Petro Welt Technologies

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT 30 SEPTEMBER 2018

Key group figures

in EUR million	Q1–Q3 2018	Q1–Q3 2017	Change
Sales revenues	228.0	263.1	-13.3%
Gross profit	37.7	50.9	-25.9%
EBIT	18.1	33.9	-46.6%
EBIT margin	7.9%	12.9%	
EBITDA	49.6	68.9	-28.0%
EBITDA margin	21.8%	26.2%	
Group result	15.9	29.4	-45.9%
Earnings per share (EUR)	0.33	0.60	
Balance sheet total*	397.9	437.9	-9.1%
Equity*	223.4	242.0	-7.7%
Equity ratio*	56.1%	55.3%	
Cash flow from operating activities	40.4	46.5	-13.1%
Cash flow (used in) / from investing activities	41.3	(20.9)	297.6%
Cash and cash equivalents	141.3	121.6	16.2%
EUR exchange rate at the end of reporting period*	76.2294	68.8668	10.7%
EUR average exchange rate for the reporting period	73.2921	64.9319	12.9%
Employees (average)	3,146	3,537	-11.1%

*as at 30 September 2018 and 31 December 2017 respectively

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Management Report Q1–Q3 2018

External environment

According to the Ministry of Economic Development, Russian GDP expanded 1.3% year on year in the third quarter of 2018, down from the 1.9% increase in the second quarter. Inflation has returned, reaching 4% sooner than the Russian Central Bank had previously expected. In early 2018, the USD/RUB exchange rate was still 57.6 rubles to the US dollar (= EUR 68.9), whereas at the end of the third quarter the ruble had depreciated by 13.9% against the US dollar and stood at 65.6 rubles per US dollar (-10.6% against the euro or 76.2 rubles per euro). On a positive note, the mining sector grew by 4.9% in the third quarter, likely due to both higher oil output and firm commodity prices.

In Kazakhstan, annual inflation reached 6.1% as at 30 September 2018. While economic activity had been up 5.2% year on year between January and June, it decelerated in July and then again in August, hitting a ten-month low due to the sharp fall in industrial output and a marked slowdown in the mining industry.

The global oil supply is growing at a relentless pace, even as Venezuelan production deteriorates and Iranian flows decline ahead of US sanctions. In September, world oil production was little changed from a month earlier when it stood at 100.3 mb/d but, more significantly, it was up by 2.6 mb/d year on year, with non-OPEC countries accounting for almost the entire increase. Both global oil demand and supply are now close to a new, historically significant peak of about 100 mb/d, and neither show signs of ceasing to grow any time soon. As the oil market reaches the landmark 100 mb/d level, prices are rising steadily. Brent crude oil is now at USD 80/bbl, with infrastructure constraints causing North American prices to lag somewhat.

Russian crude and condensate production rose to a record 11.36 mb/d in September, up by 450 kb/d compared to a year ago and 390 kb/d more than in May, just ahead of the revised Vienna Agreement. The monthly increase was underpinned by higher output on the part of both Rosneft and producers working under production-sharing agreements, which raised supplies by 60 kb/d and 70 kb/d, respectively. Other smaller producers also boosted their output by a combined 68 kb/d, while Gazprom Neft's production fell by 52 kb/d month on month. Between January and September, oil production in Russia grew by 1% year on year. Gas production profited strongly from improved market conditions and grew by 6.1% during the same period.

Kazakhstan's oil production delivered growth of 5.3 % thanks to the output of the Kashagan and Tengiz fields.

Highlights for Q3/2018

Operational development, active cash management, and strict cost control made it possible to minimize the impact of the tough external environment such as the continuing depreciation of the Russian national currency and the circumspect financial behavior of Russian oil majors.

The following factors have had, and still have, effects on the company's results:

- Revenue per job rose year on year by 10% to EUR 35.6 thousand in fracking services and by 4.6% to EUR 507.1 thousand in sidetracking and drilling.
- The EBIT margin of Wellprop (proppant production) for the reporting period was 18.9%—an increase from 14.7% in the same period of the previous year.
- The increase in administrative expenses which also includes the necessity of the development of overseas projects and international activity.
- Petro Welt Technologies AG finalized the registration of its local business entity, PEWETE EVO EUROPE S.R.L., in Bucharest, Romania, so that the company can operate in the country. Using the experience it has gained over the past 20 years, it will provide mobile drilling rigs of various capabilities.

