

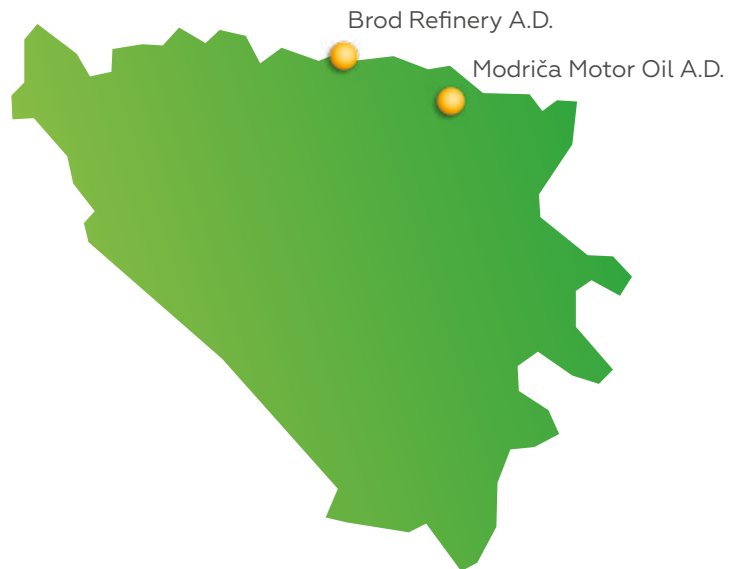
THE OIL PRODUCTS MARKET, PRICING, AND COMPETITIVE ENVIRONMENT

This segment's companies located in Republic of Srpska produce oil products using their own capacities and sell them to the wholesale markets of Bosnia and Herzegovina and adjoining countries, as well as in the retail segment of Republic of Srpska, Bosnia and Herzegovina.

The marketing of oil products through major distributors (traders) is a characteristic feature of the main marginal market of the segment production sale – market of Bosnia and Herzegovina (BiH). Along with the Optima Grupa d.o.o., such companies as INA, NIS, Petrol BH that supply oil products from the cross-border regions carry out their activities in BiH. Therefore, the BiH market is open to foreign (alternative) products. The background for the current situation is the absence of legal restrictions on the supply of imported fuel, which involves a simple procedure of company registration for the purpose of selling and purchasing oil products and does not requiring any licensing.

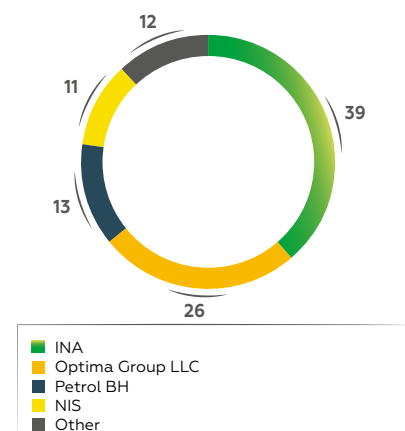
In addition to oil products produced by its neighboring countries (Croatia and Serbia), there is a significant quantity of products (Eurodiesel-5 and Gasoline-95) imported from distant countries, including small traders, in the BiH market. This creates an additional competitive environment in the south and southeast of BiH, where the main demand for oil products is concentrated.

The major wholesale suppliers in the market are: OPTIMA Group (26%), INA (39%), Petrol BH (13%) and NIS (11%). 12% belong to the other suppliers.



The volume of oil product sales by the OPTIMA Grupa d.o.o. in 2018 comprised 26% of the BiH market, which is 7% less than in the previous period. This decrease of the OPTIMA Grupa d.o.o.'s market share was caused by the absence of products for sale due to emergency shut-down of the Brod Refinery on October 10, 2018, as well as the high level of prices compared to those that of the rivals and a focus on the cream skimming strategy for the purpose of increasing the profit from sales. Apart from this, the decrease of the market share is also influenced by the absence of protectionist measures regarding foreign rival companies in BiH, as well as significant logistics issues of the OPTIMA Grupa d.o.o.

Structure of the Bosnia and Herzegovina Market by Main Oil Product Suppliers, %



The main factors of the wholesale oil products price in the market of Bosnia and Herzegovina and in the region as whole are:

- Oil product quotations as announced by Platt's European Market scan;
- Price premiums for each type of oil product.

The dynamics of Platt's quotation is highly dependent on the price of crude oil. The difference between the crude oil price and the oil product price (market spread) provides the refining margin.

