Petro Welt Technologies

Q1–3 2021

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2021

MANAGEMENT REPORT Q3 2021

ECONOMIC ENVIRONMENT

The global economy continued to recover in the third quarter of 2021, following the significant rebound in the second. In most industrialized countries, the increasing COVID-19 vaccination coverage largely restored the economy to performance levels seen prior to the pandemic. The International Monetary Fund (IMF) expects global GDP in 2021 to expand by 5.9%.

Global growth could have been even higher, but it was held back by supply chain related shortages of both raw materials and intermediate products for the manufacturing sector. China's economy rose by only 4.9% in the third quarter of 2021. The country's energy supply shortages (mainly coal) made it impossible to produce adequate quantities of important materials such as steel, aluminum, magnesium, and cement – all of which require a lot of energy during production. In turn, the shortage of Chinese export goods affected economies worldwide. For example, almost 95% of the magnesium used in the European Union (EU) comes from China. Microchip supply chain disruptions also stalled global automotive, computer, and smartphone production. In addition to this shortage of materials, dramatic price fluctuations on the energy markets triggered sharp increases in gas and electricity prices.

High global demand for energy fueled by the rapid economic recovery after the crisis also caused oil prices to soar. Nevertheless, OPEC+ decided at its meeting in early October 2021 to maintain current output levels. Under this agreement, the production quota will increase by 400,000 barrels per day (b/d) per month. In September 2021, the price of Brent crude oil was about USD 74 per barrel; by the end of October, it had climbed to about USD 87 per barrel, the highest level in three years. The price of oil is expected to keep rising, because two major producers (Saudi Arabia and the United States) refuse to boost their output.

According to the US Energy Information Administration (EIA), the demand for oil has grown by 6.27 million barrels per day (mb/d) since the beginning of 2021, while the supply has grown by only 2.75 mb/d. For 2022, the International Energy Agency (IEA) expects demand to increase yet further by 3.3 mb/d.

OILFIELD SERVICES MARKET

Accelerating inflation and constrained supply chains had an adverse impact on the Company's results for the third quarter. Rising raw material costs that affect many inputs – from resin, to ethylene and propylene, all the way to steel and aluminum – are putting pressure on the profit margins of various oilfield services (OFS) industry segments. Fracturing activities, in turn, are negatively impacted by both trucking and labor shortages. Port congestion poses yet another challenge to ensuring seamless operations and related transportation. Not only has it caused sea freight rates to skyrocket (+270% year-on-year): in some cases, the congestion has even forced OFS equipment suppliers to abandon their shipments which, in turn, triggers yet further increases in waiting times for deliveries.

RUSSIA

Almost all sectors of the Russian economy have grown since the second quarter of 2021. In the fall, the country's economic output even surpassed the level before the outbreak of the COVID-19 pandemic. Rosstat's Industrial Production Index shows that Russia's GDP rose by 4.7% in the first nine months of 2021. The PMI Composite, which indexes business activity in both industry and services, stood at 50.5% in September, indicating a return to the growth zone (+1.3 percentage points compared with the previous month). As per the Russian Ministry of Economic Development, the country's economy is expected to expand overall by 4.2% in 2021 and by 3.0% in 2022. This assessment is in line with the forecasts of the Central Bank of the Russian Federation (+4.0% to +4.5% in 2021 and +2.0% to +3.0% p.a. between 2022 and 2024). The IMF has raised its 2021 growth estimate for Russia to 4.7% (up from 4.4% in July and 3.8% in April).

_ Oil production in Russia by majors in 9M 2021, in %*

	Year-on-Year
Russia total	(1.7)
Rosneft	(2.8)
Lukoil	(2.5)
Surgutneftegaz	(4.7)
Gazpromneft	1.1

Thanks to the solid development of the ruble, Russia also became more popular as an investment destination, especially among investors from China and Germany. Starting from an average exchange rate of RUB 88.57 per euro in the first nine months of 2021, the rate improved to RUB 84.88 per euro as of September 30, 2021. This represents an increase of 6.4% compared with December 31, 2020. At USD 489.2 billion as of October 1, 2021, the country's external debt has grown by USD 21.9 billion since the start of the year.

