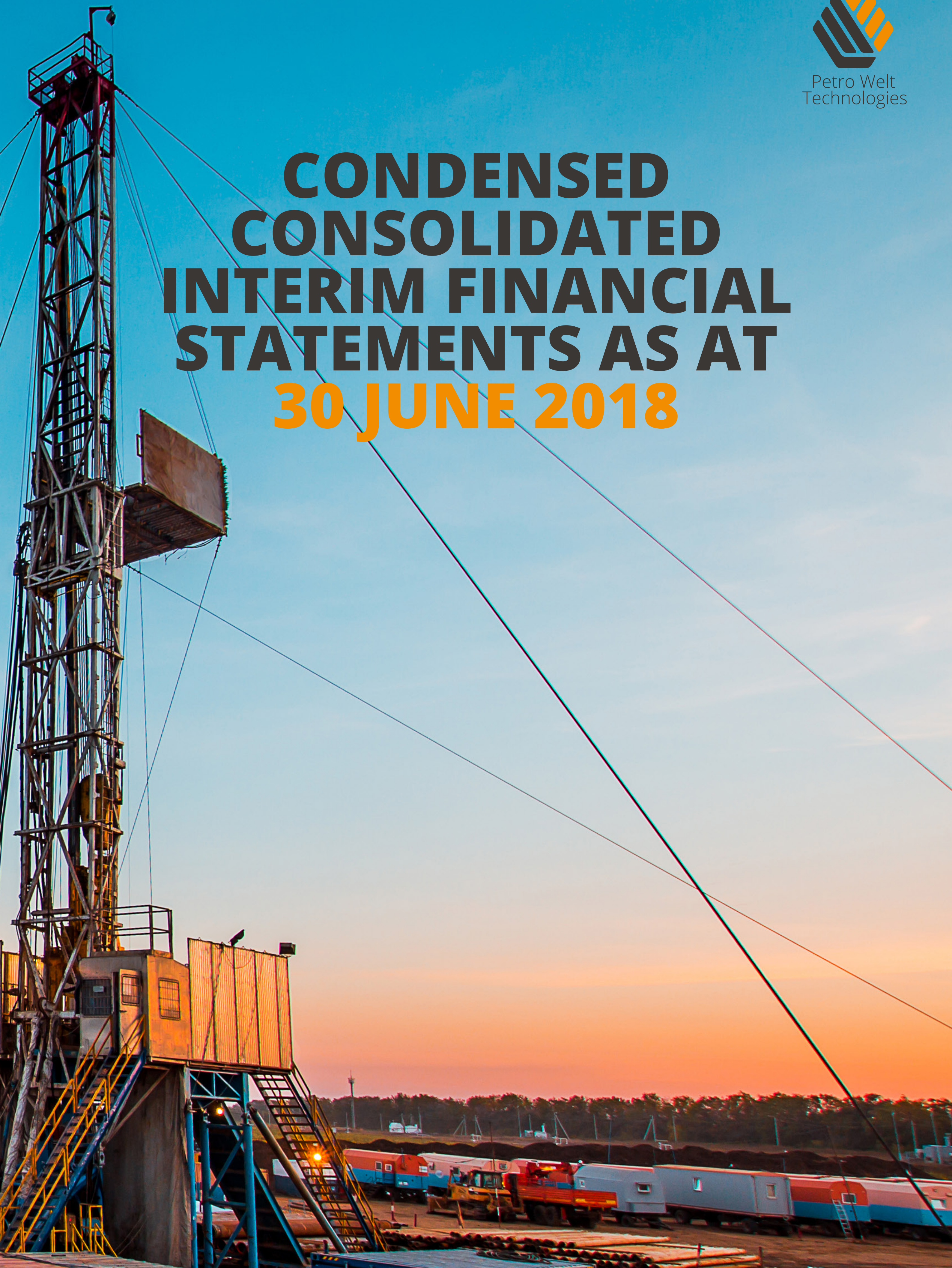
Petro Welt Technologies

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 30 JUNE 2018



Key group figures

in EUR million	H1 2018	H1 2017	Change
Sales revenues	154.4	175.7	-12.1%
Gross profit	25.6	28.9	-11.4%
EBIT	12.1	16.7	-27.5%
EBIT margin	7.8%	9.5%	
EBITDA	33.3	41.3	-19.4%
EBITDA margin	21.6%	23.5%	
Group result	9.7	16.7	-41.9%
Balance sheet total*	415.2	437.9	-5.2%
Equity*	232.3	242.0	-4.0%
Equity ratio*	55.9%	55.3%	
Cash flow from operating activities	27.5	13.9	97.8%
Cash flows used in investing activities	-	(13.3)	-100.0%
Cash and cash equivalents	89.8	98.7	-9.0%
EUR exchange rate at the end of reporting period	72.9921	68.8668	6.0%
EUR average exchange rate for the reporting period	71.8223	62.7187	14.5%
Employees (average)	3,222	3,392	-5.0%

* as at 30 June 2018 and 31 December 2017 respectively

Content

4	**Management Report**
4	Performance of Petro Welt Technologies AG
8	**Condensed consolidated interim financial statements as at 30 June 2018**
8	Consolidated Balance Sheet
9	Condensed Consolidated Income Statement
10	Consolidated Statement of Comprehensive income
11	Consolidated Statement of Changes in Equity
12	Consolidated Cash Flow Statement
13	Notes
26	Legal notice

Performance of Petro Welt Technologies AG

Economic environment

The expectation that Russia would experience economic growth in 2018 has been fulfilled within the year's first six months. Experts predicted growth to pick up further, thanks to both strengthening private consumption and firmer oil prices. The improving labor market and low inflation should maintain household spending, while higher commodity prices should support export growth. At the beginning of January 2018, the USD/RUB exchange rate was 57.60 rubles per US dollar and the price of Brent crude was USD 67.94 per barrel.