In 2017, the increase of the average spread calculated for by the standard quoted basket oil products decreased in comparison to the previous period was 5%

Price premiums in the oil product market are defined by the supply and demand, and alternative possibilities for the buyer amid stiff competition between several producers and

traders in Bosnia and Herzegovina. Unlike Russia, the BiH and regional market is a buyer's, not a seller's market; therefore, the possibilities to form prices by producers/sellers are significantly lower.

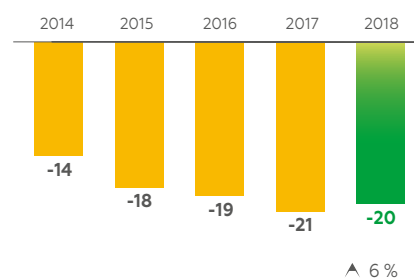
In 2018, the average price of premiums by basket of oil products sold by the OPTIMA Grupa d.o.o. increased by 8%, compared to 2017. The increase of premiums occurred both in the domestic market and in the export sale of oil products.

The domestic market of Bosnia and Herzegovina provides a positive premium value for sold oil products and this is the main outlet for marketing the products of this segment. The export market had a negative premium value for oil products during the entire period of this segment's activity in the region.

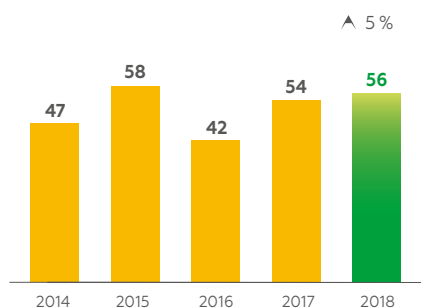
In the reporting year OPTIMA Grupa d.o.o. and NIS (Gaspromneft Serbia PJSC) signed a contract for

the delivery of light oil products. In the framework of the contract performance 60 500 tons of oil products were sold additionally. The revenue amounted to approximately 62.6 MM EUR. Considering the positive dynamics under the results of 2018, it is planned to develop this area of activities further: in 2019 the planes volume of oil products trading amounts to 130 000 thousand tons of light oil products and 45 000 tons of bitumen. The estimated revenue from the contract is planned to reach 98 MM EUR, income – around 1 MM EUR.

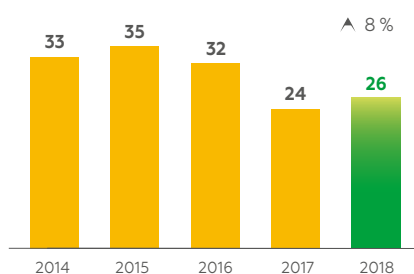
Oil Product Premiums for Export, USD/t



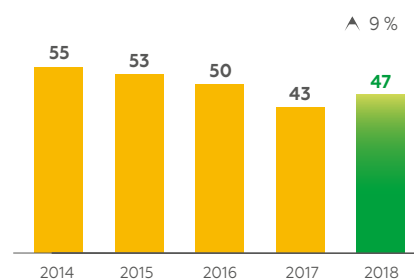
Market Spread for the Basket of Quoted Oil Products, USD/t



Premiums for the Basket of Oil Products in the Reporting Period, USD/t



Oil Product Premiums in the Domestic Market, USD/t



BROD REFINERY A.D.

The Brod Refinery A.D. is the main production asset in the Downstream segment.

The Brod Refinery A.D. started its refining activity in Bosnia and Herzegovina in 1968. It has been a member of the Zarubezhneft Group of Companies since 2007.

The Brod Refinery A.D. is the only oil-refining complex in Bosnia and Herzegovina.

The products produced by the Refinery include the following types of oil products:

- Motor gasoline;
- Diesel fuel;
- Bitumen;
- Fuel oil;
- Heating oil;
- Liquefied gas;
- Raw materials for base oils and paraffin production.

Operational indicators

The volume of oil refining in 2018 amounted to 675 thousand tons, which is 23% below the level of 2017.

The decrease in oil refining is stipulated by changes in the plant production program due to an emergency shutdown in early October 2018.

The yield of light oil products is 1.4% lower compared to the previous period due to a decrease in the actual volume of oil refining, and a high density of oil grades processed at the plant.

