

ROMPETROL WELL SERVICES S.A.

STAND-ALONE FINANCIAL STATEMENTS

Prepared in accordance with
Order of Minister of Public Finance no. 2844/2016

31 December 2017

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ROMPETROL WELL SERVICES S.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended as at 31 December 2017
(all amounts expressed in Lei ("RON"), unless otherwise specified)

	Notes	Date 31.12.2017	Date 31.12.2016
Turnover	2	39.997.068	31.106.110
Services performed		39.874.677	31.024.397
Sales of goods		122.391	81.714
Other operating income	3.1	252.599	32.954
OPERATING INCOME - TOTAL		40.249.667	31.139.065
Expenses with consumables		(11.345.721)	(7.315.658)
Power and water expenses		(182.838)	(420.929)
Merchandise expenses		(80.620)	(48.095)
Payroll costs, out of which:	5	(14.653.645)	(15.925.495)
Salaries		(11.906.949)	(12.946.893)
Social security contributions		(2.580.628)	(2.816.702)
Fixed assets value adjustment, of which		(6.172.280)	(8.618.926)
Depreciation		(6.172.280)	(6.970.205)
Current assets value adjustment	12,13,14	(182.878)	(363.378)
Expenses with third-party services	3.2	(6.441.774)	(5.463.874)
Taxes, duties and similar expenses		(726.248)	(633.988)
Provision adjustments, net	18,19	(46.053)	974.770
Other operating expenses	3.3	(514.490)	(968.740)
OPERATING EXPENSES - TOTAL		(40.346.547)	(38.784.313)
OPERATING RESULT		(96.881)	(7.645.248)
Interest income		2.541.486	1.890.865
- of which, revenues from related parties		2.531.720	1.883.967
Other financial income		294.913	434.820
FINANCIAL INCOME - TOTAL	4.1	2.836.399	2.325.686
Value adjustment in respect of financial investments		-	-
Other financial expenses		(267.779)	(398.708)
FINANCIAL EXPENSES - TOTAL	4.2	(267.779)	(398.708)
FINANCIAL RESULT		2.568.620	1.926.978
RESULT BEFORE TAX		2,471,740	(5,718,271)
Income tax expense	6	(29.294)	(102.290)
RESULT FOR THE YEAR		2.442.446	(5.820.561)
Earnings per share	7	0,0088	(0,0209)
Other comprehensive income		(352.345)	-
Actuarial gain / (losses) relating to retirement benefits		(352.345)	-
TOTAL COMPREHENSIVE INCOME		2.090.101	(5.820.561)

The Financial Statements from page 1 to page 41 were approved by the Board of Directors in 23 March 2018 and are signed in his name by:

Administrator,
STANESCU Adrian Ion

Signature
Company stamp



Prepared by,
DUMITRU Valerica
Economic Director

Signature

ROMPETROL WELL SERVICES S.A.
STATEMENT OF FINANCIAL POSITION
For the year ended as at 31 December 2017
(all amounts expressed in Lei ("RON"), unless otherwise specified)

	Notes	Date 31.12.2017	Date 31.12.2016
Assets			
Non-current assets			
Tangible assets	8	23.459.576	29.472.070
Real estate investments	9	525.813	544.416
Intangible assets	10	257.852	12.832
Financial assets	11	6.524.856	6.524.856
Other financial assets	12	22.034	973.165
Total non-current assets		30.790.131	37.527.339
Current assets			
Inventories	13	4.229.589	2.849.530
Trade and similar receivables	14	95.224.459	82.091.884
Profit tax receivable		257.842	2.370.643
Other current assets	15	181.351	264.465
Cash and deposits	16	3.513.305	6.573.982
Total current assets		103.406.545	94.150.504
Total assets		134.196.676	131.677.843
Capital and reserves			
Capital			
Share capital, of which:		28.557.446	28.557.446
Subscribed and paid in share capital	17.1	27.819.090	27.819.090
Share capital adjustments	17.2	738.356	738.356
Legal reserves		5.563.818	5.563.818
Other reserves		22.775.285	22.303.079
Retained earnings		44.732.606	51.377.718
Retained earnings IFRS transition		18.330.137	18.330.137
Current result		2.442.446	(5.820.561)
Total equity		122.401.738	120.311.638
Long-term liabilities			
Provisions	18	229.429	158.457
Employee benefits liabilities	19	864.721	486.999
Deferred tax liabilities	6	394.657	365.363
Other liabilities		40.518	6.664
Total long-term liabilities		1.529.326	1.017.483
Current liabilities			
Trade payables and similar liabilities	20	10.265.612	10.323.803
Provisions	18	-	24.919
Total current liabilities		10.265.612	10.348.722
Total liabilities		11.794.938	11.366.205
Total equity and liabilities		134.196.676	131.677.843

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Economic Director

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ROMPETROL WELL SERVICES S.A.
STATEMENT OF CHANGES IN EQUITY
For the year ended as at 31 December 2017
(all amounts expressed in Lei ("RON"), unless otherwise specified)

For the year ended as at 31 December 2016

	Share capital	Legal reserves	Other reserves	Retained earnings	Retained earnings IFRS transition	Current result	Total equity
Balance at 1 January 2016	28.557.446	5.563.818	22.303.079	81.000.357	18.330.137	(29.622.639)	126.132.198
Transfer to other reserves	-	-	-	(29.622.639)	-	29.622.639	-
Current result	-	-	-	-	-	(5.820.561)	(5.820.561)
Dividends	-	-	-	-	-	-	-
Balance at 31 December 2016	28.557.446	5.563.818	22.303.079	51.377.718	18.330.137	(5.820.561)	120.311.638

For the year ended as at 31 December 2017

	Share capital	Legal reserves	Other reserves	Retained earnings	Retained earnings IFRS transition	Current result	Total equity
Balance at 1 January 2017	28.557.446	5.563.818	22.303.079	51.377.718	18.330.137	(5.820.561)	120.311.638
Transfer to other reserves	-	-	824.551	(6.645.112)	-	5.820.561	-
Actuarial gain / (losses) relating to retirement benefits	-	-	(352.345)	-	-	-	(352.345)
Current result	-	-	-	-	-	2.442.446	2.442.446
Dividends	-	-	-	-	-	-	-
Balance at 31 December 2017	28.557.446	5.563.818	22.775.285	44.732.606	18.330.137	2.442.446	122.401.738

Retained earnings represent reserves constituted through the distribution of prior year profits, respectively the cover of prior year losses.

Other reserves represent reserves constituted on the bases of mandatory legislation, respectively reserves for actuarial elements according IAS 19.

Retained Earnings IFRS transition represent the retained earnings constituted on the first adoption of IAS, less IAS 29.

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Economic Director

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ROMPETROL WELL SERVICES S.A.
STATEMENT OF CASH FLOW
For the year ended as at 31 December 2017
(all amounts expressed in Lei ("RON"), unless otherwise specified)

Indirect method

Name of item	Financial year	
	Ended as at 31.12.2017	Ended as at 31.12.2016
<i>Cash flows from operating activities:</i>		
Net result before tax	2.471.740	(5.718.271)
<i>Adjustments for:</i>		
Depreciation and adjustments related to tangible assets	6,164,217	8.614.848
Depreciation and adjustments related to intangible assets	8,063	4.078
Movements in other provisions, net	228,931	(627.210)
Interest income	(2,541,486)	(1.890.865)
Loss / (profit) from tangible asset sales	(133,223)	178.350
Unrealized foreign exchange differences (Gain)/Loss	14,265	6.116
Operating profit before working capital changes	6,212,506	567.046
Decrease / (Increase) of trade and other receivables	(2.095.847)	969.762
Decrease / (Increase) of inventories	(1.457.370)	2.063.459
(Decrease) / Increase of trade and other debts	2.091.503	2.638.894
Paid income tax	-	-
Net cash flow from operating activities	4.750.793	6.239.161
<i>Cash flows from investments:</i>		
Payments for purchase of tangible and intangible assets	(258.996)	(1.047.014)
Receipts from sale of tangible and intangible assets	147.940	101.612
Received interest	2.586.560	1.882.381
Net cash from investments	2.475.504	936.979
<i>Cash flows from financing activities:</i>		
Decrease / (Increase) of cash pooling balance	(11.226.870)	(7.265.199)
Dividends paid	(11.234)	(45.473)
Net cash flows from financing activities	(11.238.104)	(7.310.671)
Net (decrease) / increase of cash and cash equivalents	(4.058.924)	(148.225)
Net foreign exchange differences	47.116	13.698
Cash and cash equivalents at the beginning of the financial year	7.547.147	7.681.678
Cash and cash equivalents at the end of the financial year	3.535.339	7.547.147
Cash included in collateral accounts	(2.049.003)	(5.817.165)
Cash and cash equivalents at the year-end excluding collateral accounts	1.486.335	1.729.982

Cash and cash equivalents include the long-term collateral deposits (see note 16 and 22).