_ Drilling dynamics in Russia by oil majors in 9M 2021, in %*

	Year-on-Year
Russia total	(5.0)
Rosneft	5.3
Lukoil	(12.6)
Surgutneftegaz	(4.9)
Gazpromneft	(16.8)

* Source: CDU TEK

Driven by the strong increase in food prices, inflation reached 7.4% in September 2021, up from 6.7% in August. The same rate is expected for the year on the whole. Monthly inflation was 0.6%. The unemployment rate fell to 4.4% in August 2021 (–0.1 percentage points from July 2021), the lowest level since August 2019. In September 2021, the Central Bank of the Russian Federation raised the key interest rate by 0.25 percentage points to 6.75% (the highest level since October 2019) in order to reduce inflation to the target level of 4.0%.

OIL INDUSTRY

On average, the daily volume of oil and gas condensate production in Russia jumped 8.4% year-on-year to 10.5 million barrels in the third quarter of 2021 due to the easing of restrictions under the OPEC+ agreement. Overall, however, daily production inched up by only 0.5% year-on-year in the first nine months of 2021 due to the effect of the high baseline before the initial OPEC+ agreement was inked in May 2020. The 1.7% year-on-year decline in Russian oil production had a strong impact on all segments of the oilfield services industry.

KAZAKHSTAN

Kazakhstan is recovering rapidly from the COVID-19 crisis and the impacts of the low oil price. The country's GDP rose by 3.4% year-on-year in the first nine months of 2021. The National Bank of Kazakhstan expects GDP growth of 3.5% to 3.8% in 2021 and of 4.1% to 4.4% in 2022, assuming OPEC+ further eases its production restrictions. The main drivers of this development are the information, communication, construction, agriculture, trade, manufacturing, and energy supply sectors.

Combined with the Kazakh government's crisis spending, rising global inflation pushed consumer prices up more sharply in September 2021 than at any time in the past five years. As a result, inflation in Kazakhstan reached 8.9%, thus tracking the ongoing price increases in Russia. Food prices in particular rose by an average of 11.5% year-on-year. The average exchange rate of the Kazakh tenge was KZT 508.16 per euro in the first three quarters of 2021, and KZT 496.42 per euro as of September 30, 2021.

OIL INDUSTRY

In June and July 2021, Kazakhstan's daily production of crude oil and gas condensate increased by 3.9% year-on-year to 1.64 million barrels (20.61 million tons for the whole period). This positive dynamic stems from the easing of restrictions by the OPEC+, which had been in force since May 2020. In August, however, production decreased by 7.4% year-on-year and by 13.7% month-on-month due to the overhaul of the Tengiz field.

From June to August 2021, Kazakhstan shipped a total of 15.9 million tons of oil and gas condensate abroad, equating to 1.27 mb/d (+0.5% year-on-year). Shipments to Kazakh refineries were just under 4.5 million tons in the three summer months of 2021 (+19.6% year-on-year due to the effect of the low baseline in the previous year when demand for petroleum products had fallen due to the restrictive measures that were put in place to combat the pandemic).

OMAN

Following the recession caused by the COVID-19 pandemic, Oman's economy gradually recovered in 2021 and continued its pre-crisis growth trajectory. GDP growth is expected to reach 2.4% this year and 3.5% in 2022, according to the World Bank. Economic growth in Oman is being held back by the OPEC+ restrictions, ongoing COVID-19 measures, and the slow pace of immunization. In September 2021, inflation in the Sultanate was 2.46%.

OIL INDUSTRY

The recovery in Oman's economic output will be supported both by expanding the production of oil, which is expected to grow by up to 1.2% in 2021 and 2022 – as a result of the easing of OPEC+ restrictions – and by the production of gas in the key Ghazeer and Khazzan fields, which will jump from about 28.3 million cubic meters to around 42.5 million cubic meters per day.