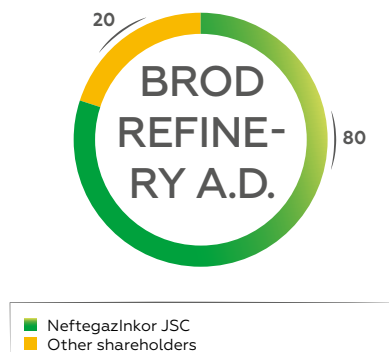
Single index of fuel consumption for own needs and technological losses in 2018 was 1.1% more than the previous period due to a decrease in the oil refining volume.

Financial performance

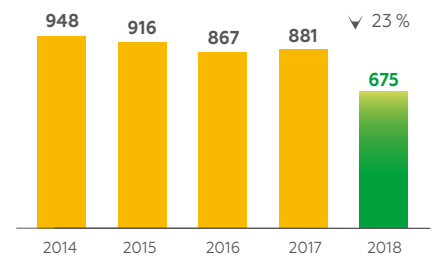
The main reduction was achieved in terms of salaries expenses due to a reduction in the staff number and energy costs as a result of adjustments of the refinery plants activity schedule.



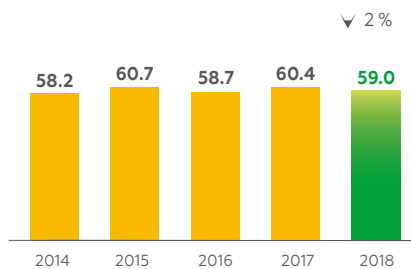
Ownership Structure, %



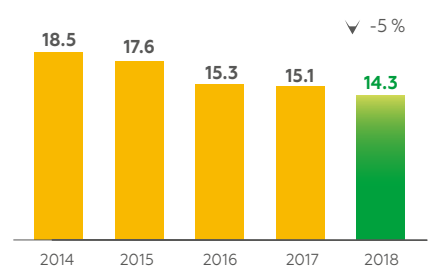
Oil Refining Volume, thousand tons



Light Oil Products Output, %



OPEX, MM EUR



The main part of investments in 2018 aimed to the workover and replacement of equipment. The total investments amounted to 7.2 million euros.



As part of the implementation of 2018 Investment Program, the following activities were performed:

- the design of "Replacement of Burners at Oil Refinery furnaces" facility was completed, burners have been delivered to section 06, tender procedures have been started for burners for section 31 and section 04;
- the design of "Modernization of the raw materials supply system at the vacuum gasoil hydro cracking plant (section 05)" facility was completed; equipment (charging pump) was delivered;
- the fabrication of equipment for the facility "Replacing the internal devices of 31C07 column on section 31" has begun (an advance has been paid);
- the construction of the facility "Construction of fencing and pallets for tank basin (B-27, T-01)" was completed;
- the audit of the design documentation for the facility "Automated System of Level Measurement in the Tank Battery" was completed;
- the design of "System of Drainage from Reservoirs", "Modernization of a floating boom of the quay on the Sava river", "Installation of a backup pump at section 61" facilities was completed;
- the facility "Modernization of oil sludge treatment unit at section 65" was placed into operation;
- equipment for the Mineral Fertilizer Plant was procured and refinery technological plants and auxiliary facilities were repaired as per the production program;
- energy audit of refinery plants has been completed;
- catalysts at units of sections 05 and 35 were regenerated, the main catalyst for the plant of section 35 was purchased;
- the development of design documentation for the project "Update of Hydrogen Scheme of Refinery Plants" has begun;
- the development of technical and financial viability on the facility "Flare Reconstruction" has started.

MODRIČA MOTOR OIL A.D.

The Modriča Motor Oil A.D. is an asset engaged in oil distillate processing and motor oil and lubricant production.

The Modriča Motor Oil A.D. started its production activity in the territory of Bosnia and Herzegovina in 1957. It has been a member of the Zarubezhneft Group of Companies since 2007.

The Modriča Motor Oil A.D. is the only oil and lubricant production plant in Bosnia and Herzegovina.

The range of the oil refinery's products amounts to over 220 items. Currently, the Modriča Motor Oil A.D. is producing the following types of products:

- Base oils;
- Paraffin;
- Lubricants and liquids for motor vehicle equipment;
- Lubricants and liquids for industrial units;
- Motor oils for gasoline and diesel engines;
- Industrial oils and liquids for metal working;
- Lubricant greases.

