

## PRESENTATION OF RESULTS FOR THE FIRST NINE MONTHS OF 2018

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### 1. Highlights

#### *Exploration and Production Block*

As always, we will start with the results of the Blocks.

I will begin with the Exploration and Production Block.

In short, these are the results of the Upstream Block. In the third quarter of 2018, we produced the planned amount of hydrocarbons, implemented the planned projects and improved the efficiency of geological and exploration works; in addition, we increased production and technological efficiency by implementing operational efficiency improvement measures.

During the first nine months of 2018, over 800 square kilometers of 3D seismic data were acquired, namely "South Banat 2" and "Turija 4". It is very important that we have begun drilling contours of two boreholes in Romania. This is our project. We hope to finish drilling by the end of 2018. GTM activities were successfully performed in the Mokrin and Majdan fields. The Energy Unit was formed by "Transformations" project within the Exploration and Production Block. As you may already know, for the past six years we were working on projects of the Energy Block. There are 14 generators in operation now and they have been moved to the Energy Block. It has already become regular gas production.

#### *Refining Block*

When it comes to the Refining Block, during the third quarter of this year, the Claus Unit was repaired, the third overhaul of the Visbreaking Unit was completed and the third overhaul of the diesel deparaffinization unit has started.

When it comes to the Claus Unit, if you remember, I have mentioned this before, we have started with the significant supply of Kirkuk oil. This is quite efficient oil for us in terms of price

and quality ratio. We had to adjust the Claus Unit to this oil. We succeeded in completing this challenging task. The Unit allows us to continue to use this oil in the Pančevo Refinery. It is very important that we achieved the maximum monthly refining and finishing outputs in September. This amounts to 374 thousand tons, a record in the last 10 years. In August, we had record production and shipment of bitumen, which amounted to 51,000 tons. This was a result of large investments.

It is very important that we managed to establish technological conditions necessary to connect TETO Pančevo to the existing lines within the Pančevo Oil Refinery. It is very important that the Refinery operated steadily throughout the year. We had only one technical issue. There was a power outage and the Refinery stopped operating, but we managed to solve the issue and remedy the situation regarding the oil product processing quantities. Therefore, it is very important to say that the Refinery has been operating steadily this year, having in mind the implementation of the strategic Bottom of the Barrel Project, about which we will talk today.

### *Sales and Distribution Block*

When it comes to the Sales and Distribution Block, after the reconstruction works have been completed, two more petrol stations were opened: "Subotica 1" and "Lazarevac Town" (both are under NIS brand). We continue with the reconstruction of petrol stations and by the end of the year we will have eight such projects.

You may have noticed that we have destroyed our "mushroom". Unfortunately, it collapsed last month due to bad weather conditions, and by the end of 2018 this will be a new gas station under NIS brand next to Mercator.

It is very important that in the third quarter, two new products under our own brand G-Drive were launched. G-Drive Instant Win, a new marketing campaign, was also launched.

I would like to emphasize one thing: we launched a media campaign 'On the Road with Us - Pour today and Pay Next Month' which allows users to purchase fuel and additional merchandise, with a deferred payment of up to 45 days, on all NIS Petrol and GAZPROM petrol stations. Since the introduction of this new option, over 29 thousand requests have been submitted, and more than 23 thousand have been approved. This is a marketing product which means a lot to us. We have also worked on rebranding of "Jazak" water brand.

### *Energy Block*

When it comes to the Energy Block, it is important to point out that TE-TO PANČEVO project is being implemented. We signed a contract on project financing. We obtained location conditions, submitted the preliminary design to the audit commission of the provincial secretariat. We expect that the first construction permit for the power plant facility will be granted at the beginning of January 2019. Production of the main and part of auxiliary equipment has begun.

"Plandište" Windfarm - we have received renewed bids by the equipment manufacturers and completed commercial negotiations. The EPC contracts are being prepared. These are the main things regarding the Energy Block. Today we will see detailed presentations for these two projects which are strategic projects, and which represent joint projects with our partners. The Director of the Energy Block will tell us in detail about our achievements so far.

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

I'll give you a brief account of macroeconomic indicators.

Dinar strengthened by approximately 10% on average when compared to the first nine months of the previous year. If we observe only the 9-month period of this year, from the 1<sup>st</sup> January to 30<sup>th</sup> September, the USD/RSD exchange rate increased by RSD 2.57 or by 3%.

The average price of Urals RMBC Oil in the first nine months of 2018 was higher than the average price in the previous year by 39%, which is very good for us.

