

OIL REFINING AND SALES (ORS)

SEGMENT STRUCTURE



Bosnia and herzegovina

Oil refining

- ▶ Optima Grupa Purchase of crude oil and raw materials for motor oil production and the wholesale and small wholesale of petroleum products, motor oils, and lubricants on domestic and export markets
- ▶ Brod Refinery Oil refining and manufacturing of petroleum products
- ▶ Modriča Motor Oil Plant Manufacture of base oils, paraffins, motor oils, and greases
- ▶ NESTRO Petrol Retail sale of petroleum and related products



Russian Federation

Oil refining

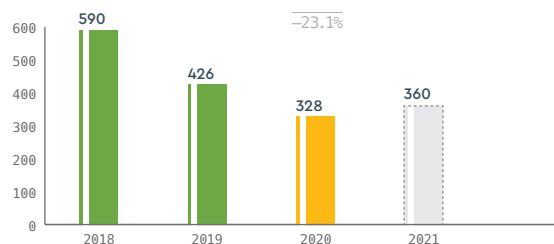
- ▶ NeftegazInCor The main borrower of loan funds for the project and owner of the controlling stake in BH enterprises

Zarubezhneft's project to rebuild and modernize ORS segment companies in Bosnia and Herzegovina started on February 2, 2007 with the signing of an agreement with the Government of the Republic of Srpska (Bosnia

and Herzegovina) on the purchase of the Bosanski Brod Refinery, which produces motor oils in the city of Modriča, and the Nestro Petrol retail chain, which owned 85 gas stations at the time of the purchase.

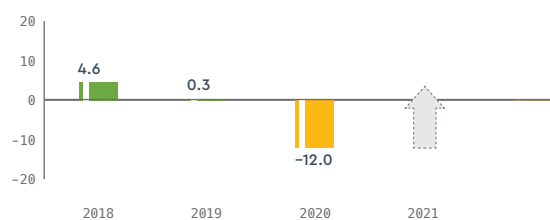
Segment indicators

REVENUE, EUR mln



The segment's revenue declined by 23% in 2020 compared with the previous year due to lower quotations and, as a result, prices for petroleum products and also because of a decrease in retail sales of petroleum products due to the negative impact of the pandemic.

EBITDA, EUR mln



The revaluation of reserves in 2020 per IFRS due to the global decline in prices for refined products had the biggest impact on the decline in the segment's operating results. In the future, as global prices increase, the impact on EBITDA will be reversed.

Petroleum products market, pricing, and competition

Following the shutdown of the Brod Refinery in 2018, the Segment's companies in the Republic of Srpska handle the wholesale of petroleum products through the trading operations of third-party products on the Bosnia and Herzegovina market and also supply fuel and sell it through their own retail network.

Bosnia and Herzegovina

The Bosnia and Herzegovina market is highly marginal, but the solvency of counterparties and the population remains low. The largest suppliers of petroleum products to the territory of Bosnia and Herzegovina are INA (Croatia), NIS (Serbia), and Petrol (Slovenia), which produce and supply petroleum products from neighboring territories. There is also a significant number of large, medium, and small companies that sell petroleum products imported from foreign countries on the Bosnia and Herzegovina market, along with the OPTIMA Grupa. The availability of delivery points from Ploče, Zadar, etc. increases the competition in the south and southeast of Bosnia and Herzegovina, where the main demand exists for petroleum products.

In general, the Bosnia and Herzegovina market is open to foreign products. The main factors for the current situation are the absence of legal barriers to obtaining imported fuel and a simple procedure for registering companies for the purchase and sale of petroleum products, which does not require licensing.

OPTIMA Grupa accounted for 22% of petroleum sales on the Bosnia and Herzegovina market in 2020, which is 2% higher than the same indicator for the previous year.

The Company's share on the Bosnia and Herzegovina market increased due to the most competitive and flexible price offers on the petroleum products market.

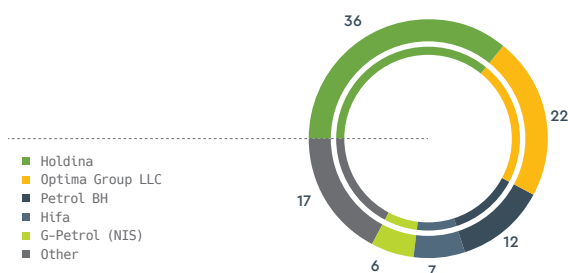


The main factors behind the wholesale pricing for petroleum products on the Bosnia and Herzegovina market as well as in the region as a whole are:

- ▶ Quotations for petroleum products in Platts European Marketscan
- ▶ Price premiums for each type of petroleum
- ▶ Products sales margin

The sales margin was the main factor for the OPTIMA Grupa in pricing in the absence of its own products. The average margin for the basket of petroleum products sold by OPTIMA Grupa in 2020 was EUR 10.75/t.