Operating result

Consolidated revenue for the first nine months of the year was EUR 228.0 million, down by 13.3% compared with the same prior-year period due to the continuing depreciation of the ruble; the average EUR/RUB exchange rate in the first nine months of 2018 depreciated by 12.9%, from RUB 64.93 per euro in the first nine months of 2017 to RUB 73.29 in the reporting period. At RUB 16,713.5 million, revenue in rubles for the reporting period declined by 2.2% compared with the first nine months of 2017.

The consolidated cost of sales in euros declined by 10.3% in the first nine months of 2018 to EUR 190.3 million. This decrease is due to the management's response to the external influences described earlier. All cost components were evenly reduced in the reporting period, with the exception of the raw materials expense, which is EUR 75.7 million and thus 1.1% higher than in the first nine months of 2017. This stems from the increase in the volume of chemical reagents and the amount of proppant injected during hydraulic fracturing. The need for such a measure arose on account of technological features as well as the company's desire to continually improve both the quality of its services and the materials it uses.

The decrease in revenues and the increase in the consumption of materials caused the gross profit to decline by 25.9% to EUR 37.7 million. Coupled with administrative and other expenses, cumulatively this led to the negative shift in EBIT by 46.6% to EUR 18.1 million.

The financial result returned to a positive dynamic thanks to the decline in financial costs. In turn, this boosted the profit before tax to EUR 20.8 million and the net profit to EUR 15.9 million, respectively, which were 42.2% and 45.9% lower year on year.

To mitigate the effects on the operating cash flow, the working capital was kept relatively stable mainly by lowering trade receivables. The cash flow from operating activities for the first nine months of 2018 fell by 13.1% to EUR 40.4 million compared to the same period of the previous year (EUR 46.5 million). Nevertheless, the managerial cash position rose slightly in the course of the third quarter to EUR 141.8 million as at 30 September 2018 (EUR 140.5 million as at 30 June 2018).

Balance sheet

As at 30 September 2018, total assets declined by 9.1% to EUR 397,9 million compared with the end of 2017 due to the depreciation of equipment and the reduction in trade receivables. Equity decreased by 7.7% to EUR 223.4 million at the end of the reporting period. As a result, the equity ratio rose slightly to 56.1% as at the 30 September 2018 reporting date, compared with 55.3% as at 31 December 2017.

Outlook

Russia's GDP is expected to grow by 1.6% in 2019, and experts anticipate the economy to expand by 1.7% in 2020. Growth should remain solid throughout the rest of this year and in 2019, supported by both higher average oil prices and higher investments in the oil sector. However, the VAT rise from the current level of 18% to 20% from 1 January 2019 on, may have a negative effect considering economic activity and inflation. Looking ahead, Saudi Arabia has announced that it already raised its output to 10.7 mb/d in October albeit at the cost of reducing spare capacity to 1.3 mb/d. Russia has also signalled that it might increase production further if the market needs more oil. Their expected common response, along with continued growth in the United States, may be enough to meet demand in the fourth quarter of 2018. Taken together, however, this would cause spare capacity to fall to extremely low levels as a percentage of global demand, making the oil market vulnerable to major disruptions elsewhere.

The company's management continues to follow its overseas expansion plan with the aim of mitigating regional economic risks. The proppant production division (LLC Wellprop) has entrenched itself in both European and African markets. Overseas deliveries are expected to be around 10% of the total physical annual volume in 2018. The annual EBIT margin for overseas shipments is set to reach between 24% and 25%. The start of the second production line, which will double Wellprop's current capacity, is a significant event for both the PeWeTe Group and the proppant industry. The ongoing diversification into European oilfield services markets such as Romania will allow the PeWeTe Group to provide its services at prices that are two to four times higher than in Russia.

