

# OIL REFINING AND SALES (ORS)

## SUMMARY SEGMENT INDICATORS

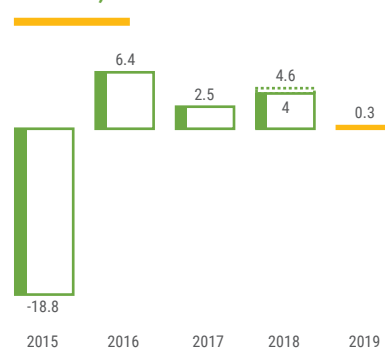
Upon the results of the segment operation in 2019, the segment revenue dropped by 28% as compared to the previous year level due to reduction of oil product prices and volume of oil products wholesales because of reduced production volumes of Brod Refinery A.D. and Modriča Motor Oil Plant A.D.

The cumulative indicator of operational performance of the segment in the reporting period was +0.3 MM EUR. The indicator is positive for the last 4 years.

## THE SEGMENT STRUCTURE

Zarubezhneft JSC project of reconstruction and modernization of the Oil Refinery and Sales segment enterprises in Bosnia and Herzegovina started on February 2, 2007 after signing the agreement with the Government of the Republic of Srpska (Bosnia and Herzegovina) on procuring the Bosanski Brod Oil Refinery producing motor oils in the city of Modriča, and a retail chain of Nestro Petrol A.D. that owned 85 fuel stations at the time of the purchase.

## EBITDA, MM EUR



## The segment includes the following enterprises::

Company name	Basic parameters
<b>Bosnia and Herzegovina, Republika Srpska</b>	
OPTIMA Group LLC	Purchase of crude, oil, raw materials for motor oil production, wholesale and small wholesale of petroleum products, motor oils and lubricants in domestic and export markets
Brod Oil Refinery JSC	Oil refining, petroleum products manufacture
Oil refinery Modrica JSC	Manufacture of base oils and paraffins, motor oils and greases
Nestro Petrol JSC	Retail sale of petroleum and related products
<b>Russian Federation</b>	
Neftegazincor JSC	The main borrower of loan funds for the Project, owner of the controlling interest in BH enterprises

## MARKET OF OIL PRODUCTS, PRICING, COMPETITION

Enterprises of the segment located in the Republic of Srpska are engaged in wholesales of oil products (including own production) on the market of Bosnia and Herzegovina and adjacent countries, as well as in the retail market segment of Bosnia and Herzegovina.

The market of Bosnia and Herzegovina is highly marginal, however financial solvency of contractors and population remains low. Along with OPTIMA Group d.o.o., large suppliers of oil products in BH are INA, NIS, Petrol BH that supply oil products from the adjacent areas. Therefore, BH market is open for foreign (alternative) product. Prerequisites for the current situation are no legal barriers for entry of imported fuel and a simple procedure of company registration for sales of oil products requiring no licensing.

BH market is flooded by oil products imported from far-abroad countries by small trading companies. Points of delivery from Ploce, Zadar, etc, intensify competition in the South and South-East of BH where the primary demand for oil products is formed.

Sales volume of oil products by OPTIMA Group d.o.o. in 2019 was 18% of BH market, which is 8% lower than the same indicator over the previous

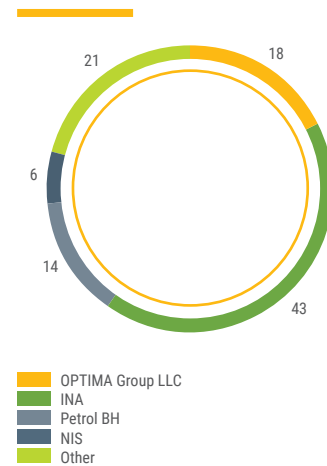


period. Reduction of OPTIMA Group's share on BH market is caused by no production for sales in 2019 as a result of forced emergency shutdown of Brod Refinery A.D. on October 10, 2018 due to no stable external sources of supply. In the reporting period, the remaining fuel of Brod Refinery A.D. were sold and oil products were traded.

Primary factors for formation of wholesale prices of oil products on the market of Bosnia and Herzegovina and in the entire region are as follows:

- quotes for oil products in Platts European Marketscan;
- price premiums for each type of oil products.

Structure of BH market in terms of primary wholesale suppliers of oil products



Price premiums on the oil product market are defined based on demand and supply and by alternative opportunities for the customer in the conditions of severe competition of several producers and traders in Bosnia and Herzegovina. Unlike Russia, the market of BH and the region is the buyers' market rather than sellers' market which significantly reduces opportunities to form prices on the part of the manufacturer/seller.

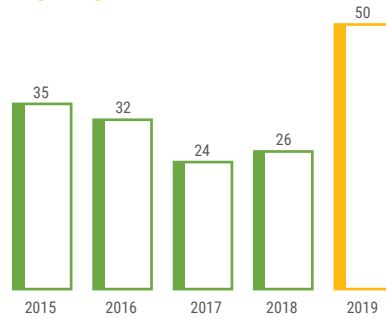
An average price premium for the pool of oil products sold by OPTIMA Group d.o.o. in 2019 increased by 92% as compared to 2018. Premium increment (improvement) occurred on the internal market and in the export sales of oil products due to a significant change in the structure of the sold pool of oil products by means of substantial decline of oil product sales.

Oil products are sold with a positive premium on the internal market of Bosnia and Herzegovina. The internal market is the primary channel of selling the segment's production.

In 2019, premiums for export selling of oil products were positive, but still greatly inferior to the internal market.

### Premiums for pool of oil products over the reporting period, USD/ton

**+52 %**

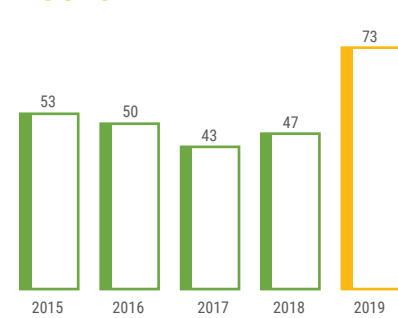


OPTIMA Group d.o.o. and NIS (Gazprom Neft Serbia PJSC) signed an agreement for supply of oil products in the financial year. 182 thous. tons of oil products were sold under this agreement. Trading in other areas (Ploce, Pancevo) was additionally developed in 2019, the volume of sold fuel was 64 thous. tons. The revenue was about 229 MM EUR, with the marginal income of 2.1 MM EUR.

Taking into account the positive dynamics of cooperation, it is planned to develop this profile in 2020.

### Premiums for oil products on the national market, USD/ton

**+56 %**



### Premiums for exported oil products, USD/ton

**+136 %**