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Economic Director

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ROMPETROL WELL SERVICES S.A.
NOTES TO FINANCIAL STATEMENTS
For the year ended as at 31 December 2017
(all amounts expressed in Lei ("RON"), unless otherwise specified)

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES

The financial statements of **ROMPETROL WELL SERVICES S.A.** for the financial year ended as at 31 December 2017 are authorised according to the resolution of the Board of Directors dated 23 March 2018.

Rompetro Well Services S.A. ("the Company") is a stock company, registered office located in Ploiesti, str. Clopotei, Nr. 2 bis, Romania. The Company is registered with registered with the Trade Register under the number J29/110/05.03.1991.

It was turned into a stock company named S.C. PETROS S.A. based on the Government Decision no. 1213 of November 1990, under the Law 15/1990, and operated under such name until September 2001 when its name was changed into **ROMPETROL WELL SERVICES S.A.**

The Company is part of the Group KazMunayGas International. The annual consolidated financial statements are prepared at the level of the parent company, KMG International NV, with the head office located in World Trade Center, Strawinskylaan 807, Tower A, 8th Floor, 1077 XX, Amsterdam, The Netherlands.

The ultimate parent of KazMunayGas International is the National Wealth Fund "Samruk-Kazyna" JSC, an entity based in Kazakhstan.

The main scope of business of **ROMPETROL WELL SERVICES S.A.** includes: special well operations, rent of special well tools and devices, other service provision. The Company provides services for both the domestic and foreign market. Its long history in both the domestic and the foreign oil industry makes it a competitive, reliable and serious partner for a large range of services:

- Primary and secondary cementing
- Acidizing and cracking services
- Sand-Control services (reinforcement and packing)
- Well nitrogen treatment services
- Well testing services
- Well lining services
- Drilling tools and instrumentation rental services

These annual stand-alone financial statements are public and available on www.petros.ro, on Investor Relations section.

The Company has a branch in Kazakhstan, Atyrau, 060003, str Moldagaliyeva 31/19.

The Company carries out similar activities through its subsidiary **ROMPETROL WELL SERVICES** registered in the Republic of Kazakhstan. The national functional currency is Tenge KZT. The reorganisation for crisis conditions into oil services industry assumed an analysis on geographical areas of operational efficiency for a period of multiple years. Matters connected to factors such as materials and human resources, contractual commitments and market particularity, lead to the proposal to renounce to the operational activity in Kazakhstan, and a consequence, to dissolve Company's Branch in Kazakhstan, proposal approved by General Extraordinary Meeting of the Shareholders on July 22nd, 2015. The process of effective closure is continuing.

ROMPETROL WELL SERVICES S.A.
NOTES TO FINANCIAL STATEMENTS
For the year ended as at 31 December 2017
(all amounts expressed in Lei ("RON"), unless otherwise specified)

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

As of December 31st, 2017 the financial position of the Kazakhstan Branch is as follows:

	Date
	31.12.2017
Tangible assets	-
Intangible assets	-
Inventories	-
Trade and similar receivables	163.488
Cash and deposits	408
Total assets	163.896
Other capital elements	158.182
Trade payables and similar liabilities	5.713
Total equity and liabilities	163.896

1.1. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

Starting the year ended on 31 December 2012, the financial statements of the Company are prepared in accordance with the Order no. 1286/2012 of the Ministry of Public Finance, the latest regulation being Order no. 2844/2016 of the Ministry of Public Finance, approving the accounting regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market. Such provisions are aligned with the requirements of the International Financial Reporting Standards adopted by the European Union, except for the provisions of IAS 21 - The Effects of Changes in Foreign Exchange Rates regarding the functional currency.

In order to prepare these financial statements, pursuant to the Romanian legal requirements, the functional currency of the Company is deemed to be the Romanian Leu (RON).

The financial statements of the Company are based on the historical cost principle. The stand-alone financial statements are presented in RON and all amounts are rounded up in RON unless otherwise specified.

The financial statements of the Company are prepared based on the going concern principle.

1.2. ACCOUNTING PRINCIPLES, POLICIES AND METHODS

a) The going concern principle

Considering the solid financial position of the Company and next year cash flow projections, the financial statements of the Company were prepared based on the going concern principle.

b) Foreign Currency Transactions

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss resulted from the re-conversion of non-monetary items is treated in line with the recognition of gain or loss upon the change in fair value (i.e., the exchange rate differences on items whose fair value gain or loss is recognised in Other elements of global earnings, or the profit or loss are also recognised in Other elements of global earnings, profit or loss, respectively).

The exchange rates used to translate the balances denominated in foreign currency as at 31 December 2017 were, for RON:

	<u>31 December 2017</u>	<u>31 December 2016</u>
1 EUR	4,6597	4,5411
1 USD	3,8915	4,3033

For the indicators of the subsidiary in Kazakhstan, the KZT/USD and then the USD/RON conversions are used, the exchange rate for KZT being:

	<u>31 December 2017</u>	<u>31 December 2016</u>
1 USD	332,33	333,28

c) Financial Instruments

A financial instrument is any contract which produces a financial asset for a company and a financial liability or equity instrument for another entity. The Company's financial assets include cash and cash equivalents, trade receivables and other receivables (including loans to related parties) and financial investments. The Company's financial liabilities include trade liabilities and other liabilities. The accounting policies for the recognition and measurement of each item are described in this note.

Initial and subsequent measurement

Financial assets and liabilities are initially measured at fair value. Transaction costs which are directly attributable to acquisition or issuance of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added at initial recognition or deducted from the fair value of respective financial asset or liability, as the case may be.

For purposes of subsequent measurement, financial assets are classified in two categories:

- Receivables and loans at fair value through profit or loss; and
- Trade payables and other liabilities

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

Receivables and loans

This category is the most relevant to the Company. Receivables and loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Trade payables and other liabilities

Trade payables and other liabilities are subsequently measured at amortized cost, using the effective interest rate. The effective interest method is a method to calculate the amortized cost of a financial liability and to allocate interest expenses from the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial liability (including all paid or received commissions which are part of the effective interest rate, transaction costs and other bonuses or discounts) or (if the case) a shorter period, to the net carrying amount from the initial recognition.

Derecognition

A financial asset is primarily derecognised when:

- The rights to receive cash flows from the asset have expired;
or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

d) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or several events occurred after the initial recognition of that asset and that loss-causing event has an impact on the estimated future cash flows of the financial asset or the group of financial assets than can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, contractual or interest or principal payment default, the probability that they will enter in bankruptcy or other financial reorganization and there is information showing a measurable decrease on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

e) Property, plant and equipment

Property, plant and equipment are stated at cost less cumulative depreciation and, if the case, less loss from impairment, in the financial statements of the Company.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put to operation, such as repairs and maintenance are charged to the profit and loss statement in the period in which the costs are incurred. In cases where it can be proved that expenses have increased the future economic benefits obtained from the use of intangible assets besides the standard evaluation of its performance, the expenditure is capitalized as additional costs of the property, plant and equipment.

Construction in progress represents plant and properties under construction and is stated at cost, less any impairment loss. This includes the cost of construction and other direct costs. Depreciation of these and other assets is registered starting with the date when they are ready to be used for the activity they are intended for.

Depreciation for property, plant and equipment except land and construction in progress is computed using the straight-line method over the following estimated useful lives:

Buildings and other constructions	5 - 60 years
Machinery and other equipment	3 - 27 years
Vehicles	3 - 15 years

The useful life and methods of depreciation of intangible assets are revised at each fiscal year end and adjusted prospectively, if the case.

When assets are sold or disposed of, their cost and related accumulated depreciation are removed and any income or loss resulting from their output is included in the profit or loss account.

f) Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are disclosed at their historical cost less the provisions for depreciation and impairment. Depreciation of investment properties is computed using straight-line method through their useful life of between 35 and 40 years.

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

For the purpose of disclosure, fair values are consequently assessed by an accredited external, independent valuator, by applying a valuation model recommended by the International Valuation Standards Committee. The revaluation will be performed at least every 3 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change of use. If an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change of use.

g) Intangible assets

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

- Intangible assets consist mainly of software and licenses and are amortized on a straight-line basis over 3 to 5 years.
- The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where it is considered necessary. External and internal costs specifically associated with the maintenance of already existing computer software programmes are expensed as incurred.

h) Financial assets

Financial assets represent strategic long term investments and are recorded at historic cost less possible adjustments for loss of value. Main indicators taken into consideration when identifying a depreciation, are current and forecasted results of the respective company, in the context of the industry in which it operates.

Additional details on financial assets are presented in Note 11.

i) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have undergone an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the respective asset belongs.