Vienna, 20 November 2018,
Board of Management

Yury Semenov
Chief Executive Officer, CEO

Valeriy Inyushin
Chief Financial Officer, CFO

Consolidated Balance Sheet as at 30 September 2018

in EUR thousand	Notes	09/30/2018	12/31/2017
Assets			
Non-current assets		**139,409**	**159,740**
Property, plant and equipment	2	135,042	153,787
Intangible Assets	2	2,131	2,291
Goodwill	2	1,642	1,110
Other assets		91	1,942
Deferred tax assets	6	503	610
Current assets		**258,494**	**278,204**
Inventories	3	35,504	40,132
Trade receivables	4	77,005	97,035
Bank deposits		509	65,489
Other receivables	4	3,504	5,783
Tax receivables	4	663	878
Cash and cash equivalents		141,309	68,887
Balance sheet total		**397,903**	**437,944**
Equity and Liabilities			
Equity		**223,350**	**241,956**
Share capital	5	48,850	48,850
Capital reserve		111,987	111,987
Retained earnings		267,760	251,889
Remeasurement of defined benefit plans		263	263
Currency translation reserve		(205,510)	(171,033)
Non-current liabilities		**105,383**	**4,620**
Non-current financial liabilities to related parties	12	100,000	-
Deferred tax liabilities	6	4,380	3,617
Employee benefits		1,003	1,003
Current liabilities		**69,170**	**191,368**
Current financial liabilities to related parties	7	15,333	112,526
Trade payables	7	32,688	43,427
Other liabilities	7	19,649	31,429
Advance payments received	7	107	11
Income tax payables	7	1,393	3,975
Balance sheet total		**397,903**	**437,944**

Condensed consolidated Income Statement for the three and nine months ended 30 September 2018

in EUR thousand	Notes	Q3 2018	Q3 2017	Q1–Q3 2018	Q1–Q3 2017
Sales revenues	8	73,607	87,357	228,040	263,081
Cost of sales	9	(61,518)	(65,337)	(190,343)	(212,196)
Gross profit		**12,089**	**22,020**	**37,697**	**50,885**
Administrative expenses		(6,008)	(4,291)	(18,103)	(15,640)
Selling expenses		(358)	-	(931)	-
Other operating income		687	533	1,895	1,419
Other operating expenses		(339)	(1,004)	(2,426)	(2,750)
Operating result		**6,071**	**17,258**	**18,132**	**33,914**
Finance income		2,095	2,277	6,009	6,808
Finance costs		(1,264)	(2,720)	(3,361)	(4,769)
Financial result		**831**	**(443)**	**2,648**	**2,039**
Profit before tax		**6,902**	**16,815**	**20,780**	**35,953**
Income tax	6	(775)	(4,121)	(4,887)	(6,408)
Profit after tax from continuing operations		**6,127**	**12,694**	**15,893**	**29,545**
Loss before tax from discontinued operation		-	(9)	(22)	(129)
Profit after tax		**6,127**	**12,685**	**15,871**	**29,416**
Basic earnings per share in EUR	10	0.13	0.26	0.33	0.60
Diluted earnings per share in EUR	10	0.13	0.26	0.33	0.60

Consolidated Statement of Comprehensive income for the three and nine months ended 30 September 2018

in EUR thousand	Notes	Q3 2018	Q3 2017	Q1–Q3 2018	Q1–Q3 2017
Profit		6,127	12,685	15,871	29,416
Items that may be reclassified to profit or loss:					
Foreign currency translation differences for foreign operations:					
Functional currency	1	(9,510)	(3,091)	(22,348)	(13,071)
Net investments	1	(4,987)	(1,542)	(11,758)	(10,820)
Income tax effect related to net investments		(613)	1,328	(371)	2,204
Total other comprehensive income		(15,110)	(3,305)	(34,477)	(21,687)
Total comprehensive income		**(8,983)**	**9,380**	**(18,606)**	**7,729**

Consolidated Statement of Changes in Equity for the nine months ended 30 September 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	-	-	29,416	-	-	-	29,416
Currency translation differences:							
Currency translation differences	-	-	-	-	(13,071)	-	(13,071)
Net investments, net of related tax	-	-	-	-	-	(8,616)	(8,616)
Total comprehensive income	**-**	**-**	**29,416**	**-**	**(13,071)**	**(8,616)**	**7,729**
As at 30 September 2017	**48,850**	**111,987**	**250,290**	**215**	**(76,436)**	**(93,844)**	**241,062**
As at 1 January 2018	48,850	111,987	251,889	263	(76,976)	(94,057)	241,956
Profit after tax	-	-	15,871	-	-	-	15,871
Currency translation differences:							
Currency translation differences	-	-	-	-	(22,348)	-	(22,348)
Net investments, net of related tax	-	-	-	-	-	(12,129)	(12,129)
Total comprehensive income			**15,871**	**-**	**(22,348)**	**(12,129)**	**(18,606)**
As at 30 September 2018	**48,850**	**111,987**	**267,760**	**263**	**(99,324)**	**(106,186)**	**223,350**