MAIN WHOLESALE SUPPLIERS OF PETROLEUM PRODUCTS ON THE BOSNIA AND HERZEGOVINA MARKET, %



Asset performance results

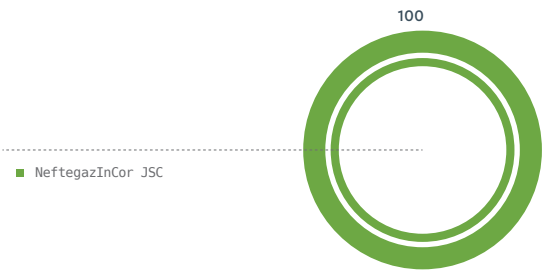
OPTIMA GRUPA d.o.o.

OPTIMA Grupa is a commercial asset of the ORS segment, which carries out wholesale sales of petroleum products in Bosnia and Herzegovina as well as neighboring countries.

Since 2019, the sale of petroleum products has been a priority for developing OPTIMA Grupa's business activities. As it develops the functional trading segment as part of its operational activities, the Company is trying to restore the market share it had prior to a major accident and production at Brod Refinery was suspended



OWNERSHIP STRUCTURE, %



Operating results

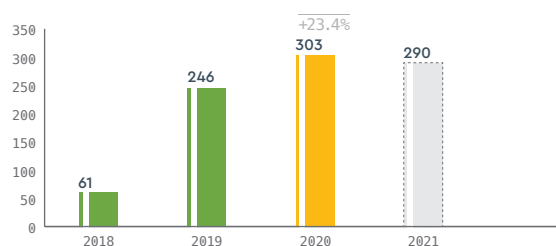
In order to develop the petroleum products business in 2020, OPTIMA Grupa changed the concept of its approach to wholesale in Bosnia and Herzegovina and provided its customers with the opportunity to purchase from the four most affordable regional points of petroleum products supply: from the east (NIS), west (Crodux), south (Ploce tanker), and north (Brod Refinery Terminal).

The actual volume of fuel sales through the trading channel in 2020 amounted to 302,900 tons. The margin from the sale of petroleum products was EUR 10.75/t, which is EUR 2.3/t better than in 2019. In its commercial activities, products sold by OPTIMA Grupa made up 22% of the Bosnia and Herzegovina market in 2020.

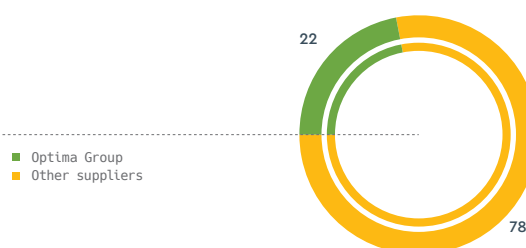
Motor oil and lubricant (MOAL) sales amounted to 11,129 tons in 2020, an increase of 69 tons from 2019. The gross margin for MOAL was EUR 305/t, which is EUR 47/t higher than the previous year.

The reasons for the decline in revenue in 2020 are the discontinuation of the sale of in-house products by Brod Oil Refinery, base oils and paraffins produced by Modriča Motor Oil Plant, and a decrease in the selling price by EUR 213/t as global oil prices slumped.

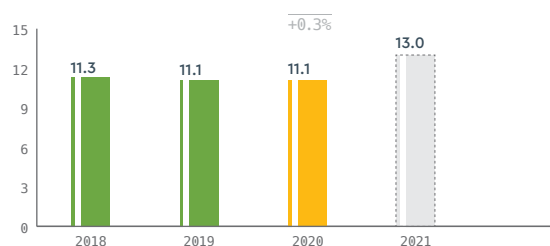
PETROLEUM PRODUCTS TRADING VOLUME, thousand tons



