



rompetrol

Kaz Minerals
Group
Member

ROMPETROL WELL SERVICES S.A.

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ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR 2016

drawn up according to the Law no. 297/2004 on the capital market and the National Securities Commission (C.N.V.M.) Regulation no. 1/2006 on issuers of securities and securities operations

Commercial Company ROMPETROL WELL SERVICES S.A.

| | |
|--|---|
| Head office: | Ploiești - Clopoșei Street no. 2 bis |
| Phone: | 0244/544321, 0244/544101 |
| Fax: | 0244/522913 |
| Tax Identification Number: | RO 1346607 |
| Unique Company Registration Number: | J29/110/05.03.1991 |
| Trading market: | BUCHAREST STOCK EXCHANGE |
| Subscribed and paid-up share capital: | 27,819,090 lei |

The main characteristics of the securities issued by the company

| | |
|--------------------------------------|-----------------------|
| No. of shares: | 278,190,900 |
| Nominal value (lei/share): | 0.10 lei |
| Class and type of securities: | "A" nominative |

Trade Registry No. J 29/110/1991
Fiscal Identification No. RO1346607

IBAN: RO348ACX0000000030551310
UniCreditTric Bank – Ploiești
Share Capital: 27819090 lei

1. The activity analysis of the Commercial Company "ROMPETROL WELL SERVICES" S.A.

The drastic drop of the oil prices, in 2015 - 2016, caused a significant decrease of the market demand for well services worldwide and strongly affected all Upstream Service Companies performance.

As a response to the deteriorating market fundamentals, the company has monitored all measures to redirect operational capacities in accordance with the continuous changing structure of demand, maintaining a competitive position in Romania and significantly reducing costs, while simultaneously reducing investments.

While during 2016 the financial indicators of the operational activity were considerably lower to those of last year, the implemented measures during current year have allowed the maintaining of a solid financial position and obtaining a financial profit from efficient management of cash and working capital.

The nonrecurring outstanding elements that have led to the recorded loss in 2016 are synthetically presented below:

- Effect of incurring of substantial restructuring costs of about 1,264 thou lei;
- Effect of increase of provisions in order to sustain the prudent policy of presenting the receivables. The analysis of the related transactions was done punctually, the additional value of 984 thou lei being related to two contracts;
- Effect of impairment in amount of 1,961,thou lei.

| Specification | thou lei |
|--|----------|
| Gross profit from operations | 3,431 |
| Depreciaton | 6,970 |
| Financial profit | 1,927 |
| Gross result (EBT) without the special nonrecurring elements | (1,612) |
| Effect of nonrecurring elements | (4,209) |
| Gross result (EBT) | (5,821) |

1.1. a) The description of the commercial company main activity;

Benefiting of over 65 years of experience, ROMPETROL WELL SERVICES S.A. is a competitive, solid and reliable partner, offering a wide range of services in the field of petroleum upstream industry. Object of activity of the company consists of: provision of services for oil and gas wells, rental of oil well tools and equipment and other services. The well services provided include cementing, stimulation, consolidation and sand control services, testing, slick-line, tubular running operations in oil and gas fields in Romania and abroad.

Annually, the company cements an average of 150 casing strings and liners, at depths between 500 m and 4,500 m, performs consolidation and sand control operations for oil and gas wells and performs slick-line and tubular running services for strings and liners -for all clients from Romania. For the optimization of the activities, the company also offers a rental service for its drilling tools. The main activity of the company was actually affected by the global economic climate in the oil and gas industry, the determining factor being the drastic decrease in crude oil prices.

b) The specification of the incorporation date of the commercial company;

The Company Rompetrol Well Services S.A. was incorporated in 1951 and during the 66 years of activity, although it functioned under different structures and different denominations, the main profile was the provision of special well services in Romania.

By the Government Decision no. 1213 from November 1990, according to the Law no. 15/1990, the company was transformed into a joint stock company, under the denomination of S.C. PETROS S.A., under which it functioned until September 2001, when it changed the denomination in S.C. ROMPETROL WELL SERVICES S.A.

c) The description of any significant merger or reorganization of the commercial company, of its subsidiaries and controlled companies, during the financial year;

Not applicable.

d) The description of asset purchases and/or disposals;

The primary goal of the investment program for 2016 was the upgrade of the processes, the improvement of the equipment performances and well services competitiveness. Among the objectives, put into operation in 2016, amounting to 2,136 thou lei, is to be mentioned: batch mixing semitrailer, acidizing truck equipment tank, stainless steel acid tank, water heating unit, drilling tools and special devices.

The financing of all the mentioned objectives was made from own sources.

e) The description of the main results of the company activity assessment.

1.1.1. General assessment factors:

a) result;

Between 2002 -2014 the company reported yearly profit results, 2016 being characterized by recording a loss worth of 5,820,561 lei.

b) turnover;

The turnover for the year 2016: 31,106,110 lei

The well services market in Romania was negatively impacted during 2016 by the significant reduction of operational and investment plans of our customers, determined by the sharp decrease of crude oil price. The delay in investment programs due to decrease of crude oil, lead to a dramatic drop in drilling projects with direct consequences on well services, which is the main activity of the Company.

c) export;

No reportable business results for 2016.

d) costs;

The evolution of costs for the period 2014 – 2016:

-lei

| Specification | 2014 | 2015 | 2016 |
|---|-------------------|-------------------|-------------------|
| Operating expenses | 80,060,525 | 80,642,424 | 38,784,313 |
| from which: | | | |
| Expenses with materials, merchandise, consumables and utilities | 19,609,159 | 10,970,829 | 7,784,683 |
| Staff costs | 25,918,725 | 21,205,208 | 15,763,596 |
| Depreciation | 9,436,852 | 7,831,801 | 6,970,205 |
| Other operating expenses | 25,095,789 | 40,634,586 | 8,265,829 |
| Finance costs | 991,107 | 1,560,437 | 398,708 |

e) % of the market held;

In Romania the company holds market shares varying from 15% to 55% for different types of well services provided.

f) liquidity (cash account, etc).

The current liquidity indicator's evolution (7.16 in 2014, 9.64 in 2015, respectively 9.10 in 2016) supports the company cash flow management insuring the continuity of the commercial transactions from own sources.

1.1.2. The assessment of the technical level of the commercial company

Description of the main services rendered

The main services performed by the company ROMPETROL WELL SERVICES are as follows:

- **Operations performed with Cementing pump trucks** such as: casing cementing, secondary cementing, fracturing, sand-control, surface treatments, acidizing, killing of wells, well circulations, milling works and fluid displacements, well interventions, miscellaneous pumping.
- **Operations with Bulk Trucks and Sand Blenders:** transportation and handling of powder materials, mixtures and blends, operations at the well site
- **Operations with tank trucks:** fluids transportation and handling (mud, crude-oil, acid solutions and emulsions, formation water etc.); operations at the well site (acidizing, fracturing, sand-control, cementing, pumping)
- **Operations with liquid nitrogen:** Putting into production; nitrogen fracturing; foam acidizing; pressure tests of tubular material, manifolds, BOPs, etc.
- **Operations with Slick line units;**
- **Casing and liner running operations;**
- **Tool and equipment rental of handling and fishing tools;**
- **On-site or laboratory cement testing;**
- **Well and Drill stem testing operations**

a) main markets for each product or service and distribution methods;

The company ROMPETROL WELL SERVICES maintained its position on *the domestic market* being continuously interested in the improvement of the quality of the rendered services. Having operational capacities spread all over the country, as well as qualified and well prepared labor force in the field of oil and gas well services, ROMPETROL WELL SERVICES promptly provides the services requested by its customers, regardless of the location within the territory.

On the *external market*, the company provided over the year 2016 well services in Bulgaria (prin WEATHERFORD ATLAS GIP SRL).

b) share of each product or service category in the total incomes and turnover of the commercial company for the last three years;

The share of each service category within the operating incomes, as well as within the turnover, for the years 2014, 2015, 2016 is described in **annex no 1-a, respectively 1-b.**

c) new product envisaged to which a large volume of assets will be allocated during the next financial year and products' development stage.

The equipment modernization program was focused on updating the technologies for well stimulation and cementing services, respectively on casing running services and acidizing.

The endowment of cementing pump trucks with new high pressure lines is in line with the current industry safety requirements. Continue to develop and implement cost effective technologies for well cementing and well stimulation to address the customers' production cost issue, focusing on:

- CO2 Injection
- Well Matrix Stimulation with nanofluids/enzymes.

1.1.3. The assessment of the procurement activity (domestic and import)

Information about the security of supply and the prices of the raw materials and the size of the raw material and other materials stocks.

The main types of materials necessary to perform the company's activity are: spare parts for vehicles and operational equipment, fuels and lubricants, tires and accumulators, as well as cement and additives.

As beneficiary, our company concluded sale-purchase agreements for fuel, spare parts and other materials suppliers, as follows: S.C. ROMPETROL DOWNSTREAM SRL, S.C. UPETROM S.A. PLOIEȘTI, SICET SERVICES, S.C. CONFIND CÂMPINA, ADASI MORAVA, AUBIN, S.C. GEOMET INDUSTRIAL SRL, DYCKERKOFF AKTIENGESELLSCHAFT, S.C. MULTISUD PROD SRL, ELKEM AS MATERIALS, BEGA MINERAL INDUSTRIAL S.A., ANGHELOIU TRANS S.R.L. as well as with service providers specialized in equipment repairs and maintenance.

The suppliers are selected according to the company's procedures and they are continuously assessed in terms of reliability and stability.

The levels of the raw material and spare part stocks usually guarantees the continuity of activity for 10 days. The purchase prices are the market prices level.

1.1.4. The assessment of the selling activity

a) *The description of the sales sequential evolution on the national and/or external market and the medium and long term sales perspectives.*

The revenues evolution is showed in the following table:

| | -lei | | |
|------------------------------------|------------|------------|------------|
| | 2014 | 2015 | 2016 |
| Sales per activities: | 88.034.179 | 49.975.025 | 31.106.110 |
| • Revenues from services performed | 86.884.769 | 49.917.461 | 31.024.397 |
| • Revenues from sales of goods | 1.149.410 | 57.564 | 81.714 |

Despite the increasingly competitive environment and the significant decline of activity in the oil and gas upstream industry caused by the crude oil price decrease, the company succeeded to increase its market share for most of the services provided in Romania while simultaneously raising the complexity of services rendered.