Consolidated Cash Flow Statement for the nine months ended 30 September 2018

in EUR thousand	Notes	Q1–Q3 2018	Q1–Q3 2017
Profit before tax		**20,580**	**35,824**
Depreciation and amortization	2	31,447	34,991
Gain on the disposal of fixed assets		(775)	(185)
Foreign exchange loss		550	1,932
Net finance income		(3,198)	(3,971)
Income taxes paid		(6,573)	(7,571)
Change in Working Capital		**(1,591)**	**(14,505)**
Change in inventories		817	(1,725)
Change in trade and other receivables		15,066	(16,567)
Change in trade and other liabilities		(17,474)	3,787
Cash flows from operating activities		**40,440**	**46,515**
Purchase of property, plant and equipment		(26,584)	(20,985)
Proceeds from sale of equipment		861	1,718
Addition to the cash deposits		(50,694)	(10,936)
Withdrawal of cash deposits		111,775	20,692
Interest received		5,967	6,768
Purchase of subsidiaries, net of cash received		-	(18,156)
Cash flows from / (used in) investing activities		**41,325**	**(20,899)**
Cash flows used in financing activities		**-**	**-**
Effect of exchange rate changes on cash and cash equivalents		(9,343)	(6,935)
Net change in cash and cash equivalents		72,422	18,681
Cash and cash equivalents at 01 January		68,887	102,964
Cash and cash equivalents at 30 September		**141,309**	**121,645**
Of which: cash flows from discontinued operation			
Cash flows used in operating activities		-	(130)

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 nine months ended 30 September 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.

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.

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 stand-alone 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 «2017 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 does 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 at 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.

(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 Group as a lessee will recognize certain new assets and liabilities (warehouses and land leases). As at 30 September 2018, the Group's future minimum lease payments under the non-cancellable operating leases amounted to TEUR 2,837 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 besides following changes:

— On the 20 August 2018, Petro Welt Technologies AG finalized the registration of its local business entity PEWETE EVO EUROPE S.R.L. in Bucharest, in order to provide the company's services in Romania.
— On the 1 July 2018, the Company sold and transferred the Shares of Petro Welt GEODATA GmbH for one euro.

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 09/30/2018	Closing rate as at 12/31/2017	Average rate Q1–Q3 2018	Average rate Q1–Q3 2017
Russian Ruble (RUB)	76.2294	68.8668	73.2921	64.9319
Kazakhstan tenge (KZT)	420.91	398.23	401.52	360.04
US-Dollar (USD)	1.1622	1.1956	1.1930	1.1131

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 09/30/2018	Closing rate as at 12/31/2017	Average rate Q1–Q3 2018	Average rate Q1–Q3 2017
Russian Ruble (RUB)	65.5906	57.6002	61.4358	58.3344
Kazakhstan tenge (KZT)	363.07	332.33	336.40	323.27

2. Non-current assets

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

in EUR thousand	Carrying amount 01/01/2018	Additions	Disposals	Currency translation	Depreciation and amortization	Carrying amount 09/30/2018
Intangible assets	2,291	-	-	(40)	(120)	2,131
Property, plant and equipment	153,787	27,049	(67)	(14,400)	(31,327)	135,042
Goodwill	1,110	532	-	-	-	1,642

in EUR thousand	Carrying amount 01/01/2017	Additions	.Acqui-sition of subsidiary	Disposals	Currency translation	Depre-ciation and amor-tization	Carrying amount 09/30/2017
Intangible assets	35	27	2,500	-	(14)	(18)	2,530
Property, plant and equipment	167,656	19,670	3,922	(1,052)	(10,365)	(34,973)	144,858

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 immaterial 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 September 2018 Property, plant and equipment includes advances given for property, plant and equipment in the amount of TEUR 7,528 (31 December 2017: TEUR 6,277).

