

An Overview of NIS Activities and Plans by Nikola Radovanovic

Prior to its privatisation in late 2008, NIS was a 100% state owned company with around 1bln € debt towards banks. Today, with the following shareholder structure: Gazprom Neft 56,15%, the Republic of Serbia 29.9%, and the rest being floated on the Belgrade exchange (mostly in the hands of citizens and EU investment funds) the picture is significantly different. The total amount of investment has surpassed 2.7 billion € from the privatisation till the end of 2015, while the planned investments in 2016 amount to around 230 million €.

The basic directions of investments are: Exploration and production of hydrocarbons (and thereby increasing the resource base of oil and natural gas), **enhancing the refining process** (including our deep conversion unit – “Bottom of the Barrel” project), development of the retail network, and as the most recent development (as of 2012) includes development of **new electricity generation facilities**.

Upstream: We are striving to keep up our annual production at around the level of 1,4 – 1,5 million tons oil equivalent. We not only exploit the existing wells but by constant investment into the upstream business managed to increase the local resource base of natural gas by 9.2% and crude oil by 1.1.%. We are active in the region of SEE as such it is the absolute focus of our business (Serbia, Romania, Hungary, and Bosnia & Herzegovina) and are, despite the overall volatile situation in the oil market, sticking to our prospection and exploration projects.

Electricity generation: in 2013. god NIS appeared on the electricity market of Serbia with 13 small-scale cogeneration plants in our oil and gas fields totalling an installed capacity of **12,9 MW**, and two additional cogeneration plants totalling an installed capacity of **12,5 MW are currently underway**. We are currently in the phase of developing a gas-to-power (**CHP**) plant with an installed capacity of **140 MW** in Pančevo with an estimated CAPEX of around **140 million €** - the construction phase is planned for mid this year while while operation should start by the end of **2018**.

This will lead to reliable and efficient supply of the refinery with whilst respecting all environmental standards (including Industrial Emissions Directive thresholds), the existing generator unit in the Refinery (12MW installed capacity) will be de-commissioned, thus leading to a decrease of our overall emission footprint. We are also involved in the construction of what is to be the largest windpark in Serbia - **Plandište (102 MW installed capacity, 160 million € CAPEX)**, as the main obstacle for this was removed in mid-June when the government of Serbia adopted the model PPAs (Power Purchase Agreements). **From its own generation facilities, NIS now fulfills 34,4%** of our electricity consumption - an increase of 14,4% relative to 2014.

The company is also utilising geothermal energy from its depleted wells (currently only for heating its facilities) with a total capacity of 20MW, and projects in the pipeline which should provide an additional installed capacity of 13MW.

In the downstream business, we have managed to develop a regional network of petrol stations – totalling **415 PS** under two brands (premium segment – „Gazprom“, PS 96) i „NIS Petrol“ (mass segment PS). Our plan is to finalize our CAPEX in this part of our business by the end of 2018. In 2015 we had a **retail market share** of 77% in Serbia, B&H – 9,1%, u Bulgaria – 3,2% a u Romania 0,5%. Most of the investments in this sector are related to refurbishment and/or construction of new PS in line with the highest standards in the business (not just meeting requirements of the acquis – e.g on Volatile organic compound emissions and vapour recovery of petrol at PS, but in general terms related to the quality of service and products offered).

Biofuels: 7% bio component/blend in diesel, 600 000 tons per year –we have built the facilities which make this possible. On the policy side, however, there needs to be clarity and even more so stability of the framework (we were witnesses of long debates on the thresholds on caps or floors on first generation biofuels in the EU...we have a valid 10% target for final consumption in the transport sector by 2020 – this is an obligation of Serbia as well in line with the National Renewable Energy Action Plan). But we are also aware that there is currently no target in place for 2030 and that signals go towards this subtarget being lost and upkeeping only the overall 27% target on renewables thus giving flexibility to the Member States as to achieving it.) This, in our mind has to be stated clearly – only stable and clear rules can give rise to sound business decisions and avoid having stranded costs and assets.

NIS has also established the **production of CNG** (compressed natural gas): **15% lower CO2 emissions as a transport fuel than diesel and 25% lower than gasoline**. We have a production unit in place and a pilot-project station, with works underway on another production unit and station in 2016.

Bottom of the Barrel: Over 300 million\$ CAPEX. Full operation as of 2quarter of 2019. Delayed coking technology. Multiple benefits: environmental (possibility of full elimination of fuel oil from our product basket or producing Low Sulphur Fuel Oil – Sulphur content less than 1%) and commercial (increase in diesel and gasoline+coke).

After this short overview of some of our investments made to date and projects underway, the possible conclusion could be that the approach NIS has taken is one that should provide the company with the necessary flexibility (as it is crucial) when operating in a highly volatile market (a global market in which a couple of million barrels a day can make the difference on whether a company survives or not). Low oil prices are good for refiners in the short term – the margins have somewhat recovered, but there are views that in the medium and long-term, decreasing regional demand will actually result in overcapacity. A number of refineries have already been closed down in the EU (e.g. Italy/France) and the trend is likely to continue with the relatively high regulatory burden when perceived through the EU

decarbonisation plan. In a nutshell, by diversifying our portfolio of activities we diversify risks and eventually bring in the necessary flexibility which should ensure our sustainability and profitability.