



Naftna industrija Srbije A.D.

**Interim Condensed Consolidated Financial
Statements (Unaudited)**

30 September 2020

This version of the financial statements is a translation from the original, which is prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Contact Information

NIS Group
Interim Condensed Consolidated Statement of Financial Position
(All amounts are in 000 RSD, unless otherwise stated)

| Assets | Note | 30 September 2020 | 31 December 2019 |
|---|-------------|------------------------------|-----------------------------|
| | | <i>(unaudited)</i> | |
| Current assets | | | |
| Cash and cash equivalents | 5 | 14,840,220 | 15,295,810 |
| Short-term financial assets | 6 | 260,949 | 1,766,518 |
| Trade and other receivables | 7 | 21,912,127 | 26,298,314 |
| Inventories | 8 | 27,826,154 | 47,479,934 |
| Current income tax prepayments | | 951,527 | 602,249 |
| Other current assets | 9 | 6,009,413 | 5,475,677 |
| Non-current assets held for sale | | 69,461 | 88,416 |
| Total current assets | | 71,869,851 | 97,006,918 |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 307,915,996 | 305,934,567 |
| Right-of-use assets | 11 | 2,566,333 | 1,873,799 |
| Investment property | | 1,574,329 | 1,579,798 |
| Goodwill and other intangible assets | | 4,414,958 | 4,461,623 |
| Investments in associates and joint ventures | 12 | 1,787,912 | 1,851,101 |
| Trade and other non-current receivables | | 78,076 | 227,491 |
| Long-term financial assets | | 111,825 | 269,551 |
| Deferred tax assets | | 1,269,137 | 697,689 |
| Other non-current assets | 13 | 1,207,936 | 1,291,407 |
| Total non-current assets | | 320,926,502 | 318,187,026 |
| Total assets | | 392,796,353 | 415,193,944 |
| Liabilities and shareholder's equity | | | |
| Current liabilities | | | |
| Short-term debt and current portion of long-term debt | 14 | 6,833,726 | 6,612,777 |
| Current lease liabilities | 19 | 532,378 | 377,005 |
| Trade and other payables | 15 | 25,642,237 | 39,463,261 |
| Other current liabilities | 16 | 7,398,189 | 7,198,105 |
| Other taxes payable | 17 | 11,851,192 | 9,794,045 |
| Provisions for liabilities and charges | | 2,358,826 | 1,591,898 |
| Total current liabilities | | 54,616,548 | 65,037,091 |
| Non-current liabilities | | | |
| Long-term debt | 18 | 83,002,003 | 82,716,496 |
| Non-current lease liabilities | 19 | 1,857,684 | 1,326,436 |
| Other non-current financial liabilities | 20 | 841,848 | - |
| Long-term trade and other payables | | 4,348 | - |
| Provisions for liabilities and charges | | 10,396,517 | 11,419,129 |
| Total non-current liabilities | | 96,102,400 | 95,462,061 |
| Equity | | | |
| Share capital | | 81,530,200 | 81,530,200 |
| Reserves | | 383,683 | 271,614 |
| Retained earnings | | 160,143,844 | 173,153,889 |
| Equity attributable to the Company's owners | | 242,057,727 | 254,955,703 |
| Non-controlling interest | | 19,678 | (260,911) |
| Total equity | | 242,077,405 | 254,694,792 |
| Total liabilities and shareholder's equity | | 392,796,353 | 415,193,944 |

Kirill Tyurdenev
Chief Executive Officer
27 October 2020

Anton Cherepanov
Chief Financial Officer

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

NIS Group
Interim Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income

(All amounts are in 000 RSD, unless otherwise stated)

| | Note | Three month period ended 30 September | | Nine month period ended 30 September | |
|--|----------|--|---------------------|---|----------------------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Sales of petroleum products, oil and gas | | 45,741,550 | 75,140,493 | 126,182,106 | 186,882,421 |
| Other revenues | | 3,635,804 | 3,580,492 | 9,138,642 | 9,286,139 |
| Total revenue from sales | 4 | 49,377,354 | 78,720,985 | 135,320,748 | 196,168,560 |
| Purchases of oil, gas and petroleum products | | (28,242,260) | (49,566,744) | (86,330,452) | (123,935,904) |
| Production and manufacturing expenses | 21 | (6,437,662) | (6,397,874) | (17,092,112) | (18,691,085) |
| Selling, general and administrative expenses | 22 | (5,581,614) | (6,158,222) | (17,310,533) | (17,896,881) |
| Transportation expenses | | (279,524) | (333,298) | (791,831) | (780,650) |
| Depreciation, depletion and amortization | | (5,610,529) | (5,132,036) | (16,735,220) | (15,322,889) |
| Taxes other than income tax | | (1,316,901) | (1,346,361) | (4,027,335) | (3,945,841) |
| Exploration expenses | | - | - | (3,579) | (11,474) |
| Total operating expenses | | (47,468,490) | (68,934,535) | (142,291,062) | (180,584,724) |
| Other income (expenses), net | | 413,719 | 108,282 | 15,108 | (142,011) |
| Operating profit (loss) | | 2,322,583 | 9,894,732 | (6,955,206) | 15,441,825 |
| Share of loss of associates and joint ventures | | (20,572) | (57,419) | (63,189) | (128,475) |
| Net foreign exchange gain (loss) | 23 | (74,153) | 99,463 | (455,882) | (6,542) |
| Finance income | 24 | 30,346 | 51,037 | 93,527 | 226,450 |
| Finance expenses | 25 | (438,911) | (485,520) | (1,427,155) | (1,477,153) |
| Total other expense | | (503,290) | (392,439) | (1,852,699) | (1,385,720) |
| Profit (loss) before income tax | | 1,819,293 | 9,502,293 | (8,807,905) | 14,056,105 |
| Current income tax expense | | (16,169) | (1,229,083) | (67,539) | (2,036,214) |
| Deferred tax income (expense) | | 141,450 | (788,150) | 571,447 | (1,307,876) |
| Total income tax | | 125,281 | (2,017,233) | 503,908 | (3,344,090) |
| Profit (loss) for the period | | 1,944,574 | 7,485,060 | (8,303,997) | 10,712,015 |
| Other comprehensive income (loss): | | | | | |
| Items that will not be reclassified to profit (loss) | | | | | |
| Gains (loss) from investments in equity instruments | | 916 | 570 | (259) | 8,445 |
| Items that may be subsequently reclassified to profit (loss) | | | | | |
| Currency translation differences | | 35,671 | 58,256 | 112,328 | 166,204 |
| Other comprehensive income (loss) for the period | | 36,587 | 58,826 | 112,069 | 174,649 |
| Total comprehensive income (loss) for the period | | 1,981,161 | 7,543,886 | (8,191,928) | 10,886,664 |
| Profit (loss) attributable to: | | | | | |
| - Shareholders of Naftna Industrija Srbije | | 1,944,574 | 7,491,452 | (8,303,997) | 10,726,460 |
| - Non-controlling interest | | - | (6,392) | - | (14,445) |
| Profit (loss) for the period | | 1,944,574 | 7,485,060 | (8,303,997) | 10,712,015 |
| Total comprehensive income (loss) attributable to: | | | | | |
| - Shareholders of Naftna Industrija Srbije | | 1,981,161 | 7,549,397 | (8,191,928) | 10,899,593 |
| - Non-controlling interest | | - | (5,511) | - | (12,929) |
| Total comprehensive income (loss) for the period | | 1,981,161 | 7,543,886 | (8,191,928) | 10,886,664 |
| Earnings (loss) per share attributable to shareholders of Naftna Industrija Srbije | | | | | |
| Basic earnings (RSD per share) | | 11.93 | 45.94 | (50.93) | 65.78 |
| Weighted average number of ordinary shares in issue (in millions) | | 163 | 163 | 163 | 163 |