3. Inventories

in EUR thousand	09/30/2018	12/31/2017
Spare parts and other materials	25,660	28,939
Raw material	6,199	7,828
Fuel and lubricants	2,786	2,192
Finished goods and goods for resale	859	1,173
	35,504	**40,132**

4. Current receivables

in EUR thousand	09/30/2018	12/31/2017
Trade receivables	77,005	97,035
Other current assets	3,504	5,783
Tax assets	663	878
	81,172	**103,696**

5. Equity

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

6. Deferred tax

in EUR thousand	Q1–Q3 2018	Q1–Q3 2017
Current tax expenses	4,741	6,341
Deferred tax expense relating to the origination and reversal of temporary differences	774	1,299
Withholding tax	500	28
Income taxes from previous years	(1,128)	(1,260)
Current and deferred tax expenses	**4,887**	**6,408**

Deferred taxes relate to the following items:

	09/30/2018		12/31/2017	
in EUR thousand	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Tax loss carryforwards	5,902	-	6,558	-
Deferred expenses/liabilities	2,045	(93)	2,051	-
Fixed assets/depreciation	-	(11,329)	-	(12,112)
Other	793	(1,195)	1,153	(657)
Netting	(8,237)	8,237	(9,152)	9,152
	503	**(4,380)**	**610**	**(3,617)**

7. Current liabilities

in EUR thousand	09/30/2018	12/31/2017
Financial liabilities against related parties	15,333	112,526
Trade payables	32,688	43,427
Other liabilities	19,649	31,429
Advance payments received	107	11
Income tax payables	1,393	3,975
	69,170	**191,368**

The financial liabilities against related parties comprise interest expenses accrued on the loans (see note 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 Q1–Q3 2018

in EUR thousand	Well Services	Drilling Sidetracking IPM	Proppant production	Total segments	Recon-ciliation	Group
External sales	133,518	86,157	8,365	228,040	-	228,040
Group sales	748	92	1,185	2,025	(2,025)	-
Total sales	**134,266**	**86,249**	**9,550**	**230,065**	**(2,025)**	**228,040**
Primary geographical markets						
Russia	130,206	86,249	9,550	226,005	(2,025)	223,980
Kazakhstan	4,060	-	-	4,060	-	4,060
Total sales	**134,266**	**86,249**	**9,550**	**230,065**	**(2,025)**	**228,040**
Major products/service lines						
Hydraulic fracturing	130,267	-	-	130,267	(748)	129,519
Sidetrack drilling	-	36,272	-	36,272	(44)	36,228
Conventional drilling	-	49,938	-	49,938	(48)	49,890
Cementing	3,191	-	-	3,191	-	3,191
Sale of proppant	-	-	9,550	9,550	(1,185)	8,365
Other services	808	39	-	847	-	847
Total sales	**134,266**	**86,249**	**9,550**	**230,065**	**(2,025)**	**228,040**
Timing of revenue recognition						
Services transferred at a point in time	134,266	-	9,550	143,816	(1,933)	141,883
Services transferred over time	-	86,249	-	86,249	(92)	86,157
Total sales	**134,266**	**86,249**	**9,550**	**230,065**	**(2,025)**	**228,040**

Disaggregated revenue Q1–Q3 2017

in EUR thousand	Well Services	Drilling Sidetracking IPM	Proppant production	Total segments	Recon-ciliation	Group
External sales	137,749	125,332	-	263,081	-	263,081
Group sales	1,043	454	-	1,497	(1,497)	-
Total sales	**138,792**	**125,786**	**-**	**264,578**	**(1,497)**	**263,081**
Primary geographical markets						
Russia	127,290	125,786	-	253,076	(1,300)	251,776
Kazakhstan	11,502	-	-	11,502	(197)	11,305
Total sales	**138,792**	**125,786**	**-**	**264,578**	**(1,497)**	**263,081**
Major products/service lines						
Hydraulic fracturing	132,158	-	-	132,158	(1,043)	131,115
Sidetrack drilling	-	70,377	-	70,377	(394)	69,983
Conventional drilling	-	55,333	-	55,333	(60)	55,273
Cementing	5,112	-	-	5,112	-	5,112
Other services	1,522	76	-	1,598	-	1,598
Total sales	**138,792**	**125,786**	**-**	**264,578**	**(1,497)**	**263,081**
Timing of revenue recognition						
Services transferred at a point in time	138,792	-	-	138,792	(1,043)	137,749
Services transferred over time	-	125,786	-	125,786	(454)	125,332
Total sales	**138,792**	**125,786**	**-**	**264,578**	**(1,497)**	**263,081**

