

NIS GROUP'S PERFORMANCE PRESENTATION FOR FIRST 9 MONTHS OF 2022

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All the information contained in the presentations, which is to be presented today and has the character of a forecast, can in fact be considered statements on uncertain future events. These statements include intents of the Company and NIS Group, beliefs or current expectations in connection with, among other things, performance results of NIS Group. We point out that these may but are not certain to take place in the future.

1. Macroeconomic Indicators and Highlights

Dear colleagues, good afternoon to you all. Thank you for coming. It has been two years since you visited our facilities, so I hope today you will get positive impressions. This is a good opportunity for all of us to gather like this, regardless of the current situation, and bearing in mind the challenges we deal with.

Today I will give NIS Group's performance presentation for third quarter and first 9 months of this year.

NIS operated in challenging circumstances in first 9 months of this year. We had better financial results, we managed to preserve regular supply to the market, energy stability in Serbia, and the regular operations of our company, so I can say that we became even stronger as a company, as a team, and that we continue to plan cooperation and development in the interest of our shareholders and our partners.

I would like to start with the macroeconomic indicators first. I believe it is better if today we review the presentation briefly, in order to be able to spend more time on some of your questions and visits to the plants, because it is very important that you see the projects we developed.

Macroeconomic Indicators

With regard to macroeconomic indicators, we will start with this slide. On the left, the USD/RSD exchange rate is shown. It is obviously higher by 12% compared to the same period last year. What I would like to add and what is important for us is that the EUR/RSD exchange rate remained at the same level.

With regard to the average price of Brent oil, there is an increase of 56% compared to the same reporting period last year, which is very good for our results. In first 9 months of this year, the average price of oil was 105 USD/barrel, and last year in this period it was about 68 USD/barrel, which also contributed to good results of our company.

Block Exploration and Production

The next slide relates to the most important events in the third quarter of this year in the Exploration and Production Block.

The main goal during the third quarter and first 9 months of this year in the Exploration and Production Block was to fulfil the planned production of hydrocarbons, the realization of geological research projects, and increase of the efficiency of geological and technical activities.

11 wells were drilled and 14 development wells were put into operation in Serbia. Total volume of domestic oil and gas production in the third quarter amounted to 296 thousand of conditional tonnes of oil.

When it comes to financial indicators, in the first quarter of this year CAPEX amounted to 3.6 bln RSD, while the EBITDA indicator amounted to 9.3 bln RSD.

Downstream

Refining

The next slide relates to the Refining Block. Here is an overview of the most important events in the Refining Block.

These are the most important events of the third quarter of 2022:

- The continuous operation of the Pančevo Oil Refinery, which fully meets the needs of the market for oil derivatives volume of refining and finishing of 1.161 mln tonnes in the third quarter of 2022;
- Continuation of activities on the FCC Reconstruction Project and construction of a new ETBE unit according to the plan.

In first 9 months of this year, the Refining Block adjusted its operations to market conditions in order to continuously supply the market with petroleum products, as well as to provide fuel for the current agricultural season.

When it comes to financial indicators, in the third quarter of this year CAPEX amounted to 0.4 bln RSD, while EBITDA amounted to 24.2 bln RSD .

Reconstruction of FCC and Construction of New ETBE Unit

Now here are more details for the FCC Reconstruction Project and construction of a new ETBE unit.

This project is the most important investment of the third phase of the Pančevo Oil Refinery modernization and is beneficial in many regards not only for the Refinery, but for the company as a whole. Technological improvements will help to further increase the value of refinery's products and, of course, it will also affect financial indicators. After the reconstruction and introduction of new technologies, the FCC unit will be operating in both propylene and gasoline mode, relative to market needs. This will facilitate higher flexibility and optimisation of the technological processes. Additionally, this project has a significant environmental impact by means of reducing the emissions of solid particles.

The estimated investments are over 150 mln EUR, while the expected completion of this project is 2026.

On the right, the more detailed status of the project is shown at the end of the third quarter of this year. Partial works have been started and the project is being implemented according to the plan.

Sales and Distribution

Next slide presents the most important events of the Sales and Distribution Block.

The total volume of sales in the third quarter of this year is 1.134 mln tonnes.

With regard to development projects, the retail network modernization continued, negotiations with companies for the conclusion of a contract regarding the reconstruction of the Niš oil base continued. We are planning to complete the reconstruction next year.

When it comes to financial indicators, in the first quarter of this year CAPEX of the Sales and Distribution Block amounted to 0.4 bln RSD, while EBITDA amounted to 5.1 bln RSD.

