

PRESENTATION OF THE NIS GROUP BUSINESS RESULTS FOR THE FIRST THREE MONTHS OF 2023

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1. Macroeconomic indicators and important events

Dear Colleagues,

Happy to greet all of you.

Today I would like to present the results of the NIS Group for the first quarter. This is the official performance result of for the first three months of this year. Due to changes in legislation, the deadline for submitting and publishing of official statements has been moved from May to the end of April. As a result, presentations of other companies in our region are not yet available for us to compare results and analyse general market trends. We will be able to do this in the second quarter.

In the first quarter of the year, our main task was launching a new investment cycle. From January to March, the total of RSD 6.5 billion was invested in capital projects. Another priority was to ensure the uninterrupted supply of the market with all types of petroleum products and ensure energy stability.

Macroeconomic indicators

As always, we start the presentation with a slide on macroeconomic indicators. The graph on the left shows the movement of the exchange rate of the US dollar to the Serbian dinar. The average exchange rate was 4% higher YoY, but the fluctuations were insignificant and evened out in March.

On the right you can see a graph of the average price of Brent oil. A significant change can be seen: compared to the same period last year, the price decreased by 20%. There is also a significant difference in March. Changes in the oil price have a direct impact on our financial results.

Upstream

Exploration and Production Block

The main goal in the Exploration and Production Block was to meet the hydrocarbon production plan.

In the first quarter, we drilled 15 production wells and put into operation 10 production wells.

The capital investment of the Exploration and Production block amounted to RSD 5.0 billion, almost twice as much as in the first quarter of last year. EBITDA amounted to RSD 7.0 billion.

The growth in investments is associated with our well intervention program to maintain the oil production level of at the level of the previous year, as well as with the implementation of a number of important projects.

- We are purchasing two automated drilling rigs, which will be delivered by the end of this year and put into operation at the beginning of the next. This will increase planning flexibility and productivity, and reduce drilling operating costs. The new rigs are also better quality than the ones we use now.
- We also launched a chemical oil recovery improvement program at the Velebit field. This is a major project that will bring results within 5 to 7 years. It is currently in the initial research phase that will be completed this year and which will determine the possibilities for further development. If the first phase is completed successfully, this will create the prerequisites for maintaining the stability of oil and gas production in Serbia for an even longer period.

- Another project is the modernization of the infrastructure of the Iđoš oil field and the start of gas monetization. We are currently holding a tender for the purchase of equipment of this type of gas with a high content of CO₂.

Downstream

Refining Block

Let's move on to slide 5. It is dedicated to the Refining Block.

The most important events of the first quarter of 2023 are as follows:

- The processed volume of oil and semi-finished products in the first quarter amounted to 956 thousand tons. The uninterrupted operation of the Pančevo refinery ensures reliable supply of fuel to the market.
- The following projects are being implemented in the block:
 - Reconstruction of the FCC facility is in progress.
 - We also launched a project of the reconstruction of the railroad tracks of the marshalling yard, which will improve the safety and reliability of the railway supply to the plant.
 - The refinery is working on the replacement of a cyclone at the FCC regenerator, and the replacement of compressor electric drive turbines. This is a lengthy process that was partly implemented during the refinery turnaround and will provide both economic and environmental benefits.

Moving on to financial indicators, it is worth noting that the volume of investments in the block in the first quarter of the year amounted to RSD 0.4 billion, and EBITDA is RSD 8.4 billion.

Sales and Distribution Block

The next slide is dedicated to the key events in the Sales and Distribution Block.

Key projects of Q1 include:

- A tender is in progress for the reconstruction of two filling stations and construction of one new one. A long-term lease agreement for a new gas station Niš Istok was signed. Reconstruction of filling stations is carried out in accordance with the yearly plan.
- Ongoing project for the reconstruction of the Niš oil depot.
- Reconstruction of G11 and G12 reservoirs in the Novi Sad oil depot in order to increase the volume of jet fuel stocks for uninterrupted supply.

Total sales in the first quarter amounted to 909 thousand tons.

The capital investments of the Sales and Distribution Block in the first quarter of the year were RSD 0.8 billion, while EBITDA indicator reached RSD 4.5 billion.

Map of gas stations construction and reconstruction projects in Serbia for 2023

The next slide shows the development map for the current year.

The total of 10 development projects is planned, of which 3 are new construction projects, 6 are retrofits and one is a long-term lease project, with the lease agreement already signed.

2. HSE indicators

The next slide shows our HSE performance. The result is good. We managed to reduce the number of traffic accidents and occupational injuries.

3. Key indicators and the market conditions

Key indicators

This slide shows the key figures for the first quarter of this year.

EBITDA was RSD 19.9 billion, net income was RSD 11.7 billion. Operating cash flow was RSD 17.7 billion.

The total volume of oil and gas production for the first quarter of 2023 amounted to 282.8 thousand t.o.e. The refining volume, as noted earlier, amounted to 956.5 thousand tons, which is 6% higher YoY, and the sales of petroleum products amounted to 908.9 thousand tons.