PERFORMANCE OF THE PEWETE GROUP

Following unexpected delays and constraints resulting from the COVID-19 restrictions, the Company has decided to halt its expansion plans in Romania. Instead, the Group will shift its focus to business opportunities in other markets in order to meet growing demand on the part of its customers in Russia, Kazakhstan, and Oman. Hence most of the equipment currently located in Romania will be moved to the Company's operating units in Russia.

During the first nine months of 2021, Group revenue fell by 18.6% to EUR 168.5 million (–9.5% in RUB), down from EUR 207.0 million in the same period of 2020. This decrease is mainly due to the high comparative base a year earlier. In the third quarter of 2021, revenue rose by 17.9% to EUR 62.6 million, up from EUR 53.1 million in the same period of 2020.

Due to additional legal fees related to disputes with the Company's former management, administrative expenses rose by 8.7% year-on-year to EUR 17.4 million. Selling expenses jumped by 16.7% to EUR 1.4 million (2020: EUR 1.2 million) as a result of the sudden and rapid increase in transportation costs related to Wellprop's export sales. Overall, Group EBIT dropped by 87.2% to EUR 2.3 million in the first nine months of 2021, down from EUR 17.9 million in the first nine months of 2020.

In line with this substantial decline, Group EBITDA dropped by 43.3%, from EUR 40.9 million to EUR 23.2 million. The EBITDA margin thus was 13.8% for the first nine months of 2021, compared with 19.8% for the same period of 2020.

In the first three quarters of 2021, finance income decreased due to the Russian Central Bank's fairly low-key interest rate. Owing to the devaluation of the RUB, the net finance result plunge by 89.4%. In the same period of 2020, developments in currency exchange rates had led to a positive result (EUR 3.6 million).

Profit before income tax dropped to EUR 2.8 million in the first three quarters of 2021, down from EUR 22.6 million in the same period of 2020.

SEGMENT REPORTING

The Well Services and Stimulation segment was severely affected by the aftermath of the COVID-19 pandemic in the reporting period. Due to the extremely high level of production before the OPEC+ agreement was reached in the 2020 financial year, revenue in the Well Stimulation segment declined by 28.0% to EUR 68.8 million in the reporting period (Q1–3 2020: EUR 95.5 million). At the same time, the number of jobs fell to 2,779, down 22.8% from the level of 3,600 reported a year earlier. While revenue per job decreased by 6.7% in EUR terms, a positive result was achieved nonetheless when expressed in the segment's operating currency: revenue per job in RUB thus increased by 3.8% to RUB 2.19 million. Total revenue fell by 19.7% to RUB 6.1 billion in the reporting period, down from RUB 7.6 billion year-on-year.

The performance of the Drilling, Sidetracking, and IPM segment in terms of revenue also was negative, falling by 13.9% to EUR 90.4 million. This was mainly due to the decrease in the number of jobs by 5.1% from 214 to 203. In RUB terms, however, revenue per job in the reporting period slightly increased to RUB 39.4 million (Q1–3 2020: RUB 39.0 million). Total segment revenue in RUB declined by 4.8% to RUB 8.0 billion, down from RUB 8.4 billion in the comparative period of 2020.

While the Well Services and Stimulation segment as well as the Drilling, Sidetracking, and IPM segment had to contend with a decline in total revenue, proppant production delivered significant revenue growth of 43.1%, reaching EUR 9.3 million in the reporting period, chiefly due to higher sales of chemicals. In RUB terms, the segment's revenue grew by more than half, jumping by 59.1% to RUB 823.7 million (2020: RUB 517.7 million).

STATEMENT OF FINANCIAL POSITION

Total assets of the PeWeTe Group grew by 8.0% to EUR 393.6 million as of September 30, 2021, up from EUR 364.3 million as of December 31, 2020. While this development was driven by almost all current asset items, contract assets (+64.2% year-on-year) and the managerial cash position were decisive. During the reporting period, the managerial cash position (calculated as the sum of cash and cash equivalents and bank deposits) increased by 11.2% to EUR 128.6 million (December 31, 2020: EUR 115.6 million).