When it comes to LTIF and RAR indicators, they represent key indicators of the HSE occupational safety system, and unfortunately, they are worse than they were in 2017 and than the figures defined in the business plan. Unfortunately, the situation this year could have been much better. We introduced some additional activities. These measures are connected to motivation and result improvement. But, as you can see, the situation with HSE this year is not good for us. You have probably heard that there was a gas explosion in a borehole this September. Three people were injured. They had serious burns and they are in hospital. I hope that everything will be alright because we care about our people.

You have probably heard what happened to “Mushroom”. It collapsed. Some people were injured too. They had no serious injuries but it still caused serious damage.

We have also had some problems related to power cuts in the Refinery. We fixed this too. Therefore, when it comes to HSE, the situation was not as good as we expected it to be or as we predicted in our business plan. I hope that we will achieve better results with our plan containing additional measures aimed at improving efficiency.

### **3. Key Indicators and Market Share**

The following slide shows key indicators. As you may see - the first nine months of this year were good for us.

The rise in oil price affected the growth of financial indicators. Operational indicators have also increased - including the refining output and the turnover volume, which is particularly important for us. The production of oil and gas is the only indicator that is lower than in the previous year, but it is above the indicator stated in the plan, so we can say that we had good results in this segment too. This means that planned fall in oil production will be lower than we planned.

#### *Trends in the Motor Fuel Market*

What are the current trends in the motor fuel market? As you can see, consumption of motor fuels shows growth that is primarily generated by the growth of diesel fuel. When it comes to the motor fuel market in Serbia, the following things had a positive impact on diesel consumption: significantly more successful agricultural season, infrastructure and construction works, consumption of auto gas declined due to high prices and change in the fleet structure. The rise in gasoline is lower than expected due to high prices.

#### *Market Share in Serbia and Petroleum Products Market*

Total consumption of petroleum products in Serbia has a positive growth trend in the first nine months of this year. This growth is 2.7 % and the following facts contributed to this: growth in

consumption of bitumen and coke, consumption and road industry as the main driver of diesel consumption, and good agricultural season.

The share of NIS on the total market for petroleum products was increased for 2% due to the rise in the share of primary gasoline, diesel, liquid gas and bitumen sales. In general, we are still observing this situation. For as, the situation is very good. You can see that we have an extended season. Thus I can say that the results in October were excellent. When it comes to the financial result, it is around one billion higher than the one we had in August and September.

#### *Retail Market for Motor Fuels*

The retail market for motor fuels in the first nine months this year increased by 2.7 % when compared to the same period of the previous year.

Consumption of diesel is on the rise, while the reduction in LPG and gasoline consumption is related to price rise and the change in the structure of the fleet of the Republic of Serbia. NIS' position on the retail market is stable. Numerous marketing projects, the expansion of fuel portfolios and the improvement of the concept of loyalty have contributed to the preservation of high participation.

#### *Market in the Region*

In the region we have a growth in market share in Bosnia and Herzegovina and Bulgaria, while in Romania, we recorded a drop in our market share.

When it comes to the number of petrol stations, the number remains the same in Romania and Bulgaria, whereas there are 37 petrol stations in Bosnia and Herzegovina. As we have mentioned before, there were 35 petrol stations in the previous quarter, and then we acquired two more stations. In addition, I can say that we are planing to acquire two new locations in Romania where new petrol stations will be built. The decision regarding the purchase will be made by the end of the year.

#### *Operational Indicators*

Now, we are going to talk about the operational indicators.

As you can see, during the first nine months the Exploration and Production Block achieved the planned hydrocarbon production output. At the same time, we increased hydrocarbon reserves by approximately 1%. Oil and gas output is higher than the figure specified in the Business Plan. As for geology and reservoir development, the focus is on improving the effectiveness of all geological and technological activities, reducing the cost of operations and testing inexpensive methods aimed at increasing the oil output and application of new technologies and innovative solutions. These are our innovative solutions for this year.

#### *Refining Block*

Refining outputs are in accordance with market demand. Our refining output amounts to nearly 2.8 million tons, which is 6% higher than the output in the same period of the previous year. The schedule of the implementation of the Bottom of the Barrel Project is accelerating,

especially with regards to construction, concrete and mechanical works, and the number of employees at the site increased.

#### *Sales and Distribution Block*

During the first nine months of 2018 at the Sales and Distribution Block, there was a 10% increase in the turnover in comparison to the first nine months of 2017; therefore, the total turnover amounted to 2,741 thousand tons.

Retail sales in Serbia – retail sales growth of 3% is the result of the increase in sales of diesel fuel.

Wholesale in Serbia – growth of 8%, mostly owing to motor fuels.

Exports – 20% growth rate, owing to increase in exports of motor fuels.

Foreign assets – growth of sales volume by 14% (wholesale channel by 41%). Results of the Sales and Distribution Block are excellent.

## **4. Financial Indicators**

As to the financial indicators, they are good, as you can see.