Demand for most of our services depends substantially on the spending for exploration, development and production of oil and natural gas reserves. Begun in the year 2014, the downtrend of the activities of the industry in which we operate, continued in the course of 2016. As a result, most of our clients have reduced or deferred oil exploration and production projects, which led to a reduction in demand for our services adversely impacting revenues evolution.

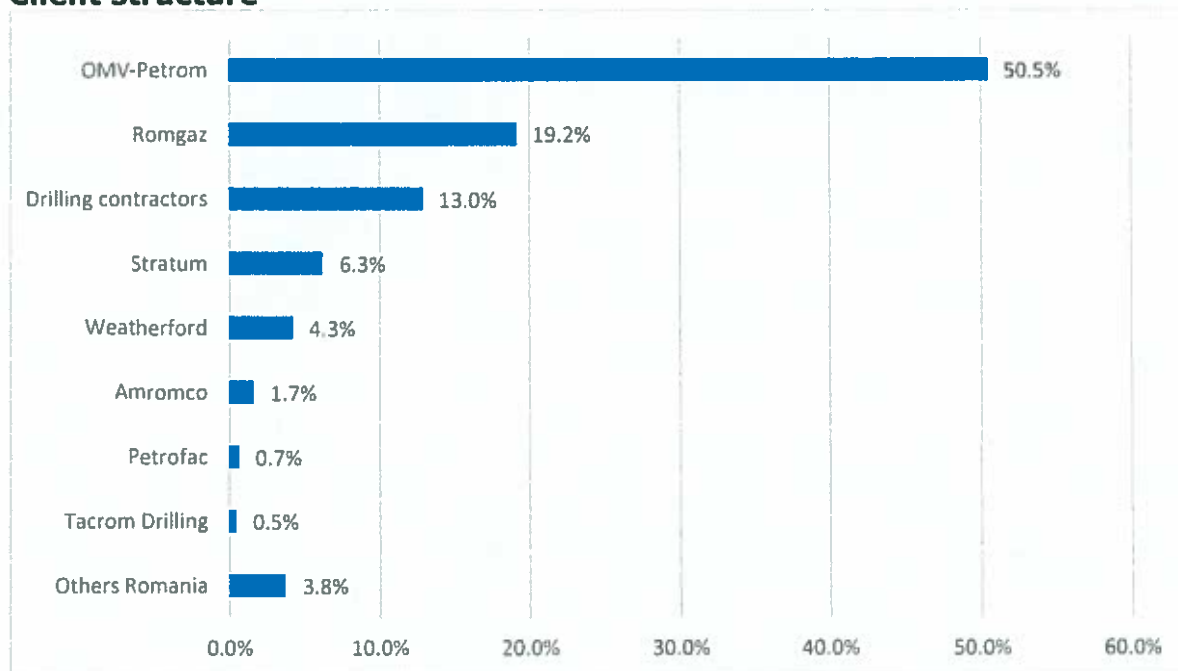
The company's main client on *the national market* is OMV PETROM S.A., the services provided to this beneficiary in 2016 representing a percentage of about 50.5 % of the total services rendered by the company.

Other domestic clients to whom the company renders its services are S.N.G.N. ROMGAZ S.A., representing a percentage of about 19.2%, the Drilling contractors – 13% and other operators in the petroleum industry.

Over the year 2016, the company delivered also services on the internal market to independent operators, such as: AMROMCO ENERGY SRL, WEATHERFORD ATLAS GIP SRL, PETROFAC SOLUTIONS & FACILITIES SUPORT SRL, STRATUM ENERGY ROMANIA LLC, TACROM DRILLING SRL, HALLIBURTON ENERGY SERVICES SRL, LOTUS PETROL SRL, etc.

The overseas activity, representing 0.2% of the company's revenues in 2016, was developed in Bulgaria (through WEATHERFORD ATLAS GIP SRL)

Client structure



b) The description of the competitors' situation in the field of activity of the commercial company, the market share of the products and services of the commercial company and its competitors;

Our company holds a share varying from 15% to 55% on the specific services market. In the field of cementing and pumping services our competitors are: SCHLUMBERGER LOGELCO INC. BUCUREȘTI BRANCH, HALLIBURTON ROMANIA, and SIRCOSS.

There are also competitors in the field of stimulation operations, such as WEATHERFORD ATLAS GIP SRL, BAKER OIL TOOLS and TACROM SERVICES, and in the field of tools and equipment rental, ODJFELL, TESCO, DOSCO PETROSERVICES S.R.L.

c) Description of any significant dependence of the commercial company on a single client or a group of clients whose loss would have a negative impact on the company's incomes.

Rompetro Well Services depends very much on OMV – PETROM, client which represents 50.5% of Company's sales in 2016. To mitigate this reliance risk, the company aim to increase the proportion of well services provided for other E&P players on the Romanian market and to expand activity on external market.

1.1.5. The assessment of the aspects related to the employees/the personnel of the commercial company

a) the specification of the number and the formation level of the company's employees, as well as the degree of syndication of the labour force;

The company conducted the training of its personnel, primarily through in-house tuition programs, to ensure maximum benefit from operation of next-generation equipment recently put into operation.

The structure of staff at December 31, 2016 was as follows:

| | |
|-----------------------|-----|
| TOTAL STAFF | 168 |
| from which: | |
| - higher education | 65 |
| - secondary education | 15 |
| - qualified workers | 88 |
| - unqualified workers | 0 |

The syndication level of the labour force is of 87,50%.

b) The description of the relations between manager and employees, as well as any conflict elements which characterize these relations.

The relations between manager and employees are normal and cooperative, being based on "Collective labor agreement" at company level, without any conflict elements which could characterize these relations.

1.1.6. Business impact assessment on the environment.

Summary description of the impact of basic environmental issues and any existing or expected litigation regarding breach of environmental protection legislation.

Activities carried out within the company, located in Ploiesti, as well as all branches and working points in the country, aims to strictly enforce environmental legislation and thus avoids any disputes that may occur on the violation of environmental laws.

Environmental issues that arise naturally, are kept constantly under control and Rompetrol Well Services aims to improve the purposes of reducing the pollution by waste generated. Disposal (used batteries, tires, scrap metal, used motor oil, household waste, waste consisting of plastic bags, etc..) is done under contracts with authorized companies.

We want to emphasize that the company aims to continuously improve environmental performance in all its activities by adopting a proactive behavior on minimizing environmental impacts.

Also Rompetrol Well Services committed to multiple environmental objectives, among them:

- Inform suppliers, customers and society on our politics in environmental protection activities;
- Monitoring and reducing consumption of resources (water, gas, electricity, lubricants and fuels);
- Regular monitoring of the activity of loading and unloading bulk cement, and blending;
- Reuse of packaging used for liquid additives to reduce the amount of packaging placed on the market;
- Reducing emissions released into the atmosphere by replacing special vehicles equipped with non-euro engines with modern trucks equipped with Euro 6 engines;
- Training and awareness for all staff regarding: selective waste collection, reduction of specific consumption and especially the responsibility of implementing environmental policy that the company has declared and environmental objectives which it aims to achieve.

In July 2016 took place the surveillance audit of the Integrated Management System (environment, quality, health and safety at work), accomplished by DNV GL Business Assurance, following which confirmed that our society is on an upward trend in complying with the requirements specified in the 3 standards and received ISO 9001:2008, ISO 14001:2009 and OHSAS 18001:2007 certification, valid until 26.09.2018.

According to Law no. 105/2006 and Emergency Ordinance no. 196/2005, concerning environmental obligations to the Environmental Fund, and the Environment Fund Declaration the Rompetrol Well Services SA, pay monthly fees for emissions of pollutants into the atmosphere from stationary sources and an annual fee for packaging placed on the market.

1.1.7. The assessment of the research-development activity

The specification of the expenses during the financial year, as well as of those anticipated for the next financial year allocated to the research-development activity

Not applicable.

1.1.8. The assessment of the commercial company's activity related to the risk management

The description of the commercial society's exposure concerning the price, credit, liquidity and cash flow risk. The description of the policies and the objectives of the commercial company concerning the risk management.

The assessment of the activity of the commercial company regarding the risk management

The company's exposure to:

- *the price risk*: S.C.ROMPETROL WELL SERVICES S.A. Ploiești has a flexible price policy, allowing it to react and adapt to any variations of prices that could affect the market;

- *credit risk*: The company had no need to apply for bank loans, but could not completely eliminate the impact of trade credit. It has approached the clients' crediting in a procedural manner, flexible due to the contracting strategy established as an essential mechanism of risk distribution. The current economic environment in the oil industry in becoming a threat to all participants on the market. The company's management is permanently monitoring the receivables and their collection;

- *the interest rate risk*

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, the income from interest varies, depending on ROBOR 3M movement;

- *the liquidity risk*: it was estimated as low until now since the company managed to maintain a steady balance between the maturity of receivables generated by sales and chargeability of the debts for operational and investment activity. In exchange, the financial crisis is still a menace for the next period on the market segment where the company operates;

- *the cash-flow risk*: remains difficult to be characterized due to the menaces of the crisis effects on the global credit market;

- *the exchange rate risk*: the incomes obtained by the company are reported mainly in RON and EURO. The variation of the rate of exchange cannot generate significant patrimonial effects.

1.1.9. Perspective elements concerning the activity of the commercial company

a) The description and analysis of the trends, elements, events or uncertainty factors which affect or could affect the liquidity of the commercial company by comparison to the same period of the previous year.

The commitments towards suppliers were progressively paid. The recorded arrears don't present the risk of significant penalties and the company is not involved in any dispute for the payment of such depths. The company insured the permanent operability in the execution of its contracts all around the country.

Prospects for expansion of service activities on foreign markets determine rational and operative decisions regarding the prudent engagement of liquidities at the conclusion of new contracts.

The loss reported for 2016 did not cause disruptions of cash flows, being compensated by the efficiency of the existing liquidity management.

2017 Key Objectives

- Maintain or increase market share in Romania for the main well services in the range, focusing on:
 - Cementing Services – maintain market share over 60%
 - Well Stimulation Services – increase market share to over 30%;
- Services Diversification: Continue to develop and implement cost effective technologies for well cementing and well stimulation to address the customers' production cost issue, focusing on:
 - CO2 Injection
 - Well Matrix Stimulation with nanofluids/enzymes;
- Capacity Utilization: Increase average utilization ratio of the Pumping Equipment from 36% in 2016 to over 50% in 2017;

- Operational Efficiency: Continue the optimization of operating costs, primarily by:
 - Increase the subcontracting of logistic services
 - Develop alternative cost effective solution for cementing and stimulation additives

b) The presentation and the analysis of the effect of the current or anticipated capital expenses on the financial situation of the commercial company by comparison to the same period of the previous year.