The Modriča Motor Oil A.D.'s products are certified by major motor vehicle and industrial machinery producers (such as Audi, Volkswagen, BMW, Daimler-Chrysler, Opel, Scania, Volvo, MAN, Caterpillar, John Deere, etc.), as well as by South Korean companies such as Hyundai and KIA Motors that are actively operating in the European market, which helps increasing the competitiveness of its products.

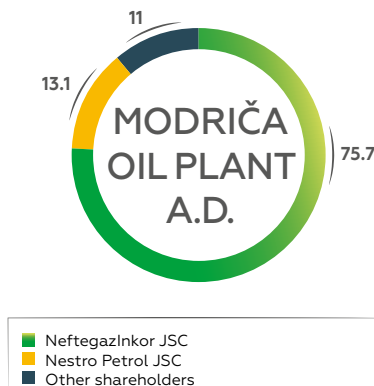
Operational Indicators

In 2018, the volume of oil distillate processing made 32.9 thousand tons, which is 29% lower than the level of 2017. The decrease in refining volume is due to the reduction in oil refining at Brod Refinery A.D.

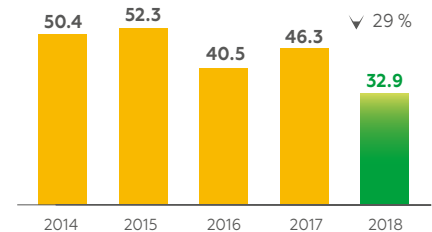
The volume of production of motor oils and lubricants in 2018 also declined relative to 2017 and amounted to 11.8 thousand tons (-9%) due to the refusal from manufacture



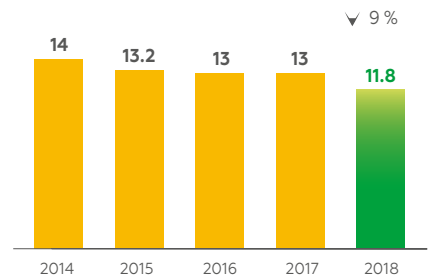
Ownership Structure, %



Oil Distillate Refining Volume, thousand tons



Motor Oil and Lubricant Production Volume, thousand tons



of oils on specific orders based on BBU.

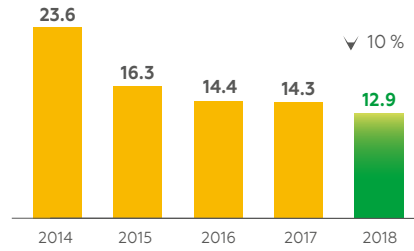
In 2018, the Company continued the implementation of measures aimed at improving the reliability of equipment operation and the efficiency of production activities. Projects have been implemented on replacing vacuum filters on the base oil dewaxing plant and repairing three filling and packaging lines.

Financial performance

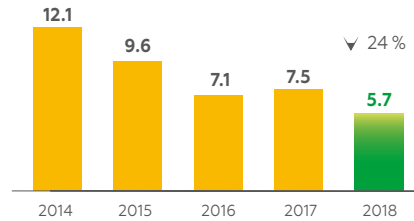
The main indicators of Modriča Motor Oil A.D. operating efficiency in 2018 reflect an objective change in activity conditions.

As part of the Investment Program implementation in 2018:

- vacuum filters on the oil dewaxing unit were replaced;
- the work on replacing physically worn-out equipment on three packing lines (in 1 L bottles and 4 L cans) was performed;
- worn-out equipment at production facilities was regularly replaced.

Revenue, MM EUR

A decrease in revenue is due to the reduction in the volume of oil distillate processing.

OPEX, MM EUR¹

The reduction in operating expenses in 2018 was due to a decrease in the cost of electricity and fuel due to a reduction in oil distillate processing.

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IN 2018 THE COMPANY CARRIED ON IMPLEMENTING THE MEASURES AIMED AT IMPROVING THE EFFICIENCY OF PRODUCTION ACTIVITIES.

¹ For a purpose of data comparability, OPEX in 2012–2014 did not include the cost of raw materials and supplies for production of motor oils and lubricants (since July 2014, the refinery switched over to processing).

OPTIMA GRUPA D.O.O.

The OPTIMA Grupa d.o.o. is a commercial asset in the Downstream segment that is engaged in the purchase of hydrocarbon raw materials for processing at refineries, raw materials for motor oil production at oil and lube plants, and further wholesale distribution of finished products from oil production plants and refineries within the territory of Bosnia and Herzegovina, as well as in adjoining countries.

