

PRESENTATION OF NIS GROUP BUSINESS RESULTS FOR THE THIRD QUARTER AND FIRST NINE MONTHS OF 2023

Presentation by Anton Cherepanov, Deputy CEO and Director of Function for Finance, Economics, Planning, and Accounting at NIS j.s.c. Novi Sad

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1. Macroeconomic Indicators and Highlights

Dear colleagues, good afternoon to all of you.

I would like to present business results for the third quarter and first 9 months of this year.

One of the main goals of our company in these nine months was the regular supply of the market. This is the biggest and main task of our company. On the other hand, we have started a lot of investments, i.e., we are going to further modernize our company.

In addition, I would like to note that in June, the transaction for the privatization of HIP was completed and in the third quarter we started working on the process of consolidation of HIP within the NIS Group.

Regarding financial indicators, they are in line with market circumstances, oil price drop, and other factors. Our key indicators are at a lower level compared to the same period last year, the best year in the history of NIS, but we can see that our key indicators are at a good level and a lot more than in previous years, if we do not count last year as the best.

Macroeconomic Indicators

We start the presentation with a slide on the macroeconomic indicators.

As for USD in relation to RSD exchange rate, there is a slight drop in the average exchange rate by 2%, and as for the euro exchange rate, it is at a stable level. Regarding the price of oil, we see quite large movements, less than last year, but we see that the average price of oil is 22% lower this year compared to the same period last year. This, of course, also affected our indicators, but we can see that in the third quarter, the price of oil began to rise and is now at the level of 90-92 USD/bbl.

Exploration and Production Block

As for the Exploration and Production Block, we will not stay there long, GTA activities are realizing and they provide the possibility of adhering to and increasing the level of crude oil production. Regarding drilling, 12 development and 1 exploration well in Serbia and 1 development well in Romania were drilled in the third quarter. The total volume of oil and gas production for the third quarter amounted to 298 thousand tonnes of oil equivalent. If we look at the financial indicators, RSD 7.1 billion was allocated to CAPEX for the first 9 months of 2023: RSD 16 billion, while the EBITDA indicator amounted to RSD 10.2 billion in the third quarter of this year, and for the first 9 months of 2023: RSD 24.7 billion.

Downstream

Refining Block

As for the Refining Block in the third quarter, the most important thing was to ensure the continuous operation of the Pančevo Oil Refinery. We managed to accomplish this, and the needs of the market for petroleum products were fully met. The total volume of semi-finished products and oil refining in the third quarter amounts to 1,077 thousand tonnes.

Key projects for further modernization of RNP:

As for the key projects for further modernization of RNP, five projects are presented here. One of the projects is the Reconstruction of the FCC and the construction of the ETBE Unit. The status of this project is as follows:

- The extension of the FEED stage was approved at the NIS IB;

- The Contractor was selected for the implementation of activities during the next year, i.e. during the major overhaul in 2024.
- The plan is to make a final investment decision on the implementation of this project by the end of next year.

The efficiency projects include the following:

- Replacement of steam turbines

We plan the commissioning during the Major Overhaul in 2024, which will increase efficiency and reduce the consumption of energy resources.

- The track project

The project for the reconstruction of the track at RNP. The completion of the Stage One is planned for next year in the first quarter, and we plan to complete it in 2025, which enables us to quickly ship a cargo train with petroleum products and have it arrive at RNP in a faster, safer, and more efficient manner.

- Dosing markers and additives

We are planning to complete this project at the beginning of next year. This is, on the one hand, in accordance with Serbian regulations, to brand our fuel, and on the other hand, we plan to increase efficiency.

- Fire protection project

The project is intended for the safety of the refinery and the state of readiness for various situations. This is a rather large project, as it covers the entire refinery, and the project will last until 2027. It will be developed in stages, and we are planning to complete the Stage One by the mid-2025. Upon completion of this project, our refinery will be best equipped by fire protection, and new pipes, new pumps, and a new way of extinguishing fires gives us security in the future of the refinery.

