ANNUAL Report 2020

NIS GAZPROM NEFT

FUTURE AT WORK

Annual Report 2020

NIS
GAZPROM NEFT
FUTURE AT WORK

The Annual Report for 2020 presents a factual overview of activities, development and performance of NIS Group in 2020. The Report covers and presents data for NIS Group, comprising NIS j.s.c. Novi Sad and its subsidiary. If the data pertain only to specific individual subsidiaries or only NIS j.s.c. Novi Sad, it is so noted in the Report. The terms: 'NIS j.s.c. Novi Sad' and 'The Company' denote the parent company NIS j.s.c. Novi Sad, whereas the terms 'NIS' and 'NIS Group' pertain to NIS j.s.c. Novi Sad with its subsidiaries.

The Annual Report provides a concise and integrated overview of the financial and non-financial achievements of NIS Group in 2020 and shows how the Group's strategic goals, corporate governance, achieved results and realised potential, in conjunction with the external environment, lead to generating the value in the short, medium and long term.

The Annual Report is compiled in Serbian, English and Russian language. In case of any discrepancy, the Serbian version shall prevail.

The Annual Report for 2020 is also available online on the corporate website. For any additional information on NIS Group, you may visit the corporate website www.nis.eu.

The Annual Report contains information explained in more detail in other sections of this Report, other reports or on the corporate web pages. There is also a glossary at the end of the Report with explanations of the abbreviations and acronyms used.

Referral to another part of this Report or to other reports of NIS Group.

Referral to the corporate website www.nis.eu

Contents

NIS Group in 2020

Realized EBITDA of RSD

15.8

billion

In 2020, RSD

25.3

billion was invested

Retail network development

reconstrucion of 8 PSs in Serbia

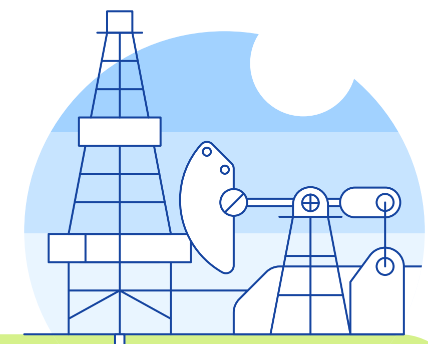
5 PSs were leased in B&H

one PS Otopeni was put into operation in Romania

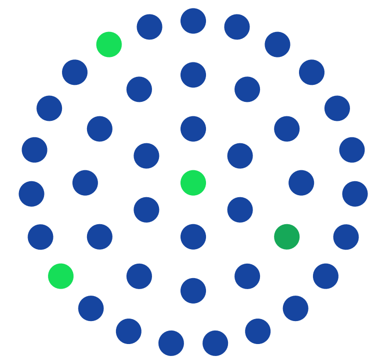
A total of

1,259

thousand t.o.e. of oil and gas equivalent were produced



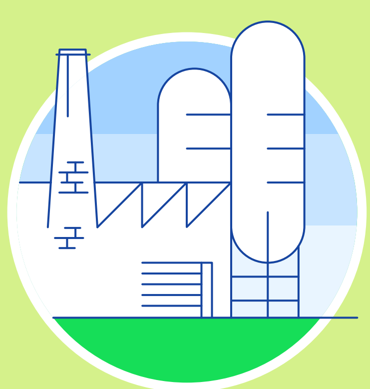
Drilled wells in 2020:



38 development wells

3 exploration wells in Serbia

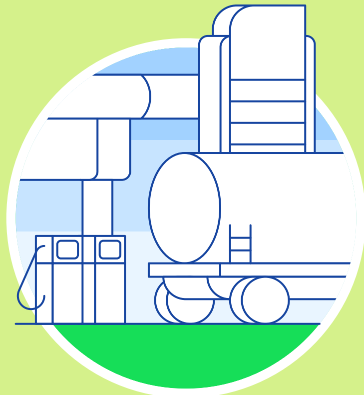
1 development well in Romania



A total of

3,613

thousand tonnes of crude oil and semi-finished products were processed



In 2020 sales volume of

3,538

thousand tonnes.

Awards and recognitions

According to results of "TalentX" research carried out by the specialized portal Poslovi.infostud.com, NIS was declared Serbia's Most Attractive Employer

Award of the Serbian Chamber of Commerce "The Best Business Leader" was given to Vladimir Gagić, director of the Refining Block at NIS

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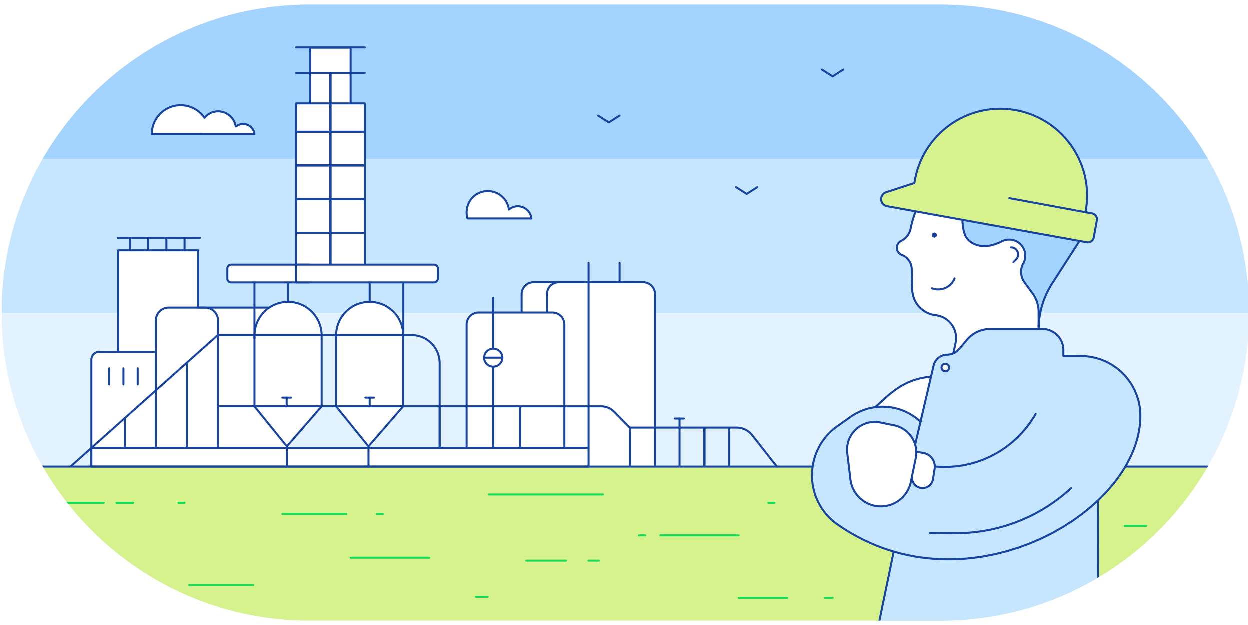
Special award of the Ministry of Defense of the Republic of Serbia was given to Gazprom neft, majority shareholder of NIS, for its contribution to the defence system in the fight against Covid-19

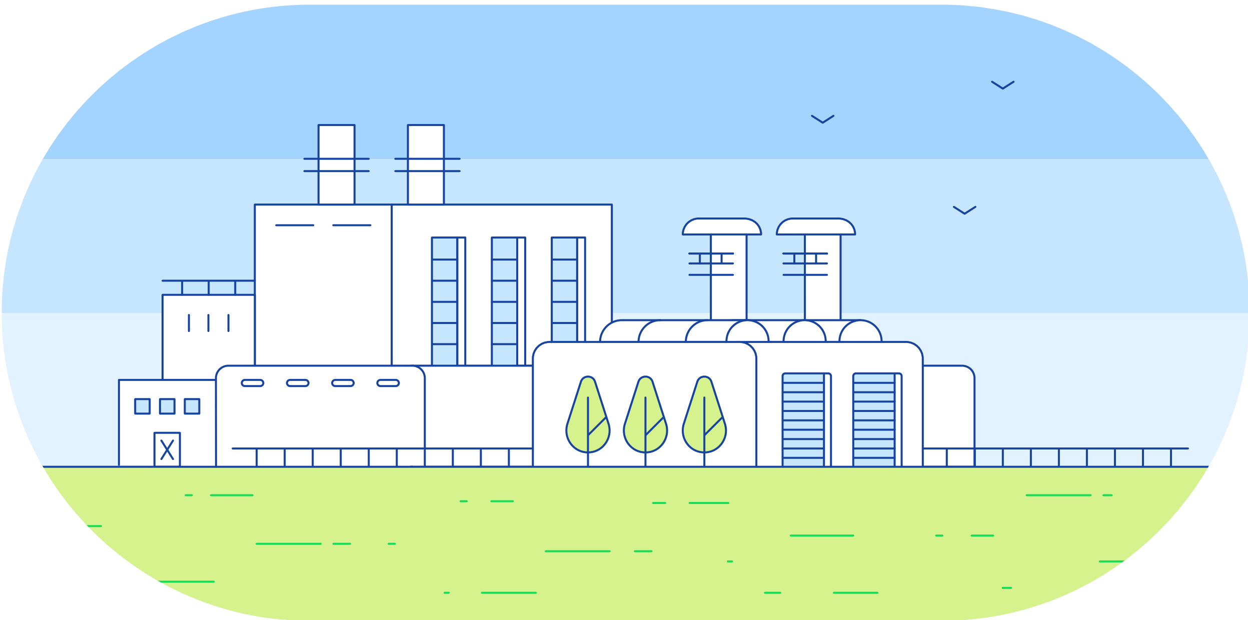
Realization of key projects



BOTTOM-OF-THE-BARREL PROJECT

The Bottom-of-the-Barrel Project with delayed coking technology is a capital investment of the second phase of the Pančevo Oil Refinery modernization, with a planned investment over EUR 300 million. The plant was ceremoniously put into operation on November 18, 2020.

The optimal utilisation of the refinery's capacity and the increased efficiency of oil refining in NIS is thus provided by the newly built DCU unit, increasing capacity from the current 86 to 99.2 percent. The operation of the new plant has enabled increased production of high-quality gasoline and diesel, as well as the production of coke, which has, until now, been imported. The realisation of the project also solved the problem of placing fuel oil with a high sulphur content, because instead of high-sulphur fuel oil, additional quantities of light products and coke are now produced. Also, the realised Bottom-of-the-Barrel project ensured that Serbia fulfils its international obligations to reduce the sulphur content in certain liquid fuels.

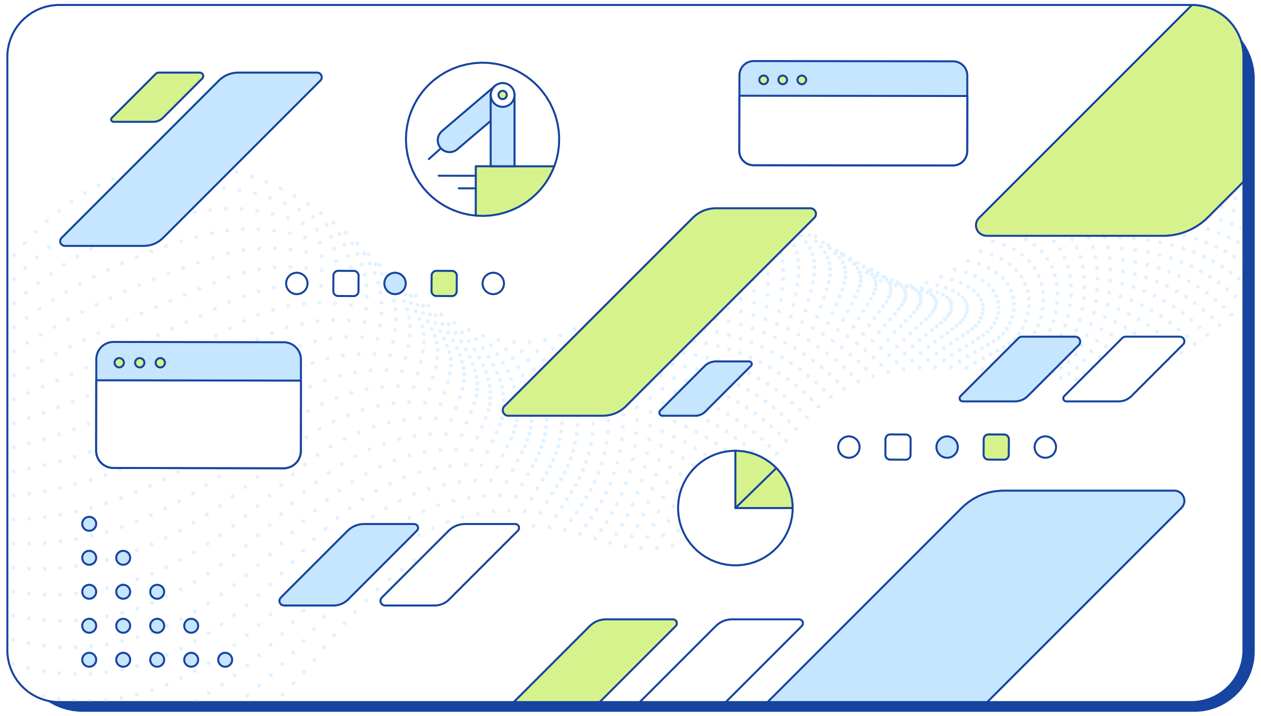


TE-TO PANČEVO

TE-TO Pančevo (hereinafter Pančevo Combined-Cycle Power Plant) is a gas-steam combined cycle power plant with an average power of up to 200 MW. Projected annual output is roughly 1,400 GWh. Construction of TE-TO Pančevo is part of the joint project by NIS j.s.c. and Gazprom Energoholding via Gazprom Energoholding Serbia LLC, where NIS j.s.c. holds a 49% share, while Centroholding holds a 51% share.

The total estimated value of the project is approximately EUR 180 million.

The start of operation of TE-TO Pancevo is expected during 2021.



DIGITAL TRANSFORMATION

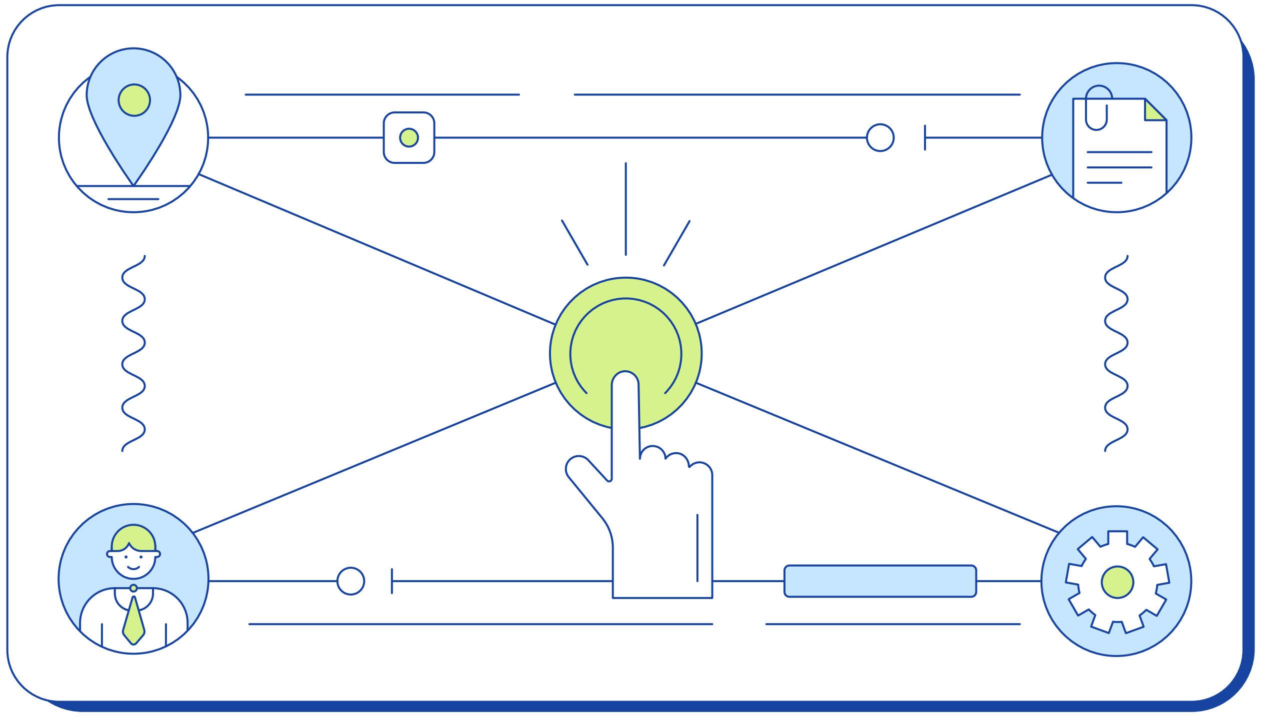
For NIS, digital technologies represent an opportunity for advancement of the company and a tool for achieving its strategic goals. Therefore, digitalisation is a process that can provide financial support to the further expansion of our company, strengthen its competitive edge on the market and create new value for our shareholders and employees. In 2020, our digital transformation project focused on 8 key elements that will help us implement it in our company: digital vision and strategy of DT, organisational structure, principles of portfolio project management, innovation centre and digital technologies (R&D), platforms and data flow, interaction with the ecosystem and partnerships, digital culture and competencies, cooperation with Gazprom Neft.

Our employees, and our constant work on improving the skills and knowledge necessary for the implementation of innovations, are key elements of the successful implementation of digital transformation in NIS. This is why we have developed a plan for the advancement of digital competencies and culture for 2021, which includes lectures, training courses and preparation of employees for new challenges in this field. Also, NIS's Scientific and Technical Centre has established a digital laboratory where our experts carry out scientific research within digital projects and explore the opportunities for their application in the oil industry. In 2020, this team successfully launched and implemented over 15 initiatives. As for partnerships, NIS began its collaboration with the leading faculties in the field of digitalization in 2019, when we teamed up with the Faculty of Electronic Engineering in Niš. This cooperation continued in 2020 when NIS joined forces with the Faculty of Electrical Engineering in Belgrade and the Faculty of Technical Sciences in Novi Sad. In 2020, two memoranda were signed with these two faculties (ETF and FTN) whose aim is to ensure the exchange of knowledge and expertise between NIS's experts and the faculties' professors and students. The other goal is to connect the business sector with the academic community in order to implement joint projects and create new "products" on the modern market for mutual benefit. In order to complete the digital ecosystem in which NIS achieves its goals, we need external partnerships with IT companies, specialists in specific fields, startups and Serbian IT community. Therefore, the focus in the coming years will be on these partnerships, and on building the image of NIS as a company which digitalises its business and is a reliable and desirable partner for all those who have ideas, entrepreneurial spirit and create innovations. As a special virtual meeting place for these partners, we have created the NIS TechEngine platform and are opening TechEngine work zones.

Focus points and digital tools have been defined for each business block (Exploration and Production, Refining and Sales and Distribution). Our goals are to increase business efficiency and efficiency in oil and gas exploration and production; ensure professional development of our employees; increase the safety and reliability of plant operation; provide additional services and improve communication with consumers. Established in 2020, the Company's digital transformation portfolio contains over 110 projects and initiatives for the needs of all business blocks and other organisational units that provide support to their operations. These projects and initiatives are in different phases of their life cycles: from "Idea" to "Implementation" (Deployment). In 2020, over 75 new initiatives were registered, 50 ideas were reviewed and 14 projects were completed. The most significant projects completed in 2020 were: Real-time operating centre, Online drilling, Mobile Operator, GPS Tracking, OTS (Crane Operator), Structured Tours (Mobile Operator), Drive.Go, Parcel Collection Points and Instant Payment.

Data management, availability and quality are important factors for the success of DT, and are prerequisites for NIS' key strategic digital initiatives. In 2020, we developed data management principles whose main goals include: increasing the efficiency of data use and extraction, supporting information needs, ensuring data integrity and quality, and ensuring data confidentiality and comprehensive protection.

In the forthcoming period, the general direction of development of NIS' digital transformation is the gradual and consistent implementation of the principles and tools of Industry 4.0, including the application of highly effective technologies that transform production processes and business models using new formats for interaction, decision making, and implementation of digital platforms and products.



MULTIFUNCTIONAL SHARED SERVICES CENTRE

Establishment of the Multifunctional shared service center (MSSC) is one of the projects of organisational transformation of NIS which organizationally merges most administrative services of the company into one place thus improving the quality of the service rendered to business. Driver of the change of our culture of work, it paves the way for a new approach of providing services to internal clients and digitizing processes and puts efficiency at the core.

Pilot project was implemented (Accounting and financial reporting services, HR services and infrastructure: Front office, Call center) and put into operation on November 1, 2019.

Protocol of the Steering Committee of September 11, 2020 validated completion of the project management period. Starting from October 1, 2020, Multifunctional shared service center (MSSC) "NIS Business Service" stepped into operational management.

At the moment, 11 Groups of Services successfully operate within MSSC. In addition to accounting and HR services, Multifunctional shared service center provides new services to employees, organizational units and subsidiaries of the company: mass recruitment and selection, passenger transport including car rental and bus transportation, documentation support, standardization and business process mapping, inventory support, translation, employee support related to benefits and social package, IT services, warehousing and legal support services related to low risk business activities.

The main pillars of MSSC are maximum standardization and automation of processes and tools, simple procedures, adoption of template decisions, a single communication channel and clear-cut prioritization of requests; therefore, higher quality and speed of execution of assignments.

In a single year:

- Groups of services increased from 3 to 11
- At the time of project completion, it employed 522[1] FTE
- 3 new clients joined – the scope of provided services grew by 13%
- Continuous productivity boost – by 15% vs. the first half a year
- Quality level according to SLA in 2020 was 98%.

Achieved operational efficiency was equal to over 140 million dinars.

1 The official end of the project MSSC was October 1, 2020, and the number of employees is given with this date.

Letter to Shareholders

Dear friends,

The past year was one of the most challenging for NIS Group and for the oil industry and global economy overall. We adjusted to new realities working concurrently towards assuring the production stability, on the one hand, and preserving health of our employees, partners and customers, on the other hand. The situation in the oil industry was further complicated by a sharp decline in energy consumption and dramatic fall of crude and petroleum product prices due to restrictions triggered by the pandemic of COVID-19. During certain months, the demand was reduced by half.

To uphold the business sustainability during the global economic crisis, we had to act decisively and effectively. We successfully rose to unprecedented challenges of 2020 and we can pride ourselves on the results we achieved. We developed and put in place across NIS facilities a package of effective anti-epidemiological measures and created a safe working environment thus contributing to the continuity of production. As a result, we were able to steadily supply the Serbian market with petroleum products throughout the year, keep workplaces and maintain the salary levels across the company.

It is beyond argument that the adverse impact of external factors forced us to somewhat correct our investment plans; nonetheless the company pursued key initiatives of its strategic growth. 23.5 bln dinars were invested in the development of NIS in 2020. It is significant that one of the major projects in company's history was completed in troubled 2020 - commissioning of the Delayed Coker Unit in the Pancevo refinery. It is a landmark event not only for the company but for the whole Serbia's energy sector. Putting DCU into operation enabled us to increase the yield of gasoline and diesel and to kick-start the production of a highly demanded product – petroleum coke that had previously been exported to Serbia. Moreover, it paved the way to discontinue production of high-sulfur fuel oil upholding Serbia's international environmental commitments.

Despite the challenging environment, our company maintained successful operational activity across all segments throughout the year. NIS produced 1.259 mln t.o.e. from its fields. We pursued our E&P projects in Serbia, but also in Romania, Bosnia and Herzegovina. We refined 3.613 mln tons of crude in the Pancevo refinery, a 7% increase on 2019. Company's retail network was reinforced by 8 modern petrol stations in Serbia, 5 new stations were opened in Bosnia and Herzegovina and one in Romania. A total 3.538 mln tons of petroleum products was sold in 2020. Export sales grew by 7%.

One of the major contributors to enhanced safety and effectiveness of work processes at the company was the digital transformation program. Innovative IT projects were implemented across all business segments in various areas: from introduction of virtual reality technologies in the training of upstream operators to establishment of the predictive maintenance system in the refinery. We were the first on Serbia's

Vadim Yakovlev
Chairman of the Board of Directors
NIS j.s.c. Novi Sad

market to launch a mobile application that enable our clients to pay for the fuel in the quickest and safest possible way, without entering the station. By the end of 2020, we had sold over 1 million liters of fuel via the digital service Drive.Go.

Unfavourable macroeconomic situation had a noticeable impact on company's financial results. Even though NIS closed the second half a year with a net profit of 2.7 bln dinars, negative trends of the first six months dominated the annual performance. At year-end, the company recorded losses in the amount of 7.6 bln dinars. At the same time, EBITDA and Operating cash flow indicators remained positive and were equal to 15.8 bln dinars and 29.7 bln dinars, respectively. Besides, NIS honoured all commitments to both the Government of Serbia and shareholders of the company and paid out dividends in the amount of 25% of 2019 net profit, i.e. 4.4 bln dinars, and tax and other mandatory budget contributions in the amount of 179.5 bln dinars.

Bearing in mind that support of local communities is ever more important in a year as difficult for the economy as the past, we invested over 290 mln dinars in social projects, of which 114.5 mln dinars were allocated to digitization of the educational process and ensuring safety of pupils and teachers of Serbian schools. We also focused our attention on supporting the healthcare establishments and pooling our efforts to fight the pandemic of COVID-19 in Serbia. During the state of emergency, NIS supplied jet fuel to the national airline Air Serbia free of charge to deliver medical equipment and transport Serbian citizens who found themselves abroad during the pandemic. Furthermore, NIS provided protective equipment and oxygen flowmeters to healthcare units.

We understand that no one can vouch for a quick recovery of the global economy these days, what happened in 2020 was a showcase for how quickly everything can change. Therefore, the operational efficiency improvement program will remain NIS priority in 2021. We will pursue the development of major investment projects. We are determined to maintain the planned investments at an ambitious level of over 20 bln dinars. Anticipated events of the year include commissioning of the combined heat and power plant Pancevo, development of concessions in Romania, further upgrade of the Pancevo refinery, opening of new petrol stations and introduction of innovative services for our customers. We will continue implementation of digital technologies across all activities of the company to address the overarching objective of boosting the efficiency of our business.

Our performance in a remarkably difficult year 2020 fills us with confidence that we are ready to find compelling answers to all challenges ahead and pursue our development for the benefit of our employees, shareholders and community.

Kirill Tyurdenev
CEO
NIS j.s.c. Novi Sad

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Business Report

1.01

Independent Auditor's Report on the Compliance of the Business Report with Financial Statements

KPMG

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11070 Belgrade
Serbia

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Fax: +381 (0)11 20 50 550
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TRANSLATION

Appendix to the independent Auditors' Report issued on 10 March 2021
(this Appendix is issued in respect of the Annual Report)

To the Shareholders of Naftna industrija Srbije a.d., Novi Sad

We have audited the separate and consolidated financial statements of Naftna industrija Srbije a.d., Novi Sad ("the Company") and its subsidiaries ("the Group") as of 31 December 2020 presented on pages 209 – 434 of the accompanying Annual Report. We have issued an unmodified independent auditors' report on the separate and consolidated financial statements („financial statements") on 10 March 2021.

This Appendix supplements the aforementioned auditor's reports solely in respect of the following information:

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report prepared in accordance with the Law on accounting of the Republic of Serbia but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information in the Annual Report.

In connection with our audit of the financial statements, our responsibility is to read the other information in the Annual Report that we have obtained prior to the date of the auditors' report on the audit of the financial statements, and, in doing so, consider whether the other information is materially inconsistent with the audited financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

The other information was not available to us as at the date of the auditors' report on the audit of the financial statements.

With respect to the Business Report, once obtained, we are required by the Law on Auditing and the Law on Accounting of the Republic of Serbia to express an opinion on whether the other information given in the Business Report is materially inconsistent with the financial statements prepared for the same financial year or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Registration No.: 17148656
Tax Identity No.: 100058593
Bank Account No.: 265-1100310000190-61

KPMG

TRANSLATION

Based on the work undertaken in the course of the audit of the financial statements, in our opinion, in all material respects:

— the other information given in the Business Report for the year ended 31 December 2020 is consistent with the financial statements prepared for the same financial year; and
— the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit, we are required to report if we identify material misstatements in the Business Report and to give an indication of the nature of any of such misstatements. We have nothing to report in this regard.

Belgrade, 5 April 2021

KPMG d.o.o. Beograd

Signed on the Serbian original

Vladimir Savković
Licenced Certified Auditor

This is a translation of the original Appendix to the Independent Auditors' Report issued in the Serbian language.
All due care has been taken to produce a translation that is as faithful as possible to the original.
However, if any questions arise related to interpretation of the information
contained in the translation, the Serbian version of the document shall prevail.
We assume no responsibility for the correctness of the translation of the Company's Annual Report.

Belgrade, 5 April 2021

KPMG d.o.o. Beograd

Vladimir Savković
Licenced Certified Auditor

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Highlights

January - March

- Activities aimed at the adjustment of operations under the conditions of low oil prices and with the current health and safety situation caused by the pandemic of Covid-19 infection, which continued to the end of 2020
- Works on the project 3D seismics EX-12 in Romania completed
- Works on Teremia 1002 exploration well workover in Romania completed
- The operation of new workover rig "J-1" launched
- NIS became the 100% owner of Jadran Naftagas LLC, Banja Luka, Bosnia and Herzegovina
- Overhaul of the bitumen plant
- Activities in cleaning CO boiler
- Activities on moving the unit workarounds to electronic module via tablet
- Under conditions of the emergency state Lubricants Department successfully developed the recipe and embarked on production of a new product, NISOTEC Antisepsol disinfectant, to cover the needs of the whole company
- Mastercard instant win – when paying the bills of or over 5,000 dinars with Master or Maestro contactless cards issued by any bank, a client is entitled to an instant voucher. Every voucher wins
- Successfully implemented recertification of the integrated management system (requirements of the standards SRPS ISO 9001, SRPS ISO 14001, SRPS ISO 45001, SRPS EN ISO 50001, SRPS EN ISO 22000, CAC / RCP 1-1969)
- Re-certification of the "CE" mark for polymer modified bitumen with the possibility of continuing to place products on the EU market and countries in the region
- NIS Company representatives presented their donation to the Health Centre of Pancevo, with the help of which its Department of Children's and Preventive Stomatology was completely reconstructed and modern equipment procured
- The members of NIS Volunteers Club provided assistance to the most vulnerable categories of population during the conditions of emergency proclaimed due to the epidemic of coronavirus in Serbia
- Sport club "Red Star" presented the special recognition award to Gazprom Neft, majority shareholder of NIS, as a business partner of the year for 2019.

April – June

- The operation of new workover rig of XJ-900 type launched
- Base concept for the development of Teremia North oilfield in Romania adopted
- Activities on the repairs on Sulphur recovery plant - Claus (C-4450)
- Activities on the DCU – pre-commissioning of the Delayed Coker (S-5300) and commissioning of the Sour Water Stripper (S-5900)/Amine Regeneration III (S-5950)
- Overhaul of the Sulphur Recovery Unit – Claus (S-2450)
- Mechanical completion of the DCU achieved
- Promotional campaign for the new Drive GO mobile application service that enables payment without going to the cash register, by scanning the QR code
- Start-up of a new CNG installation at the Blok 45 petrol station
- NIS became the first retail chain in Serbia to provide the service of picking up and paying for ordered shipments at certain NIS Petrol and GAZPROM petrol stations, in cooperation with the D-Express courier service
- Over the course of the state of emergency in Serbia, NIS facilitated national airline "Air Serbia" deliveries of medical aid to our country with 270 tons of aviation fuel
- The majority shareholder of NIS, the company Gazprom Neft, provided petroleum products for the police and health services in Serbia during April and May
- NIS donated more than 33 thousand litres of drinking water to the municipalities of Ivanjica and Blace, whose residents were without drinking water from the city water supply for a number of days due to the floods.

July – September

- The recognising of the terrain for seismic works in B&H carried out
- Completion of works on the reconstruction on Novi Sad 16 petrol station for Sales and Distribution Block
- Engaging the Nitrogen Unit for the operation on Turkish Stream
- Scientific-technical conference of young specialists and scientists - Upstream 2020 was held
- Hydromechanical cleaning of the coiled tubing of the furnace BA-2101
- Delivery of the "Certificate of Approval for the DCU Plant Trial Operation" by the Technical Inspection and Acceptance Committee
- Functional testing of the DCU plant conducted and the first quantity of petroleum coke - high calorific value fuel produced
- A meeting between Kirill Tyurdenev, Chief Executive Officer of NIS, and Siniša Mali, Minister of Finance of the Republic of Serbia, was held
- Science and Technology Centre NIS-Naftagas LLC Novi Sad has acquired the status of a Publicly Recognized Adult Education Organiser
- As a result of a survey conducted by Poslovi.infostud.com specialized portal, involving over 10,000 responders, NIS has been declared the Most Attractive Employer in Serbia
- In the “Together for the Community” contest, 72 projects were selected in the field of syllabus digitalisation and safety in schools, which will be supported by NIS’ investment of RSD 114.5 million.

October – December

- During 2020, drilling of 38 development and 3 exploration wells in Serbia and 1 well in Romania was completed, and 38 development and 3 exploration wells in Serbia and 1 exploration and 1 development well in Romania were put into operation
- A contract with Turkish oil company signed for 3D seismic works
- New projects of geological oil and gas exploration agreed for exploratory areas of North, Middle and South Banat, North and South Backa and the request sent to the Provincial Secretariat for Energy, Civil Engineering and Traffic for the issuance of new approval for explorations in the period 2021-23
- Activities on the workover of FCC unit
- Recertification of the "CE" sign for road bitumen, with the possibility of continued placement of the product in the markets of the EU and the states in the region
- Handover-takeover of the "Certificate for trial operation of the Bottom of the Barrel unit" by the Commission for technical acceptance
- In 2020, 7 PSs were put into operation and 1 PS was taken on a long-term lease and rebranded. The newly built PS Otopeni in Romania was put into operation. In Bosnia and Herzegovina five PSs were leased and put into operation
- Digital campaign on social networks to promote the sale of "Jazak" water
- "On the Road with Us" mobile app released in Bosnia and Herzegovina and Bulgaria
- The reconstructed petrol station Prokuplje 2 in Serbia reopened
- In the Pančevo Oil Refinery, the new Bottom-of-the-barrel unit, with delayed coking technology, was ceremoniously put into operation, and the ceremony was attended by the highest state officials of the Republic of Serbia
- In cooperation with the "Poštanska Štedionica" Bank and the National Bank of Serbia, NIS enabled cash withdrawals with the Dina payment card at all petrol stations; The service of payment by mobile phone IPS QR code, in cooperation with the same partners, is also enabled
- A new diesel warehouse with a volume of three million litres was opened in Zenica
- NIS launched 100-octane high-octane motor gasoline (EVRO BMB-100) on the wholesale market
- The millionth litre of fuel was sold in November through the innovative Drive.Go application launched by NIS in April, enabling consumers to pay for fuel without going to the cash register
- NIS paid 4.4 billion dinars to shareholders as dividends for 2019, i.e. 25 percent of the Company's net profit from that year
- NIS Board of Directors adopted the Business Plan for 2021, which defines the continuation of modernisation and planned investments of RSD 20.8 billion
- NIS launched a new programme "NIS Energy" intended for graduates and masters students of selected faculties who want to take their first professional steps in NIS
- NIS donated 500 sets of surgical uniforms to the Clinical Center of Serbia and COVID Hospital in Batajnica, while over 26,000 litres of "Jazak" water (in a package of 1.5. liters) were donated to the temporary Covid hospital in the Belgrade Štark Arena
- For the eighth year in a row, NIS was the general sponsor of the Science Festival, which was held in 2020 using digital communication channels due to the epidemic

- NIS employees and the company itself distributed personalised New Year's gift packages for children from shelters in Belgrade, Kragujevac and Novi Sad, as well as in primary and secondary schools for children with developmental disabilities in Belgrade, Pančevo and Niš.

Highlights after the Reporting Date

- NIS has launched a new season of student internships called "NIS Calling" which allows students to gain internships
- NIS's profile on the social network LinkedIn won the award of the magazine PC Press – 50 best online content.

1.03

NIS Group

NIS Group is one of largest vertically integrated energy systems in Southeast Europe. It employs approximately 11,000 employees in Serbia and the region. The headquarters and main assets of the NIS Group are located in the Republic of Serbia, but the Group also has subsidiaries and representative offices in several other countries.

Countries of operation are shown on the picture on page 34

NIS' core activities include exploration, production and refining of oil and natural gas, sale and distribution of a wide range of petroleum and gas products, as well as the implementation of energy- and petrochemistry-related projects.

NIS aims to create new value for its shareholders, employees and the community in which it operates, despite the challenging macroeconomic environment.

In addition to business activities, NIS also implements numerous socially responsible projects aimed at improving the life of the community in which the company operates. NIS's efforts in this area are especially focused on young people, who are the bearers of future development.

Business Activities

Business activities of NIS Group are organized within the parent company, NIS j.s.c. Novi Sad, under Exploration and Production Block[1] and DOWNSTREAM[2] Division. Nine Functions provide support to the core activities of NIS j.s.c. Novi Sad, parent company. These are: Finance, Economics, Planning and Accounting Function; Strategy and Investments Function; Procurement Function; Organizational Affairs Function; HSE Function, Legal and Corporate Affairs Function; Corporate Security Function, Government Relations and Corporate Communications Function and Internal Audit and Risk Management Function. One of the Deputy CEO's is in charge of petrochemicals operations.

1 Exploration and production and subsidiary companies – STC NIS – Naftagas LLC Novi Sad, Naftagas – Oil Services LLC Novi Sad, Naftagas – Transport LLC Novi Sad.

2 Refining Block, Block Sales and Distribution, Energy Department and subsidiary company Naftagas – Technical Services LLC Zrenjanin.

Exploration and Production Block

Exploration and Production

NIS is the only company in the Republic Serbia engaged in the exploration and production of oil and gas. NIS' activities in this field also include operative support to production, managing oil and gas reserves, managing the development of oil and gas reservoirs, so as major exploration and production projects.

In the segment of Exploration and Production, as well as in other business areas, NIS is committed to the constant introduction of modern technologies, modernization of equipment, and application of new scientific knowledge. Scientific and technological support to NIS in the field of research and production is provided by the subsidiary - Scientific and Technological Centre (NTC) NIS Naftagas LLC Novi Sad.

Most of NIS' reservoirs are located in Serbia, while exploration is also being undertaken in Romania and Bosnia and Herzegovina, where experimental production has begun. NIS' oldest concession is in Angola, where oil exploitation started as far back as 1985.

Within the Exploration and Production business segment operates an Elemir-based plant for the preparation of natural gas, production of LPG and natural gasoline and CO_2 capture. An amine plant for natural gas processing, that uses HiPACT technology (High Pressure Acidgas Capture Technology) is also located in Elemir. This method of gas processing is such that it completely prevents the release of carbon dioxide into the atmosphere. NIS also has a modern training center in Elemir, for training its workers in the oil industry. It is a unique compound equipped with modern equipment in which the training is performed in real conditions, with the possibility of simulating all the tasks that oil workers encounter in the process of production, preparation and shipment of oil and gas.

NIS has its own servicing facilities, which meet the needs of the Group and provide services to third parties. The servicing facilities provide services in the field of exploration and production of oil and gas through geophysical testing, construction, the equipment and repair of wells, as well as the implementation of special operations and measurements on wells.

In addition, they provide maintenance services for the operation, construction and maintenance of oil and gas systems and facilities.

The goal in this business segment is to strengthen its presence on the international market, which is why its priorities are; modernisation and upgrade of equipment, provision of the best possible quality of services, increase of technical and technological efficiency and employment growth in NIS and other companies.

DOWNSTREAM Division

The DOWNSTREAM division consists of the Refining Block, the Sales and Distribution Block and the Energy Area.

Refining

NIS manages the Pančevo Oil Refinery with maximum projected capacity of 4.8 million tonnes of crude oil per year. More than EUR 800 mln have been invested in the modernization of the Refinery since 2009, and in November 2020, the Bottom-of the-Barrel unit with delayed coking technology was ceremoniously put into operation. The successful completion of this project, worth more than EUR 300 mln, enables NIS to increase the production of the most valuable fuels - diesel, gasoline and liquefied petroleum gas, as well as the beginning of domestic production of petroleum coke. In addition, the energy efficiency of the Refinery has been improved and the safety of production processes has been strengthened. The Bottom-of the-Barrel project also brings significant environmental benefits, above all the cessation of the production of fuel oil with a high sulphur content, which contributes to Serbia fulfilling its obligations to the Energy Community to limit the percentage of sulphur in certain liquid fuels. In addition, the emissions of sulphur and nitrogen oxides, as well as dusty substances have been significantly reduced, which further improves the environmental conditions the whole of Serbia.

The oil refinery in Pancevo is the first power plant in the Republic of Serbia to receive an IPPC permit from the competent state authorities on integrated prevention and control of environmental pollution. In this way, NIS actively confirms that investments in environmental protection are one of the priorities in the process of plant modernization.

Sales and distribution

In Serbia and the countries of the region, NIS operates a network of over 400 petrol stations, out of which more than 90 are outside the borders of the home country. In Serbia, NIS manages the largest retail network on the market, and is developing business in this area in the neighbouring countries of the region - Bosnia and Herzegovina, Bulgaria and Romania.

NIS operates on the market with two retail brands: NIS Petrol and GAZPROM, a premium brand in this segment. NIS petrol stations are synonymous for the quality fuels on offer and the additional product portfolio, as well as for the modern services that meet the needs of consumers. Despite the market crisis during 2020, NIS continued to develop its sales network and opened 14 petrol stations in Serbia, Bosnia and Herzegovina and Romania (of which seven are new and seven are reconstructed), as well as a diesel terminal in Zenica (B&H).

In addition to the retail sale of finished petroleum products, liquefied petroleum gas and a number of related products, the turnover structure of NIS includes export and domestic wholesale deliveries of crude oil, gas and petroleum products. As special business directions, NIS develops the supply of aviation fuel, the supply of vessels with fuel, the trade of lubricants and bitumen.

All types of fuels undergo strict and regular laboratory control and meet the requirements of domestic and international standards.

Energy

NIS deals with: the production of electricity and heat from conventional, renewable and alternative sources of energy. The Company is also involved in the procurement, sale and management of natural gas portfolio, production and sale of compressed natural gas, natural gas sales, electricity trade, development and implementation of strategically important energy and related environmental projects, development and implementation of projects aimed at boosting energy efficiency.

The key project in this area is the construction of the Pancevo Thermal and Power Plant, which NIS is implementing in cooperation with the Russian company Gazprom Energoholding. Construction of this plant continued in 2020, and commissioning is expected during 2021. The new power plant will produce heat energy for the needs of the Pancevo Oil Refinery, while a part of the produced electricity will be directed towards the energy system of Serbia.