The economic momentum at the beginning of 2018 continued in the year's second quarter. Higher oil prices are buttressing Russia's all-important energy sector, and export growth was firm both in April and May. Moreover, the unemployment rate remained at a multi-year low in June, with retail sales picking up at the same time, buoyed by spending related to the FIFA World-Cup. At the end of June 2018, the average USD/RUB exchange rate was 62.76 rubles per US dollar, and the price of Brent crude was USD 76.37 per barrel.

With the United States pushing the non-OPEC supply to 2.2 million barrels per day (mb/d), global oil production rose to a new high in the first six months of 2018. Yet, prices have remained relatively high due to various supply concerns (e.g. Iran, Venezuela). Oil production in Russia in the year's first half, however, declined slightly by 0.4% compared to the same period of the previous year.

Inflation in Russia remained low. In June, accrued inflation from the beginning of the year was 2.3%. Experts see inflation at 3.7% by the close of the year, which would still be below the Central Bank's target of 4.0%. The growth of Russia's industrial production was reduced to a six-month low in June. According to Rosstat, year over year the country's industrial output growth rate in June 2018 decelerated to 2.2%, down from the 3.7% rise (in annual terms) registered in May 2018. As a result, industrial output rose by 3% during the year's first half. The Ministry of Economic Development announced that Russia's GDP rose by 1.7% between January and June 2018. The EUR/RUB exchange rate as at 30 June 2018 (72.99 ruble per euro) increased by 6.0% compared with the rate as at 31 December 2017 (68.87 rubles per euro).

According to an estimate of the Ministry of Economy and Trade of Kazakhstan, the country's economy expanded between January and June 2018, growing 4.1% year on year. The strong growth momentum was corroborated by the rise in the short-term economic activity indicator throughout the second quarter of 2018. Encouraging higher industrial output (+5.2% year on year) driven by oil and gas production — which increased by 6.2% and 6.4%, respectively — boosted exports and helped to reduce the country's current account deficit, which decreased by more than one half in the first quarter of 2018 compared to the prior year period. The second half of 2018 will see maintenance work in Bolshak, Tengiz, and Karachaganak, which will weigh on output.

Revenues and expenses

An unexpected call-off in May and June 2018 of previously contracted volumes by a number of key customers in the Sidetracking segment caused sales revenues for the first six months of 2018 to drop substantially by 12.1% to EUR 154.4 million compared with the first six months of 2017 (EUR 175.7 million). Presented in rubles, slight increase in revenue by 0.6% was not enough to compensate depreciation of the ruble that started in 2018.

Segment reporting

External revenues		H1 2018	H1 2017	Change	Change in%
Well Services	**EUR million**	**89.6**	**88.3**	**1.3**	**1.5%**
Jobs	Number	2,443	2,675	-232	-8.7%
Average revenue per job	EUR thousand	36.7	33.0	3.7	11.1%
Share of revenues	%	58.0	50.3	-	-
Drilling, Sidetracking, IPM	**EUR million**	**60.0**	**87.4**	**-27.4**	**-31.4%**
Jobs	Number	119	172	-53	-30.8%
Average revenue per job	EUR thousand	504.2	508.1	-3.9	-0.8%
Share of revenues	%	38.9	49.7	-	-
Proppant production	**EUR million**	**4.8**	**-**	**-**	**-**
Total	**EUR million**	**154.4**	**175.7**	**-21.3**	**-12.1%**

The cost of sales, calculated in both euros and rubles, correlates with the dynamics of sales revenues, declining by 12.3% in euros and growing by 0.5% in rubles, respectively. At 16.6%, the gross profit margin for the first half of 2018 closely tracked that for the first half of 2017 (16.4%).

EBIT for the first six months of 2018 fell to EUR 12.1 million, down from EUR 16.7 million for the first six months 2017. The financial result (as the difference between financial income and expense) for the first half of 2018 is EUR 1.8 million (first half of 2017: EUR 2.5 million).

Segment Reporting

The Well Services segment posted a 1.5% increase in sales revenues, from EUR 88.3 million in the first six months of 2017 to EUR 89.6 million in the first six months of 2018. As the number of jobs fell by 8.7% to 2,443, the average revenue per job rose by 11.1 % to EUR 36.7 thousand. Such positive development of revenue per operation is due to the continuing increase in the share of multistage frackings offered by the Well Services division.

Sales revenues generated in the Drilling, Sidetracking, and IPM segment declined from EUR 87.4 million for the first half of 2017 by 31.4% to EUR 60.0 million in the first half of 2018. As mentioned above, this decline was caused by several key customers cancelling jobs for already contracted volumes in May and June 2018. The average revenue per job in euros was down by 0.8%, and the number of jobs fell by 30.8% in the first six months of 2018 compared with the prior-year period.

