

Despite pessimistic oil price forecasts, NIS is planning to invest up to EUR 1 billion over the next three years. The amount will primarily go to increasing hydrocarbon reserves and bottom-of-the-barrel. Naturally, we will also invest in the expansion of the power engineering business and retail network. That is our plan at the moment.

This is what NIS CEO Kirill Kravchenko says in the exclusive interview for Novosti, stating that the forecast is conventional and that the investments may be even larger.

What results do you expect at the end of 2015 if the profit you generated in the nine months is twice lower year-on-year?

- We expect a decline in financial results and net profit in the amount of over RSD 10 bn. We have managed to maintain profitability notwithstanding the drastic drop in oil prices and foreign exchange rates where we lost around RSD 10 bn. At the same time, the results will be better compared to the planned production indicators. Specifically in the segment of oil and gas production, refining, and also in retail and premium channels. NIS has managed to achieve good results owing to the supplementary operational efficiency program which has been implemented in the Company at all levels. In 2015, EBITDA will amount to around RSD 40 bn, while the cash flow from the business activities will approach the last year's amount, at the level of around RSD 40 bn. Based on this and the retail indicator, NIS has achieved better results than the competitors, for example MOL, OMV and INA. It is important to note that in 2015 we implemented the investment programme in the amount of around RSD 30 bn.

You state that cost reduction allowed for positive business operation. Where have the savings been made?

- We have increased the level of premium products in refining - we have invested in different parts of refining. We have introduced new technologies for unconventional reserves in the production, applying them also to deep drilling. A new environmentally-friendly approach in fracturing gives us additional capacities for production and increase of oil and gas reserves. In sales and distribution, we continued introducing new products and services, such as G-drive branded fuel. Furthermore, we have reduced benefits for the managers and the number of foreign employees by hiring local professionals. We have changed the motivation method, increasing the level of variable pay against the fixed portion based on the results. We have also reduced the costs in all segments of cooperation with partners, namely by negotiating with those who are involved in investment projects, goods and service delivery, obtaining discounts and increasing the efficiency of warehousing and logistics. We value the measures proposed not only by the top of the management, but also by the common workers on the ground, and for the latter ones we are especially

grateful. Last year, we received from our employees more than 800 proposals for increasing internal efficiency of all business processes. We selected and started implementing the best ones among them. In 2015, we expect almost EUR 80 mln to result from the measures for internal efficiency increase, and in the next three years minimum EUR 100 mln.

Do you expect that crude oil price will continue to drop in 2016?

- In mid-2014, 99% of experts forecast that the oil price will be above USD 100 per barrel. And then a drastic collapse ensued. Nobody could believe that this would be a long-term trend; they thought it was an error or just a momentary state of affairs. Now, analysts' forecasts range from USD 40 to 70 per barrel over the next three years. Our forecast is a conservative one, since the most important thing for us is that our projects remain stable. That is why we are officially forecasting crude oil price of USD 46.5 per barrel over the next three years. Unfortunately, the situation may get worse; as you can see, the price of crude oil is now USD 35, which presents yet another big challenge for us.

The citizens are primarily interested in fuel prices. Will the prices go up?

- If the oil price does not change drastically, fuel price will remain approximately the same. We should bear in mind that 55% of fuel price structure goes to taxes, including excise duties. We cannot influence that since we purchase two thirds of the raw materials outside the country, and everything depends on oil and gas price trends in the global market. The Government announced increase in excise duties as of January, therefore the price will fluctuate only a little, but not considerably.

Do you expect that the new Law on Fees scheduled for next year will change the amount of the mineral royalty?

- This is a sensitive issue for everybody - both the politicians and the Company. What is important for Serbia is to act like a European country. For example, Romania and Croatia encountered a similar situation when Petrom and Croatian INA were privatized. For a certain period of time, i.e. for more than 10 years, they maintained the same taxes and fees as before privatization. A similar situation occurred in Russia and Latin America. Therefore, I believe that Serbia will observe the signed agreement, since it is not only an international agreement, but also the global practice. However, that is something our shareholders should decide.

Who are your largest debtors and what is the payment schedule according to the Memorandum signed with the Government of Serbia?

- The largest "debtors" are our competitors. Paradoxically, should we wish to oust the competitors from the market, we would play with the prices and quality. But we act in a civilized manner and play according to the open, market rules. In terms of the commercial

debt to NIS, there are several state-owned companies. It is important to underscore that we have agreed with the state on how to resolve this issue.

Which state-owned companies are they?

