Petro Welt Technologies

IFRS GROUP FINANCIAL RESULTS FOR THE FIRST QUARTER OF 2019

Key group figures

in EUR thousand	Q1 2019	Q1 2018	Change
Gross sales	64,473	76,645	-15.9%
Revenue (less materials supplied by customers)	62,196	75,245	-17.3%
EBITDA	9,334	16,128	-42.1%
EBITDA margin (%)	15.0%	21.4%	
Group result	771	4,267	-81.9%
Earnings per share (EUR)	0.02	0.09	-
Balance sheet total*	419,243	381,826	9.8%
Net assets*	234,186	205,358	14.0%
Cash position (incl. bank deposits)*	153,602	126,505	21.4%
Equity ratio*	55.9%	53.8%	
Employees (average)	3,182	3,348	-5.0%

* As at 31 March 2019 and 31 December 2018 respectively

Management Report Q1 2019

Industrial environment

In the first quarter of 2019, there was a downturn in Russia's economic growth. According to estimates by the Bank of Russia, quarterly GDP growth slowed to between 1% and 1.5% in Q1/2019, down from 1.9% in Q1/2018. Both the cut in oil production as agreed by the OPEC+ under last year's Vienna Agreement as well as the decline in oil exports to European countries due to a mild winter hampered Russian oil exports.

In Kazakhstan, the first quarter of 2019 also showed some weakness compared to the last quarter of 2018. However, the industrial sector regained its strength in March 2019 thanks to stronger Chinese manufacturing activity.

During the first quarter of 2019, the price of Brent crude declined by 10% compared to the previous quarter, averaging USD 62.19 per barrel. After hitting a low in January 2019, however, it continued to climb from USD 50.56 to USD 63.79. This development was driven by the aforementioned OPEC+ production cut as well as by the impact of the US sanctions against Venezuela and Iran.

Russia's crude oil production fell from 11,051 thousand barrels per day (BBL/D/1K) in December 2018 to 10,973 BBL/D/1K in January 2019. Experts anticipate that Russia's crude oil production will decrease to 10,300 BBL/D/1K by the end of the year. Even though the Russian well stimulation market remained at the same level as in the last two quarters of 2018, activities in this market decreased in the first quarter of 2019. This reduction is mainly due to a slowdown in Rosneft's oilfields among other factors.

These include the number of stimulation fleets in Russia, with as many as 113 to 117 fleets competing in the open market. Winter weather conditions is another factor that affects the number of drilling operations. Well stimulation activities often are suspended due to low temperatures for safety reasons.

Rosneft, which accounts for around 50% of Russian oil production, has reduced its output in accordance with the Vienna Agreement by 1% in Q1/2019 compared to the level in October 2018 and is slated to reduce it yet further by 2% by July; this can directly affect the activities of the Petro Welt Technologies Group.

Development of PeWeTe Group
Total Group gross sales in rubles declined by 9.5% in Q1/2019 owing to the reduction in the number of jobs in Q1/2019 caused by equipment downtime in February 2019, which lasted one week, due to extremely cold weather as well as the ongoing devaluation of the ruble. Gross sales in the Group reporting currency (the euro) fell by 15.9% to EUR 64.5 million, down from EUR 76.6 million in the same period of the previous year. Revenue was further affected by the increase in the share of materials supplied by customers from 1.8% in Q1/2018 to 3.5% in Q1/2019, which led to a more significant reduction by 17.3%. Active cash management and strict cost controls within the PeWeTe Group made it possible to mitigate the impact of the difficult market environment.

The downward trend in the development of the Group's revenue, expressed in euros, correlates fully with the developments in the Well Services segment. The downtime provoked the decreases in both the number of jobs and gross sales/revenues. In Q1/2019, the Well Services segment posted a 25.7% decline in gross sales to EUR 31.1 million (Q1/2018: EUR 41.9 million). While the number of jobs fell by 15.8%, average gross sales per job declined by 11.8% to EUR 33.1 thousand from 37.5 thousand in Q1/2018, also on account of the depreciation of the ruble.

Revenues generated in the Drilling, Sidetracking, and IPM segment fell in Q1/2019 by 2.8% to EUR 30.8 million (Q1/2018: EUR 31.7 million). Yet the average revenue per job in euros rose by EUR 35.5 thousand or 6.9%. WellProp generated proppant revenue of EUR 2.6 million in Q1/2019 compared to EUR 3.1 million in Q1/2018, mostly due to the decline in proppant prices in the Russian market and the ongoing devaluation of the ruble.

