

PRESENTATION OF THE NIS GROUP'S RESULTS FOR THE FOURTH QUARTER AND 2023 FY

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1. Macroeconomic indicators and key events

Dear colleagues, good afternoon to all!

Today we are presenting the results achieved for the fourth quarter as well as for the whole year of 2023. It was a challenging year for us, we operated in a difficult macroeconomic environment, as well as under the influence of market restrictions in Serbia at the beginning of 2023.

In such conditions, one of our most important tasks was to maintain stability in the Serbian fuel market. Also one of the priorities was the implementation of an extensive investment programme, much larger than last year.

I would also like to mention that in 2023 we became the majority shareholder of the petrochemical company HIP Petrohemija, and we started preparations for its modernisation. We will focus on the modernisation of existing capacities in accordance with the strategic partnership agreement, the construction of a polypropylene production complex, as well as the investments in improving the environmental performance of the plant.

An important event in 2023 was the payment of a record dividend amount in the history of NIS - more than 23 billion dinars.

The Company also achieved positive operating results, which will be summarised in the following slides.

Macroeconomic indicators

Let's start the presentation with a slide on macroeconomic indicators.

The dollar/dinar exchange rate shows a slight drop in the average exchange rate.

On the right side, changes in the average oil price are shown. Compared to 2022, the price of oil fell by 18 per cent, but fluctuated in a fairly wide range, from \$72 to \$98/bbl. A decrease was recorded in the fourth quarter.

Exploration and Production Block

As for the key indicators of the Exploration and Production Block, the main goal was to fulfil the planned hydrocarbon production volume, which was achieved.

The total production volume in the fourth quarter amounted to 277 thousand tonnes of oil equivalent.

Eight production wells were brought into production in Serbia, as well as one production well in Romania.

There was also additional production growth from geological and technical activities in 2023 due to major investments and operational efficiency improvement.

Capital expenditures of the Exploration and Production Block totalled 7.3 billion RSD in the fourth quarter and 23.4 billion RSD for the full year of 2023. EBITDA totalled 9.4 billion RSD in the fourth quarter and 34.2 billion RSD for the full year.

Downstream

Refining

The total refining volume in the fourth quarter of the year was 1,039 thousand tonnes. Due to uninterrupted operation of Pančevo Refinery, we ensured stable supply to the market.

Capital expenditures of the Refining Block in the fourth quarter totalled 4.9 billion dinars, and for the full year 2023 - 6.4 billion dinars. EBITDA of the Block in the fourth quarter totalled 1.5 billion dinars, and for the full year of 2023 - 28.9 billion dinars.

Slide 6 presents the key projects for further modernisation of the refinery and the status of their implementation:

One of the most important projects is the reconstruction of the FCC unit and the construction of a new ETBE unit. In November, a favourable opinion of the Audit Committee was received, the Environmental Impact Assessment Report was finalised, and the Terms of Reference and draft contract with the contractor on EPsCm terms were prepared. A tender for contractor selection will be held this year. At the moment, executive documentation is being developed for the DCS ESD system at the Refinery.

Among the efficiency improvement projects we point out the following:

- Replacement of steam turbines - completion is planned for this year.
- The project to reconstruct the railway tracks at the refinery is also ongoing. The first phase will be completed in 2024.
- Marker and additive dosing - the project is scheduled for completion in the first half of this year.
- Fire protection project - pipe and other material has been ordered and the first phase of the project is scheduled for completion in 2025. It will take longer to realise the full scope of work as the project covers the entire plant area.

Slide 7 shows information on the refinery overhaul:

The overhaul will take place in March and April 2024. This is one of the most important or even the most important project of the year. The previous overhaul was in 2019, almost 5 years ago. The overhaul was followed by a smooth operation of all production facilities.

The planned 2024 overhaul is the largest in terms of scale and complexity in the history of the refinery given the modernisation and increase in production capacity.

Now the main task for the refinery, as well as for the entire company, is to supply the markets with petroleum products, i.e. to prepare and maintain sufficient stocks.