Since 2013, in the oil and gas fields at eight locations in Serbia, NIS has put into operation a small power plant with a nominal electric capacity of 14.5 MWe. The energetic, ecological and economic advantage of using these plants is in the production of electricity and heat from gas that was not previously used due to the large amount of carbon dioxide and nitrogen that could not be valorised due to the lack of gas infrastructure. Electricity production is also carried out at the Jimbolia gas field in Romania. NIS is also developing electricity trade, and in addition to the Serbian market, it is also present on regional markets.

History

1945
The Oil and Petroleum Product Trading Company was founded.

1949
The Naftagas Oil Exploration and Production Company was founded.

The first natural gas reservoirs were discovered.

1952
The first oil field was discovered in the north of the country – near Jermenovci in Banat.

1953
The construction of the first petrol stations began in Serbia’s major cities.

1963
The construction of the first main gas pipeline was completed, connecting all of oil fields with Pančevo, where the first refinery was to be constructed.

1968
Oil refineries were put into operation in Novi Sad and Pančevo.

The Velebit oil field was discovered.

1985
Oil production commenced in Angola, which was the first time NIS entered into a concession agreement outside the borders of Serbia.

1991
The Public Enterprise Naftna Industrija Srbije was established.

1999
During the NATO bombing, NIS suffered human casualties and material losses.

After the bombing, it quickly began rebuilding its damaged facilities.

2005
NIS became a joint stock company.

2008
NISOTEC, oil and lubricants brand were launched on the Serbian market.

2009
PJSC Gazprom Neft, a Russian company, became the majority shareholder in NIS.

The modernization of the refining complex began.

2010
NIS became an open joint stock company listed on the Belgrade Stock Exchange.

2011
NIS began its regional expansion.

It established subsidiary companies in Bosnia and Herzegovina, Bulgaria and Romania.

2012
The first phase of modernization of the Pančevo Oil Refinery was completed. It began the production of Euro 5 quality standard fuel.

Grand opening of the first premium brand gas station GAZPROM in Belgrade.

2013
The first dividends were paid out to shareholders from the previous year’s earnings.

NIS began its transformation into an energy company.

The first cogeneration plant for the production of electricity and heat from gas was commissioned in Sirakovo.

2014
The first sale of electrical energy in the market.

NIS started selling its first branded motor fuel, premium Euro diesel Ultra D.

2015
The sales of G-Drive 100 petrol started at GAZPROM petrol stations.

2016
An amine plant for natural gas processing was commissioned in Elemir.

GAZPROM petrol stations began selling premium G-Drive diesel in Serbia.

2017
The Pančevo Oil Refinery held a ceremony to mark the start of the works on the delayed coking unit with the bottom-of-the-barrel technology.

The agreement on the construction of the TE-TO Pančevo (English: Combined-Cycle Power Plant Pančevo) was signed with the Chinese company Shanghai Electric Group.

The Corporate Development Strategy 2025 was adopted.

2018
Activities on the Bottom-of-the-Barrel Project and TE-TO Pančevo continued.

We marked the 10th anniversary of Common Cause Community, our program of cooperation between NIS and local communities in Serbia.

2019
TE-TO Pančevo construction was initiated.

Gazprom Neft marked the 10th anniversary of operation of Serbia.

2020
In 2020, the delayed coking unit was ceremonially opened at the Pančevo Oil Refinery.

The construction of CCPP Pančevo continued.

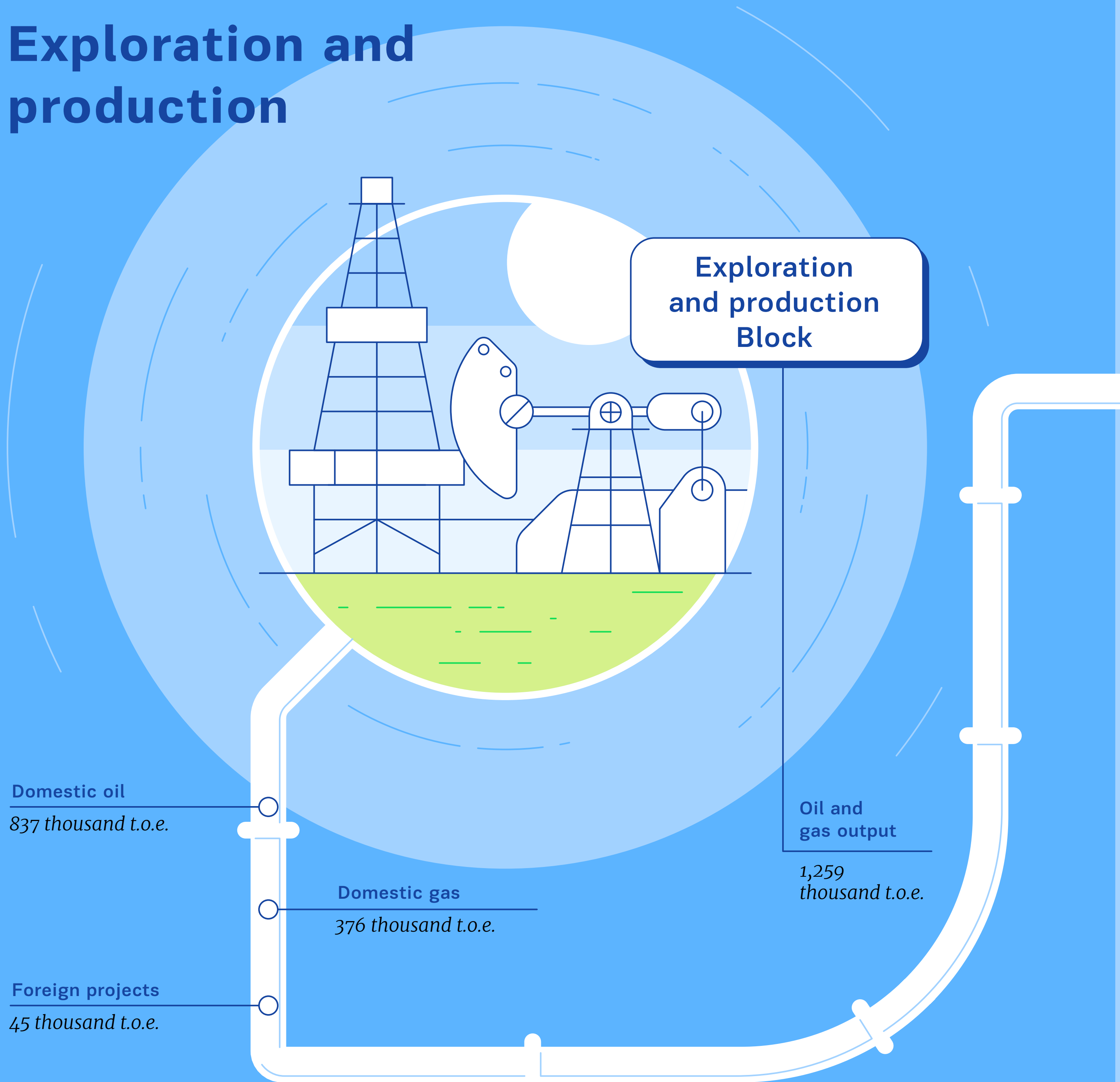
NIS Worldwide

Expanding the business and becoming more competitive on the regional market are NIS' strategic goals. In addition to Serbia, NIS develops its business in neighbouring countries and regional expansion has two main directions – the field of oil and gas exploration and production (in Romania and Bosnia and Herzegovina) and the development of our retail network (in Bosnia and Herzegovina, Bulgaria and Romania). Moreover, NIS is an active trader on the electricity market, where, in addition to Serbia, it is also present on regional markets.

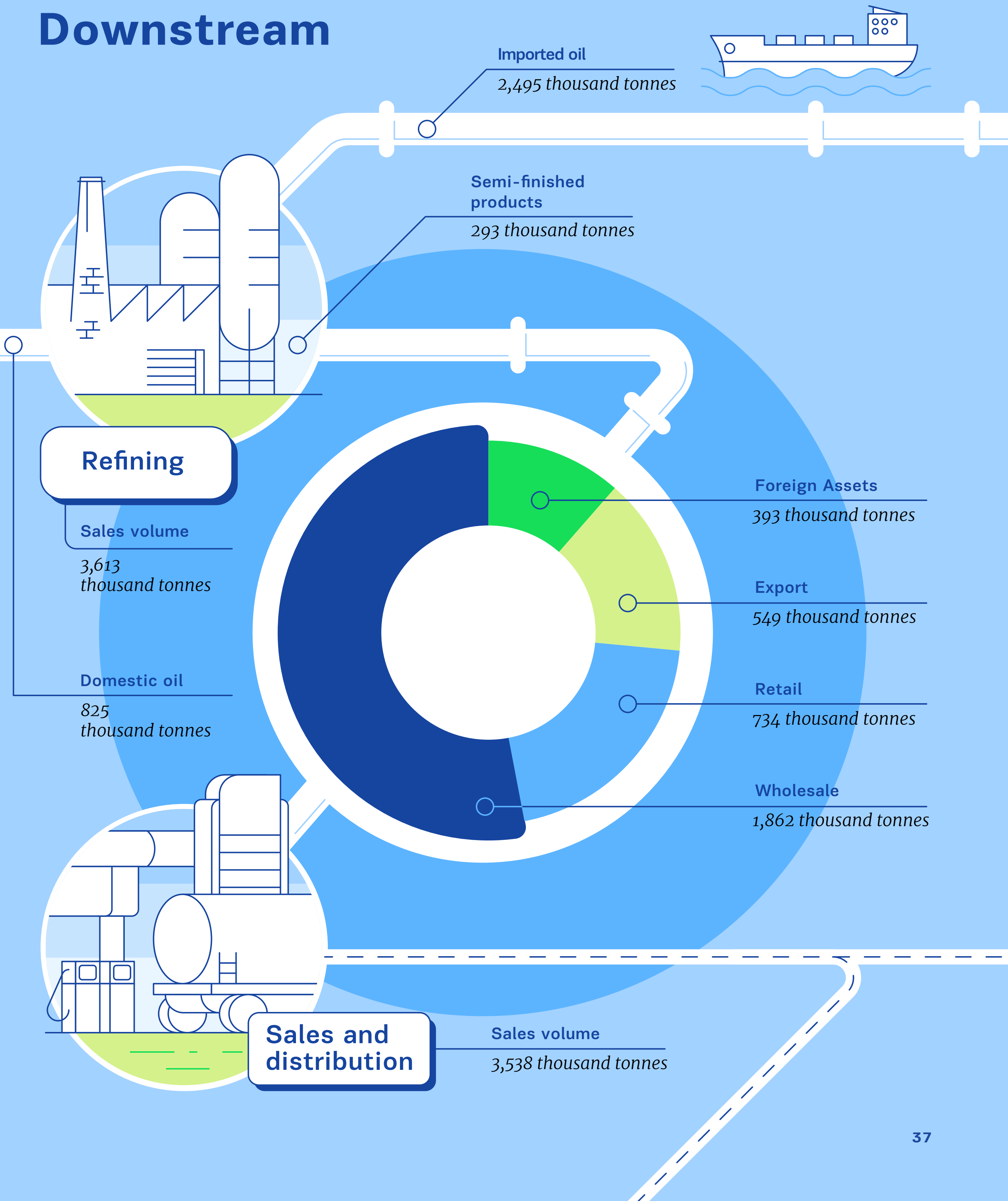
NIS Group's organisational structure is shown on page 41

The oldest NIS concession is in Angola, where oil exploitation began in 1985.

Exploration and production



Downstream



Business Model

Intersegment Pricing

The concept of the intersegment pricing methodology is based on the market principle and the "one product, one transfer price" principle.

The "one product, one transfer price" principle means that the "movement" of a product between different profit centres within NIS is valued at a single price, regardless of between which profit centers the movement involves.

Intersegment prices are used to generate internal revenue between NIS business segments, and are determined to reflect the market position of each business segment.

- The intersegment price for domestic oil is determined using "export parity pricing".
- The intersegment price of natural gas corresponds to the selling price of natural gas at which NIS sells natural gas to PE Srbijagas.
- Intersegment prices of petroleum and natural gas products are defined according to the following principles:
  - combined import-export parity is a principle used for transfer pricing of products with free import to the local market and with a significant share in exports;
  - import parity is a principle used to calculate intersegment prices of products, with free import and with majority of sales in the domestic market;
  - export parity is used for products that are predominantly exported;
  - other petroleum products, i.e. products which due to their characteristics do not belong to any of the previous three groups (combined export-import parity, import parity, export parity), are typically sold to a small number of known buyers, and their selling prices are defined by annual or long-term contracts. They are an alternative to the production of other products or redundancies in production units.

Products and Services

NIS Group has a wide range of products and services.

From the products we single out the following:

- Motor fuels (ED, BMB)
- Bunker fuels
- Liquefied petroleum gases
- Propylene, aromatics, naphtha for pyrolysis
- Bitumen
- Compressed natural gas
- Marine fuel
- Lubricants and oil
- Fuel oils
- Jazak water
- Petroleum coke
- Other products (electricity in Serbia and Romania, sulphur, etc.)

NIS provides services aimed in several directions:

- supply of fuel on petrol stations through two retail brands in the country - NIS Petrol and Gazprom. NIS offers Gazprom fuel cards which provide its customers with fast, easy and secure service of fuel supply and a range of non-fuel products;
- quality testing services during the entire process of oil production and refining and testing the quality of finished products;
- oil and gas exploration and production services;
- transport services;
- storage and logistics services to third parties, with 24/7 security and access control;
- Training of the Science and Technology Centre NIS-Naftagas d.o.o. Novi Sad and projecting services;
- other services.

NIS j.s.c. Novi Sad Organisational Structure

- Representative offices and branches
- Downstream
  - Administrative and documentation support group
  - Project office for realization of new projects DWS
  - Procurement DWS Department
    - Production and commercial operations planning, optimization and analysis department
  - Directorate of Energy
  - Refining Block
    - Production Directorate
    - Technical Directorate
    - Planning, Economics and Control Department
    - Development and Investment Department
    - Refining Block OMS Project office
    - HSE Sector
    - HR Sector
    - Administrative documentation support group
  - Sales Block
    - Commercial activities Directorate
    - Logistics Directorate
    - Retail Directorate
    - Business development Department
    - Sales coordination Department
    - Department for quality and performance control of petrol stations and warehouses
    - Organizational affairs Department
    - Planning, economics and control Department
    - HSE Sector
    - Center for digital transformation
    - Potable water production unit
  - Crude oil Sector
    - Metrology Sector
- Exploration and Production Block
  - Oil and gas production Directorate
  - Planning, economics and control Department
  - Prospective development and project implementation Department
  - Geological exploration and reservoir engineering Department
  - HSE Sector
  - HR Sector
  - Procurement Sector
  - Administrative documentation support Group
- Corporate Center
  - Organisational Affairs
  - Procurement
  - Corporate Security
  - Legal and Corporate Affairs
  - Strategy and Investments
  - Internal Audit and Risk Management
  - HSE
  - Finance, Economics, Planning and Accounting
  - Governmental relations and corporate communications
  - Department for Petrochemical Affairs
- Multifunctional shared service center
  - Accounting and financial services group
  - HR service group
  - Front office
  - Other services

NIS Group Business Structure

Representative Offices and Branch Offices

- *Branch Offices in Serbia **
- *Angola Representative Office*
- *Russian Federation Representative Office*
- *Turkmenistan Branch Office ***

Subsidiaries

- *Naftagas – Technical services LLC Zrenjanin*
- *Naftagas – Oil Services LLC Novi Sad*
- *Naftagas – Transport LLC Novi Sad*
- *STC NIS – Naftagas LLC Novi Sad*
- *NIS Petrol a.d. Belgrade*
  - *NIS MET Energowind LLC Belgrade*
- *NIS Overseas o.o.o. Saint Petersburg*
- *NIS Petrol e.o.o.d. Sofia*
- *NIS Petrol s.r.l. Bucharest*
- *NIS Petrol LLC Banja Luka*
  - *G-Petrol LLC Sarajevo*
- *Pannon Naftagas kft Budapest in liquidation ****
- *Jadran Naftagas LLC Banja Luka *****
- *NIS-Svetlost LLC Bujanovac*

* Under the Law on Tourism of the Republic of Serbia, if hospitality services are not the core activity of a company, then such company is obliged to establish a branch (premises outside its registered seat) and register it accordingly, or otherwise establish an organisational unit that is registered in the Tourism Registry. To this end, the Company registered all petrol stations where it provides hospitality services as separate branches. The list of petrol stations which are registered as branches is available at http://ir.nis.eu/en/corporate-governance/group-structure/.

** The process of liquidation has been initiated.

*** Pannon Naftagas Kft. Budapest was deleted on 14th October 2020 from the court register of business entities.

**** On 31st March 2020, NIS j.s.c. Novi Sad increased its stake in the equity from 66% to 100%.

Mission

By responsible use of natural resources and the state-of-the-art technology, supply the people of the Balkan region with the energy for making progress.

Vision

NIS j.s.c. Novi Sad will be a recognizable leader of the Balkan region in its field of business activity, owing to the dynamics of sustainable development and efficiency increase, by showing a high level of social and environmental responsibility as well as contemporary standards of providing services to the clients.

Values

Responsibility

Our result and safety are my responsibility!
A responsible company and employees who use resources effectively for the common good.

Transparency

Open towards each other!
Only through open and fair communication, we can create a transparent working environment.

Innovativeness

Awaken your curiosity!
We find and support new and consistently better solutions to continually improve ourselves and remain the industry leaders.

Expertise

Knowledge creates our future!
Everything we create is based on our expertise that inspires change throughout the community.

1.04

Strategy

Strategy 2025

In 2017, the Corporate Strategy 2025 was adopted, which will ensure further growth, and profitability for shareholders, employees and the wider community.

The main strategic goals of NIS are:

- To preserve production and resource base growth indicators,
- To increase the depth and efficiency of refining,
- To boost the sales of petroleum products through own sales channels and modernise the retail network,
- To diversify the business by building new electricity generation capacities,
- To optimise operating performance.

Exploration and Production

Most of the investments planned by NIS by 2025 will be allocated for the exploration and production segment. In the upcoming period, NIS expects a slight decline in base oil and gas production compared to the previous period, but this will be compensated by the development of the existing reservoirs, geological exploration in Serbia, further development of the most profitable foreign concessions (primarily in Romania), as well as a steady operational efficiency increase.

Refining

The development of NIS refining through the modernisation of the Oil Refinery in Pančevo and the increase in energy and operational efficiency in this segment is one of the main tasks of NIS by 2025. Construction of the Delayed Coker Unit was completed at the Pancevo Oil Refinery, a project worth over EUR 300 million. The operation of new facilities will contribute to increasing the depth of refining, while the product structure will be diversified and changed in favour of light products.

Information on the status of the Bottom-of-the-Barrel Project is shown on page 6

Operational efficiency programs in all parts of NIS will continue to be a key source of raising the level of business success in the coming period and will remain one of the main strategic goals, considering the complexity of the business environment.

Sales and Distribution

The strategy lays the foundations for the modernisation of the retail network and an increase in its profitability by growing branded fuel sales and developing additional businesses, as well as increasing the efficiency and volume of wholesale and development in foreign sales markets. In the upcoming period, NIS will devote itself to the development and improvement in operating the specialised product business lines – aviation fuels, lubricants and bunker fuels – by raising the level of specialised logistics and improving the quality of products and related services.

Energy

The growth of electricity production and increasing the efficiency of the Energy Block are the main goals of NIS in the energy segment. Key projects in this business segment will be the construction of a new Combined-Cycle Power Plant in Pančevo, further increasing electricity production from small power plants, and significantly increasing electricity trade.

1.05

Risk Management

Integrated Risk Management System

Risk represents a negative impact on the Company's objectives in the case of a risky event occurring. Risk management is a continuous and systematic business process which serves to support management decision-making and the achievement of a Company's objectives in a risk exposed environment.

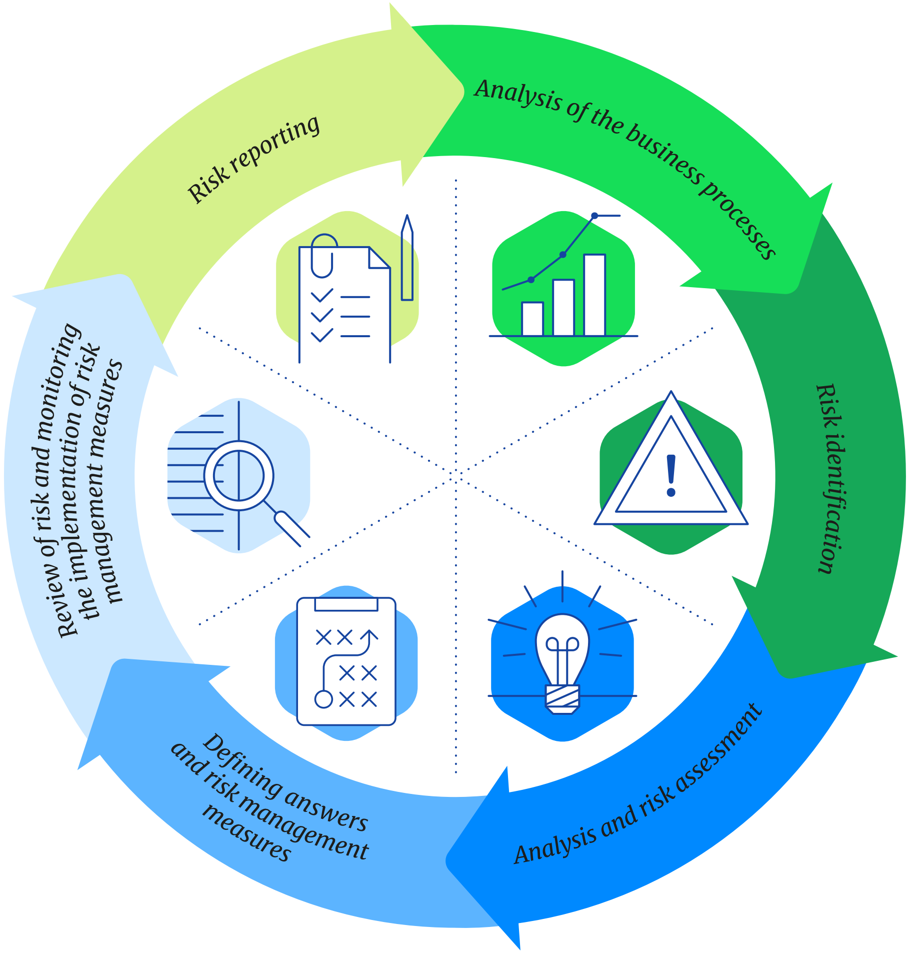
In business, the Company is exposed to certain risks which may affect the fulfilment of set objectives, if realised. The Company acknowledges the existence of risks and makes a sustained effort to manage them in a structured manner. An effective and efficient risk management system is central to ensuring the Company's business continuity and a well-established risk management framework outlines the Company's risk management procedures and lays the groundwork for business decision-making.

Company has defined its risk management objectives and has an integrated risk management system (IRMS) in place. The Company's objective in the field of risk management is to increase the effectiveness and efficiency of managerial decisions by identifying, analysing and assessing risks which arising from those decisions, outlining answers and risk management measures and ensuring the maximum effectiveness and efficiency of risk management during the implementation of decisions.

The IRMS is a set of phases, methodologies and instruments aimed at ensuring the efficiency and effectiveness of NIS's risk management process.

The Company's risk management objectives are achieved through the following tasks:

- establishing a risk management culture in the Company in order to ensure that both the management and employees have a full understanding of the basic risk management principles and approaches;
- defining and establishing a systemic approach to identifying and assessing the risks inherent to the Company's operations, both in general and specific business areas;
- encouraging the exchange of risk information between the corporate organizational units, and the collaboration in the identification that risk management measures and
- providing structured information on risks to the corporate governance bodies.



IRMS Business Process Flow at Company

The basic principle underpinning this system is that the responsibility for managing risks is assigned to risk owners; owners of business processes in the Company. Such an approach ensures that the responsibility for risk management and monitoring is identified for all processes of the Company, and that suitable solutions concerning risks and action plans are prepared in order to manage risks at the level of individual business processes and Company as a whole.

The Company has set up its Section for Risk Management System Monitoring which performs continuous monitoring and control of the risk management process and coordinates and improves this business process.

Risks are identified and assessed by analysing data sources (internal and external databases, key risk indicators), through interviews, risk sessions, etc. They are ranked in line with the Risk Matrix and defined based on risk propensity. Assessment can be carried out using either the quantitative or the qualitative method.

The Company has implemented key risk indicators aimed at early identification of changes and their potential causes which could subsequently lead to Company's failure to achieve its targets. They demonstrate the risk exposure of certain key indicators and defined time period of monitoring.

IRMS in business planning process

The key risks associated with the Company's goals are acknowledged by the Board of Directors through the adoption of business plans. Risk assessment is an integral part of the business planning process, while information on key risks – estimated financial effect of the risks on result of Company, answers and measures, financial resources needed to implement the measures – are incorporated into the adopted business plans.

Through its operations, the Group is exposed to the following risk categories:

Non-financial risks:
- Operational risks,
- Project risks,
- Political risks,
- Strategic risks,
- Compliance risks,
- Reputational risks,
- Legal risks.

Financial risks:
- Credit risks,
- Liquidity risks,
- Commodity-price risks,
- Currency/foreign exchange risks,
- Interest rate risks.

Non-financial risks

Risk Description	Risk Management Measures
Operational Risks	
HSE risks	
Due to the nature of its activity, the Company is exposed to a wide range of health, safety and environmental risks, e.g. drilling incidents, failures in operation of process facilities and accidents in transportation of oil and petroleum products.	The Company continuously monitors working processes, employees, operating facilities, working and environmental conditions with a view to protecting employees, equipment and plants and the environment. In order to fulfil legal obligations the Company also adapts normative and methodological documents in accordance with the changes in legislation of the Republic of Serbia in a timely manner and controls the compliance with it. It carries out timely implementation of corrective measures ordered through the observation system deriving from investigation of HSE incidents, corporate oversight and external inspections. The Company continuously carries out HSE training in the areas of legal regulations, on-the-job training, use of the HSE management system, and emergency response. Campaigns and educational activities, forums and healthy lifestyle training, physical and recreational activities aimed at improving health and well-being of employees were carried out in accordance with the Plan until the declared state of emergency. Due to the state of emergency caused by the COVID-19 pandemic in the country and around the world, a Crisis Team was formed in the Company, as well as emergency preparedness and response teams in the organizational parts of the NIS Group. An Operational Plan for Responding to the COVID-19 Situation as well as a Plan for the Implementation of Measures and Setting of Barriers to Control the Risk of COVID-19 at the Company level were developed and agreed. Due to the COVID-19 pandemic and the crisis scenario statutory health examinations of employees are organized. In accordance with the Decision of the Crisis Staff, the procurement of medical examinations for risk groups of employees was initiated. The implementation of all measures and the health condition of employees who are positive for the virus, as well as their contacts, are monitored daily and it is reported at the meetings of the Crisis Team. NIS Group invests huge funds and efforts in order to protect employees and in combating the consequences of coronavirus.

HR risks

Highly qualified personnel is a key prerequisite of efficient operations of the Company.

The Company is implementing a broad spectrum of activities aimed at attracting and retaining qualified staff. Early recruitment programs (cooperation with educational establishments, scholarships), NIS Calling, Serbia Repatriation are just some of the examples of Company's recruitment effort.

Along with employee motivation program inclusive of management by objectives, quarterly and annual bonuses, bonuses for production and technical units, sales incentives, special and project-based bonuses, continuous implementation and improvement of non-material motivation system and long-term motivation, the Company strives to enhance its image by means of the Employer branding project.

Employee retention programs include Talent management program, Talent development program, professional/specialized courses, management training and introduction of a unique talent management program.

IT Risks

The Company is becoming increasingly aware of the growing dependence of business processes on the quality of IT, automation and telecommunications.

Furthermore, oil and gas industry is considerably exposed to cyber threats.

The Company manages these risks by applying a number of measures including IT security standards, security tools, the monitoring of threat detection, a tracking system and testing of its recovery procedures. Continuous staff training programmes are put in place in order to build awareness of IT risks, whereas the exchange of incident information with management enables continuous learning.

Information security risks

The Company is exposed to business risks emanating from potential violation of integrity, confidentiality and availability of information.

Protection of information at the Company manifests in a variety of activities that, by adequate handling of the information, have a positive impact on performance by maintaining continuity of business processes and minimising business risks.

The Company's system of information protection is a comprehensive array of rules prescribed by executive and normative-methodological documents, suitable organisational and technical solutions and activities aimed at implementation and control of security measures.

Project risks

A consistent and clear risk management process has been established within the NIS Group for the implementation of investment projects, which is fully aligned with PMI (Project Management Institute) standards. Effective project risk management is reflected by the increase of the probability and impact of positive events, that is, by reducing the likelihood and impact of negative events on the projects, which also enables creating more realistic project management plans and increases the certainty of achieving set project objectives. The five dominant project risks that the teams who implement investment projects in NIS Inc. come across are: compliance with the planned deadlines for equipment delivery, objectivity of meeting the planned deadlines for the execution of field works, ensuring adequate competitiveness in the process of procuring goods and services, the risk of the occurrence of subsequent and additional works (expanding the scope of the projects) and risk in securing the conditions necessary for the realisation of the project (e.g. timeliness of obtaining the necessary permits and approvals, ensuring technical and technological conditions for the implementation of project activities, such as coordination of the suspension of technological systems with the deadlines for project realisation).

A detailed risk management plan is developed within the planning and preparation phase for each investment project. Special attention is paid to identification of risks that are of interest to a particular investment project, analysis of identified risks (qualitative and quantitative analysis), planning of a "response strategy", that is, adequate measures (by defining preventive activities, contingency (corrective) plans and backup action plans), determination of the level of tolerance to identified risks, as well as defining responsible people for the implementation of these measures and people for the review of project risks on a regular basis. All of the above is combined into a Project Risk Register. Furthermore, during the realisation of the project itself the emphasis is on the continuous control/review of project risks, updating the Risk Register and effective monitoring of the project, both within the project team itself and through quarterly report to investment committees at the Block level, on a regular basis. Of particular interest is also the continuous consideration of the influence of current project risks on approved project parameters throughout the project life. The implementation of the above mentioned concept of project risk management, ensures timely identification/detection of potential deviations in project performance, which initiate the implementation of predefined measures (from the "response strategy") and returning the project to the „planned progress line" that ensures the achievement of predicted efficiency, set project and business goals, crucial KPI indicators, as well as investment performance indicators (RIP and OID indicators). These two investment performance indicators (RIP and OID) are included in the production contract of NIS Inc. through the management by objectives process (MBO system), as well as in all production contracts of the Blocks, which significantly contributes to the high degree of fulfilment/realisation of rather demanding investment plans within the Company's Business Plans.

Political risks	
Risk of EU and US Economic Restrictions on Gazprom Neft Group	
As a result of the introduction of EU-US economic restrictive measures, Gazprom Neft Group faces limited opportunities for long-term borrowing with commercial banks belonging to banking groups headquartered in the EU and the US. In addition, the Company is also exposed to the indirect consequences of sanctions, that is, the potential inability to obtain materials, equipment and services from foreign suppliers.	The Company performs continual analysis of possible political and economic risks and evaluates the consequences for the Company. In line with permitted exemption from the sanctions (long-term loans are possible only if intended for funding the import of goods and services from the EU), the Company's operations are continuously being adjusted by increasing the volume of imported goods and services from EU suppliers. In this way, funds are provided for financing the Company's long-term development despite the limitations of the sanctions regime. In order to manage the risk, the Company creates strategic stocks for key material and technical resources, identifies alternative suppliers in relation to existing ones and considers alternative technologies that are responsible for meeting the Company's objectives.

Financial risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Credit Risks	
It occurs in cash funds, deposits with banks and financial institutions, intercompany loans/loans to third parties, as well as in the sale of oil derivatives with deferred payment.	Credit risk management is established at the level of the NIS Group. With respect to credit limits, banks are ranked according to adopted methodologies applicable to major and other banks, in order to determine the maximum extent of bank exposure of the Company at any given time (through deposits, documentary instruments: bank guarantees, Letters of Credit, etc. issued for the benefit of NIS j.s.c. Novi Sad). With regard to accounts receivable, there is a credit limit methodology in place which serves to define the level of exposure in relation to individual customers, depending on their financial indicators.

Liquidity risk	
Liquidity risk denotes a risk of NIS Group encountering difficulty in meeting its due liabilities. It is the risk of not having suitable funds to finance the NIS Group's business operations.	NIS Group continually monitors liquidity in order to provide sufficient cash to meet its operational, investment and financial performance requirements. To this end, the Group continually contracts and secures sufficient lines of credit and security instruments, ensuring that the maximum loan debt level is not exceeded (the parent company sets the limit) and that all its obligations under commercial bank arrangements (covenants) are met. Since mid-September 2014, the Company has been exposed to the risk of limited external funding due to the sectoral sanctions imposed by the EU and the US on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU. The sanctions prevent the Company from borrowing from EU or US banks for a period longer than 30 days. The exemption from the EU sanctions includes for a period longer than 30 days from EU banks exclusively if the loan is intended for the payment of non-sanctioned goods and services imported from the EU. In order to secure the necessary funds for future transactions, in the previous 2 years, NIS negotiated/contracted over EUR 700 million in new lines of credit with Serbian, Russian and Arabian banks for general purpose funding and with Serbia-based European banks for funding imports from the EU (financing for a period longer than 30 days is allowed if the funds are used to import goods or services from the EU). Thus, in order to improve its loan portfolio, NIS secured the necessary funds for timely repayment of loans in 2019 and 2020, as well as for early repayment of expensive loans in order to improve the characteristics of the loan portfolio (reducing the average financing cost and maintaining optimum average portfolio maturity). By improving its portfolio and restructuring the loan portfolio, NIS has reduced the mandatory loan repayments for the next four years, and redirected the cash flow towards the implementation of planned investments and the regular operation of the Company. Moreover, in order to further improve its loan portfolio and secure additional lines of funding in 2020 and 2021, the Company held a call for proposals in Q1 2020 and improved the conditions (interest rate reduction and/or extension of maturity) for loans in the total amount of EUR 221.7 million, and secured new credit lines of credit under favourable terms in the amount of about EUR 226.5 million for loans (of which EUR 102.2 million for import from the EU and EUR 124.3 million for general corporate purposes from non-sanctioned banks) for short-term and long-term financing in EUR and RSD. These sources of funding ensured early repayment of unfavourable loans and decreased the average portfolio cost in comparison to the end of 2019. In addition, this ensured that the remaining average credit portfolio maturity was at the level of over 3 years at the end of 2020. In the second and third quarter of 2020, the Company was exposed risks related to the oil price drop, state of emergency in the Republic of Serbia, and drastically reduced liquidity as the effect of Covid-19 pandemic on businesses. On account of active measures such as: development of different liquidity forecast scenarios,

actual decrease in liabilities, a prolonged payment term for obligations, drawing short-term RSD credits from commercial banks that do not apply the sanctions – the Company not only managed to secure sufficient liquidity to maintain the stability of the financial flow, while keeping the level of bank debt within the set limits, but also to return the level of debt to banks by the end of 2020 to the maximum level envisaged by the business plan.

Commodity-price Risks

Due to its core activity, NIS Group is exposed to risks associated with price volatility, specifically the price of crude oil and petroleum products that affects the value of inventories and the oil refining margin, which in turn affects future cash flows.

These risks are partly offset by adjusting petroleum product selling prices to the changes in oil and petroleum product prices. The need to use some commodity hedging instruments in the Group's subsidiaries, including NIS j.s.c. Novi Sad as a subsidiary, is at the discretion of Gazprom Neft Group.

In addition, the following actions are undertaken to reduce a potentially negative effects of this risk on the financial result of the Company:

- annual planning based on multiple scenarios, planned follow-up and timely adjustment of operating plans for crude oil procurement;
- regular sessions of NIS j.s.c. Novi Sad Committee in charge of crude oil purchase/sale to discuss all major topics related to crude oil purchase and sale (sale of oil from Angola-Palanca crude oil);
- entering into long-term crude oil purchase contracts at the most favourable commercial terms with longer payment terms on an open account basis, and with sales contracts which would exempt NIS j.s.c. Novi Sad, in line with current intergovernmental agreements, from paying customs duties for imports, based on preferential status;
- expansion of the supplier portfolio, successful cooperation with EU-based companies, stronger competitive advantage in import tenders and more prominent progress regarding purchase prices;
- expansion/diversification of the crude oil basket for prospective import and provision of samples of the crude oil types that have not been used for processing at the Pančevo Oil Refinery;
- constant efforts to optimize processes and achieve the optimum economic effects and indicators;
- occasional benchmarking to survey the market and price trends and to analyze the commercial capacities of major prospective suppliers of crude oil, reputable companies which are dominant and reliable in crude oil trading.

Foreign Exchange Risks

Company operates in an international setting and is thus exposed to the risk of fluctuating foreign exchange rates arising from business transactions being made in different currencies, primarily EUR and USD. The risk involves future trade transactions and recognised assets and liabilities.

The risks relating to fluctuations in the national currency against the US dollar and the impact of this factor on the prices of petroleum products is partly neutralised through the natural hedging of petroleum product selling prices, which are adjusted to these fluctuations. Risk management instruments are also used, such as forward transactions on the foreign exchange market, which help reduce the impact of foreign currency losses in the event of depreciation of the national currency against the EUR (*following the imposition of sanction constraints Company pays the majority of its foreign currency liabilities in this currency*). Other measures include the balancing of the foreign exchange equilibrium in terms of adjusting the currencies in which export transactions are denominated to the currencies of foreign exchange liabilities; managing the currency structure of the loan portfolio, etc.

Interest Rate Risks

The Company is exposed to the risk of interest rate volatility, both in terms of its bank loans and deposits.

The Company takes out loans with commercial banks at either floating or fixed interest rates, depending on the forecasts of base interest rates in the monetary market and the business banks' capability to offer fixed interest rates for loans. Funds in the form of intercompany loans to third parties are taken out at floating or fixed interest rates, whereas funds deposited as term or demand deposits are mostly placed at flat interest rates. Deposits are aligned with the credit limit methodologies of commercial banks (funds are reciprocally placed only with major commercial banks from which Company takes out loans and/or lines of credit/security instruments). In this respect, revenues and cash flows from bank deposits and a section of intercompany loans are predominantly independent of any changes in base interest rates. In this respect, income and cash flows from bank deposits and intercompany loans do not largely depend on changes in base interest rates, while liabilities towards the banks and intercompany liabilities contracted at variable interest rates depend on changes in base interest rates.

In order to reduce the uncertainties associated with interest rate risk, when collecting offers from banks for financing, the Company insists on collecting offers with fixed interest rates in order to compare interest rates with variable and fixed interest rates and make a selection in accordance with the current policy on interest rate related expenditure management. In addition, the analysis of interest rate movements in the financial market is continuously being carried out, as well as analysis of restrictions and possibilities of using interest rate hedging instruments (interest rate swaps, options, etc.).

WE CONTINUE to develop

Even in the most difficult times, the successful ones continue to move forward.

Despite the unfavourable circumstances, in 2020 we put into operation the Bottom of the Barrel plant in the Oil Refinery in Pančevo and started a new phase in the development of NIS and the oil sector of Serbia.

We demonstrated perseverance and persistence to implement the most demanding projects. We set aside RSD

25.3

billion for capital investments in the year behind us, and we will continue with the further modernization of the company. Development is the only possible future for NIS.

1.06

Business Environment

World[1]

The year 2020 will be largely remembered as the year that put the economy on hold, blocked all travel, and locked millions of people in their homes. For the petroleum industry, this was the year when supply of crude oil exceeded the demand to the point when underground storages were full and petroleum products had to be stored in tankers in vessels around the world.

In order to stop the oil price decline and relieve the load on storage capacities, OPEC+ countries had to cut down production several times throughout the year and adopt a more rigid production control approach. As a reaction to the new wave of lockdowns at the end of 2020, DOC member countries agreed an additional production cut starting from January, 2021, with a plan to convene on a monthly level to review the market conditions and adjust production accordingly.

1 Source: EIA, OPEC, Oil&Gas Journal, IHS, Wood Mackenzie.

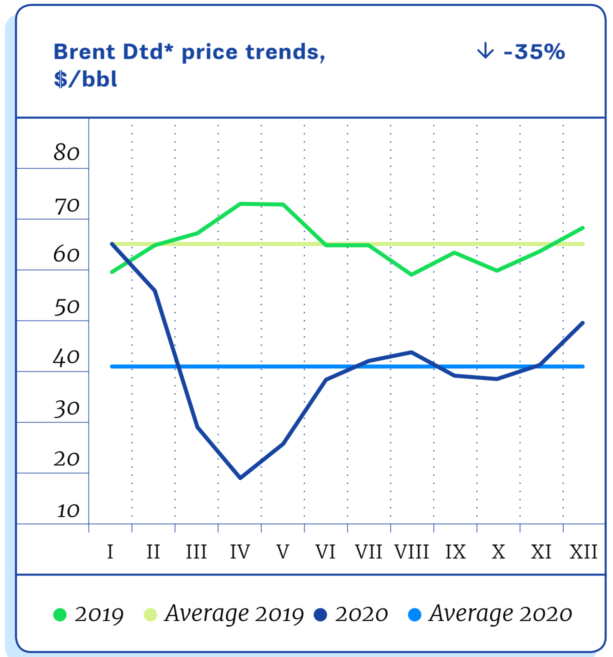
According to the EIA forecast, in 2021, the global daily consumption will increase after the dramatic 2020 drop of 8.8 million barrels per day from the record level of 100.6 million barrel per day in 2019. Daily oil production dropped by 6.6 million barrel in 2020, and is expected to grow and reach 95.9 million barrel per day in 2021. Refinery volume is also expected to grow by 4.5 million barrels per day, after falling by 7.3 million barrels per day in 2020. In November 2020, the refining volume already showed a dramatic growth of 2.6, which is the fastest monthly increase in the last seven years.

Apart from the success of the vaccination campaigns, other factors that influence the global demand are fiscal incentives, settling of the political unrest caused by Brexit and the US elections, discipline of the OPEC+ countries, as well as further decline of the US shale oil production.

Oil

The COVID-19 pandemic "crushed" the demand for crude oil and condensate in 2020 creating enormous surplus supply and filling stocks and storage capacities to the maximum. Low demand forced producers to cut production to maintain prices at somewhat profitable levels.

Average production ranged between 83.5 and 69.9 million barrels per day. Lack of demand and low oil prices caused bankruptcies of numerous small producers. Producers in the USA and Canada faced significant problems due to the prices of shale production, where over 40% of producers filed for bankruptcy. Although the supply of crude oil and condensate will continue to exceed the demand in Q1 2021, Rystad Energy expects that vaccination campaigns will contribute to rapid demand recovery. According to the latest balances of this research and analysis company, 2021 could offer producers the recovery opportunity be-



* Source: Platts.

cause monthly supply deficits can reach the highest level in the last couple of years.