9. Cost of sales

in EUR thousand	Q3 2018	Q3 2017	Q1–Q3 2018	Q1–Q3 2017
Raw materials	24,980	24,286	75,676	74,867
Direct costs	13,108	14,405	41,037	52,632
Depreciation	10,059	10,518	31,230	35,022
Wages and salaries	10,296	10,394	29,578	33,333
Social tax	1,639	3,497	8,905	11,740
Other costs	1,436	2,237	3,917	4,602
	61,518	**65,337**	**190,343**	**212,196**

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		Q3 2018	Q3 2017	Q1–Q3 2018	Q1–Q3 2017
Common stock	thousand	48,850	48,850	48,850	48,850
Profit after tax	in EUR thousand	6,127	12,694	15,893	29,545
Earnings per share	EUR	0.13	0.26	0.33	0.60

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 nine months ended 30 September 2018 and 30 September 2017 is presented below.

Reporting segments Q1–Q3 2018

in EUR thousand	Well Services	Drilling Sidetracking IPM	Proppant production	Total segments	Recon-ciliation	Group
External sales	133,518	86,157	8,365	228,040	-	228,040
Group sales	748	92	1,185	2,025	(2,025)	-
Total sales	**134,266**	**86,249**	**9,550**	**230,065**	**(2,025)**	**228,040**
Operating result	**16,919**	**4,145**	**2,282**	**23,346**	**(5,214)**	**18,132**
Interest income and expenses						3,198
Other financial result						(550)
Profit before tax						**20,780**
Income tax						(4,887)
Profit after tax from continuing operations						**15,893**

Reporting segments Q1–Q3 2017

in EUR thousand	Well Services	Drilling Sidetracking IPM	Total segments	Recon-ciliation	Group
External sales	137,749	125,332	263,081	-	263,081
Group sales	1,043	454	1,497	(1,497)	-
Total sales	**138,792**	**125,786**	**264,578**	**(1,497)**	**263,081**
Operating result	**26,171**	**10,963**	**37,134**	**(3,220)**	**33,914**
Interest income and expenses					3,971
Other financial result					(1,932)
Profit before tax					**35,953**
Income tax					(6,408)
Profit after tax from continuing operations					**29,545**

12. Related parties

On 11 July 2018, The Company signed amendment agreement for the loan of TEUR 100,000 that set interest at 3.42% above 6m EURIBOR rate since 1 January 2019 and prolonged the maturity of the loan until 31 December 2022.

As at 30 September 2018 the non-current financial liabilities against Petro Welt Holding (Cyprus) Ltd. amounted to TEUR 100,000 (31 December 2017: current financial liabilities TEUR 100,000). In the period 1 January to 30 September 2018, the interest expenses resulting from these financial liabilities amounted to TEUR 2,807 (in the period 1 January to 30 September 2017: TEUR 2,862). This corresponds to an average interest rate of 3.7% (in the period 1 January to 30 September 2017: 3.8%).

The Group has conducted the following transactions with related parties:

	Transaction value		Outstanding balance		
in EUR thousand	Q1–Q3 2018	Q1–Q3 2017	09/30/2018	12/31/2017	Transaction description
CAT GmbH Consulting Agency Trade (Cyprus) Ltd., Nikosia	632	704	134	117	Consulting
Fairtune East Ltd., Moscow	270	305	34	38	Rental fee

Remuneration of key management personnel was as follows:

in EUR thousand	Q1–Q3 2018	Q1–Q3 2017
Management Board remuneration	450	863

Second level management remuneration

in EUR thousand	Q1–Q3 2018	Q1–Q3 2017
Second level management salaries	1,617	609

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	09/30/2018	12/31/2017
Cash and cash equivalents	141,309	68,887
Bank deposits	509	65,489
Trade receivables	77,005	97,035
Receivables from related parties	362	362
Other short term receivables	1,600	3,427
Total	**220,785**	**235,200**

Financial liabilities measured at amortised costs

in EUR thousand	09/30/2018	12/31/2017
Long term debts	100,000	-
Short term debts	15,333	112,526
Trade payables	32,688	43,427
Other short term payables	3,463	3,815
Total	**151,484**	**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 “Scope of consolidation” for the details of Petro Welt Geodata GmbH sale.

15. Events after the reporting date

No material events occurred after the balance sheet date.

Vienna, 20 November 2018,
Board of Management

Yury Semenov
Chief Executive Officer, CEO

Valeriy Inyushin
Chief Financial Officer, CFO

Memo

Memo

Legal notice

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