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

NIS Group

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity

Nine month period ended 30 September 2020 and 2019

(All amounts are in 000 RSD, unless otherwise stated)

| | Equity attributable to the Company's owners | | | | | |
|---|---|----------|-------------------|-------------|--------------------------|--------------|
| | Share capital | Reserves | Retained earnings | Total | Non-controlling interest | Total equity |
| <i>(unaudited)</i> | | | | | | |
| Balance as at 1 January 2019 | 81,530,200 | 77,130 | 161,516,302 | 243,123,632 | (247,828) | 242,875,804 |
| Profit (loss) for the period | - | - | 10,726,460 | 10,726,460 | (14,445) | 10,712,015 |
| Other comprehensive income (loss) | | | | | | |
| Gains from investments in equity instruments | - | 8,445 | - | 8,445 | - | 8,445 |
| Sale of investments in equity instruments | - | (5,368) | 5,368 | - | - | - |
| Currency translation differences | - | 164,688 | - | 164,688 | 1,516 | 166,204 |
| Total comprehensive income (loss) for the period | - | 167,765 | 10,731,828 | 10,899,593 | (12,929) | 10,886,664 |
| Dividend distribution | - | - | (6,517,524) | (6,517,524) | - | (6,517,524) |
| Total transaction with owners, recorded in equity | - | - | (6,517,524) | (6,517,524) | - | (6,517,524) |
| Balance as at 30 September 2019 | 81,530,200 | 244,895 | 165,730,606 | 247,505,701 | (260,757) | 247,244,944 |

Equity attributable to the Company's owners

| | Share capital | Reserves | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---------------|----------|-------------------|-------------|--------------------------|--------------|
| <i>(unaudited)</i> | | | | | | |
| Balance as at 1 January 2020 | 81,530,200 | 271,614 | 173,153,889 | 254,955,703 | (260,911) | 254,694,792 |
| Profit (loss) for the period | - | - | (8,303,997) | (8,303,997) | - | (8,303,997) |
| Other comprehensive income (loss) | | | | | | |
| Loss from investments in equity instruments | - | (259) | - | (259) | - | (259) |
| Currency translation differences | - | 112,328 | - | 112,328 | - | 112,328 |
| Total comprehensive income (loss) for the period | - | 112,069 | (8,303,997) | (8,191,928) | - | (8,191,928) |
| New investments in shares | - | - | (280,589) | (280,589) | 280,589 | - |
| Dividend distribution | - | - | (4,425,459) | (4,425,459) | - | (4,425,459) |
| Total transaction with owners, recorded in equity | - | - | (4,706,048) | (4,706,048) | 280,589 | (4,425,459) |
| Balance as at 30 September 2020 | 81,530,200 | 383,683 | 160,143,844 | 242,057,727 | 19,678 | 242,077,405 |

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

NIS Group
Interim Condensed Consolidated Statement of Cash Flows¹
(All amounts are in 000 RSD, unless otherwise stated)

| | Note | Nine month period ended 30 September | |
|--|-------|---|---------------------|
| | | 2020 | 2019 |
| | | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Cash flows from operating activities | | | |
| Profit (loss) before income tax | | (8,807,905) | 14,056,105 |
| Adjustments for: | | | |
| Share of loss of associates and joint ventures | | 63,189 | 128,475 |
| Finance expenses | 25 | 1,427,155 | 1,477,153 |
| Finance income | 24 | (93,527) | (226,450) |
| Net unrealised foreign exchange loss (gain), net | | 90,306 | (217,481) |
| Depreciation, depletion and amortization | | 16,735,220 | 15,322,893 |
| Other non-cash items | | (186,414) | 118,845 |
| Operating cash flow before changes in working capital | | 9,228,024 | 30,659,540 |
| Changes in working capital: | | | |
| Accounts receivable | | 4,582,630 | (3,627,301) |
| Inventories | | 19,647,716 | 3,764,572 |
| Other assets | | (696,780) | 672,898 |
| Accounts payables and other current liabilities | | (13,591,691) | 11,531,586 |
| Taxes payable | | 2,955,860 | 3,094,753 |
| Total effect on working capital changes | | 12,897,735 | 15,436,508 |
| Income taxes paid | | (1,309,039) | (3,230,326) |
| Interest paid | | (1,258,144) | (1,299,505) |
| Interest received | | 79,895 | 336,242 |
| Net cash generated from operating activities | | 19,638,471 | 41,902,459 |
| Cash flows from investing activities | | | |
| Net cash outflow on acquisition of subsidiaries | 20 | (41) | - |
| Loan proceeds received | | - | 23,596 |
| Capital expenditures ² | | (23,224,435) | (32,285,734) |
| Proceeds from sale of property, plant and equipment | | 423,074 | 203,035 |
| Bank deposits repayment, net | | 1,661,911 | 94,563 |
| Dividends received | | 4,274 | 258 |
| Other outflow | | (17,643) | (61,819) |
| Net cash used in investing activities | | (21,152,860) | (32,026,101) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | 14,18 | 17,682,783 | 12,121,120 |
| Repayment of borrowings | 14,18 | (16,348,028) | (16,325,782) |
| Repayment of lease liabilities | 19 | (342,244) | (250,649) |
| Dividends paid | | - | (6,517,524) |
| Net cash generated from (used in) financing activities | | 992,511 | (10,972,835) |
| Net decrease in cash and cash equivalents | | (521,878) | (1,096,477) |
| Effect of foreign exchange on cash and cash equivalents | | 66,288 | 60,198 |
| Cash and cash equivalents as of the beginning of the period | | 15,295,810 | 15,480,830 |
| Cash and cash equivalents as of the end of the period | | 14,840,220 | 14,444,551 |

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

¹ Group policy is to present cash flow inclusive of related VAT.

² CF from investing activities includes VAT in the amount of 2,5 bln RSD (2019: 3,4 bln RSD)

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") and its subsidiaries (together refer to as the "Group") is a vertically integrated oil company operating predominantly in Serbia. The Group's principal activities include:

- Exploration, production and development of crude oil and gas,
- Production of refined petroleum products,
- Petroleum products and gas trading and
- Electricity generation and trading.

Other activities primarily include sales of other goods, works and services.

The Company was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005. On 2 February 2009 PJSC Gazprom Neft ("Gazprom Neft") acquired a 51% of the share capital of Naftna Industrija Srbije which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired an additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%. PJSC Gazprom, Russian Federation is the ultimate owner of the Group.

The Company is a public joint stock company listed on the Belgrade Stock Exchange.

These Interim Condensed Consolidated Financial Statements have been approved and authorized for issue by Chief Executive Officer and will be presented to Board of Directors for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily Serbian). The accompanying Interim Condensed Consolidated Financial Statements were primarily derived from the Group's statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (IFRS).

The Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard **IAS 34 Interim Financial Reporting**. IAS 34 for interim financial reporting does not require all disclosures that would be necessarily required by IFRS.

The Group does not disclose information which would substantially duplicate the disclosures contained in its audited Consolidated Financial Statements for 2019, such as significant accounting policies, significant estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Group believes that the disclosures in these Interim Condensed Consolidated Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Consolidated Financial Statements are read in conjunction with the Group's Consolidated Financial Statements for 2019.