Average quotation price per barrel of Brent crude oil of 41.7 USD was almost 35% lower than in 2019, while the price itself fluctuated from 69.9 to as low as 13.24 USD/bbl. The lowest price was recorded in April when the average Brent price was 18.5. The lowest price of this crude of 13.24 USD was, however, much higher than the price of the American light oil, WTI. Namely, 20 April will go down in history as "Black Monday" for WTI. For the first time ever, the price of this oil for May deliveries fell below 0 USD/bbl during trading (at one point the offer was recorded below -40 USD/bbl), and the day ended with the oil price of -37.63 USD/bbl.

In 2021, the average oil price is expected in the range from 50 to 60 USD/bbl, with all analysts stating that the real picture will be available only in Q2 when vaccination begins across the globe.

Macroeconomic Trends

The global collapse of all business activity caused by the COVID-19 pandemic had the most dramatic influence on women, youth, the financially disadvantaged, those without formal employment, and those working in high-contact industries. According to the International Labor Organization, at least 225 million workplaces closed in 2020, which is four times more than during the global financial crisis of 2008. Oxfam, and international non-profit organizations focusing on the alleviation of global poverty, believes that even though the 1,000 world's richest people will be able to make up for their losses within months after the pandemic, it will take decades for the world's poorest to recover. Global leaders are calling for a Great Reset, claiming that the pandemic has shown that the existing systems no longer meet the modern-day needs. Director of the IMF claims that if the capitalism does not manage to bring people of the world closer, there will be no winners after the current crisis. The pandemic deepened the gap between the rich and the poor and showed that global cooperation was not able to raise to the challenge of 2020.

IMF's yearly report published in early 2021 states that the common growth rate in 2020 reduced by 3.5%. Developed countries showed a bigger GDP drop than the developing ones (-4.6% vs. -2.4%). In 2021, the economy will grow by 5.5% globally, with the recovery rate varying greatly between countries depending on the healthcare policies, political support and other factors. However, the recovery has barely started when new outbreaks in the last quarter of 2020 caused new restrictions and returned the most affected economies into recession. Vaccination efforts give hope that the restrictions will be partially lifted in the second half of 2021. However, vaccination is not a cure, so social distancing, testing and self-isolation will have to remain a reality for some time, before at least 70 to 80% of the population is covered and the spread of infection is controlled.

Serbia[2]

The impacts of COVID-19 on the macroeconomic situation in the Republic of Serbia in 2020 are numerous but the interrupted continuity of GDP growth can be considered a key negative impact. Following many years of weak indicators, in 2018 and 2019 a significant economic growth of 4% was achieved and relatively stable continuity was established; regretfully, the positive development which would ensure improved living standards for people was interrupted. In order to see an overall COVID-19-triggered damage, it is necessary to wait for the end of the health crisis, which in the best case, according to numerous international experts, is expected in late 2021 when the pandemic should be over.

The National Bank of Serbia believes that the COVID-19 epidemic and the global slowdown had a less significant effect in Serbia than in other European countries due to previously achieved macroeconomic and financial stability, created fiscal space, a comprehensive package of measures, as well as the structure of economy. According to the preliminary estimate, in 2020 Serbia recorded a decline in GDP of -1.1%, while the seasonally adjusted GDP will remain at the level of Q3 (-1.4%).

In December, inflation in Serbia was 1.3%, while the average year-on-year inflation in 2020 was 1.6%. The inflation dynamics during 2020 was driven by the prices of fruits and vegetables, as well as petroleum products. In the forthcoming period disinflationary pressures are expected to prevail originating primarily from the drop in domestic demand, excellent ag-

2 Source: NBS, Statistical Office of the Republic of Serbia, magazine Danas, International Monetary Fund.

ricultural season in 2020 and low import inflation, while the disinflationary effect of the drop in world oil prices in the previous period will gradually disappear. In 2021, IMF projects average inflation at the level of 1.9% and its gradual advance towards the central target value in the medium term.

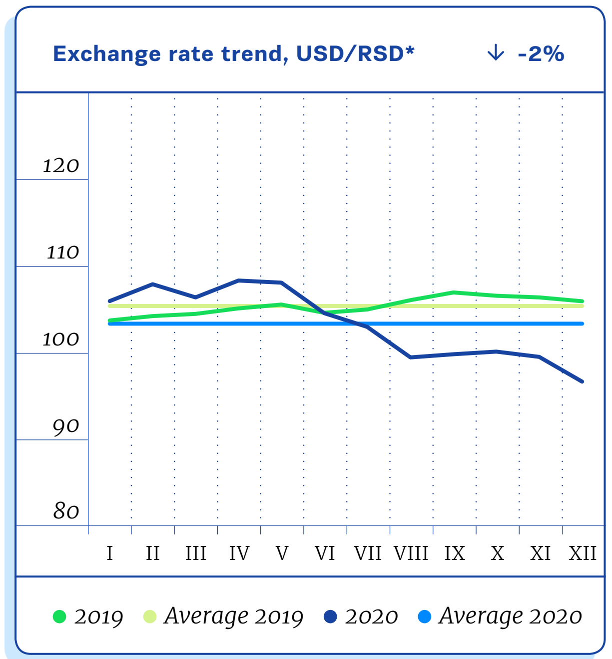
Exports remained relatively resilient owing to increased production and geographical diversification and activation of export-oriented investments. The recovery of imports will continue to be slower due to a combined effect of the lower domestic demand and energy prices. The largest reduction in imports is expected in energy and other industrial inputs, as well as in imports of services. The fall in prices will have additional delayed effect on the lower import price of gas during 2021.

The value of the dinar against the euro remained almost unchanged in 2020, with NBS being a chief contributor by providing the banks with the required currency liquidity under conditions of reduced currency supply and effective foreign currency. In January 2021, NBS reference interest rate was maintained at 1.0%, the lowest level in the inflation targeting regime.

The unemployment rate was maintained at a one-digit level (9.0%), with the recorded growth of the participation and employment rate, mostly due to the employment growth in the formal segment of the labour market (+2.0% between January and November 2020).

The growth of gross salaries between January and October 2020 compared with the same period last year amounted to 9.4% in nominal terms, i.e. 7.6% in actual terms. At the same time, net salaries increased by 9.3% in nominal terms and by 7.6% in actual terms. Salaries increased both in the private (8.8%) and public sector (10.9%) during the same period. The largest growth from the start of 2020 was recorded in IT and healthcare.

The Fiscal Council has pointed out the need to increase budget allocations for environmental protection and utilities infrastructure. Even though the positive impact of environmental investments is often overlooked, recent IMF studies indicate the great importance of these investments for economic growth in the short and medium term. The economic significance of environmental investments also exists in the long run since improvement of health of the population reinforces the human resources essential for a long-term economic growth.



* Source: NBS.

- Average USD/RSD exchange rate in 2020 was lower by RSD 2.1, i.e. 2% compared to the average exchange rate in the same period of 2019.
- In 2020, USD/RSD exchange rate increased by RSD 5.0 or 4.7%.
- During 2019, USD/RSD exchange rate rose by RSD 1.53 or 1%.

Legislative Changes

The extremely reduced activities of state authorities in passing legislation in 2020 was the result of the COVID-19 pandemic and parliamentary elections. In order to address the present circumstances arisen due to pandemic, especially in the second and third quarters, all adopted regulations were focused on measures to prevent the spread of the virus as well as to help and support the economy. In the last quarter, after the new Parliament was called and sworn in office and the new Government was elected, the legislative activity picked up pace towards improving the regulations aimed at protecting the general population against infectious diseases, fiscal and public property regulations. During 2020, the National Assembly adopted the following laws that have an impact on our company's operations: the Law on Archival Records and Archiving, the Law on Trademarks, the Law on Amendments to the Law on Inland Navigation and Ports, the Law on Amendments to the Law on Planning and Construction, the Law on Amendments to the Law on Procedure for Registration Properties and Installations, the Law on Amendments to the Law on Tax Procedure and Tax Administration, the Law on Amendments to the Law on Administrative Fees of the Republic of Serbia, the Law on Amendments to the Law on Property Taxes.

Of particular importance is the adoption of the Law on Fiscalisation, which for the first time regulates the issuance of electronic fiscal receipts in the Republic of Serbia, the payments against the QR code, as well as the possibility for the Tax Administration to carry out real-time monitoring of data about issued fiscal receipts, which shall further contribute to curbing the shadow economy.

In 2020, all by-laws which were adopted and of importance for the Company's operations regulate the management of crisis caused by the COVID-19 pandemic and cover the areas ranging from measures to protect the general population from a viral infection, measures regulating labour matters as well as financial and other measures aimed at supporting and helping the survival of the economy and agriculture, all with the intention to mitigate adverse consequences of the newly arisen situation.

The regulations that were discussed publicly or submitted to the company for review and suggestions were analysed by NIS in detail, and relevant comments and suggestions for improvement thereof were supplied in return.

NIS shall continue its efforts to give its utmost contribution to improving the positive business environment in Serbia, and in particular, raising awareness of the importance of ensuring harmony between the regulations and strategies in order to facilitate their unhindered and full implementation.

The year 2020 will be largely remembered as the year that put the economy on hold, blocked all travel, and locked millions of people in their homes. For the petroleum industry, this was the year when supply of crude oil exceeded the demand to the point when underground storages were full and petroleum products had to be stored in tankers in vessels around the world.

1.07
Performance Analysis

Market Share[1]

Consumption of motor fuels in all countries is declining.

The negative effects of the pandemic are the main reason for the decline in motor fuel consumption.

After easing the measures at the end of the summer, consumption began to recover slightly, and at the end of the year, the second wave caused a drop in consumption again.

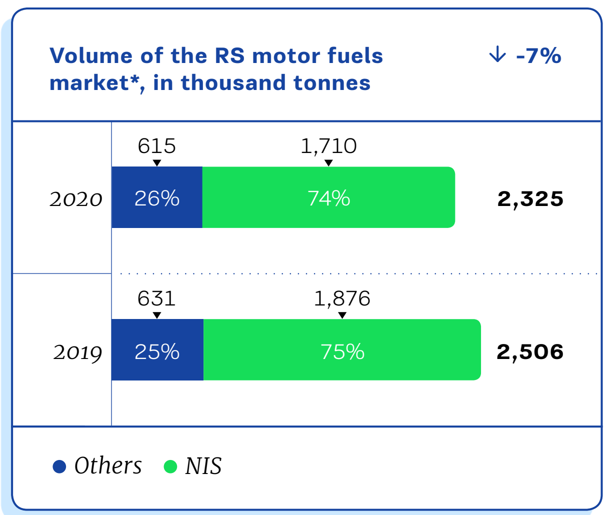
Market Share in the Serbian Market

The negative effect of the pandemic is the main cause of lower consumption of the overall market of petroleum products in Serbia.

Speculative stocks made by certain economic entities and end users during the period of low prices (predominantly in May, June and later in December) have a slightly higher share of imported goods in the structure, which led to a decrease in participation of motor fuels for the period.

There are also stocks of importers resulting from imbalances in production and demand for products in the region, where refineries produced larger quantities of derivatives to maintain optimal refining, while quarantine was introduced in the second wave and surpluses were delivered to warehouses of their subsidiaries in the region, including Serbia as well. These stocks will be predominantly in use during the first quarter of 2021, and they are excluded from consumption for 2020 in the calculation.

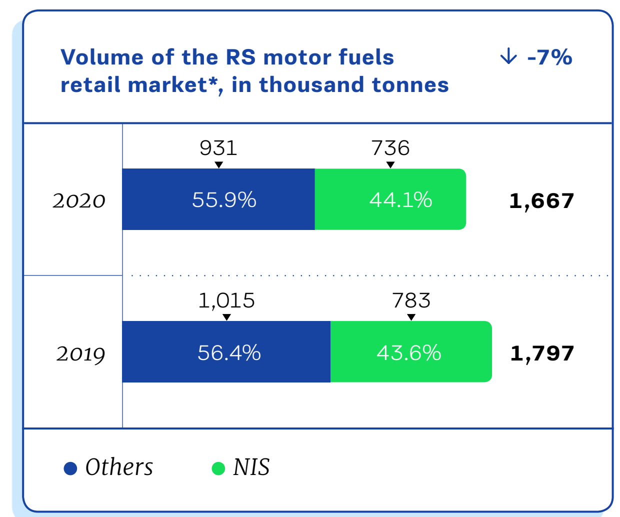
Due to the pandemic, the retail market in the first twelve months recorded a decline of 7% compared to the same period last year.



* *Data for 2020 are given on the basis of estimates. Any deviations in percentages and aggregate values result from rounding.*

1 Data sources for the projections: for Serbia – Sales and Distribution Block's internal analyzes and estimates; for consumption estimates for Bulgaria and Romania– PFC and Eurostat; for Bosnia-Herzegovina – PFC and internal estimates.

NIS's market share noted the increase by 0.5 percentage points, which is due to the growth of participation in all three segments - diesel, gasoline and LPG. Network upgrade, innovative marketing solutions and an improved product portfolio have contributed to this.



* *The sales of NIS and other competitors include motor fuels (auto-gas, CNG – motor fuel, motor gasoline and diesel). LPG cylinders are not included. Data for 2020 are given on the basis of estimates. Any deviations in percentages and aggregate values result from rounding.*

Market Share in Bosnia and Herzegovina, Bulgaria and Romania

Bosnia and Herzegovina

The terminals of the Federation of Bosnia and Herzegovina have opened a newly built terminal of liquid petroleum products in Živinice, which is the beginning of the renewal of oil and petroleum products' mandatory reserves. The first phase of works at the terminal in Živinice has been completed - the terminal now has a volume of six million litres, and by the end of the year, it should be completed in full and thus it will be able to store about 46 million litres.

The operator - Terminals of the Federation, has announced a public call for the reconstruction of the terminal of liquid petroleum fuels in Bihać. The value of the works is estimated to be 9.7 million KM.

Existing standards for assessing the quality of petroleum products at petrol stations in Bosnia and Herzegovina are outdated and must be changed due to the conditions of the European Energy Community (EEC). The EEC has been asked to adopt a new Decision on the quality of liquid petroleum fuels, which is a condition for concluding negotiations for the accession to the World Trade Organization.

Solar power plant with 2,724 solar panels has been installed and put into operation at the Brod Oil Refinery, and has produced the first kilowatts of electricity. The minimum expected production of electricity is 1,050 MWh per year, so the Refinery will save 100,000 KM annually. The value of the investment is around 2 million KM.

After six years, raw material is again delivered by rail to the Modriča Oil Refinery. The Modrica Oil Refinery has received financial support for the procurement, from the parent company in Russia, which enabled the continuity of its operation until the end of 2020.

Hifa Petrol is the operator of one of the most important private networks of petrol stations, which, since recently, has owned 45 points of sale. In 2020 alone, five petrol stations were opened: in Bihać, Srebrenik, Živinice, Derventa and Livno.

The Energy Regulatory Commission of the Federation of B&H (FERK) has adopted a Decision on the permanent revocation of the operating permit (license) for the wholesale of petroleum products other than LPG, to the licensee - Energopetrol d.o.o. Sarajevo. This Decision has not been explained.

The Government of the Federation of B&H passed the Decree on prescribing the measure of direct price control by determining margins in the trade of petroleum products. The Decree determines the existence of conditions for prescribing measures of direct price control in such a way that for wholesalers of petroleum products a maximum wholesale margin of 0.06 KM per litre of derivatives is set, while for retailers of petroleum products a maximum retail margin is set in the amount of 0.25 KM per litre of derivatives. The measure was in force from April 9 to July 30, 2020.

Due to the coronavirus epidemic and the implementation of measures to prevent the spread of coronavirus in Bosnia and Herzegovina, there was a significant decline in fuel consumption as well as a decline in retail sales in 2020 compared to the previous year.

NIS in Bosnia and Herzegovina has 40 petrol stations (and 2 petrol stations in DODO operation mode), and in the third quarter, it opened 5 petrol stations[1] on the territory of B-H (Prnjavor, Grude, Veljaci, Gabela, Doljani).

The market share of NIS in the total motor fuel market is 24.5%, while its share in the retail market is 10.3%.

Bulgaria

Bulgaria has adopted the Fuels Act, a document that seeks to guarantee market competition, limiting the grey sector and increasing the state budget revenues. The level of minimum equity of wholesale companies is prescribed in the amount of 1% of the company's net income. Banning penalties for petrol stations and fuel depots are threatened if they sell illegal fuel, and the tanks that transport it will be excluded from traffic for a year. Farmers are also subject to sanctions if they trade in fuel without proper registration for that activity.

The Bulgarian parliament has adopted amendments to the Law on State Reserves and Wartime Stocks, creating a new State-owned Oil Company, which should maintain oil and derivative reserves and manage the country's petrol station network. The new company will take over the warehouses of the State Reserve Agency and manage the required reserves of the state in accordance with the requirements of the European Union. The company will not be commercial, but it will be entitled to establish commercial subsidiaries. One such subsidiary is expected to be a company that will manage petrol stations on major roads and highways. It is planned to open about 100 petrol stations across Bulgaria in the next year. Those stations would also have the infrastructure to charge electric vehicles, in line with Bulgaria's environmental protection strategy. The impact of the state owned petrol station network on the retail market is controversial, given that Bulgaria is estimated to have more than 3,000 petrol stations in operation. According to the Ministry of Finance, the state petrol stations will offer the lowest price, which will improve the competition on the market. The state-owned oil company should also provide fuel storage options for smaller companies, and private storage facilities will have to make excess capacity available to third parties or face fines.

The Bulgarian Commission for the Protection of Competition has launched an investigation against the Lukoil refinery in Burgas (Lukoil Neftochim Burgas), suspecting unfair competition allegedly conducted by this company and selling gasoline and diesel to distributors at unjustifiably high prices in relation to current crude oil prices in the world. The regulator says it will inspect the entire processing, storage, wholesale and retail chain of Lukoil Bulgaria as a whole, as well as all other fuel distribution networks in the country.

Shell Bulgaria company has sought approval from the Bulgarian Commission for Protection of Competition to buy four petrol stations currently operating under its brand, which are owned by Litex Commerce.

Due to the coronavirus epidemic in Bulgaria and the epidemiological measures taken, which included quarantine and movement restriction, as well as in all neighbouring countries, a decrease in the turnover of motor fuels and a decrease in the turnover on the retail market was recorded.

1 PSs leased and put into operation.

NIS owns 34 gas stations in Bulgaria and also a petroleum products warehouse in Kostin Brod. NIS's market share in the total motor fuel market is 4.4%, while its share in the retail market is 3.9%.

Romania

After the reduction of excise duties from the 1 January 2020, Romania became the country with the lowest fuel prices in the entire European Union, according to official statistics. The reduction of excise duties by 32 bans (6.5 eurocents) per litre (including VAT), was fully reflected in the prices of fuel at petrol stations, the Competition Council concluded, after the monitoring conducted by Price Monitoring.

Romanian draft law on the sale of agricultural land establishes new conditions and affects the oil industry, as it stipulates that agricultural land is sold only to those companies and individuals that have been engaged in agricultural activities in the last 5 years. The Romanian Association of Oil Companies, ROPEPCA, demands the review of the law because it prevents investments in energy production and development projects - oil companies will neither be able to procure or lease land for oil operations, nor to respect concession agreements they have signed with the Romanian Government.

Romania's Parliament has adopted a legislative proposal that affects about 1,000 diesel wholesalers, since it requires special warehouses, which require a certificate, and this indirectly affects farmers who are supplied by them. The Government and the Competition Council rejected the law, estimating that it would disrupt the diesel wholesale market. Representatives of the Romanian Farmers' Club believe that agriculture in Romania will be affected as the law eliminates more than 980 companies that resell petroleum products. Romania's Constitutional Court has declared the law requiring companies that sell fuel to have storage facilities -unconstitutional.

Rompetrol Rafinare has implemented a state-of-the-art $4.6 million LPG recovery system at the Petromidia refinery, which improves production and significantly reduces sulphur-dioxide emissions. It is a part of the company's strategy to modernize the operational processes at the Petromidia Navodari and Vega Ploiesti refineries and to support the strategic direction of environmental protection and reducing the impact on local communities.

Negotiations on the sale of the Arpechim Pitesti refinery have failed and its dismantling and demolition will be carried out. The refinery stopped production in March 2011 due to inefficiency, outdated technology, its absence of access to the sea and the need for large investments.

OMV Petrom plans to build a second-generation bioethanol plant in the Prahova district, where it has oil wells and the Petrobrazi refinery. OMV Petrom has submitted a EUR 245 million project to the Ministry of Economy and Energy to receive a 35% subsidy, as it meets the conditions for EU funding.

In the last 2 years, OMV Petrom invested EUR 21 million in the modernisation of the Petrobrazi refinery and the expansion of the capacity for mixing bio-components into fuels from 200 kt to 350 kt of biofuels per year. According to EU regulations, the content of renewable energy in transport fuels must increase from 10% in 2020 to 14% in 2030.

OMV Petrom and Auchan Retail Romania opened the first modernised station in the Petrom network, with the MyAuchan store, thus beginning the integration of these stores into Petrom petrol stations. Over 50 million euros will be invested in the project for the inside and outside modernisation of about 400 petrol stations between 2021 and 2024.

During the state of emergency in Romania, the Military Ordinance No. 4 was issued, which determined the upper limit of prices of certain products and services during the state of emergency. It included the fuels whose prices can no longer be increased above the level applicable on the day of the promulgation of this military regulation. The prices may only be reduced. The restrictions were in force during the state of emergency and were lifted in mid-May, and applied only to retail prices.

During 2020, there was a decline in the throughput of motor fuels in Romania, as well as the decline in the sales of motor fuels on the retail market, due to the coronavirus epidemic and the restrictive measures taken to curb the spread of the epidemic.

NIS owns 19 gas stations in Romania. NIS's market share in the total motor fuel market is 1.1%, while its share in the retail market is 1.3%.

In these challenging times, we have proved we can be agile, flexible, and make hard decisions quickly. We closely observed the market and used every opportunity. This approach requires a clear understanding of the company's priorities at any given moment. The NIS group's primary focus is on further modernization and strengthening its competitive ability in the challenging regional market. Even when we had to cut costs due to the unfavorable market conditions, we never considered suspending or stopping our crucial development projects.

Key Performance Indicators

Q4 2020	Q4 2019	Δ[1]	Indicator	Unit of measure	2020	2019	Δ[2]
44.2	63.3	-30%	*Brent Dtd*	$/bbl	**41.7**	64.3	-35%
48.5	75.9	-36%	Sales revenue[3]	RSD billion	**183.8**	272.1	-32%
0.7	5.9	-87%	Net profit (loss)	RSD billion	**-7.6**	16.6	-146%
5.5	13.3	-59%	EBITDA[4]	RSD billion	**15.8**	44.5	-64%
10.1	15.0	-33%	OCF	RSD billion	**29.7**	56.9	-48%
4.6	13.2	-65%	CAPEX[5]	RSD billion	**25.3**	42.2	-40%
47.7	53.1	-10%	Accrued liabilities for taxes and other types of public revenue[6]	RSD billion	**179.5**	189.8	-5%
589.5	590	-0.05%	Total bank indebtedness[7]	EUR million	**589.5**	590	-0.05%
1.5	1.7	-8%	LTIF[8]	%	**1.5**	1.7	-8%

1 *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*
2 *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*
3 *Consolidated operating income.*
4 *EBITDA = Sales revenues (exclusive of excise duties) – costs of inventories (oil, petroleum products and other products) – Operating Expenses (OPEX) – other costs that may be controlled by the management.*
5 *CAPEX amounts are exclusive of VAT.*
6 *Taxes, fees, charges and other types of public revenue calculated for the reporting period. The overview is inclusive of the liabilities of NIS for taxes and other public revenue in Serbia and other countries of operation.*
7 *Total bank indebtedness = Total debts+Letters of Credit. As at 31 December 2020, the total debt stood at EUR 589.5 million. There were no debts under letters of credit.*
8 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The indicator shown refers to NIS j.s.c. Novi Sad with its subsidaries; Naftagas – Oil Services LLC Zrenjanin and Naftagas – Transport LLC. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 31 December 2020. Therefore, there is no difference between year 2020 and Q4.*

Operating Indicators

Exploration and Production

The main goal of the Exploration and Production in 2020 was to reach hydrocarbon output, implement the projects concerning geological and exploration operations and increase the GTA efficiency.

The total production output reached in 2020 was 1,213.6 thousand tonnes of oil equivalent in reservoirs in Serbia, and 1,258.7 thousand tonnes of oil equivalent with concessions included.

In the area of geology and reservoir development, the emphasis is on maintaining the high quality of geological and technical activities and testing of new technologies', aimed towards an increase in oil and gas production.

Q4 2020	Q4 2019	Δ[1]	Key indicators	Unit of measure	2020	2019	Δ[2]
306	322	-5%	Oil and gas output[3]	Thousand t.o.e.	**1,259**	1,286	-2%
206	214	-3%	Domestic oil output[4]	Thousand tonnes	**837**	859	-3%
3.5	7.6	-54%	EBITDA	RSD billion	**16.2**	34.2	-53%
2.2	6.2	-65%	CAPEX[5]	RSD billion	**15.1**	21.3	-29%
1.99	3.01	-34%	LTIF[6]	%	**1.99**	3.01	-34%

1 *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*
2 *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*
3 *Domestic oil ouput includes natural gasoline, whereas gas output takes into account commercial gas output and light condensate.*
4 *With natural gasoline.*
5 *Financing, exclusive of VAT.*
6 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 31 December 2020. Therefore, there is no difference between year 2020 and Q4.*

Geological Exploration and well Engineering

As part of the development drilling, 5 new deposits were opened in the northern part of the Kikinda field, which will enable the drilling of a new well in the forthcoming period.

In the part of repair and insulation works, successful operations were performed on the fields of Velebit, Mokrin, Kikinda Varoš, Jermonovci and Kelebija. Successful operations in the Kelebija field have enabled the planning of development drilling for new wells in 2021.

An anti-crisis drilling scenario was implemented, 38 development wells and 3 exploratory wells were drilled.

At the end of the year, and after GTM, 120 oil and 19 gas wells were put into operation.

Nine studies on UV reserves were completed and submitted to the Commission and for 4 sources studies of underground water reserves.

Exploratory drilling and well testing

According to the geological exploration plan, from the beginning of the year in Serbia in Exploration and production Block three oil exploration wells were drilled, of which two are put into operation and one is successfully tested.

2/3D seismics

The complex seismo-geological interpretation of 3D seismic data recorded at the Turija IV exploration area has been completed, as well as the processing of 3D seismic data recorded at the Ada exploration area, and a complex seismo-geological interpretation is underway. The implementation of the Oil and Gas Exploration Project in the part of the exploration area of North Bačka-Palić, Žednik and Kelebija has been completed. A complex seismo-geological interpretation of the Kikinda - Mokrin exploration areas is underway, as well as the unification of the 3D polygon Majdan - Srpski Krstur, Martonoš-Velebit and Čoka.

License obligations

Conditions have been provided for the continuation of geological exploration works for the period 2021-2023 in the licensed areas in Vojvodina.

Foreign projects

The Company’s upstream operations in Romania are carried out using the resources of Romanian NIS Petrol s.r.l. (a subsidiary, whose sole owner is NIS j.s.c. Novi Sad) in six concession blocks. NIS Petrol s.r.l. is the operator in these block.

Key events in Romania in 2020:

- Block EX-2: Interpretation of data from 3D seismic tests performed in the volume of 170 km^2. Eight promising facilities have been singled out. Three exploration wells were located;
- Block EX-7 and 8: Experimental production from two wells in the Teremija field is in progress; Feasibility study was done and submitted to the NAMR (Agency for Mineral Resources), which transitions from experimental to regular production;
- Block EX-12: Data processing of 3D seismic tests performed in the volume of 165 km^2; Three promising facilities have been singled out. Two exploration wells were located;
- Jimbolia block: Experimental production of natural gas (two wells in operation) is in progress, which is further used for the production of electricity in the generator.

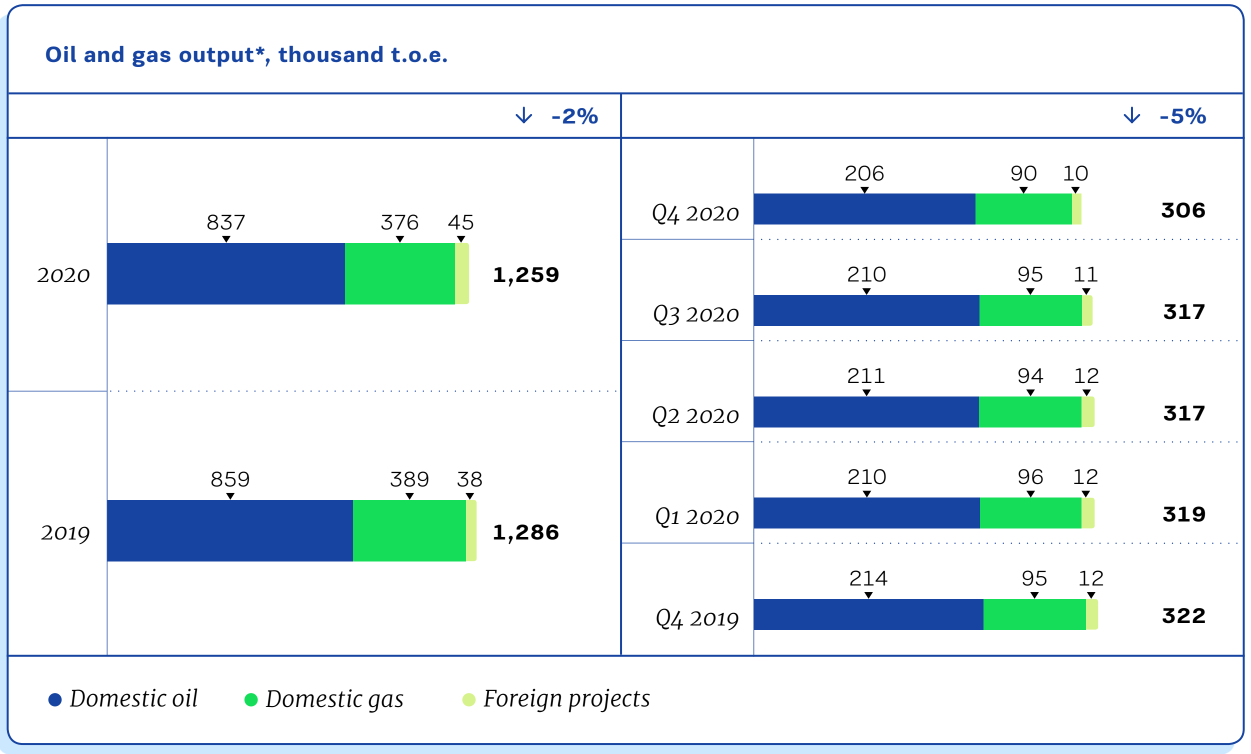
The Company's operations in the Upstream part in the Republika Srpska (Bosnia and Herzegovina) are performed with the resources of the company "Jadran Naftagas" from Banja Luka.

Key events in Bosnia and Herzegovina in 2020:

- In March 2020, NIS became the 100% owner of Jadran Naftagas. All documents were signed in Banja Luka and Zarubezhneft officially left the Jadran Naftagas project on the same day.
- In November 2020, the NIS Board of Directors adopted the budget and defined the program of geological exploration works for 2021-2022 in the Obudovac region.

Operational indicators

A total of 1,259 thousand t.o.e. of oil and gas were produced in 2020.



* *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*

Refining

The year 2020 was marked by the operations of the Refining Block in an extremely unstable environment, as a consequence of a drastic drop in the price of oil on the world market and the appearance of the coronavirus.

During January 2020, the planned workover of the bitumen plant was carried out. A revision of energy consumption normatives was done. Activities for the harmonisation of training books for the DCU unit were carried out.

In February 2020, the emphasis was on cleaning the CO boiler. Activities were carried out on the development of "Job" plans for the equipment, as well as instructions for the operation and maintenance of equipment at the DCU complex. The trainings of operators by equipment manufacturers continued, such as trainings on the semi-portal coke crane and trainings on OTS. The focus was also on performing pre-commissioning at the DCU. A crude oil refining plan with increased chloride content was prepared.

During the period March-June 2020, all the activities of the Refining Block were aimed at adjusting the work in the conditions of low oil prices and the current health and safety situation caused by the Covid-19 virus pandemic, which continued until the end of 2020.

All necessary measures were taken, due to the appearance of coronavirus, in order to maintain the health and safety situation - maintaining the enhanced hygiene, contacts with contractors wre reduced to a minimum, employees were provided with protective equipment and constantly informed about the rules of conduct in given conditions. Also in this period, a crisis scenario was developed on the performance of

Q4 2020	Q4 2019	Δ	Indicator	Unit of measure	2020	2019	Δ
976	1,055	-7%	Volume of refining of crude oil and semi-finished products	Thousand tonnes	**3,613**	3,373	+7%
0.7	1.9	-64%	EBITDA[1]	RSD billion	**-12.3**	1.3	-1,034%
1.9	5.4	-65%	CAPEX[2]	RSD billion	**7.8**	17.1	-54%
2.2	1.1	+103%	LTIF[3]	%	**2.2**	1.1	+103%

1 *EBITDA of the Refining Block includes the Energy Plant at the Pančevo Refinery.*
2 *Financing, exclusive of VAT.*
3 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 31 December 2020. Therefore, there is no difference between 2020Y and Q4.*

operational and investment activities of the company in the circumstances of the state of emergency and liquidity crisis caused by the Covid-19 pandemic.

Due to the observed irregularities in the work, on April 20, the suspension of the "Clauss" plant within the MHC/DHT unit began. After the rehabilitation of the sulphur recovery plant "Clauss", at the beginning of May, all process units in the Refinery started. During the downtime of the Refinery, the market was properly supplied with all types of derivatives.

During May 2020, activities were carried out at the DCU unit, in the part before the commissioning of Delayed Coker (S-5300) and the commissioning of acid water stripper (S-5900) / amine III regeneration (S-5950).

In June 2020, the workover of the plants for the sulphur recovery - Clauss (S-2450) was carried out and the mechanical readiness of the DCU plant was achieved.

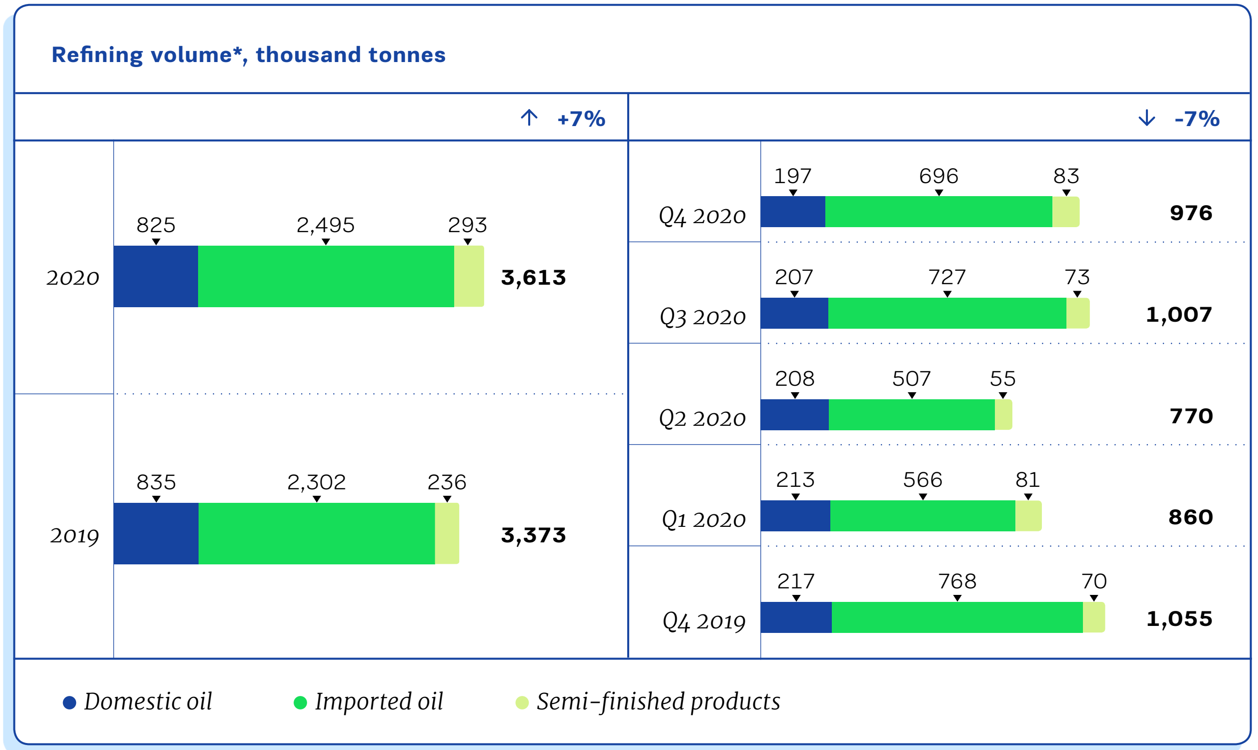
At the end of August, the official handover-takeover of the "Certificate for trial operation of the “Bottom of the Barrel Unit" was officially performed in the Pancevo Oil Refinery.

The functional testing of the plant was performed at the DCU unit from August 24 to 28, and the first quantity of petroleum coke - high-calorie fuel - was produced. The produced coke will be shipped through an automated system that ensures efficient and safe loading of products into trucks. During the construction of the new facility, special attention was paid to the protection of the environment, so that the plant was equipped with special collectors for collecting dust and a truck washing unit.

Our company has reserved the right to use the "CE" mark for road bitumen in compliance with the requirements of the European Construction Products Regulation CPR 305/2011. Thanks to that, the successful marketing of this product has continued on the EU market. The recertification check of the conformity of the factory control of road bitumen production with the requirements of the reference standard EN 12591: 2009 was achieved in mid-October in Refining Block. In this way, our Company retained the right to use"CE" mark for all types of road bitumen: Euro bitumen for roads 35/50, 50/70, 70/100 and 160/220, which gives it the opportunity to continue to place road bitumen on the market of the European Union and countries in the region.

In mid-November, the beginning of the operation of the Bottom-of-the-Barrel was ceremoniously marked. Representatives of the Government of the Republic of Serbia and Russian officials visited the Pančevo Oil Refinery, thus officiay marking the beginning of the operation of our new plant. The tour of the plant was organised in accordance with all coronavirus protection measures, with the goal of getting acquainted with the work of the "Bottom of the Barrel" unit and what will this investment of EUR 300 million bring to our company and the citizens of Serbia.

Refining Activities and Volume



** Any deviations in percentages and aggregate values result from rounding.*

During 2020, the production of petroleum products increased if compared with the same period of 2019 by 7%, as a result of the capital workover that was carried out in the first half of 2019.

Other projects

Environmental protection has the primary role in all business segments of Refining Block. On 30 January, the Serbian Government adopted an improved the text of the National Plan for the Reduction of Emissions of Major Pollutants Originating from Old, Large Combustion Plants (NERPs).

The units of Refining Block, such as the Power Plant Pančevo and Atmospheric Distillation II unit are included in the NERP. During 2020, in addition to the use of natural gas as the predominant fuel, the projects that significantly affect the improvement of air quality were also implemented.

Within the investment undertakings, the activities on the projects of the Refining Block continue, such as:

- Reconstruction of the FCC and the construction of a new ETBE facility
- “Harmonization of the jet fuel system with the requirements of the JIG 153 standard”, “Reconstruction of the filtered water system in the

Pančevo Oil Refinery for the needs of TE TO", "Supply of natural gas to S-2450";

- Reconstruction of FB-2003, FB-0711 and FB-0714 tanks.

During 2020, the focus was also on activities on digitalisation projects. The tender was opened and the contractor was selected for the implementation of the project: Monitoring of APC controller (APC - Advanced Process Control). A Kick-off meeting was held and and implementation began. The tender for the pilot project Active Time Monitoring (RTLS - Real Time Location System) was implemented. The project assignment was prepared, the procurement strategy was adopted and the tender for the implementation of the projects Predictive Maintenance and Real Time Optimizer (Master APC) was announced. The activities to improve and digitize the KPI reporting process in the area of operational reliability started. Intensive work is being done to explore new possibilities for the application of digital technologies as an ongoing task.

In February 2020, the Pančevo Oil Refinery hosted the third workshop on gender equality.

In addition, at the beginning of March, with the active participation of Refining Block, a pilot program "Job shadowing" was realized, which arose from the specific need to improve the results of intersectoral cooperation.

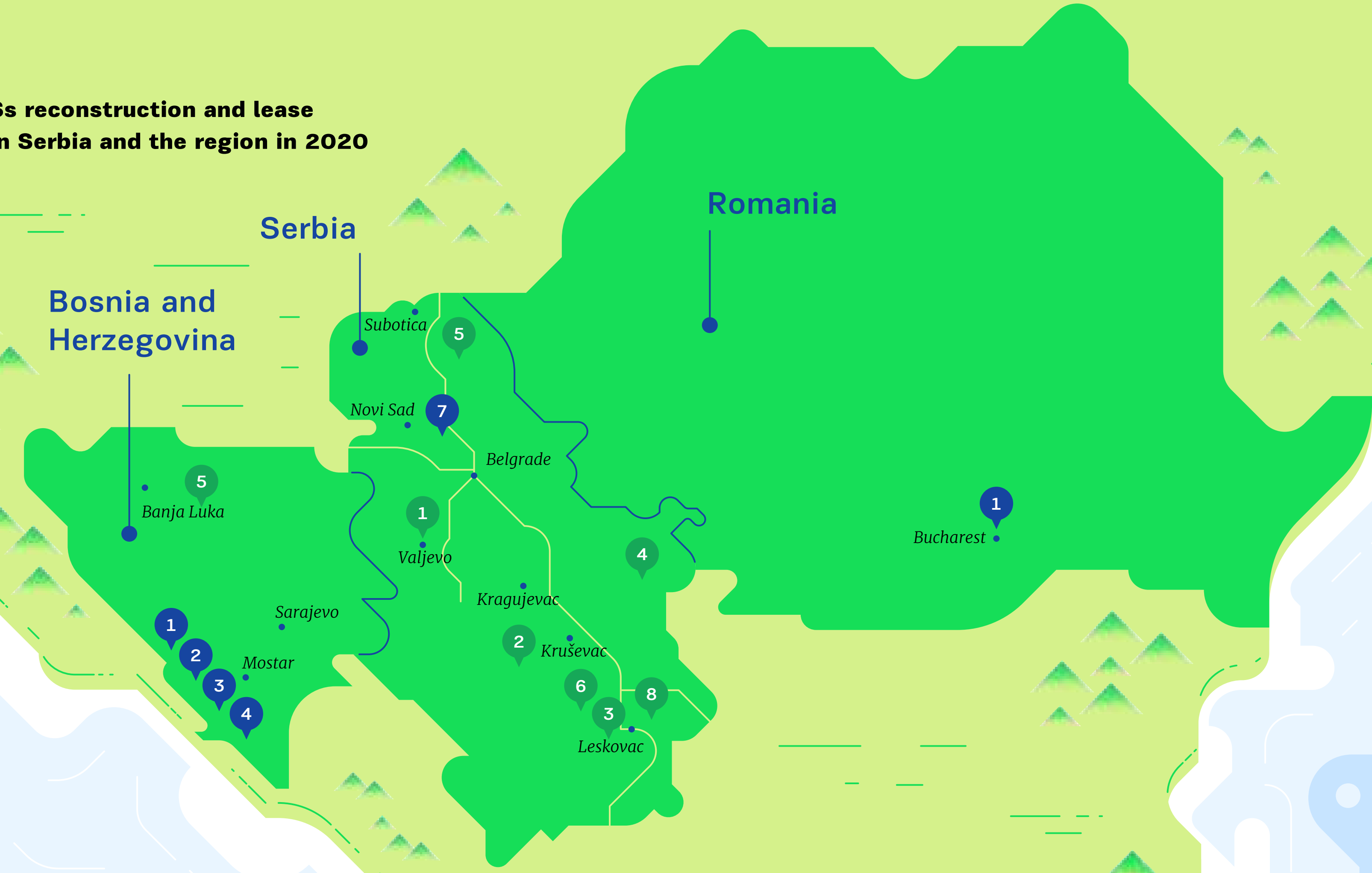
During the year, the implementation of the third element of the OMS Etalon "Production Process Management", which is one of the priorities in our company, continued, and its key projects are: "Structural Operator Walkarounds" and "Shift Handover". Last year, the methodology, training and applications were determined, and in 2020, advanced tools were activated - tablets and electronic shift logs.