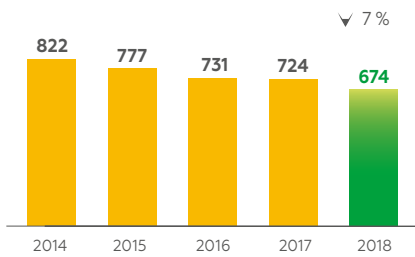
Operational indicators

In 2018, OPTIMA Grupa d.o.o. continued to implement the policy of petroleum product sales aimed at increasing the end customer segment and maintaining the share of fuel sales in the domestic market.

OPTIMA Grupa d.o.o.

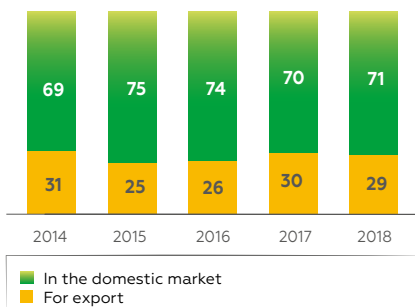


Oil product wholesale volume, thous. t



The total volume of petroleum products wholesale in 2018 amounted to 674 thousand tons, which is 7% lower than the level of 2017 due to a change in the sales schedule owing to an unplanned shutdown of Brod Refinery A.D. in October 2018.

Oil product sales breakdown, %



The structure of petroleum product sales by target markets in the reporting year shows an increase in domestic sales (71%) compared to the previous period (70%).

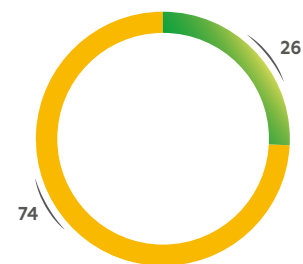
According to the results of commercial activities in 2018, the share of refinery products sold by OPTIMA Grupa d.o.o. in the market of Bosnia and Herzegovina amounted to 26%.

Ownership Structure, %



■ NeftegazInkor JSC

Oil product market share in Bosnia and Herzegovina, %



■ OPTIMA Grupa
■ Other suppliers

Motor oil and lubricant market share in Bosnia and Herzegovina, thous. t

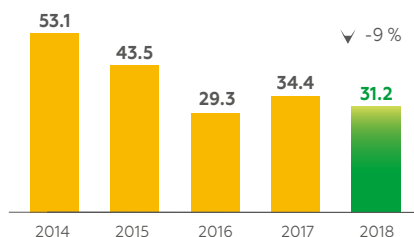


■ OPTIMA Grupa
■ Other suppliers

The volume of sales of base oils and paraffins amounted to 31.2 thousand tons, which is 9% lower than 2017 level. The main reason for the deviation is a decrease in demand in the Serbian market and a lack of finished products with a decrease in the volume of raw material processing at oil refineries.

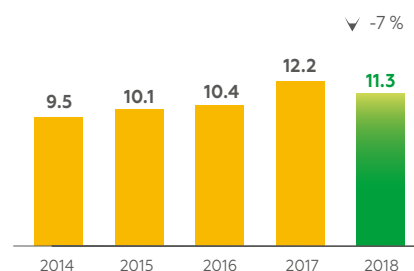
Sales volume of motor oils and lubricants in 2018 decreased by 7% compared to the level of 2017, which is a consequence of a decrease in demand for seasonal products. The share of motor oils and lubricants sold in the market of Bosnia and Herzegovina

Base oil and wax sales level, th. tons



was 38% in 2018, which is 2% less than in 2017 due to a decrease in sales of products to buyers on a tender basis against a decline in commercial production. Moreover, the sales volume of the product "Permant" was reduced in 2018, which was a result of frequent adverse weather conditions and lower competitive pricing.

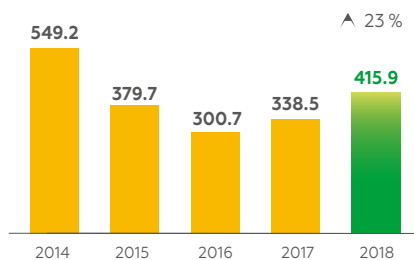
Motor oil and lubricant sales level, th. tons



Financial performance

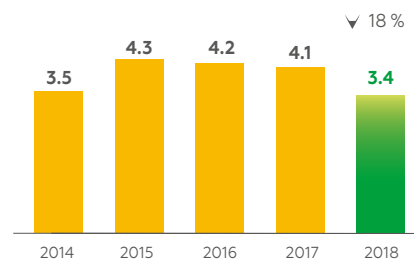
The key performance indicators of OPTIMA Grupa d.o.o. in 2018 reflect the impact of macroeconomic conditions.