Equity rose by 9.8% to EUR 201.0 million by the end of the reporting period. As a result, the equity ratio was 51.1% as of September 30, 2021, up slightly from 50.2% as of December 31, 2020.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

TEUR	Q3 2021	Q3 2020	Q3 YTD 2021	Q3 YTD 2020	Q3 2021 vs Q3 2020	Q3 2021 YTD vs Q3 2020 YTD
Revenue	62,634	53,054	168,506	207,046	18.1%	(18.6%)
Cost of sales	(52,692)	(43,866)	(147,678)	(171,272)	20.1%	(13.8%)
Gross profit	**9,942**	**9,188**	**20,828**	**35,774**	**8.2%**	**(41.8%)**
Gross profit margin in %	**15.9%**	**17.3%**	**12.4%**	**17.3%**		
Administrative expenses	(7,573)	(4,231)	(17,439)	(16,015)	79.0%	8.9%
Selling expenses	(522)	(267)	(1,367)	(1,239)	95.5%	10.3%
Other operating income	875	1,878	1,779	4,251	(53.4%)	(58.2%)
Other operating expenses	(450)	(1,669)	(1,457)	(4,842)	(73.0%)	(69.9%)
Operating result (EBIT)	**2,272**	**4,899**	**2,344**	**17,929**	**(53.6%)**	**(86.9%)**
EBIT margin in %	**3.6%**	**9.2%**	**1.4%**	**8.7%**		
EBITDA	**9,529**	**11,842**	**23,207**	**40,907**	**(19.5%)**	**(43.3%)**
EBITDA margin in %	**15.2%**	**22.3%**	**13.8%**	**19.8%**		
Finance income	1,304	935	3,199	3,876	39.5%	(17.5%)
Finance costs	(862)	(905)	(2,559)	(2,754)	(4.8%)	(7.1%)
Foreign currency exchange income/(losses)	174	3,188	(181)	3,588	(94.5%)	(105.0%)
Net finance income	**616**	**3,218**	**459**	**4,710**	**(80.9%)**	**(90.3%)**
Profit before income tax (PBT)	**2,888**	**8,117**	**2,803**	**22,639**	**(64.4%)**	**(87.6%)**
PBT margin in %	**4.6%**	**15.3%**	**1.7%**	**10.9%**		
Income tax expense	(1,061)	(1,701)	(2,267)	(7,888)	(37.6%)	(71.3%)
Profit	**1,827**	**6,416**	**536**	**14,751**	**(71.5%)**	**(96.4%)**
Earnings per share in EUR	0.04	0.13	0.01	0.30		
Diluted earnings per share in EUR	0.04	0.13	0.01	0.30		

EXCERPTS FROM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2021

TEUR	09/30/2021	12/31/2020
Assets		
Non-current assets, including	**132,418**	**127,710**
Property, plant and equipment	127,871	123,626
Current assets, including	**261,141**	**236,577**
Trade receivables	74,721	69,833
Contract assets	15,594	9,455
Bank deposits	12,183	43,944
Cash and cash equivalents	116,415	71,687
Total assets	**393,559**	**364,287**
Equity and liabilities		
Equity	**201,000**	**183,041**
Share capital	48,850	48,850
Capital reserve	111,987	111,987
Retained earnings	275,810	275,274
Remeasurement of defined benefit plans	351	351
Currency translation reserve	(235,998)	(253,421)
Non-current liabilities, including	**130,854**	**127,981**
Non-current financial liabilities to affiliated parties	125,455	122,905
Current liabilities, including	**61,705**	**53,265**
Trade payables	26,162	31,028
Total equity and liabilities	**393,559**	**364,287**
Net assets	201,000	183,041
Equity ratio	51.1%	50.2%

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