The company operated by using his own financing sources, without contracting any credits from banking institutions or any other individuals or entities.

In regard to debts category, there are no arrears such as interest or any other credits contracted from banking institutions.

c) The presentation and the analysis of the events, economic changes transactions changes significantly affecting the incomes generated by the main activity.

Revenues from the company's operational activity were significantly affected by the global economic climate in the oil and gas industry, the determining factor being the drastic decrease in crude oil prices. The effects of the oil price decline – the postponement of major projects for exploration and production of hydrocarbons, conventional or unconventional, investment cut, the severe diminishing in demand for well services – were fully felt in the markets where the company is active. The collapse of the oil barrel price has generated domino effects, the main petroleum operators significantly reducing operational and investment budgets.

2. The company's tangible assets

2.1. The specification of the location and of the characteristics of the main production capacities owned by the company.

The patrimonial assets of tangible fixed assets nature allow a flexible organization in the territory in order to fulfill the orders placed by the beneficiaries.

The services provision is identified at the customers' location, not at the company's organizational perimeter, the use of the operational capacities depending upon the orders received from the beneficiaries.

The location of lands and buildings on the geographical area is located in the following areas: Ploiești (Prahova County), Câmpina (Prahova County), Boldești - Scăieni (Prahova County), Răzvad (Dâmbovița County), Leordeni (Argeș County), Mihăești - Stupărei (Vâlcea County), Potcoava (Olt County), Craiova (Dolj County), Tg. Cărbunești (Gorj County), Slobozia - Conachi (Galați county), Ianca (Brăila County), Timișoara (Timiș County), Tg. Mureș (Mureș County), Mediaș (Sibiu County), Moinești (Bacău County), Tecuci (Galați County), Videle (Teleorman County).

The main operational facilities are represented by the fixed assets, such as: cementing units, bulk trucks, blenders, tank trucks, cement laboratory equipment and other types of utility vehicles and drilling tools.

2.2. The description and analysis of the wear degree of the company property.

Working outdoors, travelling on difficult access roads and the evolution of the purchase price of equipment justifies a significant degree of wear compensated by the investments in recent years. The specific equipment fleet requires high maintenance costs resulting from imperative normative documents specific to the European integration and the environmental protection issues: ADR transport licenses, vignettes, tachographs, environmental taxes, first registration fees, local taxes, etc.

2.3 The specification of the potential problems related to the ownership of the tangible assets of the company.

For all the patrimonial assets the company recognizes right of ownership, according to current regulations and documents held.

3. The market of the transferable securities issued by the "ROMPETROL WELL SERVICES" S.A. company

3.1. The specification of markets in Romania and other countries where there are negotiated transferable securities issued by the company.

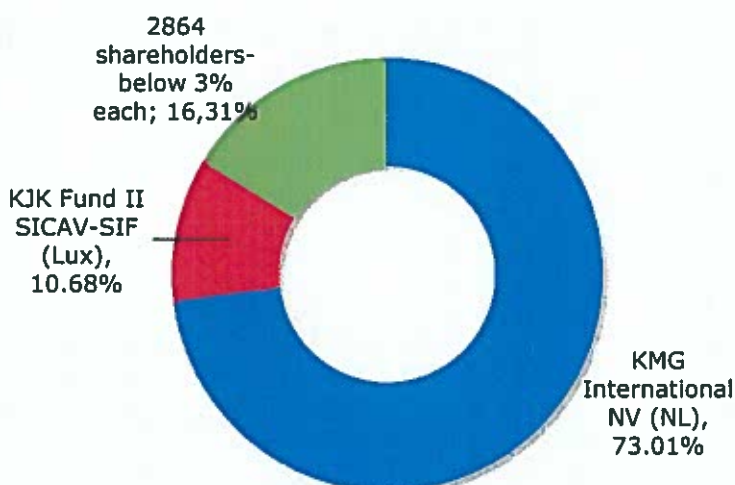
The transferable securities issued by SC Rompetrol Well Services S.A. are admitted to the Bucharest Stock Exchange by decision No. 133 / 26.03.1998 and are traded on this market category STANDARD in the securities sector issued by romanian legal entities, starting with 18.06.1998, under the symbol PTR.

The transferable securities issued by the company are Class A – nominative shares.

The registered capital on 31.12.2016 is of 27,819,090 RON equivalent to 278,190,900 shares with a nominal value of 0.10 RON / share and is distributed to holders as follows:

| | |
|---|----------------------------|
| 1. KMG INTERNATIONAL N.V. Olanda | 20.311.015 lei (73,0111 %) |
| 2. KJK FUND II SICAV-SIF Luxembourg | 2.970.995 lei (10,6797 %) |
| 3. Other shareholders (2864 shareholders) | 4.537.080 lei (16,3092 %) |

Shareholders' Structure as of 31.12.2016:



3.2. The description of the company policy regarding the dividends. The specification of the dividends due/paid/accrued in the last 3 years and, if appropriate, of the reasons for any decrease in dividends over the last 3 years.

For 2014, the A.G.O.A. of 28.04.2015 approved the distribution of the net profit amounted to 8,856,745 lei towards the following destinations:

- 5,563,818 lei for dividends;
- 3,292,927 lei – other reserves.

The gross dividend per share for 2014 was of 0.02 lei for the shareholders registered in the Register of Shareholders on 01.09.2015 (date of registration).

For 2015, the A.G.O.A. of 28.04.2016 approved the financial statements afferent. The net result for the financial year 2015 is a loss amounting to 29,622,639 lei.

For 2016, the A.G.O.A. from 27(28).04.2017 will analyze and will approve the financial statements afferent.

Thus in 2016 were achieved total revenues amounting to 33,464,751 lei, total expenses amounting to 39,285,312 lei, resulting a loss of 5,820,561 lei.

By 31 December 2016 was paid:

- 95 % of the gross dividend approved for the year 2013;
- 94.10 % of the gross dividend approved for 2014.

3.3. The description of any activities of the company to purchase own shares.

The Company has not conducted activities to purchase own shares.

3.4. If the company has subsidiaries, stating the number and the nominal value of shares issued by the parent company and held by subsidiaries.

Not applicable.

3.5. If the company issued bonds and/or other debt securities, the presentation of the way the company paid its obligations to holders of such transferable securities.

Not applicable.

4. The management of the ROMPETROL WELL SERVICES S.A. company

4.1. Presentation of the company's administrators and the following information for each administrator:

a) CV (family name, first name, age, skills, professional expertise, position and length of employment);

- **Yerzhan Orynbassarov** - Kazakh citizen, born in 1969;

President of the Board in the period 01.01.2016- 31.12.2016.

The mandate of administrator started on 01.05.2015 and ends on 28.04.2014.

He is economist, graduate of the Faculty of Mathematics of Lomonosov Moscow University and of the Faculty of Economics Al Farabi KazGu - class of 1993, graduate of a Masters in Petroleum Business - Eurasian Market Institute, Economic Management Academy (1996-1998), of an MBA from Essec & Mannheim Business School (France-Germany) (2011-2013) and a program ENI- Petroleum Industry Training Center (2002-2003).

He has a strong professional experience in finance and strategic development in the oil and gas industry, occupying management positions in companies such as Kazakhoil NOC, Kazakhoil-Emba OJSC, Caspian Pipeline Consortium-K CJSC, KazTransOil JSC, KazMunayGas Trading House JSC, The Rompetrol Group, JSC „KazMunaiGaz – refining and marketing, KMG Rompetrol.

- **Bauyrzhan Nugumanov** - Kazakh citizen, born in 1984;

Member of the Board for the period 01.01.2016 – 31.12.2016;

Duration of the mandate: 4 years starting with 28.04.2014;

He is economist, graduate of the Faculty of Finance and Credit of the University of Economics in Almaty, Kazakhstan-class of 2006, and a Master in Finance at the London Guildhall University-UK.

He has a solid professional experience in financial analysis, attracting investments and long-term financial investments, working in various companies such as JSC KazAgroFinance Astana, JSC NC KazMunayGas Astana, JSC NC KazMunayGas RM Astana, LLC ATC KAZ Almaty.

- **Adrian-Ion Stănescu**, romanian citizen, born in 1953;

Member the Board of Directors for the period 01.01.2016-31.12.2016;

Duration of the last mandate: 4 years starting with 28.04.2014;

He is engineer, graduate of the Faculty of Mechanics – majoring in Machine Manufacturing Technology, Iasi - class of 1977, and of other specialized courses in the field of cementing operations technology, management and marketing.

He has a strong professional experience in the oil and gas industry, in various domains of this industry: the manufacture of oilfield equipment, in the technology of special operations, in the implementation of modern management practices and qualitative management of resources, in the opening of new markets and increasing the sales volume on domestic and foreign markets, holding management positions at UPETROM Ploiesti (1987-1999), ROMPETROL SA (1999-2001), ROMPETROL WELL SERVICES – General Manager for the periods: 01.07.2011-13.05.2013;

01.07.2015-present, and Deputy General Manager for the periods: 01.05.2003–30.06.2011; 14.05.2013 – 30.06.2015.

• **Vadim Poletaev** - russian citizen, born in 1964;

Member the Board of Directors for the period 01.01.2016-31.12.2016;

The mandate of administrator started on 01.07.2015 and ends on 28.04.2018.

He is lawyer, graduate of the Master of Law and of the Faculty of Law - University of the People's Friendship in Moscow, Russia 1985-1991.

Professional Background:

- Consulting public and private companies (organizations), government agencies and individuals in Russia and abroad.
- Development and drafting of corporate schemes, legal analysis of the transactions, projects.
- Clients' rights protection in general jurisdiction courts at all levels, arbitration (in Russia and abroad).
- Drafting, negotiation and legal support in execution of contracts, agreements, statutory and other legal documents.
- Experience as a head of legal department of commercial companies, in the working teams for a number of projects (commercial, legislative, etc.), as a managing partner at consulting companies.
- Professional experience in the following countries: Russia, India, Pakistan, Iran, Switzerland, Denmark, United Arab Emirates.

• **Aizhan Dykanbayeva** - Kazakh citizen, born in 1978.

