TEUR	12/31/2019	12/31/2018
Cash and cash equivalents	138,610	125,574
Bank deposits	5,350	931
Trade receivables	77,049	68,220
Contract assets	14,556	8,696
Other receivables	2,527	1,616
Other long-term assets	78	60
Total	**238,170**	**205,097**

Management assesses the risks of non-repayment of receivables as the lowest in Russia and as 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 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, Slavneft, 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 geographical region was as follows:

TEUR	12/31/2019	12/31/2018
Russia	77,650	67,433
Kazakhstan	1,307	2,463
Total	**78,957**	**69,896**

The Group does not possess collateral and other credit enhancements in respect to trade and other receivables.

The ageing of financial assets was as follows:

TEUR	12/31/2019	12/31/2018
Neither past nor overdue	232,217	199,842
Past due 0–30 days	4,419	3,241
Past due 31–180 days	1,453	690
Past due over 180 days	81	1,324
Total	**238,170**	**205,097**

Management believes that the recognized amounts that are past due by more than 30 days are collectible in the recognized amount, 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 of December 31, 2019:

Equivalent to external credit rating by Moody's or Fitch	Carrying amount, TEUR	Estimated weighted-average loss rate, %	Impairment loss allowance, TEUR
Contract assets			
Baa2	8,391	0.01	1
Baa3	4,274	0.04	2
B (Fitch)	115	-	-
No rating	1,776	1.48	26
Total contract assets	**14,556**	**0.2**	**29**
Trade and other receivables			
Baa2	28,033	0.01	3
BBB (Fitch)	344	0.02	-
Baa3	30,979	0.04	12
BBB- (Fitch)	419	-	-
BB (Fitch)	5,796	0.76	44
No rating	14,083	4.22	594
Total trade and other receivables	**79,654**	**0.82**	**653**
Bank deposits			
Baa3	200	0.01	-
Ba3	5,150	0.21	11
Total bank deposits	**5,350**	**0.21**	**11**
Cash and cash equivalents			
A1	421	-	-
A3	114	-	-
BBB (Fitch)	8,685	-	-
Baa3	44,443	0.0113	5
Ba1	2,238	-	-
Ba2	19,167	0.04	8
Ba3	16,164	0.1064	17
B2	46,779	0.25	117
Caa1	525	-	-
Caa3	74	-	-
Total cash and cash equivalents	**138,610**	**0.106**	**147**
Total	**238,170**	**0.353**	**840**

As of December 31, 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 deposits			
A2	931	-	-
Total bank deposits	**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 IFRS 9 during the year was as follows:

	Individual impairments	
TEUR	**2019**	**2018**
Balance at the beginning of the year	**199**	**-**
Additions according to IFRS 9	699	199
Reversal/use	(82)	-
Foreign currency translation adjustments	24	-
Balance at the end of the year	**840**	**199**

The Group recognized individual provision for doubtful debts due to the deterioration of the financial situation of a number of clients amounting to TEUR 3,418 (2018: TEUR 471). 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. In general the Group considers a write-off of financial assets, when it determines that, based on an analysis of individual facts and circumstances, it is unlikely that the Group will collect the outstanding balance.

The Group held cash and cash equivalents of TEUR 138,610 at December 31, 2019 (December 31, 2018: TEUR 125,574), which represents its maximum credit exposure on cash and cash equivalents assets.

As of December 31, 2019 and December 31, 2018, 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 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 116,303. 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.

2019			Contractual cash flows			
TEUR	Carrying amount	Total cash flow	< 6 months	6–12 months	1–2 years	2–5 years
Non-derivative financial liabilities:						
Liabilities to Petro Welt Holding Limited (Cyprus)	119,298	134,334	-	-	-	134,334
Trade payables	44,344	44,344	44,344	-	-	-
Other current liabilities	4,616	4,616	4,616	-	-	-

2018			Contractual cash flows			
TEUR	Carrying amount	Total cash flow	< 6 months	6–12 months	1–2 years	2–5 years
Non-derivative financial liabilities:						
Liabilities to 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	-	-	-

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 resulting from financial assets and liabilities, which are denominated in a currency different from the functional currency was as follows (excluding intragroup balances):

TEUR	12/31/2019	12/31/2018
Euro		
Trade receivables	37	261
Trade payables and other liabilities	(407)	(577)
US dollar		
Trade receivables	1,350	103
Trade payables and other liabilities	(891)	(2,144)
Kazakh tenge		
Trade receivables	-	1,096
Trade payables and other liabilities	-	(356)
Russian ruble		
Trade payables and other liabilities	(182)	-

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	
TEUR	2019	2018	2019	2018
Euro denominated	(37)	(32)	3,549	3,557
US dollar denominated	46	(204)	-	-
Kazakh tenge denominated	-	74	-	-
Russian ruble denominated	(18)	-	-	-

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.

TEUR	2019	2018
Long-term payables	+/-359	+/-434

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 amounts 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 recognized 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 of December 31, 2019 and December 31, 2018 there were no any significant recognized 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 groupwide 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 profit 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 of December 31, 2019 the net debt-to-equity ratio was 9.6% (December 31, 2018: 13.0%).