Revenue, MM EUR



OPTIMA Grupa d.o.o. revenue in 2018 was 23% higher than the level of 2017 due to the growth in average selling prices due to the world oil price dynamics, as well as additional sales of petroleum products via the trading channel.

General & administrative expenses, MM Euro



In the reporting year, the amount of the general business expenses of the Company is 18% lower than the level of 2017 due to a decrease in expenses for certain items of expenditure - payroll, banking services, consulting services.

NESTRO PETROL A.D.



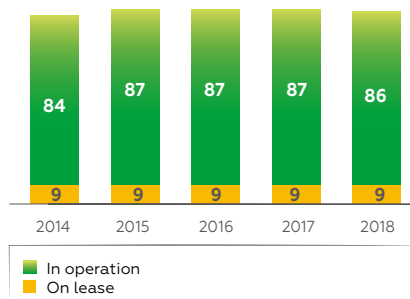
Nestro Petrol A.D. is a commercial asset of the Downstream segment that is engaged in the retail sale of basic types of products produced by the Brod Refinery A.D. and the Modriča Motor Oil A.D.

The Company owns production assets in the territory of Republic of Srpska, Bosnia and Herzegovina. A retail fuel station network was established in 1945, which operates as a member of Zarubezhneft Group of Companies since 2007.

The retail sale of oil products, as well as additional items, is carried out through the retail chain, which made up of 86 currently operating fuel stations.

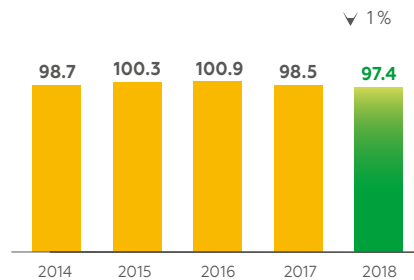
Operational indicators

Number of fuel stations, pcs.



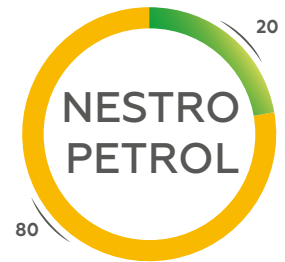
The number of functioning gas stations at the end of 2018 decreased by 1 station compared to the previous period.

Oil product retail sales, thous. t



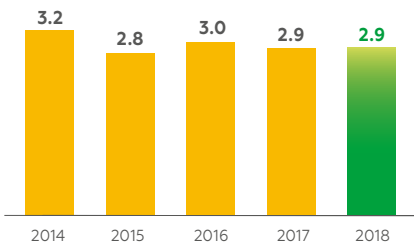
The volume of sales of petroleum products through gas station network in 2018 was 1% lower than the level of 2017 due to the adaptation of the market to the increase in retail fuel prices associated with an increase in excise taxes since February 1, 2018.

Ownership Structure, %



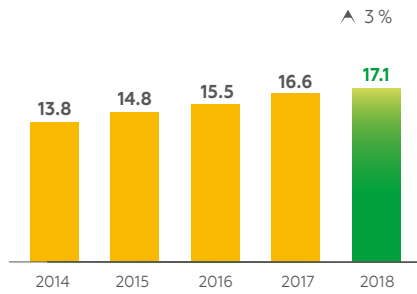
■ NeftegazInkor JSC
■ Other shareholders

Average daily sales volume of 1 fuel station, t/day



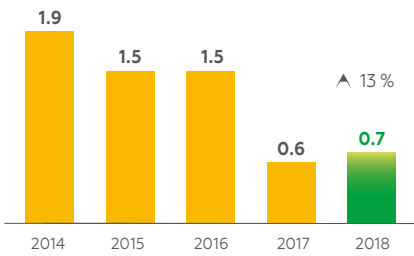
The level of daily fuel sales at one gas station in 2018 was 2.9 tons/day, which corresponds to the 2017 level.