Map of New PS Construction and Reconstruction Projects in Serbia in 2021

This slide shows the map of the planned new petrol station construction and reconstruction projects in Serbia in 2022.

As can be seen, in 2022, realization of 10 projects or 3 new construction projects, 5 PS's reconstruction projects, 1 long-term lease project and 1 CNG installation is planned within the retail network modernization and development.

In first 9 months of this year, we implemented 1 reconstruction project (Kučevo), 1 long-term lease project (Veternik) and 1 CNG installation on PS Ledena Stena. With regard to other projects, the construction of PS Bački Vinogradi near the border with Hungary is in progress, and we plan to complete it this year. Rebranding of PS Petrovaradin in Novi Sad started, as well as works on PS Knjaževac and PS Srbobran reconstruction. Works on PS Kostolac reconstruction project also begun. With regard to PS Zemun 1, a permit was obtained.

2. TE-TO Pančevo Project and HSE Indicators

With regard to TE-TO Pančevo, we will not talk much about this project, because a special presentation about it will be shown by Ivan Kuznetsov later on. I would like to say that TE-TO Pančevo started its commercial operations at the end of October and is currently in operation.

HSE Indicators

In case HSE indicators are calculated according to the old methodology, there is a slight increase in LTIF indicators. If we apply the new method of LTIF indicator calculation, a decrease is observed, which is a good indicator.

There is an increase in RAR indicators, because of mistakes of third parties.

3. Key Indicators and Market Share

Here comes the slide with the key indicators.

In first 9 months of this year, the EBITDA indicator amounted to 104.8 bln RSD, while net profit amounted to 69.4 bln RSD. Operating cash flow amounts to 72.5 bln RSD, which also represents an increase compared to the same period in 2021.

The volume of refining amounts to 3.3 mln tonnes which represents an increase of 14%, while the volume of sales increased by 11% compared to the same period last business year, and the total indebtedness to banks amounted to 570.6 mln RSD in first 9 months of this year.

Motor Fuel Market Trends

The following slide is presenting the motor fuel market trends.

We can see that the motor fuel consumption has been increasing as expected in all countries of the region compared to the same period last year.

The main factors for the growth of consumption include the growth of the transport and construction industry, including infrastructure projects, the recovery of tourism, due to the abolition of restrictive measures against the coronavirus, but also the increase in the supplies of end users who want to secure their supply in the climate of increased uncertainty.

In Serbia, the motor fuel consumption increased by about 9%. It is slightly less than in the first half of the year, in which primarily end-user stocks increased, but now the situation is a bit better.

Market Share in Serbia and Motor Fuel Market

This slide is about the motor fuel market in Serbia. The motor fuel consumption in Serbia increased by about 9%, and NIS share amounts to about 82%, compared to the same period last year when it was 73%.

The reason for the increase in NIS share in the motor fuel market compared to the same period in 2021 can be found in the decrease in imports because controlled prices of petroleum products remained at a level lower than import prices over a length of time. Also, the regulation stipulating privileged fuel prices for supplying farmers on NIS stations led to a huge increase in NIS retail sales to the farmers.

Motor Fuel Retail Market

With regard to the retail market, an increase of 13% was recorded in Serbia.

The growth of the NIS retail market share (from 44% to 49%) can be explained in the following manner:

- the preferential (and significantly lower) price for farmers,
- increased demand,
- the wholesale clients' shift into the retail channel due to periodic restrictions on wholesale quantities supplied from imports,
- the return of petrol tourism and international transport to the supply at domestic petrol stations.

As for the total number of petrol stations, it is at almost the same level at the end of the third quarter of last year and amounts to 325, but after the commissioning of some petrol stations by the end of the year, this number will increase.

Market Share - Region

With regard to the market share in the region, in Bosnia and Herzegovina the market share in the total market is being decreased and the percentage of share is 25.3% (it was 33% in the same period last year), primarily due to restrictions on Euro diesel export to Serbia. In terms of retail sales, the share is at the same level or a bit higher, about 11.1%. The number of petrol stations in Bosnia and Herzegovina is at almost the same level: 41 petrol stations.

In Bulgaria, there is a slight share decrease in the total market by 3.5%, while the share in the retail market is at almost the same level: 3.7%. The number of petrol stations in Bulgaria is at the same level.

In Romania, the market share in the total market is at almost the same level and the share is 1.7%. Due to the recent situation, a slight decrease in the retail market is recorded, and the share is 0.9%. The number of petrol stations in Romania is at the same level: 19.

Operating Indicators

Exploration and Production

With regard to operating indicators of the Exploration and Production, in first 9 months of this year, a total of 879 thousand of conditional tonnes of oil and gas were produced, which is by 1% less compared to the same period last year. However, the Exploration and Production Block succeeded in achieving the planned volume of hydrocarbon production.