Sales Block

The total turnover of petroleum products in the Sales Block in the fourth quarter of 2023 was 1004 thousand tonnes. Consumers across the region bought more than 8 million cups of our coffee in 2023.

Regarding development projects, at the end of 2023, 4 petrol stations were put back into operation after reconstruction, and two more petrol stations were built - Bečej 2 and Valjevo 5.

Regarding financial performance, capital expenditure of the Refining Block totalled RSD 2.9 billion in the fourth quarter of the year and RSD 6.2 billion for the full year. EBITDA for 2023 was RSD 22.2 billion.

Implementation of development projects in Serbia in 2023:

This slide shows the main development projects. According to the company's plan, 10 petrol stations were put into operation on the territory of Serbia - 3 new construction projects, 6 reconstruction projects and one long-term lease project. A new petrol station was also built in the eastern part of Sarajevo in Bosnia and Herzegovina - petrol station Lukavica.

Energy Block

The total amount of electricity produced at photovoltaic power plants in the fourth quarter of 2023 is 69 MWh. For the whole year, 491 MWh were produced. Construction of PVPPs at 30 petrol stations was completed, 10 of them were put into operation. Construction of PVPPs on the territory of the Yazak drinking water plant has been completed and is currently being commissioned. Permission for commissioning has been obtained.

A construction contract has been concluded and the implementation of the PVPPs construction projects has started:

at the oil depot in Novi Sad - ground-mounted units with a capacity of 6.6 MWp and panels on roofs with a capacity of 585 kW, as well as on the roof of one of the administrative buildings in Novi Sad - 100 kW.

Implementation of PVPP projects in Serbia:

The next slide shows a map of the implementation of PVPP projects in Serbia. The works were started in 2022. In 2023, solar power plants are installed at 37 petrol stations, and 17 have already been put into operation. This process will continue, as we see enough opportunities for further development. For example, we plan to install solar panels at oil depots, as well as at the refinery. We plan to reach a cumulative installed capacity of solar generation of about 10 MW.

HIP Petrohemija

With regard to HIP, as of end of the fourth quarter we highlight the following important activities:

- The planned overhaul of the plant was completed on October, 31.
- We carried out a series of activities to improve operational safety and reliability.
- Also in the fourth quarter, by decision of the Board of Directors, we began the first stage of construction of the polypropylene plant.

Regarding financial performance, more details will be on the next slide.

2. HSE indicators

In terms of HSE performance, I note a 53% reduction in RAR, which is a good result in terms of driving safety.

Occupational injuries increased by 64%, but only due to minor injuries. Serious injuries have decreased, leaving only 16% of the total number of cases.

3. Key indicators and market position

Key indicators

EBITDA for 2023 is RSD 68.1bn and net profit is RSD 44.2bn, both of which are down almost 50% year-on-year, but still higher than in 2021. Operating cash flow totalled 28bn dinars. Oil and gas production amounted to 1.158 million notional tonnes and refinery throughput was 4.1 million tonnes, down about 7% year-on-year. Sales of petroleum products were 4.0 million tonnes, a decrease of 8%. In terms of CAPEX, there was a significant increase, with 39.2 billion RSD allocated, 77% more than last year. The amount of bank debt is unchanged and totalled RSD 564 million.

HIP Petrochemia: key operating and financial indicators

Regarding the HIP Petrochemia figures, I would like to emphasise that the figures presented here are for the second half of 2023 because this is the period when consolidation started in our accounts after the completion of the HIP acquisition. The consolidation started from 1 July.

The financials are quite low, and lower than last year. This is due to macroeconomic conditions, in particular the price of petrochemical end products. Other petrochemical enterprises in the region are showing similar results. In some regions there is even a suspension of petrochemical enterprises. We hope that in the next 2-3 years this cycle will come to an end. Our task at the company level is to effectively manage the petrochemical plant operations.