However, the spread of the coronavirus pandemic (COVID-19) and the preventive measures which led to decrease in the economic activity of market participants in the first and continued during the second and third quarter of 2020, as well as significant volatility in the commodity markets (including the decrease in oil prices) while, on the other hand, local currency RSD maintained a relatively stable against the US dollar (USD) and EURO (EUR), since March 2020, have impacted the accounting estimates used by the Group in the Condensed Interim Consolidated Financial Statements preparation and bear the risk of adjustments to the carrying amounts of assets and liabilities. Information on the effect of these macroeconomic factors on the estimates with the greatest impact on the amounts reflected in these Condensed Interim Consolidated Financial Statements is provided below.

Recoverability of carrying amount of Property, Plant and Equipment

In the line with changes of macroeconomic parameters, management of the Group performed stress sensitivity analysis of its impact on recoverability of the Group PPE and overall business performance.

The macroeconomic factors mentioned above were taken into account when preparing business plans (models), which are the main source of information for measuring the value in use of non-current assets, including when preparing oil price dynamics.

Based on the currently available information and crude oil price forecast obtained from a reputable firms management believe that at reporting date recoverable amount of Group's PPE exceed its carrying value at reporting date (note 10).

Estimation of oil and gas reserves

The estimation of proved reserves of oil and gas reserves is used to calculate depreciation, depletion and amortization of oil and gas assets. In addition, the assessment of proved oil and gas reserves is used to calculate future cash flows, which are one of the main indicators of whether an asset is impaired. Oil and gas reserves are estimated based on certain assumptions of the Group, including the economic profitability of production, which is affected by the dynamics of oil prices and future capital and operating expenses. The macroeconomic factors mentioned above may lead to a downward revision of the inventory estimate. The Group intention is to assess the macroeconomic factors impact on the amount of reserves in the next reporting periods.

These macroeconomic factors also affected the fair value of financial assets and financial liabilities that are carried at fair value or amortised cost (note 26).

While this is still an evolving situation at the time of issuing these financial statements and the future effects cannot be predicted, the management expects a negative impact. Management will continue to monitor the potential impact in order to adequately take measure to mitigate impact if the negative trends on the market continue.

Subsequent events occurring after 30 September 2020 were evaluated through 27 October 2020, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the nine month period ended 30 September 2020 are not necessarily indicative of the results expected for the full year.

The Group as a whole is not subject to significant seasonal fluctuations.

2.2. Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Consolidated Financial Statements are consistent with those applied during the preparation of Consolidated Financial Statements as of and for the year ended 31 December 2019, except for those described in the Application of new IFRS paragraph.

3. NEW ACCOUNTING STANDARDS

Application of new IFRS

The following amendments to the existing standards which become effective did not have any material impact on the Group:

- Amendments to the Conceptual Framework for Financial Reporting (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of a Business – Amendments to IFRS 3 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of Materiality – Amendments to IAS 1 and IAS 8 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued in September 2019 and effective for annual periods beginning on or after January 2020).

New accounting standards

The following new standards and amendments to the existing standards are not expected to have any material impact on the Group when adopted:

- COVID-19-Related Rent Concessions - Amendments to IFRS 16 (issued in May 2020 and effective for annual periods beginning on or after 1 June 2020);
- IFRS 17 – Insurance Contracts (issued on 18 May 2017 and amended in June 2020, effective for annual periods beginning on or after 1 January 2023);
- Classification of Liabilities as Current or Non-Current – Amendments to IAS 1 (issued in January 2020 and amended in July 2020, effective for annual periods beginning on or after 1 January 2023);
- Onerous Contracts - Cost of Fulfilling a Contract - Amendments to IAS 37 (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16 (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Updating References to the Conceptual Framework - Amendments to IFRS 3 (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Annual Improvements to IFRS Standards 2018-2020 Cycle (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022):
 - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities - Amendments to IFRS 9
 - Lease Incentives (Amendment to Illustrative Example 13 accompanying IFRS 16);
 - Subsidiary as a First-time Adopter - Amendment to IFRS 1
 - Taxation in Fair Value Measurements - Amendment to IAS 41
- Interest Rate Benchmark Reform (Phase 2) – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued in August 2020 and effective for annual periods beginning on or after 1 January 2021).

Unless otherwise described above, the new standards and interpretations are not expected to have significant impact on the Group's Interim Condensed Consolidated Financial Statements.

(All amounts are in 000 RSD, unless otherwise stated)

4. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the nine month periods ended 30 September 2020 and 2019. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas and oil field services. Downstream segment (refining and marketing) processes crude oil into refined products and purchases, sells and transports crude and refined petroleum products. Corporate centre and Energy business activities are presented within the Downstream segment.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and products, and other adjustments. Intersegment revenues are based upon estimated market prices.

EBITDA represents the Group's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Group's on-going operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the nine month period ended 30 September 2020 are shown in the table below:

| | Upstream | Downstream | Eliminations | Total |
|--|-------------------|---------------------|--------------|--------------------|
| Segment revenue | 23,042,505 | 135,140,649 | (22,862,406) | 135,320,748 |
| Intersegment | 22,410,084 | 452,322 | (22,862,406) | - |
| External | 632,421 | 134,688,327 | - | 135,320,748 |
| EBITDA (Segment results) | 12,649,336 | (2,299,203) | - | 10,350,133 |
| Depreciation, depletion and amortization | (9,230,101) | (7,505,119) | - | (16,735,220) |
| Share of loss of associates and joint ventures | - | (63,189) | - | (63,189) |
| Net foreign exchange loss | (225,787) | (230,095) | - | (455,882) |
| Finance expenses, net | (74,814) | (1,258,814) | - | (1,333,628) |
| Income tax | (63,057) | 566,965 | - | 503,908 |
| Segment profit (loss) | 2,663,555 | (10,967,552) | - | (8,303,997) |

Reportable segment results for the nine month period ended 30 September 2019 are shown in the table below:

| | Upstream | Downstream | Eliminations | Total |
|--|-------------------|--------------------|--------------|-------------------|
| Segment revenue | 36,534,742 | 196,199,278 | (36,565,460) | 196,168,560 |
| Intersegment | 35,782,025 | 783,435 | (36,565,460) | - |
| External | 752,717 | 195,415,843 | - | 196,168,560 |
| EBITDA (Segment results) | 26,610,736 | 4,550,921 | - | 31,161,657 |
| Depreciation, depletion and amortization | (8,406,520) | (6,916,369) | - | (15,322,889) |
| Share of loss of associates and joint ventures | - | (128,475) | - | (128,475) |
| Net foreign exchange (loss) gain | (183,004) | 176,462 | - | (6,542) |
| Finance expenses, net | (107,300) | (1,143,403) | - | (1,250,703) |
| Income tax | (198,047) | (3,146,043) | - | (3,344,090) |
| Segment profit (loss) | 17,342,759 | (6,630,744) | - | 10,712,015 |

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2020

(All amounts are in 000 RSD, unless otherwise stated)