Member of the Board of Directors during the period: 01.01.2016-31.12.2016;

The duration of this mandat: 4 years starting with 28.04.2014;

She graduated of the Faculty of International Relations at the State University Almaty, Kazakhstan - class of 2000, a Master "Arts in International Relations" and "International Finance and Energy, Environment, Science and Technology" at the School of Advanced International Studies of the "Johns Hopkins University, USA" in 2002 and INSEAD MBA Class in France / Singapore in 2008.

She has a significant professional experience in tax consulting, auditing oil and gas industry, economic analysis, budgeting, business planning, taxation, investment project analysis, corporate finance.

She worked in various companies such as: PriceWaterhouseCoopers, Planning Institute of Management and Economics Kazakhstan (lector), Financial consulting company in Central Asia Kazakhstan (corporate finance director), Trade House KazMunayGas Kazakhstan (Head department of economic analysis and budget), The Rompetrol Group NV (Deputy Director Finance), The Netherlands NV KazMunayGas (CFO).

b) any agreement, understanding or family relationship between the respective administrator and another person due to which that person was appointed administrator;

We are not aware of any agreement, understanding or family relationship between the managers of the company and another person due to which they were appointed administrators;

c) the participation of the administrator to the company's capital;

According to the Register of Shareholders, consolidated on 31.12.2016, issued by the Central Depository, none of the directors participates to the company's share capital.

d) the list of persons affiliated to the company.

None of the members of the Administrative Board of the Company is an affiliated person to SC ROMPETROL WELL SERVICES S.A. under the Regulation CNVM No. 1/2006.

4.2. Submission of the list of the company's executive management members. For each member the following information shall be included:

During 2016, the directors whom the company management was delegated were:

| Item no. | Position designation | Surname and first name | Period |
|----------|----------------------|---------------------------|-----------------------|
| 1. | GENERAL MANAGER | Eng. STĂNESCU ADRIAN-ION | 01.01.2016-31.12.2016 |
| 2. | FINANCE DIRECTOR | Ec. MANOLE VASILE GABRIEL | 01.01.2016-11.04.2016 |
| 3. | FINANCE DIRECTOR | Ec. DUMITRU VALERICA | 12.04.2016-31.12.2016 |
| 3. | PRODUCTION DIRECTOR | Eng. DUMITRU GHEORGHE | 01.01.2016-31.12.2016 |

b) any agreement, understanding or family relationship between the respective person and another person due to which that person was appointed member of the executive management;

There is no agreement, understanding or family relationship between the occupants of the positions mentioned above due to which the occupants of the positions were appointed as members of the executive management.

c) the respective person's participation to the company's capital.

According to the Company's register of shareholders, consolidated on 31.12.2016, issued by the Central Depository, no member of the executive management participates to the capital of the company.

4.3. For all the persons presented in 4.1. and 4.2. the specification of any litigation or administrative proceedings in which they were involved, in the last five years, regarding their work for the issuer, as well as those concerning the respective person's ability to perform duties for the issuer.

None of the managers of the company was involved in the last five years in any litigation or administrative proceedings.

5. Annual accounts

The presentation of an analysis of the current economic and financial situation compared to the last three years, including at least:

a) balance sheet elements: assets representing at least 10% of the total assets, cash and other liquidities; reinvested profits, total current assets, total current liabilities;

Starting the year ended 31 December 2012, the statutory financial statements of the Company were prepared in accordance with the provisions of Order of the Minister of Public Finance no. 1286/2012 for approving the accounting regulations compliant with the International Financial Reporting

Standards applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent modifications and clarifications, the latter being Order of the Minister of Public Finance no. 2844/2016.

For the purposes of the preparation of actual financial statements, in accordance to Romanian legislative requirements, the functional currency of the Company is deemed to be the Romanian Leu (RON).

Synthesis of patrimonial elements according Statement of the financial position:

- lei

| Specificație | 2014 | 2015 | 2016 |
|--|--------------------|--------------------|--------------------|
| Total Assets, of which: | 177,484,837 | 136,263,539 | 131,677,843 |
| Fixed assets | 84,038,637 | 48,882,077 | 37,527,339 |
| Current assets | 93,446,200 | 87,381,462 | 94,150,504 |
| Total Equity and liabilities, of which: | 177,484,837 | 136,263,539 | 131,677,843 |
| Social Capital of which: | 28,557,446 | 28,557,446 | 28,557,446 |
| Share capital subscribed paid | 27,819,090 | 27,819,090 | 27,819,090 |
| Legal reserves | 5,563,818 | 5,563,818 | 5,563,818 |
| Other to equity | 118,340,648 | 121,633,575 | 92,010,934 |
| Current income not distributed | 8,856,745 | (29,622,639) | (5,820,561) |
| Current liabilities | 13,055,736 | 9,066,368 | 10,348,723 |
| Long-term liabilities | 3,110,444 | 1,064,971 | 1,017,483 |

b) *profit and loss account***Summary of items of income and expense:**

-lei

| Specification | 2014 | 2015 | 2016 |
|---------------------------------|------------|------------|------------|
| Total revenues, of which: | 91,452,760 | 53,381,381 | 33,464,751 |
| Operating income | 88,525,114 | 50,100,887 | 31,139,065 |
| Financial income | 2,927,646 | 3,280,494 | 2,325,686 |
| Total expenses | 81,051,632 | 82,202,861 | 39,183,022 |
| Operating expenses, of which: | 80,060,525 | 80,642,424 | 38,784,314 |
| - material costs | 18,489,946 | 10,440,518 | 7,315,658 |
| - power, water, gas expenses | 628,939 | 489,847 | 420,929 |
| - staff costs | 25,918,725 | 21,205,208 | 15,763,596 |
| - depreciation | 9,436,852 | 7,831,801 | 6,970,205 |
| - merchandise expenses | 490,274 | 40,464 | 48,095 |
| - other operating expenses | 25,095,789 | 40,634,586 | 8,265,831 |
| Financial expenses | 991,107 | 1,560,437 | 398,708 |
| Gross result - profit | 10,401,127 | | |
| - loss | | 28,821,480 | 5,718,271 |
| Income tax current and deferred | 1,544,383 | 801,159 | 102,290 |
| Net result - profit | 8,856,745 | | |
| - loss | | 29,622,639 | 5,820,561 |

Starting with the previous year, the company implemented a restructuring programme, which led to the reduction of operational costs by putting into conservation some equipment and by staff restructuring - in stages, replace human guards with monitored guard, renegotiation of purchase prices of goods and services and the strict monitoring of specific consumptions on line of business and on cost centers.

Also cost reduction programmes included the temporary reduction in the working week. During the reporting period the number of personnel decreased from 260 employees to 168 employees, without

generating a proportional and immediate reduction of labor costs under the influence of compensations packages granted to employees on dismissal. The impact of the global economic environment and the decline in the oil industry, especially, were established additional security measures to analyze and adjust the impairment of fixed assets.

Summary of actual budget indicators:

| Specification | Achievements -previous year | Year 2016 | |
|---------------------------------|--------------------------------|----------------------|--------------|
| | | Budget Provisions | Achievements |
| Total revenues, of which: | 53,381,381 | 62,317,400 | 33,464,751 |
| Operating income | 50,100,887 | 60,314,000 | 31,139,065 |
| Financial income | 3,280,494 | 2,003,400 | 2,325,686 |
| Total expenses of which: | 82,202,861 | 53,545,100 | 39,183,022 |
| Operating expenses | 80,642,424 | 53,545,100 | 38,784,314 |
| Financial expenses | 1,560,437 | - | 398,708 |
| Gross result: | | | |
| Profit | | 8,772,300 | |
| Loss | 28,821,480 | | 5,718,271 |
| Income tax current and deferred | 801,159 | 1,403,600 | 102,290 |
| Net result: | | | |
| Profit | | 7,368,700 | |
| Loss | 29,622,639 | | 5,820,561 |

Economic and financial indicators from operations, achieved in 2016, below the budgeted level and below the values realized on the same period last year emphasizes the direct effects of an unfavorable economic environment characterized by prolonged decline of global oil prices, while the positive effect of financial result was maintained comparable level to last year.

| Specification | Measuring unit | Year 2014 | Year 2015 | Year 2016 |
|------------------------------------|------------------|--------------|--------------|--------------|
| Average number of staff | Persons | 333 | 283 | 183 |
| Labour productivity annual average | RON/ person | 258,850 | 173,752 | 165,007 |
| Equipment fleet | Number of trucks | 106 | 94 | 90 |

c) *cash flow: all the changes in the cash level within the primary activity, the investments and financial activities, in the cash level at the beginning and end of the period.*

**Statement Cash Flows
Synthesis-indirect method**

| Specification | -lei | | |
|---|--------------|--------------|-------------|
| | 2014 | 2015 | 2016 |
| 0 | 1 | 2 | 3 |
| Net result before tax | 10,401,128 | (28,821,480) | (5,718,271) |
| Operating profit before changes in working capital | 25,165,769 | 3,532,203 | 560,931 |
| Net cash from operating activities | 2,198,087 | 3,605,197 | (1,026,037) |
| Net cash from investment activities | (3,525,259) | 176,254 | 936,979 |
| Net cash from financing activities | (9,900,758) | (5,262,127) | (45,473) |
| Net variation of cash and cash equivalents | (11,227,930) | (1,480,676) | (134,531) |
| Cash and cash equivalents at the beginning of the fiscal year | 20,390,284 | 9,162,354 | 7,681,678 |
| Cash and cash equivalents at the end of the fiscal year | 9,162,354 | 7,681,678 | 7,547,147 |

The execution of contracts with customers and strategic suppliers was managed in conditions of financial balance, and ensuring availability of cash for all full and timely payment of the wages and fiscal debt during the year 2016.

All investment projects were financed from own sources.

In addition to the cash balance at the end of the financial year, the company can freely use the cash from the main account of the cash – pooling system, in the amount of 31,092,094 lei at December 31st, 2016.

| Specification | 2014 | 2015 | 2016 |
|---|--------|--------|---------|
| 1. Liquidity indicators | | | |
| Current liquidity indicator | 7.16 | 9.64 | 9.10 |
| Immediate liquidity indicator | 6.77 | 9.18 | 8.82 |
| 2. Activity indicators | | | |
| Turnover speed of debits - clients (days) | 273.21 | 193.87 | 233.02 |
| Turnover speed of fixed assets | 1.04 | 1.02 | 0.83 |
| 4. Indicators on earnings per share | | | |
| Earnings per share | 0.03 | (0.11) | (0.02) |
| The ratio of market price action and earnings per share | 16.56 | (3.95) | (14,56) |

The indicators presented above reflect the preservation of financial independence, even in the current low rate of debt collection.