- What I can say is that the state has been a very good negotiator. In negotiations with us, they managed to make substantial savings. The original debt of the state-owned companies was EUR 500 mln. It has been reduced to EUR 300 mln - in terms of write-offs, 200 mln is the interest rate and the share of the debt the state negotiated with in the previous year. That is why I want to praise the state as a negotiator. For the remaining part of the debt of public companies to NIS, we will observe the Memorandum with the Government of Serbia. We would like to express our gratitude to the Prime Minister and the Government for finding a way to meet the obligations.

How much does Petrohemija owe you at the moment? Will you increase your share in that factory? Will NIS become the majority owner?

- We have a 12.72% share in Petrohemija. What is important is the fact that during the negotiations, we managed to make a common concept with the state, the majority owner, on how to save the enterprise. We have a direct interest in Petrohemija's survival. We will not increase the share of our ownership significantly since we are not such experts in that area as in the area of oil and gas. As early as 10 years ago, the majority owner Gazprom Neft decided to withdraw from the petrochemical business. We arranged with the state that we would provide raw material at a favourable price on a long-term basis. We used our own funds to make a development concept for this company with the consultants such as McKinsey - "Petrohemija for the Future" - within which we established two courses of action. Increase of operational efficiency, where we have already achieved a lot, followed by management capacity strengthening through engagement of foreign experts, and thus, Petrohemija has already generated operating revenue. This is important because of the accumulated debts that represent a huge cost for the company. For the first time in three years, this company will have positive operating revenue. Last year and this one, a progress has been made in the negotiations with the banks, and we are simultaneously searching for a strategic partner to invest in the significant potential improvement.

Will there be more layoffs in NIS?

- There have been a lot of changes since 2009, when the strategic partner Gazprom Neft entered NIS. Given the investments in the field of energy generation and petrol station network expansion, the total number of people engaged by NIS has been growing constantly this year and it will continue to grow next year. We have optimized the number of employees, we are expanding our activities and, in line with that, we are gradually

increasing the number of people. When we arrived, the median age of the employees was almost 50, and now it is under 40, 37 and 38 to be more specific. Over the last four years, we have engaged more than 700 young and talented experts from the universities, thus radically changing our personnel structure, both in age and education quality. A negative scenario might occur only if the price of crude oil in the global market drops drastically. What do you think about these young people, does the cadre really have the quality to play a part in the company?

- Average young expert quality in Serbia is considerably better than in the region as a whole. Serbia is one of the centres in the region in terms of personnel expertise. In our oil and gas business activity, we are actively developing joint programmes with the leading European and Russian universities, well known in expertise. We will continue investing in the Universities of Novi Sad and Belgrade, in the Technical Faculty in Zrenjanin, and we have advanced a lot in providing high-quality staff. Petroleum engineers in Serbia have become one of the leading professionals in the South East European countries. Therefore, in spite of the crisis, we will continue investing in science and education since that is the future.

You have transformed from an oil and gas into an energy holding - what are the results and plans for the future?

- A couple of weeks ago, we started revising our strategy officially at the Board of Directors. It has not been adopted yet, but we are working on it together with the Ministries of Energy of Serbia and Russia, minority and majority shareholder, respectively. According to the preliminary, basic scenario, we will get 25% up to a third of our operating revenue after 2020 from energy generation. That is why this is an important course of action for us where we invest a lot of energy, money and our knowledge. There are several directions for energy generation development: gas, which we are developing through small gas-fired power plants and large projects with our partners, followed by green energy, i.e. wind farms, and also geothermal energy.

You have become a power producer. What are your plans in this field?

- Our forecast shows that with the construction of new capacities in this area we could get between 7 and 25% share in the local market. Depending on the size of the projects, we will implement them together with the partners. Apart from that, we are already selling electricity to the neighbouring countries. We have obtained the licence for Romania, Hungary and Bosnia and Herzegovina. We know that a number of power generating capacities will be put out of service in the following years due to their long service life and we thus want to contribute to the energy security of our country. To that end, we have

several courses of action, from the increase of power generating capacity to the trade with the neighbouring countries. However, Serbia is the most important for us, since this is the country where we live, work and pay taxes. That is why Serbia will remain the priority in terms of energy generation.

Dieselization

- Despite the fact that in 2016 the largest excise duty increase will be for diesel - RSD 4, dieselization will keep an upward trend. In principle, we do not expect any change in the trends. The future lies in the growth of diesel and decline of gasoline (natural gasoline) and LPG.

Of 11,000 workers in total, half is hired through leasing agencies

How many people are directly employed in NIS, and how many through leasing agencies?

- The ratio is 50:50. This is a European trend in our region, in Austria, for example, 80% of workers are employed through leasing agencies and 20% through systematized job positions. There are some companies in Serbia with a far larger number of employees hired through intermediary agencies than in our case. But we want to find a compromise which would be the best both for our Company and the workers. Given the legal requirements, education, price and quality, I believe that 50:50 ratio is the best for 11,000 employees.

source: nis.eu