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted already.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is stated at its revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss is reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

j) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed partially or totally, the reimbursement is recognized as a separate asset, but only when the reimbursement is certain. The expense related to any provision is presented in the profit and loss statement net of any reimbursement. If the effect of the time value of money is material, the provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest cost.

Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

k) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs representing the difference between the total leasing commitments and the fair value of the assets acquired are charged to the consolidated profit and loss statement throughout the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

Leased assets are depreciated over their useful life. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

l) Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost comprises the acquisition cost and other costs that have been incurred in bringing the inventories to their present location and condition and is determined by weighted average method for all the inventories.

m) Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less the impairment adjustments. The receivable has to be adjusted if there is evidence on financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency. The adjusting amount represents the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate.

n) Cash and cash equivalents

Cash includes petty cash, cash at banks and cheques in course of being cashed. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash in less than a year to maturity from the date of acquisition and that are subject to an insignificant risk of devaluation.

o) Revenue recognition

Revenue are valued at the fair value of the sale of goods and services, net of value-added tax, excise duties and other sales taxes, rebates and sales discounts. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. In an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not recognized as revenue, but revenue is recognised as the amount of the fee.

The following specific recognition criteria must be met before revenue is recognized, if the entity:

- ▶ Has primary responsibility for providing the goods or services
- ▶ Bears the risks related to inventories
- ▶ Has discretion in establishing prices
- ▶ Bears the credit risk.

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

In addition:

- Sales of goods are recognized when delivery has taken place and transfer of risks and rewards has been completed.
- Revenue from rendering services is recognized when services are rendered. Revenues from rendering services include mainly primary and secondary cementing services, acidizing and fracturing services, Sand Control services (consolidating and gravel packing), nitrogen treatment services of wells, wells testing services, casing running services and rental of drilling tools and equipment. Render of services as core activity is finalised in maximum 30 days.
- Interest incomes are recognised periodically, based on principal and using the effective interest rate.
- Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

p) Retirement benefit costs

Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Company pays fixed contributions into the state-managed fund and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior period. The contributions are charged as an expense in the same period when the employee service was rendered.

Under the provisions of the collective labour agreement, employees are entitled to specified retirement benefits, payable on retirement, if they are employed with the Company at the date of their retirement. These amounts are estimated as of the reporting date, based on: applicable benefits provided in the agreement, the Company headcount and specific actuarial estimates (Note 19). The defined benefit liability as of reporting date comprises the fair value of the defined benefit obligation and the related service cost recorded in the profit and loss statement. All actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur for all defined benefit plans. Actuarial gains and losses recognized in other comprehensive income are presented in the statement of comprehensive income.

The Company has no other liabilities with respect to future pension benefits, health and other costs for its employees.

q) Taxes

- *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the profit and loss statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

- *Deferred tax*

Deferred tax is recorded using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- ▶ Where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- ▶ The deductible temporary differences associated with investments in subsidiaries and related parties and interests in joint ventures, when the reversal of such temporary differences can be controlled and likely not to be reversed in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused losses and tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- ▶ Where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- ▶ In case of deductible temporary differences associated with investments in subsidiaries and related parties and interests in joint ventures, the deferred tax asset is recognised only when the temporary differences are likely to be reversed in a foreseeable future and when there can be a taxable profit for which temporary differences may be used.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced consequently to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted until the end of the reporting period.

Deferred tax relating to items recognized off the profit and loss statement is recognized off the profit or loss account. Deferred tax items are recognized depending on the nature of the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and are collected by the same tax authority.

- Revenue related taxes

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- ▶ Where the sales tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the sales tax is recognized as part of the acquisition cost of the asset or as part of the expense item as the case may be.
- ▶ Receivables and payables whose taxes are included in their amount.

The net amount of sales tax recoverable from, or payable to, the tax authority is included in the receivables or payables in the balance sheet.

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

r) Dividends

Dividends are recorded in the year in which they are approved by the shareholders.

s) Contingent assets and liabilities

Contingent liabilities are not recognized in the consolidated financial statements. They are however disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

1.3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's stand-alone financial statements requires the management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the balance sheet date. The estimates and associated assumptions rely on the historical experience and other factors that are considered to be relevant. However, uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying amount of the assets or liabilities in the future periods.

The estimates and assumptions that accounting judgements rely on are subject to constant review. Revisions to accounting estimates are recognized in the period in which the estimate is revised if such revision only affects that period or in the period of the revision and future periods if such revision affects both current and future periods.

The matters presented below are considered to be paramount in understanding the judgments that are involved in preparing these statements and the uncertainties that could impact the amounts reported in the results of operations, financial position and cash flows.

(i) Carrying value of trade receivables

The Company assesses the requirement for an allowance for impairment in trade and other receivables at each balance-sheet date. The management uses its judgment, based on the nature and extent of overdue debtors and historical experience, in order to estimate the amount of such an allowance. The allowance is recognized where there is objective evidence that a particular trade receivable or a group of trade receivables have impaired.

(ii) Depreciation of tangible assets and investment properties

The Company analyses at each reporting date if there are indicators of impairment of tangible assets and investment properties. If indicators are identified, or if an impairment test is required by accounting regulation, the accounting value of the main fixed assets and investment properties is revised for possible allowances for impairment, while all assets are analysed each time when events or changes in market or industry indicates the fact that the accounting value of these assets can't be recovered. If for these assets are necessary allowances for impairment, the accounting value for these assets is adjusted to the recoverable amount, which is determined as the highest between fair value less cost to sale and the amount based on discounted future cash flows. The allowances for impairment are reversed only in the case when the events or circumstances that determined the initial impairment have changed. The discounted cash flows are determined based on Company's management estimation as regards to contracts and future projects concluded at the date of evaluation or estimated to be contracted in the future closely linked to market conditions. Other factors that might lead to changes in estimations could include restructuring plans or changes in legislation.

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1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

The recoverable amount is sensitive to the discount rate applied to discounted cash flows, as well as to the inputs of cash flows and the growth rate estimated for the analysis period.

At 31 December 2017, the Company has an impairment for non-current assets in amount of 5.502.016 lei, recorded in previous years.

In 2017 the Company didn't considered necessary to record a supplementary impairment for the technological equipment used under full capacity.

The key assumptions used in order to determine the fair value of assets are explained below

In order to obtain the fair value of tangible assets it was determined using the discounted cash flow method for the remaining useful life of around 7 years as of 31 December 2017. At the end of the period it was estimated a residual value of tangible assets at the level of net book value.

Significant estimates of the Company applied in the model are:

- Operational earnings
- Discount rate

The next table presents the operational profit rate applied to revenues as it was estimated by Company's management:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Rompetro Well Services SA	<u>8.81%</u>	<u>10.87%</u>	<u>12.94%</u>	<u>14.18%</u>	<u>15.37%</u>	<u>16.54%</u>	<u>17.90%</u>

The discount rate applied in the model was 13,97% representing the average for the industry of oil related services.

During the analysis, a threshold of 9,5 million lei was identified, so that the management of the Company didn't considered necessary to record an additional impairment for technological equipment.

The discount rate reflects the current assessment of the market risk for Company. The discount rate was estimated based on weighted average cost of capital for the industry. This rate was corrected in order to reflect the market assessment of certain industry risks for which future cash flows were not adjusted.

Sensitivity of estimates

Minimum profitability threshold is obtained by decreasing with 40.7% the operational profit, obtaining the following operational profit rates.

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Rompetro Well Services SA	<u>5.22%</u>	<u>6.44%</u>	<u>7.67%</u>	<u>8.41%</u>	<u>9.12%</u>	<u>9.81%</u>	<u>10.61%</u>

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

1.4 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Company has identified no impact from application of this amendment.
- **IAS 7: Disclosure Initiative (Amendments)**
The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Company has no impact from application of this amendment.
- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. The Company has no impact from application of this amendment.
- **IFRS 12 Disclosure of Interests in Other Entities:** *The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.*

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

1.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

- **IFRS 9 Financial Instruments**

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company has performed a detailed impact assessment of all three aspects of IFRS 9.

This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Company expects an increase in the loss allowance resulting in a negative impact on equity as detailed below.

a) Classification and measurement

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria under IFRS 9, therefore reclassification for these instruments is not required

b) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. The Company has determined that the loss allowance for trade receivables will increase by 277.356 lei, with a corresponding decrease of deferred tax liabilities of 44.377 lei.

The impact on equity (increase/(decrease)) at 31 December 2017:

	<u>RON</u>
Trade and similar receivables	<u>(277.356)</u>
Total current assets	<u>(277.356)</u>
Deferred tax liabilities	<u>44.377</u>
Total long term liabilities	<u>44.377</u>
Total impact on equity	<u>(232.979)</u>

- **IFRS 15 Revenue from Contracts with Customers**

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

The Company plans to adopt the new standard on the required effective date using the modified retrospective method. During 2017, the Company performed a preliminary assessment of IFRS 15 and did not identify a significant impact that will affect financial statements.