The total bank debt is EUR 563.1 million.

Motor fuel market trends

It is important to take into account that the geopolitical crisis that started in late February 2022 and the resulting fuel supply interruptions led to an increase in consumption in March and early April as consumers were accumulating stocks. This is why compared to last year, consumption in Q1 was lower. In Serbia the reduction amounted to about 2.5%. Consumption of petroleum products also declined in Bosnia, Bulgaria and Hungary, and slightly increased in other countries of the region.

Market share in Serbia and motor fuel market

In the first quarter of this year, the consumption of motor fuels in Serbia decreased by 2.5% YoY. This is due to the accumulation of stocks in the first quarter of last year, as well as the impact of government measures, such as the reduction of excise duties and price regulation for agricultural consumers. NIS market share increased from 76% last year, to 80%.

Retail fuel market

The retail market saw a decline of 7% as a result of the above factors, which are even more pronounced in retail. It should be noted that, compared to last year, there is no consumer anxiety and no desire to accumulate stocks due to the stable supply of the market.

NIS market share was 50%.

As of the first quarter, the NIS network in Serbia has 332 filling stations.

Regional market

As for the countries in the region, in Bosnia and Herzegovina NIS market share reduced to 16%. This is due to the restriction of imports, which disrupted the supply of products from the refinery to the market of Bosnia and Herzegovina.

In Bulgaria, the total market share increased to 5.4% with a slight decline in retail.

In Romania, the market share has declined, also due to retail.

4. Operating indicators

Exploration and Production Block

As previously noted, oil and gas production decreased by 3% YoY, mainly due to a decrease in base production. This is expected given the maturity company's fields, but further declines can be avoided through additional drilling and wellwork. The volume of oil produced in Serbia decreased slightly compared to last year - by only 2,000 t.o.e.

Refining Block

During the reporting period, 956 thousand tons of crude oil and semi-finished products were processed, which is a YoY increase of 6%.

The refinery worked at full capacity in order to accumulate sufficient reserves and ensure energy stability. We currently have a month's stock of diesel fuel and sufficient stocks of other petroleum products.

Sales and Distribution Block

The next slide refers to the Sales and Distribution Block.

Sales volume in the first quarter of 2023 decreased by 5%. In retail, the decline was 6% as a result of the impact of the factors I mentioned before. The same factors affected wholesale. As for exports and transit, we note a decrease in exports, but an increase in jet fuel sales due to a larger number of international flights of Air Serbia and foreign air companies.

5. Financial indicators

EBITDA

Compared to the same period last year, EBITDA decreased by 22%.

This is due to the decline in prices and exchange rates. The influence of other factors is predominantly positive. Compared to the first quarter of 2021, this year's result is about double, so the YoY decline is only due to extraordinary nature of last year's result.

Net profit

Net profit decreased by 25%, but objectively the result is satisfactory and amounts to RSD 11.7 billion.

OCF

Operating cash flow decreased by 24%. This is due to changes in EBITDA and oil purchases, payment of taxes and other obligations. In absolute terms, operating cash flow amounted to RSD 17.7 billion, which will allow the company to continue implementing its investment program.

CF

The company generated positive cash flow. After investments, free cash flow will be about RSD 0.7 billion. Excluding net debt, the cash flow is RSD -1.25 billion.

CAPEX

The amounts of capital investments for each of the blocks have been shown above. In total, capital investments amounted to RSD 6.5 billion, which is 71% more YoY.

In the first quarter of 2023, the main investments were directed at oil and gas production projects and projects of the Refining and Sales and Distribution blocks, as well as a number of initiatives to improve the efficiency of the corporate center, mainly in terms of IT infrastructure.

6. Efficiency improvement measures

The next slide is about measures to improve operational efficiency. The overall effect of measures to improve operational efficiency in the first quarter of 2023 amounted to RSD 0.3 billion.

7. Debt, comparative analysis, and conclusions

Debt

The amount of bank debt at the end of the first quarter amounted to RSD 563 million. This is 9% lower than in the first quarter of 2022.

Comparative analysis

Benchmarking has already been presented in the 2022 performance presentation. The results of other companies in the industry are still not published, so the full amount of data for benchmarking will be available in the second quarter.

Let me remind you that according to last year's benchmarking results NIS ranked first in the market in terms of the volume of light petroleum products. We hope to retain this position this year.

Conclusions

To conclude, I will sum up the key negative factors:

- The challenging macroeconomic situation that affected our operations last year continues into this year. There is a high level of uncertainty and volatility regarding oil prices, which depends on demand, market stability and the situation with banks.
- Market price controls introduced in the first quarter of last year are still in place, while the ban on diesel exports introduced in the second quarter has already been lifted.

As for the positives, I will point out the following:

- The refining volume is higher YoY, which allows us to ensure a stable supply of the market and ensure energy security.