Sales and distribution

Q4 2020	Q4 2019	Δ[1]	Key indicator	Unit of measure	2020	2019	Δ[2]
998	1,081	-8%	Total sales volume of petroleum products[3]	Thousand tonnes	**3,538**	3,702	-4%
110	125	-12%	Sales volume – foreign assets[4]	Thousand tonnes	**393**	436	-10%
749	787	-5%	Sales volume of petroleum products in the domestic market[5]	Thousand tonnes	**2,596**	2,751	-6%
139	170	-18%	Export	Thousand tonnes	**549**	515	+7%
593	688	-14%	Motor fuels[6]	Thousand tonnes	**2,215**	2,469	-10%
242	263	-8%	Retail[7]	Thousand tonnes	**910**	995	-9%
2.6	4.5	-41%	Internal sales	Thousand tonnes	**13.1**	16.2	-19%
3.5	5.8	-40%	EBITDA	*RSD billion*	**16.3**	18.3	-11%
0.5	1.3	-61%	CAPEX[8]	*RSD billion*	**1.9**	3.0	-36%
1.7	1.1	+53%	LTIF[9]	%	**1.7**	1.1	+53%

1 *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*
2 *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*
3 *Without the internal sales volume (12M 2020: 13.1 thousand tonnes; 12M 2019: 16.2 thousand tonnes). The data don't include the volume of sales of CNG to third parties of the Energy Directorate and contain volume of sales for own consumption of road tanks of the Sales and distribution Block.*
4 *The sales volume of foreign assets includes sales generated by NIS' the subsidiaries abroad (retail and wholesale).*
5 *Domestic market sales includes sales volumes invoiced in local currency (RSD) and does not include sales volumes sold to foreign customers and invoiced in foreign currency.*
6 *Total sales of motor fuels in Serbia and in foreign assets.*
7 *Total retail in Serbia and in foreign assets.*
8 *Financing, exclusive of VAT.*
9 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 31 December 2020. Therefore, there is no difference between year 2020 and Q4.*

Map of PSs reconstruction and lease projects in Serbia and the region in 2020



Legend

- NIS Petrol
- GAZPROM

Points of Sale[1] and Logistics

NIS Group owns over 400 active retail sites. Most of them, i.e. 325 retail sites are located in the Republic of Serbia. In addition to 10 petrol stations for NIS use only, NIS owns 315 public petrol stations (24 under GAZPROM brand). In the countries of the region, NIS owns 42 petrol stations in Bosnia and Herzegovina (31 under GAZPROM brand), 34 petrol stations in Bulgaria (all of them under GAZPROM brand) and 19 petrol stations in Romania (all of them under GAZPROM brand).

After the completed works on the total reconstruction in Serbia, in 2020, 7 PSs were brought into use, as well as 1 PS, which was taken on a long-term lease and rebranded. In Romania, the newly built PS Otopeni was put into operation. In Bosnia and Herzegovina, 5 PSs have been leased and put into exploitation.

1 As at 31 December 2020.

Serbia

	PS	Size	Project	
1	Koceljeva 2	A	Reconstruction	● (NIS Petrol)
2	Podunavci	A	Reconstruction	● (NIS Petrol)
3	Leskovac 4	A	Reconstruction	● (NIS Petrol)
4	Bor 4	A	Reconstruction	● (NIS Petrol)
5	Senta 1	A	Reconstruction	● (NIS Petrol)
6	Prokuplje 2	A	Reconstruction	● (NIS Petrol)
7	Novi Sad 16	L	Reconstruction	● (GAZPROM)
8	Leskovac 6	-	Lease	● (NIS Petrol)

Bosnia and Herzegovina

	PS	Size	Project	
1	Grude	-	Lease	● (GAZPROM)
2	Veljaci	-	Lease	● (GAZPROM)
3	Gabela Polje	-	Lease	● (GAZPROM)
4	Doljani	-	Lease	● (GAZPROM)
5	Prnjavor	S	Lease	● (NIS Petrol)

Romania

	PS	Size	Project	
1	Bukurešt Otopeni	M	Newly built	● (GAZPROM)

Loyalty program and Marketing Activities

In 2020, over 120 marketing activities were realised in Serbia in order to develop consumer brands, loyalty programs and to improve the sales of fuel and non-fuel product portfolios. In 2020, more than 90 marketing activities were organized in the countries of the region.

Key activities related to the On the Road with Us (Sa nama na putu) loyalty program were the reactivation and upsell campaigns that offer our card users special benefits as part of our partner programs and redeems programs with such brands as Tehnomanija, Gigatron, Vitapur, etc.

As for our branded fuels, the most important campaigns were held at the beginning and the end of 2020 to promote the winter G-Drive diesel fuel. The company also stopped selling gas oil at some of its stations and rebranded them using additional POS materials to raise awareness of G-Drive branded fuels.

Large projects held during the previous year include:

- Installation of self-service parcel terminals at 60 petrol stations,
- Installation of two mobile Drive Café units in the Ada Ciganlija part in Belgrade to increase public awareness of the brand,
- MasterCard Instant Win campaign, where for each purchase for 5,000 dinars or more clients get an instant gift coupon,
- Fall AGRO campaign offering additional benefits to agricultural consumers,
- Spend and Get marketing partner program on the petrol stations that include car washes,
- Series of promo events for Jazak water held in partnership with the Apatin Brewery. The Jazak brand will be available in over 5,000 stores across Serbia (traditional trade).
- New products under the Drive Café brand (three types of fresh juices, two types of ice coffee and four new types of snacks).

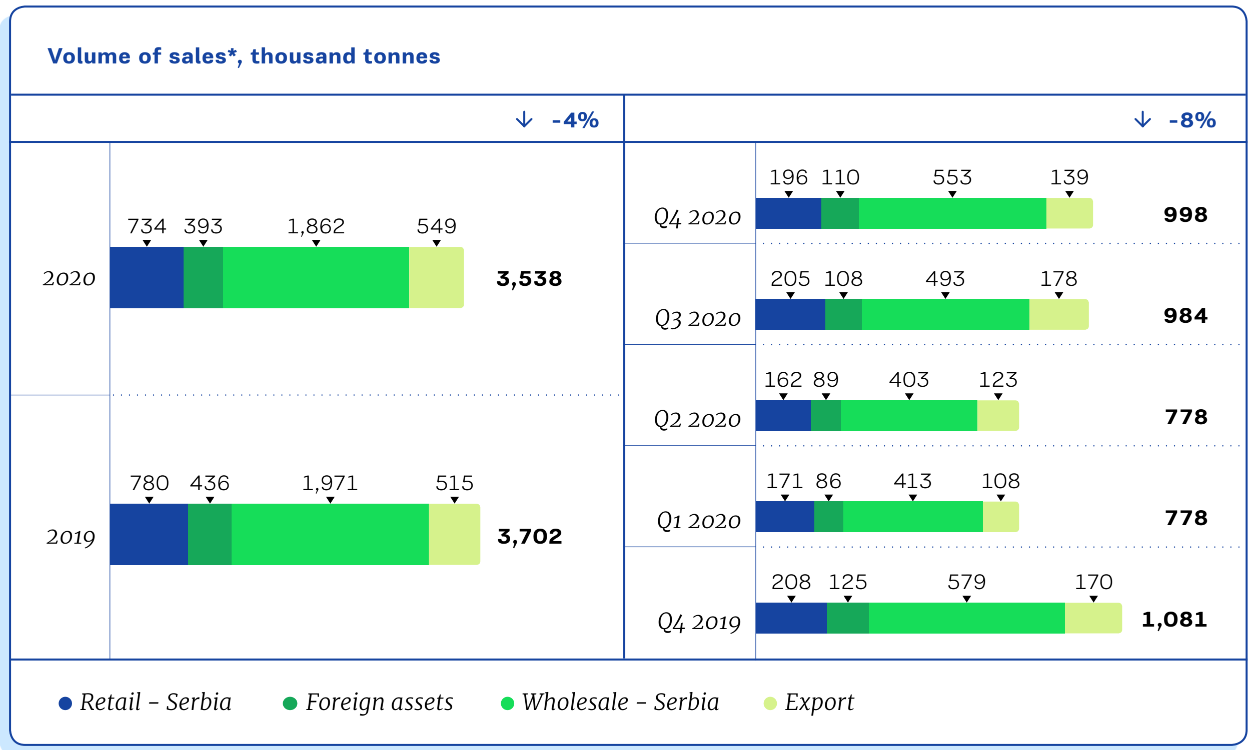
Our largest digitalization projects are:

- The Drive.Go project for contactless payment at fuel stations. Clients can now pay using the new Drive.Go mobile application directly at the fuel dispenser. The app was launched at the end of March. The new mobile application offers the possibility of paying for fuel at the refueling point, without entering the sales facility, and for the first time in Serbia it is available to consumers at NIS Petrol and GAZPROM gas stations. In addition to remaining consistent in the application of innovations and innovative solutions in its business, by introducing a new service, NIS has provided consumers with fast, efficient and secure payment in the new circumstances, without the need to go to the cash register. In the second and third quarters, the implementation of the Drive.Go application on the retail network continued, and at the moment we have 157 PSs where it is possible to pay for the purchase of fuel in this way.
- Online activation of the On the Road with Us card, which allows users to activate the cards themselves following the instructions on their mobile phones.
- Mbanking application for payment of bills. From December out clients have the opportunity to pay their bills using the Mbanking app. When a user pulls up the app on mobile phone, it displays a QR code, which can be scanned by the cashier for payment. The launch was supported by a marketing campaign and an official launch event at the Dejton petrol station.

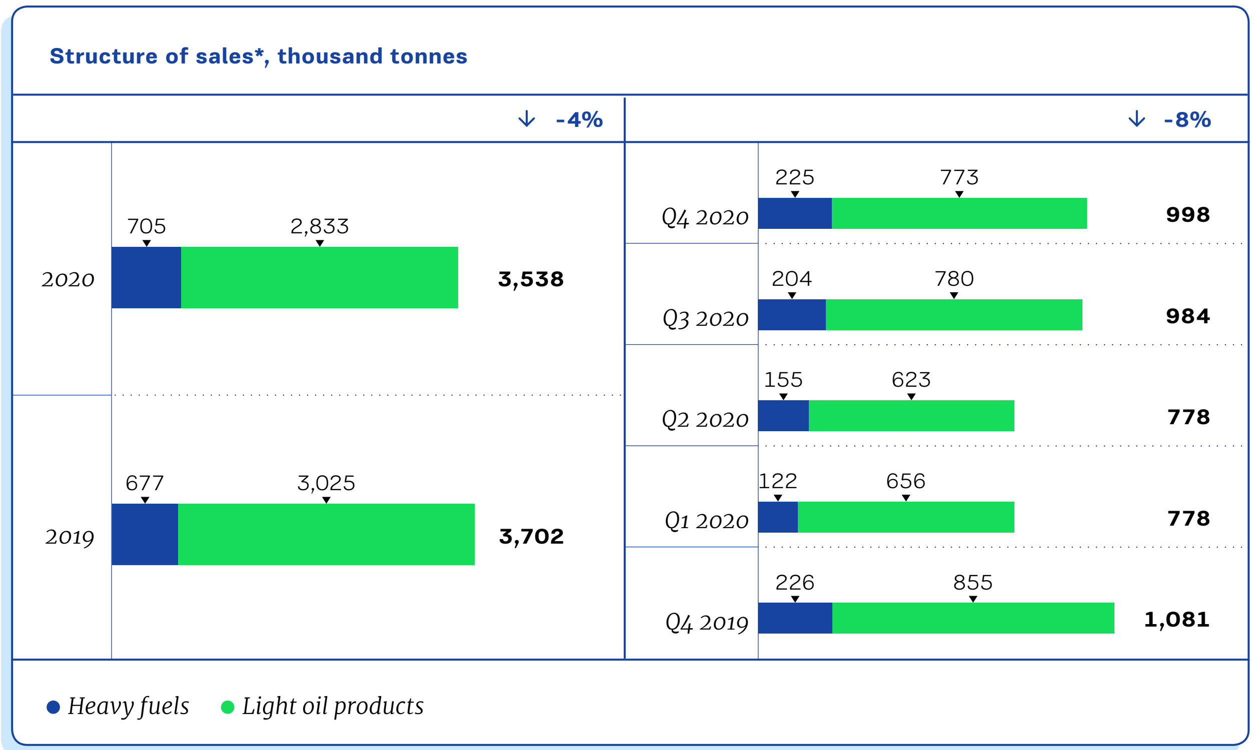
Operating indicators[1]

2020 year saw a sales drop of 4% comparing to 2019, with the total sales of 3,538 thousand tonnes.

- Retail in Serbia – a retail decrease by 6% is a result of decrease in sales of gasoline and diesel fuel.
- Wholesale in Serbia – a deacrease of 6% mostly due to energy fuel sales
- Exports – an increase by 7% as a result of increasing energy and non-energy fuel exports
- Foreign assets – a deacrease of 10% in sales volume (through retail channel by 18% and wholesale channel by 2%).



Without internal sales volume (12M 2020: 13.1 thousand tonnes; 12M 2019: 16.2 thousand tonnes; Q4 2020: 2.6 thousand tonnes; Q4 2019: 4.5 thousand tonnes).



Without internal sales volume (12M 2020: 13.1 thousand tonnes; 12M 2019: 16.2 thousand tonnes; Q4 2020: 2.6 thousand tonnes; Q4 2019: 4.5 thousand tonnes).

1 *Without internal sales (12M 2020: 13.1 thous. tonnes, 12M 2019: 16.2 thousand tonnes; Q4 2020: 2.6 thousand tonnes; Q4 2019: 4.5 thousand tonnes). Any potential deviations in percentages and aggregate values result from rounding. The data don't include the volume of sales of CNG to third parties of the Energy Directorate and contain volume of sales for own consumption of road tanks of the Sales and distribution Block.*

Energy

CCPP Pančevo

As of the 31st, December, 2020, design implementation stands at 93.03%. Cumulative implementation of engineering activities (design and other documentation) is equal to 94.17%. Mechanical, electrical and construction works on power plant's facilities are under way, as well as connecting pipes with the power block of the Pancevo Refinery and connection to the electrical grid, with a degree of implementation of 90.47%. Principal equipment of the power plant is mostly delivered, the degree of implementation equals 99.00%. Commissioning activities have started (implementation: 32%).

The COVID-19 virus pandemic has significantly affected and still affects the dynamics of the Project implementation.

Natural gas

We have signed the following contracts with the aim of ensuring security of supply and reorganisation of the natural gas portfolio for NIS j.s.c. Novi Sad for 2020/2021: Natural Gas Transport Agreement with a transport system operator, Natural Gas Transmission Agreement with a transmission system operator, Agreement on Total Supply of NIS j.s.c. Novi Sad with Natural Gas, as well as the Natural Gas Sale Agreements on the transmission system for balancing purposes and with NIS' subsidiary companies. Novi Sad. Additionally, we have signed a Natural Gas Sale Agreement on the transmission system with an external buyer.

CNG – Commercial Aspect

CNG shipments from the Ostrovo oil field were carried out properly and with no delays, and there is a mutual interest in renewing the CNG Sale Agreement in the following year as well. We have completed feasibility studies for new CNG projects.

Electricity Trade

NIS is present on the electricity markets of Serbia, Bosnia and Herzegovina, Romania and Bulgaria. Apart from these markets, NIS trades with Hungary, Croatia, Slovenia, North Macedonia, and Montenegro as well. NIS trades on the electricity markets in Serbia (SEEPEX) and Romania (OPCOM). We have commenced the process of registration of NIS Petrol Eood for the electricity trade in Bulgaria. The procurement of a specialized software for the trade of electricity and gas is underway.

Implementation of the Energy Efficiency Measures Program in NIS j.s.c.

The program of measures for reducing energy consumption and improving energy efficiency in NIS j.s.c. for 12M in 2020 resulted in energy savings of 5,758 toe. The value of savings is RSD 291 million.

An internal team for energy audits was established, and a regulatory and methodological framework was formulated. Pilot inspections were carried out in the facilities of the Sales and Distribution Block and the Refining Block. NIS has developed measures aimed at improving energy efficiency and formulated the operating plan for 2021.

The implementation of measures to improve energy efficiency has been initiated, including: the use of flue gas heat at the gas compressors of the upstream unit, changes in the heating system of facilities and the introduction of a condensate return system at the facilities of the Sales and distribution Block.

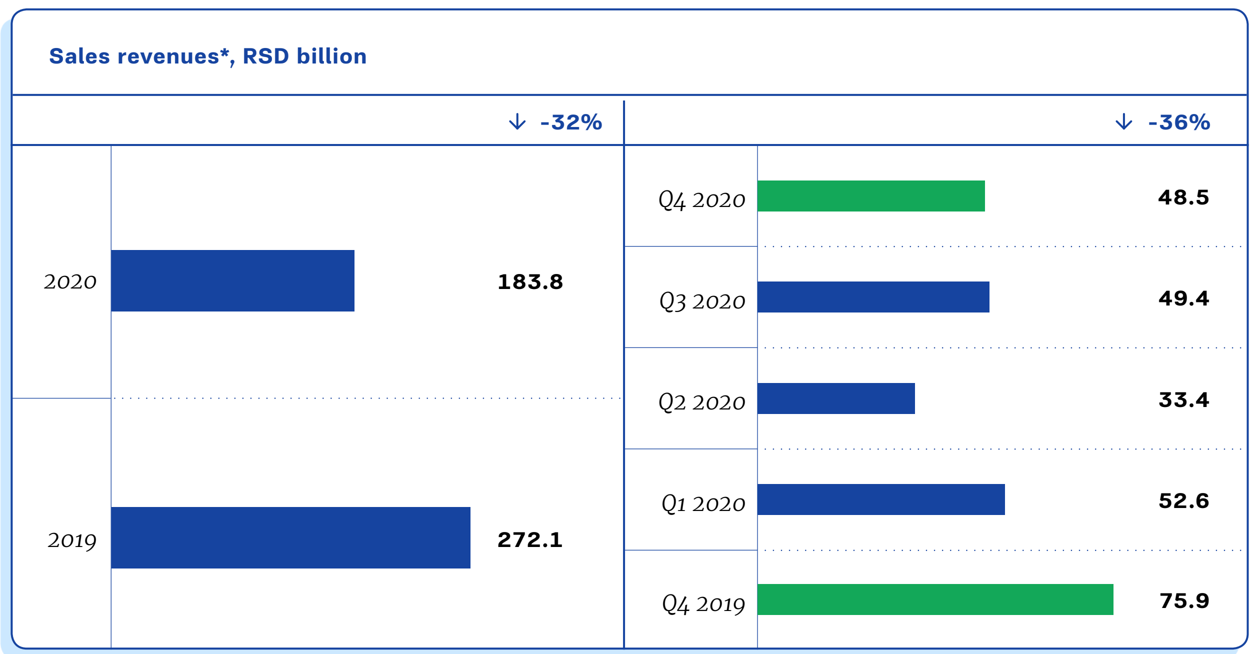
Trade in the right to reduce emissions CO_2

NIS has built small power plants for electricity generation and small co-generation power plants in oil fields, whereby it can avoid the burning of dissolved gas at the flare.

Financial indicators

Sales revenue

During 2020, NIS' sales revenue[1] dropped by 32% on the previous year.

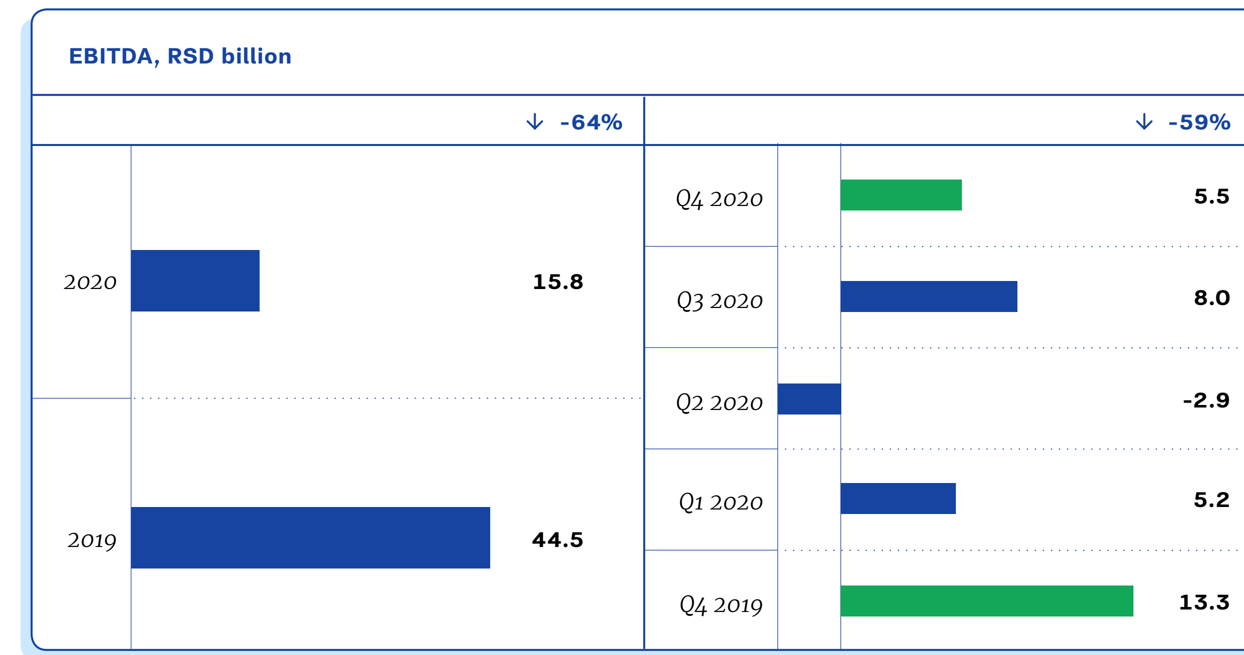


* *Consolidated operating revenue. Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*

EBITDA

EBITDA for 2020 was 64% lower than in the previous year and amounted to RSD 15.8 billion.

The decrease in EBITDA was conditioned by a drastic drop in the price of oil on the world market and the impact of more higher feedstock on refining.

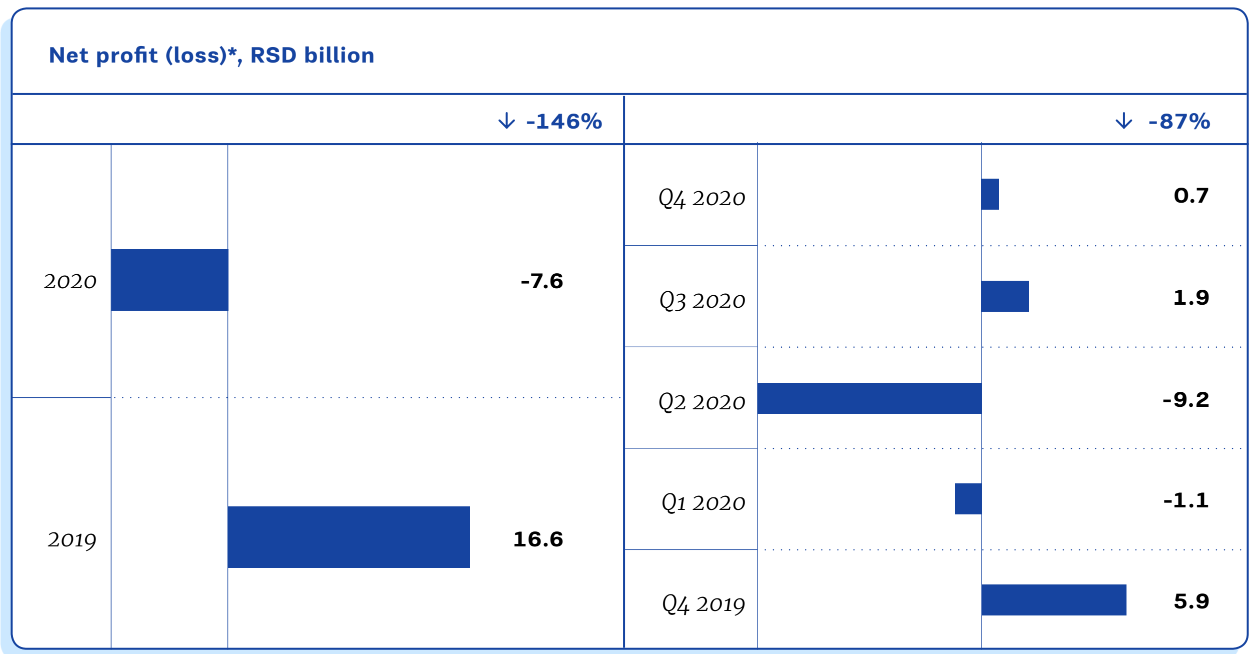


1 *Consolidated operating revenue.*

Net profit (loss)

Net loss realised in 2020 is RSD 7.6 billion, a 146% decrease on 2019.

The main causes of the decrease in the net loss:
- lower EBITDA,
- higher depreciation.

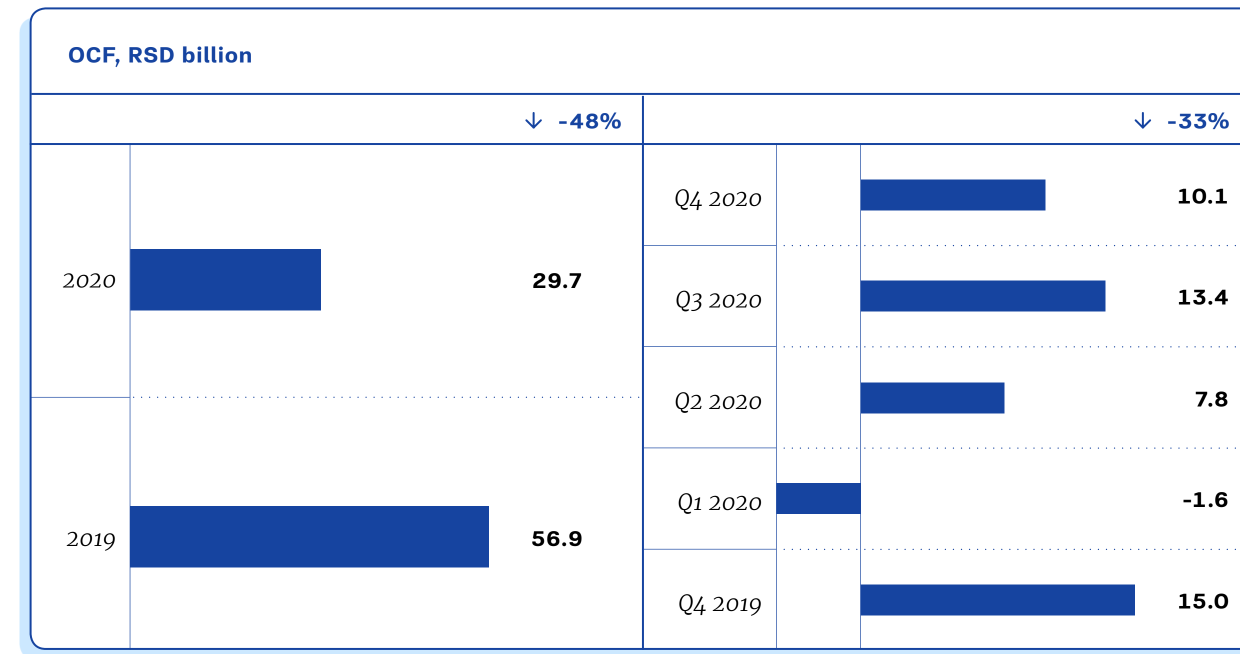


* *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*

OCF

In 2020, Operating Cash Flow amounted to RSD 29.7 billion, 48% decrease on 2019:

- Lower inflows from customers, but also lower operating costs (oil, petroleum products, OPEX, customs)
- Higher expenses regarding obligations to the government budget - VAT and excise duties.

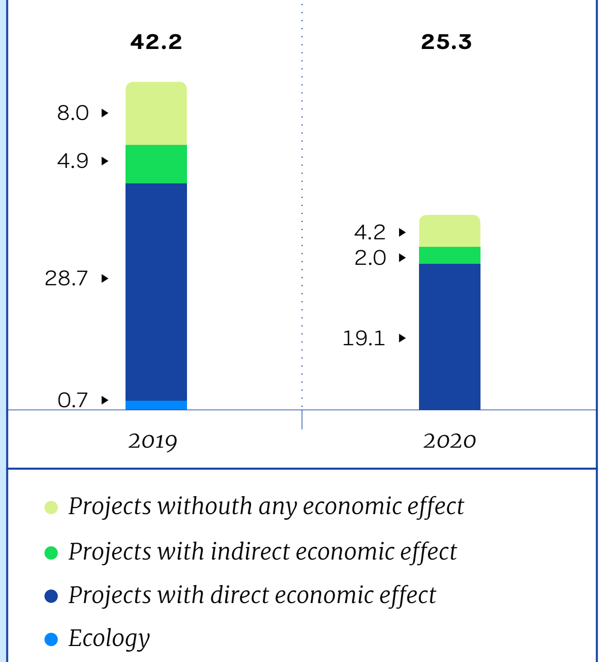


CAPEX

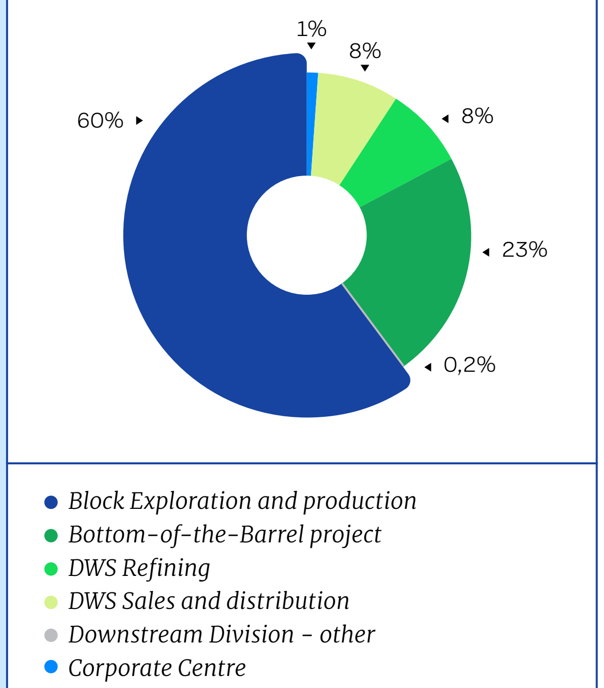
In 2020, the main investment directions were oriented towards the realization of projects in the production of oil and gas, as well as the project for improving the refining depth. In addition, during year, NIS invested in sales and distribution, energy, and service projects, as well as a number of projects in the corporate center.

During 2020, RSD 25.3 billion was allocated to finance investments, which is 40% less than allocated in 2019.

CAPEX by type of project*, RSD billion



Investments by segment



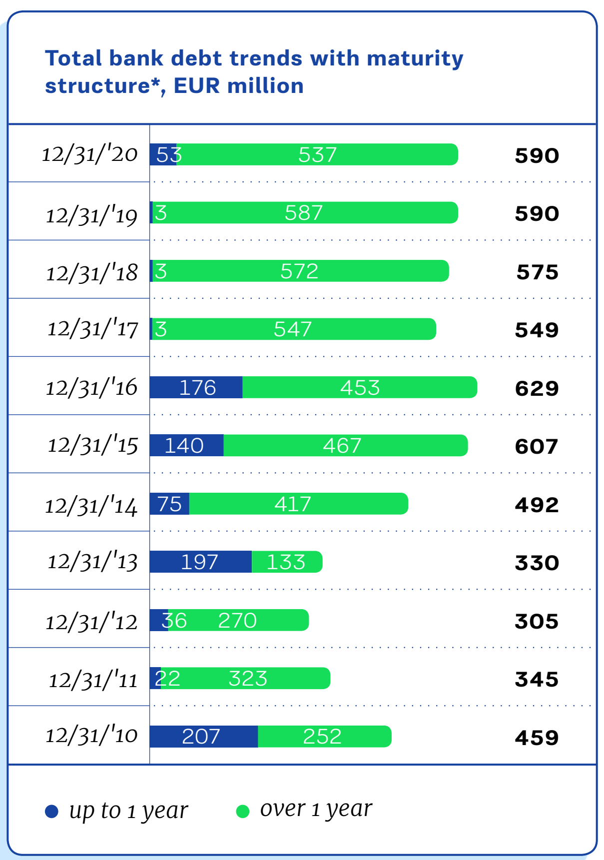
* *All amounts are expressed in RSD billion, excluding VAT. Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*

Organisational unit	Major projects
Exploration and Production	• drilling of development wells • investing in geological and technical activities • program of 3D seismic surveys and drilling of exploration wells in the Republic of Serbia • investing in concession rights • investing in basic infrastructure
Services	• outfitting repair facilities according to technical and HSE requirements • procurement of operational tubing and drilling rods • HDMI equipment replacement • equipping the S-3 plant • replacement of obsolete and missing equipment at overhaul facilities
Bottom-of-the-Barrel Project	• modernisation of the refining process – finalization of works on the project Bottom-of-the-barrel. In November 2020 the Bottom-of-the-barrel project was ceremoniously put into operation
Refining	• projects aimed at ensuring compliance with legal norms and regulations • preconstruction of FCC and new ETBE Plant construction • program of investment maintaining of Refining Block • projects to increase production efficiency • capital investment related to environmental protection • energy projects
Sales and Distribution	• retail network development in Serbia (petrol station construction and reconstruction) • transport projects (procurement of tractors and semi-trailers, capital overhaul of tang wagons) • development of retail network in BiH (rent 4 PSs Oktan) • other retail related projects in Serbia and the region • business unit projects (aero, bunkering, lubricants)
Rest of Downstream projects (Energy, Technical services)	• equipment replacement: universal lathe, 1 vertical drill • procurement of specialised software for electricity trading, gas and risk management (ETRM)
Corporate centre	• projects with IT component (Cloud infrastructure improvement, SAP success factor) • replacement of the PS video surveillance system • establishment of a branch Multifunctional shared service center • financial Reporting Automation (SAP BPC) • business centre projects (workplace remodelling, reconstruction of the condensate drainage network in the Novi Sad business centre)

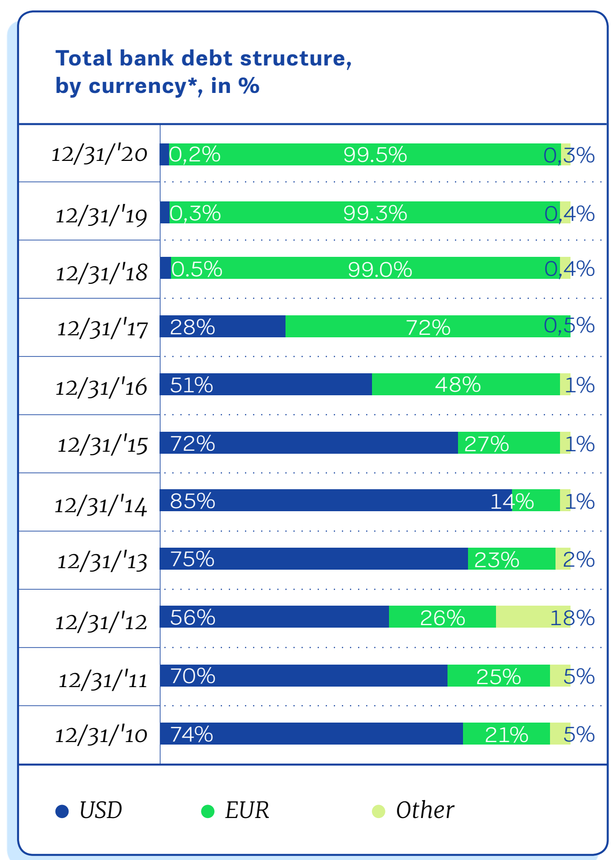
Indebtedness

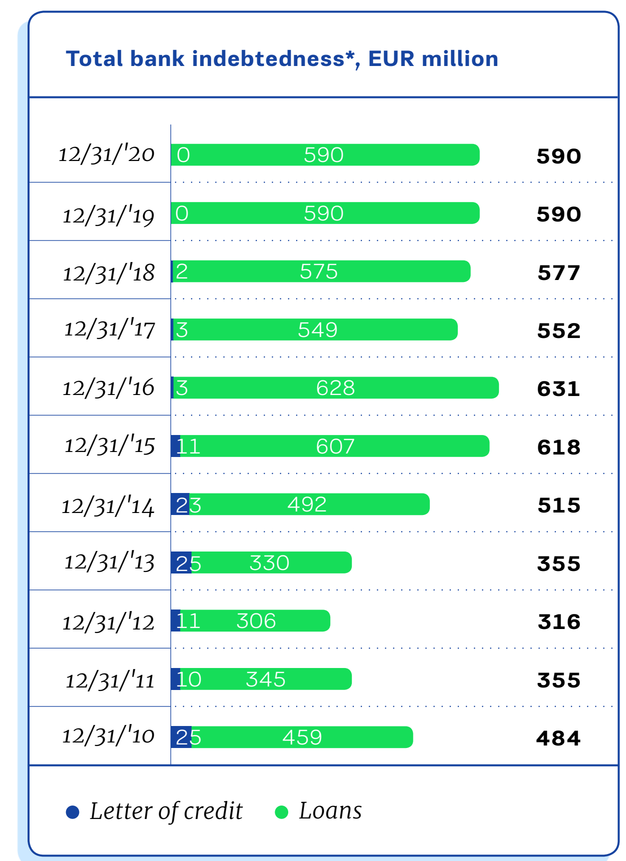
At the end of 2020, debt to banks was maintained at the same level as at the end of 2019, at EUR 589.5 million. Despite the crisis caused by the COVID-19 pandemic, additional optimization of loan portfolio indicators was carried out in 2020 in terms of lowering the cost of financing by about 8% compared to the end of 2019, while maintaining the average maturity of 3.02 years, at the end of 2020. The credit portfolio of EUR 281.9 million was restructured (early repayment of existing loans with the withdrawal of new ones on more favourable terms and correction of the conditions of existing loans, in terms of lowering the interest rate and/or extending the maturity, as well as regular repayments).

Additionally, the debt to Gazprom neft p.j.s.c. was reduced to the current level of EUR 116.3 million.



* Any deviations in percentages and aggregate values result from rounding.





* In addition to the bank debt and Letters of Credit NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of EUR 51.2 million, corporate guarantees in the amount of EUR 73.1 million and Letters of Intent signed with banks in the amount of EUR 3.4 million and financial leasing in the amount of EUR 20.7 million as at 31 December 2020.

Taxes and other Public Revenue[1]

NIS j.s.c. Novi Sad	2020	2019	%[2]
Social insurance contributions paid by employer	1.9	1.6	15%
Energy efficiency fee[3]	0.3	0.2	68%
Corporate tax	-0.2	2.8	-106%
Value-added tax	24.7	21.8	13%
Excise duties	122.6	127.3	-4%
Commodity reserves fee	6.0	6.4	-6%
Customs duties	0.7	0.7	-6%
Royalty	0.9	1.4	-38%
Other taxes	0.8	1.4	-45%
Total	**157.6**	**163.6**	**-4%**
NIS subsidiaries in Serbia[4]			
Social insurance contributions paid by employer	1.2	0.6	94%
Corporate tax	0.2	0.2	-4%
Value-added tax	1.8	1.1	60%
Excise duties	0.0	0.0	-
Customs duties	0.1	0.1	46%
Royalty	0.0	0.0	-
Other taxes	0.1	0.1	60%
Total	**3.3**	**2.0**	**64%**
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	**160.8**	**165.6**	**-3%**
NIS regional subsidiaries and Angola			
Social insurance contributions paid by employer	0.1	0.00	17%
Corporate tax	0.0	0.1	-66%
Value-added tax	1.0	1.5	-36%
Excise duties	12.4	14.0	-11%
Customs duties	6.7	7.0	-4%
Royalty	0.02	0.01	64%
Other taxes	0.1	0.0	-41%
Total	**20.3**	**22.8**	**-11%**
Deferred taxes (total for Group)	-1.6	1.4	-213%
Total NIS Group[5]	**179.5**	**189.8**	**-5%**

1 *In RSD billion.*
2 *All amounts are expressed in RSD billion, excluding VAT. Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*
3 *Calculated from 1 July 2019.*
4 *Naftagas – Oil Services LLC Novi Sad, Naftagas – Technical Services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and NTC NIS Naftagas LLC Novi Sad, NIS Petrol a.d. Belgrade.*
5 *Including taxes and other liabilities for public revenues for subsidiaries in the region, corporate tax in Angola and deferred taxes.*

Accrued liabilities for public revenue payable by NIS j.s.c. Novi Sad along with its subsidiaries deriving from its organisational structure in Serbia totalled RSD 160.8 billion in 2020.

The amount of accrued liabilities for public revenue payable by NIS Group in 2020 totalled RSD 179.5 billion, a decrease of 5% on the same period in 2019.