The Company analysed the main revenue streams by applying the "five steps" model prescribed by IFRS 15:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Based on the results of review of contractual terms of principal types of contracts, the Company concluded that IFRS 15 will not have a significant impact compared with current revenue recognition.

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The Company considers that these amendments will have no impact on the financial position or the performance of the Company.

- **IAS 40: Transfers to Investment Property (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company.

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

- **IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration** The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The Company has evaluated the impact of this amendment on the financial position or performance and considers that will have no material impact.

- **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company.
 - **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
 - **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- **IFRIC Interpretation 23: Uncertainty over Income Tax Treatments**
The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company.

- **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company.
 - **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
 - **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

1. INFORMATION ON THE ENTITY, ACCOUNTING POLICIES (continued)

- **IAS 23 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.
- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)** The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Company is in the process of assessing the impact of this amendment to the financial position or performance of the Company.

2. TURNOVER

Below there is an analysis of Company's revenues:

	<u>Sales in 2017</u>	<u>Sales in 2016</u>
Service revenue	39.874.677	31.024.397
Revenue from goods sold	122.391	81.714
Total	<u>39.997.068</u>	<u>31.106.110</u>
	<u>Sales in 2017</u>	<u>Sales in 2016</u>
Export		
Europe	505.976	-
Total export	505.976	-
Internal market sales	39.491.092	31.106.110
Total sales	<u>39.997.068</u>	<u>31.106.110</u>

The well services market in Romania continued to be negatively impacted in the first half of the year by the significant reduction of operational and investment plans of our customers, determined by a high volatility of crude oil price. However, in the second half of year 2017, it was recorded a gradual and constant increase of the operational activity, through relaunch of investment projects in Upstream area.

The Company does not consider it exists significant operating segments that needs to be presented in accordance with IFRS 8 Operating segments.

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3. OTHER REVENUES AND OTHER EXPENSES

3.1. Other operating revenues

In the table below other operating revenues are being detailed depending on their nature:

	<u>2017</u>	<u>2016</u>
Other operating revenues :		
- earnings from sale of waste	100.205	-
- earnings from disposal of fixed assets	133.223	-
- other revenues	19.170	32.954
Total	<u>252.599</u>	<u>32.954</u>

3.2. Expenses with third-party services

In the table below expenses for third party services are being detailed depending on their nature:

	<u>Fiscal period completed at 31.12.2017</u>	<u>Fiscal period completed at 31.12.2016</u>
Royalties and rental expenses	227.466	125.056
Bank commissions and similar charges	32.347	28.349
Insurance premiums	465.713	482.399
Commissions and fees	-	45.911
Maintenance and repair expenses	497.203	301.323
Postage and telecommunications	57.594	63.809
Travel expenses	781.656	473.121
Entertaining, promotion and advertising	15.686	20.952
Other third party services, from which:	4.364.109	3.922.953
Security services	490.610	739.303
Externalised activities services	1.333.590	941.883
Consultancy and audit	252.633	129.789
Management services	385.102	390.822
Goods transportation services	1.437.197	1.225.256
Others	464.976	495.902
Total	<u>6.441.774</u>	<u>5.463.874</u>

The weight of these expenses in the structure of the operating costs is specific to the main activity, regarding the service delivery at the headquarters of the beneficiaries with auto type equipment and the flexible adaptability to the current market conditions.

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3. OTHER REVENUES AND OTHER EXPENSES (continued)

3.3. Other operating expenses

In the table below other operating expenses are being detailed depending on their nature:

	Fiscal period completed at 31.12.2017	Fiscal period completed at 31.12.2016
Compensations, fines, penalties	514.475	38.006
Obsolete inventory	-	751.682
Other operating expenses	15	179.052
Total	514.490	968.740

As a result of ongoing process of branch closure, the Company recorded in 2016 the write-off of non-repatriated inventories of the branch, which had a gross accounting value of 751.682 lei. Net impact in the profit or loss account was of 20.536 lei (Note 13). Another consequence of closure process of the Branch, was the recording in 2017 of an amount of 499.025 lei representing additional debts with corresponding accessories, for period 2011-2016.

4. FINANCIAL EXPENSES AND REVENUES

4.1. Financial revenues

	2017	2016
Interest income, from which:	2.541.486	1.890.865
Income obtained from the entities within the group	2.531.720	1.883.967
Income from exchange rate differences	293.173	434.820
Other financial income	1.740	-
Total financial income	2.836.399	2.325.686

4.2. Financial expenses

	2017	2016
Expenses from exchange rate differences	252.612	398.708
Other financial expenses	15.167	-
Total financial expenses	267.779	398.708

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5. EXPENSES WITH EMPLOYEES

The expenses with salaries and taxes, recorded during 2017 and 2016 are as follows:

	Fiscal year completed on 31 december 2017	Fiscal year completed on 31 december 2016
Expenses related to salaries and allowances	11.906.949	12.946.893
Other expenses with employees benefits	166.068	161.899
Expenses related to the social insurances	772.999	820.609
Contributions to the savings fund for retirement	1.807.629	1.996.093
Total	14.653.645	15.925.495

In the reporting period, the average number of employees decreased from 183 at 31.12.2016 to 164 employees at 31.12.2017.

The average number of employees has evolved as follows:

	Fiscal year completed on 31 december 2017	Fiscal year completed on 31 december 2016
Management personnel	3	3
Administrative personnel	20	20
Production personnel	141	160

The Administrators and Managers

During 2017 and 2016, the Company has paid the following allowances to the members of the Board of Directors and to the directors:

	Fiscal year completed on 31 december 2017	Fiscal year completed on 31 december 2016
The Members of the Board of Directors	308.452	311.895
Directors	1.096.743	916.111
Total	1.405.195	1.228.006

On 31 December 2017, the Company has had no obligations regarding the payment of the retirement money to the former members of the Board of Directors and of the executive management.

At the end of 2017, the Company had no advance payments to be reimbursed to the members of the executive management and there were also no guarantees of future obligations taken over by the company under the name of the Managers or Administrators.

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6. INCOME TAX

Main components of income tax expenses for fiscal years ended as of 31 December 2017 and 2016 are:

Statement of profit and loss

	2017	2016
<i>Current income tax:</i>		
Expenses regarding the current income tax	-	-
<i>Deferred income tax</i>		
For the initial registration and continuation of the temporary differences	29.294	102.290
Expenses regarding the income tax reported in statement of total comprehensive income	29.294	102.290

Reconciliation between the expenses regarding the current income tax and the deferred income tax and the accounting profit is as follows for fiscal years 2017 and 2016:

	2017	2016
Accounting result before tax	2.442.446	(5.820.561)
At Company's statutory income tax rate of 16% (2016: 16%)	390.791	(931.290)
Effect of value adjustments from non-taxable incomes	(20.680)	(342.764)
Effect of value adjustments from items similar to revenues	162.635	-
<i>Non-deductible expenses for tax computation:</i>		
Depreciation of current assets	40.808	189.281
Depreciation tangible assets	11.356	313.760
Other non-deductible expenses	143.553	240.486
Reinvested profit	-	-
Fiscal credit	-	-
Effect of fiscal loss carried forward	(728.462)	530.527
Expenses with current income tax at effective rate 0% (2016: 0%)	-	-
Expenses with income current and deferred tax reported in statement of profit and loss	29.294	102.290

Deferred income tax

The deferred income tax refers to the following:

	Statement of the financial position		Profit and Loss Statement	
	31.12.2017	31.12.2016	2017	2016
Revaluation of assets with reserve transfer to retained earnings (at transition to IFRS)	(892.673)	(924.830)	32.158	35.594
Recognition of the estimates bonuses for the participation of the employees to the profit	-	-	-	-
Recognition of estimates for retirement benefits	-	19.662	(19.662)	(36.453)
Recognition of estimate for commercial litigation	-	-	-	-
Recognition of estimate for restructuring cost	-	3.987	(3.987)	(111.524)
Recognition of estimate for outstanding vacation days	11.356	15.875	(4.519)	15.420
Temporary adjustment receivables	486.660	519.943	(33.284)	(5.328)
(Expenses regarding) /Income from the deferred tax	498.015	559.467	(29.294)	(102.290)
Assets regarding the deferred tax	(892.673)	(924.830)	-	-
Liabilities regarding the deferred tax	(394.657)	(365.363)	-	-
Assets / (Liabilities) regarding the deferred tax, net	-	-	-	-

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6. INCOME TAX (continued)

The Company recorded a fiscal profit of 4.552.890 lei in fiscal year ended at 31 December 2017 (2016 fiscal loss: 4.571.025 lei). The cumulative carried forward fiscal losses are in amount of 18.135 lei at 31 December 2017, coming from fiscal years 2017 and 2016, available for compensation against future profits for a period of 7 years.