Revenues from proppant sales for the first six months of 2018 were EUR 4.8 million.

Earnings

Profit before tax and net profit in euros declined by 27.2% and 41.9%, respectively. The decrease in the profit before tax was mainly attributable to the lower sales revenues. Profit before tax for the first half of 2018 was EUR 13.9 million (first half of 2017: EUR 19.1 million), while profit after tax fell to EUR 9.7 million in the first six months of 2018, down from EUR 16.7 million in the same period of 2017.

EBITDA and cash flow

The EBITDA margin declined to 21.6% during the reporting period from 23.5% in the prior-year period. Cash flow from operating activities almost doubled (plus 97.8%) from EUR 13.9 million in the prior-year period to EUR 27.5 million in the reporting period thanks to both systematic optimization measures regarding both trade receivables and savings reached due to optimization potential of procurement process.

Accordingly, the managerial cash position, which is calculated as the sum of cash and cash equivalents and bank deposits, had strengthened by 4.5% as at the close of the reporting period, rising to EUR 140.5 million compared to EUR 134.4 million as at 31 December 2017.

Balance sheet

As at 30 June 2018, total assets decreased by 5.2% to EUR 415.2 million compared to the end of 2017, mainly due to the reduction in three positions: property, plant and equipment, trade receivables, as well as bank deposits. The equity ratio increased, reaching 55.9% as at 30 June 2018 reporting date compared to 55.3% as at 31 December 2017.

Risk report

Non-OPEC countries (such as Russia) and OPEC countries (specifically, the Gulf countries) have significantly boosted production. Future potential shortages in the oil supply are likely to be compensated by the increase of production. As Iran comes under mounting pressure by the US, its exports have fallen by 230 kb/d, albeit from a relatively high level in May 2018. At the same time, Venezuela's oil sector continued to unravel in June, with output falling 60 by kb/d to 1.3 mb/d — down 730 kb/d from the prior year period. The higher production levels following the Vienna Agreement may also lead to an easing in terms of prices. The price of Brent crude fell from its high of USD 79.8 per barrel in May to between USD 71 and USD 72 per barrel by mid-August. It remains to be seen, however, whether this intervention will keep prices stable – or whether demand by China and India will trigger higher prices. As for Russia and Kazakhstan, these circumstances may lead to increased competition in all segments of the oilfield services market. The risk of unexpected call-offs of already contracted volumes remains real.

As in the previous year, the sanctions regime is still in place, limiting Russian companies' access to technology and equipment. The company is responding to this challenge by implementing import substitution programs for all conceivable technological areas without compromising on service quality. Potentially, additional sanctions are likely to impact the currency market and the valuation of the ruble.

Related party transactions

The company completed the restructuring of the EUR 100 million loan: the interest rate was reduced at arm's length, and both the principal and the interest are set to mature on 31 December 2022, thus securing the company's financial stability in the long term.

See also Note 12 of the Condensed Consolidated Interim Financial Statements as at 30 June 2018.

Outlook

In Russia, economic growth is expected to continue this year, thanks to strengthening private consumption and firmer oil prices. Low inflation should sustain household spending, while higher commodity prices will support export growth. That said, high geopolitical uncertainty and the possibility of further economic sanctions remain key risks to the outlook. Experts see Russia's GDP expanding by 1.9% in 2018 and by 1.4% in 2019.

Kazakhstan's economy is expected to maintain a solid rate of growth, supported by increased investment in the oil sector, higher energy prices, and an upturn in domestic demand amid weaker inflationary pressures. Challenges to the outlook stem from the country's still-struggling banking sector, its over-dependence on oil, and the political uncertainty surrounding the transition of power if President Nazarbayev, who has been at the helm since 1991, decides not to run for office again in the 2020 presidential election. Experts see GDP growing by 3.7% in 2018 and by 3.5% in 2019.

Due to the cancellation of contracted volumes by key clients in May and June 2018, the company's management revised its revenue expectations for 2018 to between EUR 310 million and EUR 315 million. The Group's EBITDA margin is expected to decline slightly to a level of between 21% and 22%. This forecast does not take into account any potential unexpected external economic developments, such as further sanctions or further devaluation of the ruble.

Events after the balance sheet date

On 1 July 2018, the company sold and transferred its shares in Petro Welt GEODATA GmbH for one euro. GEODATA has been inactive for more than three years and was disclosed in the financial statements as discontinued operations.

On 11 July 2018, the company signed an agreement for amending the terms of the loan of EUR 100 million loan that fixed interest rates at 3.42% above the 6-month EURIBOR rate and extended the loan until 31 December 2022.

Responsibility statement

We confirm to the best of our knowledge that the condensed consolidated interim financial statements provide a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group as required by the applicable accounting standards. We also confirm that this interim report provides a true and fair view of important events that have occurred during the first six months of the fiscal year and their impact on the condensed consolidated interim financial statements, and of the principal risks and uncertainties for the remaining six months of the fiscal year and of the major related party transactions to be disclosed.