6. Corporate Governance

S.C. ROMPETROL WELL SERVICES S.A. is a company listed on the Bucharest Stock Exchange - category II shares under the symbol << PTR >>, dated 18.06.1998, according to the Stock Exchange's Admission Committee decision no. 133/26 March 1998.

The Company is subject to the current legislation applicable to companies and to capital market: Law no. 31/1990 Commercial Company Law – including subsequent amendments, Law no. 82/1991 the Accounting Law – including subsequent amendments, Law no. 297/2004 on the capital market - including subsequent amendments, the National Securities Commission (CNVM) Regulation No. 1/2006 on issuers of securities and operations with securities - including subsequent amendments.

The company's administration has voluntarily adopted, self-imposed, part of the Code of Corporate Governance of Bucharest Stock Exchange (CGC-BSE).

The Bucharest Stock Exchange Code of Corporate Governance is a set of principles and recommendations for companies whose shares are admitted to trading on its regulated market that aims at building an internationally attractive capital market in Romania, based on best practices, transparency and trust. The Code encourages companies to build a strong relationship with their shareholders and other stakeholders, communicate effectively and transparently and show openness towards all potential investors.

New Code launched in September 2015 replaced the original code that was issued in 2001 and revised in 2008.

The change to the new Code was desirable in order to take into account the changing legal environment in Romania and Europe, and the new aspirations of the society and stakeholders about the responsibilities and conduct of companies.

The aim of the Bucharest Stock Exchange Code of Corporate Governance is to improve confidence in listed companies by promoting positive development of corporate governance in these companies.

A good corporate governance is a powerful tool to enhance the competitiveness of the market.

At the center of this Code are access to information for investors and protection of shareholders' rights. Each listed company should aim at fulfilling all provisions of the Code. The role of good governance is to facilitate good, effective, entrepreneurial management that can deliver the long-term success of the company.

Status of compliance of the company with the new BSE Code of Corporate Governance is presented in **Annex no. 2**

In accordance with the articles of incorporation, **S.C. Rompetrol Well Services S.A. is administrated in unitary system**, where the administrative powers fall on an administration board, consisting of five members, elected by the ordinary general meeting of shareholders, with a 4 years mandate.

The Administration Board has full powers in making any administrative and management decisions, other than those which the law expressly confers to the General Shareholders' Meeting.

By exception, the Administration Board will exercise the powers of the General Shareholders' Meeting, powers provided in article 113, letter b, c and f of Law 31/1990, republished.

The Administration Board's decisions shall be valid if taken with the vote of the majority of present members. In case of equal votes, the president has the casting vote.

During 2016, the **Administration Board's composition** was as follows:

- Yerzhan ORYNBASSAROV - President of the Board for the period 01.01.2016 – 31.12.2016;
- Bauyrzhan NUGUMANOV - Member for the period 01.01.2016 – 31.12.2016;
- Adrian - Ion STĂNESCU - Member for the period 01.01.2016 - 31.12.2016;
- Vadim POLETAEV - Member for the period 01.01.2016 – 31.12.2016;
- Aizhan DYKANBAYEVA - Member for the period 01.01.2016 – 31.12.2016.

6.1. Information about members of the Board of Directors

• **Yerzhan ORYNBASSAROV** - Kazakh citizen, born in 1969;
Member of the Board for the period 01.05.2015 – 30.06.2015;
President of the Board starting with 01.07.2015;
The mandate of administrator started on 01.05.2015 and ends on 28.04.2018.
Non-executive member of the Board.

Education, professional qualifications, responsibilities

He is graduate of the Lomonosov State University from Moscow, holding the Excellence Diploma in Mathematical Studies, graduate also of Eurasia Market Institute within the Economic Management Academz, obtaining a Diploma of Excellence as an Economist and with a Masters in Petroleum Business. He also has a master's degree in business administration from the Essec & Mannheim Business School (France-Germany).

He has a strong professional experience in finance and strategic development in the oil and gas industry, working for over 19 years in companies such as KazMunayGas, Kazakhoil-Emba OJSC or Kazakhoil NOC.

He holds top management positions such as deputy general director for finance and economy under the Trading House KazMunayGas and First Vice-President for Economics and Finance from the Kazakhoil-Emba. Also, between 2010 and 2012, Mr. Orynassarov occupied the position of Senior Vice President of KMG International, coordinating all group's business Units.

Within the group KazMunayGaz International, Mr. Orynassarov currently occupies the position of Vice President Corporate Services.

• **Bauyrzhan NUGUMANOV** - kazakh citizen, born in 1984;
President of the Board of Directors for the period 28.04.2014 – 30.06.2015;
Member of the Board of Directors starting with 01.07.2015;
Duration of the mandate: 4 years starting with 28.04.2014;
Non-executive member of the Board.

Education, professional qualifications, responsibilities

He is economist, graduate of the Faculty of Finance and Credit of the University of Economics in Almaty, Kazakhstan-class of 2006, and a Master in Finance at the London Guildhall University-UK. Mr. Bauyrzhan Nugumanov has joined Rompetrol Group in April 2009.

He has a solid professional experience in financial analysis, attracting investments and long-term financial investments, working in various companies such as KazAgroFinance JSC Astana, JSC NC KazMunayGas Astana, JSC NC KazMunayGas RM Astana, LLC ATC KAZ Almaty.

In the KazMunayGaz International (Rompetrol Group), Mr. Nugumanov currently occupies the position of Chief Retail Officer.

• **Adrian-Ion STĂNESCU**, romanian citizen, born in 1953;
Member the Board of Directors for the period 23.11.2002–11.08.2003, 10.05.2013- to the present;
President of the Board for the period 09.03.2006 – 9.05.2013;
Duration of the last mandate: 4 years starting with 28.04.2014;
Executive member of the Board.

Education, professional qualifications, responsibilities

He is engineer, graduate of the Faculty of Mechanics – majoring in Machine Manufacturing Technology, Iasi - class of 1977, and of other specialized courses in the field of cementing operations technology, management and marketing.

He has a solid professional experience in the oil and gas industry, in various domains of this industry: the manufacture of oilfield equipment, in the technology of special operations, in the implementation of modern management practices and qualitative management of resources, in the opening of new markets and increasing the sales volume on domestic and foreign markets, holding management positions at UPETROM Ploiesti (1987-1999), ROMPETROL SA (1999-2001), ROMPETROL WELL SERVICES – General Manager for the periods: 01.07.2011-13.05.2013; 01.07.2015-present, and Deputy General Manager for the periods: 01.05.2003–30.06.2011; 14.05.2013 – 30.06.2015.

• **Vadim POLETAEV** - russian citizen, born in 1964;
Member the Board of Directors starting with 01.07.2015;
The mandate of administrator started on 01.07.2015 and ends on 28.04.2018.
Non-executive member of the Board.

Education, professional qualifications, responsibilities

He is lawyer, graduate of the Master of Law and of the Faculty of Law - University of the People's Friendship in Moscow, Russia 1985-1991

Professional Background:

- Consulting public and private companies (organizations), government agencies and individuals in Russia and abroad.
- Development and drafting of corporate schemes, legal analysis of the transactions, projects, schemes.
- Clients' rights protection in general jurisdiction courts at all levels, arbitration (in Russia and abroad).
- Drafting, negotiation and legal support in execution of contracts, agreements, statutory and other legal documents.
- Experience as a head of legal department of commercial companies, in the working teams for a number of projects (commercial, legislative, etc.), as a managing partner at consulting companies.
- Professional experience in the following countries: Russia, India, Pakistan, Iran, Switzerland, Denmark, United Arab Emirates.

In the KazMunayGaz International (Romp petrol Group), Mr. Poletaev currently occupies the position of Advisor to Group Chief Executive Officer.

• **Aizhan DYKANBAYEVA** - Kazakh citizen, born in 1978.

Member of the Board of Directors Board starting with 28.04.2014;

The duration of this mandat: 4 years starting with 28.04.2014;

Non-executive member of the Board.

Education, professional qualifications, responsibilities

She graduated of the Faculty of International Relations at the State University Almaty, Kazakhstan - class of 2000, a Master "Arts in International Relations" and "International Finance and Energy, Environment, Science and Technology" at the School of Advanced International Studies of the "Johns Hopkins University, USA" in 2002 and INSEAD MBA Class in France / Singapore in 2008.

Mrs. Aizhan Dykanbayeva has joined Rompetrol Group in April 2009.

She has professional experience in tax consulting, auditing oil and gas industry, economic analysis, budgeting, business planning, taxation, investment project analysis, corporate finance.

She worked in various companies such as: PriceWaterhouseCoopers, Planning Institute of Management and Economics Kazakhstan (lector), financial consulting company in Central Asia Kazakhstan (corporate finance director), Trade House KazMunayGas Kazakhstan (Head department of economic analysis and budget), The Rompetrol Group NV (Deputy Director Finance), The Netherlands NV KazMunayGas (CFO).

In the KazMunayGaz International (Romp petrol Group), Mrs. Dykanbayeva currently occupies the position of Advisor to Chief Financial Officer.

The Administration Board evaluated the independence of its non-executive members under the criteria provided in Art. 138 ^ 2 of Law no. 31/1990 - Commercial Company Law, republished and updated and in the Provision 4 Section A (Responsibilities) of the New Code of Corporate Governance of Bucharest Stock Exchange.

Currently, none of the directors does not meet the independence requirements of the aforementioned provision.

In 2016 a number of 7 meetings of the Administration Board were held, the administrators' participation in these meetings being as follows: Orynbassarov Yerzhan - 7 meetings, Bauyrzhan Nugumanov - 7 meetings, Adrian - Ion Stănescu - 7 meetings, Vadim Poletaev - 6 meetings, Aizhan Dykanbayeva - 7 meetings.

All the Administration Board's meetings were presided over by the President. Topics and projects relevant to the Company's business were brought into discussion. Decisions were adopted, taking into account the legal provisions, the regulations, the articles of incorporation and internal incident procedures. The decisions were taken by the "in favour of" vote expressed by the majority of those present, according to the Articles of Incorporation. From the analysis of the manner in which they have been met, it resulted that all decisions taken have been achieved.