Ratio Indicators[1]

Profitability ratios	2020	2019
Gross profit margin (EBITDA margin)[2]	9%	16%
Net profit margin[3]	-4%	6%
Return on assets (ROA)[4]	-2%	4%
Return on equity (ROE)[5]	-3%	7%
Liquidity ratios		
Current ratio[6]	111%	149%
Quick ratio[7]	63%	76%
Net working capital ratio[8]	2%	8%
Leverage ratios		
Leverage coefficient[9]	34%	36%
Net Debt/EBITDA[10]	4,91	1,70

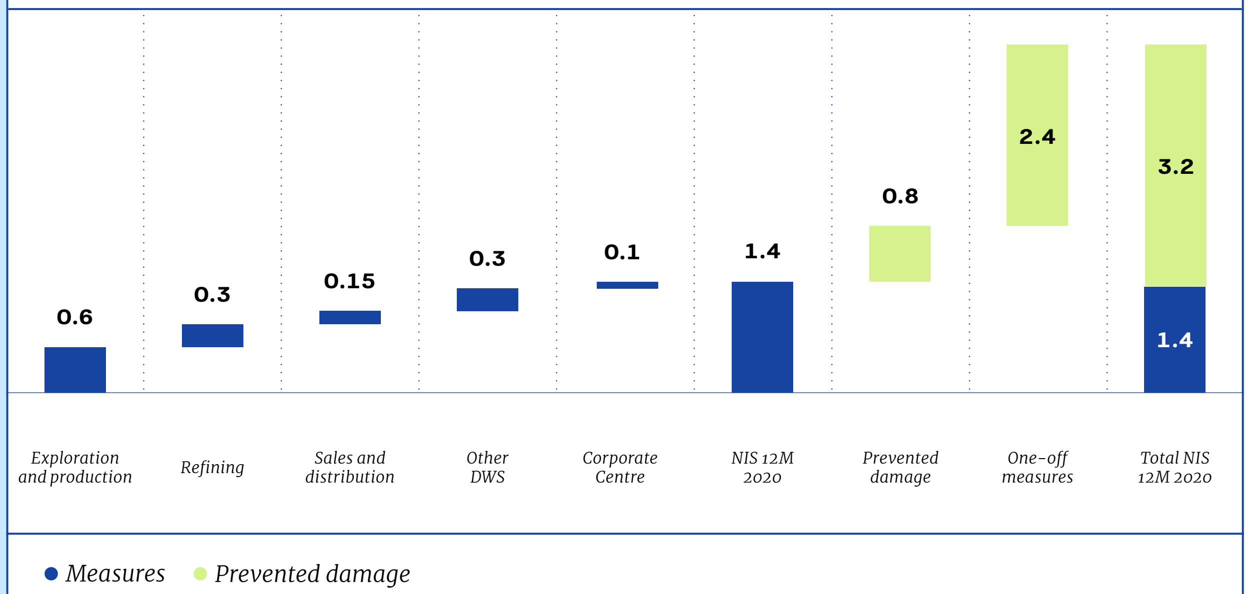
1 *Ratio indicators are calculated using data from Consolidated Financial Statements prepared in the form prescribed by Ministry of Finance of Republic of Serbia which does not comply with IAS 1 – 'Presentation of Financial Statements'.*
2 *EBITDA/Operating Revenues.*
3 *Net profit/Operating Revenues.*
4 *Net profit/Average Total Assets.*
5 *Net profit/Average Equity.*
6 *Current Assets/Short-term Liabilities.*
7 *(Current Assets – Inventories)/ Short-term Liabilities.*
8 *(Current Assets – Short-term Liabilities)/Total Assets.*
9 *(Long-term Liabilities + Short-term Liabilities)/ Total Assets.*
10 *(Long-term Liabilities + Short-term Financial Liabilities – Cash and Cash Equivalents)/EBITDA.*

Operational Efficiency Improvement

In 2020, the effects of operational efficiency improvement measures also had a positive impact on the achieved financial performance.

The effect of operational efficiency improvement measures on EBITDA in 2020 totalled RSD 1.4 billion.

Effect of operational efficiency improvement measures on EBITDA, RSD billion



The incentive program 'I HAVE AN IDEA!' encourages each staff member to come forward with ideas they think would improve the operation and directly boost efficiency. For approved ideas, we prepared rewards, but due to budget restrictions, the payment of rewards was suspended at the end of March 2020.

222 ideas were put forward within 'I HAVE AN IDEA!' program in 2020, and their effect amounted to over RSD 124 million.

1.08

OMS Etalon

In 2020, NIS continued developing the OMS program, which it launched in 2017 to ensure maximum operational efficiency through the reliability and security of business processes, and the engagement of all employees in the process of continuous improvement.

Innovation and digital transformation will remain our priority going forward, and new digital solutions will help the NIS group to achieve its strategic goals.

2017 - 2020

Establishment

- *Diagnostics of all Blocks*
- *Establishment of organizational structures, committees and steering groups by OMS elements*
- *OMS Code and synchronization with GPN's SUOD*
- *Prioritization and establishment of a tool portfolio*

Operational reliability and safety

- *Implementation of reliability improvement and risk management tools*
- *Creation of architecture and process of reliability and integrity management*
- *Optimization of relations with contractors and stocks*

Operational efficiency and continuous improvements

- *Mapping and analysis of key processes*
- *Wide application of lean manufacturing tools and Lean six sigma*
- *Assessment of company's potential*
- *Usage of potential in goal-setting*

Etalon facilities

- *Comprehensive application in UPS etalon facility (effect - 200+mln)*
- *Comprehensive application in Refinery's DCU during construction, commissioning and afterwards*
- *Rollout of successful experience to other company's facilities*

OMS ETALON

01 Etalon facilities

Integration of all new tools in a new business model

02 Asset management

Creation, implementation and development of production reliability system at the Company

03 Operational efficiency

Lean manufacturing, process optimization and potential calculation

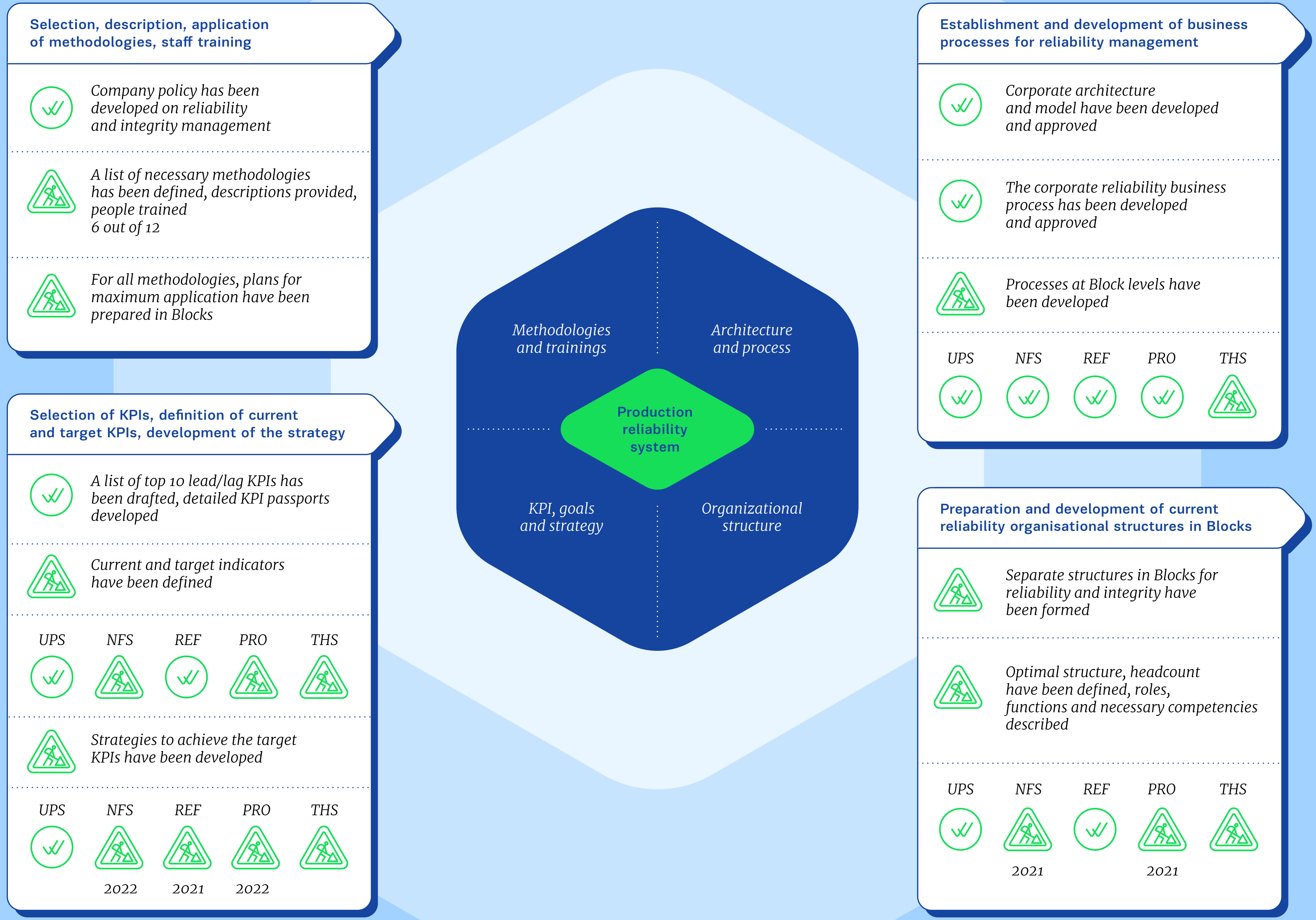
04 Contractors and suppliers

Optimization and streamlining of current contractor cooperation processes

Key activities in 2020:

- creation of standardised facilities;
- creation of systems and tools for the reliability and integrity of equipment, risk-based approaches and practices aimed at improving production process culture;
- management of contractors and suppliers.

The development of a system for equipment reliability and integrity includes both the implementation of a full-fledged system consisting of methodologies, processes, organizational structure and KPIs, and the application of tools to all relevant company facilities to increase reliability and reduce costs. The key tools include equipment classification by criticality and RCM (Reliability-centered maintenance), operators' structured rounds, efficient shift handovers, and HAZID/HAZOP studies.

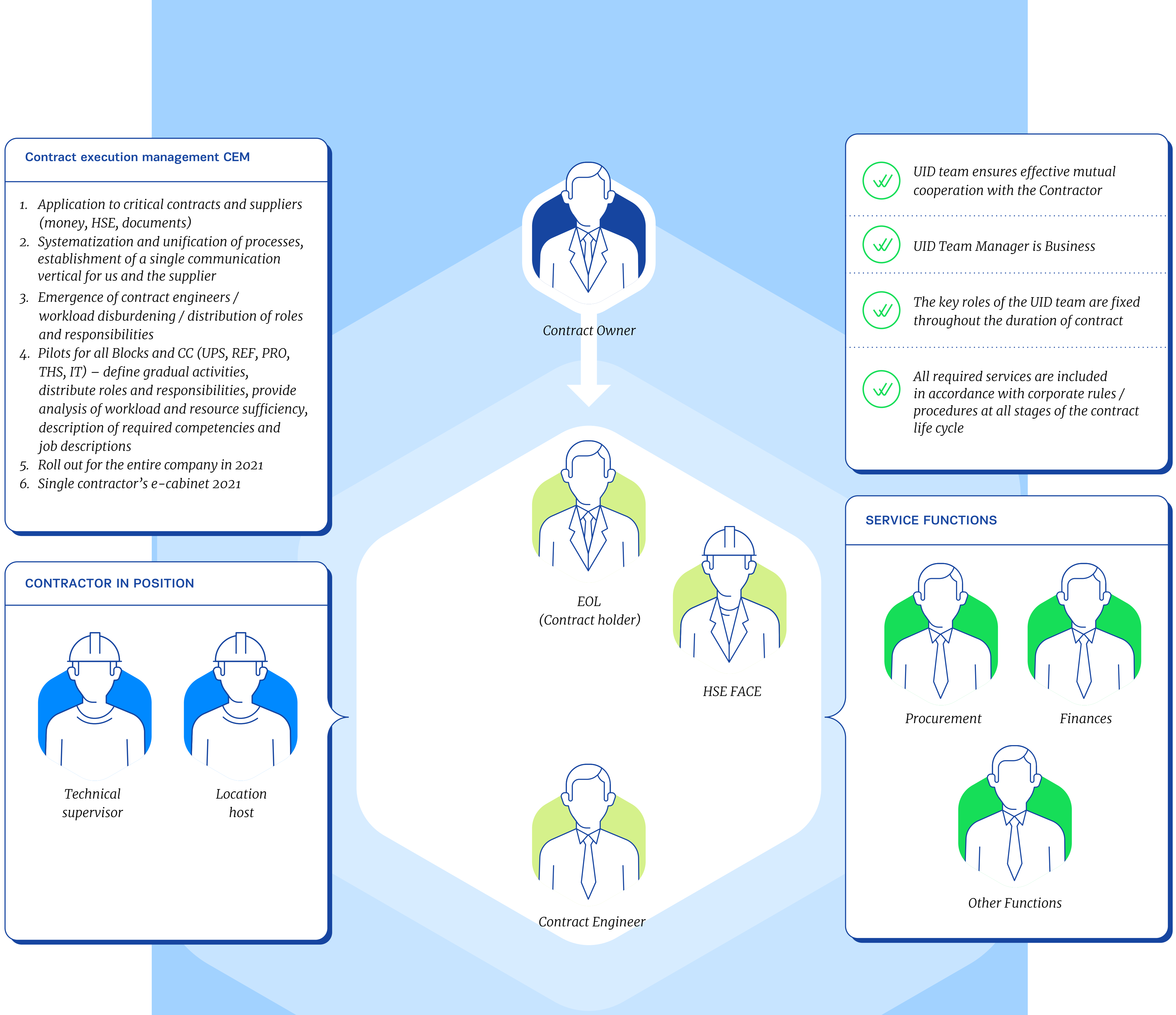


In 2020, we succeeded in:

- increasing the % of production facilities in which reliability practices were implemented;
- completing the corporate and cross-departmental reliability processes in all Blocks;
- implementing a separate reliability structure in the Exploration and Production Block, and updating the existing one in the Refining Block;
- evaluating the current level of selected KPIs, and setting long-term targets in the Exploration and production and Refining Blocks;
- fully integrating digital structural rounds, electronic shift log and electronic work permit (test version at the moment) through the CMMS system;
- considerably reducing the number of urgent and unplanned work orders;
- reducing the number of minor events and increasing the number of potential events.

With regard to contractor and supplier management, the following key tasks have been accomplished:

- pilot implementation of new CEM approaches (contract enforcement management) in selected critical contracts and contractors of each block and the head office;
- forming a uniform methodology for contractor rating, taking into account business and HSE requirements and the implementation of a strategic partnership approach for improving collaboration with our partners and increasing their motivation;
- optimisation of the Company's inventories and warehouses through instruments such as RAM (reliability availability modeling) and ROP (reorder point).



Excellent

97-100

Good

89-96

Needs improvement

51-80

Unsatisfactory

<50

Contractors' rating

1. *Methodology is approved, NMD 2020 based on practices of GPN's UPS, Exxon*
2. *Technical and HSE criteria at the ratio of 65/35*
3. *Applies to all key services and contracts*
4. *Unique annual assessment of the quality of contractors' work by business, Procurement, HSE*
5. *Possibility to analyze contractor's statistics, trends and loyalty*
6. *Possibility to motivate contractors through flexible selection and contracting procedures*
7. *Contractor's aspiration to take the highest possible position in the rating*
8. *Connection with the Strategic Partnership project*
9. *Possibility to apply to MTR/equipment procurement*
10. *First application in Q1 2021 and onwards*

MOTIVATION

For contractors continuously located in the "green" zone – consider motivation tools: increased contract length, shortening the value date, profit sharing, etc.

TREND MONITORING

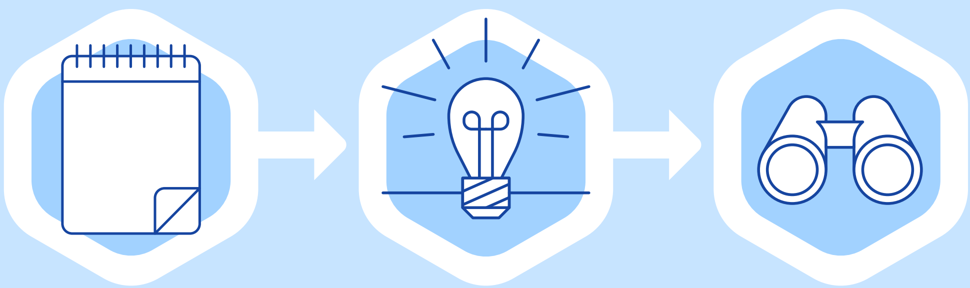
For contractors in the yellow zone, follow the dynamics and identify areas for improvement. Communicate transparently the benefits of moving to the green zone

CORRECTIVE MEASURES PLAN

For contractors in the orange zone – it is necessary to strengthen supervision. Corrective Action Plans are drawn up which formally define the obligations of contractors to eliminate identified shortcomings and/or improve their business in certain segments

CONTRACT TERMINATION / CONTRACTOR QUALIFICATION

Red zone – contract termination. Additionally, based on calculated ratings and trends over a longer period of time, it is possible to develop an appropriate strategy for the qualification of the contractor, as well as elaborate mechanisms for the impact of ratings on the selection criteria



Now

- *Deterministic consumption planning (at RNP level)*
- *Annual budget for the procurement of MTR and spare parts;*
- *Planning once per year (quarterly adjustments), based on experience and anticipated maintenance/overhaul plans;*
- *ERP SAP calculates the Procurement Plan as the difference between the Consumption Plan and the stock level*
- *Risk: Increased stock due to ordering larger quantities of RD than actually needed*
- *Risk: Non-flexibility and emergency response*

Proposal

- *Reorder point (point of re-ordering materials)*
- *Defining safety, maximum and minimum stock of materials (ROP)*
- *Automatic calculation of needs is realized after reaching the calculated stock level, bearing in mind the lead time of each MTR / RD*
- *ERP SAP is adapted to this type of planning*
- *Applies to MTR with stable consumption*
- *Advantage: Better management of RD stock, potential cost reduction*

Stock management

1. *Optimization of the stock process and planning through the Reorder point (ROP) concept and RAM analysis*
2. *The pilot ROP project has been selected and completed for 20 REF materials (4% stocks of MTR, 55% semi-finished products), the effect of stock reduction in the amount of 28 mln RSD (27% of stocks). Financial effect 5-7 mln RSD (working capital)*
3. *Pilot RAM analysis (Aspentech software) has been completed for DCU when preparing a spare parts list for procurement*
4. *It is possible to apply 2021.RAM on all units, ROP and other material groups, with potential effect of around 100 mln RSD*

Exploration and Production

During the year 2020, the complex approach to the implementation of OMS practices and instruments was realised at three facilities of Exploration and Production Block (SOS Turija, OS KP, SMS Turija).

The effect from the implementation of operational efficiency increase (OEI) measures in 2020 amounts to RSD 771 million.

Risk assessment was implemented on five facilities of Exploration and Production Block.

The following projects were completed: process mapping - Centre for Production Management, Forming the KPI (Key Performance/Efficiency Indicator) System, benchmarking of Exploration and Production Block's main indicators.

Refining

The main focuses of the OMS Etalon were the continuation of the improvement and the implementation of methodologies according to the key elements defined by Refining Block.

The main directions of continued implementation were in the area of reliability improvement, by applying the RCM methodology related to the CMMS information system, improving production processes by introducing digital structured walkarounds, improving work with suppliers and implementing continuous improvement through the activities of working groups. To support the DCU start process, new methodologies of Etalon Objects have been applied.

Within the frame of the implementation of digital structural walkarounds, routes and further optimization was tested, while the adaptation to a more efficient process in the field will be the focus in 2021.

A plan for the medium-term development of the CMMS for the period 2021-2023 was developed at the level of the entire Downstream Division, as well as the synchronisation of activities between individual organisational units.

Business process operational reliability is defined as a corporate process. Based on it, a proposal for a new organisational structure of the sector was developed within Refining Block.

The development of instructions for vibromontoring was completed, with suggestions for tools and methods for analysing the condition of equipment with the aim of reducing the strategy of maintaining the design on the basis of time intervals.

The activities of flange joint management and leak control at detachable flange joints, the method of calculation from the IBM Maximo KPI database for operational reliability monitored at the corporate level, as well as the stock management pilot project were defined.

Continuous improvement through working groups in Refining Block has begun with a systematic focus on continuous work and monitoring of initiatives and new ideas. The initiatives and ideas identified and defined the potential economic effects for 2020/2021/2022.

In addition to initiatives and ideas, the development of SOPs (Standard Operating Procedures) and visualisation at facilities was completed.

Sales and distribution

During 2020, a series of OMS initiatives were implemented within the Sales and Distribution Block.

Within the Element "Equipment Reliability and Integrity Management", the Plan for RCM Analysis was prepared and its implementation began in the warehouses of the Sales and Distribution Block. In the course of the year, 36% of the plan for the period 2020-2022 was implemented, which is in line with projections. Additionally, the mapping of the Equipment Reliability and Integrity Management process was completed for the Sales and Distribution Block, including the SIPOC process, defining inputs, outputs and responsibilities for each step of the process.

The implementation and application of the methodology for shift handover and the methodology for the implementation of structural walkarounds have been continued based on the plans adopted in 2019.

Three HAZID sessions were held, at the warehouses in Smederevo, Niš and at the Aeroservis Surčin Warehouse. Reports have been prepared which propose measures for mitigation and management of identified risks.

Two sessions were held to train the employees on how to apply the procedure for Change Management in the facilities of the Sales and Distribution Block (Warehouse Niš and petrol stations).

Monitoring of the implementation of OMS Projects was carried out by the Project Committee of the Sales and Distribution Block where all the above initiatives were presented, monitored, evaluated and closed.

1.09

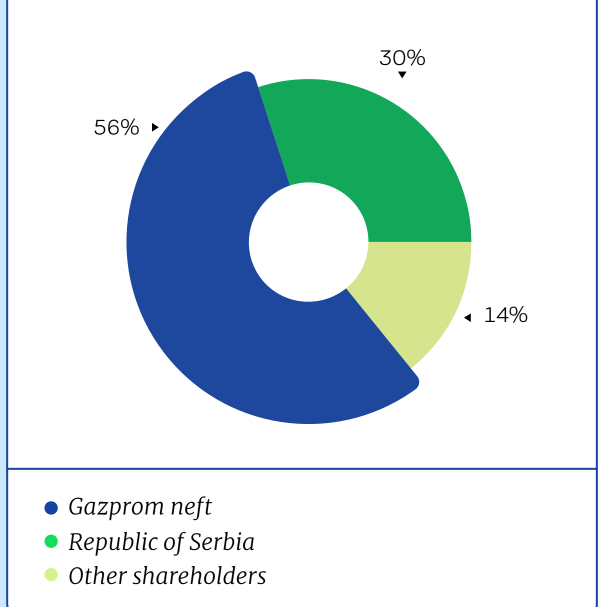
Securities

Share Capital Structure

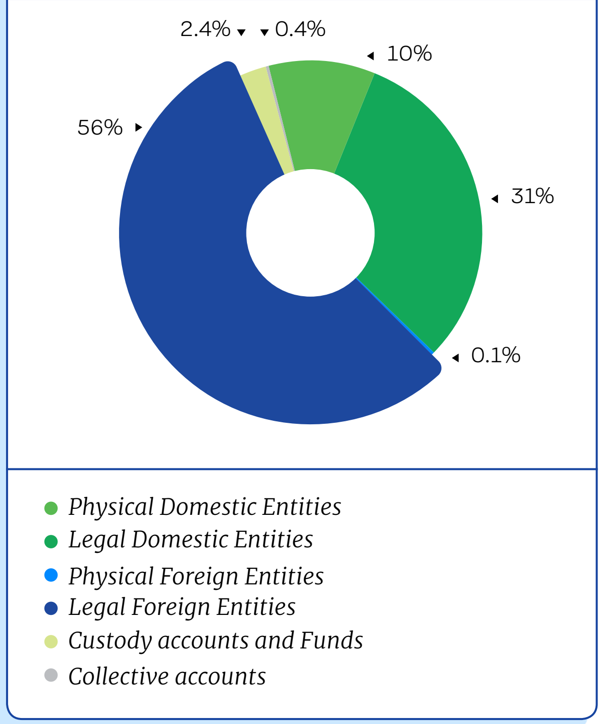
NIS share capital is RSD 81.53 billion and is divided into a total of 163,060,400 shares with a nominal value of RSD 500. All issued shares are ordinary shares, vesting their holders with the following rights:

- right to participate and vote at the assembly meetings, according to one-share-one-vote rule;
- right to receive dividends in compliance with applicable legislation;
- right to participate in the distribution of the company assets remaining after liquidation or of a bankrupt's estate in compliance with the bankruptcy law;
- preemptive right to buy ordinary shares of a new issue and other financial instruments tradable for ordinary shares, of a new issue and
- other rights in accordance with the Company Law and corporate documents.

Share capital structure based on % in share capital



Share capital structure based on entity type



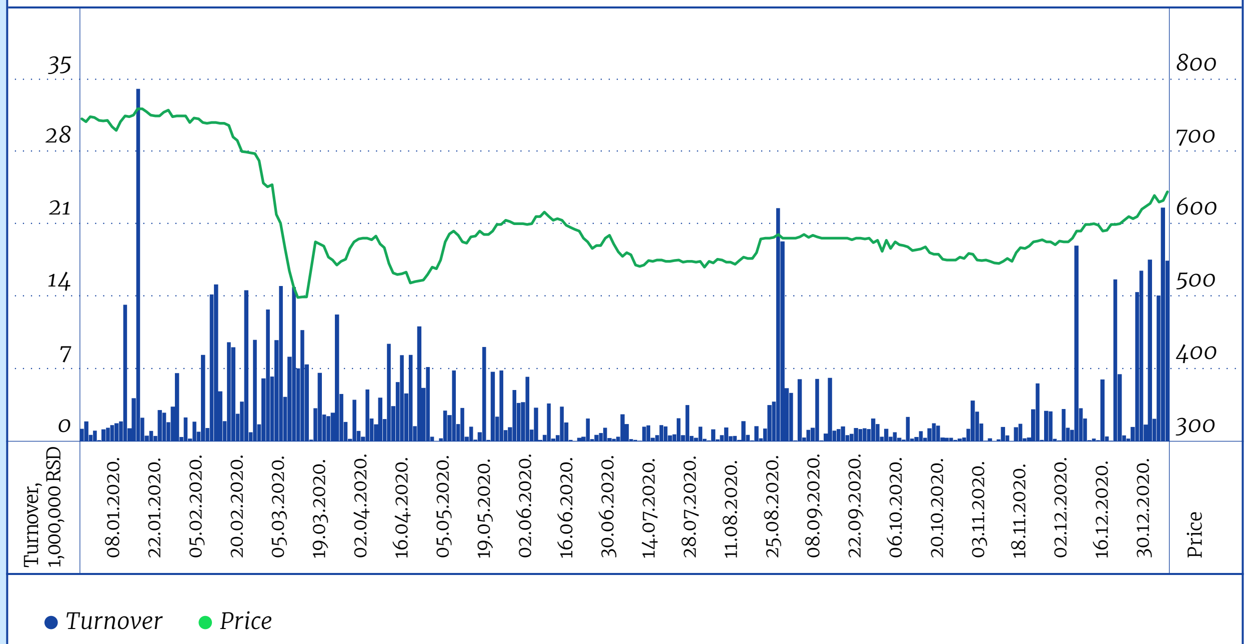
The structure of top 10 shareholders with the largest stake in equity capital is shown in the table below:

Shareholder	Number of shares	% in share capital
PJSC Gazprom Neft	91,565,887	56.15%
Republic of Serbia	48,712,149	29.87%
OTP banka Srbija a.d. – custody account – fund	2,442,977	1.50%
OTP banka Srbija a.d.– custody account – fund	973,539	0.60%
Dunav osiguranje a.d.o.	394,229	0.24%
Convest a.d. Novi Sad – collective account	227,208	0.14%
Aktiv-fond d.o.o.	182,098	0.11%
Global Macro Capital Opportunities	179,231	0.11%
Unicredit bank Srbija a.d. – custody account	164,796	0.10%
Raiffeisen banka a.d. – custody account	158,638	0.10%
Other shareholders	18,059,648	11.08%
Total number of shareholders as at 31 December 2020:		**2,068,265**

Share Trading and Indicators per Share

NIS j.s.c. Novi Sad shares are listed in the Prime Listing of the Belgrade Stock Exchange.

Price and turnover trends in 2020



Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in 2020	
Last price (31 December 2020)	644 RSD
Highest price (28 January 2020)	760 RSD
Lowest price (23 March 2020)	490 RSD
Total turnover	841,908,912 RSD
Total volume (number of shares)	1,385,488 shares
Total number of transactions	6,959 transactions
Market capitalization as at 31 December 2020	105,010,897,600 RSD
EPS	-36.24
Consolidated EPS	-46.4
P/E ratio	-17.8
Consolidated P/E ratio	-13.9
Book value as at 31 December 2020	1,533.8
Consolidated book value as at 31 December 2020	1,488.8
P/BV ratio	0.42
Consolidated P/BV ratio	0.43

In 2020, the Company did not acquire any treasury shares.

Dividends

NIS j.s.c. Novi Sad dividend policy is based on a balanced approach which takes into account the necessity to retain earnings for the purposes of future investment, the rate of return on invested capital and the amount for dividend payment. The long-term dividend policy stipulates that a minimum of 15% of net profit is to be paid to shareholders in dividends.

When deciding on profit distribution and dividend payment, the corporate management takes into consideration a number of factors, including the financial standing, investment plans, loan repayment obligations, the macroeconomic environment and legislation. Each of these factors, either individually or combined, if significant, may affect the proposed dividend payment.

At the 12th Ordinary Meeting of the Shareholders' Assembly NIS j.s.c. Novi Sad, the decision on profit distribution for 2019, Dividend Payment and Determining the Total Amount of Retained Profit of NIS j.s.c. Novi Sad was adopted. The dividends for 2019 were paid to shareholders on November 27, 2020.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net profit (loss), RSD bn[1]	-4.4	16.5[3]	40.6[4]	49.5	52.3	30.6	16.1	16.1	27.8	26.1	17.7
Total amount of dividend, RSD bn	0	0	0	12.4	13.1	7.6	4.0	4.0	6.9	6.5	4.4
Payment ratio	-	-	-	25%	25%	25%	25%	25%	25%	25%	25%
Earnings per share, RSD	-	101.1	249.0	303.3	320.9	187.4	98.8	98.6	170.43	159.86	108.55
Dividend per share, gross, RSD	0	0	0	75.83	80.22	46.85	24.69	24.66	42.61	39.97	27.14
Share price as at 31 December, RSD	-	475	605	736	927	775	600	740	724	690	749
Shareholders' dividend yield, in %[2]	-	-	-	10.3	8.7	6.0	4.1	3.3	5.9	5.8	3.6

1 Net profit of NIS j.s.c. Novi Sad.
2 Calculated as the ratio of gross dividend and year-end share price.
3 Net profit used to cover accumulated losses.
4 Net profit used to cover accumulated losses.

Investor Realations

The basic objective of NIS j.s.c. Novi Sad in relations with its investors is to establish and develop a long-term relationship based on trust through transparent information disclosure and a two-way communication. The Company takes a number of steps to make this cooperation as good as possible.

NIS j.s.c. Novi Sad organizes presentations of its results regularly, after the end of each quarter. This year, due to the measures taken to prevent the spread of coronavirus, the presentation of the results was held as a video conference call for the first time, and the representatives of the top management analyzed business and results directly with the investors. NIS j.s.c. Novi Sad participates in investment conferences held by the Erste Group, the Belgrade Stock Exchange and the investment company WOOD&Co. Our door is always open for those who wish to learn more at one-on-one meetings.

Every year, NIS j.s.c. Novi Sad organizes the Investor's Day in the Company's offices where it always presents its important projects. This year, due to the observance of the prescribed measures in order to suppress the spread of the Covid-19 virus epidemic, the Investors' Day was not organized.

The special section of the corporate website dedicated to investors and shareholders is also an invaluable source of information for all stakeholders.

This section of the corporate website is regularly updated with the latest performance presentations, financial statements, audit reports, financial calendar, as well as various other presentations and material.

Overview of Financial Instruments Used by the Group

Due to its exposure to foreign exchange risk, the NIS Group uses forward contracts in the foreign exchange market as an instrument for managing this type of risk.

As the parent company of the entire Gazprom Neft Group, which includes NIS j.s.c. Novi Sad and its subsidiaries, PJSC Gazprom Neft manages commodity hedging instruments at the level of Gazprom Neft Group and decides if it is necessary to use specific commodity hedging instruments.

This year, due to the measures taken to prevent the spread of coronavirus, the presentation of the results was held as a video conference call for the first time, and the representatives of the top management analyzed business and results directly with the investors.

Rating

Rating assigned by	Member of Group	Previous rating		Rating score	
		Rating	Date	Rating	Date
Business Registers Agency – Republic of Serbia	-	BB Very good	15 October 2019	BB Very good	26 November 2020
Bisnode d.o.o. Belgrade, Serbia	Dun&Breadstreet	5A1 Strong EVEN	8 January 2020	5A1 Strong DOWN	8 January 2021
	Bisnode AB, Stockholm, Sweden	A1	8 January 2020	B1	8 January 2021

DIGITAL TRANSFORMATION – we build the future with innovation

Digital projects and innovations are, for us at NIS, our everyday practice and the tools with which we strengthen competitiveness in all business segments and improve communication with our customers.

We were the first in Serbia to enable fast, simple and secure payment for fuel by the use of Drive.Go digital application, respecting the time and needs of our clients.

We have formed a

digital laboratory

in which our experts are engaged in scientific and research works within digital projects and we continue to strengthen the skills of our employees as a key to further development and for the application of innovations in all areas of business operation.

1.10

Corporate Governance

Statement on Application of Corporate Governance Code

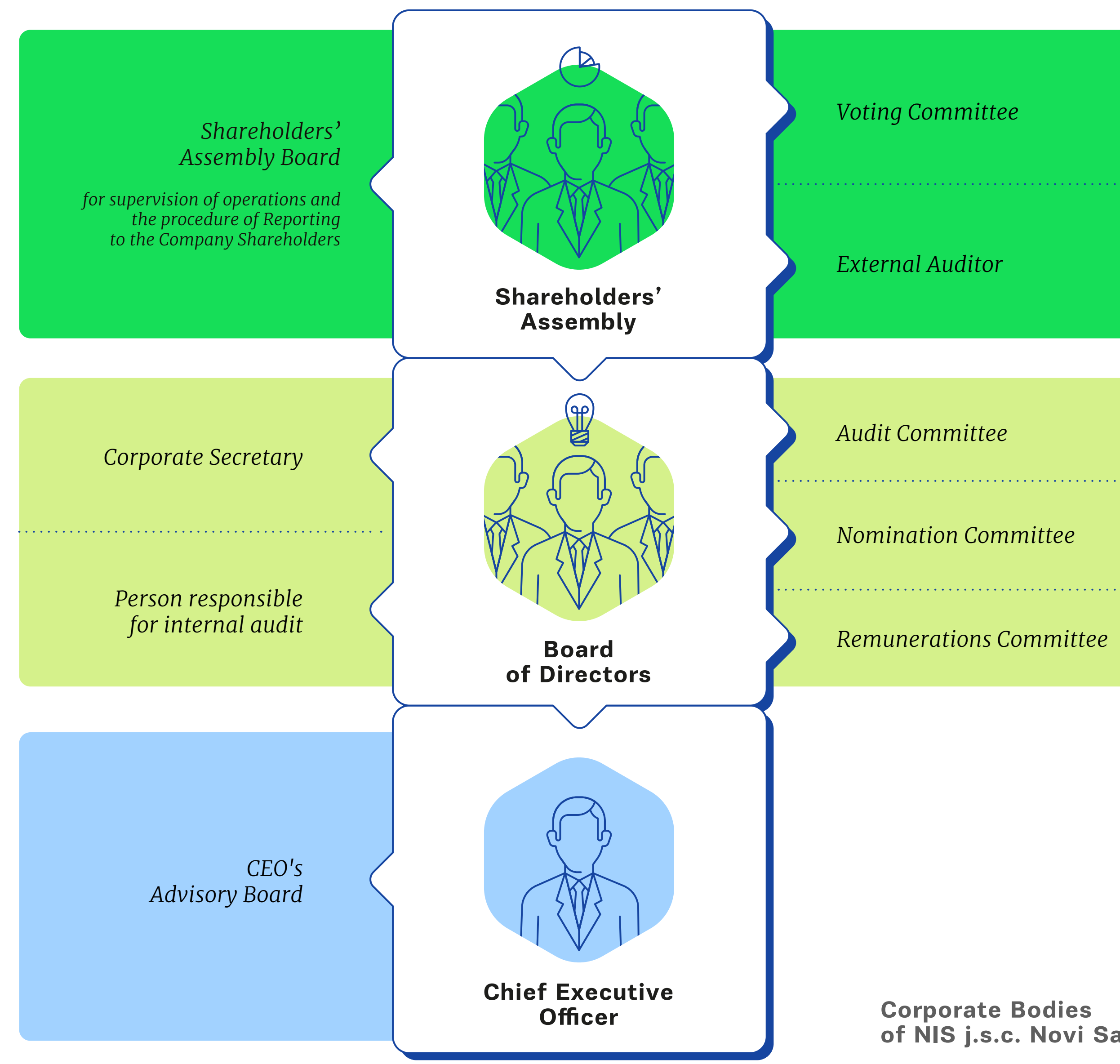
In accordance with Article 368 of the Company Law ("The Law") and Article 35 of the Law on Accounting, NIS j.s.c. Novi Sad hereby states that it applies the Code of Corporate Governance of NIS j.s.c. Novi Sad (hereinafter "The Code") which is available on the company website. This Statement contains a detailed and comprehensive outline, as well as all relevant information of corporate governance practices implemented by the Company.

The Code supplements the rules contemplated by the Law and Articles of Association of NIS j.s.c. Novi Sad ("the Articles"), which are to be complied with by the persons responsible for the corporate governance of the Company. The corporate Board of Directors ensures the application of the principles established under the Code, monitors their implementation and the compliance of the Company's organisation and operations with the Code and the Law.

Corporate Governance System

The Company has established a one-tier governance system, where the Board of Directors has the central role in the corporate governance. The Board of Directors is responsible for the implementation of the objectives and the achievement of results, while the shareholders exercise their rights and control primarily through the Shareholders' Assembly.

The provisions of the Articles of Association fully and clearly differentiate between the scope of work of the Board of Directors and the scope of work of the Shareholders' Assembly, the CEO of the Company and the bodies set up by the corporate governance bodies.



Corporate Bodies of NIS j.s.c. Novi Sad

Shareholders’ Assembly and Shareholders’ Rights

As the highest authority of the Company, the Shareholders’ Assembly is made up of all shareholders. All NIS j.s.c. Novi Sad shares are ordinary shares that give their owners the same rights, where one share carries one vote. The corporate documents do not impose restrictions regarding the number of shares or votes that a person may have at a Shareholders’ Assembly meeting.

The Shareholders’ Assembly meetings may be ordinary or extraordinary. Ordinary meetings are convened by the Board of Directors no later than six months after the end of a fiscal year. The Board of Directors convenes extraordinary meetings at its discretion or at the request of shareholders holding at least 5% of the Company shares.

The rules regarding the method of convening meetings, operation and decision-making process of the Shareholders’ Assembly, and particularly the issues relating to how shareholders exercise their rights in connection with the Shareholders’ Assembly, are laid down in advance and incorporated into the Rules of Procedure of the Shareholders’ Assembly, which are made public and available to all shareholders.

Both the notice about the Board of Directors’ decision to call a meeting of the Shareholders’ Assembly and the draft agenda are published on the first business day following the adoption of the decision; on the Company’s website and on the regulated market’s website (*www.belex.rs*). A meeting of the Shareholders’ Assembly may be called on the Company’s website (*www.nis.eu*), on the company register’s website (*www.apr.gov.rs*), on the website of the Central Securities Depository and Clearing House (*www.crhov.rs*) or on the regulated market’s website (*www.belex.rs*). The invitation is sent no later than 30 days prior to the day of an ordinary meeting, or 21 days prior to an extraordinary session. Simultaneously with the announcement of the invitation to the Shareholders Assembly meeting, the Company’s website also publishes the materials for a meeting of the Shareholders’ Assembly, which are also available for inspection at the Company’s headquarters, to each shareholder who so requests, or to their proxy until the day of the meeting.

In addition to information about the meeting time, venue and agenda, the call for a meeting of the Shareholders’ Assembly also includes information on how the shareholders may access the materials for the meeting, explanations on the shareholders’ rights, manner and deadlines for the exercise of those rights, as well as information on the Shareholders’ Day. Furthermore, proxy forms and absentee ballots (also available from the company headquarters) and electronic ballots are also published along with the call.

All decisions adopted by the Shareholders’ Assembly are published on the corporate website together with the Voting Committee’s report on the voting results, minutes of the Shareholders’ Assembly meeting, the list of the attendees and invitees, and the list of the attending and represented shareholders of the Company.

Calls and materials for Shareholders’ Assembly meetings, decisions adopted and other documents published following a Shareholders’ Assembly meeting are available in Serbian, Russian and English.

Special Shareholders’ Rights

The Agreement for the Sale and Purchase of Shares of NIS j.s.c. Novi Sad, entered into on December 24, 2008 between PJSC Gazprom Neft and the Republic of Serbia, stipulates that, as long as the contracting parties are shareholders of NIS j.s.c. Novi Sad, neither party shall sell, transfer or otherwise dispose of ownership of the share package,in part or in its entirety, for the benefit of any third party, unless it previously offers to the other party the option of purchasing the share package under the same terms as offered by the third party.

In accordance with Article 4.4.1 of the Agreement, as long as the Republic of Serbia is the shareholder holding no less than a 10% equity interest, it shall be entitled to a number of members of the Board of Directors proportional to its equity interest.

Right to Participate in the operation of the Shareholders’ Assembly

The right to participate in and vote at the Shareholders’ Assembly meeting is held by all shareholders who own NIS j.s.c. Novi Sad shares on the Shareholders’ Day (the tenth day prior to a Shareholders’ Assembly meeting), according to the central registry of shareholders maintained by the Central Securities Depository and Clearing House.

The right to participate in the operation of the Shareholders’ Assembly includes the rights of shareholders to vote and participate in the discussion about the items on the agenda of the Shareholders’ Assembly meeting, including the right to put forward motions, ask agenda-related questions and receive answers in accordance with the Law, Articles of Association and Rules of Procedure of the Shareholders’ Assembly, which specifically establish the procedures for exercising such rights.