Major Overhaul of RNP:

Another slide related to RNP is the slide on its major overhaul. I note that the major overhaul is planned for next year, in March and April 2024, and this is the largest major overhaul in the history of NIS. The previous major overhaul was carried out during 2019. After the overhaul, the continuous operation and efficiency of all plants will be provided, i.e. greater reliability of each plant. The overhaul will be carried out in order to bring the equipment and the complete unit into a safe and reliable operational condition in accordance with the design parameters and to ensure the continuous operation of the unit until the next planned major overhaul. All contracts for the execution of works were concluded, equipment and material were procured and delivered to RNP. During the overhaul, over 1,000 contractors are planned. It will involve 25 facilities and a minimum of 850 cubic meters of catalysts, 16 furnaces and about 1,500 pipelines in the refinery. That is really large volume of work is and the period for it is rather short. This is one of the most important projects that NIS is preparing for next year.

Sales and Distribution Block

With regard to the Sales and Distribution Block, I would like to draw attention to the fact that three weeks ago we put into operation the new PS Sokolići 2, which is located on the Miloš Veliki highway, and PS Sokolići 1 has been operating for over two years. Now we have opened the second petrol station Sokolići 2, in the opposite direction, which is also one of the most modern PSs within the NIS network. We also commissioned PS Brus and PS Kosjerić and at the end of September we commissioned a new station in Bosnia and Herzegovina, in East Sarajevo – PS Lukavica. The total sales volume of petroleum products of the Sales and Distribution Block in the third quarter of this year amounted to 1,126 thousand tonnes. As for the financial indicators, CAPEX of the Sales and Distribution Block in the third quarter was RSD 1.9 billion, while the EBITDA indicator in the third quarter amounted to RSD 8.1 billion.

The implementation of the development projects in Serbia in 2023:

In this slide we can see the map of the planned and implemented projects for the construction of new petrol stations and reconstruction of the existing petrol stations in Serbia. The Lukavica petrol station in Bosnia and Herzegovina is not shown here, but a total of 10 PSs are expected to be put into operation by the end of the year. The status of the projects is listed on the right.

Energy Block

This time we singled out the slide for the Energy Block. It has existed as a block for a long time, but we wanted to pay special attention to it. The construction of PVPP on the "Jazak" drinking water factory complex, 620 kW, was initiated. The procurement was carried out for the construction of the photovoltaic power plant in the petroleum product warehouse in Novi Sad and on the roof of the office building in Novi Sad. The total volume of produced electricity from PVPP for 9M 2023 is 422 MWh.

The implementation of the PVPP projects in Serbia:

The following slide shows the map of the implementation of photovoltaic power plant projects in Serbia. We are covering the whole of Serbia step by step and we are moving further in that direction. Last year, 8 PVPPs were completed, while in the first nine months of this year, another 7 PVPPs were completed. The construction of the PVPPs at 30 PSs was contracted. So that's part of our sustainable development, which our colleagues will further talk about today.

HIP Petrohemija

This is the first time we show HIP Petrohemija. The most important thing now is to implement the integration of business processes through the implementation of normative and methodological documents. The organizational structure of HIP was changed and the members of the company management, i.e. the key managers of the company, were appointed. From the current activities, we highlight: a major overhaul of the factory has been initiated, which is planned to be completed in a few days, and preparatory activities for commissioning are already being carried out.

Planned Overhaul and Development Projects

There are more information here about the planned overhaul of HIP Petrohemija. This overhaul has a much lower scope than the one planned at RNP, but it is also important for the reliability of the work of HIP Petrohemija. There are a lot of activities listed here: Overhaul of compressors, turbines, and furnaces. The project of re-instrumentation of the Ethylene factory is also important for the automation of that plant. This overhaul is expected to increase reliability and safety, improve energy efficiency, but that this is only the first step and that it is necessary to invest a lot in HIP Petrohemija in order for it to reach the same level as RNP. If we compare HIP and RNP, they are not comparable at the moment, but they may be in a few years.

