Petro Welt
Technologies

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2019

Management Report Q1–Q3 2019

External Environment

The Russian economy on the whole is stagnating. In the third quarter of 2019, industrial production rose by 2.7% year on year, whereas investment and retail sales rose by only 0.6% and 1.4%, respectively. Economic activity was constrained by both weak domestic consumption and the rapid deceleration of international trade, mainly driven by the trade war between the United States and China.

In July 2019, the members of OPEC+ agreed to extend the OPEC+ oil production cuts until April 2020. As compared to October 2018 production levels, Russia's daily oil production decreased by more than 2% between May and July and fell yet further in August. In September 2019, the country's oil production remained below the OPEC maximum (see chart 1).

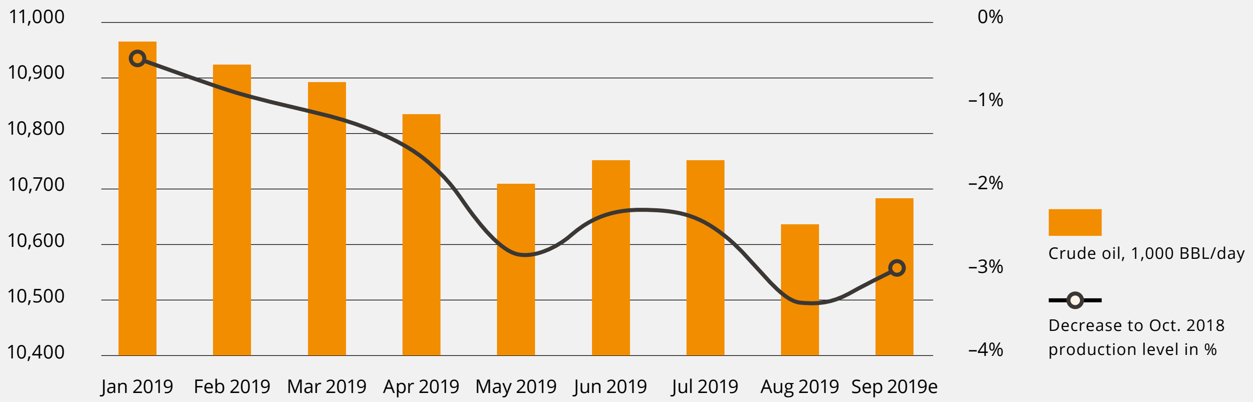
Oil companies are expected to cut their oil production in the fourth quarter of 2019, lowering current annual production plans.

The rapid decrease in production between May and July 2019 was also related to the pollution of oil in the Druzhba pipeline, which lowered the quantity of oil being pumped through it.

The reduction in the production of oil continues to affect oilfield operations. This is particularly true for the stimulation sector, where oil companies continued to modify the well completion type due to limited oil pipe capacities compared to the quantity of produced oil. As a result, oil companies moved from wells completed for multi-stage stimulation jobs to directional wells for single-stage stimulation jobs, thus lowering CAPEX.

Chart 1

Russian Oil Production Under OPEC Agreement



Sources: TradingEconomics.com and US Energy Information Administration

Drilling segment activities remain unchanged thanks to stable demand for sidetrack rigs with a capacity of 140–180 tons. Rosneft intends to recover some of the shortfall in its drilling segment during the current year and is preparing to boost its drilling activities next year.

Q3 Update for Kazakhstan

The stimulation market is stable, and no reduction in activities is foreseen for the near future. Oil companies have opted to perform single-stage acid and proppant stimulation jobs given the complexity of multi-stage stimulation as well as poor experiences with a few local service companies whose job execution services lacked quality.

Drilling activities grew by between 10% and 15% year on year, mainly in Kazakhstan's west (i.e., the Caspian region), with an increase in both cementing and remedial cementing work. Primarily directional wells are being drilled because they are less expensive and do not require high technology. The sidetracking market is small and underdeveloped, with only a few minor jobs per quarter.

Development of the PeWeTe Group

While revenue grew by 1.0% in the first nine months of 2019 compared to the same period of the previous year, it jumped 23.4% year on year in the third quarter of 2019. The increase in the share of Wellprop export deliveries to 20% contributed to the positive development of revenue, but it also required additional expenditures (including transportation expenses).

The Group managed to further optimize administrative costs, lowering them by 9.2%, from EUR 18.1 million in the first nine months of 2018 to EUR 16.4 million in the first nine months of 2019.

It also improved efficiency in its Kazakhstan division. Revenue in KZT (tenge) climbed by 14.7% to KZT 2,029 million in the first nine months of 2019, up from KZT 1,769 million in the same period of the previous year. In the reporting currency (EUR), revenue grew by 7.4% to EUR 4.7 million. EBIT amounted to EUR 1.1 million in the first nine months of 2019 compared to EUR 0.3 million in the first nine months of 2018.