In accordance with the Articles of Association, the right to personally participate in the Shareholders' Assembly meeting is granted to a company shareholder with at least 0.1% shares of the total number of company shares, or to a proxy representing at least 0.1% of the total number of company shares. Company shareholders who individually hold less than 0.1% of the total number of company shares may participate in the Shareholders' Assembly meeting through a joint proxy, vote in absentia or vote electronically, regardless of the number of shares held, whereby all of the above voting methods have the same effect. The stipulation of a threshold for personal participation is due to the fact that the Company has a very large number of shareholders (about 2.1 million) and a threshold in these circumstances is necessary in order not to compromise the efficiency and rationality in terms of planning and holding Shareholders' Assembly meetings.

The Company makes it possible for all shareholders to grant an online proxy and vote online prior to the meeting, wherein the proxy, i.e. the ballot must be signed by a qualified electronic signature in accordance with the law governing electronic signatures.

A shareholder of the Company who has the right to participate in the work of the session of the General Meeting shall have the right to vote on any matter voted on at the session of the General Meeting by filling in and sending the voting form through direct submission, courier service, by registered mail or electronically, which form must be received by NIS j.s.c. Novi Sad no later than 3 (three) working days before the date of the General Meeting.

Proposing Amendments to the Agenda

Pursuant to the Law, one or more shareholders of the Company with at least 5% of the voting shares may submit a proposal to the Board of Directors with: additional agenda items to be discussed at a Shareholders Assembly meeting, additional items to be decided on by the Assembly and other decisions on the existing items on the agenda, provided that such proposals are explained and that the text of the proposed decisions is attached (if a decision of the Shareholders' Assembly is proposed).

Right to Raise Questions, receive Answers and Put Forward Motions

A company shareholder who has the right to participate in the work of the Shareholders' Assembly may ask questions relating to items on the agenda of the Shareholders Assembly meeting, as well as other issues related to the Company, to the extent that the answers to these questions are necessary for the adequate assessment of the issue regarding the items on the agenda of a Shareholders' Assembly meeting. Members of the Board of Directors provide the answers to the questions.

Voting majority and amendment to the articles of association

Decisions of the Shareholders' Assembly are adopted, as a rule, by a simple majority of the votes of the present company shareholders who have the right to vote on the subject matter, unless the Law, the Articles of Association or other regulations for certain issues have not determined a higher number of votes.

Notwithstanding the above, as long as the Republic of Serbia has at least a 10% share in the Company's share capital, it is necessary that the Republic of Serbia confirms the decisions of the Shareholders' Assembly on the following issues: adoption of financial statements and auditor's reports, changes to the Articles of Association, increases and decreases in share capital, status changes, acquiring and disposing of company assets of significant value, changes of the Company's core business activity and registered office, as well as termination of the Company.

The Decision on Amendments to the Articles of Association shall be adopted at the General Meeting by a simple majority vote of all voting shareholders, where the affirmative vote of the Republic of Serbia is required. In accordance with the Law, the Memorandum of Association of the Company shall not be amended.

Shareholders' Assembly Activities in 2020

In 2020, the 12th Ordinary Meeting of the Shareholders' Assembly (June 30, 2020) and the 44th Extraordinary Meeting of the Shareholders' Assembly (April 15, 2020) were held. Both meetings were held in Belgrade, in the offices of the NIS Business Centre, 1 Milentija Popovića Street.

At the 12th Ordinary Meeting, the Shareholders' Assembly adopted the financial and consolidated financial statements of the Company for the year 2019 in line with the opinion of the auditor, and elected the auditor for 2020 (KPMG d.o.o. Beograd). The Company's 2019 Annual Report, the Report on the Audit of the Annual Report, the Report on the Performance Analysis of the Board of Directors and Its Committees, the Board of Directors' Annual Report on accounting practices, financial reporting practices in compliance with laws and other regulations, and the Report on the Performance of the Shareholders' Assembly Board were all adopted. The Shareholders' Assembly adopted the Report on the suitability of the Board of Directors' composition and the number of members in relation to company needs and the Report on the estimate of the amount and structure of remunerations for the members of the Board of Directors of NIS j.s.c. Novi Sad, which were prepared with the assistance of external experts. The Shareholders' Assembly also adopted the Rulebook on the Programme for Long-Term Stimulation of Non-Executive Directors and Members of the Management Bodies of NIS j.s.c. Novi Sad, version 4.

In addition to the aforementioned, the Shareholders' Assembly adopted the Decision on the Distribution of Earnings for 2019, Dividend Payment and Determining the Total Undistributed Earnings of the Company. The Decision prescribes that 25% of the earnings from 2019 is to be allocated for dividend payment, i.e. it was decided to pay a total of RSD 4.4 billion to the Company's shareholders.

The Shareholders' Assembly also appointed members of the Board of Directors as well as the Chairman and members of the Shareholders' Assembly Board for supervision of shareholders' operations and the reporting procedure for the current term of office.

Shareholder Relations and Information Provision

In addition to the reports NIS is legally required to publish as a joint stock company, and which are publicly available to all interested parties (including performance reports presented to shareholders at Shareholders' Assembly meetings), the Company has also established a two-way communication with shareholders and investors. Both parties can receive all necessary information about the Company's operations all year round through the Offices for Minority Shareholders Affairs in Novi Sad and Belgrade, dedicated call centre or e-mail service through which each shareholder may ask questions and receive answers electronically, as well as through the Investor Relations Service.

More information on Investor Relations on page 114

Also, the Company takes part in meetings with representatives of the investment community. Representatives of the Company's top management regularly attend quarterly presentations of business results, and these presentations include both the results from the past period, as well as the Company's future plans and strategies.

NIS j.s.c. Novi Sad applies the highest standards in the area of information sharing, and ensures equal treatment of all information users. The Company ensures that published information is available to all interested parties in an equal and easily accessible way as soon as possible, and mostly uses its website for this purpose. A special segment of the website intended for shareholders and investors contains the most important news, decisions of the authorities, answers to the most common questions of shareholders in the previous period, as well as all necessary information on shares, shareholder rights and dividends. All information and documents on the website are available in Serbian, Russian and English. The statutory reporting procedure is defined by special company documents governing the method and process of publishing information and submitting information to the relevant authorities.

The Company has an established mechanism for preventing and resolving potential conflicts between minority shareholders. There is a three-member commission tasked with resolving complaints of minority shareholders. The commission's responsibilities, manner in which it can be contacted and the way of its operation are regulated by a special internal document of the Company.

Information for minority shareholders regarding the proceedings before this commission is available on the Company's website.

The Board of Directors consists of professionals in their area. Thanks to experience, competencies, motivations, ambitions, vision and personal contribution of each member of the Board, the company employing 11,000 people unwaveringly works towards the common goal it has been pursuing for many years.

Board of Directors

The Board of Directors has a central role in corporate governance. It is collectively responsible for the long-term success of the Company, setting the main business objectives, identifying the Company's directions of future development, as well as for establishing and monitoring the effectiveness of the corporate business strategy.

The most important issues within the competence of the Board of Directors include: determining the business strategy and business objectives of the Company, managing the Company's affairs and determining the internal organisation of the Company, performing internal supervision of the Company's operations, establishing the Company's accounting and risk management policies, determining periodic financial statements and reports on the Company's operations (quarterly and semi-annually), determining the business plan of the Company and its amendments, executing decisions made at the General Meeting, appointing and dismissing the Chief Executive Officer and Chairperson of the Board of Directors, and making decisions on the establishment or liquidation of companies where the Company has a share in capital (decisions regarding the increase of capital, purchase and sale of shares or stakes in these Companies).

If authorised to do so by a decision made at the General Meeting the Board of Directors shall also issue approved shares and determine their issue price as well as the price of convertible bonds and warrants, if the General Meeting has, with the power granted it by the Board of Directors, determined the range of the issue price within that range and the market value of those shares in accordance with the Law. The Board of Directors may also make a decision on the acquisition of its own shares if this is necessary to prevent major and immediate damage to the company, in which case it is obliged to inform the shareholders at the first next session of the General Meeting about the reasons and manner of acquiring its own shares, their number and total nominal value of shares, their share in the share capital of the company, as well as the total amount paid by the company for them.

Appointment and members of the Board of Directors

The members of the Board of Directors shall be appointed and dismissed at a General Meeting by a simple majority vote of the present voting shareholders. At the 12th Ordinary Meeting of NIS' Shareholders' Assembly held on June 30, 2020, 11 members of the Board of Directors of NIS were appointed. The members elect the Chairperson of the Board of Directors, while the responsibilities of the Board of Directors' Chairperson and the CEO are clearly divided. The members of the Board of Directors have the right combination of the required knowledge, skills and experience relevant for the type and scope of activities performed by NIS j.s.c. Novi Sad.

Candidates for members of the Board of Directors could be proposed by the Nomination Committee or company shareholders that individually or jointly possess at least 5% of the Company's shares.

The Board of Directors consists of executive and non-executive directors. The Board of Directors consists of one executive member, while all the other members are non-executive. Two of these non-executive members are also independent members of the Board of Directors who meet special criteria prescribed by the Law.

The Board of Directors has a significant number of foreign members who bring international experience and who have an understanding of challenges faced by the Company. Eight out of eleven members of the

Board of Directors are Russian citizens, while three members of the Board of Directors are citizens of the Republic of Serbia.

The members of the Board of Directors must fulfil the criteria prescribed by the Law, as well as special conditions prescribed by the Articles of Association, about which they are required to give a statement at the beginning of their term of office. They are also obliged to inform the Company about all changes regarding their status, especially if these changes affect their ability to meet the requirements for membership of the Board of Directors, create a conflict of interest or breach the non-compete clause.

The term of office of the members of the Board of Directors is terminated at the first subsequent ordinary meeting of the Shareholders' Assembly, except in the case of co-optation, when the term of office of co-opted members of the Board of Directors lasts until the next meeting of the Shareholders' Assembly. Upon the expiration of their term of office, each member of the Board of Directors may be reappointed an unlimited number of times. The General Meeting may dismiss a member of the Board of Directors even before the expiry of the term of office for which they are appointed, and a member of the Board of Directors may also resign at any time in writing.

Changes in the composition of the Board of Directors in 2020

In March 2020, following his resignation, membership in the Board of Directors of Sergey Papenko ceased, and Pavel Oderov was appointed the same month as a member of the Board of Directors by co-optation. At the 12th regular session of the General Meeting of NIS, held on 30 June 2020, all members of the Board of Directors whose term of office lasted until the date of the said session were reappointed. The following were appointed members of the Board of Directors: Vadim Yakovlev, Kirill Tyurdenev, Danica Drašković, Aleksey Yankevich, Pavel Oderov, Aleksandar Krilov, Dejan Radenković, Dragutin Matanović, Alexsander Chepurin, Anatoly Cherner and Olga Visocka.

Board of Directors' Members as of 31 December 2020

Vadim Yakovlev

Chairman of NIS j.s.c. Novi Sad Board of Directors
Deputy Chairman of PJSC "Gazprom Neft" Management Board,
Deputy of PJSC "Gazprom Neft" CEO in charge of exploration and production including offshore, strategic planning and mergers and acquisitions

Born in 1970.

In 1993, Mr. Yakovlev graduated from the Moscow Engineering Physics Institute, Department of Applied Nuclear Physics. Mr. Yakovlev graduated from the Faculty of Finance at the International University in Moscow in 1995. Since 1999, he has been a qualified member of the ACCA (Chartered Association of Certified Accountants). In 2009, he earned a degree from the British Institute of Directors (IoD).

During his employment with PricewaterhouseCoopers from 1995 to 2000, Mr. Yakovlev held various positions, starting from a Consultant to being promoted to Audit Manager. In the period from 2001 to 2002, he served as Deputy Head of Financial and Economics Department, YUKOS EP c.j.s.c. From 2003 to 2004, he was Financial Director of Yugansk Neftegaz, NK Yukos. From 2005 to 2006, Mr. Yakovlev held the position of Deputy General Director in charge of economy and finance at SIBUR-Russian Tyres. From 2007 to 2010 – „Gazprom neft" PJSC Deputy CEO in charge for economics and finance. From 2007 – Deputy Chairman of the Management Board of „Gazprom neft" PJSC. From 2010 to 2011 – First Deputy CEO – „Gazprom neft" PJSC Financial Director. From 2011 he was at the post of the „Gazprom neft" PJSC First Deputy CEO.

As of 2019 he holds the post of the „Gazprom neft" PJSC Deputy CEO in charge of exploration and production.

Mr. Yakovlev was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 10 February 2009. and he was elected Chairman of the NIS j.s.c. Novi Sad Board of Directors as of 31 July 2009.

Kirill Tyurdenev

CEO of NIS j.s.c. Novi Sad
Member of NIS j.s.c. Novi Sad Board of Directors
Member of the Nomination Committee

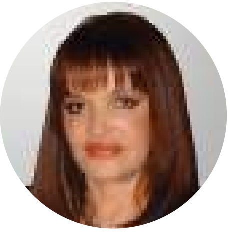
Born in 1977.

He graduated with honors from Faculty of International Relations with a bachelor's degree and later with a master degree in International Law (with specialization) at the Moscow State Institute of International Relations (MGIMO). He also obtained a Master of Laws (LL.M) degree from the University of Manchester. Completed executive education programme at international business school INSEAD and London Business School.

From 2000 to 2004, worked for A.T. Kearney and Unilever. In 2004 he joined McKinsey & Co. From 2007 through 2012, he worked for Sibur Mineral Fertilizers as Deputy CEO for Strategy and Corporate Development. From 2012 he served as Executive Vice President and Board member in JSFC Sistema. Before joining NIS j.s.c. Novi Sad Kirill Tyurdenev occupied the position of the President and Board Chair in United Petrochemical Company which, at that moment, was part of the JSFC Sistema group, and as Chairman of the Board of Directors of Ufaorgsintez.

On April 2016 Kirill Tyurdenev joined NIS j.s.c. Novi Sad as First Deputy CEO for Refining and Sales.

On December 8, 2016, he was elected as member of the Board of Directors, and on March 22, 2017 he was appointed as CEO of NIS j.s.c. Novi Sad.



Danica Drašković

Member of NIS j.s.c. Novi Sad Board of Directors

Born in 1945.

Ms. Drašković graduated from the Faculty of Law, University of Belgrade in 1968.

From 1968 to 1990, she worked in the field of finance in the banking sector, and in the field of law and commerce within the economy sector, and as a Belgrade City Magistrate. Ms. Drašković is the owner of the publishing house "Srpska reč", founded in 1990. She is the author of three books written in the opinion journalism style.

From 1 April 2009 to 18 June 2013, Ms. Danica Drašković was a member of the NIS j.s.c. Novi Sad Board of Directors, being re-elected on 30 June 2014.

Alexey Yankevich

Member of NIS j.s.c. Novi Sad Board of Directors

Deputy CEO for Economics and Finance PJSC “Gazprom Neft”

Born in 1973.

In 1997, Mr. Yankevich graduated from Saint-Petersburg State Electrical Engineering University (“LETI”), majoring in optical and electronic instruments and systems. In 1998, he completed a course at LETI-Lovanium International School of Management in Saint-Petersburg.

Mr. Yankevich was employed with CARANA, a consulting company from 1998 to 2001. In the period from 2001 to 2005 he served as Deputy Head of Planning, Budgeting and Controlling Department at YUKOS RM o.j.s.c. (business unit responsible for logistics and downstream operations). In 2004, he became a Certified Management Accountant (CMA). From 2005 to 2007 he worked as deputy CFO at LLK-International (production and sale of lubricants and special petroleum products; part of the LUKOIL group). From 2007 to 2011 he held the post of Head of the Planning and Budgeting Department, and was Head of Economics and Corporate Planning Department at “Gazprom Neft” PJSC.

Since August 2011 he has served as acting Deputy CEO for Economics and Finance at “Gazprom Neft” PJSC. Mr. Yankevich has been a member of the Management Board of “Gazprom Neft” PJSC and Deputy CEO “Gazprom Neft” PJSC for Economics and Finance since March 2012.

Mr. Yankevich was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 18 June 2013.

Pavel Oderov

Member of NIS j.s.c. Novi Sad Board of Directors

Deputy CEO for Foreign economic activities PJSC “Gazprom Neft”

Born in 1979.

In 2000, Mr. Oderov graduated from the National University of Oil and Gas "Gubkin University", Faculty of Economics.

In 2002, he graduated from the National University of Oil and Gas "Gubkin University", Faculty of Management.

In the period from October 2002 to June 2007 He held positions such as leading expert, head of a section, deputy heat of Department in the field of marketing of Lukoil-Neftekhim ZAO.

From September 2007 to February 2020 he held various managerial positions within the „Gazprom“ Group.

Since 23.06.2017, Mr. Oderov is Chairman of the Board of Directors of South Stream Serbia AG.

From February 2020 to the present he has served as JSC Gazprom neft Deputy CEO for Foreign economic activities, since the May 2020 he is a member of Management board of PJSC “Gazprom – neft”

Mr. Oderov was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 25 March 2020.

Alexander Krylov

Member of NIS j.s.c. Novi Sad Board of Directors

Director of the Division for Regional Sales in PJSC “Gazprom Neft”

Born in 1971.

In 1992, Mr. Krylov graduated from LMU (Leningrad) and graduated from the Faculty of Law of Saint Petersburg State University in 2004. In 2007, he earned MBA degree from Moscow International Business School MIRBIS, specializing in Strategic management and Entrepreneurship.

From 1994 to 2005 Mr. Krylov held managerial positions in the field of real estate sales (Chief Executive Officer, Chairman) in the following companies: Russian-Canadian SP “Petrobild“; c.j.s.c. “Alpol“. From 2005 – 2007 he was deputy director in the Division for implementation in “Sibur” Ltd. In April 2007, Mr. Krylov was appointed Head of the Division for Petroleum Product Supply, head of the Regional Sales Division and Director of the Regional Sales Department at “Gazprom Neft” PJSC.

Mr. Krylov was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 29 November 2010.

Dragutin Matanović

Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of the Nomination Committee

Born in 1954.

Batchelor of Electric Engineering (BEE).

He was employed at the position of electric engineer at the Company „Lola računari“ in Belgrade.

Director of the Company „Lola računari“ in Belgrade. He was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 06 September 2019.

Dejan Radenković

Member of NIS j.s.c. Novi Sad Board of Directors
Member of the Audit Commission

Born in 1971.

Elementary and high education completed in Priština, graduated from the Economy faculty in Priština and awarded a Master degree in the field of Economy from the EDUCONS University.

Mr Radenković has started his professional experience with Company for trade and services „Balkan auto“ in Priština and CC PTT „Serbia“. As of 2005 he was at the post of Director of „Orbita“ j.s.c. and from 2010 he was with the „Ratko Mitrović“ j.s.c., at the post of General manager, Executive manager and member of the Board of Directors. He held the post of member of the Board of Directors of the Economy faculty in Priština, Deputy General manager of the First Global Brokers company from Belgrade. He was Chairman of the Board for supervision of operations and Member of the Board of Directors of Dunav Bank j.s.c. Zvečan, where he also held the post of the Chairman of the Board of Directors. From 2013 to 2017 he was a member of the Supervisory Board of the JV „Lasta“ j.s.c. Belgrade. He is a member of the Board for supervision of operations of the „MTS bank“ j.s.c. Belgrade at the present.

He was elected member of the Parliament of Republic of Serbia in 2008, 2012, 2014 and 2016.

He was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 27 June 2019.

Alexander Chepurin

Independent Member of NIS j.s.c. Novi Sad Board of Directors

Member of the Nomination Committee

Born in 1952.

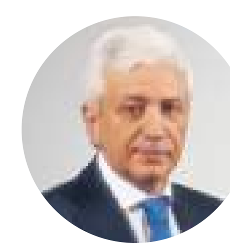
Graduated from the Moscow State Institute of International Relations (MGIMO University) in 1975.

A career diplomat, from 1975 onwards Mr. Chepurin worked at the Ministry of Foreign Affairs of the USSR and later, the Ministry of Foreign Affairs of the Russian Federation.

From 1986 to 1992, he headed the Economy group of the Embassy of the USSR (Russia) in Italy. From 1994 to 1996, he was Director of one of the leading Departments in the Ministry, the Human Ressources Department. From 1994 to 1997 he was also a member of the United Nations International Civil Service Commission in New York (ICSC). As from 1996 to 2000 he was Ambassador Extraordinary and Plenipotentiary of the Russian Federation in Denmark. From 2005 to 2012, Mr. Chepurin was Director of the Russian Federation Ministry of Foreign Affairs Department for Relations with Compatriots Abroad. From 2012 to June 2019, he served as Ambassador of the Russian Federation to Serbia. He has the rank of Ambassador Extraordinary and Plenipotentiary and several Russian and Serbian state orders and medals. In 2009, he was awarded a PhD Degree in Political Science.

From 2012 to 2019 Mr. Chepurin closely dealt with issues of cooperation development between Russian energy companies and the Republic of Serbia, focusing on strengthening cooperation between Russian and Serbian energy companies.

He is a member of the Russian international affairs council. Mr. Chepurin was elected independent member of the NIS j.s.c. Novi Sad Board of Directors as of 27 June 2019.



Anatoly Cherner

Member of NIS j.s.c. Novi Sad Board of Directors

Deputy Chairman of the PJSC “Gazprom Neft” Executive Board,

Deputy CEO for Logistics, Refining and Sales at PJSC “Gazprom Neft”

Chairman of the Remuneration Commission

Born in 1954.

Mr. Cherner graduated from Grozny Oil Institute in 1976 with a degree in chemical oil and gas engineering.

In the same year he was employed at the Sheripov Grozny Refinery, starting as an operator to become refinery director in 1993. In 1996, he joined SlavNeft as Head of the Oil and Oil Products Trading Department and was later appointed Vice-Chairman of the company. He joined SibNeft (from June 2006 – “Gazprom Neft” PJSC) as Vice-Chairman for refining and marketing in April 2006. In December 2007 he was appointed Deputy CEO for logistics, refining and sales in “Gazprom Neft“ PJSC.

Mr. Cherner was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 10 February 2009.

Olga Vysotskaia

Independent Member of NIS j.s.c.Novi Sad Board of Directors

Chairman of the Audit Commission
Member of the Remuneration Commission

Born in 1961.

Graduated cum laude from the Leningrad State University in 1984, from the Department of Economy Cybernetics, with specialisation in economic mathematics. Post-graduate studies in mathematical cybernetics at the Institute of social and economic studies of the USSR Academy of science, Leningrad division, in 1987. Completed the MBA at Bristol University in 1998. Earned the Professional independent director diploma from the London Institute of Directors in 2009.

She held the position of Chair of the Board of Directors (BoD), CEO, Chair of science and production companies from 1988 to 1995, and she was Director of many private companies. From 1995 to 2003 she held various partner positions with KPMG in New York and Moscow. From 2003 to 2005 she was person in charge of Internal audit Directorate of "Yukos", Moscow. From 2005 to 2008 she was Consulting services Executive partner of Deloitte&Touche. From 2006 to 2013 she held positions of independent member of the BoD, Chair of the Audit Commission, member of the Strategy Commission, member of the Remuneration Commission of "EM - alliance" and "KIT Finance", as well as independent member of the Audit Commission of OJSC "Baltika". From 2012 to 2013 she was a partner in PricewaterhouseCoopers (PwC) and from 2013 to 2014 - independent member of the CJSC "NefteTrans-Service" Board of Directors, Chair of the Audit Commission, member of Remuneration Commission. As of 2013 she is holding position of independent member of LTD "ЇNK" BoD and from 2015 to 2018 she held position of independent member of BoD of JSC "SUEK".

Ms Vysotskaia was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 21 June 2018.

Composition of the Board of Directors as at 31 December 2020

Function	Name and surname	Date of the first appointment into BoD	CEO	Non-executive Director	Independent Director	The Audit Committee	Nomination Committee	The Remuneration Committee	Citizenship
Chairperson of the BoD	Vadim Yakovlev	February 10, 2009		X					Russian
CEO	Kirill Tyurdenev	December 8, 2016	X				member		Russian
Member of BoD	Pavel Oderov	March 25, 2020.		X					Russian
Member of BoD	Alexey Yankevich	June 18, 2013		X					Russian
Member of BoD	Alexander Krylov	November 29, 2010		X					Russian
Member of BoD	Dejan Radenković	June 27, 2019		X		member			Serbian
Member of BoD	Danica Drašković	April 1, 2009[1]		X					Serbian
Member of BoD	Alexander Chepurin	June 27, 2019		X	X		member		Russian
Member of BoD	Anatoly Cherner	February 10, 2009		X				President	Russian
Member of BoD	Olga Vysotskaia	June 21, 2018		X	X	President		member	Russian
Member of BoD	Dragutin Matanović	September, 6, 2019		X			President		Serbian
BoD Commissions members that are not members of BoD									
Member of Audit Committee	Alexey Urusov					member			Russian
Member of the Remuneration Committee	Zoran Grujičić							member	Serbian

1 *Danica Drašković was a member of the Board of Directors of NIS j.s.c. Novi Sad (earlier Executive Board) from April 1, 2009 to June 18, 2013, and she was re-elected as a member of Board of Directors on June 30, 2014.*

Membership in Other Companies' Boards of Directors or Supervisory Boards

Vadim Yakovlev	• PJSC NGK "Slavneft" • Salym Petroleum Development N.V. (Chairman of Supervisory Board) • FGAOU "Tyumen State University (member of the Supervisory board) • LTD "UT IT „Novaya Industriya" (Chairman of the BoD)
Kirill Tyurdenev	-
Danica Drašković	-
Alexey Yankevich	• PJSC "NGK Slavneft" • "Gazprom Neft Lubricants s.p.a." Italy (Chairman of the BoD)
Pavel Oderov	• South Stream Serbia AG (Chairman of the BoD) • Overgaz Inc. AD • Shtokman Development AG (Chairman of the BoD) • South Stream Bulgaria JSC (Chairman of the BoD) • SOUTH STREAM GREECE NATURAL GAS PIPELINE S.A. (Chairman of the BoD) • South Stream Hungary Ltd. (Deputy Chairman of the BoD) • TÜRKAKIM GAZ TAŞIMA ANONİM ŞİRKETİ • JSC "System of transit gas pipelines" "EuRoPol GAZ s.a." (SGT EuRoPol GAZ s.a.)" • JSC "Football club "Zenit" • LTD "Basketball club "Zenit"
Alexander Krylov	• Association Hockey Club "Avangard" (Chairman of the BoD) • LTD "KHL"
Dragutin Matanović	-
Dejan Radenković	-
Alexander Chepurin	-
Anatoly Cherner	• PJSC NGK "Slavneft" • PJSC "Slavneft-YANOS" • Saint Petersburg International Mercantile Exchange • "Gazprom Neft Lubricants Italia s.p.a."
Olga Vysotskaia	• Nonprofit organization «Serebryanoe vremya» (Chair of the Supervisory Board, Director) • LTD INK (independent member of the BoD, Chair of the Audit Commission)

Board of Directors' Activities in 2020

The Board of Directors held 2 sessions with the personal presence of members and 16 written sessions. All meetings of the Board of Directors were attended by all the members, with a maximum average attendance of 100%.

On the agenda of the Board of Directors, in addition to the regular activities related to the consideration of the annual report of NIS j.s.c. Novi Sad, the financial statements and the consolidated financial statements of the Company for 2019, the adoption of the Company's periodic (quarterly) reports in 2020, convening of the regular session of the General Meeting, adoption of the Company's business plan, setting the date, procedure and method of payment of dividends to the Company's shareholders, the following decisions were made: to convene the 44th extraordinary session of the General Meeting, the sale of shares in Politika a.d. Beograd, the purchase of additional 34% share in the share capital in Jadran-Naftagas d.o.o. Banja Luka and termination of the status of NIS j.s.c. Novi Sad as a member in NIS Svetlost d.o.o. Bujanovac through the initiation of bankruptcy proceedings, and approval of modification of the deadline for repayment of subordinated and financial loans between NIS js.c. Novi Sad and foreign subsidiaries (NIS PETROL EOOD, Republic of Bulgaria, NIS PETROL S.R.L. Romania and NIS PETROL d.o.o. Banja Luka), as well as approval of the conclusion of additional Subordinated and/or Financial Loan Agreements between NIS j.s.c. Novi Sad and NIS PETROL S.R.L. Romania and the annex to the Intercompany Loan Agreement between NIS j.s.c. Novi Sad and subsidiaries in the Republic of Serbia (NAFTAGAS - Oil Services LLC Novi Sad and NTC NIS - Naftagas LLC Novi Sad). Also, the Board of Directors approved amendments to the financing terms under the Financing Agreement and the Credit Line between the Company and Banca Intesa a.d. Beograd and Všeobecná úverová banka, a.s. Republic of Slovakia. The Board of Directors also approved the proposal for dismissal and approval of candidacy to the position of General Manager of the subsidiary NIS PETROL a.d. Beograd, made a decision on the co-optation of a member of the Board of Directors and appointed members of the commissions of the Board of Directors of the Audit, Fees and Appointments Company for the current term of office. For the purpose of achieving the Company's projected objectives, reviewing the Company's performance and the quality of corporate governance, the Board of Directors, through quarterly reports, considered business analyses in the reporting period with assessments of NIS j.s.c. Novi Sad operations by the end of 2020, as well as through the report on post-investment monitoring of NIS j.s.c. Novi Sad projects in Serbia and abroad. For the purpose of reviewing its own performance, the Board of Directors also analysed its own work, and in this regard, submitted the relevant Report for the 12th Regular Session of the General Meeting. The Board also adopted the Policy: Risk Management and Internal Controls of NIS j.s.c. Novi Sad, version 1.0 and Accounting Policies of NIS j.s.c. Novi Sad, version 2.0.

In 2020, the Board of Directors adopted 64 decisions, while the implementation of these decisions is monitored through periodic reports on the implementation of decisions and orders of the Board of Directors.

Attendance at the meetings of the Board of Directors and Board of Directors' Committees in 2020

BoD Member	Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee	
	% of attendance	Number of meetings	% of attendance	Number of meetings	% of attendance	Number of meetings	% of attendance	Number of meetings
Vadim Yakovlev *Chairperson of the BoD*	100%	18/18	-	-	-	-	-	-
Kirill Tyurdenev *CEO*	100%	18/18	-	-	-	-	100%	2/2
Alexey Yankevich	100%	18/18	-	-	-	-	-	-
Sergey Papenko[1]	100%	3/3	-	-	-	-	-	-
Alexander Krylov	100%	18/18	-	-	-	-	-	-
Pavel Oderov[2]	100%	14/14	-	-	-	-	-	-
Danica Drašković	100%	18/18	-	-	-	-	-	-
Anatoly Cherner	100%	18/18	-	-	100%	3/3	-	-
Olga Vysotskaia	100%	18/18	100%	9/9	100%	3/3	-	-
Dejan Radenković	100%	18/18	100%	9/9	-	-	-	-
Alexander Chepurin	100%	18/18	-	-	-	-	100%	2/2
Dragutin Matanović	100%	18/18	-	-	-	-	100%	2/2
Members of the BoD's Committees who are not members of the BoD								
Zoran Grujičić	-	-	-	-	100%	3/3	-	-
Alexey Urusov	-	-	100%	9/9	-	-	-	-

1 *The term of office of the member of the Board of Directors was terminated on March 5, 2020 due to a resignation.*
2 *Member of the Board of Director from March 25, 2020.*

Board of Directors' Rules of Procedure and Meetings

The Rules of Procedure of NIS' Board of Directors and Committees of the Board of Directors ("BoD Rules of Procedure") govern the operation and decision-making process of NIS' Board of Directors and Committees of the Board of Directors, including the procedure for convening and holding meetings.

For each fiscal year, the Board of Directors adopts a work plan which includes all issues to be considered in accordance with the applicable laws and company business needs, and establishes the deadlines for these issues to be considered in the meetings of the Board of Directors. In addition to planned issues, the Board of Directors also deals with other issues within its scope of work, as required.

In order to ensure that the members of the Board of Directors are adequately informed before making decisions, and to keep them up to date with the activities of the Company, the CEO and the management ensure that the members of the Board of Directors receive accurate, timely and complete information on all issues reviewed at meetings and all other important issues concerning the Company. Meetings of the Board of Directors are prepared with the assistance of the Corporate Secretary and under the supervision of the Chair of the Board of Directors, so that each member may adequately contribute to the work of the Board of Directors.

The Board of Directors adopts decisions by a simple majority of votes of all members of the Board of Directors, except for the decision to co-opt, which is made by a simple majority of votes of attending members, and decisions requiring a different majority under the Law and/or the Articles of Association. Each member of the Board of Directors has one vote.

Board of Directors and Committee Members' Remunerations

Remuneration Policy – In 2016, the Shareholders' Assembly adopted the current Remuneration Policy for the Members of the Board of Directors and of the Board of Directors' Committees. The Policy specifies that the remuneration should be attractive and competitive, in order to attract and retain the persons that meet the professional and other criteria required by the Company for the members of the Board of Directors and its Committees. At the same time, the remuneration should not significantly deviate from the compensation paid to the members of the Board of Directors and its Committees in other companies with the same or similar activities, size and scope of operations.

In line with the remuneration policy, the remuneration for executive directors is specified under employment contracts or fixed-term contracts for each executive director of the Company. In this case, they do not receive any remuneration for their membership in the Board of Directors and its Committees, except for the compensation of costs and professional liability insurance in relation to the membership and work as part of the Board of Directors and its Committees.

Remuneration Structure – The remuneration policy stipulates that the remuneration consists of:

- Fixed portion,
- Reimbursement of expenses, and
- Liability insurance for the members of the Board of Directors and its Committees.

Fixed (permanent) portion of the remuneration to the members consists of a fixed portion of the annual remuneration for the membership in the Board of Directors and the fixed annual remuneration for participation in the Committees of the Board of Directors. This type of remuneration includes the compensation for the time and effort that the members of the Board of Directors or its Committees put into their role and the preparation and active participation in the meetings of the Board of Directors or its Committees. This requires the members to review the documents in advance, be present and take an active part in the meetings.

Reimbursement of expenses – Members of the Board of Directors and its Committees are entitled to reimbursement for all expenses incurred in connection with their membership on the Board of Directors or its Committees, in line with internal corporate documents.

Liability insurance of members of the Board of Directors – Members of the Board of Directors are entitled to liability insurance (Directors & Officers Liability Insurance) in accordance with internal corporate documents.

Amendment to the Remuneration Policy –In order to maintain the remuneration at an appropriate level, the remuneration policy is subject to periodic reviews and analyses, and should reflect the needs, abilities and interests of the Company and other changes in relevant criteria. As recommended by the Remuneration Committee, the Shareholders' Assembly adopted the current Remuneration Policy for the Members of the Board of Directors and of the Board of Directors' Committees on 28 June 2016, when the previous version of the policy ceased to apply.

Remuneration Committee Report – At least once a year, the Remuneration Committee prepares a report on the assessment of the amount and structure of remunerations for the Company's Shareholders' Assembly. Acting within its competence, the Remuneration Committee carried out a 2020 evaluation of the compliance of the amount and structure of remunerations for the members of the Board of Directors with the principles, framework and criteria defined by the current Remuneration Policy. Consequently, it compiled an appropriate report adoptedat the 12th Ordinary Meeting of the Shareholders' Assembly, held on 30 June 2020. Based on the results presented and the analysis of the remuneration market, this report concludes that the annual amount of the fixed remuneration for non-executive members of the Board of Directors is at the level of the corresponding reference group, that the structure of the compensation for independent members of the Board of Directors is in line with the current market practices, and that the amount and structure of the remmuneration the members of the Board of Directors is in accordance with the principles, framework and criteria provided for by the current Remuneration Policy for the Members of the Board of Directors and the Board of Directors' Committees.

Total amount paid to Board of Directors members in 2020, net RSD	
BoD Members	254,786,927 RSD

Long-Term Incentive Program

The long-term incentive program for non-executive directors and members of governing bodies is subject to the Rules on the Long-Term Incentive Program for Non-Executive Directors and Members of Governing Bodies, which lays down the program's underlying principles and parameters.

The program is one of the key elements of the incentive system for non-executive directors and members of the Company of governing bodies, aimed at providing incentives for the non-executive directors and members of governing bodies to ensure the achievement of the Company's long-term objectives.

The purpose of the long-term incentive program is to align the interests of program participants with the long-term interests of the Company and its shareholders, and to provide incentives for program participants which will ensure long-term sustainable development of the Company and the achievement of its strategic objectives. These incentives, in turn, reflect the Company's capabilities and requirements and are linked to the positive performance of the Company during a period that will ensure an increase in shareholder value.

The long-term incentive program consists of consecutive cycles. Program parameters and method of inclusion into the program are defined in advance in the foregoing Rules.

Description of the Diversity Policy Applied in Relation to the Governing Authorities

Documents Equality Policy, Corporate Governance Code of NIS j.s.c. and the Report on adequacy of the composition of the Board of Directors and the number of members of the Board of Directors of NIS j.s.c. Novi Sad to the needs of NIS j.s.c Novi Sad adopted by the Shareholders' Assembly of NIS j.s.c. Novi Sad (hereinafter referred to as the Documents) define company's commitment to observation of various aspects of diversity in terms of representation in the Board of Directors.

Usage of gender-specific expressions in the following text shall be understood as neutral, applicable both to female and male gender.

One of the goals of the Documents is to ensure complementarity and diversity of the Board of Directors taking into account different qualifications, experience and knowledge and thus enable prudent and diligent management and supervision of the company and thereby achievement of strategic goals and ensuring long-term value for all stakeholders.

We believe that fostering diversity enhances the business of our company on many levels: reinforcing it with diverse experiences, enriching it with different cultures, providing diversity of ideas and views and assuring market competitiveness. These documents serve to provide a framework for better implementation of the strategy creating opportunity to achieve maximum performance and sustainable business activity by providing everyone with equal opportunities for employment and decision-making – regardless of the gender, age, nationality and any other personal characteristics. The purpose of the Diversity segments of the Documents is to promote diversity among members of the Board of Directors including a balanced representation of both genders in corporate bodies. With this approach we put in place diversity of teams in a way that assures existence and exchange of various experiences, application of more or less specific skills, as well as competencies and personality traits that will encourage new learning and mutual development. It is this aspect that makes a key difference in business of any company and is the foundation for future growth.

Defined conditions for the selection of suitable candidates for membership in the Board of Directors represent the basis for composition of the Board thus making sure that this corporate body as a whole acts in compliance with defined rules, possesses an appropriate set of competencies and skills, qualifications and experience required for the long-term and sustainable business of the company.

Diversity aspects are numerous, the key ones are defined in relation to numerous factors – economic environment, strategic direction of the company, talent development strategy, new trends in the industry and many others. However, we would like to single out several aspects that are essential for our business and are deeply woven into our corporate culture – gender and age diversity, professional diversity, diversity of competencies.

Gender diversity

The energy sector is characterized by a low representation of women in management positions. Gender balance in governing and supervisory bodies is an important aspect of company's diversity. In the current composition of the Board of Directors of NIS j.s.c. Novi Sad, 18% are women (2 out of 11).

Age diversity

Diversification in the domain of merging several different generations, where each leaves its mark and contributes the strength of its generation. Experience and knowledge, ideas and thoughts, traditional and modern approaches are intertwined, in perfect synergy with the best possible result.

Professional diversity and diversity of competencies

The Board of Directors consists of professionals in their area. Thanks to experience, competencies, motivations, ambitions, vision and personal contribution of each member of the Board, the company employing 11,000 people unwaveringly works towards the common goal it has been pursuing for many years.

Our goal in 2021 is to adopt an official document Diversity Policy which establishes the rules regarding representation in the Board of Directors (professional qualifications, experience, skills, knowledge, competencies, gender and age), shapes the goals, implementers and manner of implementation, as well reporting on the results of the Policy during a reporting period.

Induction and Training of the Board of Directors' Members

Upon appointment, members of the Board of Directors are introduced to the Company's operations, and provided with greater insight into the Company' operating procedures, strategies and plans, and the key risks it faces, and their expedited active involvement in the activities of the Board of Directors. This includes, among other things, introducing them to internal company documents, and providing basic information about the Company, corporate governance, persons appointed to managerial positions, information on the corporate performance, business strategy, business plan, objectives and other information they need to able to perform their roles.

The Company also organises special programs for additional training and development and allocates funds for these purposes in cases where members of the Board of Directors express the need for this.

Analysis of the Board of Directors' Activities

The Board of Directors analyzes its performance and the performance of its Committees annually, in order to identify potential problems and propose measures to improve its performance.

Its performance is analyzed through a survey completed by the members of the Board of Directors which contains two sets of key questions for evaluation of the Board of Directors' performance. The first group comprises criteria for evaluating the work of the Board of Directors with respect to its objectives, duties and responsibilities, while the second group comprises criteria for evaluating the procedures applied in the work of the Board of Directors.

The results of the valuation, which are derived from the responses of members of the Board of Directors provided in the survey, are presented to the Shareholders' Assembly in a special report.

Strategic Meetings

The members of the Board of Directors attend strategic sessions that provide them with a better insight into the Company's business operations and enable them to analyze the priority areas of development and forecasts for the key performance indicators and prerequisites for the Company's long-term development.

Board of Directors’ Committees

With a view to ensuring efficiency, the Board of Directors established three standing committees as its advisory and expert bodies which provide assistance to its activities, particularly with regard to: issues in its domain, preparation and supervision of the implementation of decisions and documents it adopts, and performance of certain specialised tasks required by the Board of Directors.

The Board of Directors established the following Committees:
- Audit Committee,
- Remuneration Committee and
- Nomination Committee.

As appropriate, the Board of Directors may establish other standing or ad hoc committees to deal with issues relevant for its activities.

Each of the three Committees consists of 3 members which are appointed and dismissed by the Board of Directors. The Board also appoints one of its members as the chairperson, who manages the work of the Committee and prepares, convenes and presides over its sessions and performs other tasks necessary for carrying out activities from its domain.

The majority of members in each Committee are non-executive directors, and at least one member must be an independent director of the Company. The Board of Directors can choose members of its Committees among persons who are not the Company’s directors but have the adequate knowledge and work experience relevant to the Committees.

The role, competencies and responsibilities of the Committees are defined by law, and by the Rules of Procedure of the Board of Directors and its committees which also regulate the composition, conditions for selection and number of members, term of office, dismissal, manner of operation, as well as other relevant issues related to the work of the Board of Directors’ Committees.

At least once a year, these committees draft and submit to the Board of Directors reports on issues within their scope of work, but the BoD may request reports on all or some of the issues within their scope at shorter intervals as well.

The Board and its committees may seek professional advice from independent experts when necessary for the successful performance of duties.

Audit Committee

In addition to the general conditions for the composition of the Board of Directors’ Committees, the Chairperson of the Audit Committee must be an independent director of the Company, while at least one member must be a certified auditor or who has the adequate knowledge and work experience in the field of finance and accounting, and who is independent from the Company.

