IENE Conference:

10th SE Europe Energy Dialogue – Connecting SE Europe's Energy Markets

Belgrade, June 13th-14th 2017

Changing Oil Industry Landscape in SEE Region

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Presentation contents

- A short overview of oil industry in SEE Europe from the beginning of 21st century
- Crude Oil production and processing in the region
- Main product flows
- Key challenges for regional oil industry going into the future
- Petrol Station for the Future

Regional Oil industry Market entering 21st century

1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2016 2017

- 18 years ago, at the turn of the new century, major national and state owned companies have not been privatized in most cases
- Foreign investments in oil sector started with entrance in retail market by Shell in Bulgaria, OMV in Croatia, Lukoil in Romania.
- Oil infrastructure in FR Yugoslavia was severely damaged by NATO campaign in spring of 1999.

Regional Oil industry Market Evolution 2000-2001

1999 2000 **2001** 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2016 2017

- OKTA privatization by HELPE led consortium and Start of construction of Vardax pipeline connecting Thessaloniki and Skopje refineries
- Lukoil privatized Neftohim refinery in Burgas
- OMV opened first petrol stations in Bulgaria and Serbia. Slovenian Petrol opened stations in Croatia and Bosnia

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Regional Oil industry Market Evolution 2002-2003

EKO

1999 2000 2001 2002 **2003** 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2016 2017

- Vardax pipeline completed, Jugopetrol Kotor privatized by HELPE, EKO enters Serbian and Bulgarian retail markets
- Beopetrol privatized by Lukoil in Serbia, MOL becomes strategic partner of INA in Croatia
- Opet and Rompetrol enter Bulgarian market, OMV enters Bosnian retail market

Regional Oil industry Market Evolution 2004-2006

1999 2000 2001 2002 2003 2004 2005 **2006** 2007 2008 2009 2010 2011 2012 2013 2014 2016 2017

- OMV acquires 51% of Petrom in Romania
- MOL and Slovenian Petrol enter Serbian retail market. MOL enters to Romanian Market
- Lukoil enters FYROM market, while Bosnian Energo-petrol being privatized by INA-MOL consortium

Regional Oil industry Market Evolution 2007-2008

1999 2000 2001 2002 2003 2004 2005 2006 2007 **2008** 2009 2010 2011 2012 2013 2014 2016 2017

- Bosnian Optima acquired by Zarubzjeneft, while 75% of Rompetrol acquired by KazMunayGas
- Energy agreement reached between Russia and Serbia that included sale of 51% stake in NIS to Gazpromneft
- Petrol opens first petrol station in Kosovo, while Lukoil enters Montenegrin and Croatian market
- OKTA launched DODO network in FYROM while EKO Bulgaria acquired Opet.

Regional Oil industry Market Evolution 2009-2011

1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 **2011** 2012 2013 2014 2016 2017

