

# PRESENTATION OF BUSINESS PERFORMANCE RESULTS FOR THE FIRST SIX MONTHS OF 2018

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## Table of Contents

1. Highlights .....	1
2. Macroeconomic and HSE Indicators.....	2
4. Financial Indicators .....	4
5. Efficiency Improvement Measures.....	4
6. Investments, Indebtedness, Benchmarking, and Conclusion.....	4

## 1. Highlights

I will present the performance results of NIS for the first six months of 2018. Basically, the results were pretty good. As usual, I will try to be objective in today's presentation and, naturally, I will emphasize and focus on positive results and certain problem areas. In brief, about our Blocks.

Traditionally, we start with Exploration and Production. The situation is stable and everything is regular. Basically, we run operational activities. We drilled 28 development and 6 exploration wells in Serbia, and 32 wells started producing in the first six months. Excellent results. New compressor units are undergoing a test run at Mokrin Jug Compressor Station; the second phase of replacement of compressor units at this facility is approved. The reconstruction work on the fire protection systems at Velebit and Boka facilities are in the final phase.

Regarding the Refining Block, we had, early this year, a problem related to Refinery shutdown. It was due to power outage, and since then we have not had any significant losses. We brought the situation under control very quickly and currently the Refinery is operating reliably. Here, we listed some activities run in the second quarter of 2018: maintenance and startup of C-100 small atmospheric distillation unit.

As you probably know, the turnaround will take place early next year, which brings a heavy responsibility, given that this is not going to be a traditional four-year cycle turnaround in the Refinery, but a turnaround with the connection of a new delayed coking unit that you are well familiar with. We also carried out maintenance of the tank farm, 90% of 3D model under work package 2 for the delayed coking unit was designed, the contractor was selected for furnace installation and for electrical and instrumentation equipment installation. Again, this is all related to the delayed coking unit.

As regards Sales and Distribution, the additive dosing system was installed in the vehicles and sales of OPTI fuel started at Gazprom petrol stations. OPTI is our new brand and you're going to see it soon. A mobile application for our co-brand "On the road with us" cards has been published. You can download the application from the App Store. You have probably heard about this card and a half of you is already using it. NIS had a quite good display at Novi Sad Agricultural Fair. The preparation and implementation of the seasonal portfolio on petrol stations was supported by promotions (FIFA World Cup, summer tourist season) in the second quarter of 2018, as well as the expansion of reselling activities in the aviation fuel sales channel.

The next slide is dedicated to the Energy Block; what should be emphasized is that CCPP Pančevo project is underway. The exploitation is due to start in the third quarter of 2020. As you may already know, a few months ago, we signed an Agreement with the Chinese, and I believe that this project, the same as the DCU Project, is of strategic importance to us, and it will be completed by the third quarter of 2020.

And there is one more thing: regarding the wind farm, we've been discussing it for years, I even remember you asking several times, and then just leaving that issue aside, because we were doing nothing about it. Now there's good news. A couple of weeks ago, we signed a strategic agreement with one serious Hungarian company, which will be our partner in this project. The first step is to complete the activities related to project execution timeline and attract project finances with the new strategic partner with which we signed the agreement on project execution. This is specifically indicated in this slide, for your information.

As for the activities on our part, I believe the equipment for this project will be selected by the end of the year and the construction of Plandište wind farm is due to start at the beginning of 2019. The construction itself will take one year or a year and a half. We have extended our status of a privileged power producer, as you were informed last time, so there are not any risks involved and I think that we are already working on this.

## **2. Macroeconomic and HSE Indicators**

The slide on microeconomics indicators - As you can see here, the microeconomic indicators are quite favourable compared to 2017. The dinar to dollar exchange rate dropped by 14%, meaning that the dinar grew stronger, producing a positive effect on our financial results. Additionally, Urals crude rose by 36%, providing momentum to our financial indicators and security, i.e. to the execution of our investment plans.

### *HSE Indicators*

It is not a very good picture. As you can see, unfortunately, LTIF and RAR indicators - which are the key HSE indicators, are worse than in 2017 and than foreseen in the Business Plan. However, generally speaking, a number of those events were medium events - and there were not many of them - nevertheless, we record them as well. As shown, the number of large events was higher only by one compared to the previous period. The root cause for this increase is a higher number of suppliers' personnel performing works for the Company. The number of suppliers' personnel working on the DCU Project increased by 500. The peak number of workers will be at the end of 2018 and at the beginning of 2019 - around one

thousand people, which will be a great risk at such small facility. Currently, 500 people are working there. Of course, we had introduced a new HSE system, nevertheless, the number of events was unfortunately higher than planned. I hope this is just temporary and will not remain as such in the future. Like all large, serious companies, we have set our ambitious target to zero. All large companies do it. Of course, I realize it can never be 0, but we must strive to it. We have to work on the culture, on the new safety improvement measures.

### 3. Key Indicators and Market Share

Slide number eight shows a table with the key indicators. We are not going to discuss them now, given that a separate slide is dedicated each indicator. As you can see, most of the indicators are higher than mid last year and they are in the green zone.

The next slide - motor fuel market trends. As shown here, consumption of motor fuels recorded an upward trend, primarily due to the increase in diesel fuel consumption. In Serbia, the cold April postponed the start of agricultural activities, partly affecting the normal seasonality in consumption. The restricted grey market and infrastructural works have positively impacted on diesel consumption, while a high gasoline price is the most influential negative factor in the consumption of this petroleum product. The expected increase in the motor fuel market is by 3% in 2018, as indicated in this slide.