EBITDA for the three and nine month period ended 30 September 2020 and 2019 is reconciled below:

| | Three month period ended 30 September | | Nine month period ended 30 September | |
|--|--|-------------------|---|-------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Profit (loss) for the period | 1,944,574 | 7,485,060 | (8,303,997) | 10,712,015 |
| Income tax expenses (income) | (125,281) | 2,017,233 | (503,908) | 3,344,090 |
| Finance expenses | 438,911 | 485,520 | 1,427,155 | 1,477,153 |
| Finance income | (30,346) | (51,037) | (93,527) | (226,450) |
| Depreciation, depletion and amortization | 5,610,529 | 5,132,036 | 16,735,220 | 15,322,889 |
| Share of loss of associates and joint ventures | 20,572 | 57,419 | 63,189 | 128,475 |
| Net foreign exchange (gain) loss | 74,153 | (99,463) | 455,882 | 6,542 |
| Other expense (income), net | (413,719) | (108,282) | (15,108) | 142,011 |
| Other non-operating expense, net | 515,965 | 341,992 | 585,227 | 254,932 |
| EBITDA | 8,035,358 | 15,260,478 | 10,350,133 | 31,161,657 |

Oil, gas and petroleum products sales comprise the following (based on the country of customer incorporation):

| | Nine month period ended 30 September 2020 | | |
|----------------------------|---|--------------------------------|--------------------|
| | Domestic market | Export and international sales | Total |
| Sale of crude oil | - | 445,567 | 445,567 |
| Sale of gas | 311,257 | - | 311,257 |
| Through a retail network | - | - | - |
| Wholesale activities | 311,257 | - | 311,257 |
| Sale of petroleum products | 93,123,225 | 32,302,057 | 125,425,282 |
| Through a retail network | 36,781,829 | 8,309,629 | 45,091,458 |
| Wholesale activities | 56,341,396 | 23,992,428 | 80,333,824 |
| Sale of electricity | 603,673 | 186,222 | 789,895 |
| Lease revenue | 220,814 | 7,145 | 227,959 |
| Other sales | 6,005,725 | 2,115,063 | 8,120,788 |
| Total sales | 100,264,694 | 35,056,054 | 135,320,748 |

| | Nine month period ended 30 September 2019 | | |
|----------------------------|---|--------------------------------|--------------------|
| | Domestic market | Export and international sales | Total |
| Sale of crude oil | - | 663,496 | 663,496 |
| Sale of gas | 1,319,477 | - | 1,319,477 |
| Through a retail network | - | - | - |
| Wholesale activities | 1,319,477 | - | 1,319,477 |
| Sale of petroleum products | 134,437,949 | 50,461,499 | 184,899,448 |
| Through a retail network | 48,495,357 | 13,128,085 | 61,623,442 |
| Wholesale activities | 85,942,592 | 37,333,414 | 123,276,006 |
| Sale of electricity | 578,390 | 150,734 | 729,124 |
| Lease revenue | 485,659 | 10,146 | 495,805 |
| Other sales | 5,409,079 | 2,652,131 | 8,061,210 |
| Total sales | 142,230,554 | 53,938,006 | 196,168,560 |

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2020***(All amounts are in 000 RSD, unless otherwise stated)*

Out of the amount of 80,333,824 RSD (2019: 123,276,006 RSD) revenue from sale of petroleum products (wholesale), the amount of 11,570,590 RSD (2019: 13,043,228 RSD) are derived from a single domestic customer HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 6,461,800 RSD (2019: 6,648,080 RSD).

All performance obligations related to customers are satisfied at point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation.

The Group is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 100,264,694 RSD (2019: 142,230,554 RSD), and the total revenue from external customer from other countries is 35,056,054 RSD (2019: 53,938,006 RSD).

The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

| | Nine month period ended 30 September | |
|---|---|-------------------|
| | 2020 | 2019 |
| Sale of crude oil | 445,567 | 663,496 |
| Sale of petroleum products (retail and wholesale) | | |
| Bulgaria | 7,783,449 | 10,450,955 |
| Bosnia and Herzegovina | 9,792,474 | 20,392,093 |
| Romania | 8,279,592 | 9,284,533 |
| Croatia | 1,235,983 | 1,815,734 |
| Great Britain | 578,586 | 857,339 |
| Northern Macedonia | 596,691 | 819,890 |
| Hungary | 595,251 | 1,158,455 |
| Switzerland | 441,009 | 1,253,379 |
| All other markets | 2,999,022 | 4,429,121 |
| | 32,302,057 | 50,461,499 |
| Sale of electricity | 186,222 | 150,734 |
| Lease revenue | 7,145 | 10,146 |
| Other sales | 2,115,063 | 2,652,131 |
| | 35,056,054 | 53,938,006 |

Revenues from the individual countries included in all other markets are not material.

Non-current assets, other than financial instruments and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts), by country:

| | 30 September 2020 | 31 December 2019 |
|------------------------|------------------------------|-----------------------------|
| Serbia | 290,368,091 | 287,838,628 |
| Bulgaria | 6,483,784 | 6,881,442 |
| Bosnia and Herzegovina | 7,457,555 | 7,276,613 |
| Romania | 12,162,186 | 11,853,104 |
| | 316,471,616 | 313,849,787 |

5. CASH AND CASH EQUIVALENTS

| | 30 September 2020 | 31 December 2019 |
|---|----------------------|---------------------|
| Cash in bank and in hand | 4,438,924 | 10,953,751 |
| Deposits with original maturity of less than three months | 10,161,102 | 4,063,573 |
| Cash held on escrow account | 9,971 | 13,978 |
| Cash equivalents | 230,223 | 264,508 |
| | 14,840,220 | 15,295,810 |

6. SHORT-TERM FINANCIAL ASSETS

| | 30 September 2020 | 31 December 2019 |
|---|----------------------|---------------------|
| Short-term loans | 2,210 | 2,210 |
| Deposits with original maturity more than 3 months less than 1 year | 260,949 | 1,766,564 |
| Less impairment loss provision | (2,210) | (2,256) |
| | 260,949 | 1,766,518 |

As at 30 September 2020 deposits with original maturity more than 3 months less than 1 year amounting to 260,949 RSD (31 December 2019: 1,766,564 RSD) relates to bank deposits placements with interest rates to 0.50% to 2.80% p.a. denominated in RSD and EUR (2019: 0.02% monthly to 3.5% p.a. denominated in RSD and EUR).

7. TRADE AND OTHER RECEIVABLES

| | 30 September 2020 | 31 December 2019 |
|--|----------------------|---------------------|
| Trade receivables | 30,788,244 | 35,392,271 |
| Other receivables | 98,428 | 556,593 |
| Accrued assets | 45,794 | 41,567 |
| Less credit loss allowance for trade receivables | (8,971,375) | (9,639,286) |
| Less credit loss allowance for other receivables | (48,964) | (52,831) |
| Total trade and other receivables | 21,912,127 | 26,298,314 |

The Management of the Group regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Group.