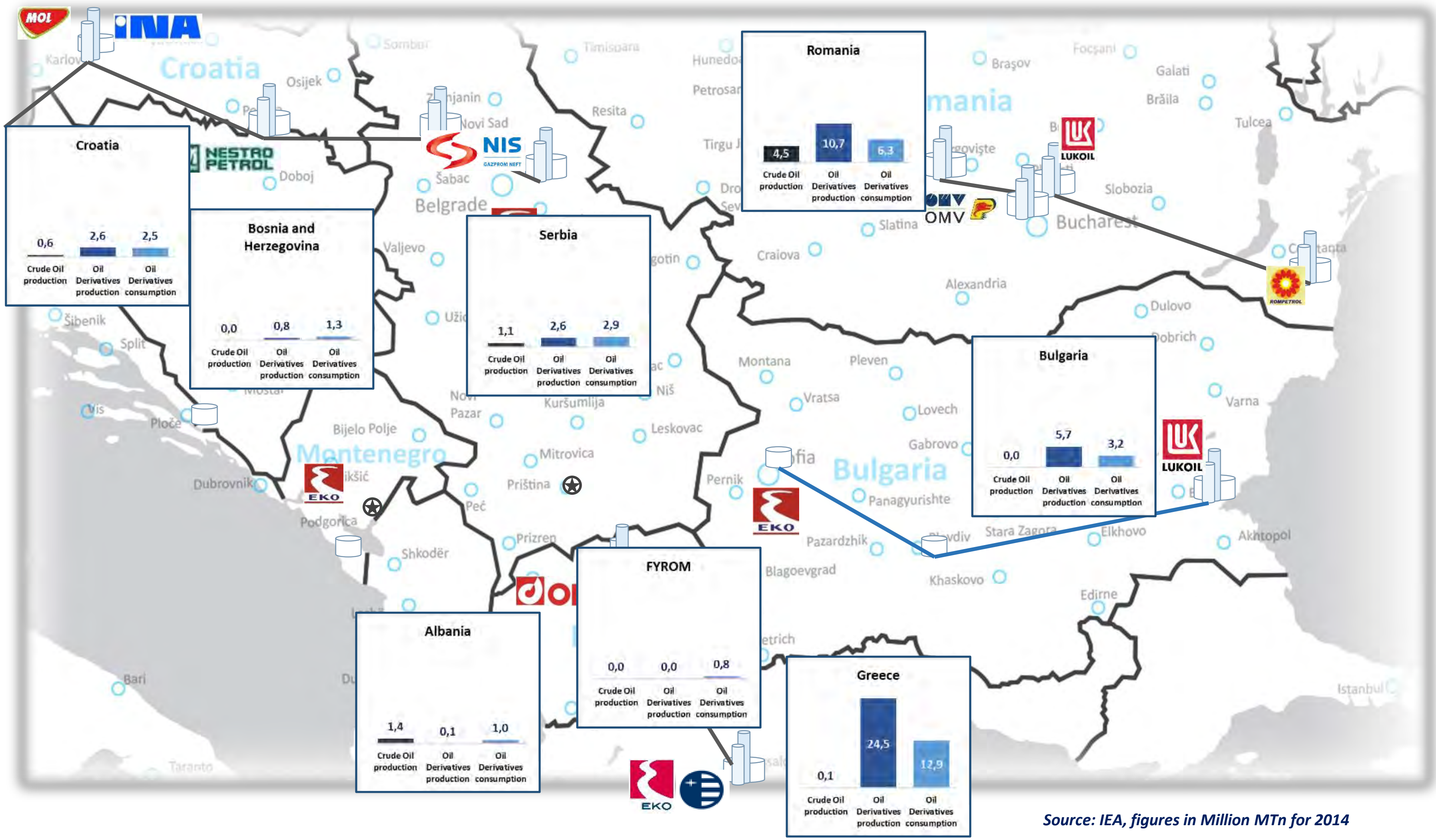
- Petrol Slovenia and INA enter Montenegrin market
- KazMunayGas acquires remaining 25% of Rompetrol
- Lukoil further expands in Croatia through acquisition of Crobenz network
- Full price liberalization in Serbian market

Regional Oil industry Market Evolution 2012-2016

1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 **2016** 2017

- NIS Gazpromneft enters Bulgarian market and the first petrol station is opened in Serbia under Gazprom brand
- First petrol station by NIS Gazpromneft opened in Romania
- OMV completes the exit from two markets as it sells a company in Bosnia to Gazpromneft and Croatian one to Crodux

Crude Oil production and processing



Source: IEA, figures in Million MTn for 2014

- Except Albania, all countries with refineries in the region are fully or majorly dependant on crude oil imports
- Countries without operating refineries are fully dependent on oil derivatives imports
- In recent years, major investments were done in refining, predominantly in hydrocracking capability – diesel production
- Greece, as biggest regional producer of oil derivatives is relying on exports, but mostly on Med And World markets

Major product flows in 2016

Sources: Serbian RZS, FYROM Makstat, EUROSTAT

- Significant cross country trading in order to cover the demand and balance the refinery production
- Different regulation for imports mostly impedes the flows due to cost burden
- Much more active trading along shorelines and along Danube due to easier access to international markets

Product Flow [In thousand MTn] :

LPG | Diesel | MoGas | Black

Key challenges for regional oil industry going into the future

- European refineries will be under increased pressure

- Growing competition from Middle East refineries over the next 5 years
- Russian refiners are investing in upgrading capacity
- North American market became more self sufficient, making more difficult to place surplus gasoline from EU refineries

- Wholesale players faced with increased competition and lacklustre demand:

- Even the most optimistic scenarios assume very small and slow demand growth
- In Montenegro and FYROM oil companies with existing infrastructure are forced to compete with low cost guerrilla importers due to extremely liberal import conditions
- In Serbia and Bulgaria import and obligatory reserves legislation are placing cost burden for import inflows
- Credit risk is very high in general, due to low liquidity in the market and its relative immaturity

- Retail battlefield moved from network development to marketing:

- Most players struggling to achieve decent returns on significant investments that was made in retail assets
- Regulated retail prices in Montenegro and FYROM and keeping margins at steady good level, while optimal pricing strategy is critical in Bulgaria and Serbia.
- Product differentiation is becoming important tool in attracting specific client segments
- Loyalty initiatives are making companies more resistant to volume erosion due to new competition and pricing
- Possibility to serve fleet customers is distinct advantage for networks with good coverage
- Increased focus to, and higher profit share from NFR and services

Petrol Station for the future

New visual identity of EKO petrol station is designed to satisfy the needs of customers in the future…

Petrol Station for the future

Not just selling liquid fuel – it provides everything that commuter/traveller needs