Vienna, August 21, 2018, Board of Management

Yury Semenov
Chief Executive Officer, CEO

Valeriy Inyushin
Chief Financial Officer, CFO

Consolidated Balance Sheet as at 30 June 2018

in EUR thousand	Notes	06/30/2018	12/31/2017
Assets			
Non-current assets		**145,156**	**159,740**
Property, plant and equipment	2	140,823	153,787
Intangible assets	2	2,159	2,291
Goodwill		1,642	1,110
Other assets		91	1,942
Deferred tax assets	6	441	610
Current assets		**270,053**	**278,204**
Inventories	3	37,829	40,132
Trade receivables	4	87,804	97,035
Bank deposits		50,781	65,489
Other receivables	4	2,850	5,783
Tax receivables	4	1,025	878
Cash and cash equivalents		89,764	68,887
Balance sheet total		**415,209**	**437,944**
Equity and liabilities			
Equity		**232,333**	**241,956**
Share capital	5	48,850	48,850
Capital reserve		111,987	111,987
Retained earnings		261,633	251,889
Remeasurement of defined benefit plans		263	263
Currency translation reserve		(190,400)	(171,033)
Non-current liabilities		**5,409**	**4,620**
Deferred tax liabilities	6	4,406	3,617
Employee benefits		1,003	1,003
Current liabilities		**177,467**	**191,368**
Current financial liabilities to related parties	7	114,395	112,526
Trade payables	7	36,774	43,427
Other liabilities	7	25,002	31,429
Advance payments received	7	104	11
Income tax payables	7	1,192	3,975
Balance sheet total		**415,209**	**437,944**

Condensed Consolidated Income Statement for the three and six months ended 30 June 2018

in EUR thousand	Notes	Q2 2018	Q2 2017	H1 2018	H1 2017
Sales revenues	8	77,788	95,938	154,433	175,724
Cost of sales	9	(64,111)	(76,441)	(128,825)	(146,859)
Gross profit		**13,677**	**19,497**	**25,608**	**28,865**
Administrative expenses		(6,388)	(6,275)	(12,095)	(11,349)
Selling expenses		(250)	-	(573)	-
Other operating income		592	609	1,208	886
Other operating expenses		(1,091)	(1,489)	(2,087)	(1,746)
Operating result		**6,540**	**12,342**	**12,061**	**16,656**
Finance income		1,842	2,265	3,914	4,531
Finance costs		(1,221)	(1,050)	(2,097)	(2,049)
Financial result		**621**	**1,215**	**1,817**	**2,482**
Profit before tax		**7,161**	**13,557**	**13,878**	**19,138**
Income tax expense	6	(1,677)	(999)	(4,112)	(2,287)
Profit after tax from continuing operations		**5,484**	**12,558**	**9,766**	**16,851**
Loss before tax from discontinued operation		(6)	(32)	(22)	(119)
Profit after tax		**5,478**	**12,526**	**9,744**	**16,732**
Basic earnings per share in EUR	10	0.11	0.26	0.20	0.34
Diluted earnings per share in EUR	10	0.11	0.26	0.20	0.34

Consolidated Statement of Comprehensive income for the three and six months ended 30 June 2018

in EUR thousand	Notes	Q2 2018	Q2 2017	H1 2018	H1 2017
Profit		5,478	12,526	9,744	16,732
Items that may be reclassified to profit or loss:					
Foreign currency translation differences for foreign operations:					
Functional currency	1	(7,400)	(19,277)	(12,838)	(9,980)
Net investments	1	(3,980)	(17,181)	(6,771)	(9,278)
Income tax effect related to net investments		(418)	1,630	242	876
Total other comprehensive income		(11,798)	(34,828)	(19,367)	(18,382)
Total comprehensive income		**(6,320)**	**(22,302)**	**(9,623)**	**(1,650)**

Consolidated Statement of Changes in Equity for the six months ended 30 June 2018

in EUR thousand	Share capital	Capital reserve	Retained earnings	Remeasurement of defined benefit plans	Currency translation reserve		Total equity
					Functional currency	Net investment	
As at 1 January 2017	48,850	111,987	220,874	215	(63,365)	(85,228)	233,333
Profit after tax	-	-	16,732	-	-	-	16,732
Currency translation differences:							
Currency translation differences	-	-	-	-	(9,980)	-	(9,980)
Net investments, net of related tax	-	-	-	-		(8,402)	(8,402)
Total comprehensive income	**-**	**-**	**16,732**	**-**	**(9,980)**	**(8,402)**	**(1,650)**
As at 30 June 2017	**48,850**	**111,987**	**237,606**	**215**	**(73,345)**	**(93,630)**	**231,683**
As at 1 January 2018	48,850	111,987	251,889	263	(76,976)	(94,057)	241,956
Profit after tax	-	-	9,744	-	-	-	9,744
Currency translation differences:							
Currency translation differences	-	-	-	-	(12,838)	-	(12,838)
Net investments, net of related tax	-	-	-	-	-	(6,529)	(6,529)
Total comprehensive income	**-**	**-**	**9,744**	**-**	**(12,838)**	**(6,529)**	**(9,623)**
As at 30 June 2018	**48,850**	**111,987**	**261,633**	**263**	**(89,814)**	**(100,586)**	**232,333**