Members of the Audit Committee are:
- Olga Vysotskaia, Chair of the Audit Committee,
- Dejan Radenković, Member of the Audit Committee and
- Alexey Urusov, Member of the Audit Committee.

The chair and members of the Audit Committee were appointed by the decision of the Board of Directors dated 6 August, 2020, and all three members performed the above functions in the Audit Committee in the previous term.

In 2020, the Audit Committee held two meetings where the members were personally present, as well as seven written sessions. Among other things, the Committee analyzed the Quarterly Report, the Financial Statements and the Consolidated Financial Statements for the Q1, Q2 and Q3 of 2020 and subsequently made appropriate recommendations to the Board of Directors. The Audit Committee also analyzed the 2019 Annual Report as well as the report of an independent auditor, PricewaterhouseCoopers d.o.o. Beograd, on the audit of this report. The Committee also assessed the qualifications and independence of the auditors of KPMG d.o.o. Beograd relative to the Company, as well as the consent of the Auditor's Contract. In addition, the Audit Committee prepared the Annual Internal Audit Plan for NIS j.s.c. Novi Sad for 2020 and the Accounting policies of the Company (version 2.0), and Policy: Risk Management and Internal Controls of the Company (version 1.0). Also, it has been reviewed audit findings and significant audit issues for 2019 and monitored the implementation status of the audit recommendations given in the Management Letter Points of NIS j.s.c. Novi Sad for 2019, and reported on 31 August 2020. The Audit Committee analyzed the Internal Audit’s Report with the results of the internal audit of the operations of NIS j.s.c. Novi Sad for year 2019 and 3 and 6 months of 2020, as well as the Report on the performed audit of the reconstruction of the MHC/DHT plant within the project of Refinery Processing Development of the Company NIS a.d. Novi Sad.

Remuneration Committee

Members of the Remuneration Committee are:
- Anatoly Cherner (Chair of the Remuneration Committee),
- Olga Vysotskaia (Member of the Remuneration Committee) and
- Zoran Grujičić (Member of the Remuneration Committee).

The President and members of the Remuneration Commission were appointed by the decision of the Board of Directors dated August 6, 2020. All three members performed functions in the Remuneration Committee in the previous term of office as well.

During 2020, the Remuneration Committee held one session with the personal presence of members and three written sessions. The Committee reviewed the performance of key indicators for 2019, the rating system and indicators for rewards for 2020, and also proposed remunerations for the auditors of the Financial and Consolidated Financial Statements of NIS j.s.c. Novi Sad for 2020. The Remuneration Committee prepared the Report on the estimate of the amount and structure of remuneration for the members of the Board of Directors of NIS j.s.c. Novi Sad, which was submitted for review to the Shareholders' Assembly on the session held on 30 June 2020.

Nomination Committee

Members of the Nomination Committee are:
- Dragutin Matanović (Chair of the Nomination Committee),
- Alexander Chepurin (Member of the Nomination Committee) and
- Kirill Tyurdenev (Member of the Nomination Committee).

The chair and members of the Nomination Committee were appointed by the decision of the Board of Directors dated 6 August, 2020, and all three members served on the Nomination Committee in the previous term.

In 2020, the Nomination Committee held two written sessions. Committee considered the proposal for dismissal from te position and approval of the candidacz for the position of the director of the subsidiary NIS PETROL j.s.c. Belgrade and prepared a Report on the adequacy of the composition of the Board of directors and the number of members of the Board of directors NIS j.s.c. Novi Sad to the needs of NIS j.s.c. Novi Sad which was submitted for consideration to the Shareholders' Assembly at the session held on June 30, 2020.

Shareholders' Assembly Board

The Shareholders' Assembly Board for the Supervision of Operations and Reporting to the Company's Shareholders (hereinafter: the Shareholders' Assembly Board) is a body of advisors and experts providing assistance to the Shareholder's Assembly with respect to its activities and of issues within its domain. Members of the Shareholders' Assembly Board report to the Shareholders' Assembly, which appoints them and relieves them of duty.

Pursuant to the powers granted to it by the Articles of Association, the Shareholders' Assembly Board also presents its assessments of: reporting to the Shareholders' Assembly on the implementation of accounting practices; financial reporting practices of the Company and its subsidiaries; reporting of the Shareholders' Assembly concerning the credibility and completeness of reports to the Company's shareholders on relevant issues; proposed methods for the distribution of profit and other payments to the Company's shareholders; procedures for the independent audit of the Company's financial statements; internal control activities in the Company and evaluation of their effectiveness; proposals for the incorporation or liquidation of companies in which the Company holds a share, or of the Company's subsidiaries; proposals for the acquisition and sale of shares, stakes and/or other interests that the Company holds in other companies; and of the evaluation of the manner in which the Company handles complaints filed by its shareholders.

Members of the Shareholders' Assembly Board as at 31 December 2020

At the 12th Ordinary Meeting of the Shareholders' Assembly held on 30 June 2020, all members of the Board of the Shareholders' Assembly Board whose term of office ended were re-elected, so that in 2020 there was no change in the composition of the Board of the General Meeting of Shareholders, and the composition is as follows:
- Zoran Grujičić (Chairman),
- Dragan Bračika (Member) and
- Alexey Urusov (Member),

Zoran Grujičić

Chairman of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad
Member of the Remuneration Commission

Born in 1955.

Mr Grujičić graduated from the Faculty of Mechanical Engineering of the University of Belgrade.

From 1980 to 1994, he was employed by the "Cer" heat transfer appliances plant in Čačak, where he held a variety of positions, including General Manager, Technical Manager, Production Manager and Design Engineer. From May 1994 to February 1998, he served as Advisor to the General Manager of Interkomerc, Belgrade. From February 1998 to June 2004, he was Managing Director of MNG Group d.o.o., Čačak. From June 2004 to February 2007, he was Director of the trading company Agrostroj j.s.c. Čačak, Director of the limited partnership company Leonardo from Čačak and Director of the Vojvodina Highway Centre. Since February 2007, Mr. Grujičić has been employed with NIS j.s.c. Novi Sad and has held the following positions: Deputy Director of the Logistics Department in Jugopetrol, Head of RC Čačak at the Retail Department – Čačak Region, Manager of Retail Network Development in the Development Department, Sales and Distribution. From October 2012 to January 2016, he had served as Advisor to the Sales and Distribution Director and from February 2016 to October 2017 has been an Advisor to the Function for External Affairs and Government Relations Director.

From 30.06.2014 to 27.06.2019, Mr Grujičić was a member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders. As of 27 June 2019 he was appointed as a Chairman of the the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders.

Dragan Bračika

Member of the Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad

Born in 1982.

Mr Bračika graduated from the Faculty for business and industrial management of the Union University in Belgrade, Department for industrial and economy management and holds a BSc degree in management. From 2013 to 2015, he was Advisor to General manager of the Novi Sad Fair.

From 2016 to the present he serves as Director of Ceptor Andrevlje.

Mr Bračika was appointed as a member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 27.06.2019.

Alexey Urusov

Member of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad
Director of Economics and Corporate Planning Department in “Gazprom Neft“ PJSC
Member of the Audit Commission

Born in 1974.

Mr Urusov graduated from the Tyumen State University (specializing in finance) and the University of Wolverhampton in the United Kingdom (BA (Hons) Business Administration). He furthermore holds an MSc degree in Sociology.

From 2006 to 2008, he worked as Executive Vice-President for planning and performance management in the Integra Group. From 2002 to 2006, he was employed at TNK-BP, being a member of TNK BoD’s Group for Monitoring and Control from 2002 to 2003, and CFO of TNK-BP Ukraine from 2004 to 2006. From 2009 to 2012, Mr Urusov was employed with NIS j.s.c. Novi Sad as Chief Finance Officer. From 2012, he has been employed as a Director for economics and corporate planning with PJSC "Gazprom Neft".

He was appointed member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 25 June 2012.

Membership in other Companies' Boards of Directors or Supervisory Boards

Zoran Grujičić	-
Dragan Bračika	• Board of Directors member, Specialized hospital for prevention, treatment of lung deseases and rehabilitation Sokobanja; • Director, Center for economy and technology development Ceptor Andrevlje
Alexey Urusov	• Board of Directors member, Gazpromneft - Catalytic systems LLC; • Board of Directors member Gazpromneft – Energoservice LLC; • Board of Directors member, GPN CR LLC • Board of Directors member, GPN ITO LLC

Total amount paid to SAB members in 2020, net RSD	
Members of SAB	17,375,824 RSD

Activities of the Shareholders' Assembly Board in 2020

In 2020, the Board of the Shareholder's Assembly held two meetings where the members were personally present, as well as five written sessions. The Board of the Shareholders' Assembly reviewed the Company's annual financial and consolidated financial statements for 2019, as well as its periodical (quarterly) financial and consolidated financial statements for Q1, Q2 and Q3 of 2020. Additionally, the Board of the Shareholders' Assembly also reviewed the independent auditor's reports on the audit of the Company's financial statements, the proposal on the appointment and compensation of the auditor for 2020, the manner of the distribution of the Company's profits and dividends for 2020, and then submitted a report on its activities to the Shareholders' Assembly. Moreover, the Board of the Shareholders' Assembly reviewed the proposals for: sale of shares in Politika j.s.c. Belgrade, purchase of additional 34% stake in the share capital of Jadran-Naftagas LLC Banja Luka and the termination of membership of NIS j.s.c. Novi Sad in NIS-Svetlost LLC Bujanovac by initiating bankruptcy and the approval of the conclusion of the Subordinated and Financial Loan between NIS j.s.c. Novi Sad and subsidiaries abroad (NIS PETROL S.R.L. Romania, NIS PETROL LLC Banja Luka and NIS PETROL EOOD, Republic of Bulgaria), as well as approval of the conclusion of additional Agreements on subordinated and/or financial loans between NIS j.s.c. Novi Sad and NIS PETROL S.R.L. Romania and the annex to the Intercompany Loan Agreement between NIS j.s.c. Novi Sad and subsidiaries in the Republic of Serbia (NAFTAGAS – Naftni Servisi LLC Novi Saad and NTC NIS-Naftagas LLC Novi Sad). In 2020, the Board of the Shareholders' Assembly adopted 38 conclusions.

Chief Executive Officer

The Board of Directors appoints one of its executive members to act as the Chief Executive Officer. The CEO coordinates the activities of the executive members of the Board of Directors and organizes the Company's activities. In addition to this, the CEO performs daily management activities and is authorized to decide on matters which do not fall under the competence of the Shareholders' Assembly and the Board of Directors. The Chief Executive Officer is a legal representative of NIS j.s.c. Novi Sad.

Advisory Board of the CEO

The Advisory Board of the CEO is a professional body that helps the CEO in his activities and in the consideration of matters within his responsibilities. The composition of the Advisory Board was determined by the Decision of the CEO, and it includes the First Deputy CEO – Head of Downstream Division, the First Deputy CEO – Head of Exploration and Production Block, Heads of the Refining and Sales and Distribution Blocks, as well as heads of the Company's Functions, as well as the director of the company Naftagas-Oil Services LLC Novi Sad. In addition to issues related to the business management of the Company, the Advisory Board deals with the strategy and development policy whose basis is set by the Shareholders' Assembly and the Board of Directors of the Company.

Members of the Advisory Board of the CEO

On 31 December 2020, members of Advisory Board of the CEO were:

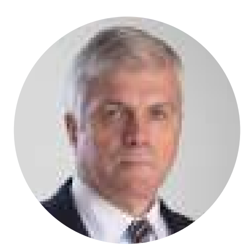
Gennady Lubin
First Deputy CEO for Exploration and Production

Andrey Tuchnin
First Deputy CEO – Head of Downstream Division

Vladimir Gagić
Head of Refining Block

Alexey Chernikov
Head of Sales and Distribution Block

Viacheslav Zavgorodnii
Deputy CEO, Head of Strategy and Investment Function



Igor Tarasov
Deputy CEO, Director of Corporate Security Function

Anton Cherepanov
Deputy CEO, Director of Finance, Economics, Planning and Accounting

Sergey Fominykh
Deputy CEO, Director of Legal and Corporate Affairs Function

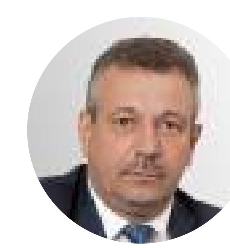
Natalia Bylenok
Deputy CEO, Head of Function for Organizational Affairs

Vadim Smirnov
Deputy CEO, Director of the Function for Government Relations and Corporate Communications

Miloš Grbić
Deputy CEO, Director of Procurement Function

Jelena Popara
Director of the Internal Audit and Risk Management Function

Mikhail Ryazanov
HSE Director



Valery Proskurin
Director of “Naftagas – Oil Services” LLC Novi Sad

Activities of the Advisory Board in 2020

During 2020, there were 17 Advisory Board sessions, chaired by the CEO, where the members discussed the following matters:

- reports on HSE incidents and initiatives from the preceding period;
- reports on implementation of the decisions and tasks delegated at the sessions;
- reports regarding operational and financial indicators for the Exploration and Production Block;
- reports regarding operational and financial indicators for the Division Downstream;
- reports presenting monthly financial results of operations and
- reports on statuses of the key open issues within Functions.

In addition, the reports showing Company's quarterly results of operations, reports on operations of different boards in the Company, and an important issue concerning the update of the corporate strategy for company's development were all presented to the members of the CEO Advisory Board. The Internal Audit presented the reports on implementation of the recommendations made based on audits and reports on the conducted activities regarding key risk management.

Company Management Succession Plan

In order to minimise the potential risks for the Company and increase operational efficiency, there are special systems and processes aimed at filling possible vacancies when it comes to the top operational management of the Company. They include the implementation of specialized training programs, so that continuous investment in the development of knowledge, and skills the Company ensures long-term reduction of potential risks in relation to its key management positions.

Moreover, the Company assesses potential successors and compiles special lists of successors that include their names, current positions and plans for their professional development.

Insider Information and Acquisition and Disposal of the Company's Shares by Managers and Related Parties

Trading shares using insider information is strictly prohibited to all persons under threat of penalties provided for by the Capital Market Law. Therefore, the Company requires all persons, who permanently or occasionally have access to this information, to fully comply with the provisions of laws, by-laws, as well as the Company's documents relating to insider information and confidential data.

The criteria on the basis of which certain persons have the status of insiders, their rights and obligations, the obligations of the Company in order to ensure the confidentiality of insider information, the procedure for publishing insider information, as well as the rules related to preparing, keeping and updating the list of insiders are specifically regulated by the Company's internal acts.

Pursuant to Article 84a of the Capital Market Law and internal documents of the Company, all persons employed as managers in the Company are prohibited from performing transactions for their own account or for the account of a third party in relation to equity or debt securities of the Company or other related financial instruments during the period of 30 days prior to the publication of the annual, semi-annual or quarterly financial statements. The Company may grant a special written consent for trading during the period of prohibition, if there are conditions prescribed by law and the documents of the Securities Commission.

In addition, all persons employed as managers in the Company, as well as related parties (as defined by the Law), are obliged to report any acquisition or sale of the Company's shares for their own account to the Securities and Exchange Commission within 5 days, if these individual acquisitions or sales exceed the amount of RSD 100,000, and also if the total value of individual acquisitions or sales in one calendar year exceeds RSD 500,000.

In 2020, the Company did not receive any information of any acquisitions or sales of the Company's shares by any members of the Company's bodies or related parties.

Number and Percentage of NIS j.s.c. Novi Sad Shares Owned by SAB Members

Name and surname	Number of shares	% in total number of shares
Dragan Bračika	5	0.000003066%

Aware of the importance of efficient and responsible corporate governance, NIS is dedicated to the application of high standards in this area based on internationally accepted principles and experiences of best practice, and to the continuous development and upgrading of the corporate governance system.

Internal Audit Activities

The regulatory framework of internal supervision, i.e. internal auditing in NIS j.s.c. Novi Sad was established by the Law on Companies, the Internal Audit Charter, the Internal Audit Standard and other relevant legal and internal regulations.

The Internal Audit provides independent, objective assurance services, as well as consultancy aimed at adding value and improving the Company's operations. Internal Audit helps the Company achieve its objectives by introducing a systematic, disciplined approach to assessing and improving the effectiveness of risk management, controls and corporate governance.

The Company's Internal Audit operates in accordance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Global Institute of Internal Auditors, which is confirmed by an obtained conformity assessment from an independent external assessor.

Internal Audit activities in particular include:
- examination and assessment of the adequacy and effectiveness of corporate governance, risk management and internal controls;
- control of compliance of Company's business activities with the law, other regulations and acts of the Company;
- supervision of the implementation of accounting policies and financial reporting;
- checking implementation of the risk management policy;
- monitoring the compliance of the organization and activities of the Company with the corporate governance code;
- evaluation of policies and processes in the Company, and proposals for their improvement.

Internal auditing is performed within the Internal Audit and Risk Management (hereinafter: IARM). Organisational and functional independence of the Internal Audit is secured by the Internal Audit Charter. The IARM, through the person responsible for internal control of business, appointed by the Board of Directors, is functionally subordinated to the Audit Committee, and linearly to the CEO of the Company. As a rule, the person responsible for internal control of business performs the role of the Director of the IARM. The Internal Audit Charter defines protection measures in order to ensure the independence and objectivity of the internal audit in the Company's risk management process. The IARM reports four times a year to the Audit Committee on the results of its work.

The Audit Committee is, inter alia, authorized to:
- approve the Internal Audit Charter;
- approve the Annual Plan on Internal Auditing;
- suggest the appointment and discharge of the person responsible for internal control of Company's business, in accordance with the Company Law, while the Board of Directors of the Company makes the Decision on appointment and discharge of the aforementioned person,
- check whether there is a possible restriction on access to data (restriction of coverage) or resource limitations to performing the internal audit;
- monitor existing risks and measures taken to manage those risks.

System of Internal Controls and Risk Mitigation in Connection with Financial Rreporting Procedure

The internal control system includes five key components:
- Control environment,
- Risk assessment,
- Control measures,
- Information and communications,
- Monitoring.

The Company has singled out the following internal documents relating to internal control:
- PO-06.04.26 Corporate Policy NIS j.s.c Novi Sad internal control and finance
- UP-06.04.00-011 Development of internal controls in finance and accounting
- UP-06.04.00-013 Recording of financial incidents on the SUFI portal

1. Control environment
Management creates an atmosphere characterised by understanding the importance of control procedures by employees, and also informs employees of expectations and precise procedures. Managers and employees comply with internal control requirements and demonstrate their positive consistent attitude to these requirements in their work.

Additionally, a controlled environment comprises honesty and respect for ethical values, provision of competent and highly qualified personnel, a defined organisational structure and clear split of authorities and responsibilities.

2. Risk assessment
Based on the approved business goals, significant risks associated with achievement of these goals are identified and analyzed. Organizational units identify risks that may lead to errors in the financial statements, in the processes and activities they perform.

3. Control measures
Control measures comprise procedures and activities used to manage the defined risks in processes through their reduction or elimination. They include a variety of measures, such as compliance with relevant standards and procedures, adequate split of responsibilities among process participants, precise definition of tasks, check of availability of required approvals and completeness of documentation, control of data bases, various types of reconciliation and verification of balance sheet items and preservation of assets.

4. Information and communication
In order to assure effective exchange of information and effective communication, a system of information distribution is in place through an internal portal accessible to all employees where all important information and adopted internal acts are published. Additionally, information systems have been implemented to assure exchange of information, documentation and various types of reports that allow for the generation of timely information.

5. Monitoring
Internal controls efficiency and compliance with requirements prescribed by internal acts are continuously monitored, and if needed improvement measures or measures aimed at eliminating identified violations to prevent their recurrence are developed. Possibilities of process improvement and their efficiency are considered through the process analysis, areas for improvement, new possible solutions or technologies for process implementation are considered.

External Auditor

Audit of Financial Statements

In accordance with the Law and Articles of Association, the Auditor of the Company is appointed by the Shareholders' Assembly at the proposal of the Board of Directors. The Company's auditor is elected at every ordinary meeting of the Shareholders' Assembly, and according to the Capital Market Law. Since NIS j.s.c. Novi Sad is a public joint-stock company, the legal entity that performs the audit, can perform up to five consecutive audits of its annual financial statements.

The auditing agency's reports on the audit of the Company's financial statements and consolidated financial statements for 2019 were adopted on June 30, 2020 at the 12th Ordinary Meeting of the Shareholders' Assembly, attended by the auditor from PricewaterhouseCoopers d.o.o. Beograd (whose attendance at the Assembly's ordinary meetings is mandatory in accordance with the Law). Since the auditor that performed auditing for the Company to date, i.e. Pricewaterhouse Coopers d.o.o. Beograd performed auditing activities in the period 2015-2019 (5 consecutive years), at the same session, the General Meeting selected *KPMG* d.o.o. Beograd Auditing Company to audit the financial statements for 2020.

In accordance with the Law, the Audit Committee was provided with an independent auditor's statement confirming the independence vis-à-vis the Company and informing the Audit Committee about the additional services the auditor provided to the Company. The statement was a part of the material for the 12th Ordinary Meeting of the Shareholders' Assembly.

Integrated Management System

The Company applies all the requirements of the standards SRPS ISO 9001: 2015, SRPS ISO 14001: 2015, SRPS ISO 45001: 2018 and SRPS EN ISO 50001: 2018, as well as SRPS EN ISO 22000: 2018 or CAC / RCP 1 where applicable. The applied management systems are incorporated into an integrated management system (IMS), which is based on a process approach. The established IMS is continuously developed in accordance with the Certification Strategy, the implementation of which is supervised by the IMS Board.

The elements of individual business processes (BP) and the order of activities within them are determined in the BP mapping procedure. All identified BP of the Company are classified and presented in the Business Process Classifier. KPIs (key performance indicators) are also determined for business processes defined in this way.

The manner of the implementation of activities from the business process is described by appropriate normative-methodological documents in accordance with the Standardisation Plan.

The verification of compliance with the applied national and international standards is carried out by accredited certification bodies, which issue appropriate certificates on the basis of the performed verification.

In addition to external audits, the Company conducts internal audits of business processes and established management systems, in accordance with the annual program of internal audits. The results of these checks are formalised through reports, on the basis of which the owners of business processes in the Company define corrective and improvement measures in order to eliminate and prevent recurrence of identified non-compliances and prevent the actualization of potential ones.

Transactions Involving Personal Interest and Non-Compete Clauses

Transactions involving personal interest – A person who, in accordance with the Law, has special duties towards the Company, is obliged to promptly inform the Board of Directors about the existence of a personal interest (or interest related to him/her) in a legal contract concluded by the Company, or in a legal action undertaken by the Company.

The Company identifies legal affairs and actions with related parties, in order to ensure that they are concluded only if they are not harmful to the Company's operations. Legal affairs and actions with related parties are approved by the Board of Directors in accordance with the Law.

Information concerning the approval of the conclusion of affairs in which there is a personal interest is submitted to the Shareholders' Assembly at its first subsequent meeting by the Board of Directors.

On its website, the Company publishes important information on activities in which there is a personal interest in accordance with the criteria prescribed by the Law.

Non-Compete Clause – In order to monitor compliance with non-compete agreements, the Company carries out quarterly surveys of members of the Board of Directors about the current engagement, as well as about membership in boards of directors and supervisory boards of other companies. Data on memberships in the management bodies of other companies are published on the Company's website, and within Annual and Quarterly Reports.

By concluding the Agreement Mutual Rights and Obligations with the Company, the members of the Board of Directors are additionally acquainted with their obligation to notify the Company in the event of the conclusion of a legal transaction with the Company, as well as with their obligation of non-competition to the Company and other special duties of the members of the Board of Directors.

Related-Party Transactions

In 2020, NIS Group entered into business partnerships with its affiliates. The most important related-party transactions involved the supply/delivery of crude oil, petroleum products and electricity. An outline of related-party transactions is part of the Notes to the Financial Statements.

Code of Business Ethics

In the modern business world, companies that want to stand out from the competition and achieve leadership in the market must not only focus on the high quality of their products, services and relationships with partners and clients, but also on implementing the best business practices. To be respectable in the business world, the company itself and all its employees must follow a strict code of ethics.

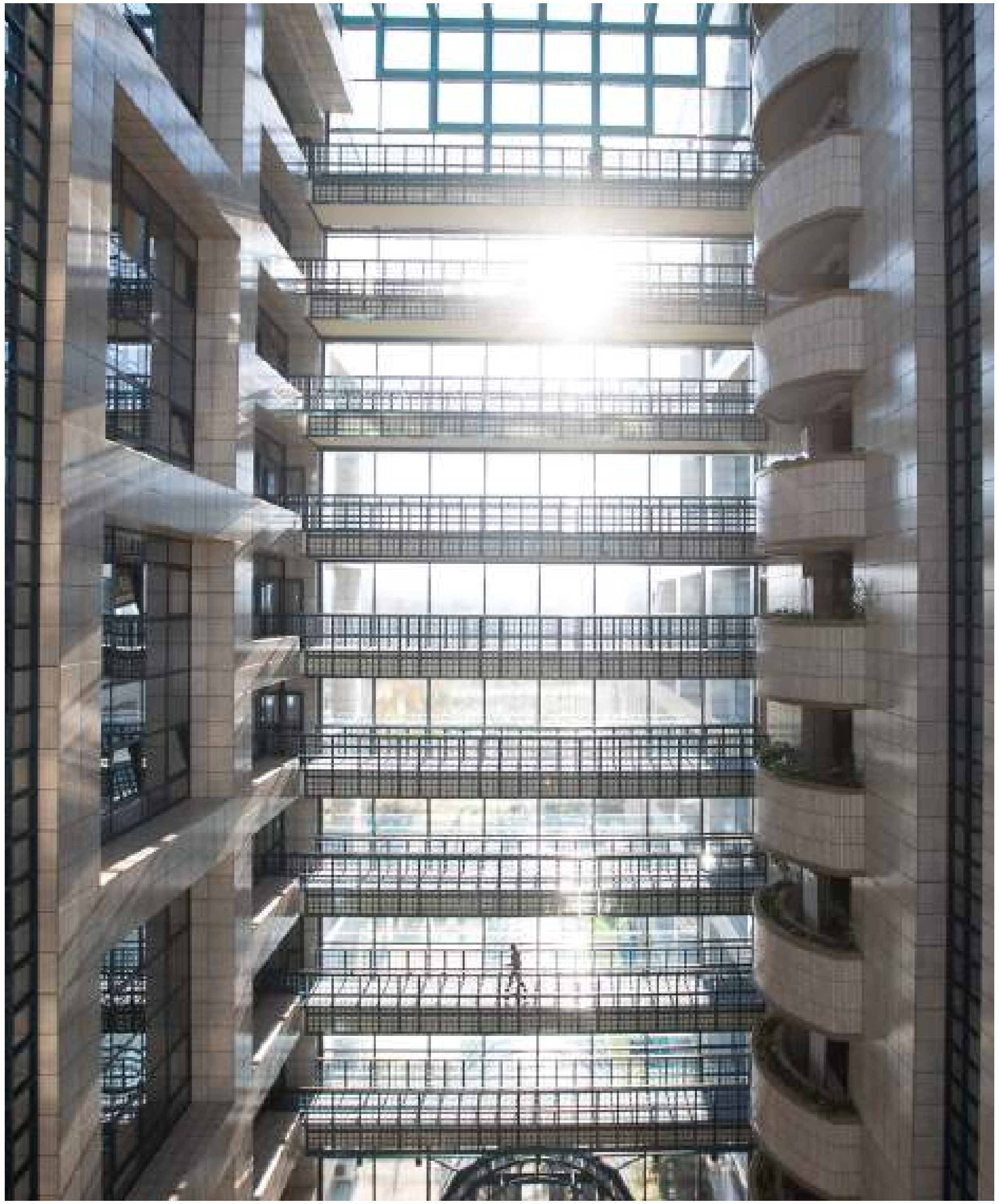
A code of business ethics regulates interpersonal relationships within the company and the company's relationships with its partners, clients, state authorities, the public, and competitors. The rules and requirements of ethical behaviour recorded in the corporate code of ethics are informed by corporate values. The code is a general guide designed to help each employee make ethical decisions in their everyday work.

Anti-Corruption and Fraud Policies

The Company adopted Anti-Corruption and Fraud Policies, with the aim of preventing and combating all forms of corruption and fraud.

The Policy provides the conditions for timely detection, prevention and minimization of the risks of unlawful, unethical and corrupt behaviour, based on established uniform standard of conduct, values, principles of lawful business and basic rules for combating corruption and fraud.

The Policy prescribes that all persons, if they have well-founded suspicions or evidence that corruption or fraud has been or will be committed, must provide appropriate information through pre-defined and protected channels of communication, with the guarantee of confidentiality. Moreover, the Policy defines measures for the protection of persons who provide this information, and outlines the manner in which these measures will be implemented so as to ensure that the position of the person who has revealed corruption or fraud in this manner is not threatened in any way.



PEOPLE in the first place

In 2020, NIS was declared the most desirable employer in Serbia according to a survey conducted by the “Infostud” portal, in which more than

10,000

respondents participated.

Carrying this title is a great honour and responsibility, and getting it in a year that was marked by changes and instability is a sign that we are keeping up with the times and taking care of new generations.

Reliability and continuity

in work, listening to the needs of employees and working to improve their satisfaction and commitment, remain the priorities of HR practice of NIS.

1.11

Human Resources

To be the best possible employer in a year which required continuous adaptation to new living and working conditions was a challenge and goal that was difficult to accomplish by any company. Despite global market destabilisation caused by the coronavirus and the drop in oil prices, NIS managed to remain a stable and reliable employer, whereby it ensured business continuity and working conditions that are necessary for its employees to be dedicated and motivated to work. Due to the years of effort that went into building its reputation as an employer and its readiness to respond to diverse challenges, NIS received the 2020 award for the best employer in Serbia according to the Talent X Survey conducted by Infostud Company.

NIS's long-term goal is to increase the commitment of its employees and improve HR practices, which will give NIS employees the best possible work experience. For this reason, in 2020, NIS introduced a new employee commitment measuring method and initiated the implementation of various activities, in accordance with the latest employee commitment survey and the company's strategic plans. The Commitment Academy was also introduced to develop the Company's leaders and consequently dedicated and motivated teams.

The new HR strategy, new company values and value propositions of NIS as an employer triggered over 20 HR projects whose implementation will improve the experience of candidates and employees of NIS, from recruitment through rewarding and remuneration to benefits.

In order to embrace the new business models and meet the expectations of candidates and employees, the Company has adopted flexible work models. These models provide opportunities for employees to work from home, to gradually return to work after maternity leave, to collect and use overtime hours under the "hour bank" concept, as well as to work in the employer's "co-working" offices available in their place of residence, in case they work outside of their home town.

One of the biggest projects in 2020 was the change in the business model which, after March 1, 2020, allowed for over 96% of employees who were hired from employment agencies to be engaged directly under employment contracts with NIS and its subsidiaries.

In 2020, new collective agreements were signed, which are among the best in Serbia, but also in the region, because they provide employees with working conditions and benefits that exceed the requirements prescribed by the Labour Law.

Collective agreements are not the sole indicator of NIS's concern for its employees. Additionally, during the state of emergency, the company made efforts to protect special categories of employees (employees with chronic illnesses, employees over 60 years of age, parents of children under 12) entitling them to paid leave at 100 per cent of their regular salaries. All employees who were infected with the corona virus received their income at their regular monthly level because the company paid the difference to the full amount. At the same time, some organisational units reduced the scope of their business activities, and thus some employees were granted paid leave, without any deductions from their monthly income.

Professional Development of Employees

Despite the numerous challenges posed by the 'new reality', NIS has managed to maintain the continuous development of employees in all business segments. In this year, the focus was on the implementation of the initially planned training mandated by law, on the revision of priorities for professional and technical training and designing tools for employee development using internal know-how.

A major challenge, both for the company and external partners, was the transition to an online training mode. In this respect, 2020 proved to be the year of development on both sides, and once again showed that the continuous development of employees plays a part in the overall continuing development of the company and the society as a whole.

In cooperation with external providers during 2020, we organised 2,305 training courses which were attended by 3,366 participants including 2,150 employees. The total number of hours of training was 44,560, amounting to at total cost of RSD 89.5 million.

Our employees broadened their professional knowledge with the support of the world's leading companies (NExT Schlumberger, Apave Mare, Yokogawa, Aspentech, Cotrugli Business School, Tomsk University, Siemens) and some of the best domestic companies: Vinča Institute of Nuclear Sciences, Tehpro, Project Management Center, GI Group, Omega Consalting, DCT (Dale Carnegie) and many others. The training courses boosted the development of both professional and personal skills which are necessary for successful team management.

The Foreign Language Learning Program was realised this year through group Russian language lessons for 376 employees, which were organized at the premises of Belgrade, Novi Sad, Shanghai, Zrenjanin and Pančevo Business Centres, and then online.

Throughout 2020, we continuously supported the digital transformation of our Company. In cooperation with the digital team, the Training and Development Sector defined the digital competencies model, which included digital competencies in the corporate competencies model for 2021 and outlined the education plan on digitalisation which is intended for the employees of our Company.

During the year, the concept of job rotation was also expanded to serve as a development tool for employees of all levels with the primary aim of developing employees' professional knowledge, know-how and skills. The concept covers several aspects but, in its basic form, implies the referral of an employee to another workplace which is justified by a combination of employee development needs and business needs. In addition, a form of job rotation which has a far wider application involves the referral of an employee, over shorter intervals of, time to a job position where he/she can monitor the work of his colleague and thus obtain insight into his/her job duties, which is a concept known as "job shadowing". Shadowing is implemented as a development tool to improve cross-functional cooperation or the development of multi-functional team members, and this year the first pilot groups were formed.

Corporate University

Following the concept of continuous learning, the Corporate University has implemented the fifth cycle of training programs for its employees in somewhat changed circumstances and adapted to the "new reality".

During 2020, which brought numerous new challenges, we focused on creating and developing new approaches to learning, within the Corporate University, primarily through new tools and methodologies, mostly relying on internal resources in order to respond flexibly and adequately to changing business needs.

In the circumstances of the "new reality", we launched a program of internal trainers, placing special emphasis on the internal resources of the Company, promoting our specialists and experts through the role of internal trainers. With this approach, we have strengthened and enriched the offer of corporate training programs with new subjects and, above all, strongly influenced the internal exchange of knowledge, experiences and networking of colleagues. A special contribution of the program of internal trainers is the raising awareness of the importance of a learning culture (inside-out). In line with the new concept of internal trainers, we have expanded the training curriculum with over 20 new topics. Over 400 colleagues attended the training courses, which were realissed by 17 new internal trainers. This training is intended for the preparation of colleagues as future internal trainers and is an important part of the preparation of future trainers in the internal certification process.

We paid special attention to the self-implementation of the Engagement Academy, intended for NIS Leaders. Through various internal development activities, from Onboarding training for all new employees, organisation of internal workshops with managers, involvement of top managers through organised panels dedicated to initiators of engagement, we improved commitment at the company level. One of the initiatives of the employee engagement improvement program was the internal training on giving feedback to employees. The training was attended by over 130 employees in senior and middle management positions, and was realised using internal resources with internal trainers from the Training and Development Sector.

During 2020, for the first time in our Company, a pilot program "Job Shadowing" was implemented, arising from the specific need to improve the results of inter-sectoral cooperation. This program was attended by 12 colleagues from the Refining and Transport Blocks, the Downstream Division and the Procurement Function, who found themselves in the roles of "shadowing" partners, and together in workstation activities during 18 sessions, they realised 288 working hours over 36 days.

The main benefits of "Job Shadowing" that have resulted from the implementation of the project, relate to business improvement, business methods efficiency and effectiveness, and the development of various business initiatives that arose after participants became acquainted with the activities of colleagues from other organizational units. A particularly strong contribution is the internal transfer of knowledge and facilitated communication, which resulted in greater transparency within the Company and the improvement of business processes.

Professional Development of Employees in Business Blocks

In the Refining Block, the majority of external training sessions in 2020 were held online even though it was a great challenge to organise those training sessions in the new circumstances. Despite the situation, a very important training was carried out in the process simulator, just before the commissioning of the new and highly important Bottom-of-the-barrel unit.

The integration of the existing training system with the Active Learner, an e-learning platform, intended for monitoring competencies, has also been completed and will provide a better learning experience for many employees while ensuring that all managers can continuously monitor the development of their employees. The first phase covered the entry of all materials and creation of user profiles for those employees who already have the option to attend e-training, but also to take the final tests. The next phase of implementation involves further development of the platform and the inclusion of more employees, who will have the opportunity to use this tool, and the development of video instructions for all platform users.

In order to improve technical competencies of our employees and enable them to grow and develop, but also to stimulate the culture of learning, improvement of the technical competencies assessment process was initiated along with the definition of activities aimed at improving employee career path. The new tools and digitalisation of the processes, as well as the approach that puts employees at its centre, will enable us to achieve the goal more quickly and in a more structured manner.

The Sales and Distribution Block has in place a highly developed internal training system – from development training for starting positions to the Academy for Retail Managers.

In order to improve the internal training system and respond to the changes caused by the pandemic, most of the materials were converted to video format so that employees could continue their training online. In addition to this innovation, additional internal training sessions have been organised on the following topics: teamwork, team leading and improvement, leadership, communication and presentation skills, time management, effective meetings, as well as team and individual coaching, all with the aim of providing employees with the necessary knowledge for further development of processes and services, as well as their personal, career development.

Paying attention to the teams and their needs allowed us to recognize the importance of improving their knowledge of Excel, which is why we started with the implementation of the Excel Skills for business training.

The 3rd Scientific and Technical Conference of Young Scientists and Specialists of the Exploration and Production Block, STC and Oilfield Services was held in Novi Sad from August the 17th to the 20th, for the first time online. Participants-exhibitors (49) were young specialists up to 30 years of age and young scientists - our colleagues, not older than 35. The conference took place on a virtual platform with more than 100 participants (exhibitors, mentors, members of committees at the Conference sections).

Eighteen of our winners from the Exploration and Production Block, STC and the Oilfield Services presented their scientific papers at the final tenth anniversary of the Conference organised by the Exploration and Production Block of Gazprom Neft, where NIS representatives won six awards in seven categories of the Scientific and Technical Conference of the Exploration and Production Block of Gazprom Neft.

In addition to the 2020 competition mentioned above, 1,047 classes in 60 areas, necessary for classification of operators working in oil and gas production, preparation and shipment, were held in this region's most modern training centre. This centre was opened last year to meet the requirements for training employees of the Exploration and Production Block, where 97 operators successfully completed the training. The training on operator classification was successfully conducted by the technical training instructors, as well as 33 experts of the Exploration and Production Block. In addition to the aforementioned training, a dozen special courses were held for the technical staff of the Exploration and Production Block, using the state-of-the-art equipment installed in the facility.

Practical training was also organised for students of the Zrenjanin Secondary Technical School as well as lectures for students of Mihajlo Pupin Technical Faculty.

At the Training Centre in Elemir, an expert competition "Best Professionals of 2020" was held. The competition gathered 36 people and was organised in 5 categories: "Best Process Engineer", "Best Oil and Gas Production Operator", "Best Oil and Gas Preparation and Shipment Operator", "Best Well Exploration Operator" and "Best Gas Refinery Production Complex Operator". The colleagues had the opportunity to demonstrate not only their knowledge in a set of tests and demonstrations of professional skills in the field, but also the passion they have for their work.

Due to the newly arisen circumstances, this year, the Gazprom Neft's central competition, the Best Professionals, was held remotely for the first time, using state-of-the-art technologies. Beside our colleagues, winners from 13 Gazprom Neft subsidiaries competed in ten categories, and our participants achieved remarkable results. Although this year the competition was organised online, its geographic coverage was impressive – from Belgrade to Tomsk, spanning a distance of more than 4,000 kilometres.

In 2020, the Technical Training Services of the Exploration and Production Block started testing the technical and HSE competencies of employees doing high-risk jobs. The testing is expected to involve 541 employees (testing is still underway) in the Exploration and Production Block and 531 employees of the Oilfield Services. All testing was carried out online using state-of-the-art tools for analysing the results of cooperation with colleagues from PAO Gazprom Neft.

A competition for the best locksmith and welder was organized at Oilfield Services in September. Serbia's best, Nenad Đuričin and Goran Nestorović represented Oilfield Services at Gazprom's first online competition called the Best Professionals.

Nenad Đuričin demonstrated extraordinary preparedness and results at the competition and won a special award in the area of occupational health and safety.

Training courses for advanced methods of ultrasonic testing: PA (Phased Array) and TOFD (Time of Flight Diffraction) were conducted in Naftagas Technical Services. These new methods completely replace radiography which, up until now had been the dominant method of weld defects inspection.

Training and certification of employees for PA & TOFD methods will enable Naftagas Technical Services to be accredited by the Attestation Body of Serbia for the use of these methods, which will make it the country's leader in weld testing. It should also be noted that the use of these methods will significantly reduce the costs compared to the radiography method used to date.

A total of 16 professional and technical training courses for 70 employees were implemented, thus significantly contributing to the boosting of technical competencies of employees of Naftagas Technical Services.

Implementation of the concept of technical training and technical competencies was initiated and, out of 96 identified, the preparation was completed for 82% of training books, which define 402 competencies for lower-ranking positions in Naftagas Technical Services.

Talent Development

To ensure business continuity and enough talented personnel to succeed in positions of importance in the business' future, in 2020, the Company began talent identification and targeted development of over 70 employees among top management via the Calibration methodology. This process made it possible for the company to identify talents and successors for taking over key positions in a more objective, transparent and efficient manner, as well as enabling it to take an individual approach to the development of each employee by outlining individual development plans.

After potential and performance assessments and calibration sessions were held, participants had the chance to receive structured feedback from their line managers. To make the assessments impartial and to ensure an individual approach to their development, but also to support leaders in facing challenges in the year which brought about diverse changes, the participants were given the opportunity for additional feedback about behavioural tendencies in the business environment and instructions for their personal and professional development based on self-assessment results obtained from external consultants. The calibration process resulted in the creation of an individual development plan (IDP). This is a personal development tool that enables the employee to systematically raise their level of competencies and accomplish career goals, the implementation of which will be completed by employees in the next year with the support of the line manager and HR. When defining development goals, employees are assessed on the "70%-20%-10%" scale, which indicates a combination of learning and development: 70% refers to development through work, 20% refers to development through sharing experiences and learning with others and 10% to development through formal training.

The calibration process will form the foundation of the talent management process and over the next few years, and will also be applied to lower management levels in order to define individual development needs and determine further career development through a well-structured and impartial process.

Another strategic HR initiative implemented this year to encourage the continuous development of employees is the creation of the Career Path concept for the middle management, which transparently shows the opportunities and preconditions for career advancement of each employee.