Optional range product sales revenue, MM Euro



Revenues from the sale of additional goods at gas stations increased in comparison to the previous period by 3%, which had a positive impact on the Company's operating efficiency.

FCF (to %), MM EUR



The net cash flow of Nestro Petrol A.D. in 2018 was slightly higher than that of the previous year (+ 13%).

Financial performance

The main indicators of the operating efficiency of Nestro Petrol A.D. in 2018 demonstrate a positive trend relative to the level of 2017.

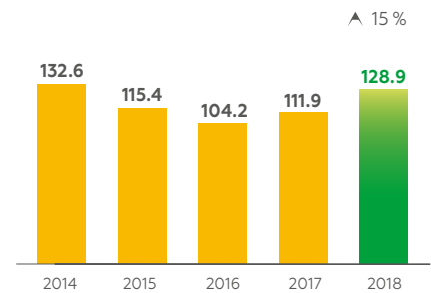
The sales revenue in 2018 exceeded the 2017 level by 15%; the increase was due to a growth in the average retail fuel price.

The absolute amount of operating expenses in 2018 increased by 2% compared to 2017 due to an increase in maintenance expenditures for gas stations.

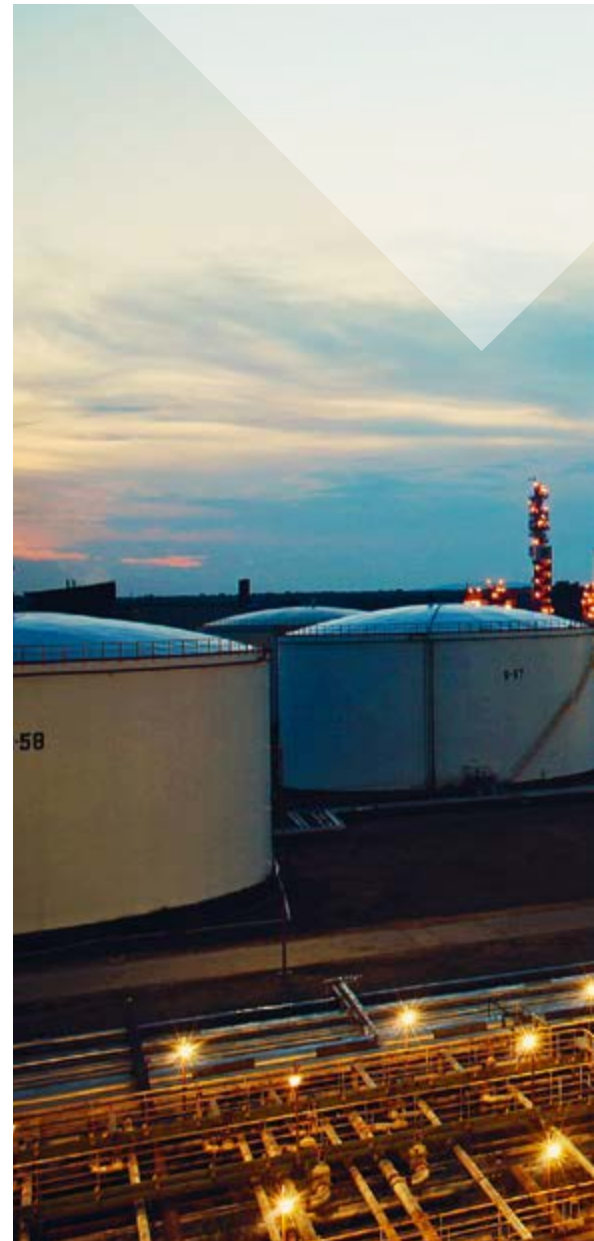
The main areas of investment financing in 2018:

- fuel station reconstruction;
- fuel station equipment with double-walled tanks (2 fuel stations);
- substitution of filling station dispenser by fuel station (3 fuel stations);
- installation of gas equipment at fuel stations;
- installation of commercial equipment in stores and cafes at fuel stations..

Revenue, MM EUR

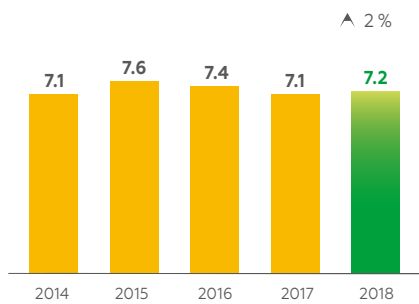


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OPEX, MM EUR



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