Management believes that not impaired trade and other receivables and other current assets are fully recoverable.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| | 30 September 2020 | 31 December 2019 |
|-------|----------------------|---------------------|
| RSD | 19,656,497 | 23,304,560 |
| EUR | 793,809 | 1,111,884 |
| USD | 256,196 | 292,580 |
| Other | 1,205,625 | 1,589,290 |
| | 21,912,127 | 26,298,314 |

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2020***(All amounts are in 000 RSD, unless otherwise stated)***8. INVENTORIES**

| | 30 September 2020 | 31 December 2019 |
|---------------------------|------------------------------|-----------------------------|
| Crude oil | 12,764,628 | 29,866,109 |
| Petroleum products | 12,550,339 | 14,407,981 |
| Materials and supplies | 6,097,983 | 6,773,096 |
| Other | 1,139,219 | 1,208,732 |
| Less impairment provision | (4,726,015) | (4,775,984) |
| | 27,826,154 | 47,479,934 |

9. OTHER CURRENT ASSETS

| | 30 September 2020 | 31 December 2019 |
|---------------------------|------------------------------|-----------------------------|
| Advances paid | 523,874 | 582,560 |
| VAT receivables | 44,521 | 452,571 |
| Deferred VAT | 2,351,048 | 1,929,283 |
| Prepaid expenses | 308,158 | 288,181 |
| Prepaid custom duties | 77,886 | 62,342 |
| Prepaid excise | 1,904,811 | 1,771,927 |
| Other current assets | 8,371,834 | 7,956,935 |
| Less impairment provision | (7,572,719) | (7,568,122) |
| | 6,009,413 | 5,475,677 |

Deferred VAT as at 30 September 2020 amounting to 2,351,048 RSD (31 December 2019: 1,929,283 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 30 September 2020 amounting to 1,904,811 RSD (31 December 2019: 1,771,927 RSD) relates to the excise paid for finished products stored in non-excise warehouse.

Other current assets mainly relate to claims in dispute which are impaired.

(All amounts are in 000 RSD, unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT

| | Oil and gas properties | Refining assets | Marketing and distribution assets | Other assets | Assets under construction | Total |
|---|------------------------|-------------------|-----------------------------------|------------------|---------------------------|--------------------|
| As at 1 January 2019 | | | | | | |
| Cost | 166,462,451 | 115,028,154 | 69,909,749 | 19,153,698 | 54,204,141 | 424,758,193 |
| Depreciation and impairment | (47,674,989) | (46,153,659) | (32,557,309) | (9,886,290) | (2,031,400) | (138,303,647) |
| Net book value | 118,787,462 | 68,874,495 | 37,352,440 | 9,267,408 | 52,172,741 | 286,454,546 |
| Period ended 30 September 2019 | | | | | | |
| Additions | - | - | - | 153 | 28,461,280 | 28,461,433 |
| Changes in decommissioning obligations | 104,542 | - | - | - | - | 104,542 |
| Transfer from assets under construction | 9,855,632 | 1,862,125 | 1,041,824 | 558,334 | (13,317,915) | - |
| Impairment | - | (3,488) | (55,783) | - | (28,048) | (87,319) |
| Depreciation | (8,137,059) | (4,051,541) | (1,821,915) | (606,636) | (3,565) | (14,620,716) |
| Disposals and write-off | (36,376) | (16,928) | (29,358) | (10,450) | (111,999) | (205,111) |
| Transfer to right-of-use assets | (54,331) | - | (918,200) | - | - | (972,531) |
| Other transfers | (154,484) | (3,167) | 1,514 | (44,040) | 280,583 | 80,406 |
| Translation differences | 156 | 2 | 26,635 | 195 | (164,927) | (137,939) |
| As at 30 September 2019 | 120,365,542 | 66,661,498 | 35,597,157 | 9,164,964 | 67,288,150 | 299,077,311 |
| Cost | 176,124,452 | 116,818,024 | 69,462,605 | 19,293,462 | 69,354,533 | 451,053,076 |
| Depreciation and impairment | (55,758,910) | (50,156,526) | (33,865,448) | (10,128,498) | (2,066,383) | (151,975,765) |
| Net book value | 120,365,542 | 66,661,498 | 35,597,157 | 9,164,964 | 67,288,150 | 299,077,311 |
| As at 1 January 2020 | | | | | | |
| Cost | 185,208,089 | 119,078,761 | 70,157,189 | 19,406,385 | 69,075,268 | 462,925,692 |
| Depreciation and impairment | (58,573,177) | (51,705,166) | (34,354,810) | (10,321,625) | (2,036,347) | (156,991,125) |
| Net book value | 126,634,912 | 67,373,595 | 35,802,379 | 9,084,760 | 67,038,921 | 305,934,567 |
| Period ended 30 September 2020 | | | | | | |
| Additions | - | - | - | - | 18,244,365 | 18,244,365 |
| Changes in decommissioning obligations | 223,136 | - | - | - | - | 223,136 |
| Transfer from assets under construction | 12,492,045 | 2,890,972 | 2,974,494 | 283,004 | (18,640,515) | - |
| Impairment | - | - | (48,805) | - | (31,304) | (80,109) |
| Depreciation | (8,955,652) | (4,537,136) | (1,864,093) | (539,414) | (3,542) | (15,899,837) |
| Disposals and write-off | (43,327) | (12,041) | (95,510) | (8,225) | (44,052) | (203,155) |
| Other transfers | (106,290) | (272,229) | 4,383 | 205,514 | 82,159 | (86,463) |
| Translation differences | (35) | - | (51,126) | 4 | (165,351) | (216,508) |
| As at 30 September 2020 | 130,244,789 | 65,443,161 | 36,721,722 | 9,025,643 | 66,480,681 | 307,915,996 |
| Cost | 197,684,876 | 121,472,490 | 72,594,795 | 19,544,986 | 68,549,686 | 479,846,833 |
| Depreciation and impairment | (67,440,087) | (56,029,329) | (35,873,073) | (10,519,343) | (2,069,005) | (171,930,837) |
| Net book value | 130,244,789 | 65,443,161 | 36,721,722 | 9,025,643 | 66,480,681 | 307,915,996 |

Capitalized borrowing costs for the nine months ended 30 September 2020 include interest expense in the amount of 108,557 RSD (30 September 2019: 111,466 RSD).

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2020***(All amounts are in 000 RSD, unless otherwise stated)***11. RIGHT-OF-USE ASSETS**

Movements in right-of-use assets for the nine months ended 30 September 2020 and 2019 are as follows:

| | Land | Property | Plant and equipment | Vehicles | Total |
|---|----------------|------------------|---------------------|----------------|------------------|
| As at 1 January 2019 | - | - | - | - | - |
| Change in opening balance | 153,119 | 1,261,439 | 335,712 | 85,151 | 1,835,421 |
| Additions | - | 55 | 11,403 | 1,788 | 13,246 |
| Depreciation of right-of-use assets | - | (179,056) | (52,338) | (19,479) | (250,873) |
| Effect of contract modifications and changes in estimates | - | 130 | - | - | 130 |
| Transfers | - | - | (10,999) | 10,999 | - |
| Foreign currency translation | (3,657) | (4,712) | - | (401) | (8,770) |
| As at 30 September 2019 | 149,462 | 1,077,856 | 283,778 | 78,058 | 1,589,154 |
| As at 1 January 2020 | 148,676 | 1,023,199 | 438,495 | 263,429 | 1,873,799 |
| Additions | 7,509 | 511,897 | - | 603,820 | 1,123,226 |
| Depreciation of right-of-use assets | (1,877) | (187,809) | (38,934) | (142,851) | (371,471) |
| Disposals | - | (41,300) | - | (6,416) | (47,716) |
| Effect of contract modifications and changes in estimates | - | (5,170) | - | - | (5,170) |
| Foreign currency translation | (185) | (173) | (5,945) | (32) | (6,335) |
| As at 30 September 2020 | 154,123 | 1,300,644 | 393,616 | 717,950 | 2,566,333 |

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying values of the investments in associates and joint ventures as of 30 September 2020 and 31 December 2019 are summarised below:

| | | Ownership percentage | 30 September 2020 | 31 December 2019 |
|--|---------------|----------------------|-------------------|------------------|
| NIS MET Energowind d.o.o. Beograd | Joint venture | 50% | 924,037 | 946,208 |
| Gazprom Energoholding Serbia d.o.o. Novi Sad | Joint venture | 49% | 863,875 | 904,893 |
| HIP Petrohemija a.d. Pančevo | Associate | 20.86% | 11,572,197 | 11,572,197 |
| Less Impairment provision | | | (11,572,197) | (11,572,197) |
| Total investments | | | 1,787,912 | 1,851,101 |

The principal place of business of joint ventures disclosed above is Republic of Serbia.