#### *Market Share – Serbia*

Market of petroleum products - The market increased by 2.1%. As you may expect, this is very good. NIS' share in the overall market of petroleum products increased by 1%.

Retail markets - NIS' market share is stable. A number of marketing projects, campaigns, expanded fuel portfolio, and improvement of the loyalty concept - all contributed to maintaining a high market share.

#### *Market Share in the Region*

Basically, everything is at the same level - retail market indicators, the market situation is improving. As for Bosnia and Herzegovina, note that the number of petrol stations increased. As you may well remember, we had 35, now we acquired two new petrol stations and currently we have 37. By mid next year, we expect, in accordance with our business plans, to build another two petrol stations in Romania, which is actually going to be our pilot project, based on which we will decide on further development in Romania.

Operating indicators of Exploration and Production - As I already said in the beginning, the situation is fairly stable. The planned drop in oil output, in line with the BP, is around 5.6%. Currently, it is at the level of 4%. We are currently producing more than planned in the BP. We can expect, based on my personal assessment, that, compared to BP, the output this year will be +35 000, +32 000 tons, meaning that we will mitigate this drop in oil output, as planned, both compared to the previous year and, of course, BP.

And very important information: The increase in hydrocarbon reserves in 2018 is expected at the level of 0.6%, or maybe even more. It is important to note that Refining recorded a year-on-year increase in oil and petroleum products refining output by +3%, adjusted against motor fuel consumption and performance results of Sales and Distribution. Regarding Sales and Distribution, the next slide, the sales volumes are growing. They are +8% as opposed to

6M 2017. Due to increase of retail volumes in Serbia, there is an increase of 2%, wholesale in Serbia - increase of 6%, export - increase of 24%, foreign assets - increase of 12%.

#### **4. Financial Indicators**

Naturally, prompted by the increase in oil prices and operating profit, our EBITDA indicator is 6%. For the six months of 2017, it amounted to 24 billion dinars. As for net profit, it went down by 7%. The main reason is changes in calculating depreciation, and now we also transferred to this functional method in UPSTREAM. This was also the request of our external auditor. I believe Mr Branko Mitrović will, at the end of the presentation, comment on the reason for the increase in depreciation.

##### *OCF*

It is 50% lower on the year before. The main reason for this is, as you already know, last year we sold our government debt for Petrohemija and drastically increased our OCF indicator. This is the first reason. The second reason are higher crude oil import obligations. As I noted last time and as you may have already heard, last year we did not have a satisfactory outcome of the tender for crude oil supply, so we decided, in the first half of the year, to buy spot oil, which had an impact on our OCF indicator over a short period, and we expect it to increase by the end of the year.

##### *CAPEX*

Slide number 19: It says here that CAPEX is higher by 72% compared to the previous year. The main reason is the DCU Project. The Project is presented separately on this graph. Its share in NIS' investments is 33.34%, which is a lot and, as I said for Refining, due to the implementation of this strategic project, CAPEX is going to grow. In 2018 Business Plan, we expect around 46, 47 billion RSD of investments in terms of realization. As for financing, the numbers are more or less the same. This is a record for the last three, four years.

#### **5. Efficiency Improvement Measures**

This is the area of high importance to our Company. We planned 4.7 billion RSD based on these measures for the first six months of 2017. The result was 2.7 billion. This is more than a half and I believe that the total effect of efficiency improvement measures, in the absolute amount, will exceed 5 billion by the end of 2018.

#### **6. Investments, Indebtedness, Benchmarking, and Conclusion**

##### *Indebtedness*

Shortly about bank indebtedness, our credit portfolio. As you can see, our debt to banks fell by 6%. Currently, it amounts to 625 million dollars. I think that 99% of loans are over one year period and 89% are EUR loans, while only 10% are USD loans. As planned, we have reduced GPN loan as well. Currently it amounts to 233 million euros.

### *Benchmarking*

This is our benchmarking. Basically, there were no any significant changes. EBITDA/margin - we are somewhere in the middle, third ranking. EBITDA/FTE on the headcount, we are fourth ranking.

Daily turnover: as for NIS brand, it went down slightly. Now we are fifth ranking. However, Gazprom brand can be compared to daily turnover of OMV. In this respect, we are third ranking, but, of course, there is still room for improvement.

### *Share of White Petroleum Products*

The situation will be stable by completion of the DCU Project. After that, naturally, there will be an increase. Currently, we are third ranking.

### *Conclusion*

To conclude, of course there are several pluses and minuses, positive and negative factors, as always.

As for the negative factors having an impact on our business, I will point out only three of them: the limited possibility of taking long-term loans, the sanctions are still in force. Unfortunately, the situation has not changed. Decrease in HSE indicators as already mentioned, and you know the reasons. The effects of intense competition in the market and weather conditions. Last year, we experienced the effects of drought, heat, and now we have heavy rainfalls. Of course, this is all related to the agricultural season and impacts on our business performance.

The pluses include: increase in EBITDA indicator, increase of sales volumes, favourable macroeconomic perspective, on-schedule DCU Project execution, which is very important to us. This Project is of high significance for us and we expect to see its effects already in 2019, late in the year. But I believe that this unit will operate at full capacity by 2020 and an increase in EBITDA indicator can be expected, at the annual level, of minimum 10 million euros, owing to this project. That is it in brief.