In the reporting period, the net financial result soared by 38.9%, which mitigated the decline in profit before tax (PBT) stemming from lower job volumes. As a result, the 11.3% decrease in PBT to EUR 18.4 million was smoother than the minus of 18.6% for EBIT.

At a plus of 23.4%, revenue in the reporting quarter grew faster than the cost of sales (21.2%), while administrative expenses fell dramatically (–18.0%). All in all, this led to a significant increase in EBIT to EUR 10.6 million and in PBT to EUR 12.0 million (+74.7% and +74.2%, respectively). As a result, the corresponding margins rose as well: The EBIT margin was 13.0% in the third quarter of 2019 versus 9.2% in the third quarter of 2018, and the PBT margin was 14.8% versus 10.5% a year earlier.

Management of the Group confirms the annual expectations for revenue and EBITDA margin announced in the 2019 publication of semi-year results.

Balance Sheet

Total assets grew by 17.0% to EUR 446.9 million as of September 30, 2019, up from EUR 381.8 million as of December 31, 2018. This positive development was mainly driven by the strong increase in property, plant, and equipment. In addition, the Group posted a seasonal increase in receivables (comprising trade receivables and contract assets), while its liquidity position (cash and bank deposits) rose by 13.0% to EUR 143.0 million.

Equity jumped 25.1% to EUR 256.9 million at the end of the reporting period, primarily due to the improvement in the currency translation reserve. In turn, this caused an equity ratio rise to 57.5% as of September 30, 2019, up from 53.8% as of December 31, 2018.

Condensed Consolidated Income Statement for the Three and Nine Months Ended September 30, 2019

in EUR thousand (TEUR)	Q3 2019	Q3 2018	Q3 YTD 2019	Q3 YTD 2018	Q3 2019 vs. Q3 2018	Q3 2019 YTD vs. Q3 2018 YTD
Revenue	81,407	65,974	218,355	216,118	23.4%	1.0%
Cost of sales	(65,301)	(53,885)	(184,756)	(178,421)	21.2%	3.6%
Gross profit	**16,106**	**12,089**	**33,599**	**37,697**	**33.2%**	**–10.9%**
Administrative expenses	(4,924)	(6,008)	(16,439)	(18,103)	–18.0%	–9.2%
Selling expenses	(466)	(358)	(1,542)	(931)	30.2%	65.6%
Other operating income	360	687	1,252	1,895	–47.6%	–33.9%
Other operating expenses	(468)	(339)	(2,110)	(2,426)	38.1%	–13.0%
Operating result (EBIT)	**10,608**	**6,071**	**14,760**	**18,132**	**74.7%**	**–18.6%**
EBIT margin in %	**13.0%**	**9.2%**	**6.8%**	**8.4%**		
EBITDA	**20,260**	**16,266**	**43,686**	**49,579**	**24.6%**	**–11.9%**
EBITDA margin in %	**24,9%**	**24.7%**	**20.0%**	**22.9%**		
Finance income	2,197	2,095	7,111	6,009	4.9%	18.3%
Finance costs	(781)	(1,264)	(3,433)	(3,361)	–38.2%	2.1%
Net finance (costs)/income	**1,416**	**831**	**3,678**	**2,648**	**70.4%**	**38.9%**
Profit before tax	**12,024**	**6,902**	**18,438**	**20,780**	**74.2%**	**–11.3%**
PBT margin in %	**14.8%**	**10.5%**	**8.4%**	**9.6%**		
Income tax expense	(2,891)	(775)	(5,800)	(4,887)	273.0%	18.7%
Profit after tax from continuing operations	**9,133**	**6,127**	**12,638**	**15,893**	**49.1%**	**–20.5%**
Loss before tax from discontinued operations	–	–	–	(22)		
Profit	**9,133**	**6,127**	**12,638**	**15,871**	**49.1%**	**–20.4%**
Basic earnings per share in EUR	0.19	0.13	0.26	0.33		
Diluted earnings per share in EUR	0.19	0.13	0.26	0.33		

Excerpts from the Consolidated Statement of Financial Position as of September 30, 2019

in EUR thousand (TEUR)	09/30/2019	12/31/2018
Assets		
Non-current assets, including	**164,678**	**140,604**
Property, plant and equipment	157,506	135,530
Current assets, including	**282,255**	**241,222**
Trade receivables	68,871	68,220
Contract assets	20,303	8,696
Bank deposits	40,645	931
Cash and cash equivalents	102,351	125,574
Total assets	**446,933**	**381,826**
Equity and liabilities		
Equity	**256,934**	**205,358**
Non-current liabilities, including	**125,935**	**120,644**
Non-current financial liabilities to affiliated parties	119,071	116,303
Current liabilities, including	**64,064**	**55,824**
Trade payables	38,552	32,801
Total equity and liabilities	**446,933**	**381,826**
Net assets	256,934	205,358
Equity ratio	57.5%	53.8%

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