2. HSE Indicators

With regard to the HSE indicators, we have recorded a growth in the LTIF indicators, but these are mostly minor injuries. However, there is a decrease in severe injuries and a decline of RAR indicators.

3. Key Indicators and Position on the Market

Key indicators

The next slide presents key indicators for the first 9 months of this year, as well as for the third quarter. We can see that the price of Brent oil was on average 82.1 USD/bbl. EBITDA

amounted to RSD 56.5 billion for the first nine months, while net profit amounted to RSD 31.8 billion. Operating cash flow is positive and amounts to EUR 21.6 billion. The refining volume for the first 9 months is 3,054 thousand tonnes, while the sales of petroleum products is slightly less than three million, i.e. 2,995 thousand tonnes. Total indebtedness towards banks at the end of September amounts to EUR 548 million. The indicators are mostly down and this is expected due to the large drop in the price of oil and the fact that the last year was the best one, but the indicators are much better, if we compare them with 2021.

HIP Petrohemija: key operational and financial indicators

We have prepared a separate slide with the operational and financial indicators of HIP Petrohemija. The indicators for the third quarter in the July-September period are presented here, and we can see that the net profit is negative and amounts to minus RSD 2.55 billion. This is the result of the macroeconomic environment in Europe and the world. This cycle began last year, and it is at a low level this year. The expectations in the petrochemical business are that it will be better after 2024, i.e. 2025 and beyond, i.e. such are the expectations on the market. So, the task of our company is to increase reliability, work on the increase of operational efficiency, and plan to implement a lot of projects in terms of increasing energy efficiency and changing business processes that would give a better result. Last week, a decision was made to build a polypropylene factory, i.e. the first stage of this factory, which has added value as a product and greatly affects further results after construction, and this construction is planned by the end of 2029 in accordance with the decision of the Board of Directors.

Motor Fuel Market Trends

The following slide is presenting the motor fuel market trends. The growth of consumption has been recorded in almost all countries of the region. It was a good tourist season, but we see a rather large decline in Hungary, due to an extremely long period of fixed prices at an extremely low level last year.

Market Share in Serbia and Motor Fuel Market

This slide is about the motor fuel market in Serbia.

The consumption of motor fuels in Serbia is down by 1.6%, comparing with the high base period in the first half of 2022 due to the increase in the supplies of end users due to the fear of a possible shortage of petroleum products in Serbia. As for the share of NIS, this year we see a low decline, but at a higher level compared to 2021, but this is related to the controlled price of petroleum products, which is continuously in force this year, as well as the prescribed preferential price for supplying farmers, and NIS is the main supplier of farmers.

Motor Fuel Retail Market

The next slide refers to the motor fuel retail market. The retail market has recorded a decline of 4% compared to the same period in 2022, while the share of NIS is slightly lower, almost at the same level, but much higher compared to 2021. This is due to the provision of a secure supply of the market, the impact of higher prices, and another growth of Agro diesel sales. The total number of NIS petrol stations in Serbia at the end of September this year is 331.

Market Share in the Region

As for Bosnia and Herzegovina, we have a decline of 23.8%, similar to last year. It is not a big difference, mainly due to restrictions on diesel exports. This, of course, affects our ability to supply our subsidiaries in Bosnia. After the first quarter, this restriction was lifted and now we will try to return our market in Bosnia to a satisfactory level, but, of course, this cannot happen at once, but it takes some time due to negotiations with the buyers and the conclusion of annual

contracts. In Bulgaria, there is a slight decrease in the share in the total market. In Romania, the market share in the total market is at the level of 0.5%.

4. Operating Indicators

Exploration and Production

As for the key indicators of the Exploration and Production Block, as I have already said, a total of 868 thousand tonnes of oil and gas equivalent were produced, which is only by 1% less compared to the same period last year. This shows that our Upstream is working to keep the same level of production.