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

NIS MET Energowind d.o.o. Beograd

In 2013 the Group acquired 50% of interest in a joint venture Energowind d.o.o. which was intended to be used as a vehicle for operation of future wind farm "Plandiste" with total capacity of 102 MW. During March 2019, MET Renewables AG acquired from third parties 50% of share in the project and became a joint partner on the project that has been renamed to NIS MET Energowind d.o.o. Beograd. On the date of the issuance of these Consolidated Financial Statements there has been no significant business activity. NIS MET Energowind d.o.o. is a private company and there is no available quoted market price.

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2020***(All amounts are in 000 RSD, unless otherwise stated)***Gazprom Energoholding Serbia d.o.o. Novi Sad**

In 2015, the Group and Centrenergoholding JSC Russian Federation established the holding company Serbskaya Generaciya, through which they would jointly operate with the Thermal and Heating Power Plant Gazprom Energoholding Serbia "TE-TO" Pancevo with a projected capacity of 208 MW. In October 2017 the contract with Shanghai Electric Group Co., Ltd. was signed on a "turnkey" basis and the design phase started. The project is mostly financed from the loan from Gazprombank (140 mln EUR) with the loan tenor of 12 years. Handing over CHP TE-TO Pancevo is expected to be completed during first quarter 2021. Analysis of the influence of the coronavirus pandemic (COVID-19) to completion of the project is in progress. A significant extension is not expected.

HIP Petrohemija

In accordance with the laws in force in the Republic of Serbia, at the beginning of October 2017 all the condition were met for the full implementation of the earlier prepared plan for restructuring of the company HIP Petrohemija a.d. Pancevo. In accordance with the adopted plan, the structure of the share capital of the company HIP Petrohemija has been changed, whereby NIS increased its equity interest. After conversion, NIS holds, directly more than 20,86% per cent of the voting power of the HIP Petrohemija. Also, NIS has representatives on the BoD and Supervisory board.

The summarised financial information for the joint ventures as of 30 September 2020 and 31 December 2019 and for the nine month periods ended 30 September 2020 and 30 September 2019 is presented in the table below:

| | NIS MET Energowind | Gazprom Energoholding Serbia |
|--------------------------|-------------------------------|---|
| 30 September 2020 | | |
| Current assets | 52,820 | 357,431 |
| Non-current assets | 3,156,508 | 14,379,013 |
| Current liabilities | (945,989) | (106,402) |
| Non-current liabilities | - | (12,895,533) |
| 31 December 2019 | | |
| Current assets | 132,063 | 698,256 |
| Non-current assets | 3,151,318 | 12,154,427 |
| Current liabilities | (975,707) | (71,219) |
| Non-current liabilities | - | (10,963,037) |
| | NIS MET Energowind | Gazprom Energoholding Serbia |
| 30 September 2020 | | |
| Other income | 2,822 | 15,140 |
| Loss for the year | (44,342) | (83,710) |
| 30 September 2019 | | |
| Other income | 254 | 18,378 |
| Loss for the year | (50,921) | (210,234) |

13. OTHER NON-CURRENT ASSETS

| | 30 September 2020 | 31 December 2019 |
|----------------------------------|------------------------------|-----------------------------|
| Advances paid for PPE | 327,371 | 372,107 |
| Prepaid expenses | 133,102 | 146,711 |
| Other assets | 1,143,324 | 1,153,957 |
| Less allowance of other assets | (369,120) | (354,626) |
| Less allowance for advances paid | (26,741) | (26,742) |
| | 1,207,936 | 1,291,407 |

14. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

| | 30 September 2020 | 31 December 2019 |
|--|----------------------|---------------------|
| Interest liabilities | 103,855 | 227,885 |
| Current portion of long-term loans (note 18) | 6,729,871 | 6,384,892 |
| | 6,833,726 | 6,612,777 |

Movements on the Group's liabilities from short-term finance activities are as follows:

| | Nine month period ended 30 September | |
|----------------------------------|---|------|
| | 2020 | 2019 |
| Short-term loans at 1 January | - | - |
| Proceeds | 11,500,000 | - |
| Repayment | (11,500,000) | - |
| Short-term loans at 30 September | - | - |

15. TRADE AND OTHER PAYABLES

| | 30 September 2020 | 31 December 2019 |
|------------------------|----------------------|---------------------|
| Trade payables | 17,361,982 | 35,535,376 |
| Dividends payable | 8,205,206 | 3,780,692 |
| Other accounts payable | 75,049 | 147,193 |
| | 25,642,237 | 39,463,261 |

As at 30 September 2020 trade payables amounting to 17,361,982 RSD (31 December 2019: 35,535,376 RSD) mainly relate to payables for crude oil in the amount of 8,192,267 RSD (31 December 2019: 19,989,597 RSD), to the most significant suppliers Gazprom Neft, St Petersburg in the amount of 3,346,480 RSD (31 December 2019: 10,498,354 RSD), Vitol Netherlands B.V. in the amount of 2,658,686 RSD (31 December 2019: 0 RSD) and Petraco Oil Company LLP, London in the amount of 2,187,101 RSD (31 December 2019: 0 RSD).

16. OTHER CURRENT LIABILITIES

| | 30 September 2020 | 31 December 2019 |
|---|----------------------|---------------------|
| Contract liabilities arising from contracts with customers: | | |
| - Advances received | 2,160,626 | 1,982,331 |
| - Customer loyalty | 823,495 | 722,239 |
| Payables to employees | 4,400,824 | 4,130,242 |
| Other current non-financial liabilities | 13,244 | 363,293 |
| | 7,398,189 | 7,198,105 |

Revenue in the amount of 2,069,935 RSD was recognized in the current reporting period (30 September 2019: 1,542,140 RSD) related to the contract liabilities as at 1 January 2020, of which 1,673,011 RSD (30 September 2019: 1,220,211 RSD) related to advances and 396,924 RSD (30 September 2019: 321,929 RSD) to customer loyalty programme.

(All amounts are in 000 RSD, unless otherwise stated)

17. OTHER TAXES PAYABLE

| | 30 September 2020 | 31 December 2019 |
|--------------------------------|----------------------|---------------------|
| Mineral extraction tax | 228,280 | 248,864 |
| VAT | 2,349,579 | 1,137,119 |
| Excise tax | 6,407,778 | 5,750,900 |
| Contribution for buffer stocks | 283,807 | 280,070 |
| Custom duties | 108,754 | 180,224 |
| Energy efficiency fee | 30,651 | 32,299 |
| Other taxes | 2,442,343 | 2,164,569 |
| | 11,851,192 | 9,794,045 |

18. LONG-TERM DEBT

| | 30 September 2020 | 31 December 2019 |
|--------------------------------|----------------------|---------------------|
| Long-term loan - Gazprom Neft | 15,039,341 | 19,143,014 |
| Bank loans | 74,624,097 | 69,901,198 |
| Other long-term borrowings | 68,436 | 57,176 |
| Less Current portion (note 14) | (6,729,871) | (6,384,892) |
| | 83,002,003 | 82,716,496 |