As of 31 December 2017, the Company has utilized fiscal losses in amount of 4.552.890 lei, total carried forward fiscal losses as of 31 December 2017 being in amount of 18.135 lei (2016: 4.571.025 lei).

7. EARNINGS PER SHARE

The value of earning per share is calculated by dividing the net profit of the year attributable to shareholders by the weighted average number of shares outstanding during the period.

The following report present the net profit and the number of shares used in computing earnings per share:

	<u>On 31.12.2017</u>	<u>On 31.12.2016</u>
Net result attributable to shareholders	2,442,446	(5.820.561)
Weighted average number of shares	278,190,900	278.190.900
Earnings per share (lei/share)	0.0088	(0,0209)

There was no issue or cancellation of shares between the date of the report and the date of the presentation of the financial statements.

8. TANGIBLE ASSETS

	<u>Land</u>	<u>Buildings and special constructions</u>	<u>Technical equipment and machinery and other tangible assets</u>	<u>Tangible assets in progress</u>	<u>Total</u>
Cost or evaluation					
On 1 January 2016	5.585.846	6.716.653	100.678.603	1.700.653	114.681.755
Additions	-	15.887	2.119.887	435.120	2.570.894
Disposals and transfers	-	350.030	1.972.111	2.135.773	4.457.914
On 31 December 2016	5.585.846	6.382.511	100.826.378	-	112.794.735
Additions	-	-	60.173	145.380	205.553
Disposals and transfers	-	-	2.873.381	57.717	2.931.098
On 31 December 2017	5.585.846	6.382.511	98.013.170	87.663	110.069.190
Depreciation and Impairment					
On 1 January 2016	-	1.884.224	74.885.229	-	76.769.455
Depreciation charge for the year	-	289.967	6.657.555	-	6.947.522
Disposals	-	318.734	1.724.298	-	2.043.032
Impairment	-	(12.080)	1.660.800	-	1.648.721
On 31 December 2016	-	1.843.377	81.479.287	-	83.322.664
Depreciation charge for the year	-	281.749	5.863.865	-	6.145.614
Disposals	-	-	2.858.664	-	2.858.664
Impairment	-	-	-	-	-
On 31 December 2017	-	2.125.126	84.484.487	-	86.609.614
Net accounting value					
On 31 December 2017	5.585.846	4.257.384	13.528.683	87.663	23.459.576
On 31 December 2016	5.585.846	4.539.133	19.347.091	-	29.472.070
On 1 January 2016	5.585.846	4.832.429	25.793.374	1.700.653	37.912.300

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8. TANGIBLE ASSETS (continued)

Out of the projects put into function during 2017, in amount of 60.173 lei, we can mention the following: tank loading frame, miscellaneous IT equipment. The company provided for own capital sources in order to fully realise the investment budget for 2017.

The Company is performing an annual assessment in order to identify potential indicators for impairment of tangible assets, considering specific characteristics of these assets and taking into account estimates of future cash flows generated by the respective assets.

In year 2017 the Company did not considered necessary to update the impairment for technological equipment used under their full capacity. The impairment recognised during 2016 was of 1.961.000 lei. The fair value of this equipment was determined based on discounted cash flows estimated to be generated by the assets.

As a result of the ongoing process of branch closure, the Company recorded in year 2016 the disposal of branch's assets, which had a net accounting value of 279.962 lei.

All presented tangible assets are the property of the company.

9. INVESTMENT PROPERTIES

The company has an apartment block in Câmpina and two apartments in Timișoara, held with the exclusive target to obtain income from rents. These are being classified as investment properties.

	<u>2017</u>	<u>2016</u>
Initial balance on January 1st	544.416	563.012
Depreciation expenses	<u>(18.603)</u>	<u>(18.597)</u>
Ending balance on December 31st	<u>525.813</u>	<u>544.416</u>

	<u>2016</u>	<u>2016</u>
Income from rents obtained from real estate investments	6.938	8.689
Direct operational expenses (including repairs and maintenance) which generate income from rents	<u>(31.540)</u>	<u>(29.294)</u>
Net result from real estate investments recorded at costs	<u>(24.603)</u>	<u>(20.605)</u>

At 31 December 2017, the fair values of the properties are based on the evaluation made at 31 December 2016, by S.C. QUEST PARTNERS S.R.L., a recognised independent evaluator. In year 2017, the real estate market in the area where the properties are located did not varied significantly in order to give a material impact on their fair value.

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10. INTANGIBLE ASSETS

	Patents and licences	Intangible assets in progress	Total
Costs			
On 1 January 2016	622.343	-	622.343
Additions	333	333	667
Disposals and transfers	(3.425)	(333)	(3.759)
On 31 December 2016	619.251	-	619.251
Additions	-	253.083	253.083
Disposals and transfers	253.083	(253.083)	-
On 31 December 2017	872.334	-	872.334
Amortisation and impairment			
On 1 January 2016	604.902	-	604.902
Amortisation	4.088	-	4.088
Disposal	(2.573)	-	(2.573)
On 31 December 2016	606.418	-	606.418
Amortisation	8.063	-	8.063
Disposal	-	-	-
On 31 December 2017	614.481	-	614.481
Net accounting value			
On 31 December 2017	257.852	-	257.852
On 31 December 2016	12.833	-	12.833
On 1 January 2016	17.441	-	17.441

In year 2017, the Company put into function a specific software for the main activity, used for design, simulate and optimize of cementing operations.

11. FINANCIAL ASSETS

Name of the company	Nature of the relationship	Year of investment	Percent detained on		Value of the investment on	
			31.01.2016	31.12.2017	31.12.2016	31.12.2017
Romp petrol Logistics S.R.L.	Long term investment	2002/2003/2007	6,98%	6,98%	5.580.056	5.580.056
Romp petrol Rafinare S.A.*	Long term investment	2003/2004	0,05%	0,05%	944.700	944.700
Romp petrol Drilling S.R.L.	Long term investment	2014	1%	1%	100	100
Adjustment for value					-	-
Total					6.524.856	6.524.856

(*Company listed on Bucharest Stock Exchange under RRC symbol)

The investment on Rompetrol Logistics S.R.L. is presented at cost since the accuracy of presentation at fair value for this unlisted company would have been influenced by a series of elements hard to quantify. Based on Management's analysis, there is no evidence of depreciation for the investment in Rompetrol Logistics S.R.L.

The evaluation of the titles held in the Bucharest Stock Exchange listed company under symbol RRC, was made using the share price published by BSE on its web page on the last transaction day from 2017. Based on this evaluation there was no need to adjust for loss of value.

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12. OTHER FINANCIAL ASSETS

	<u>On 31.12.2017</u>	<u>On 31.12.2016</u>
Collateral account for guarantee letters with maturity over one year	-	951.215
Specific accounts for other guarantee	22.023	21.950
Other financial assets	<u>22.034</u>	<u>973.165</u>

The details on the structure of collateral account with maturity over one year can be found on note 22.

13. INVENTORIES

	<u>On 31.12.2017</u>	<u>On 31.12.2016</u>
Cement and additives	2.662.780	1.165.280
Spare parts equipment	1.836.502	1.952.238
Other inventories	288.133	212.528
Adjustments for depreciation of inventories	(557.827)	(480.516)
Total inventories, net	<u>4.229.589</u>	<u>2.849.530</u>

The inventories mainly contain cement, additives and spare parts for special equipment. For the items whose procurement process is relatively long, as well for the items whose consumption is dependent on fluctuating demand of our customers, it is applied an optimisation quantitative procurement, which explains a variety of inventory value between two acquisitions.

The presented adjustments are result of the lack of movement within more than one year, the respective inventories not having time relational validities and being still usable.

	<u>Adjustments for inventories depreciation</u>
On 1 January 2016	<u>1.238.602</u>
Additions	10.346
Used during the year	(726.667)
Exchange rate differences	(41.764)
On 31 December 2016	<u>480.516</u>
Additions	98.754
Used during the year	(21.444)
On 31 December 2017	<u>557.827</u>

As a result of the ongoing process of branch closure, the Company recorded the write-off of branch's non-repatriated inventories, which provisioned amount was of 726.667 lei. The net impact in profit or loss account was of 20,536 lei.