As for capital investments, in the second half of the year there was an increase. This is due to the overhaul and construction project of a polypropylene production unit.

Fuel market trends

The next slide focuses on trends in the motor fuels market

Most countries in the region are growing. However, the Hungarian market shrank quite significantly, by 6%, mainly as a result of price regulation in 2022.

Market share in Serbia and the motor fuel market

This is a slide about the motor fuels market in Serbia.

The consumption of motor fuels in Serbia has decreased by 1%, like in Hungary, but in a much smaller volume. In the first half of the year, or rather in the second quarter of 2022, we see a growth spurt. The prices on the market were regulated and set below the market level. In this regard, we see that most of the transit vehicles refueled in Serbia, not in neighbouring countries.

As for our market share, we have a slight decrease in our market share in Serbia, from 83% to 81%. In retail, sales are increasing due to our favourable prices for agricultural consumers, but prices remain below market prices in accordance with the Government's decisions. The current level of 81% is higher than in 2022, when the market share was 74%. In spite of the decrease compared to 2022, the figures are increasing in relation to 2021.

Retail fuel market

In the retail market, there is a decrease due to favourable prices and the fact that in 2022 sales were high due to the formation of inventories. Thus, the results for 2023 show a decrease of 3%. The share of NIS remains at the same level of 49%. This is a slight decrease due to price regulation. The total number of petrol stations at the end of September is 334 in Serbia.

Regional market

Bosnia and Herzegovina has a combined market share of 22.3 per cent. This is a slight decrease compared to last year. The same can be said about the retail market. The total number of petrol stations in Bosnia and Herzegovina is 42, i.e. more than last year due to the launch of a new station in the eastern part of Sarajevo.

In Bulgaria, the combined market share is 2.8 per cent. The petrol station network has 23 stations. This is less than last year, as leases expired for a number of petrol stations.

In Romania, as before, there are 19 petrol stations. The retail market share is about 0.7%.

4. Operating indicators

Exploration and Production Block

On the operational side, oil and gas production declined slightly, by 0.9 per cent. As I said in the previous presentation, it is important to stop the decline, that is, to reduce it, and comparing, we see that in the fourth quarter of 2023 there is a slight increase compared to the fourth quarter of 2022. The goal for this year is to maintain that level.

Refining

Refining is down 7% in 2023. This is due to macroeconomic influences, i.e. the price of crude oil and petroleum products. The result was also affected by the export restrictions in place in the first quarter of 2023 and the difficult situation on the imported oil market. Despite this, continuous production was achieved and the market was fully supplied with all types of petroleum products while maintaining stable inventory levels.

Sales

In sales there was a decrease of 8%. We have already discussed the reasons for this earlier.

5. Financial indicators

EBITDA stands at RSD 68.1 billion, which is a 50% less compared to the same period of the previous year.

The reasons for the decline are as follows:

- Decrease in the price of crude oil and petroleum products,
- Change in the range of oil refining and petroleum products due to the oil basket, i.e. the inability to refine Russian crude oil in 2022 at favourable prices, as well as Iraqi crude oil banned at the end of the first quarter;
- Payment of a donation to the Government of the Republic of Serbia;
- There is also an increase in costs for various services due to inflation;
- Negative result of HIP Petrohemija in 2023.

Net profit

Net profit decreased by 52% compared to 2022.

The main reasons for the decrease are the same as for EBITDA, also taking into account the effect of lower income from the shareholding in TPP Pančevo, consolidated adjustment based on goodwill on the acquisition of HIP, and higher financial income in relation to financial expenses.

Operating cash flow

Operating cash flow totalled RSD 28 billion.

This is a consequence of lower revenues, donation payments to the Government of the Republic of Serbia, and higher taxes on 2022 income.

CF realisation

Positive operating cash flow of RSD 28.0 billion was achieved. After cumulative investments, free cash flow was -39.0 billion RSD. Net debt is an additional -4bn RSD. NIS paid RSD 23.4bn in dividends, so net cash flow is -66.4bn.