For the tax year of 2016, in accordance with the law, directors' remuneration was approved by the Ordinary General Meeting of Shareholders on April 28, 2016. Information on the remuneration costs of directors' and managers' with mandate is given in the annual financial statements.

The company has a financial auditor who worked in accordance with applicable laws and contracts concluded in this regard.

Since 2008, the financial auditor has been "Ernst & Young Assurance Services SRL". The financial auditor has audited the annual financial statements.

Currently, the company does not have an audit committee.

At the Society, in 2016 did not exist Audit Committee. Considering that the organization at KMG International Group level also implies the existence of operational support functions with various responsibilities, the creation of consulting committees (such as audit, appointment, remuneration committees etc) at entity level was not necessary. The relation between the company and the functions at KMG International Group level is regulated by a service agreement.

Constitution of the Audit Committee is underway.

6.2. Executive Leadership

In 2016, the company's executive management is provided by the following directors:

- Mr. Adrian-Ion STĂNESCU - General Manager for the period 01.01.2016 – 31.12.2016
- Mr. Vasile-Gabriel MANOLE - Finance Director for the period 01.01.2016 – 11.04.2016
- Mrs. Valerica DUMITRU - Finance Director for the period 12.04.2016 – 31.12.2016
- Mr. Gheorghe DUMITRU - Production Director for the period 01.01.2016 – 31.12.2016

Duration of the mandate for the General Manager, and Finance Director ending on 27.04.2018, once with the mandate of the current Board of Directors.

6.3. Shareholders' rights

S.C. ROMPETROL WELL SERVICES S.A. ensures fair treatment of all shareholders, including minority and foreign shareholders, in accordance with the law and the Articles of Incorporation of the Company.

The company uses all its best efforts to facilitate shareholders' participation in the works of the General Meeting of Shareholders (GMS). Shareholders of ROMPETROL WELL SERVICES have the opportunity to participate in the GMS directly, through a representative based on special power of attorney or can vote by mail (by sending the vote form by mail of any delivery form or by e-mail with electronic signature incorporated under Law no. 455/2001 on electronic signature).

According to Article 11 of the Articles of Incorporation of the Company, in conjunction with the applicable laws, the **Ordinary General Meeting** shall meet at least once a year within the mandatory deadline required by law, and has the following main tasks:

- a) discuss, approve or modify annual financial statements based on reports submitted by the Board of Directors and the financial auditor, and to determine the dividends;
- b) elect and dismiss directors of the company;
- c) appoint and fix the minimum duration of the financial audit agreements and revoke the financial auditor;
- d) fix for every current year the remuneration due to directors;
- e) to decide on management directors;
- f) review the work of the Board and Directors and to decide the prosecution of directors for the damage to the company, designating the person responsible to exercise it;
- g) to determine the income and expenditure budget and, where appropriate, the working program, for the following tax year;
- h) decide pledging, leasing or closing of one or more units of the company;
- i) approve the maximum limits of remuneration of persons occupying / exercising management positions when required by applicable law;

The Extraordinary General Meeting has the following duties:

- a) changing the legal form of the company;
- b) relocating the company;
- c) changing the object of the company;
- d) the establishment or closure of subsidiaries: branches, agencies, offices or other such units without legal personality, unless otherwise provided by the Articles of Incorporation;
- e) prolongation of company duration;
- f) increase of registered capital;
- g) reduction of registered capital or replenishment by issuing new shares;
- h) merger with another companies or division of the company;
- i) anticipated dissolution of the company;
- j) conversion of shares from one category to another;
- k) conversion of a category of bonds into another category or in shares;
- l) issue of bonds;
- m) approves the adoption / conclusion of legal documents on behalf of the company whose object is worth more than USD 10 million;
- n) any other amendment to the Articles of Incorporation or any other decision for which approval is requested from the Extraordinary General Meeting.

The Extraordinary General Meeting designates the Board of Directors with the exercise of powers provided in letters b) and c) of the above line.

The Extraordinary General Meeting may delegate the Board of Directors with the capital increase in accordance with the provisions of Art. 236 of Law no. 297/2004 on the capital market.

Conducting of the General Meeting of Shareholders

The General Meeting of Shareholders is convened by the directors whenever need be, by publication of an announcement in the Official Gazette of Romania, Part IV, and in one of widespread local or national newspapers in the locality where the company has its registered office. The summons will include: location, date and time of the meeting, with an explicit agenda of all matters that will be subject to debates of the Assembly and any other terms provided for by the capital market.

When the agenda includes proposals to amend the Articles of Incorporation, the call will include the full text of the proposals.

When the agenda includes the election of directors, the call will contain the mention that the list with the names, domicile and professional qualifications of the persons proposed for the position of administrator is available to shareholders and can be accessed and completed by them.

The General Meeting may meet at the Company headquarters or in other place determined in the convening notice by directors. Shareholders may also be represented in the General Meeting by persons who do not have the capacity of shareholder of the Company.

The General Meeting is chaired by Chairman of the Board of Directors or by a person appointed by him, who designates, among the members of the General Meeting of Shareholders or one of the shareholders of the company, one to three secretaries, plus a technical secretary among the employees. They will draw the attendance list of shareholders, by checking the following:

- identity documents of people who come to the General Meeting as shareholders or their authorized proxies;
- special power of attorney submitted by the shareholders' proxies. It will be considered that the power of attorney is valid only for the General Meeting of Shareholders for which it was requested;
- forms to vote by mail.

The secretary of the meeting shall also verify the fulfillment of the legal requirements on the quorum present for the validity of General Meetings.

If the Ordinary or Extraordinary General Meeting cannot work due to failure of the legal requirements on attendance, the meeting that will meet at a second convocation may deliberate on the points on the agenda of the first meeting, regardless of the quorum, taking decisions through the majority of expressed vote.

If the meeting cannot be held due to lack of quorum, the meeting held on a second call can deliberate on the items on the Agenda of the first meeting, regardless of the quorum present, passing the resolutions with the majority of the votes expressed.

After submitting the documents in the agenda, the issues debated by shareholders are voted on by the Chairman of the Meeting.

The General Meeting decisions are taken by open vote, except for the cases when the General Meeting decides that voting should be secret or the law requires a secret ballot.

Each share entitles to one vote in the General Meeting. The person representing more shareholders based on special powers of attorney expresses the votes of persons represented by the aggregation of the number of votes "for", "against" and "abstention" without offsetting them (e.g. "on the x point of the agenda I represent "x" votes "for", "b" votes "against" and "c" abstentions "). Votes so cast are validated or, where appropriate, invalidated, based on the third copy of special powers of attorney by the secretary of the General Meeting. The votes included in the special power of attorney are exercised only in the manner desired by the shareholder.

The Secretary or Secretaries of the meeting, based on the vote freely expressed by shareholders, will prepare the minutes of the General Meeting.

Decisions adopted by the General Meetings of Shareholders in 2016:

The Ordinary General Meeting of Shareholders of S.C. ROMPETROL WELL SERVICES S.A. dated **April 28, 2016** decided the following:

- Approves the annual financial statements for the tax year 2015, based on the Report of administrators and the Report of financial auditor of the Company.
- Approves the coverage of the accounting loss of the year 2015, from reserves constituted from undistributed profit of previous years
- Approves to discharge of liability the Company's administrators for their activity carried out during the financial year 2015.
- Approves the election of Mr. Orynbassarov Yerzhan and of Mr. Vadim Poletaev as members of the Board of Directors, for a mandate starting on the date of this Ordinary General Meeting of the Shareholders and ending on 28.04.2018 (the expiry date of the mandate granted to the current members of the Board of Directors).
- Approves the extension of the mandate of the financial auditor "Ernst & Young Assurance Services SRL", headquartered in Bucharest, sector 1, 15-17 Ion Mihalache Blvd., Bucharest Tower Center Building, 21st floor, registered with the Trade Registry under no. J40/5964/1999, having sole registration code 11909783, member of the Chamber of Financial Auditors of Romania, the agreement concluded with the foregoing company having a 1(one)-year term, starting with 30.04.2016.
S.C. Ernst & Young Assurance Services S.R.L. is duly represented by Mrs. Cora Anamaria, as administrator.
- Approves the income and expenditure budget for 2016. Approves the budget to the investment activity for the year 2016 amounting to 520,000 USD.
- Approves the amount of the monthly allowance due to the members of the Company's Board of Directors for the financial year 2016 to the level of the one established for 2015.
- Approves to empower the General Manager of the Company, Mr. Adrian-Ion Stănescu, to execute the resolutions following to be adopted and to carry-out all due formalities for the fulfillment thereof, the said proxy being entitled to sub-appoint third parties to this effect.
- Approves May 20, 2016 as *Registration Date*, according to art. 238 (1) of the Law no. 297/2004 regarding the capital market, as amended and supplemented.
- Approves May 19, 2016 as the "*ex-date*", in compliance with the provisions of art. 2, letter f) from the Regulation RNSC no. 6/2009 regarding the exercising of certain rights of the shareholders within the general meetings of companies.

Shareholders' rights to dividends

If the General Meeting of Shareholders approves the distribution of dividends from the net profit of the company, are entitled to receive dividends all shareholders registered in the register of shareholders on the record date approved by the General Meeting approving also the value of dividends and the time they are paid to shareholders.

6.4. Transparency, communication, financial reporting

S.C. Rompetrol Well Services attaches great importance to transparency in communication. Considering that the confidence of the public is essential to the company, the company transforms its communication policy into an explicit and mutual commitment between the company and its interlocutors. The fulfilment of reporting obligations and transparency of communication are ways to win the confidence of investors.

The company aims to ensure a continuous and periodic reporting in an objective and honest manner, covering all important aspects of company business, financial status, applied accounting policies, recorded performances.

During 2016 there have been prepared reports and press releases about financial results, summons and decisions of GMS, regular reporting (monthly, quarterly, annual), distributing dividends, etc. The information being subject to mandatory reporting - current and periodic reports - was also presented on the Company's website, www.rompetrol.com in the section Rompetrol Well Services/Relații cu Investitorii/Prezentări

In order to ensure equal access to information for investors, the posting on the Company's website of reports and press releases addressed to the market participants is made after being posted on the market operator, which is the BSE.

In accordance with the law, the accounting and financial statements of Rompetrol Well Services and the ones related to operations are audited by Ernst & Young Assurance Services SRL, an independent financial auditor appointed by the General Meeting of Shareholders of April 28, 2016 for a period of 1 year.