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14. TRADE AND OTHER RECEIVABLES

	<u>On 31.12.2017</u>	<u>On 31.12.2016</u>
Trade receivables - third parties	16.531.187	14.212.447
Trade receivables with affiliated entities	34.769.429	34.578.283
Value adjustments for trade receivables – third parties	(3.933.441)	(3.888.645)
Value adjustments for trade receivables – affiliated entities	<u>(29.813.217)</u>	<u>(29.790.058)</u>
Total trade receivables, net	<u>17.553.958</u>	<u>15.112.027</u>
Short term lending	34.300.000	34.397.174
Cash pooling receivables	42.386.546	31.159.676
Other receivables	11.779	11.748
Total amounts to be received from entities within the group	<u>76.698.325</u>	<u>65.568.598</u>
Other receivables – third parties	1.312.612	1.739.043
Other receivables with the affiliated entities	354.792	358.603
Value adjustments for other receivables – third parties	(612.322)	(603.481)
Value adjustments for other receivables – affiliated entities	<u>(82.905)</u>	<u>(82.905)</u>
Total other receivables, net	<u>972.176</u>	<u>1.411.260</u>
Total receivables, net	<u>95.224.459</u>	<u>82.091.884</u>

Starting with 2014, it was implemented an optimisation system for the cash availability between the companies within KazMunayGas International Group, known as cash pooling concept. Cash pooling system was implemented in relation to cash availability from certain bank accounts of the Company, and the direct effect will be transposed to the optimisation of cash for the company, with impact in the interest income. According to the cash pooling system, in terms of assets presentation, the amounts available at the end of the reporting period will be reflected as receivables. During the reporting period, the average balance of master account was 37.781.465 lei, generating interest in amount of 1.092.892 lei. The value of these receivables as of 31 December 2017 was of 42.386.546 lei.

In 2017, respectively in 2016, Oilfield Exploration Business Solutions S.A. receivable was adjusted to the level expressed in the Comfort Letter obtained from the majority shareholder KazMunayGas International NV, respectively 4.770.000 lei.

Trade receivables are usually regularised within 30 to 90 days.

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14. TRADE AND OTHER RECEIVABLES (continued)

In the table below, there are detailed the movements within the provision for the impairment of the receivables

	Individually impaired	Collectively impaired	Total
On 1 January 2016	32.136.957	1.246.621	33.383.579
Transfer between category	23.413	(23.413)	-
Charge for the year	989.839	115.591	1.105.430
Unused amounts, reversed	(16.019)	(133.847)	(149.866)
Exchange rate differences		25.946	25.946
On 31 December 2016	33.134.191	1.230.899	34.365.089
Transfer between category	21.469	(21.469)	0
Charge for the year	72.089	92.372	156.297
Unused amounts, reversed		(58.894)	(50.729)
Exchange rate differences		(28.772)	(28.772)
On 31 December 2017	33.227.749	1.214.136	34,441,885

La 31 December, the aging analysis of the receivables is as follows:

	Total	Current, not impaired	Overdue, net of impairment				
			< 30 days	30-60 days	61-90 de days	91-180 days	> 180 days
2017	95.224.459	86.916.548	2.875.916	76.251	52.776	51.651	5.251.318
2016	82.091.884	74.597.185	2.055.876	296.619	84.715	111.913	4.945.576

15. OTHER CURRENT ASSETS

	On 31.12.2017	On 31.12.2016
Advance expenses for car insurances	68.502	64.474
Advance expenses for rovigneta	98.218	82.606
Advance expenses for business insurance	-	102.719
Advance expenses for authorisations, transportation licenses, subscriptions, others	14.631	14.667
Other current assets TOTAL	181.351	264.465

The values represent the payments carried out during the current year, for costs which affect the next financial year in accordance with the validity period for the insurances, authorisations, licenses, subscriptions.

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16. CASH AND DEPOSITS

	<u>2017</u>	<u>2016</u>
Bank accounts in lei	29.079	678
Bank accounts in foreign currency	410	18.947
Short term deposits in lei	177.247	1.339.247
Short term deposits in foreign currency	183.660	353.270
Collateral accounts for letters of guarantee with maturity under one year	2.026.970	4.844.000
Specific accounts regarding performance bonds, other guarantees	882.964	8.881
Letter of credit	187.815	-
Petty cash in lei	11.849	4.297
Petty cash in foreign currency	13.311	4.661
Total cash and short term deposits	<u>3.513.305</u>	<u>6.573.982</u>
Collateral deposits with maturity over one year	22.034	973.165
Total cash and cash equivalents at fiscal year end	<u>3.535.339</u>	<u>7.547.147</u>

The cash in banks records interests at variable rates, depending on the daily rates of the deposits in banks. The short term deposits are being constituted for periods of one day and records interests for the respective rates of the short term deposits.

The service providing contracts concluded with our main customers contain clauses referring to creation of performance guarantees through a guarantee granting instrument issued under the provisions of the law, by a bank or insurance company, i.e. Letters of Bank Guarantees.

Collateral deposits with maturity over one year were presented as Other financial assets. Collateral deposits are detailed in note 22.

In note 14 it is presented the details regarding the company's participation for the year 2017 2016 to the system for optimisation of cash availability between the companies within KazMunayGas International Group, known as cash pooling concept. The amount available in the principal account on 31.12.2017 was of 42.266.865 lei, being ready to use without restriction, depending on the necessity.

17. SHARE CAPITAL

17.1. Subscribed share capital

The last modification of the share capital has been in 2008, when the shareholders have decided, after the general meeting which has taken place on June 20th 2008, to increase the share capital of the company by the amount of 13,909,545 lei, from 13,909,545 lei up to 27,819,090 lei, through issuing, for free, of a number of 139,095,450 new shares with a nominal value of 0.10 lei/share.

The new issued shares have been allocated for the shareholders registered under the Shareholders' Registry at the date of the registration, approved by the Extraordinary Meeting of the Shareholders, respectively July 8th 2008, proportional to the amounts held by each of them. The allocation index has been 1. The issuing of shares has been financed from the reserves of the result carried forward of the financial year 2007, respectively from the amount allocated to Other reserves.

The finalisation of the procedural phases for approval and recognition has been officially signalled through the repetition of the transacting of the shares, after the increase of the social capital, on September 18th 2008, without undergoing modifications until December 31st 2017.

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17. SHARE CAPITAL (continued)

	Balance on 31 December 2017	Balance on 31 December 2016
Subscribed capital, ordinary shares	Number 278.190.900	Number 278.190.900
Nominal value, ordinary shares	RON 0,1	RON 0,1
Value of the share capital	RON 27.819.090	RON 27.819.090

The share capital of the company is totally paid in on December 31st 2017.

The Company is listed under the Bucharest Stock Exchange under the symbol PTR.

17.2. Adjustments on share capital

According to the IAS 29 provisions, the company has adjusted the costs of its purchased investments until December 31st 2003 with the purpose of reflecting the accounting impact in the hyperinflation. The value of the share capital has been increased at December 31st, 2012 by 166,740,745 RON. This adjustment had no impact over the carried forward distributable profit of the company. In 2013, the general ordinary meeting of shareholders on April 30, 2013 approved to cover the brought forward accounting loss from first application of IAS 29 "Financial Reporting in Hyperinflationary Economies" in amount of 166.002.389 lei, from own capitals, i.e. "adjustment of share capital". The effect of this decision for the structure of share capital on December 31st, 2017, as well as on December 31st, 2016 and is presented in the table below:

	On 31.12.2017	On 31.12.2016	On 31.12.2015
Share capital, from which:	28.557.446	28.557.446	28.557.446
Paid-in share capital	27.819.090	27.819.090	27.819.090
The adjustment of the share capital	738.356	738.356	738.356

18. PROVISIONS

	Provisions for restructuring (short term)	Provisions for litigations (long term)	Other Provisions for risks and expenses (long term)	Total
On 1 January 2016	721.941	-	448.355	1.170.296
Constituted	24.919	-	99.216	124.135
Used during the year	(721.941)	(25.000)	(364.114)	(1.111.055)
Reclassified	-	25.000	(25.000)	-
On 31 December 2016	24.919	-	158.457	183.376
Constituted	-	-	70.972	70.972
Used during the year	(24.919)	-	-	(24.919)
Reclassified	-	-	-	-
On 31 December 2017	-	-	229.429	229.429

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18. PROVISIONS (continued)

The provision for restructuring recognised in 2015 in amount of 721.941 lei, was determined by taking into consideration the number of employees for which the notice of dismissal had not expired on December 31st, 2015, as well as the provisions of the Collective Labour Agreement. In 2016, the provision was fully reversed, the expenses regarding the rights according to the collective labour contract becoming current expenses at the moment of the granting.

Other provisions for risks and expenses in amount of 229.429 lei represents an estimate of the expenses related to operational and legal disestablishment of Kazakhstan Branch (59.241 lei) and an estimate for untaken holiday benefits (170.188 lei).