Consolidated Cash Flow Statement for the six months ended 30 June 2018

in EUR thousand	Notes	H1 2018	H1 2017
Profit before tax		13,857	**19,138**
Depreciation and amortization	2	21,252	24,614
(Gain)/loss on the disposal of fixed assets		-	(167)
Foreign exchange loss		230	171
Net finance income		(2,047)	(2,653)
Income taxes paid		(5,971)	(3,066)
Change in Working Capital		**209**	**(24,123)**
Change in inventories		32	(471)
Change in trade and other receivables		9,370	(24,719)
Change in trade and other liabilities		(9,193)	1,067
Cash flows from operating activities		**27,530**	**13,914**
Purchase of property, plant and equipment		(14,547)	(11,054)
Proceeds from sale of equipment		92	244
Addition to the cash deposits		(50,862)	(8,483)
Withdrawal of cash deposits		62,098	1,381
Interest received		3,202	4,660
Cash flows used in investing activities		**(17)**	**(13,252)**
Cash flows used in financing activities		**-**	**-**
Effect of exchange rate changes on cash and cash equivalents		6,636	(4,938)
Net change in cash and cash equivalents		20,877	(4,276)
Cash and cash equivalents at 01 January		68,887	102,964
Cash and cash equivalents at 30 June		**89,764**	**98,688**
Of which: cash flows from discontinued operation			
Cash flows from operating activities		-	(151)

Notes to the condensed consolidated interim financial statements

Accounting in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

The condensed consolidated interim financial statements, which comprise Petro Welt Technologies AG (the "Company") and its subsidiaries (together with the Company referred to as the "Group") as at and for the three and six months ended 30 June 2018 were prepared in accordance with IAS 34 "Interim Financial Reporting", as adopted by the European Union (EU) and as applicable for interim financial reporting.

In accordance with IAS 34 the condensed consolidated interim financial statements have been prepared on a condensed scope and, therefore, should be read in connection with the most recent consolidated financial statements prepared as at 31 December 2017.

Accounting policies

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

(a) IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Incremental costs of obtaining a contract with customers must be capitalized as an asset and amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

The Group provides oil field services. The Group is specialized in services which increase the productivity of new and existing oil and gas formations. The main activities of the Group include hydraulic fracturing, sidetrack drilling, drilling, remedial as well as auxiliary services and delivery of proppant.

(a) Sale of proppant

For contracts with customers in which the sale of proppant is generally expected to be the only performance obligation, adoption of IFRS 15 do not have any impact on the Group's revenue and profit or loss. Revenue recognized at the point in time when control of the proppant is transferred to the customer, generally upon delivery of the goods.

(b) Rendering of oil field services

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

The Group concluded that sidetrack drilling and drilling services are satisfied over time given that the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The performance obligation is the drilling services for a well. The Group recognizes sidetrack drilling and drilling revenue using the output method by reference to the stage of completion. The transaction price is determined on the contract level and then allocated to the wells based on the stand-alone price.

The Group recognizes hydraulic fracturing and auxiliary services revenue at a point of time as the period of providing these services is short-term. The transaction price is determined on the contract level and then allocated to each individual fracturing operation based on the standalone price.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Adoption of IFRS 15 do not significantly impact the Group's revenue recognition for oil field services.

(b) IFRS 9 Financial instruments
IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Classification – Financial assets
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

The new classification requirements do not have a material impact on Group's accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are measured on a fair value basis.

Impairment – Financial assets and contract assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

The application of IFRS 9's impairment requirements at 1 January 2018 do not significantly impact the amount of impairment losses.

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

The estimated ECLs were calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures.

Probability of default (PD) and loss given default (LGD) were used for the assessment of expected credit losses. Probability of default corresponds to the long-term average default rate for each rating category and was estimated according to a study «2016 Annual Global Default Study and Rating Transitions» by Standard and Poor's. The rating category was determined on the basis of the minimum rating of three international rating agencies (Moody's, S&P and Fitch). The PD level is calculated for the period before repayment of receivables with indicators of a significant increase in credit risk, otherwise it was calculated for the period until repayment, but not more than a year. LGD parameters generally reflect an assumed recovery rate which is estimated at a constant level of 45% according to «Basel II: International Convergence of Capital Measurement and Capital Standards» for corporate borrowers.

The impairment losses do not increase significantly for trade and other receivables in the scope of the IFRS 9 impairment model.

Cash and cash equivalent

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

The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and the validity of a licence of each financial institution.

The impairment losses do not increase significantly for cash and cash equivalents in the scope of the IFRS 9 impairment model.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

— the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
— the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The application of IFRS 9's impairment requirements do not impact the classification of financial liabilities at 1 January 2018.

Hedge accounting

The requirements for hedge accounting have been adjusted for greater consistency with risk management. When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has not applied hedge accounting as of 31 December 2017, and, therefore, the initial application of IFRS 9 do not have a significant effect on the consolidated financial statements.

Transition

The Group took advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 is generally recognised in retained earnings and reserves as at 1 January 2018.

The Group's condensed consolidated interim financial statements have been prepared in EUR. All figures are indicated in TEUR, except as stated otherwise. When indicating amounts in TEUR, rounding differences may arise.

The Group condensed consolidated interim financial statements are published in German and English language. The German version of the condensed consolidated interim financial statements prevails.

(c) Standards issued but not yet effective

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

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

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

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

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

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment.
The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use the practical expedients and recognition exemptions.