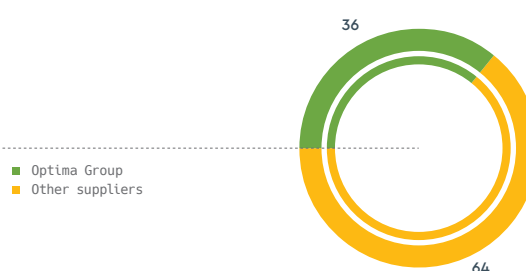
MARKET SHARE OF PETROLEUM PRODUCTS IN BOSNIA AND HERZEGOVINA, %



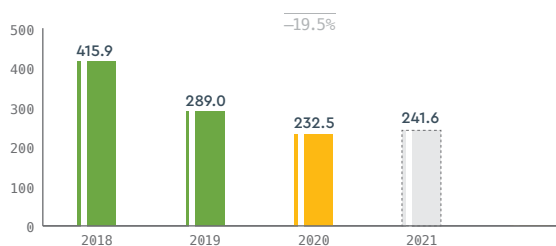
ENGINE OILS AND LUBRICANTS SALES, thousand tons



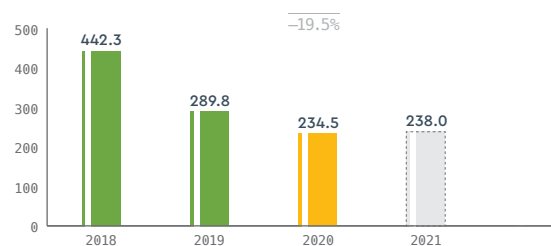
ENGINE OILS AND LUBRICANTS MARKET SHARE IN BOSNIA AND HERZEGOVINA, thousand tons



REVENUE, EUR mln



OPERATING EXPENSES, EUR mln



Brod Refinery

Brod Refinery has been refining oil in Bosnia and Herzegovina since 1968 and as part of Zarubezhneft Group since 2007.

No oil refining was carried out in the reporting period due to the refinery's shutdown at the end of 2018. In 2019, a joint project involving the gasification of Brod Refinery and autonomous gasification in the Republic of Srpska was initiated and is currently being implemented.

Operating results

During the reporting year:

- ▶ The refinery completed construction and installation work, electrical installation, and the installation of instrumentation and control systems and upgraded APCS internal gas networks.
- ▶ More than 1,300 meters of various diameter pipelines were laid as part of the new natural gas distribution system inside the refinery, and a measuring station was installed to reduce pressure and measure the amount of gas entering the refinery.
- ▶ All permits were issued, and the facility was granted a permit for commercial operation; this system will ensure the supply of natural gas to a new boiler house and other potential consumers at the refinery.
- ▶ As part of the construction of a direct gas pipeline from the gas transmission system of the Republic of Croatia to Brod Refinery, project documentation was developed, equipment was completed, construction permits were obtained in the Republic of Srpska and the Republic of Croatia, and construction and installation work is underway.
- ▶ A project for the construction of a solar power plant with installed capacity of up to 1 mW was implemented. A total of 2,724 photovoltaic modules with unit power of 350W were installed for a total



of 953.4 kW. The total surface area covered by the modules was about 5,000 m². The Solar Energy Project has been in commercial operation since November 30, 2020. The minimum guaranteed electricity production in the first year of operation will be 1,050 mWh.

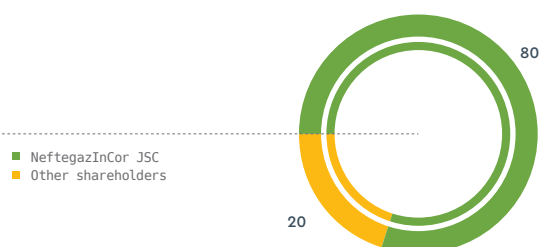
- ▶ Throughout 2020, the refinery staff carried out work to repair equipment, dismantle inactive installations, and improve the refinery's territory.

In addition, the refinery managed to achieve a significant reduction in labor costs in 2020 due to a decrease in the number of employees.

As a result of changes to the production program and adjustments to the schedule for the plant's machinery, expenses on electricity and routine maintenance of fixed assets were reduced.

The bulk part of investment (EUR 3.65 million including VAT) in the reporting year was directed to the completion of the Solar Energy project and the implementation of the 'Gasification of Brod Refinery and Autonomous Gasification of the Distribution Station' project. Total investment amounted to EUR 4.29 million and encompassed the Innovative Development Program, the purchase of equipment, and construction and installation work on these projects.

OWNERSHIP STRUCTURE, %



Modriča Motor Oil Plant

Modriča Motor Oil Plant has been operating in Bosnia and Herzegovina since 1957 and has been part of ZARUBEZHNEFT GROUP since 2007.

Modriča Motor Oil Plant is the only plant that produces oils and lubricants in Bosnia and Herzegovina.

