



List of questions submitted by Rompetrol Well Services SA's shareholders regarding the Ordinary General Meeting of Shareholders of April 27, 2020, as well as the related answers:

Question 1: Note 1: In regards to the Kazakhstan branch, why are receivables negative (RON -218,608); what receivables were written of RON 619,998, where they related to KMG group entities or related parties?

Answer:

The impact on the financial statements of the company determined by the completion of the liquidation and deregistration process of the branch registered in Kazakhstan was presented in the individual financial statements of 2019, in note 1, both at the level of the financial position and on the profit and loss account.

The decrease in the financial position, presented in note 1 to the individual financial statements of the company, in the amount of RON 218,608 reflects the decrease in the balance sheet position "Trade receivables and similar" as a result of write-off of the branch assets in gross amount of 619.998 RON, whose structure is presented below, simultaneously with the reversal of value adjustment in the amount of 401,389 RON.

The analytical structure of the assets of the Kazakh branch of the company at the time of the completion of the liquidation and deregistration process is presented as follows:

	RON
Trade receivables	449.207
Sundry debtors	159.777
Settlements from operations under clarification	11.014
Trade and similar receivables in gross amount	619.998
Value adjustment for trade receivables	(401.389)
Trade and similar receivables in net amount	218.608

The trade and similar receivables of the branch whose collection terms were prescribed and were the object of removal from the records as a result of the liquidation of the branch, were not resulted from the relations developed with affiliated parties.

Question 2: Reevaluation of Rompetrol Logistics: what triggered this, since the company you mention it as a dormant entity? Was there in 2019 any constant and predictable cash flow from Rompetrol Gas, as dividends to Rompetrol Logistics, since you used a DCF method? If the entity is dormant, only the actual, predictable cash flow from Rompetrol Gas is relevant.

Answer:

Investments in equity instruments must be measured at fair value in accordance with the requirements of IFRS 9 "Financial Instruments", which implies also the application of the provisions of the International Financial Reporting Standard IFRS 13 "Fair Value Measurement", which defines fair value, presents fair value measurement and disclosure requirements on fair value measurements. When the fair values of financial assets and financial liabilities recorded in the statement of financial position



cannot be measured on the basis of prices quoted in the active markets, their fair value is measured using valuation techniques, including the discounted cash flow (DCF) model.

At the end of the financial year 2019, the valuation technique used to assess the fair value of unlisted capital instruments (strategic investment held in Rompetrol Logistics SRL) was improved, as the Company took into account new information available at the time of preparation of financial statements, as well as the need of providing more reliable and relevant information on the financial assets held.

At the end of the financial year 2019, the company determined the fair value of the participation in Rompetrol Logistics using a cash flow approach and chose the Discounted Cash Flow (DCF) method which views the company subject to valuation as a project of investments that have, on the one hand, a certain volume of committed capitals (equity + financial debts) and, on the other hand, means of production that correspond to the fixed assets in operation and the necessary working capital. The major difference between the available cash flow method (the method chosen by the Company) and the free cash flow method lies in the fact that it does not take into account the company's ability to generate available cash flows that can be attributed to shareholders in the form of dividends.

Although the development perspective of Rompetrol Logistics (RPL) is limited, and the forecast of cash flows over the forecast horizon remains relatively constant and comparable to previous years, the Company considered the opportunity to establish the fair value of RPL discounted cash flow calculation of the company Rompetrol Gas, having as main argument the fact that RPL fully owns Rompetrol GAS, and the history and budgetary forecast of the latter provides a constant and predictable growth rate.

Question 3: Management Services: what is the rationale for management services to a subsidiary of the main shareholder KazMunaiGas, when the company already has a competent management team?

Answer:

The management team of ROMPETROL WELL SERVICES (named further “the Company” or “RWS”) is a mixed one, in the sense that part of the management staff is employed by RWS, and another part is provided by KMG Rompetrol SRL (“KMGR”) based on provisions of management and consulting services agreement.

Consequently, part of the amounts invoiced by KMGR as direct management, based on the management and consulting agreement, represent personnel costs for management activity performed for the benefit of RWS.

In addition to the management services directly provided by KMGR, based on management and consulting services agreement, there are also provided support services such as: legal services, direct IT services (SAP rental, IT security systems, etc).