Therefore, based on initial assessment the the Group as a lessee will recognize certain new assets and liabilities (warehouses and land leases). As at 30 June 2018, the Group's future minimum lease payments under the non-cancellable operating leases amounted to TEUR 3,063 on an undiscounted basis.

Transition

As a lessee, the Group can either apply the standard using retrospective approach or modified retrospective approach with optional practical expedients. The lessee applies the election consistently to all its leases.

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

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

The Group is not required to make any adjustments for leases in which it is a lessor.

Scope of consolidation

The scope of consolidation is unchanged in comparison to the balance sheet date 31 December 2017.

1. Currency translation

In the interim financial statements of the consolidated companies, transactions in foreign currency are translated into the functional currency (which is usually the local currency of the country of domicile) at the respective rates valid during the performance months on the basis of the official exchange rates of the Russian and European Central banks. The interim financial statements of the Russian companies are translated into the presentation currency (EUR) using the official exchange rates of the Russian Federation.

The relevant exchange rates used for foreign currency translation in relation to the EUR are as follows:

Currency (1 EUR=)	Closing rate as at 06/30/2018	Closing rate as at 12/31/2017	Average rate H1 2018	Average rate H1 2017
Russian Ruble (RUB)	72.9921	68.8668	71.8223	62.7187
Kazakhstan tenge (KZT)	397.26	398.23	395.39	344.79
US-Dollar (USD)	1.1631	1.1956	1.2101	1.0816

The relevant exchange rates used for foreign currency translation in relation to the U.S. dollar are as follows:

Currency (1 USD=)	Closing rate as at 06/30/2018	Closing rate as at 12/31/2017	Average rate H1 2018	Average rate H1 2017
Russian Ruble (RUB)	62.7565	57.6002	59.3536	57.9862
Kazakhstan tenge (KZT)	341.08	332.33	326.49	318.75

2. Non-current assets

Changes in selected non-current assets between 1 January and 30 June are as follows:

in EUR thousand	Carrying amount 01/01/2018	Additions	Disposals	Currency translation	Depreciation and amortization	Carrying amount 06/30/2018
Intangible assets	2,291	-	-	(46)	(86)	2,159
Property, plant and equipment	153,787	17,029	(560)	(8,267)	(21,166)	140,823
Goodwill	1,110	532	-	-	-	1,642

in EUR thousand	Carrying amount 01/01/2017	Additions	Disposals	Currency translation	Depreciation and amortization	Carrying amount 06/30/2017
Intangible assets	35	-	-	(24)	(11)	-
Property, plant and equipment	167,656	12,813	(77)	(9,204)	(24,603)	146,585

On 21 September 2017, the Group acquired 100% of the shares and voting interests in Carbo Ceramics Cyprus Limited. As at 31 December 2017 total consideration measured on a provisional basis amounted to USD 24,000,000 (EUR 19,996,675), including already paid consideration of USD 22,000,000 (EUR 18,370,674) and total trade and other payables measured on a provisional basis amounted to TEUR 3,365. Share purchase agreement (SPA) includes consideration adjustment, which depends on the specified amounts of net debt, net working capital at closing date determined in SPA. On 29 June 2018, Management completed the process of negotiation with the seller in relation to consideration which finally comprises USD 25,650,000 (EUR 21,371,446) and trade and other payables which finally amounted to TEUR 2,522. The above changes resulted in the increase of goodwill and other current liabilities for TEUR 532. The comparatives as at 31 December 2017 were not restated due to insignificant effect on appropriate balance sheet items. The adjustment to consideration in the amount of USD 3,650,000 was fully settled on 2 July 2018.

As at 30 June 2018 Property, plant and equipment includes advances given for property, plant and equipment in the amount of TEUR 7,005 (31 December 2017: TEUR 6,277).

3. Inventories

in EUR thousand	06/30/2018	12/31/2017
Spare parts and other materials	27,053	28,939
Raw material	6,395	7,828
Fuel and lubricants	3,030	2,192
Finished goods and goods for resale	1,351	1,173
	37,829	**40,132**

4. Current receivables

in EUR thousand	06/30/2018	12/31/2017
Trade receivables	87,804	97,035
Other current assets	2,850	5,783
Tax assets	1,025	878
	91,679	**103,696**

5. Equity

Share capital as at 30 June 2018 amounted to TEUR 48,850 (31 December 2017: TEUR 48,850).

6. Deferred tax

in EUR thousand	H1 2018	H1 2017
Current tax expenses	3,167	3,459
Deferred tax expense relating to the origination and reversal of temporary differences	1,347	222
Withholding tax	418	28
Income taxes from previous years	(820)	(1,422)
Current and deferred tax expenses	**4,112**	**2,287**

Deferred taxes relate to the following items:

	06/30/2018		12/31/2017	
in EUR thousand	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Tax loss carryforwards	6,254	-	6,558	-
Deferred expenses/liabilities	2,062	-	2,051	-
Fixed assets/depreciation	-	(11,831)	-	(12,112)
Other	698	(1,148)	1,153	(657)
Netting	(8,573)	8,573	(9,152)	9,152
	441	**(4,406)**	**610**	**(3,617)**

7. Current liabilities

in EUR thousand	06/30/2018	12/31/2017
Financial liabilities to related parties	114,395	112,526
Trade payables	36,774	43,427
Other liabilities	25,002	31,429
Advance payments received	104	11
Income tax payables	1,192	3,975
	177,467	**191,368**

The financial liabilities against related parties comprise interest expenses accrued on the loans (see notes 7 and 12).