The plant's product range includes more than 220 items. The plant currently produces the following types of products:

- ▶ Lubricants and fluids for motor vehicle machinery
- ▶ Lubricants and fluids for industrial installations
- ▶ Engine oils for gasoline and diesel engines
- ▶ Industrial oils and liquids for metal processing
- ▶ Grease lubricants

The products of Modriča Motor Oil Plant are certified by the main manufacturers of cars and industrial equipment (Audi, Volkswagen, BMW, Daimler-Chrysler, Opel, Scania, Volvo, MAN, Caterpillar, John Deere, etc.) and the South Korean companies Hyundai and KIA Motors, which are active in the European market, and this significantly increases the competitiveness of its products.

Operating results

The production volume of motor oils and lubricants remained at the level of the previous year in 2020.

The decline in production volume was due to optimal stocks of products being maintained in warehouses as shipments declined in March, April, May, and June as a result of COVID-19. The main reason for the deviation in the structure of finished products relative to the BP is the change in the actual sale of finished products by the customer.



The plant's revenue decreased due to the lack of refining of oil distillate. However, a decrease in staff costs led to an overall reduction in operating expenses.

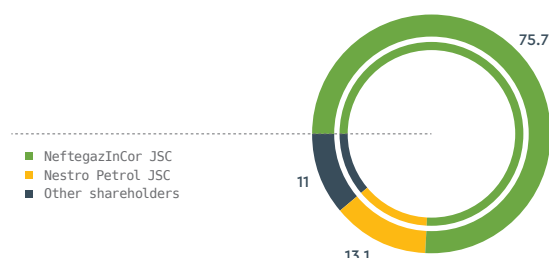
In 2020, investments were mainly directly toward maintaining the operational readiness of equipment and purchasing the minimum necessary equipment. As part of the implementation of the investment program:

- ▶ Worn-out equipment was regularly replaced at production facilities
- ▶ A feasibility study was completed on the project 'Replacement of the steam boiler with a new thermal oil boiler'

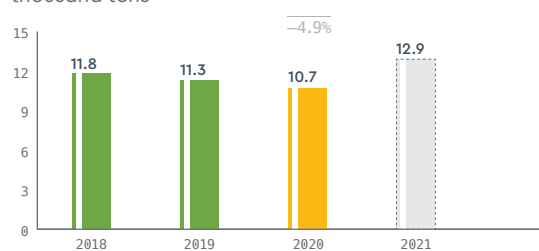
The Company's investments are fully financed from its own funds.

Operational results
for the reporting period

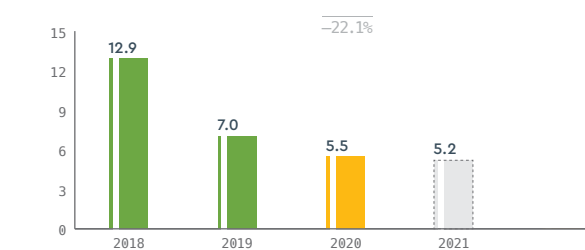
OWNERSHIP STRUCTURE, %



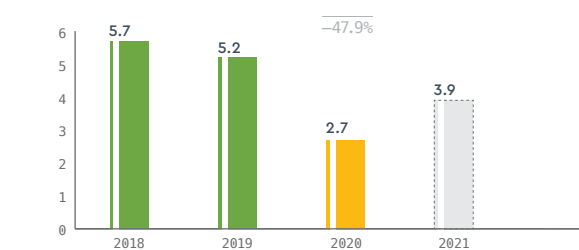
MOTOR OIL AND LUBRICANT PRODUCTION, thousand tons



REVENUE, eur mln



OPERATING EXPENSES, eur mln



Nestro Petrol

Nestro Petrol is a retail network of gas stations that was established in 1945 and whose production assets are located in the Republic of Srpska and Bosnia and Herzegovina. It has been operating as part of ZARUBEZHNEFT GROUP since 2007. It is a commercial asset of the ORS segment, which handles the retail sale of the main types of products produced by Modriča Motor Oil Plant as well as petroleum products purchased from OPTIMA Grupa.

The sale of petroleum products as well as an additional range of products is carried out through the retail network, which included 86 gas stations as of the end of 2020.

Operating results

Total petroleum product sales amounted to 74,000 thousand tons in 2020. The decrease in sales is primarily attributable to measures taken by the government of Bosnia and Herzegovina to prevent the spread of COVID-19: in mid-March, decisions were made to close borders, restrict the work of public catering and trade enterprises, and restrict the movement of the population. Almost all measures remained in effect until the end of 2020, which led to petroleum product sales on the Bosnia and Herzegovina market declining by about 21.4% versus the target.