Refining

As for the Refining Block, 3,054 thousand tonnes of crude oil and semi-finished products were processed in nine months, which represents a decrease of 6%. Several factors that influenced the decline are: changes in macro-parameters, i.e. this oscillation in the crude oil market and a decrease in price, as well as restrictions on the export of petroleum products, i.e. diesel. In spite of that, the continuous production and regular supply of the domestic market with all types of products was achieved.

Sales and Distribution

A decrease in the volume of turnover of 7% was recorded, and as I said, this is due to specific factors related to the last year, which led to a significant increase in the consumption, sales, and market share of NIS in 2022. When it comes to the wholesale, there is a decline of 5% primarily because of: a decrease in the sales of petroleum products in Bosnia and Herzegovina and Romania because of the ban on exports from Serbia and an increase in the wholesale of diesel in 2022. There was also a decline in exports, transit, and business units. A decrease in the sales is partially compensated for by an increase in the sales of aviation fuel by 28% compared to last year because of the expansion of the line of international air flights of *Air Serbia* and foreign airlines, as well as the increase in the exported quantities of aviation fuel.

5. Financial Indicators

EBITDA

In first 9 months of this year, the EBITDA indicator amounted to RSD 56.52 billion. The decline in the EBITDA indicator is a consequence of:

- Impact of decrease in oil and petroleum product prices in the world market,
- payment of a donation to the Government of the Republic of Serbia in the amount of RSD 7 billion,
- rising costs due to inflation and growth of prices.

Net Profit

The net profit of NIS Group for the first 9 months of this year is RSD 31.8 billion. The decrease in net profit was influenced by: decrease in EBITDA, which was partially compensated by lower costs based on exchange rate differences, higher growth of financial revenues in relation to the growth of financial expenses.

OCF

In the first 9 months of this year, the operating cash flow was RSD 21.6 billion. This is a consequence of smaller inflows, payment of a donation to the Government of the Republic of Serbia, and also higher taxes based on the corporate income tax from 2022.

Realization of CF

In the first 9 months of this year, we achieved a positive OCF, which amounted to RSD 21.6 billion, and after the investments, the free cash flow was at the level of RSD -26.5 billion. After net borrowings and paid dividends, Net CF amounts to RSD -55.36 billion, which includes the largest payment of dividends in the history of NIS, which was paid to shareholders on 24 August 2023, in the amount of RSD 23 billion.

CAPEX

When it comes to CAPEX, this year it is almost twice as high as last year and RSD 21.9 billion were allocated. The main investment directions were projects aimed at oil and gas production. A significant part of the investment belongs to the investment in drilling projects, then in oil refining projects, as well as PS reconstruction, construction, and rebranding projects. In addition, NIS invested in projects in the field of energy and service. Additionally, this includes investments for HIP Petrohemija, which have been entering since July.

6. Achievable potential level on EBITDA

The total effect of implementation of the achievable level of potential in the first 9 months of this year on the EBITDA indicator amounted to RSD 1.5 billion.

7. Indebtedness, Comparative Analysis, and Conclusion

Indebtedness

At the end of the third quarter of this year, debt to banks was lower than at the end of the previous quarter and it amounts to EUR 548 million.

Comparative Analysis

With regard to the comparative analysis, the slide was prepared on the basis of data for six months, because there are still no published reports of all companies for nine months. I would like to draw attention to two indicators. When it comes to the EBITDA margin, it is 15.2 for NIS and we are in the second place. A fairly good level and another indicator is the share of light products. NIS is in the 1st place, with 83%, which shows that it has one of the best refineries in Eastern Europe.

Conclusion

In general, this is it, and in the end, let me just remind you that we have complex macroeconomic conditions, and we notice a lot of uncertainty regarding developments in the world. This of course affects our business, but as far as NIS is concerned, we certainly maintain the stability of the company's operation, without taking into account all the events and those restrictions that now exist. We see this through our indicators and, regardless of these developments, we have good operational and financial results, and we are going to further develop the company.