At Petro Welt Technologies AG, declining operating activities were counterbalanced by cautious financial policies. The cost of sales dropped by 12.5% (or EUR 7.9 million) to EUR 55.4 million in Q1/2019, down from EUR 63.3 million in the same period of the previous year. This decline not only corresponds to the dynamics of sales in Q1/2019, it also affected all cost components. The cost of sales showed a marginal decrease by 5.9% in rubles, which was limited by the constrained price dynamics of our main contractors and operators at the beginning of 2019.

The average number of employees dropped by 5.0% to 3,182 in the first three months of 2019, down from 3,348 in the same period of the previous year.

As a result, the gross profit fell by 42.9% to EUR 6.8 million in Q1/2019, down from EUR 11.9 million in Q1/2018. The gross profit margin was 10.9% (Q1/2018: 15.8%).

We succeeded in lowering administrative costs, which declined by 3.5% to EUR 5.5 million in Q1/2019, down from EUR 5.7 million in the same period of the previous year. The positive effect of the improved financial result in Q1/2019 (up by TEUR 300.0 to EUR 1.5 million compared with the same period of the previous year) and the reduction in administrative costs made it impossible for the Group to offset partially the negative developments in revenue with respect to net profit. The Group had to contend with a sharp drop of 81.9% in net profit due to the aforementioned reasons. Net profit fell to TEUR 771.0 in Q1/2019, down from EUR 4.3 million in Q1/2018. Income tax expense declined from EUR 2.4 million in Q1/2018 to EUR 0.9 million in Q1/2019. Earnings per share were 0.02 for Q1/2019, down from EUR 0.09 in Q1/2018.

in EUR thousand	Q1 2019	Q1 2018	Change
Revenue (less materials supplied by customers)	62,196	75,245	-17.3%
Cost of sales	(55,387)	(63,314)	-12.5%
Gross profit	**6,809**	**11,931**	-42.9%
Profit before income tax	**1,640**	**6,717**	-75.6%
Profit	**771**	**4,267**	-81.9%

The EBITDA margin fell to 15.0% during the reporting period compared to 21.4% in the same period of the previous year. But the EBITDA margin remained at a good level, which is sufficient for generating safe cash. The cash position remained strong thanks to an increase of 21.4% compared to 31 December 2018, reaching EUR 153.6 million.

As at 31 March 2019, total assets rose by 9.8% to EUR 419.2 million compared to the end of 2018. This is due to the increase in both non-current assets (specifically, property, plant and equipment) and current assets (specifically, cash and cash equivalents). Trade receivables were down by 17.4% or EUR 11.9 million. Compared to 31 December 2018, the equity ratio rose by 2.1% points to 55.9% as at the 31 March 2019 reporting date (end of 2018: 53.8%). Equity was EUR 234.2 million (plus 14.0% compared to the end of 2018 when it was EUR 205.4 million). This increase is mainly due to the fall by 12.8% in the currency translation reserve, from minus EUR 218.5 million as at 31.12.2018 to minus EUR 190.5 million as at reporting date. The non-current liabilities of Petro Welt Technologies AG rose slightly by 1.3% as at 31 March 2019, whereas the current liabilities climbed 12.6% or EUR 7.0 million due to an increase in trade payables.

Excerpts of the Consolidated Statement of Financial Position as at 31 March 2019

in EUR thousand	**03/31/2019**	**12/31/2018**
Assets		
Non-current assets, incl.	149,830	**140,604**
property, plant and equipment	144,093	135,530
Current assets, incl.	269,413	**241,222**
trade receivables	56,343	68,220
Total assets	**419,243**	**381,826**
Equity and liabilities		
Equity	234,186	**205,358**
Non-current liabilities, incl.	122,200	**120,644**
non-current financial liabilities toward affiliates	117,229	116,303
Current liabilities, incl.	62,857	**55,824**
trade payables	38,586	32,801
Total equity and liabilities	**419,243**	**381,826**

The managerial cash position, which is calculated as the sum of cash, cash equivalents and bank deposits, rose by 21.4% to EUR 153.6 million as at 31 March 2019, up from EUR 126.5 million as at 31 December 2018. Taking into account the improved debt service conditions and future investment plans that aim to expand production capacities, the Group has improved its overall financial flexibility.

Vienna, 22 May 2019,
Board of Management

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