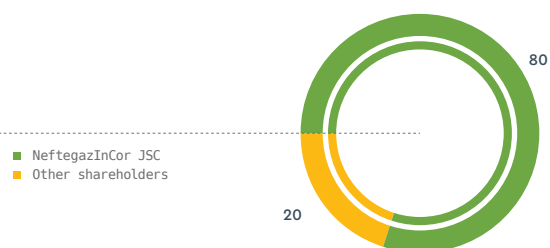
In 2020, the marginal income from the sale of additional products amounted to EUR 2.91 million, an increase of EUR 0.05 million from the previous year.



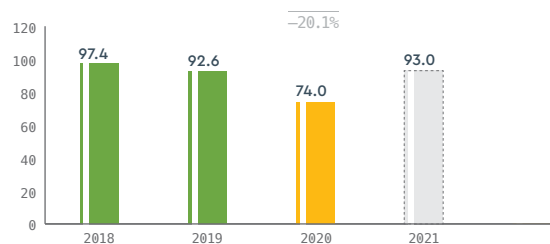
The number of gas stations increased by one station as of the end of 2020 compared with the previous period.

Daily fuel sales at one gas station in 2020 was 2.2 tons per day, or 0.6 tons per day less than the 2019 level. The main reason for the decrease in sales per gas station was the restrictions imposed due to the pandemic and a significant decrease in traffic flow and the movement of the population between neighboring states. A significant decline in business activity led to a decrease in commercial traffic.

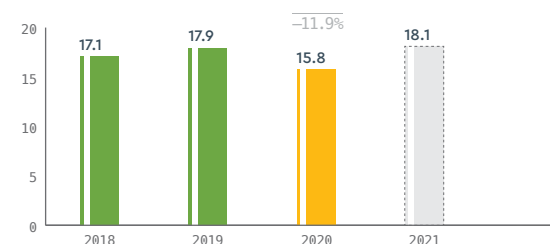
OWNERSHIP STRUCTURE, %



RETAIL SALES OF PETROLEUM PRODUCTS, thousand tons



REVENUE FROM THE SALE OF ADDITIONAL PRODUCTS, EUR mln



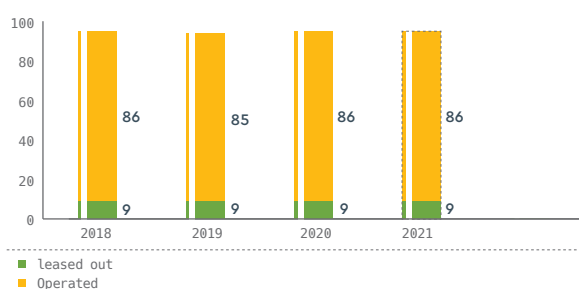


Sales revenue declined in 2020 compared with the previous year was due to decreased retail sales (down 18,600 tons or EUR 21.8 million), a drop in the average sales price by EUR 205/t (down EUR 14.2 million), and decreased revenue from the sale of additional products (down EUR 2.2 million) due to the restrictive measures taken by the government of the Republic of Srpska to combat the pandemic.

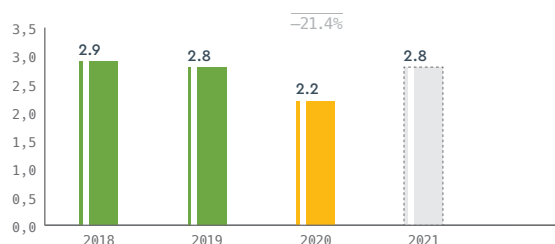
During the reporting year, the Company's investments were fully financed from its own funds. The main targets of investment funding in 2020 were:

- ▶ Reconstruction and rebranding of gas stations
- ▶ Installation of commercial equipment at grocery stores and cafes at gas stations
- ▶ Completion of the construction of a new gas station in Zalužani

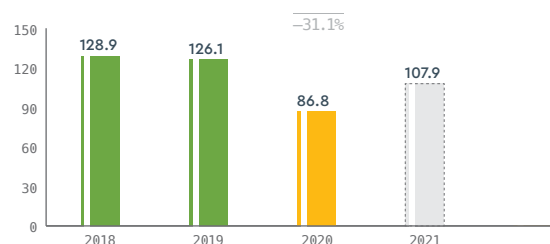
NUMBER OF GAS STATIONS



AVERAGE DAILY SALES PER 1 GAS STATION, tons per day



REVENUE, EUR mln



OPERATING EXPENSES, EUR mln