19. OTHER POST EMPLOYMENT BENEFITS

	Liabilities regarding the benefits of employees
On 1 January 2016	350.714
Constituted	136.285
Used during the year	-
On 31 December 2016	486.999
Constituted	377.722
Used during the year	-
On 31 December 2017	864.721

The liabilities regarding pensions and other similar obligations have been determined depending on the provisions of the collective labour contract of the Company, which stipulates the payment of a number of salaries to each employee at retirement, depending on the period of employment. The amount for the provision for benefits to be granted at retirement of 864.721 lei has been determined in 2017, according to the method of the credit factor, planed on the basis of an internal calculation, using the actuarial model. The management has taken into consideration for carrying out the calculation, mainly the fluctuation of the employees, the age of the employees, the estimated mortality rate, the estimated salary costs evolution, discount rates. The provision has been determined by the company and has been updated in the sense of the increase by 377.722 lei.

The hypotheses according to which the actuarial calculation of the provision regarding the benefits at retirement has been made:

	31.12.2017	31.12.2016
Rate of personnel exits, estimated up to the retirement date	8.71%	33,28%
The turnover of the personnel in one year	11.31%	14,10%
The mortality rate for the current year	1.14%	1,14%
The contribution of the company to the gross salary	24.00%	24,00%
The inflation rate of the salary	3.46%	2,23%
The nominal discounting rate (the interest rate for governmental bonds)	4.52%	3,49%
The real discounting rate	1.06%	1,26%

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20. TRADE PAYABLES AND SIMILAR LIABILITIES (CURRENT)

	<u>On 31.12.2017</u>	<u>On 31.12.2016</u>
Trade payables - third parties	2.074.115	1.586.122
Trade payables with affiliated entities	2.792.234	3.379.532
Advance payments and deferred income	29.255	147.330
Salaries	973.249	677.148
Dividends to be paid	3.169.713	3.180.947
Taxes	1.155.876	1.169.091
Other liabilities	71.169	183.632
Total	<u>10.265.612</u>	<u>10.323.803</u>

On 31 December 2017 total liabilities remains at a similar level with the one recorded on 31 December 2016, as the effect of the rhythmicity of payments.

21. PRESENTATION OF THE AFFILIATED PARTIES

The following tables present information on transactions with companies under common control of KazMunayGas Group as of 31 December 2017.

<u>Name of the company</u>	<u>Transaction type</u>	<u>Country of origin</u>	<u>Headquarters</u>
Rompetrol Rafinare S.A.	Loans granted, ITP services	Romania	Navodari, Bulevardul Navodari nr. 215, Pavilion Administrativ, Judetul Constanta
Rompetrol Logistics S.R.L.	Rental services, ITP services, reinvocement security services	Romania	Ploiesti, Str. Basarabilor Nr. 7
Oilfield Exploration Business Solutions S.A.	Render of services, rental of premises, ITP services	Romania	Piata Presei Libere, nr. 3-5, City Gate Northern Tower, etaj 6, sector 1, Bucuresti
Rompetrol Downstream S.R.L.	Procurement of fuel, GPS services, procurement of rovinețe	Romania	Piata Presei Libere, nr. 3-5, City Gate Northern Tower, etaj 2, sector 1, Bucuresti
KMG Rompetrol S.R.L.	Management and IT services, cash pooling services, rental of premises	Romania	Piata Presei Libere, nr. 3-5, City Gate Northern Tower, etaj 5, camera 2, sector 1, Bucuresti
Rompetrol Financial Group S.R.L.	Mediate sell of shares	Romania	Bucuresti, Piata Presei Libere nr. 3-5, City Gate Northern Tower, Etaj 5, Camera 3, Sector 1
KazMunayGas International NV	Payments of dividends	Olanda	Amsterdam, Strawinskylaan 807, turn A-8, Piata Presei Libere, nr. 3-5, City Gate
Rompetrol Gas S.R.L.	Car rental	Romania	Northern Tower, etaj 5, sector 1, Bucuresti
Rompetrol Drilling S.R.L.	Rental of premises	Romania	Str. Clopotel, nr 2bis, cladirea C61, birouri administrative, Ploiesti
KMG Rompetrol Services Center SRL	Services for procurement, legal, employees, translations and IT	Romania	Piata Presei Libere 3 - 5 City Gate Northern Tower, Et.1, Sector 1 Bucuresti 013702
Global Security Sistem SA	Security services	Romania	Bucuresti, str. Constantin Capitanu, nr.10

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21. PRESENTATION OF THE AFFILIATED PARTIES (continued)

Loan contracts with Rompetrol Rafinare S.A.	Principal	Interest	Total
On 1 January 2016	34.300.000	104.558	34.404.558
1CI/09-Sept-2008	13.000.000	39.628	13.039.628
2CI/14-Oct-2008	7.000.000	21.338	7.021.338
3CI/03-Nov-2008	3.100.000	9.450	3.109.450
CI/28-Apr-2010	11.200.000	34.141	11.234.141
On 31 December 2016	34.300.000	97.174	34.397.174
1CI/09-Sept-2008	13.000.000	36.830	13.036.830
2CI/14-Oct-2008	7.000.000	19.831	7.019.831
3CI/03-Nov-2008	3.100.000	8.782	3.108.782
CI/28-Apr-2010	11.200.000	31.730	11.231.730
On 31 December 2017	34.300.000	-	34.300.000
1CI/09-Sept-2008	13.000.000	-	13.000.000
2CI/14-Oct-2008	7.000.000	-	7.000.000
3CI/03-Nov-2008	3.100.000	-	3.100.000
CI/28-Apr-2010	11.200.000	-	11.200.000

All the above mentioned loans are being guaranteed with promissory notes and have been extended automatically on successive periods of time, in the situation that none of the parties has denounced the contract in writing, within maximum 3 days before the due date. Beginning January 1st, 2017, there shall be applied an interest at the level of ROBOR 3M + 3%.

The loans granted to Rompetrol Rafinare S.A. are included in the Statement of Financial Position within "Trade and other receivables", also detailed in Note 14.

Income revenues from loans granted to Rompetrol Rafinare S.A. are included in note 4.1. Financial Revenues.

Receivables

	Balance on 31 December 2017	Balance on 31 December 2016
Romperol Logistics S.R.L.	286.669	122.292
Oilfield Exploration Business Solutions S.A. *)	4.770.000	4.770.000
Rompetrol Drilling S.R.L.	161.396	157.889
KMG Rompetrol S.R.L.	42.397.303	31.170.340
Rompetrol Financial Group SRL	10.340	10.309
KMG Rompetrol Services Center SRL	717	4.516
Total	47.626.424	36.235.346

*) On 31 December 2017, respectively 31 December 2016 Oilfield Exploration Business Solutions SA receivables represents the recoverable amount (see note 14).

Liabilities

	Balance on 31 December 2017	Balance on 31 December 2016
Rompetrol Logistics S.R.L.	6.051	6.051
Rompetrol Downstream S.R.L.	1.104.555	2.008.769
KMG Rompetrol S.R.L.	1.332.274	1.095.020
KMG Rompetrol Services Center SRL	347.664	267.988
Global Security Sistem SA	1.690	1.704
Total	2.792.234	3.379.532

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21. PRESENTATION OF THE AFFILIATED PARTIES (continued)

Sales

	<u>Fiscal year completed on 31 December 2017</u>	<u>Fiscal year completed on 31 December 2016</u>
Rompetrol Rafinare S.A.	1.438.982	1.148.041
Rompetrol Logistics S.R.L.	-	114.274
Oilfield Exploration Business Solutions S.A.	16.620	24.405
Rompetrol Drilling S.R.L.	2.947	42.455
KMG Rompetrol S.R.L.	1.092.970	739.584
Rompetrol Gas S.R.L.	-	5.363
KMG Rompetrol Services Center SRL	7.121	3.501
Total	<u>2.558.640</u>	<u>2.077.622</u>

Acquisition of goods and services

	<u>Fiscal year completed on 31 December 2017</u>	<u>Fiscal year completed on 31 December 2016</u>
Rompetrol Downstream S.R.L.	3.618.613	2.651.474
KMG Rompetrol S.R.L.	1.005.036	919.408
KMG Rompetrol Services Center SRL	676.153	450.236
Global Security Sistem SA	8.520	4.782
Total	<u>5.865.174</u>	<u>4.025.900</u>

Remuneration for key-management personnel is detailed in Note 5 "Expenses with employees".

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22. COMMITMENTS AND CONTINGENCIES

There are no commitments for the acquisition of property, plant and equipment as of 31 December 2017 or as of 31 December 2016.

Starting with September 2017, the Company concluded an operational leasing contract for 5 vehicles, for 57 months, the contract totalising 76.380 EUR.