The motivation for the acquisition of these management services and other services provided centralized is the standardization of services necessary for value-added activity by centralized use of resources at group level and organizing certain functions in service centers. Thus, within the KMG International Group (“KMGI”), KMGR fulfills the function of corporate center and respectively provider of operational management services and other services provided centralized, having a consulting role



regarding the Company's activities and provides us with the necessary support to achieve the objectives, in accordance with the Company's strategy.

Company optimizes its internal processes and costs by using services provided by KMGR, instead of relying only on internal resources or using external resources to the group, allowing the Company to focus on the main operations.

Question 4: The expenses with the management services paid towards a subsidiary of KazMunaiGas, namely KMG Rompetrol SRL, are these considered tax deductible from a fiscal standpoint? Do you deduct VAT for these services?

Answer:

The expenses made with the management and consulting services provided for the benefit of ROMPETROL WELL SERVICES ("The Company") by the affiliated company KMG Rompetrol SRL ("KMGR"), are deductible expenses for the calculation of corporate income tax due for 2019 according to provisions of art. 25 paragraph (1) of Law no. 227/2016 regarding the Fiscal Code, being expenses incurred by the Company in order to carry out its economic activity.

From the perspective of transfer pricing requirements, the price of management and consulting services provided during 2019 by KMGR for the benefit of the Company complies with the internal legislation in force, being determined by summing the KMGR costs directly allocable to the Company as follows: staff costs for personnel dedicated to Company's activities, costs related to the IT services representing SAP rental, security systems, etc., necessary for activity of Company, costs related to the legal assistance services performed for the needs of the Company, etc.

Also, the Company exercises its right to deduct VAT related to management services and other centralized services provided by KMGR, being fulfilled the conditions provided by art. 299 of the Fiscal Code, namely: the services were actually provided and were used for the benefit of the taxable activity carried out by the Company.

Question 5: Subcontracting expenses in amount of RON 2,766,084 in 2019 (p.28 of the Notes to Financial Statements): is this subcontractor an affiliate party?

Answer:

The entity that acts as a subcontractor for the provision of a part of the acidizing, hot oil pumping and nitrogen services, whose value, at the level of the financial year 2019, is in the amount of RON 2,766,084, is not an affiliated party of the Company.

Question 6: Note 14: impairment of receivables – why has the Expected Credit Loss Rate (%) been reduced for most of the periods? What triggered this?

Answer:

Impairment losses are determined based on the international financial reporting standard IFRS 9 "Financial Instruments" which introduces a new model, based on expected losses, by requiring the early recognition of losses expected to arise from impairment of receivables. IFRS 9 recognizes the "expected



credit loss" (ECL) model for impairment. Expected credit losses are recognized at each reporting period, and the impairment matrix used is updated annually.

Aspects related to the business environment in which the company operates, that aimed the relaunching of the oil and gas extraction industry and with resizing the operational plans of companies in the industry and relaunching investment projects in the Upstream area, starting with 2018 and which led to increased stability of companies and of the promptness in the payment relations, concomitantly with a more complex analysis of Company's credit risk of clients' portfolio and the consolidation of the measures for pursuing and recovering the commercial credits generated a favorable evolution, in the sense of decreasing the receivables not collected at the due terms. This decrease was reflected in a reduction in the percentage of loss for each interval (Expected Credit Loss Rate%), given that it is updated annually, based on historical data for recent years, as an arithmetic average, for each non-collection interval of customer receivables (aging).

Question 7: Can you break down the services Rompetrol Well Services acquired from KMG Rompetrol SRL in amount of RON 2,202,366 in 2019 and from Rompetrol Services Center of RON 1,850,248 ?

Answer:

The services invoiced by KMGR to RWS during the financial year 2019 based on the management and consulting services agreement, represents mainly:

- direct management services
- direct IT services (information systems rental - SAP, security systems, etc.)
- legal services.

The presentation order of the above mentioned services take into consideration the share held in the total expenses in decreasing sense.

The services provided by KMG Rompetrol Services Center SRL to the Company in the financial year 2019 represents mainly:

- IT services (support for computer applications, telephony, infrastructure, etc.)
- outsourced procurement services (Procurement)
- human resources (outsourced personal administration services, payroll, recruitment, etc.)
- other outsourced services.

The presentation order of the above mentioned services take into consideration the share held in the total expenses in decreasing sense.

KMG Rompetrol Services Center SRL acts as a dedicated shared services center of the KMG Group for support activities, arranging for a wide range of low adding value services to be available to its members – as they are defined in the OECD Guidelines on transfer pricing in the case of low-value-adding services.