

Review of 2015 / outlook for 2016

The fourth Advisor Committee Meeting ("ACM") was successfully held in December 2015. It was important that TOG received state recognition and approval for the investments made in the oil field in 2015. TOG thus successfully concluded the year 2015 in regulatory terms. The work programme for 2016 was also approved.

TOG has invested a total of around USD 85 million in the oil field to date and has mostly implemented the investments promised for the first five years. As a result, the work programme for 2016 budgets a rather small investment amount which is based on the average Brent price. Experts agree that a realistic estimate for the Brent price in 2016 should be less than USD 40 on average.

A total of ten new horizontal wells have been finished and are in production. The last three wells in particular once again confirmed the potential of the oil field and its future production capacity. The infrastructure for further production increases is already in place. In 2015, a total of 95 borewells on average were used for production. The oil field currently produces 535 barrels per day (20 January 2016).

The plan is to increase the daily production in 2016 to 880 barrels (26,400 barrels per month) from a total of 107 operational borewells (mostly reactivated existing borewells). A contract was also concluded with the neighbouring oil company under which we can use their excess water in our oil field for stabilisation and to further increase the pressure. This translates into an additional cash inflow of some USD 200,000 per month, which is independent of the oil price. This is one of a number of measures initiated by us to stabilise the situation as much as possible in the current consolidation phase.

Brent price trend



The persistently low oil price is forcing oil-pumping companies (upstream) worldwide to reduce their costs. The TOG Executive Board initiated further cost reductions in 2015 at both companies (parent company and subsidiary). More cost cuts are planned for 2016 to enable the company to survive a longer period of record low Brent prices on the world markets.

The years 2015 and 2016 should therefore be seen as consolidation years (as dictated by the global economic and oil crisis). We have only managed to stay ahead of the crisis to date because of fast and consistent adjustments to our cost structure. The Executive Board is convinced that TOG will be able to generate growth again from 2017. Transoilgroup is expecting the average oil price to be USD 35 in 2016, USD 45 in 2017, and USD 54 at most in 2018. Even if the average price should be USD 30 in 2016 and USD 40 in the next nine years, it should still be possible to generate accumulated pre-tax earnings of more than USD 121 million (pre-tax NPV 10 years, DR 10%, FCF 2016 - 2025). The company is therefore as well prepared as possible for difficult times, but the cash flow situation remains difficult.

We would like to extend a heartfelt thanks to those shareholders who already provided TOG with much of the funds it needed in December 2015. We remain dependent, however, on cash injections from our shareholders to cover the remaining liquidity shortfall.

From a strategic point of view, such abnormal market conditions also harbour great opportunities. As the company does not have any bank loans and is financed by equity, it generally stands a chance of receiving financing for buying larger additional oil fields and assets. The local market in Albania in particular currently offers special opportunities for taking over additional oil fields. These were simply too expensive in the past. In spite of the difficult market environment, TOG therefore still intends to acquire the funds needed to further the development of its own oil field and possibly to take advantage of the favourable situation by purchasing additional fields. The purchase of additional fields would enable the company to further increase its production output and secure reserves. The resulting, often cheaper, purchase opportunities would lead to a fundamental improvement in the valuation of the company. If it should be possible to execute this option, Transoilgroup could grow to be an important and big oil group in the Balkans.

As CEO I am convinced that, with the continued help of our shareholders, we can overcome the current very difficult situation in a manner that serves the best interests of everybody, in particular in view of the positive long-term outlook.

Yours sincerely

Peter Krempin CEO