#### *EBITDA*

EBITDA indicator amounts to 42 billion RSD, which is 23% higher than in the same period in the previous year. In addition to the increase in the price of oil and oil derivatives, a significant factor is the turnover volume growth by 10%.

#### *Net Profit*

The net profit realized in the first nine months in 2018 is RSD 22 billion and it is 8% higher than the net profit realized in the same period in 2017. The most significant factors that influenced this growth include: EBITDA growth, higher depreciation costs (in 2018, UPS has switched to functional obsolescence). Now it is completely functional. Our external auditor is familiar with this fact and it is in accordance with the international standards; lower financial expenses (lower interest rates), lower positive exchange rate differences (in 2017, positive exchange rate differences amounted to +6.1 billion RSD, whereas in 2018, exchange rate differences have been negative and amounted to -0.3 billion RSD, and for nine months, the differences were around 0.1). If we could annul the effect of last year's positive exchange rate differences, net profit would be higher than shown.

#### *OCF*

OCF indicator is fairly good. It is in line with the plan. It was lower in 2017 because we collected HIP receivables completely last year. This was in the first half of 2017, and it is included in 2017 OCF.

#### *CAPEX*

In the first nine months of this year, 27.3 billion RSD were allocated to finance investments, which is 64% higher than the amount allocated in the same period during the previous year. Also, the chart shows that we expect to have a 63% growth when compared to 2017. We expect that this level of CAPEX reaches 43.2 billion RSD for 2018. Of course, this is because of the implementation of the Bottom of the Barrel Project.

## 5. Operational Efficiency Improvement Measures

I have already mentioned efficiency measures that influence EBITDA indicators and net profit. The total effect of operational efficiency improvement measures on the EBITDA margin in the first nine months of 2018 is RSD 3.7 billion. We expect to exceed this margin by 5 billion RSD. We expect to have even more, because we are working hard so as to achieve this. We want to improve our financial results, and unfortunately, this is getting more and more difficult to achieve every year, since it is hard to find new measures to increase efficiency, and we are already on the threshold.

## 6. Indebtedness, Comparative Analysis and Conclusion

### *Indebtedness*

This slide shows bank indebtedness, i.e. our credit portfolio.

As you can see, bank debt declined slightly by 0.5%. Now it amounts to 654.5 million USD. 99% of the loans have over one year maturity date and 99% of loans are in euros, and only 1% of the loans are in dollars. According to the plan, we reduced GPN's loans. Now it amounts to 221 million euros.

### *Comparative Analysis*

This is our benchmarking which we always present. As you can see, we took third and fourth place among serious European competitors, such as MOL, OMV, and Petrol. On the other hand, we have plenty of room for improvement, and actually, we have been working on it. Once again, I would like to mention that the share of light products will be higher after the Bottom of the Barrel Project is launched. Daily turnover volume has been growing due to various marketing campaigns and reconstruction of petrol stations and it will last for several more years. This is very important for us as well. Of course, we want to build more petrol stations, especially on the highway to Montenegro. There is still room for the improvement of indicators, and on the basis of the operational efficiency increase measures, I believe that we will exceed the average value.

### *Conclusion*

Finally, a conclusion: as you can see, we have factors that affect us negatively, such as: limited opportunities for long-term borrowing, deterioration of HSE indicators compared to the same period of the previous year.

When it comes to positive factors, these include: EBITDA and net profit growth, oil and gas production is above planned, turnover volume growth, implementation of the Bottom of the Barrel Project in accordance with the plan. Positive effects of the loan portfolio restructuring include lower debt, extending the maturity of loans and securing sources of financing for the investments in 2018 and 2019.

In the end, I can say that, as you have already seen, financial results and physical indicators are at a fairly good level. Everything is mostly in the green zone and I am very satisfied with the results. I think we will have even better results by the end of 2018.

If you find it interesting, I can tell you what our expectations regarding 2018 financial indicators are.

Now there is an official assessment of the indicators and this instrument is called QPR-3. I can say that EBITDA indicator is expected to reach 55 billion RSD by the end of 2018. Of course, this depends on oil prices, which have, as you might have already noticed, been in decline in the past several days. We said that the price of oil in the fourth quarter will be 70 USD per barrel. Since the price in October was above 70 USD, I think that the average price will be as we have planned. When it comes to net profit indicator for nine months it amounted to 26 billion. October was a good month, and the financial result was better than we expected and better than it was in September and August. Therefore, the result will be on a fairly good level. CAPEX will, as I have already said, reach around 43 billion RSD, which is a few billion less than the amount we have included in our business plan. And this is, above all, due to cost savings in CAPEX, increase in service procurement efficiency and delays in projects in Romania. The delays are result of some organizational issues. Nonetheless, we managed to drill two boreholes there.