Contact Investor Relations

Annual reports, quarterly and half-yearly, is available to shareholders upon request. Requests may also be made electronically via e-mail at: office.rws@rompetrol.com.

Internal control and risk management systems in relation to financial reporting procedures

The company has continuously adapted the internal control mechanism as a set of procedures and working methods with the scope of preventing acts contrary to the economic interests of the Company and to the regulated framework of the activity, and with the scope of identifying the deficiencies and of establishing the necessary measures to reestablish the regulated framework of the activity. This targets mainly the relationships, phenomena and the financial processes aimed at ensuring the proper functioning of economic activity. Also, aspects of opportunity, necessity and economicity of the company's operations are analyzed. As concerning the financial reporting procedures, the company has developed internal reporting procedures and is also compliant to the external reporting procedures. The procedures are periodically reviewed by the functioning departments of the company. The financial reporting systems are based on the existing legal principles, rules and regulations.

6.5. Social responsibility

S.C. Rompetrol Well Services S.A. actively supports all programs of social responsibility of the Group **KazMunayGaz International** (KMG I).

Community

The strength and evolution of KMG International do not rely on technology but on its people, who make the Group's development possible. Therefore, our CSR initiatives are based on the same values as those of our people.

KMG International views social responsibility as voluntary contribution to the development of the society, correlated with the core values, the objectives, the activities, the international laws and the resources of the Group.

As a revered corporate citizen and worldwide trustworthy partner, we contribute to the development of the countries and communities where we operate by creating jobs, employing local workforce and using local suppliers.

However, our commitment surpasses the economic aspects and implications of our actions. The commitment to CSR provides a guiding framework for all KMG International management decisions and we focus particularly on harnessing industry best practice by encouraging Group and community participation in corporate citizenship projects focused on raising the standards in the areas of business success, environment, health and safety, responsibility towards the community, culture, education and leadership.

Key ways in which we contribute to communities where we operate include paying local taxes, employment, the use and development of local services and suppliers, investment in local infrastructure and social programs, including social investment.

We firmly believe that by strategically investing in local communities we can also positively influence our long-term economic performance. Healthy, vibrant communities drive demand for our services and play an important role in the development of an educated workforce and a robust, sustainable supply chain. We work with stakeholders in all our areas of operations to address challenges and advance the quality of life in the communities.

Community engagement

Our involvement is based on community engagement and consultation, so as to identify the projects which can deliver the greatest value to local communities. We support those initiatives that help improve local economic conditions as it is our belief that economic development leads to the empowerment of local communities.

As part of our ongoing business process, we engage with our community stakeholders either on a project-by-project basis or on a company basis through philanthropic and community programs and initiatives. On a project-by-project basis, we proactively engage local communities, government and municipalities to address project-related social, economic or environmental concerns. This type of community engagement is directed by project management and carried out jointly with our clients and partners. On a company basis, we establish relationships with community stakeholders to proactively identify needs that align with KMG International's strategic focus areas.

Community and corporate partnerships

KMG International, under the Rompetrol brand, continued to be main partner of the George Enescu International Contest, the year's defining event for classical music lovers and promoter of Romania's cultural identity, that gathers thousands of faithful spectators.

KMG International supported the 14th edition of the Civil Society Gala, the most important project dedicated to the activity of the associative sector in Romania.

As of 2003, Rompetrol is a partner and main sponsor for the Civil Society Gala – the annual competition that awards the best projects of the year, initiated by NGOs, unions, individuals etc. Rompetrol Rafinare, member of KMG International, adopted the group's strategy for sustainable development and supports a wide range of CSR projects – such as the partnership with SMURD, established in 2010.

KMG International is actively involved in cultural programs and projects designed to promote the social and cultural values of Romania, both nationally and internationally. In this respect, bringing to Romania the Kazakh Film Festival was a very inspired idea, appreciated by cinema goers.

7. Appendices

a) articles of incorporation of the commercial company, if they have been modified during the reporting year;

Articles of incorporation of the Company was not upgraded during 2015.

b) major contracts concluded by the commercial society during the reporting year;

S.C.ROMPETROL WELL SERVICES S.A. Ploiești, as **provider-supplier**, has developed its activity based on contracts, whose object was services delivery related to oil and gas extraction. In terms of **services contracts** concluded with various internal beneficiaries, the situation at the end of 2016 is as follows:

| CLIENT | Contract value (lei) 2016 | Income (lei) 2016 |
|--|----------------------------------|--------------------------|
| OMV PETROM S.A. BUCURESTI | (*) | 15,254,478 |
| S.N.G.N. ROMGAZ S.A. MEDIAS | (*) | 5,803,578 |
| STRATUM ENERGY ROMANIA LLC WILMINGTON Suc Blejoi | (*) | 1,891,461 |
| WEATHERFORD INTERNATIONAL EASTERN EUROPE SRL | (*) | 1,320,131 |
| FS CRAIOVA | (*) | 1,913,473 |
| FS VIDELE | (*) | 1,213,687 |
| OTHER DOMESTIC CLIENTS | (*) | 2,740,092 |

(*) *There were contracts in execution in 2016 without total value specifications.*

c) resignation/dismissal acts, if there were such situations among the members of the administrative department, executive management, auditors;

On 11.04.2016, Mr. Vasile-Gabriel Manole resigned from the position of financial director.

d) list of company's subsidiaries and societies under its control;

S.C.Romp petrol Well Services S.A. has no subsidiaries or societies under its control.

e) list of persons affiliated to the company¹

S.C. Rompetrol Well Services S.A. is part of the Group: KMG International².

The group (KMG Internațional) is registered to A.S.F. and at 31.12.2016 consisted of the following companies:

- KMG International N.V.³
- Oilfield Exploration Business Solutions S.A.
- Rompetrol Downstream S.R.L.
- Rompetrol Rafinare S.A.
- Palplast S.A.
- Rompetrol Logistics S.R.L.
- Rominserv S.R.L.
- Rom Oil S.A.
- Global Security Sistem S.A.
- Uzina Termoelectrică Midia S.A.
- Rompetrol Petrochemicals S.R.L.
- Rompetrol Quality Control S.R.L.
- Rompetrol Financial Group S.R.L.
- Rompetrol Gas S.R.L.
- Midia Marine Terminal S.R.L.
- KMG Rompetrol S.R.L.

¹At this point they were listed all the companies within the Group: KMG International.

² Until March 2014, under the name The Rompetrol Group

³ Until March 2014, under the name The Rompetrol Group N.V.

- Byron Shipping S.R.L.
- EPPLN SAS (Entrepot Petrolier de Port La Nouvelle)
- Rominserv Valves Ialfo S.R.L.
- Byron Shipping LTD
- Întreprinderea Mixta "Romp petrol Moldova" S.A.
- Rompetrol Georgia LTD
- Rompetrol France SAS
- Dyneff SAS
- Dyneff Espagne SL
- DYNEFF Trading SL⁴
- Dyneff Gas Stations Network SL (DYNEFF CATALOGNE SLU)
- TMP SAS (Terminal Midi Pyrenees)
- DPPLN SAS (Depot Petrolier de Port-la Nouvelle)
- Rompetrol Ukraine LTD
- AGAT LTD.
- KazMunayGas-Engineering LLP⁵
- TRG PETROL TICARET ANONIM ŞİRKETİ
- Rompetrol Bulgaria AD
- KazMunayGaz Trading A.G.
- Rompetrol Energy S.A.
- Rompetrol Albania Downstream Sh.A - liquidation proceedings
- Rompetrol Albania Wholesale Sh.A - liquidation proceedings
- Rompetrol Albania ShA - liquidation proceedings
- Rompetrol Distribution Albania Sh.A. - liquidation proceedings
- KMG Rompetrol Services Center SRL⁶
- KazMunayGas Engineering B.V.
- KazMunayGas Trading SingaporePTE. LTD
- Oman J.V.⁷
- Rompetrol Drilling S.R.L.
- KMG ROMPETROL DEVELOPMENT S.R.L.
- Bio Advanced Energy SAS – cu sediul în Montpellier, Franța⁸
- Bio Advanced Energy Prod SAS – cu sediul în Labarthe Inard, Franța⁹

CHAIRMAN OF THE ADMINISTRATION BOARD,
Mr. Yerzhan ORYNBASSAROV
 by attorney
Mrs. Aizhan DYKANBAYEVA

GENERAL MANAGER,
Mr. Adrian Ion STĂNESCU

FINANCE MANAGER,
Mrs. Valerica DUMITRU



⁴ Until 2014, under the name BIONEFF SL

⁵ With the old name Rominserv Kazakhstan LLC

⁶ With the old name ROMPETROL EXPLORATION & PRODUCTION SRL

⁷ With the old name Benon Rompetrol

⁸ Established in January 11, 2016

⁹ Established in March 14, 2016

OPERATIONAL REVENUES

| NAME ASSORTMENT | 2014 | | | 2015 | | | 2016 | | |
|---------------------------------|----------------|--------|---|----------------|--------|---|----------------|--------|---|
| | ACTUAL | % | | ACTUAL | % | | ACTUAL | % | |
| | RON | 3 | 2 | RON | 4 | 5 | RON | 6 | 7 |
| 1 | | | | | | | | | |
| Down-hole String | 874,092.560 | 0.96 | | 694,466.620 | 1.39 | | 15,231.000 | 0.05 | |
| Slick Line Unit | 1,921,580.380 | 2.10 | | 708,658.250 | 1.41 | | 585,743.410 | 1.89 | |
| Cementing Unit | 52,550,524.980 | 57.52 | | 30,056,187.810 | 59.99 | | 16,601,726.890 | 53.62 | |
| Tank Truck | 774,460.640 | 0.85 | | 521,568.600 | 1.04 | | 162,686.730 | 0.53 | |
| Power Tongs | 2,804,144.790 | 3.07 | | 1,248,617.540 | 2.49 | | 820,375.620 | 2.65 | |
| Solution, spacer preparation | 378,277.700 | 0.41 | | 510,577.900 | 1.02 | | 304,564.550 | 0.98 | |
| Lab Analysys | 1,016,393.100 | 1.11 | | 971,315.800 | 1.94 | | 723,329.650 | 2.34 | |
| Bulk Truck | 4,728,366.110 | 5.18 | | 3,227,231.970 | 6.44 | | 2,124,313.150 | 6.86 | |
| Non-fired Nitrogen | 855,353.460 | 0.94 | | 55,498.000 | 0.11 | | 35,730.800 | 0.12 | |
| Nitrogen Tank | 529,644.270 | 0.58 | | 34,477.000 | 0.07 | | 23,099.770 | 0.07 | |
| Rental equipments | 3,389,928.780 | 3.71 | | 1,878,403.720 | 3.75 | | 944,846.110 | 3.05 | |
| Rental tools | 355,505.170 | 0.39 | | 187,774.730 | 0.37 | | 117,742.200 | 0.38 | |
| Data Acqitsition System | 1,747,171.100 | 1.91 | | 426,951.780 | 0.85 | | 204,722.970 | 0.66 | |
| Cement Silo | 54,569.390 | 0.06 | | 49,131.850 | 0.10 | | 42,341.920 | 0.14 | |
| Chlorine Hydrice Tank | 1,610,029.570 | 1.76 | | 1,023,235.980 | 2.04 | | 1,088,701.480 | 0.12 | |
| Nitrogen | 892,822.050 | 0.98 | | 25,000.000 | 0.05 | | 37,150.000 | 4.29 | |
| Mileage | 1,009,833.820 | 1.11 | | 1,195,066.810 | 2.39 | | 1,327,339.360 | 18.74 | |
| Others | 15,871,434.130 | 17.37 | | 7,286,722.640 | 14.54 | | 5,801,068.390 | 18.74 | |
| OPERATIONAL REVENUES | | | | | | | | | |
| SC Rompetrol Well Services S.A. | 91,364,132.000 | 100.00 | | 50,100,887.000 | 100.00 | | 30,960,714.000 | 100.00 | |