CAPEX

As already mentioned, 39.2 billion dinars were invested, 77 per cent more than in 2022.

The main areas of investment were projects focused on oil and gas production. A significant part of investments are directed to drilling and geological and engineering projects. A part of investments is directed to oil refining projects, as well as reconstruction of the fire protection system. In addition, preparations are underway for a major overhaul in 2024. The company has also invested in a project in the sales area. In addition to the construction and reconstruction of petrol stations, we invested in the reconstruction of the oil depot in Niš, which will be completed this year.

6. Effect of reaching the target level of potential on EBITDA

The next slide focuses on operational efficiency measures.

The cumulative effect totalled RSD 2.5 billion, the slide shows the breakdown by block.

7. Debt, Benchmarking, ESG, Business Plan and Conclusion

Debt

Bank debt remains at the same level of €564 million.

Comparative Analysis

This is a slide on benchmarking. The 9 month figures are shown as the annual results have not yet been published.

EBITDA margin is 18.6%. In terms of the share of light petroleum products, NIS maintains its leadership in the region with a level of 82.4%.

ESG

This part of the report focuses on environment, social issues and internal corporate relations. This slide contains basic information on sustainable development.

In 2022, the company invested about 315 million dinars in environmental projects.

In 2023, 802 million dinars was allocated for investments in environmental projects, which is significantly more than in 2022.

The most significant projects in 2023:

- Construction of a hazardous waste storage facility in Zrenjanin;
- Installation of separator and flow meter at petrol station;
- Preparation of a report on the possibility of disposal of oily sediments and sludge;
- Revision and legalisation of IPPC permit for the refinery.

4,289 external training courses were conducted, attended by 4,031 employees. A total of RSD 273 million was spent on training. A significant number of volunteer actions were also carried out, in particular 18 voluntary blood donation actions in 6 cities. More than 470 million RSD was invested in all areas of support for socially responsible projects; 7 billion RSD was allocated for the company's donation to support the projects of the Government of RS in the fields of education, social and health care.

Business plan

The goal for this year is to ensure stable operation and implementation of key projects in a very unstable macroeconomic environment, taking into account all the challenges in the global oil market. We are also affected by the situation in the Middle East. Delivery times are also affected by the fact that all tankers travelling in our direction from Asia are now taking a month longer,

As for the investment cycle, this year we plan to invest 59.7 billion dinars, which is almost twice as much as in 2022. One of the most important and responsible projects is the overhaul of the refinery. Also during the overhaul, we plan to realise several other investment projects that require the refinery to be shut down. We also plan to maintain a stable level of oil and gas production. We are waiting for the finalisation of the manufacture of new drilling rigs, which will enable us to increase the pace and volume of drilling, which will improve the efficiency of oil and gas production.

In terms of oil and gas production, the figures for 2024 are not shown, but the goal is to get closer to 2023, maybe with a slight decline.

As for gas, there may be a slight decline, but after the commissioning of two small power plants at the Banatsko Miloševo and Srpska Crne fields, where high-sulphur gas is produced, gas production will have to increase significantly by 2025.

As for refining, due to overhaul we have a decrease in oil refining this year, but so far the planned refining volume should be higher than in 2019 and close to 2021.

In terms of turnover, we see a slight decrease, mainly due to the overhaul and also a decrease in the share of dark petroleum products. In terms of sales of motor fuels, we plan to stay at the 2023 level.

As for energy, we plan to continue the construction of PVPPs at the petrol stations and the oil depot in Novi Sad. A contract has already been signed for this project, and work will start in the near future.

Conclusion

This brings us to the conclusion for 2023.

On the negative side, these are difficult macroeconomic conditions, such as the drop in crude oil and petroleum product prices and government price restrictions in place since the beginning of the year.

As for the positive results, it is important to note that we managed to maintain stability in the domestic market for petroleum products, implement an extensive investment programme in 2023, and pay the largest dividends in NIS history, amounting to 23 billion dinars.