

Interview of CEO of NIS Kiril Kravchenko for daily newspaper "Danas"

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Date : July 30, 2013

In the first six months of the current year NIS generated the net profit of nearly \$ 20 billion RSD. This result can be described as good despite the fact that profit marks a 13 percent drop compared to the same period last year. One of the reasons for the lower profit was the 37 percent increase of tax charges. The Company's paid tax liabilities, including excise, profit tax and other tax payments exceeded last year's and amounted to 52.2 billion RSD. However, as I said, if you take into account the fact that tax have liabilities grown by 14 billion RSD, the drop in net profit of about three billion RSD cannot be characterized as a failure. As for other indicators, I can say that we have generated gains in all segments. Refining has grown by 21 and production by four percent. In retail, we have achieved better results by 26 percent than we did in the same period last year. So I am generally satisfied with the Company's business operations. There are however other problems like the state companies' debt which has doubled in a year and a half and at present it totals 70 billion RSD. What we can do about this issue on our part is to work together with the Government of Serbia on finding constructive ways to settle these debts – said Kirill Kravchenko, NIS CEO, in an interview with Danas.

How much has NIS invested in the development of a manufacturing base and environmental projects and have you invested in this segment more than last year?

- In terms of total investment, in the first six months of 2013 we invested 24 billion RSD which is more than in the same period last year. We have invested the most in production increase and increase of oil and gas reserves, nearly ten billion RSD. Regarding environmental investments, they are higher than anticipated in the Business Plan and exceed five billion RSD. This is slightly lower than in the previous year, but that is understandable because in 2012 we implemented large and important environmental projects such as the commissioning of a new light hydrocracking / hydrotreating compound in the Pancevo Oil Refinery.

In terms of current investments, which are the ones on which NIS places special emphasis? What are the targets of your past or planned investments?

- At the moment the focus is on investments in new technologies in order to improve the Company's business operations and improve the quality of our products to make them even better. Pancevo Oil Refinery is in the process of reconstruction process, it is fully modernized and is now producing fuel of European quality. I must emphasize that, counting per quantity of fuel sold per gas station, NIS has outpaced its biggest rivals in the market, MOL and ECO. We have invested a lot in the exploration of potential oil and gas deposits and we are using the latest seismic technology in the process. We are also working hard on energy reserves and we have recently initiated a program of utilization of dissolved gas and put into operation the first cogeneration plant in our collection and shipment station SIRAKOV. The program of utilization of dissolved gas is part of a long-term project of a more efficient use of the Company's gas resources whose aim is to increase the efficiency of NIS' operations. Seven

more cogeneration plants will have been built by the end of the year, which will provide NIS with the opportunity to save on the heat supply to its facilities. By the end of 2014, we will have built 14 cogeneration plants and the volume of these investments will exceed 30 million EUR. Also, we plan and build TETO Pancevo, which will use our gas and which will supply not only the Refinery with heat and electricity, but also HIP Petrohemija. NIS has the opportunity to emerge in the national electricity market, which will further diversify the Company's business operations. This is a large investment that requires a lot of money, but it is also a highly profitable investment that allows the Company to gain certain advantages over the competition.

What results have you achieved in the refinery production?

- The capacity of oil refining in the Pancevo Refinery has grown by 21 percent and it totals 1.4 million tons. After the reconstruction, we produce the fuel of European quality only. With respect to gasoline, most of the products is of Euro 5 quality and we also produce diesel fuel whose quality fully meets the standards of EU legislation. In June we started the reconstruction of the other large compound for fluid catalytic cracking process which will increase the production of oil products for which there is a greater market demand, such as liquefied petroleum gas. We have invested more than 20 million euros in this project. We have modernized product shipping via rail, vehicles and the Danube port, thus reducing the pollution of water, soil and air to a minimum. We will soon launch the construction of new facilities for the production of base oil in Novi Sad Refinery, which is the next phase of modernization of NIS' production compounds.

Is there now a larger scale of production after the commissioning of the new compound for light hydrocracking / / hydrotreating in the Pancevo Oil Refinery? Why is it important and what are the contributions of this investment?

- In the last year we fully realized this investment that has improved and modernized the Refinery's operations according to the agreements reached with the Government. The plant is now working smoothly and even doing better than we planned, given its technical features. This project is important for Serbia, which is a minority shareholder in the Company, because the Pancevo Refinery is now fully modernized and equipped to produce the fuel of highest quality. It should also be noted that the modernization has significantly improved safety and greatly reduced environmental risks. Of course, this is not the last step when it comes to the reconstruction of the Refinery. On the contrary, in future we intend to increase the scope of its modernization. The second phase of this modernization is deep processing that will allow us greater utilization of white, high-quality oil products.

Are you satisfied with the quantity of oil produced?

- We can never be fully satisfied with achieved results, but certainly, the more we produce the better. The most important thing for us in this regard is that we have sufficient reserves of oil and gas for production. It provides assurance regarding the future and therefore discovering new oil and gas reserves and accessing new reserves is more important than the production itself. In four and a half years that we have operated here in Serbia, we keep increasing our reserves more than our production. Oil production has been increased by four percent, but we see more opportunities to increase the growth both in terms of the

production and reserves in the next three to four years through the application of new technologies.

How much petroleum products has NIS sold this year?

- In the first six months of this year, NIS sold 1.35 million tons of petroleum products. It is important to note that this is 26 percent more than in the previous year.

In its business operations, NIS applies the principles of a socially responsible company. What has been done in this area in 2013?

- We have expanded our practice of social responsibility. Our orientation is to support all projects in the communities in which we operate, which are aimed at the development of sports, health and ecology. This year we will have supported 145 different projects that are all selected through public competitions, which is twice more than the last year. Our Company's orientation is such that we want to be socially responsible both to the local community but also to our employees. We invest on average 50 percent more each year in education and training of employees and since the arrival of the majority shareholder, NIS has invested almost eight million EUR in employee development.

What are NIS' plans in terms of expansion in the country and the region?

- Our shareholders have set the task for NIS to become the number one player in the regional market. In this sense, we are developing several significant investments in neighboring countries. Thus we have started with seismic surveys in the three countries of the region, Bosnia and Herzegovina, Hungary, and Romania. We have also begun to expand our network of petrol stations in the three countries, Bulgaria, Romania and Bosnia and Herzegovina. In each of these countries, our goal is to take no less than 10 percent of the market. Right now we can estimate the dynamics as good.

Source: Nis