STRUCTURE OF TURNOVER

| Denumire sortiment | 2014 | | 2015 | | 2016 | |
|------------------------------|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| | ACTUAL RON | % | ACTUAL RON | % | ACTUAL RON | % |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Down-hole String | 874,092.560 | 0.99 | 694,466.620 | 1.39 | 15,231.000 | 0.05 |
| Slick Line Unit | 1,921,580.380 | 2.18 | 708,658.250 | 1.42 | 585,743.410 | 1.88 |
| Cementing Unit | 52,550,524.980 | 59.69 | 30,056,187.810 | 60.14 | 16,601,726.890 | 53.37 |
| Tank Truck | 774,460.640 | 0.88 | 521,568.600 | 1.04 | 162,686.730 | 0.52 |
| Power Tongs | 2,804,144.790 | 3.19 | 1,248,617.540 | 2.50 | 820,375.620 | 2.64 |
| Solution, spacer preparation | 378,277.700 | 0.43 | 510,577.900 | 1.02 | 304,564.550 | 0.98 |
| Lab Analysys | 1,016,393.100 | 1.15 | 971,315.800 | 1.94 | 723,329.650 | 2.33 |
| Bulk Truck | 4,728,366.110 | 5.37 | 3,227,231.970 | 6.46 | 2,124,313.150 | 6.83 |
| Non-fired Nitrogen | 855,353.460 | 0.97 | 55,498.000 | 0.11 | 35,730.800 | 0.11 |
| Nitrogen Tank | 529,644.270 | 0.60 | 34,477.000 | 0.07 | 23,099.770 | 0.07 |
| Rental equipments | 3,389,928.780 | 3.85 | 1,878,403.720 | 3.76 | 944,846.110 | 3.04 |
| Rental tools | 355,505.170 | 0.40 | 187,774.730 | 0.38 | 117,742.200 | 0.38 |
| Data Acqitsition System | 1,747,171.100 | 1.98 | 426,951.780 | 0.85 | 204,722.970 | 0.66 |
| Cement Silo | 54,569.390 | 0.06 | 49,131.850 | 0.10 | 42,341.920 | 0.14 |
| Chlorine Hydride Tank | 1,610,029.570 | 1.83 | 1,023,235.980 | 2.05 | 1,088,701.480 | 3.50 |
| Nitrogen | 892,822.050 | 1.01 | 25,000.000 | 0.05 | 37,150.000 | 0.12 |
| Mileage | 1,009,833.820 | 1.15 | 1,195,066.810 | 2.39 | 1,327,339.360 | 4.27 |
| Others | 12,541,481.130 | 14.25 | 7,160,860.640 | 14.33 | 5,946,464.390 | 19.12 |
| TURNOVER | 88,034,179.000 | 100.00 | 49,975,025.000 | 100.00 | 31,106,110.000 | 100.00 |

**Status of compliance of the new BSE Governance Corporate Code
as of December 31th, 2016**

| Governance Corporate Code | Compliance | Not compliance or partial compliance | Reason for the non-compliance |
|--|------------|--------------------------------------|--|
| <p>A.1. All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A.</p> | | Partial compliance | The terms of reference / Board's responsibilities and key functions of the company management are also included in the company's Articles of Association. This requirement will be analyzed in the Board meetings in 2017. |
| <p>A.2. Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting nonquorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.</p> | | Partial compliance | The Articles of Association do not contain any provisions concerning the management of conflicts of interest. However, the recommendation of the Corporate Governance Code is complied with. |
| <p>A.3. The Board of Directors should have at least five members.</p> | YES | | |
| <p>A.4. The majority of the members of the Board should be non-executive. Not less than two non-executive members of the Board of Directors should be independent, in the case of Premium Tier Companies. Each member of the Board should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgment.</p> | | Partial compliance | Most of the Board members are non-executive directors. Currently, there are no independent directors. This requirement will be analyzed at Board level. |
| <p>A.5. A Board member's other relatively permanent professional commitments and engagements, including executive and</p> | YES | | |

| | | | | |
|--|--------------------|-----|--|---|
| nonexecutive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate. | | | | |
| A.6. Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. | NOT | | | The requirement will be implemented. |
| A.7. The company should appoint a Board secretary responsible for supporting the work of the Board. | Partial compliance | | | Support - legal department |
| A.8. The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process. | NOT | | | The company will develop a policy / guidance concerning the Board's evaluation and including the purpose, criteria and frequency of the evaluation process. |
| A.9. The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities. | | YES | | |
| A.10. The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors. | | YES | | |
| A.11. The Board of Premium Tier companies should set up a nomination committee formed of nonexecutives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the nomination committee should be independent. | N/A | | | The company is included in the Standard Category. |
| B.1. The Board should set up an audit committee, and at least one member should be an independent nonexecutive. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent. | NOT | | | Constitution of the Audit Committee is underway. Considering that the organization at KMG International Group level also implies the existence of operational support functions with various responsibilities, the creation of consulting |

| | | | | |
|--|-----|--|-----|---|
| | | | | committees (such as audit, appointment, remuneration committees etc) at entity level was not necessary. The relation between the company and the functions at KMG International Group level is regulated by a service agreement. If the conditions are met and the need arises, the committee will be created. See the explanation at B.1. |
| B.2. The audit committee should be chaired by an independent nonexecutive member. | | | NOT | See the explanation at B.1. |
| B.3. Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control. | | | NOT | See the explanation at B.1. |
| B.4. The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board. | | | NOT | See the explanation at B.1. |
| B.5. The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties. | | | NOT | See the explanation at B.1. |
| B.6. The audit committee should evaluate the efficiency of the internal control system and risk management system. | | | NOT | See the explanation at B.1. |
| B.7. The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team. | | | NOT | See the explanation at B.1. |
| B.8. Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by periodical (at least annual), or ad-hoc reports to be submitted to the Board afterwards. | | | NOT | See the explanation at B.1. |
| B.9. No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties. | YES | | | |

| | | |
|---|--------------------|---|
| <p>B.10. The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the audit committee.</p> | NOT | This requirement will be analyzed by the Board in 2017. |
| <p>B.11. The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.</p> | YES | |
| <p>B.12. To ensure the fulfillment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.</p> | Partial compliance | The internal auditor reports directly to the CEO, Board of directors and specific departments of KMG International Group |
| <p>C.1. The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.</p> | NOT | The requirement will be implemented. |
| <p>D.1. The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:</p> | YES | |
| <ul style="list-style-type: none"> • D.1.1.1. Principal corporate regulations: the articles of association, general shareholders' meeting procedures; | YES | |
| <ul style="list-style-type: none"> • D.1.1.2. Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions; | Partial Compliance | The recommendation is not implemented as concerns other professional commitments of the Board's members, including executive and non-executive positions in the boards of administration of other companies or non-profit institutions. It will be implemented. |

| | | | |
|---|-----|-----|--------------------------------------|
| <ul style="list-style-type: none"> • D.1.1.3. Current reports and periodic reports (quarterly, semi-annual and annual reports); | YES | | |
| <ul style="list-style-type: none"> • D.1.1.4. Information related to general meetings of shareholders; | YES | | |
| <ul style="list-style-type: none"> • D.1.1.5. Information on corporate events; | YES | | |
| <ul style="list-style-type: none"> • D.1.1.6. The name and contact data of a person who should be able to provide knowledgeable information on request; | YES | | |
| <ul style="list-style-type: none"> • D.1.1.7. Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semiannual, annual), auditor reports and annual reports. | YES | | |
| <p>D.2. A company should have an annual cash distribution or dividend policy. The annual cash distribution or dividend policy principles should be published on the corporate website.</p> | | NOT | The requirement will be implemented. |
| <p>D.3. A company should have adopted a policy with respect to forecasts, whether they are distributed or not. The forecast policy should be published on the corporate website.</p> | | NOT | The requirement will be implemented. |
| <p>D.4. The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.</p> | YES | | |
| <p>D.5. The external auditors should attend the shareholders' meetings when their reports are presented there.</p> | YES | | |
| <p>D.6. The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.</p> | YES | | |
| <p>D.7. Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.</p> | YES | | |

| | | | |
|---|------------|---------------------------|---|
| <p>D.8. The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.</p> | <p>YES</p> | | |
| <p>D.9. A company should organize at least two meetings /conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.</p> | | <p>Partial Compliance</p> | <p>The regular reports prepared by the company to disclose its financial items are complete, highly transparent and relevant in terms of information necessary for making investment decisions. The organization of such events will be established depending on the requests from investors.</p> |
| <p>D.10. If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.</p> | <p>YES</p> | | |

CHAIRMAN OF THE ADMINISTRATION BOARD,

Mr. Yerzhan ORYNBASSAROV

by attorney

Mrs. Aizhan DYKANBAYEVA




MEMBER OF THE ADMINISTRATION BOARD

GENERAL MANAGER,

Mr. Adrian Ion STANESCU