Movements on the Group's liabilities from finance activities are as follows:

| | Nine month period ended 30 September | |
|--|---|-------------------|
| | 2020 | 2019 |
| Long-term loans at 1 January | 89,044,212 | 93,344,087 |
| Proceeds | 6,182,783 | 12,121,120 |
| Repayment | (4,848,028) | (16,325,782) |
| Non-cash transactions | (693,252) | - |
| Foreign exchange difference (note 23) | (22,277) | (484,669) |
| Long-term loans at 30 September | 89,663,438 | 88,654,756 |

(a) Long-term loan - Gazprom Neft

As at 30 September 2020 long-term loan - Gazprom Neft amounting to 15,039,341 RSD (2019: 19,143,014 RSD), with current portion of 5,468,851 RSD (2019: 5,469,432 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) Bank loans

| | 30 September 2020 | 31 December 2019 |
|------------------------------------|----------------------|---------------------|
| Domestic | 51,973,919 | 46,832,409 |
| Foreign | 22,650,178 | 23,068,789 |
| | 74,624,097 | 69,901,198 |
| Current portion of long-term loans | (1,261,020) | (915,460) |
| | 73,363,077 | 68,985,738 |

The maturity of bank loans was as follows:

| | 30 September 2020 | 31 December 2019 |
|-----------------------|----------------------|---------------------|
| Between 1 and 2 years | 18,039,059 | 10,845,263 |
| Between 2 and 5 years | 53,386,838 | 54,813,261 |
| Over 5 years | 1,937,180 | 3,327,214 |
| | 73,363,077 | 68,985,738 |

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2020***(All amounts are in 000 RSD, unless otherwise stated)*

The carrying amounts of bank loans are denominated in the following currencies:

| | 30 September 2020 | 31 December 2019 |
|-----|------------------------------|-----------------------------|
| USD | 165,295 | 209,292 |
| EUR | 74,242,860 | 69,426,390 |
| RSD | 383 | 499 |
| JPY | 215,559 | 265,017 |
| | 74,624,097 | 69,901,198 |

The Group repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Group has both fixed and floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor. Management expects that the Group will be able to fulfil its obligations within agreed timeframe.

The loan agreements contain financial covenants that require the Group's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of 30 September 2020 and 31 December 2019, respectively.

19. LEASE LIABILITIES

| | 30 September 2020 | 31 December 2019 |
|-------------------------------|------------------------------|-----------------------------|
| Non-current lease liabilities | 1,857,684 | 1,326,436 |
| Current lease liabilities | 532,378 | 377,005 |
| | 2,390,062 | 1,703,441 |

Amounts recognized in profit and loss:

| | Nine month period ended 30 September | |
|--|---|-------------|
| | 2020 | 2019 |
| Interest expense (included in finance cost) | 62,931 | 52,923 |
| Expense relating to short-term leases | 706,753 | 513,216 |
| Expense relating to leases of low value assets that are not shown above as short-term leases | 142,089 | 103,016 |
| Expense relating to variable lease payments not included in lease liabilities | 1,204,262 | 1,453,512 |

Movements on the Group's liabilities from lease activities are as follows:

| | Nine month period ended 30 September | |
|---------------------------------------|---|------------------|
| | 2020 | 2019 |
| As at 1 January | 1,703,441 | 828,104 |
| Changes in opening balance | - | 790,946 |
| Repayment | (342,244) | (250,649) |
| Non-cash transactions | 1,038,388 | 45,328 |
| Foreign exchange difference (note 23) | (9,523) | 3,431 |
| As at 30 September | 2,390,062 | 1,417,160 |

(All amounts are in 000 RSD, unless otherwise stated)

20. OTHER NON-CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities in the amount of 841,848 RSD in total represents deferred consideration to PJSC Zarubeznjeft (further ZN) for O&G exploration project that is ongoing through subsidiary Jadran Naftagas. This obligation depends on occurrence of uncertain future events that are beyond the control of both the issuer (ZN) and a holder of instrument (NIS). In accordance with Novation agreement and Assignment agreement concluded between ZN, NIS and Jadran Naftagas, all ZN rights and obligations are assigned to NIS for consideration equal to outstanding loan liabilities of Jadran Naftagas towards ZN and Naftegazinkor prior the novation. Consideration cannot exceed the amount of said liabilities.

In addition, Company acquired additional 34% of share in Jadran Naftagas for consideration of 41 RSD. These transactions of shares acquisition and transfer of liabilities should be consider together.

21. PRODUCTION AND MANUFACTURING EXPENSES

| | Three month period ended 30 September | | Nine month period ended 30 September | |
|--|--|------------------|---|-------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Employee costs | 2,107,619 | 1,702,819 | 6,229,645 | 4,933,727 |
| Cost of service organization | (2,441) | 620,948 | 413,583 | 1,980,048 |
| Materials and supplies (other than oil and gas and petroleum products) | 376,363 | 683,293 | 1,214,765 | 2,020,690 |
| Repair and maintenance services | 829,405 | 1,160,642 | 2,423,112 | 4,548,793 |
| Electricity for resale | 195,789 | 119,355 | 312,030 | 295,677 |
| Electricity and utilities | 895,169 | 965,556 | 2,667,721 | 2,597,981 |
| Safety and security expense | 92,177 | 135,173 | 304,342 | 398,844 |
| Insurance services | 84,284 | 75,750 | 243,618 | 213,740 |
| Transportation services for production | 339,634 | 445,764 | 1,105,518 | 1,212,105 |
| Other | 1,519,663 | 488,574 | 2,177,778 | 489,480 |
| | 6,437,662 | 6,397,874 | 17,092,112 | 18,691,085 |

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | Three month period ended 30 September | | Nine month period ended 30 September | |
|--------------------------------------|--|------------------|---|-------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Employee costs | 3,699,426 | 2,868,602 | 11,037,918 | 8,684,944 |
| Cost of service organization | 14,621 | 924,367 | 702,400 | 2,708,061 |
| Commission and agency fees | 218,524 | 272,164 | 642,901 | 757,350 |
| Legal, audit and consulting services | 161,651 | 265,467 | 578,060 | 651,258 |
| Current repair cost | 218,704 | 233,147 | 612,132 | 638,920 |
| Costs on advertising and marketing | 40,852 | 114,661 | 131,297 | 259,164 |
| Rent expense | 84,535 | 54,274 | 193,517 | 175,835 |
| Business trips expense | 10,023 | 95,003 | 64,058 | 207,125 |
| Safety and security expense | 143,217 | 153,651 | 388,908 | 421,929 |
| Insurance expense | 20,542 | 33,564 | 57,739 | 95,711 |
| Transportation and storage | 21,928 | 33,991 | 93,725 | 113,718 |
| Allowance for doubtful accounts | (16,101) | (43,627) | (113,925) | (67,861) |
| Other | 963,692 | 1,152,958 | 2,921,803 | 3,250,727 |
| | 5,581,614 | 6,158,222 | 17,310,533 | 17,896,881 |

(All amounts are in 000 RSD, unless otherwise stated)

23. NET FOREIGN EXCHANGE GAIN (LOSS)

| | Three month period ended 30 September | | Nine month period ended 30 September | |
|---|--|---------------|---|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Foreign exchange gain (loss) on financing activities including: | | | | |
| - foreign exchange gain (note 18 and 19) | 329,323 | 471,616 | 1,479,398 | 1,200,696 |
| - foreign exchange loss (note 18 and 19) | (315,961) | (201,196) | (1,447,598) | (719,458) |
| Net foreign exchange gain (loss) on operating activities | (87,515) | (170,957) | (487,682) | (487,780) |
| | (74,153) | 99,463 | (455,882) | (6,542) |