8. Revenue

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers. The nature and effect of initially applying IFRS 15 on the Group's interim financial statements are disclosed in Note Changes in significant accounting policies.

Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 11).

Disaggregated revenue H1 2018

in EUR thousand	Well Services	Drilling Sidetracking IPM	Proppant production	Total segments	Reconciliation	Group
External sales	89,560	59,960	4,913	154,433	-	154,433
Group sales	538	102	871	1,511	(1,511)	-
Total sales	**90,098**	**60,062**	**5,784**	**155,944**	**(1,511)**	**154,433**
Primary geographical markets						
Russia	87,068	60,062	5,784	152,914	(1,511)	151,403
Kazakhstan	3,030	-	-	3,030	-	3,030
Total sales	**90,098**	**60,062**	**5,784**	**155,944**	**(1,511)**	**154,433**
Major products/service lines						
Hydraulic fracturing	87,308	-	-	**87,308**	(538)	**86,770**
Sidetrack drilling	-	27,563	-	**27,563**	(65)	**27,498**
Conventional drilling	-	32,481	-	**32,481**	(37)	**32,444**
Cementing	2,371	-	-	**2,371**	-	**2,371**
Sale of proppant	-	-	5,784	**5,784**	(871)	**4,913**
Other services	419	18	-	**437**	-	**437**
Total sales	**90,098**	**60,062**	**5,784**	**155,944**	**(1,511)**	**154,433**
Timing of revenue recognition						
Services transferred at a point in time	90,098	-	5,784	**95,882**	(1,409)	**94,473**
Services transferred over time	-	60,062	-	**60,062**	(102)	**59,960**
Total sales	**90,098**	**60,062**	**5,784**	**155,944**	**(1,511)**	**154,433**

Disaggregated revenue H1 2017

in EUR thousand	Well Services	Drilling Sidetracking IPM	Proppant production	Total segments	Recon-ciliation	Group
External sales	88,344	87,380	-	175,724	-	175,724
Group sales	607	81	-	688	(688)	-
Total sales	**88,951**	**87,461**	**-**	**176,412**	**(688)**	**175,724**
Primary geographical markets						
Russia	81,835	87,461	-	169,296	(495)	168,801
Kazakhstan	7,116	-	-	7,116	(193)	6,923
Total sales	**88,951**	**87,461**	**-**	**176,412**	**(688)**	**175,724**
Major products/service lines						
Hydraulic fracturing	84,465	-	-	**84,465**	(607)	**83,858**
Sidetrack drilling	-	50,025	-	**50,025**	(39)	**49,986**
Conventional drilling	-	37,371	-	**37,371**	(42)	**37,329**
Cementing	3,702	-	-	**3,702**	-	**3,702**
Sale of proppant	-	-	-	**-**	-	**-**
Other services	784	65	-	**849**	-	**849**
Total sales	**88,951**	**87,461**	**-**	**176,412**	**(688)**	**175,724**
Timing of revenue recognition						
Services transferred at a point in time	88,951	-	-	**88,951**	(607)	**88,344**
Services transferred over time	-	87,461	-	**87,461**	(81)	**87,380**
Total sales	**88,951**	**87,461**	**-**	**176,412**	**(688)**	**175,724**

9. Cost of sales

in EUR thousand	Q2 2018	Q2 2017	H1 2018	H1 2017
Raw materials	24,666	26,085	50,696	50,581
Direct costs	14,976	21,320	27,929	38,227
Depreciation	10,560	11,793	21,171	24,504
Wages and salaries	8,546	11,862	19,282	22,939
Social tax	3,894	4,168	7,266	8,243
Other costs	1,469	1,213	2,481	2,365
	64,111	**76,441**	**128,825**	**146,859**

10. Earnings per share

Earnings per share are calculated in accordance with IAS 33 by dividing the net profit for the Group by the average number of shares. There is no dilutive effect.

in EUR thousand		Q2 2018	Q2 2017	H1 2018	H1 2017
Common stock	thousand	48,850	48,850	48,850	48,850
Profit after tax	in EUR thousand	5,484	12,558	9,766	16,851
Earnings by share	EUR	0.11	0.26	0.20	0.34

The financial performance of the discontinued operation affects the earnings per share insignificantly.

11. Segment Reporting

For management purposes the Group is organized into business units based on their services, and has the following reportable operating segments:

- well services – services for hydraulic fracturing (operated by OOO KATKoneft);
- drilling, sidetracking, integrated project management (IPM) – services for conventional drilling, sidetrack drilling (operated by OOO KAToil-Drilling and OOO KATOBNEFT).
- production of proppant (operated by OOO WellProp).

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

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

Segment information as at and for the six months ended 30 June 2018 and 30 June 2017 is presented below.