Refining

With regard to the Refining, I have already mentioned an increase of 14%, and a total of 3.265 million tonnes of crude oil and semi-finished products were refined.

The refining volume increased due to:

- stabilization of the market in 2022, and continuous production to create sufficient reserves for stable and regular supply of all kinds of petroleum products to the market
- also, the largest nine-month volume of oil and semi-finished product processing and refining was achieved in the Pančevo Oil Refinery since 2009.

Sales and Distribution

With regard to the Sales and Distribution, the volume of sales increased by 11% compared to the same period last year, and the total volume of sales was 3.222 million tonnes.

An increase in the total volume of sales was conditioned by the increase both in retail sales and wholesale.

With regard to retail sales in Serbia and foreign assets, an increase of 19% was recorded in first 9 months of this year compared to 9M 2021, and as I said, there is primarily an increase in Serbia and a slight increase in Bosnia and Herzegovina. Of course, as I have already mentioned, it was also influenced by low prices in agriculture, when NIS was the only one to guarantee low prices to farmers.

When it comes to wholesale in Serbia and foreign assets, there was a growth of 13%, primarily due to an increase in consumption during the period of rapid growth in world quotations of oil derivatives, with a simultaneous decline in imports due to unprofitable price limitations, where NIS warranted regular petroleum product supplies in the Serbian market by boosting production and controlling the entire supply chain.

4. Financial Indicators

Next, we will discuss the financial indicators.

EBITDA

In first 9 months of this year, the EBITDA indicator amounted to 104.8 bln RSD.

The growth of this indicator was influenced by:

- The impact of the positive effect of oil and oil derivative price growth on the world market, as well as cheaper stocks of previous periods in processing compared to 9M 2021;

- Improvement in the scope of the refining assortment and implementation of oil derivatives, which was partially compensated by lower margins due to retail price restrictions;
- Better conditions when purchasing crude oil.

In this graph we can see that the impact of the price and exchange rate is positive and amounts to 48.5 bln RSD compared to the same period last year.

The impact of other factors amounts to 18 bln RSD.

Net Profit

As for the net profit, it amounts to 69.4 bln RSD, which is much better than last year. With regard to the reason for the increase, it is the same as for the EBITDA indicator.

OCF

In first 9 months of this year, the operating cash flow was increased compared to the same comparative period, and it was 72.5 bln RSD. Compared to the first half of this year, the cash flow was much lower, because we used the positive effect of EBITDA for the procurement of crude oil and for the increase in the stock of oil and petroleum products.

Realization of CF

As for the cash flows, we achieved a positive operating cash flow, and after the investments Free cash flow was about 58.6 bln RSD. After net borrowings and paid dividends in August, net CF amounts to 47.3 bln RSD.

CAPEX

As for the investments, they are realized according to plan. In first 9 months of 2022, 12.1 bln RSD was allocated for the financing of investments.

The main investments, according to plan, included projects aimed at research and production projects, which is 75% of the total volume of investments for first 9 months of this year. A significant part of the investment belongs to other projects as well, such as the projects of reconstruction of the warehouses of the Sales and Distribution Block and construction of petrol stations in the Sales and Distribution.

5. Operational Efficiency Improvement Measures

With regard to the operational efficiency, regardless of the good results, we are still working to increase operational efficiency. The total effect of realization of the achievable level of potential in first 9 months of this year on the EBITDA indicator amounted to 2.4 bln RSD, which is at the level of both revenues and costs.

6. Indebtedness, Benchmarking, and Conclusion

Indebtedness

With regard to the indebtedness, at the end of the third quarter of this year, debt to banks was lower than at the end of 2021 and it amounts to 571 mln EUR.

Benchmarking

When it comes to the comparative analysis, I would like to single out two indicators.

We have very good results and are in the second place when it comes to the EBITDA margin which is 27.6 for NIS. NIS has very good results and is in the first place when it comes to the share of light products which is 84.5%. This is primarily due to modernization of our refinery, which is one of the most modern in Europe.

Conclusion

As for the conclusion, we can take a look at both positive and negative points in first 9 months of this year:

The negative points include complex macroeconomic conditions.

The positive points for the company, but also for the shareholders, include:

- Growth of the price of oil and oil derivatives
- Volume of refining and sale growth in first 9 months of 2022 compared to the same period last year, with the largest nine-month refining and finishing volume in the Pančevo Oil Refinery since 2009, and
- Growth of OCF, EBITDA, and net profit indicator compared to the same period last year.