24. FINANCE INCOME

| | Three month period ended 30 September | | Nine month period ended 30 September | |
|---------------------------------|--|---------------|---|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Interest on bank deposits | 23,965 | 48,497 | 82,245 | 218,266 |
| Interest income on loans issued | 2,107 | 2,282 | 7,008 | 7,926 |
| Dividend income | 4,274 | 258 | 4,274 | 258 |
| | 30,346 | 51,037 | 93,527 | 226,450 |

25. FINANCE EXPENSES

| | Three month period ended 30 September | | Nine month period ended 30 September | |
|--|--|----------------|---|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Interest expense | 454,469 | 463,520 | 1,500,327 | 1,475,416 |
| Decommissioning provision: unwinding of the present value discount | 22,362 | 38,005 | 66,189 | 110,436 |
| Financial assets: unwinding of discount | (1,274) | 9,117 | (30,804) | 2,767 |
| Less: interest expense capitalised on qualifying assets | (36,646) | (25,122) | (108,557) | (111,466) |
| | 438,911 | 485,520 | 1,427,155 | 1,477,153 |

Interest expense includes expenses on lease liabilities in the amount of 62,931 RSD for the nine months ended 30 September 2020 (52,923 RSD for the nine months ended 30 September 2019 accordingly).

26. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Consolidated Financial Statements: investment properties, financial investments classified as available for sale and other non-current financial asset and liabilities. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Consolidated Financial Statements as of 31 December 2019. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 30 September 2020 the carrying value of financial assets approximates their fair value.

27. CONTINGENCIES AND COMMITMENTS*Taxes*

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Group has paid all tax liabilities as of 30 September 2020.

Economic environment in the Republic of Serbia

The Group operates primarily in the Republic of Serbia and is therefore exposed to risks related to the state of the economy and financial markets of the Republic of Serbia. Before the pandemic crisis, the country's credit rating was at BB+ level with stabile national currency rate. The development of the coronavirus pandemic (COVID-19) in 2020 and the measures taken in this regard to prevent the spread of coronavirus infection lead to negative economic consequences. The Government of the Republic of Serbia has prepared a set of measures to mitigate these negative impacts through delays in payment of tax liabilities, grants and credit arrangements. The situation in the financial markets is currently stable. This operating environment has a significant impact on the Group's operations and financial position.

The management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and the management's current expectations and estimates could differ from actual results.

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Group's management recognised an environmental provision in the amount of 460,338 RSD (31 December 2019: 509,129 RSD).

The Group's Management believes that cash outflows related to provision will not be significantly higher than the ones already provided for. However, it is possible that these costs will increase significantly in the future, should the legislation become more restrictive.

Capital commitments

As of 30 September 2020 the Group has entered into contracts to purchase property, plant and equipment 2,654,406 RSD (31 December 2019: 2,809,071 RSD) and drilling and exploration works estimated to 55.65 USD million (31 December 2019: 56.89 USD million).

There were no other material commitments and contingent liabilities of the Group.

28. RELATED PARTY TRANSACTIONS

For the purpose of these Consolidated Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operational decision as defined by IAS 24 Related Party disclosure.

The majority owner of the Group is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The second largest shareholder with 29.87% interest is Republic of Serbia, while remaining 13.98% of interest owned by various minority shareholders are traded on the Belgrade Stock Exchange and are owned by various shareholders. PJSC Gazprom, Russian Federation is the ultimate owner of the Group.

In the nine month period ended 30 September 2020 and in the same period in 2019, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2020***(All amounts are in 000 RSD, unless otherwise stated)*

As at 30 September 2020 and 31 December 2019 the outstanding balances, presented net of impairment, with related parties were as follows:

| | Parent company | Parent's subsidiaries and associates | Associates and joint ventures |
|---|---------------------|---|-------------------------------------|
| As at 30 September 2020 | | | |
| Trade and other receivables | - | 158,571 | 1,143,707 |
| Investments in joint venture and associates | - | - | 1,787,912 |
| Other current assets | - | 5,978 | - |
| Right of use assets | - | 172 | - |
| Trade and other payables | (3,346,480) | (142,155) | (954,893) |
| Other current liabilities | - | (2) | (17,835) |
| Current lease liabilities | - | (119) | - |
| Short-term debt and current portion of long-term debt | (5,468,851) | - | - |
| Long-term debt | (9,570,490) | - | - |
| Non-current lease liabilities | - | - | - |
| | (18,385,821) | 22,445 | 1,958,891 |

| | Parent company | Parent's subsidiaries and associates | Associates and joint ventures |
|---|---------------------|---|-------------------------------------|
| As at 31 December 2019 | | | |
| Trade and other receivables | - | 100,451 | 1,600,151 |
| Investments in joint venture and associates | - | - | 1,851,101 |
| Other current assets | - | 34,371 | - |
| Trade and other payables | (10,500,427) | (543,563) | (1,208,375) |
| Other current liabilities | - | (2) | (3,782) |
| Short-term debt and current portion of long-term debt | (5,469,432) | - | - |
| Current lease liabilities | - | (159) | - |
| Long-term debt | (13,673,582) | - | - |
| Non-current lease liabilities | - | (128) | - |
| | (29,643,441) | (409,030) | 2,239,095 |

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2020***(All amounts are in 000 RSD, unless otherwise stated)*

For the nine month period ended 30 September 2020 and 2019 the following transaction occurred with related parties:

| | Parent company | Parent's subsidiaries and associates | Associates and joint ventures |
|--|-----------------------|---|--------------------------------------|
| Nine month period ended 30 September 2020 | | | |
| Petroleum products and oil and gas sales | - | 232,836 | 11,571,614 |
| Other revenues | - | 65,594 | 29,744 |
| Purchases of oil, gas and petroleum products | (27,028,061) | (849,517) | - |
| Production and manufacturing expenses | - | (192,939) | (140,088) |
| Selling, general and administrative expenses | - | (7,603) | (1,619) |
| Depreciation, depletion and amortization | - | (125) | - |
| Other income (expenses), net | 5,769 | (220) | - |
| Finance expense | (236,390) | (1) | - |
| | (27,258,682) | (751,975) | 11,459,651 |

| | Parent company | Parent's subsidiaries and associates | Associates and joint ventures |
|--|-----------------------|---|--------------------------------------|
| Nine month period ended 30 September 2019 | | | |
| Petroleum products and oil and gas sales | - | 378,261 | 13,044,407 |
| Other revenues | - | 42,840 | 8,291 |
| Purchases of oil, gas and petroleum products | (35,443,305) | (3,205) | - |
| Production and manufacturing expenses | - | (197,690) | (146,451) |
| Selling, general and administrative expenses | - | (27,679) | (1,484) |
| Other income (expenses), net | 14,610 | (463) | - |
| Finance expense | (309,072) | - | - |
| | (35,737,767) | 192,064 | 12,904,763 |

Transactions with Key Management Personnel

For the nine month period ended on 30 September 2020 and 2019 the Group recognized 686,728 RSD and 679,623 RSD, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

Other information

As at 14 October 2020, the process of voluntary liquidation of the subsidiary Pannon Naftagas KFT Hungary ended. No significant impact is expected on Group Consolidated Financial statements.

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2020

(All amounts are in 000 RSD, unless otherwise stated)

NIS Group

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