TEUR	12/31/2019	12/31/2018
Liabilities to Petro Welt Holding Limited (Cyprus)	119,298	116,303
Trade payables	44,344	32,801
Other liabilities with the exception of accrued liabilities	4,616	4,171
Less: cash and cash equivalents	(138,610)	(125,574)
bank deposits	(5,350)	(931)
Net debt	**24,298**	**26,770**
Total equity	254,272	205,358
Net debt-to-equity ratio at December 31	**9.6%**	**13.0%**

The Group's rating by Moody's is Ba3 with a stable rating outlook (December 31, 2018: 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 2019 and 2018.

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, and note 12 Other current assets.

KEY MANAGEMENT REMUNERATION

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

Summary of the remuneration of management members in key positions:

	2019		2018	
TEUR	Salary and compensation	Bonus	Salary and compensation	Bonus
Yury Semenov, Management Board	885	690	1,096	470
Valeriy Inyushin, Management Board	346	302	349	230
Maurice Gregoire Dijols, Supervisory Board	35	-	35	-
Ralf Wojtek, Supervisory Board	35	-	35	-
Remi Paul, Supervisory Board	35	-	35	-

Members of the Management and Supervisory Boards have not received any loans or advance payment in 2019 (2018: nil).

The amount of bonus of Management Board members for 2018, paid in 2019 was as follows:

TEUR	2019	2018
Yury Semenov, Management Board	297	511
Valeriy Inyushin, Management Board	82	144

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 Supervisory Board;
- Remi Paul – Member of the Supervisory Board;
- Ralf Wojtek – Member of the Supervisory Board.

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

TEUR	2019	2018
Second level management salaries	1,490	1,909

OTHER RELATED PARTY TRANSACTIONS

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

	Transaction value		Outstanding balance		
TEUR	2019	2018	12/31/2019	12/31/2018	Transaction description
Subsidiaries					
Fairtune East Ltd., Moscow	225	357	22	33	Rental fee

30. EVENTS AFTER THE REPORTING DATE

On March 11, 2020, the World Health Organization declared the coronavirus outbreak a pandemic.

Due to lockdown and business disruption in many countries, current global oil demand has drastically decreased by about 20 million barrels per day or 20% leading to oversupply and sharp fall in oil prices, as well as a depreciation of the Russian ruble. On April 12, 2020, major global oil producers including Russia agreed to a record cut in crude oil production by 15.4 million barrels per day from May 1, 2020, to the beginning of May 2022 for stabilizing the oil market, which, however, has not been able to reverse the downward pressure on the oil market.

The Group operates in the oil field services sector that has not yet been severely affected by the outbreak of COVID-19. Over the last few weeks the Group's sales remained on its stable levels and its operations including supplies were not interrupted. Based on the publicly available information at the date these financial statements were authorized for issue, management has considered the potential development of the outbreak and its expected impact on the Group and economic environment, in which the Group operates, including the measures already taken by the Russian government and governments in other countries, where the Group's major business partners and customers are located.

In order to safeguard uninterrupted operating activities and the Group's liquidity position, management has implemented a number of measures, which include:

- implementation of work from home program for a significant group of administrative employees as well as employees in sales and procurement departments;
- operational employees in production department have been trained to adhere to very strict precautionary standards including social distancing;
- arrangements with alternative suppliers to ensure uninterrupted production process;
- adjustment of the scale of the Group's operations to respond to the possible decrease in demand for the services offered by the Group;
- financial modelling of PL 2020 for all business entities; its budgets will be adjusted in May 2020;
- cost cutting measures related to price pressure, further import substitution for spare parts etc.
- possible reduction in capital expenditure commitments within the following 12 months, related to unavoidable replacements of manufacturing equipment;

Taking into account the above mentioned measures and the Group's current operating indicators along with other currently available public information, management expects a 3–6% decrease in revenue, recognized in euro, during the second and third quarters of 2020 compared to the same period of 2019. Management believes that gradual recovery of operating indicators and growth of revenue of the Group will begin only during the first quarter of 2021. Despite the expected possible significant deterioration of the Group's financial performance during 2020, management reasonably assumes that the measures taken are sufficient to secure that the Group has adequate resources to continue its operations without significant disruptions.

In light of the COVID-19 crisis and the related developments in the global oil markets a short-term and mid-term outlook are subject to significant uncertainties. However, based on the Group's current operating performance, availability of liquid funds within the Group, access to additional liquidity if needed, and debt maturity profile, the Management Board does not consider the current situation to pose a significant risk to the Group's ability to continue as a going concern for the foreseeable future.

Vienna, June 3, 2020

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, June 3, 2020

Yury Semenov
Chief Executive Officer

Valeriy Inyushin
Chief Financial Officer

LEGAL NOTICE

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Petro Welt Technologies AG

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FINANCIAL CALENDAR 2020

— June 3, 2020
Publication of consolidated annual report 2019

— June 3, 2020
Publication of Q1 interim report 2020

— June 5, 2020
Analyst conference

— July 15, 2020
15th Annual Shareholders' Meeting

— August 20, 2020
Publication of half-year report 2020

— November 20, 2020
Publication of Q3 interim report 2020