Reporting segments H1 2018

in EUR thousand	Well Services	Drilling Sidetracking IPM	Proppant production	Total segments	Recon-ciliation	Group
External sales	89,560	59,960	4,913	154,433	-	154,433
Group sales	538	102	871	1,511	(1,511)	-
Total sales	**90,098**	**60,062**	**5,784**	**155,944**	**(1,511)**	**154,433**
Operating result	**11,471**	**1,942**	**1,298**	**14,711**	**(2,650)**	**12,061**
Interest income and expenses						2,047
Other financial result						(230)
Profit before tax						**13,878**
Income tax						(4,112)
Profit after tax from continuing operations						**9,766**

Reporting segments H1 2017

in EUR thousand	Well Services	Drilling Sidetracking IPM	Total segments	Recon-ciliation	Group
External sales	88,344	87,380	175,724	-	175,724
Group sales	607	81	688	(688)	-
Total sales	**88,951**	**87,461**	**176,412**	**(688)**	**175,724**
Operating result	**16,213**	**5,174**	**21,387**	**(4,731)**	**16,656**
Interest income and expenses					2,653
Other financial result					(171)
Profit before tax					**19,138**
Income tax					(2,287)
Profit after tax from continuing operations					**16,851**

12. Related parties

As at 30 June 2018 the current financial liabilities against Petro Welt Holding (Cyprus) Ltd. amounted to TEUR 114,395 (31 December 2017: TEUR 112,526). In the period 1 January to 30 June 2018, the interest expenses resulting from these financial liabilities amounted to TEUR 1,869 (in the period 1 January to 30 June 2017: TEUR 1,903). This corresponds to an average interest rate of 3.7% (in the period 1 January to 30 June 2017: 3.8%).

The Group has conducted the following transactions with related parties:

in EUR thousand	Transaction value		Outstanding balance		Transaction description
	H1 2017	H1 2016	06/30/2018	12/31/2017	
Subsidiaries:					
C.A.T. GmbH Consulting Agency Trade (Cyprus) Ltd., Nikosia	467	469	126	117	Consulting
Fairtune East Ltd., Moscow	187	210	36	38	Rental fee

Remuneration of key management personnel was as follows:

Magement Board remuneration

in EUR thousand	H1 2018	H1 2017
Management Board remuneration	365	749

Second level management remuneration

in EUR thousand	H1 2018	H1 2017
Second level management salaries	817	472

Additional information on transactions and balances with related parties is disclosed in notes 7 and 8.

13. Financial Instruments

Carrying amounts of Financial Instruments were as follows:

Financial assets measured at amortised costs

in EUR thousand	06/30/2018	12/31/2017
Cash and cash equivalents	89,764	68,887
Bank deposits	50,781	65,489
Trade receivables	87,804	97,035
Receivables from related parties	362	362
Other short term receivables	1,673	3,427
Total	**230,384**	**235,200**

Financial liabilities measured at amortised costs

in EUR thousand	06/30/2018	12/31/2017
Short term debts	114,395	112,526
Trade payables	36,774	43,427
Other short term payables	5,078	3,815
Total	**156,247**	**159,768**

Group's financial instruments carrying amounts correspond to the fair value. There were no financial instruments measured at fair value as at the reporting date.

14. Litigations and claims

On 10 April 2015 the Company filed a statement of facts at the Central Public Prosecutor's Office for the Prosecution of Economic Crimes and Corruption in Vienna. The statement of facts refers to circumstances, which set out reasons substantiating reasonable suspicion of breach of trust that came to the attention of the new Management Board. With filing dated 9 September 2015 the Company extended its private claim to TEUR 27,500.

The criminal complaint relates to transactions in connection with a procurement system, which was established at the Group in recent years. In purchasing fixed assets for business operations of subsidiaries of the Company, companies not belonging to the Group were used as intermediaries. Since the investigations are still at an early stage, further developments and outcome, including the actual loss of the Company in this regard, are not yet possible to determine reliably.

The Company filed against former members of Management Board claim amounting to TEUR 1,540 due to the unlawful and premature payment of compensation. The Company was in process of assessing potential claims regarding the activities of its subsidiary Petro Welt GEODATA GmbH, which generated significant operational losses in the past. For that reason, the Company filed a criminal complaint to the Public Prosecutor's Office in Vienna on 17 November 2015 within the pending criminal proceedings. Due to sale of Petro Welt Geodata GmbH, the further legal proceedings shall be entirely at the discretion of new owner and the Company shall have no responsibility for the outcome or liability resulting from it. Please refer to the Note 15 for the details of Petro Welt Geodata GmbH sale.

15. Events after the reporting date

On the 1 of July 2018, the Company sold and transferred the Shares of Petro Welt GEODATA GmbH for one euro. On the 11 of July 2018, The Company signed amendment agreement for the loan of MEUR 100 that set interest at 3.42% above 6m EURIBOR rate and prolonged the maturity of the loan until 31.12.2022.

Vienna, 21 August 2018, Board of Management

Yury Semenov
Chief Executive Officer, CEO

Valeriy Inyushin
Chief Financial Officer, CFO

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Media owner and publisher
Petro Welt Technologies AG
Kärntner Ring 11–13
1010 Vienna
Phone: +43 1 535 23 20-0
Fax: +43 1 535 23 20-20
E-Mail: ir@pewete.com
Internet: www.pewete.com

Consulting
Grayling Austria GmbH

Design
Magistris und Berchtold OG

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