Guarantees to third parties

The service providing contracts concluded with our main customers (OMV PETROM and ROMGAZ SA) contain clauses referring to referring to creation of performance guarantees through a guarantee granting instrument issued under the provisions of the law, by a bank or insurance company, i.e. Letters of Bank Guarantees.

The detail of the collateral accounts on 31.12.2017 for the Letters of Bank Guarantee is enclosed in the table below:

Number	Beneficiary	Currency	Amount equivalent RON	Maturity date	Currency collateral deposit	Collateral deposit equivalent RON
LG/00888-02-0383761	OMV PETROM S.A.	EUR	93.194	15-Mar-18	EUR	93.194
LG/00888-02-0341156	OMV PETROM S.A.	EUR	931.940	28-Feb-18	EUR	931.940
LG/00888-02-0130320	OMV PETROM S.A.	EUR	931.940	28-Feb-18	EUR	931.940
LG/00888-02-0354338	OMV PETROM S.A.	EUR	69.896	28-Feb-18	EUR	69.896
10187	S.N.G.N. ROMGAZ S.A.	RON	85.296	31-Dec-17	RON	85.296
16201	S.N.G.N. ROMGAZ S.A.	RON	797.477	25-Nov-18	RON	797.477
5	S.N.G.N. ROMGAZ S.A. Sircoss	RON	190	15-Jan-18	RON	190
Total short term collateral deposits						2.909.933
Total long-term collateral deposits						-

The collateral accounts on 31.12.2016 had the following components:

Number	Beneficiary	Currency	Amount equivalent RON	Maturity date	Currency collateral deposit	Collateral deposit equivalent RON
LG/00888-02-0157685	S.N.G.N. ROMGAZ S.A.	RON	562.240	15-Jul-17	RON	562.240
LG/PB13003544	OMV PETROM S.A.	EUR	1.362.330	12-May-17	EUR	1.362.330
7	S.N.G.N. ROMGAZ S.A. Sircoss	RON	8.881	30-Mar-17	RON	8.881
LG/00888-02-0000808	OMV PETROM S.A.	EUR	454.110	15-Jan-17	EUR	454.110
LG/00888-02-0032935	OMV PETROM S.A.	EUR	2.270.550	28-Feb-17	RON	2.465.320
Total short term collateral deposits						4.852.881
LG/00888-02-0130320	OMV PETROM S.A.	EUR	908.220	28-Feb-18	EUR	908.220
10187	S.N.G.N. ROMGAZ S.A. Sircoss	RON	42.995	31-Dec-17	RON	42.995
Total long-term collateral deposits						951.215

Received guarantees

In January 2012, the contract no. RWS 03/2011, regarding Security Interests in Movable Property granted by SC Oilfield Exploration Business Solutions S.A. for the total value of 9,539,048 lei has been entered in the Electronic Archive for Security Interests in Movable Property.

22. COMMITMENTS AND CONTINGENCIES (continued)

Transfer price

Fiscal legislation in Romania includes the principle of "market value", according to which transactions between affiliated parties must be conducted at market value. Taxpayers which conduct transactions with affiliated parties must prepare and readily present to Romanian fiscal authorities at their written demand the transfer price file. The failure to present the transfer price file or the presentation of an incomplete file may lead to application of penalties for nonconformity; in addition to the content of the transfer price file, the fiscal authorities might interpret differently the transactions and circumstances than the interpretation of management and, as a consequence, might impose additional fiscal obligations resulting from adjustment of transfer prices. The management of the Company is considering that it will not suffer losses in case of a fiscal control for the verification of transfer prices. However, the impact of possible different interpretations of the fiscal authorities can't be estimated.

23. OBJECTIVES AND POLICIES FOR THE FINANCIAL RISK MANAGEMENT

The risk of the interest rate

- Loans received: the company is not being involved in any loan contract and therefore not exposed to risks regarding the movement of the interest rate.
- Loan granted: for the loans granted presented in note 21, the income from interest varies, depending on ROBOR 3M movement.

If interest rates would have varied with + / - 1 percent and all other variable would have been constant, the net result of the Company as of 31 December 2017 would increase / decrease with 343.000 lei (2016: increase / decrease with 343.000 lei).

Risk of the exchange rate variations

Most of the transactions of the company are in lei. Depending on the case, the structure of the amounts available in cash and the short term deposits are also being adapted. The difference between the entry of the amounts in foreign currency and their repayment cannot generate, through the variation of the exchange rate, significant patrimonial effects.

Foreign currency sensitivity

The following tables demonstrate the sensitivity towards a possible reasonable change (5%) of the exchange rate of the US dollar, EUR and KZT, all other variables being maintained constant. The impact over the profit of the company before taxation is due to the modifications of the real value of the assets and monetary debts. The exposure of the company to the foreign currency modifications for any other foreign currency is not significant.

	TOTAL RON	5% USD	5% EUR	5% KZT
31 December 2016				
Balance	110.934	(2.034)	104.172	8.796
Monetary assets	119.193	3.569	106.513	9.111
Monetary liabilities	(8.260)	(5.603)	(2.342)	(315)
31 December 2017				
Balance	118.186	5.597	104.680	7.909
Monetary assets	142.048	15.299	118.554	8.195
Monetary liabilities	(23.861)	(9.702)	(13.873)	(286)

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23. OBJECTIVES AND POLICIES FOR THE FINANCIAL RISK MANAGEMENT (continued)

The credit risk

The company treats the crediting of its customers procedural, with flexibility through the stable contracting strategy as an essential mechanism for the risk repartition. The unfavourable conditions of the financial - banking market is also experienced by the customers of the company, but the Management permanently monitors the receivables and their collection.

The market risk

Taking into consideration the structure and continuance of trade contracts, it can be highlighted as important clients S.C. OMV Petrom S.A. and S.N.G.N. Romgaz S.A. concentrating around 79% of the total turnover registered for the financial year 2017. The main contracts with S.C. OMV Petrom S.A. and S.N.G.N. Romgaz S.A are valid until 31 December 2018, respectively 6 December 2018.

Liquidity risk

The Company monitors its risk of a shortage of funds using a liquidity planning tool.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the efficient use of working capital. Approximately 76% of the Company's debt will mature in less than one year at 31 December 2017 (2016: 82%) based on the carrying value reflected in the financial statements. The Company assessed the concentration of risk with respect to exigibility of its debt and concluded it to be low.

The table below details the profile of the payment terms of the financial liabilities of the Company, based on non-updated contractual payments:

Trade payables and similar liabilities	On demand	Under 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Trade payables - third parties	368.142	1.641.592	64.381	-	-	2.074.115
Trade payables with affiliated entities	1.486.074	1.306.160	-	-	-	2.792.234
Dividends to be paid	759.621	-	-	-	2.410.092	3.169.713
Other liabilities	-	5.178	5.487	-	60.505	71.170
Total year 2017	2.613.838	2.952.929	69.869	-	2.470.596	8.107.232

Trade payables and similar liabilities	On demand	Under 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Trade payables - third parties	605.527	953.904	26.691	-	-	1.586.122
Trade payables with affiliated entities	2.689.661	689.871	-	-	-	3.379.532
Dividends to be paid	1.395.203	-	-	-	1.785.744	3.180.947
Other liabilities	-	52.849	70.574	-	60.209	183.632
Total year 2016	4.690.392	1.696.624	97.265	-	1.845.953	8.330.234

24. AUDIT EXPENSES

Contractual costs for audit and consultancy services with the financial auditor for financial year ended 31 December 2017 were in amount of 88.534 lei, equivalent of 19.000 EUR.
All paid fees refer to auditing services on individual financial statements prepared by the Company in accordance with Order of Minister of Public Finance no. 2844/2016.

25. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

All loan contracts with S.C. Rompetrol Rafinare S.A. were automatically extended on the due date, with the same period and under the same conditions. At the moment of the financial statements, these loans continue to be granted with an interest ROBOR 3M + 3% applied for all the contracts.

Letter of bank guarantee with number LG/00888-02-0130320 having as beneficiary OMV Petrom S.A., in amount of 200.000 euro, with maturity date 28 February 2018 was prolonged until 28 February 2019.
Letter of bank guarantee with number LG/00888-02-0354338 having as beneficiary OMV Petrom S.A., in amount of 15.000 euro, with maturity date 28 February 2018 was prolonged until 30 August 2018.
Letter of bank guarantee with number LG/00888-02-0341156 having as beneficiary OMV Petrom S.A., in amount of 200.000 euro, with maturity date 28 February 2018 was replaced by a new letter of bank guarantee with number LG/00888-02-0443670, in amount of 140.000 euro, with maturity date 28 February 2019.

The General Ordinary Meeting of the Shareholders shall decide on 27 April 2018 the distribution on destinations of the 2017 net profit, the proposal of the Board of Director being to distribute gross dividends in amount of 723.296 lei, respectively 0.0026 lei/share.