At the end of 2020, 8,134 of our employees participated in the annual assessment by competencies, which is regularly carried out at the end of the year. As part of the process, each employee had the opportunity to receive structured feedback, in an annual interview, about their performance in the year that brought about numerous challenges. This process, which plays an important role in promoting culture and conduct in line with the Company values and in reinforcing its strategic business direction, enables us to identify strong areas and areas to be improved, both at the individual and the Company level, as well as to define clear development goals for the future improvement of employees' competencies.

Caring for Employee Social Status

NIS provides top social protection for its employees as regulated by the Collective Agreement and internal policies, which exceeds social protection requirements prescribed by law.

The benefits stipulated in the Collective Agreement and internal policies are:

- special protection for persons with disabilities and in the event of occupational diseases;
- preventive recovery of employees who perform high-risk jobs or are entitled to reduced service years, as well as preventive recovery of other employees, in order to avoid occupational illnesses and disabilities;
- employment and support allowance, payment of medical treatment costs and refunding of funeral expenses of an employee and/or his/her immediate family members;

- one-time financial assistance for the birth of the third and each subsequent child;
- compensation for damages suffered by employees in the event of the destruction of or damage to their residential buildings caused by natural disasters or other emergencies;
- scholarships for regular education of children of killed and deceased workers;
- collective health insurance for all employees covering severe illnesses and surgeries, as well as accidents;
- collective insurance of all employees covering death due to accident or disease;
- helping employees resolve their housing needs by granting them subsidies for housing loans;
- voluntary pension insurance.

Material and Non-Material Incentives

Employee motivation is crucial for high business standards, for inspiring creativity, creation and innovation, and for employee professional development and retention. As one of the most desirable employers in the region, NIS offers its employees conditions for more efficient work and a good working atmosphere through several programes of financial and non-financial incentives.

Regular financial incentives are divided into three categories by types of employee positions: variable salary in the production and technical organisational units, variable salary in sales OUs and variable salaries and annual bonuses for administration workers. Variable salary and bonuses depend on whether the collective and individual goals have been achieved or not and provide direction for the employees and a way to connect their personal work with the Company's goals.

Special bonuses and bonuses for successful participation in projects are paid to employees for outstanding achievements which far exceed the expected workplace behaviour.

In addition to financial incentives, employees can be motivated in another way – the goal of the non-financial incentive is that an employee can gain social and professional recognition and also achieve self-realisation, have respect for and affiliation to the collective. The fact that an employee can earn recognition for his/her work and be appreciated for the results achieved is one of the primary incentives.

The managers of organisational units play a key role in the development of non-financial incentives with the help of the non-financial incentives program and the program for rewarding best employees: "Bravo Reward", "Discount System", "Employee of the Month/Year", "Best Manager", "I have an idea" and others.

Non-financial incentives programs offer the employees the opportunity to take an active part in the vital segments of the Company's business, to develop their creativity and initiative and to win awards and thus promote best work practices and create new value for the Company.

Recruitment and Selection of Candidates

Guided the slogan “The Future Starts with You”, NIS believes that its future begins with the addition of every new colleague to a team of over 11,000 employees. In NIS, the recruitment and selection of candidates is grounded on principles of equal opportunities for all current and potential employees regardless of their gender, religion, political opinion, nationality or social origin, and forbids any form of discrimination. Any decision concerning a candidate must be based on impartial and relevant criteria, i.e. the candidate's capacity to meet the requirements and standards of the job. In 2020, the Recruitment and Selection Sector's team hired about 400 candidates of different profiles.

This year NIS has continued the tradition of offering internships for the most talented and ambitious students. We continued the implementation of the NIS Calling seasonal internship program, which enables students to acquire their first work experience by doing 320 hours of internship, with flexible working hours which they are allowed to organise around their faculty commitments. Due to the new circumstances, only one seasonal internship for twenty students was implemented. The program was adapted to reflect the new protection measures, and the majority of students undertook their practical training at home. The selected students were mainly would-be mining engineers and geologists, mechanical, process and electrical engineers, would-be economists, psychologists and lawyers. The practical training program has traditionally been organized in our company since 2012 in cooperation with universities, in order to exchange resources and knowledge and promote science and research. The aim of this program is to motivate the students thirsty for knowledge and experience and get them acquainted with the world's best practice. After the end of the third season of this year's NIS Calling program, an opportunity arose for two interns to start working at NIS.

One of the company's primary goals is to invest in young talents and provide them with their first working experience and for this reason, in addition to the seasonal practical training, in 2020, we also created the program for hiring young graduates and master students - NIS Energy. NIS Energy is a 12-month paid program intended to provide training for young graduates and master students to take over specialist/expert job positions in the company. Twenty young people take their first career steps through the program every year. The job positions are defined in line with business requirements – all job positions come from business blocks. Besides the practical work with the assigned mentor, all program participants get the chance for improvement through business lectures, soft skills workshops, field tours and working on an individual project assignment. The program concept and the brand identity were created in 2020 and a campaign was launched. 1,560 candidates applied for the competition, and the top 16 candidates are expected to start their internship in February 2021.

#NIStesami media campaign was launched in 2020 to represent the Company's business response but also represented its response to the coronavirus pandemic in its capacity as an employer. More than fifty colleagues from all organisational units participated in the campaign. The primary aim of the campaign was to raise awareness about the importance of complying with workplace measures, about how important employees are to the employer, and how appreciated are all the colleagues who, despite the situation, continued to give their contribution and keep all the Company’s processes going.

NIS has continued to strengthen its position as a desirable employer through successful participation in over 30 online conferences, workshops and forums during the year, such as the "ESTIEM Case Study Show", "Genuine Conversations", "Being Familiar with the Company, "HR Week 2020", "Cotrugli Regional Panel", "HR Enter”, "Serbian HR Community” panels and others. In addition, we continued our collaboration with AIESEC on the Knowledge Hub Project, under which young people had the opportunity to continue learning during the movement restrictions by relying on the texts written by our experts.

Setting ambitious goals and constantly improving the experience of candidates who undergo the recruitment and selection process as well as of employees of the Company, enables us to achieve results that bring us among the best, while our good practices become an example to other companies.

Employee Number and Structure

Organisational unit	12/31/2020			12/31/2019		
	Direct	Leasing	Total	Direct	Leasing	Total
NIS j.s.c Novi Sad	**5,173**	**25**	**5,198**	**4,218**	**3,633**	**7,851**
Exploration and Production Block	1,092	0	1,092	923	178	1,101
Downstream Division	2,542	25	2,567	2,110	3,096	5,206
Refining Block	978	0	978	936	17	953
Sales and Distribution Block	1,396	25	1,421	1,030	3,063	4,093
Energy Directorate	40	0	40	37	4	41
the rest of Downstream Division[1]	128	0	128	107	12	119
Corporate Centre	1,016	0	1,016	979	259	1,503
Multifunctional Shared Service Center[2]	518	0	518	165	100	265
Representative and Branch Offices	5	0	5	41	0	41
Local subsidiaries	**5,832**	**0**	**5,832**	**1,756**	**1,485**	**3,241**
Naftagas – Oil Services LLC Novi Sad	1,879	0	1,879	1,112	1,013	2,125
Naftagas – Technical Services LLC Zrenjanin	391	0	391	213	121	334
Naftagas – Transport LLC Novi Sad	368	0	368	83	321	404
STC NIS – Naftagas LLC Novi Sad	385	0	385	348	30	378
NIS Petrol j.s.c. Belgrade[3]	2,809	0	2,809	-	-	-
Subsidiaries abroad	**136**	**0**	**136**	**70**	**2**	**72**
NIS Petrol e.o.o.d. Sofia (Bulgaria)	52	0	52	33	0	33
NIS Petrol s.r.l. Bucharest (Romania)	74	0	74	29	0	29
NIS Petrol LLC Banja Luka (Bosnia and Herzegovina)	4	0	4	5	0	5
Jadran Naftagas LLC Banja Luka (Bosnia and Herzegovina)	6	0	6	3	0	3
Panon Naftagas k.f.t. Budapest (Hungary)	-	-	-	0	2	2
Other subsidiaries included in consolidation	**504**	**0**	**504**	**467**	**100**	**567**
O Zone j.s.c. Belgrade	-	-	-	4	100	104
NIS Overseas o.o.o. Saint Petersburg (Russian Federation)	3	0	3	4	0	4
NIS Svetlost LLC Bujanovac	-	-	-	0	0	0
G Petrol LLC Sarajevo (Bosnia and Herzegovina)	501	0	501	459	0	459
TOTAL:	**11,645**	**25**	**11,670**	**6,511**	**5,220**	**11,731**

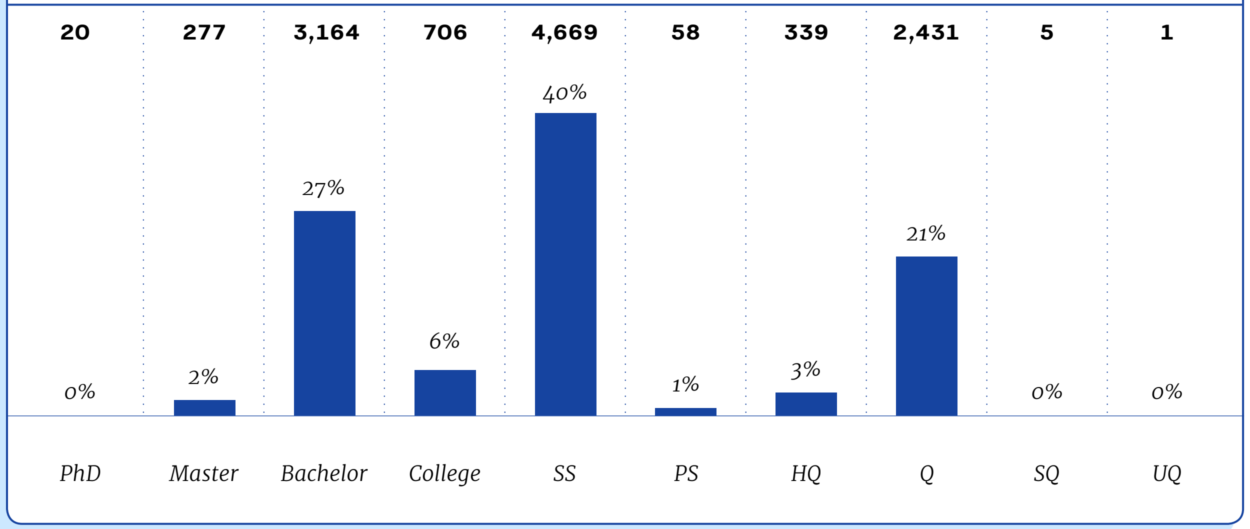
1 *The rest of the Downstream Division consists of: Director of Division's Office, Department for Crude Oil, Department of Planning, Optimization and Analysis of Production and Sales, Department of Metrology and Group for Administration and Documentation Support and Department of procurement DWS and the Project Office for the implementation of the program of new projects DWS.*

2 *At the end of 2019, the Multifunctional Share Service Center is set to be established, which is particularly prominent because of its specificity.*

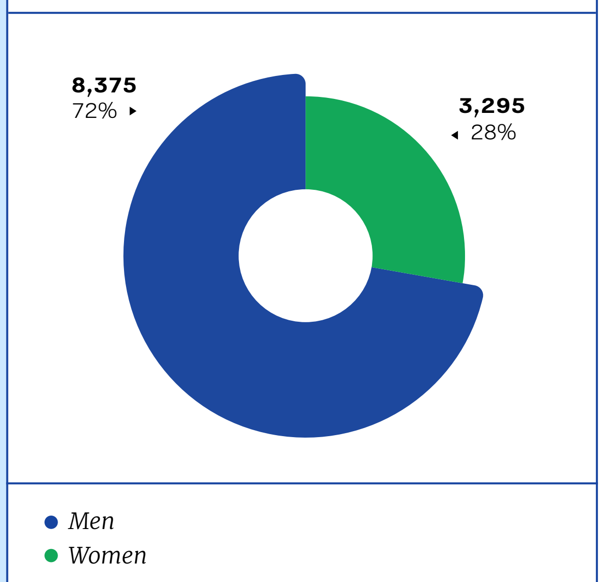
3 *O zone a.d. Belgrade changes its business name from March 2020 and becomes NIS Petrol j.s.c. Belgrade. Considering that part of the Sales and distribution Block from NIS j.s.c. (retail) transferred to NIS Petrol j.s.c. Belgrade, we are showing it with other subsidiaries in the country.*

Employee Structure in terms of Qualifications, Gender and Age[1]

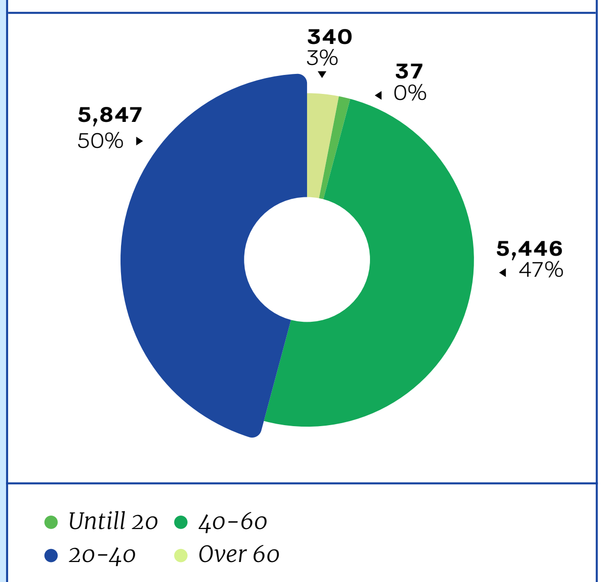
Employee qualification structure



Employee gender structure



Employee age structure



1 Includes both direct employees and leased employees at NIS j.s.c. Novi Sad, including representative offices and branches, subsidiaries in the country and subsidiaries abroad, and subsidiaries that are undergoing consolidation.

Causes of Employment Termination

In 2020, a total of 743 employees left NIS[1]: 84 employees retired, 137 employees left NIS after termination of employment by mutual consent, while the employment of 522 people was terminated on other grounds – involuntary termination, voluntary termination (resignation), redundancy, etc.

Cause of employment termination	NIS j.s.c. Novi Sad[1]	Subsidiaries[2]
Retirement	45	39
Termination by mutual consent	88	49
Other	156	366
Total	**289**	**454**

1 Including representative offices and branches. Of the total number of terminations, 14 are from representative offices and branches.
2 Naftagas – Oil Services LLC Novi Sad, Naftagas – Technical Services LLC, Zrenjanin, Naftagas – Transport LLC Novi Sad and STC NIS – Naftagas LLC Novi Sad and NIS Petrol j.s.c. Belgrade.

NIS's long-term goal is to increase the commitment of its employees and improve HR practices, which will give NIS employees the best possible work experience.

1 NIS j.s.c. Novi Sad with the subsidiaries Naftagas – Oil Services LLC Novi Sad, Naftagas – Technical Services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and STC NIS – Naftagas LLC Novi Sad and NIS Petrol j.s.c. Belgrade.

GREEN ENERGY for the future

Economic development while improving environmental protection is one of our priorities.

Being aware that we are saving the country for our descendants, in 2020, we continued our responsible attitude towards natural resources, as well as the implementation of a significant number of

environmental projects

in all business segments.

For that purpose, we invested more than RSD

211

million in 2020 and gave our contribution to Serbia fulfilling its international obligations in this area.

1.12

Environmental Protection, Industrial and Occupational Safety

Ensuring the safety and health of its employees, contractors, third parties, local population and environment is a priority for NIS. A healthy, safe, capable, ready and motivated employee is not just a goal of every individual, but the Company's goal as well.

In 2020, the year marked by the coronavirus pandemic, activities were focused on employee health protection and related preventive measures undertaken to sustain the Company's business in these peculiar circumstances.

Environmental Protection

During 2020, the practice of monitoring environmental projects aimed at eliminating, mitigating or reducing high and medium environmental risks to an acceptable level was continued. In order to improve the situation in the field of environmental protection, 211.5 million dinars were invested in the implementation of environmental projects in prevoius year.

The implementation of environmental projects was continued in 2020: In Pančevo Oil Refinery, installation of Low NOx burners on process furnaces in the Bitumen Unit, the reconstruction of two tanks for storage of petrol components, the installation of loading arms for the floor loading of benzol, gasoline and toluene, installation of H2S analysers in stripped water. In the Sales and Distribution Block: installation of separators which purify oily stormwater and installation of vapor recovery units on underground petroleum tanks at the loading station; in the Exploration and Production Block, continuation of activities aimed at the disposal of historical pollution (primary mud pits); and a mud storage tank was built at the Novo Miloševo Landfill.

NIS a.d. fully implemented Environmental Monitoring Plans. In Pančevo Oil Refinery, thanks to the implementation of the Monthly Fuel Consumption Plan applicable to process plants and boilers and the utilisation of natural gas as the primary fuel, the emission of pollutants into the air (SO_2, NOx and PM) was brought down to permitted emission limit values.

At the beginning of the trial operation of the Bottom-of-the-Barrel Unit in Pančevo Oil Refinery, the conditions were met for the cessation of production of high-sulphur fuel oil, which will contribute to the reduction of SO_2 emissions not only in the Refinery but also in the territory of the Republic of Serbia. The implementation of the Bottom-of-the-Barrel Unit construction project resulted in the fulfilment of requirements of EU Directive 1999/32/EC relating to a reduction in the sulphur content of certain liquid fuels.

Activities have continued to prepare for future commitments in the field of climate change and greenhouse gas (GHG) emissions trading. A "Study on Defining Measures and Activities Required for the Quantitative Determination and Calculation of GHG Emissions and an Annual Report on GHG Emissions, (so-called Carbon Footprint) for 2019" has been prepared.

Under the framework of cooperation with the Ministry of Environmental Protection and the Ministry of Energy and Mining, 3 Directive Specific Implementation Plans (DSIPs) have been developed: Reducing Sulphur Content of Certain Liquid Fuels, Fuel Quality and VOC Petrol Directive (volatile hydrocarbons).

In the field of waste management, a Waste Disposal Framework Agreement was concluded between NIS and SC for the period 2021-2023. This type of contract results in financial savings and speeds up and simplifies the waste management process in NIS j.s.c. and SC.

In 2020, approximately 266.2 million dinars were allocated for the costs of environment and water protection and improvement prescribed and defined by the laws.

Overview of charges and fees in 2020	Water charges (RSD million)	Environmental protection charges and fees (RSD million)	Total (RSD million)
NIS j.s.c. Novi Sad	70.5	191.6	262.1
Subsidiaries[1]	0.3	3.8	4.1
Total	**70.8**	**195.4**	**266.2**

1 *Including Naftagas – Oil Services LLC Novi Sad, Naftagas – Technical Services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and STC NIS – Naftagas LLC Novi Sad and NIS Petrol j.s.c. Belgrade.*

Fire Protection

During 2020, due to the changed working regime and focus on combating the coronavirus in the field of fire protection, improvements achieved were adequate in the given circumstances.

The following actions were undertaken:
- improvement of the fire alarm system in business centres in Novi Sad and Belgrade, thus improving the technical part of fire protection,
- members of fire units received new fire fighting suits, which ensures better protection of firefighters during interventions,
- verification of compliance of fire fighting units with the Company's NMD.

Process Safety

Process safety is a framework for managing the integrity of the operating system and the hazardous substances handling process. This is achieved by applying the principles of good design, engineering, operations and maintenance. This area deals with the prevention and control of events that have the potential to release hazardous substances and energy.

In the area of process safety in 2020, a series of workshops were organised involving engineers of different specialities from production locations, where risk analyses were carried out using modern methods such as HAZID, HAZOP and Bow-tie. The conducted risk analyses have enabled us to review current work activities and the effectiveness of safety barriers in place at our production facilities and to define measures that will be effective in preventing adverse events.

Emergency Situations

The emergency preparedness system and civil defence at the Company level are focused on enabling the Company to respond successfully to emergencies and disasters – crises. The prescribed norms are defined by the provisions of the Law on Disaster Risk Reduction and Emergency Management, other relevant laws and by-laws, but also by good industrial practice, as well as the Company's technical standards. By performing the obligations arising from the Decision on Designation of Parties of Special Importance for Protection and Rescue in the Republic of Serbia, adopted by the Government of the Republic of Serbia, we have strengthened the Company's resilience to emergencies and crises, but also increased the safety of employees, the environment and material goods, both at the Company level and in the local community, in which we operate.

In 2020, the year marked by the coronavirus pandemic, emergency-related activities covered the preparation of planning documents which define all activities related to the measures and tasks to be undertaken in the event an emergency being declared, the communication between the Disaster Management Team of NIS j.s.c. Novi Sad and the Emergency Preparedness and Response Teams of the organisational parts of NIS j.s.c Novi Sad, as well as the method of communication with the competent state authorities.

In addition to the operational activities carried out in connection with the aforementioned crisis, the Company's civil defence system was harmonized with newly adopted by-laws regulating this area, which further and permanently strengthen the Company's resilience to emergencies and crises. The said harmonisation includes the audit of internal training procedures for civil defence officers and their deputies, as well as amendments to decisions, that is, the appointment of new civil deference officers and their deputies in all organisational units.

HEALTH AND safety above all

Health is the priority for every family. That is why taking care of the health and safety of NIS employees and customers was our most important assignment in a year marked by great health challenges.

We were among the first companies in Serbia to form a crisis team that cooperated with the competent state authorities and implemented the recommendations of healthcare experts.

A large number of NIS employees was enabled to work from home, while all preventive measures were implemented at the company's locations - from the purchase of protective equipment and thermal imaging cameras, disinfection and the introduction of measures to reduce contacts, to regular monitoring of

employees' health.

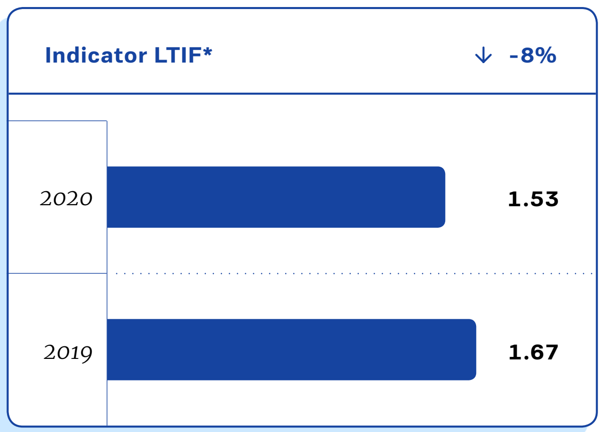
Significant contribution in

the combat against the epidemic

the epidemic was given by consistent compliance with the prescribed measures, as well as by quality and timely communication with all employees and the external public.

Occupational Safety

When compared to 2019, the LTIF was reduced by 8%. We recorded 33 LTIs in 2019, whereas in 2020, there were 29 LTIs of the Company's employees, which is considered a positive trend.



* *The ratio of the number of employee injuries with sick leave and total number of working hours multiplied by 1 million (total NIS j.s.c. Novi Sad with subsidiaries Naftagas –Technical Services LLC Zrenjanin, Naftagas – Oil Services LLC Novi Sad, Naftagas – Transport LLC Novi Sad, STC NIS – Naftagas LLC Novi Sad).*

Risk Management in Occupational Safety

During 2020, the process of amending the Occupational and Environmental Risk Assessment Act in NIS j.s.c and Its Subsidiaries was continued. The amendments include a new approach to and concept of risk assessment. These amendments are in accordance with the requirements of the legislation of the Republic of Serbia in the field of occupational safety and health, which defines the workplace as an area intended for performing work, and the new risk assessment method.

A procedure has been initiated for harmonising the process of providing personal protective equipment for employees of NIS j.s.c with Gazprom Neft.

At the beginning of the year, we completed the transition of the safety management system from OHSAS 18001 to ISO 45001 standard which was externally verified by Bureau Veritas. The certificate of compliance with the requirements of ISO 45001 has been obtained.

In addition, we continued working on further improvement of existing risk assessment tools and introduced of new ones (such as BowTie, HAZID), including the audit of the permit-to-work system, to enable effective risk management for high-risk works.

HSE Incident Management

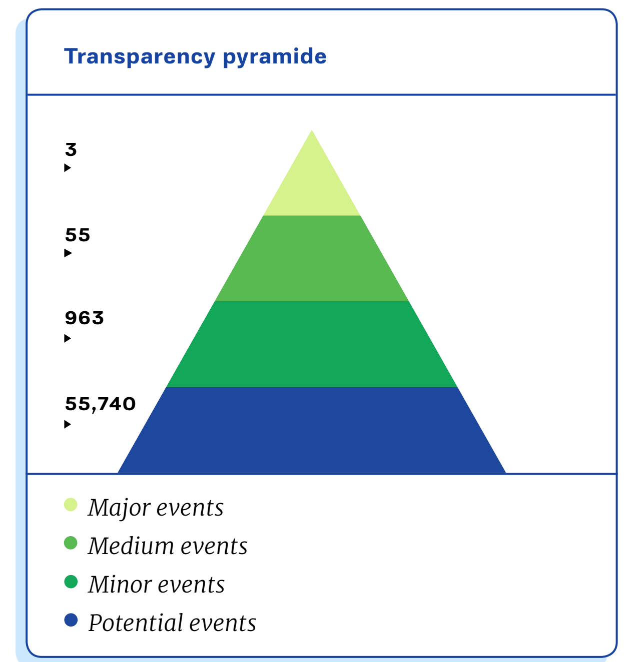
The process of HSE Event Management involves transparent notification and reporting of HSE events, investigating the causes of HSE events, monitoring financial impacts, as well as sharing lessons, that is, learning from HSE events.

By HSE events, we mean events that have consequences such as injuries at work, fires, traffic accidents, equipment failures that may endanger human safety and/or have an adverse impact on the environment. Accordingly, the basic objectives of HSE event management are:

- To timely respond and mitigate the consequences of HSE events, that is, HSE event management
- To act preventively, that is, apply measures that will prevent the recurrence of similar events
- To upgrade the HSE management system
- To learn and share lessons learned from events with our employees and contractors

According to the HSE Event Classifier, all events in the HSE area are classified into major, medium, minor and near-miss events. Each HSE event can also be recorded as a high-potential event (HiPo) – events that have the potential, under different circumstances, to result in one or more fatalities or become a high-risk HSE event according to the NIS RAM matrix.

The figure below presents the transparency pyramid showing the number of HSE events in the Company in 2020:



Karkas Safety Shield Project

This project originated within Gazprom Neft to eliminate injuries, accidents, incidents and adverse environmental impacts, promote HSE culture, prevent fatal and other injuries to employees and contractors, and to reduce financial losses caused by incidents and accidents.

During 2020, the realisation and implementation of the 'Security Shield – Karkas' Programme began, based on the completed diagnostics. The measures were first implemented in the area of electrical safety, high-risk works and elevated works, while the measures in other areas are planned for implementation over the next 4 years.

Also, preparations for diagnostics for Karkas 2 and Karkas 3 were commenced and will be carried out during 2021.

Management of Contractors and Third Parties

NIS j.s.c. is focused on improving cooperation with contractors, ensuring the advancement of contractors, raising awareness about the HSE culture, as well as on the safety of working conditions.

Also in 2020, NIS j.s.c. continued its work on improving the contractor management process. For the seventh consecutive year, our company has been successfully managing contractors to improve OHS (Occupational Health and Safety), EP (Environmental Protection) and FP (Fire Protection) practices.

During 2020, additional training courses were arranged for key responsible people in the CSM process (Contractors System Management), a new concept for contractor evaluation/rating was defined and its implementation was planned for the upcoming period.

Employee Health Care

2020 was marked by the COVID-19 (SARS-CoV2) virus pandemic and was very challenging in all areas.

The newly arisen situation has also changed our priorities in regular activities, with a focus on measures to curb the spread of infection among employees, protect the physical and psychological health of workers, prevent the negative impact of the resulting changes on employees mental health, and to protect "sensitive groups" and employees in key positions to ensure the continued functioning of the business process.

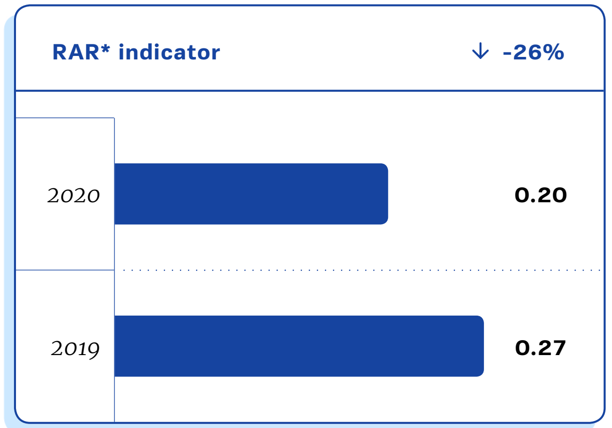
Good cooperation has been established with medical institutions such as the Institute of Public Health of Serbia 'Dr Milan Jovanovic Batut', The Institute of Virology, Vaccines and Sera 'Torlak', The Institute for Biocides and Environmental Medicine, and The Institute for Public Health of Vojvodina, etc., that tested for the presence of SARS-CoV2 virus. Measures and algorithms of procedures have been developed with the help of experts and epidemiologists in order to prevent the spread of infection, especially at the beginning of the pandemic. With co-workers from the Department for Digital Transformation and IT, an application for monitoring the health of employees was created and implemented, which enabled better control and preservation of the health of workers. To ensure sufficient quantities of disinfectants during the state of emergency and their shortages, not only in Serbia, but also in the world, our colleagues from the Lubricants Department in the Sales and Distribution Block successfully initiated the production of our own disinfectant NISOTEC Antisepsol, which satisfied the Company's needs.

To protect vulnerable/high-risk groups – targeted physical examinations were organised for employees with chronic illnesses and those over 60 years of age. Additionally, colleagues received recommendations for promoting and safeguarding their health during the pandemic, as well as the recommendation to start working from home, including additional protection measures for employees working in positions that are crucial for the business and who had to continue working at the Company's premises.

Traffic Safety

NIS employees travel about 40 million kilometres per year on average, which is why they are exposed to many traffic risks. In order to minimise these risks, the Company pays great attention to traffic safety of its employees (practical and theoretical training, continuous monitoring of vehicles and driving style through IVMS (In-Vehicle Monitoring System), engaging advisers for the safe transport of dangerous goods, rewarding the best drivers, organising campaigns and informing employees about risks and dangers and providing advice for safe behaviour in traffic, as well as through informing the management and developing normative documents, etc.)

RAR (Road Accident Rate) is a ratio of road accidents. In 2020, the RAR indicator decreased by 26% compared to 2019. In 2019 there were 11 RAR injuries, in 2020 we registered 7 RAR injuries in Company, which is considered a positive trend.



* *The ratio of traffic accidents per kilometres travelled multiplied by 1 million.*

HSE Culture Improvement

With the adoption of NIS's HSE Strategy for the period 2017-2030, the improvement of HSE Culture became the focus of the HSE management system, and the implementation of the Program for the Improvement of HSE Culture began in early 2018.

After 112 workshops for leaders and operators were organized in 2018 and 2019, in cooperation with the Dekra Company from the United Kingdom, at the beginning of 2020, the planned coaching activities were completed. They covered a total of about 250 leaders, including NIS's top management. The training of 71 selected champions was also implemented.

After the outbreak of the pandemic in March this year, despite conditions that made communication and personal contact difficult, the implementation of the Program was continued using exclusively internal resources. The sessions were organised to promote the development of the current champions, 5 new champions were selected and trained and the first conference of this 'coalition of the willing' was held, which inspired mutual connections and contacts between participants from all organizational units.

HSE Training, Development of HSE Competency and Employee Awareness

In 2020, the real challenge for the HSE training was maintaining its continuity in accordance with prevention measures. For this reason, the focus was on legally required HSE training courses which were implemented either online or via the e-learning platform. A total of 32,860 employees completed the program i.e. 155,690 hours went into their HSE training.

HSE Motivation

368 workers were rewarded through HSE motivation program during the first quarter of 2020. Due to the COVID-19 pandemic and the declaration of the state of emergency in the Republic of Serbia, all HSE motivation programs were suspended until further notice. In the last three quarters of 2020, a change was introduced to the Employees Additional Motivation System, which included HSE Motivation. A modification of the NMD: HSE Motivation Guidelines and a modification of the application in accordance with the new concept are in progress.

HSE Inspection Supervision

Systematic monitoring of the inspection supervision carried out by the competent state authorities in all HSE areas showed that, during 2020, due to coronavirus epidemic, the number of inspections of our facilities was the lowest in the last 8 years, and the number of measures imposed was reduced by 22% compared to the previous year.

In 2020, the year marked by the coronavirus pandemic, activities were focused on employee health protection and related preventive measures undertaken to sustain the Company's business in these peculiar circumstances.

HSE Indicators

HSE indicators	2019	2020	% change
Injuries	*112*	*86*	*23%*
Lost-time injuries	*33*	*29*	*12%*
Fire	*32*	*20*	*38%*
Traffic accidents	*11*	*7*	*36%*
Environmental pollution	*14*	*5*	*64%*
Inspection visits coefficient	*0.17*	*0.22*	*29%*
Visits by inspection bodies	*1,029*	*637*	*38%*
Measures proposed during inspection visits	*178*	*138*	*22%*

RESPONSIBILITY to the community

In 2020, NIS volunteers realized 2,000 volunteer hours in humanitarian actions, which means that they were engaged for more than 83 days for the benefit of the community.

In a year in which

empathy and cooperation

were of key importance, NIS continued to resolutely support health and educational institutions, young talented individuals, and those who need help the most.

We have invested more than RSD

290

million in socially responsible projects and we continue to build the future together with our friends throughout Serbia.

1.13

Corporate Social Responsibility

Corporate social responsibility and community development

In the year in which solidarity, understanding and cooperation were of key importance for overcoming the challenges successfully, NIS's priority in the field of socially responsible business was to support the Serbian healthcare system and to help the community, especially the most vulnerable categories of the population.

Our reaction was quick and in line with the new situation - immediately after a state of emergency was declared in the Republic of Serbia due to the epidemic of the new coronavirus, NIS provided 270 tons of aviation fuel for the national airline Air Serbia. In this way, we supported the flights that have been delivering the necessary medical equipment and devices to our country and which have transported citizens who found themselves outside the borders of Serbia at that time. In addition, the majority shareholder of NIS, the company "Gazprom Neft", donated 1,500 tons of fuel for the needs of public services of the Republic of Serbia (the Serbian Ministry of the Interior, the Serbian Army, ambulances and fire fighting services).

In addition to the above, NIS, in cooperation with UNICEF, provided hospitals in Belgrade with 56 oxygen flow meters used in the treatment of patients with COVID-19 disease. In order to thank doctors and other medical staff for their efforts to help patients, NIS donated 500 sets of surgical uniforms to the Clinical Centre of Serbia and the new hospital in Batajnica.

Valuable donations were provided for the "Torlak" Institute of Virology, Serums and Vaccines and the General Hospital in Čačak, for the purchase of necessary equipment for the diagnosis of the SARS-Cov-2 virus, i.e. computer equipment for the work of employees. Additionally, a passenger vehicle for transporting mothers and babies to health institutions was presented to the Clinical Centre of Vojvodina. NIS provided "Jazak" non-carbonated drinking water for all patients and employees at the Clinical Centre of Serbia, Clinical-Hospital centres: "KBC Zvezdara", "KBC Bežanijska kosa", and "KBC Dr Dragiša Mišović", Special Hospital for Lung Diseases "Dr Vasa Savić" from Zrenjanin and at the temporary hospital in Belgrade's "Arena" hall.

Members of the NIS Volunteer Club, which at the end of 2020 has more than 1,647 employees, also joined in supporting health institutions, as well as the entire community. In 2020, they donated over 2,000 volunteer hours, during which, among other things, they visited health institutions in partner municipalities and cities supported by NIS through the "Together for the Community 2019" programme, and arranged and redecorated their premises and environment. The activities of the NIS Volunteer Club were also aimed at providing assistance to the most vulnerable categories of the population, i.e., people over the age of 65, whom the members of the Club helped in the procurement of food, medicine and other needs. Volunteers also made some cotton facemasks and visors for medical workers. In order to have "Jazak" water delivered to health institutions as soon as possible, a volunteer action of water packaging was organised. Members of the NIS Fire Brigade from Kikinda joined the action of the disinfection of public areas in this city. Volunteering activities were organised internally, and were aimed at maintaining mutual support and solidarity among the Company's employees. Specifically, everyone had the opportunity to contact members of the Volunteer Club via e-mail, Skype or phone, and anyone could exchange knowledge, skills, recommendations and advice on the activities during the state of emergency. Members of the Volunteer Club also participated in landscaping the children's playground in the city of Leskovac, as well as in the packaging of "Jazak" water, which the Company provided for the citizens of Blace and Ivanjica who had suffered damage in the floods.

Although most of the activities were aimed at supporting the fight against the pandemic, NIS was also engaged in other fields when it comes to supporting the community. Despite difficult macroeconomic circumstances, NIS conducted, in cooperation with the Ministry of Interior and the Ministry of Education, Science and Technological Development of the Republic of Serbia, a competition "Together for the Community 2020" in which 72 projects were selected from 12 partner local governments. NIS invested 114.5 million dinars in the implementation of these projects that will improve the digitalisation of teaching and increase the safety of children and teachers in schools throughout Serbia. The importance and correctness of NIS's decision to support digitalisation in education was also proven during the corona virus epidemic, because a large number of students attended classes remotely, i.e. through digital platforms, for which good equipment in domestic schools is vital.

NIS has remained a reliable partner to its long-term associates even in difficult times. Thus, in 2020, our cooperation with the Basketball Club "Partizan" continued, and the Company again supported a unique international cultural event - the Belgrade Game Festival, as well as the Science Festival in Belgrade, which was held over digital platforms due to the epidemiological situation.

At the end of the year, NIS and its employees continued their long-standing practice - to make children all over Serbia joyful and happy. On this occasion, personalised gifts were given to the residents of shelters in Belgrade, Novi Sad and Kragujevac, as well as to schools for children with developmental disabilities in Belgrade, Pančevo and Niš.

In 2020, NIS marked a significant jubilee - 10 years of reporting on sustainable development according to the highest international standards. Despite all the challenges, this publication of the verified report, represents a new great success of NIS in this area. On this occasion, an interactive version of the Report on Sustainable Development for 2019 was published on the external website of NIS. In the Report, NIS recognizes 12 goals of sustainable development of the United Nations, the fulfillment of which it contributes to through its business operation. In addition, NIS has presented in this document its business successes, and the way it achieves them, in a transparent way to all stakeholders, as well as the efforts to strengthen the community in which the Company operates. In the forthcoming work, the goals of sustainable development of the UN will be a guide and inspiration for NIS in its efforts to further strengthen the community and contribute to its general wellbeing.

In 2020, we continued to implement the "Energy of Knowledge" program, through which NIS cooperates with eminent educational and scientific institutions in the country and abroad, as well as with talented students of natural and social sciences. Such diverse cooperation ensures timely selection of future experts and investment in the long-term development of the Company.

During 2020, NIS signed Memoranda of Cooperation with the Faculty of Electrical Engineering in Belgrade and the Faculty of Technical Sciences in Novi Sad. These memoranda envisage the exchange of knowledge and experiences, implementation of training courses, professional discussions and consultations, participation in joint projects, organization of guest lectures by NIS experts and professors from the University, as well as other types of communication.

In September 2020, a joint working space (co-working zone) was opened at the Faculty of Electronics in Niš, the equipping of which was financed by NIS. This space is intended for the implementation of joint projects in the field of digitalisation and new technologies. Within this cooperation, four professional guest lectures were held for final year bachelor and masters students.

During 2020, cooperation was established between the Faculty of Technical Sciences and NIS with the aim of implementing the project of making the prototype of "Chat Bot" software. In addition, the cooperation with the Faculty of Electronics in Niš began on the use of "computer vision" technology, as well as on the implementation of contracts for the development of a prototype of a supervisory system for seismic exploration. Over 35 guest lectures by NIS experts were held at partner faculties of the University of Belgrade and the University of Novi Sad. Due to the situation caused by the COVID-19 pandemic, the lectures, supported by the Ministry of Education, Science and Technological Development of the Republic of Serbia, were organised via Skype. In total, more than 500 NIS students and employees participated the lectures during 2020.

With the aim of popularisation of the Russian language, support has been given for the realisation of bilingual teaching in the elementary school "Jovan Popović" and the Grammar school "Jovan Jovanovic Zmaj" in Novi Sad and in the Grammar school in Aleksinac. From the school year 2020/2021, the implementation of bilingual Serbian-Russian teaching in these educational institutions have included lecturers from the Russian Federation. Through this project from the Ministries of Education of the Russian Federation and the Republic of Serbia, cooperation in the field of studying Serbian and Russian languages on a reciprocal basis has been expanded.

In 2020, a unique textbook for learning the initial level of the Russian language for adults was created, and entitled "Neither Fur, nor Feather" (meaning: "Good luck"); the first of its kind in Serbia. The textbook originated from cooperation between the Centre of the Russian Geographical Society in Serbia and NIS. Some of the Company's long-term partners also participated in the development of this new textbook, including professors from the Faculty of Philology in Belgrade, the Faculty of Philosophy and the Academy of Arts at the University of Novi Sad, as well as from Grammar schools "Jovan Jovanovic Zmaj"and "Laza Kostić". The textbooks were proofread by the Pushkin Institute in Moscow.

During 2020, the "Energy of Knowledge" programme coordinated cooperation between the Science and Technology Centre of NIS and the Qualifications Agency, which resulted in the registration of two STC's training courses. STC received the status of a publicly recognized organiser of activities for adult education.

In 2020, NIS invested over 290 million dinars through various socially responsible projects, and supporting the community will continue to be one of the Company's priorities.

Humanity in action

In 2020, NIS took decisive steps to support the community and health workers in the context of the COVID-19 epidemic. To that end, we provided 270 tons of air fuel for humanitarian flights of Air Serbia airline, while the majority shareholder of the company, “Gazprom Neft”, donated 1,500 tons of fuel for the services of the Government of the Republic of Serbia.

In a joint action with UNICEF, 56 oxygen flowmeters were procured for health institutions in Belgrade, while NIS donated 500 sets of surgical uniforms to the Clinical Centre of Serbia and the hospital in Batajnica.

Valuable donations were provided to the “Torlak” Institute for the purchase of equipment for the diagnosis of the SARS-Cov-2 virus, and computer equipment was provided for the General Hospital in Čačak as well. As a sign of support to the infected patients and health workers, NIS donated about

60,000

litres of “Jazak” drinking water to hospitals in Serbia, while the company’s firefighters in Kikinda were involved in the disinfection of public areas in that city.

NIS volunteers

are engaged in numerous humanitarian actions in support of fellow citizens. Such activities will remain in the focus of socially responsible projects of NIS in the coming period, because only through joint efforts, when we support each other, we can overcome all challenges.

1.14

Communication

Public Relations

Timely and transparent informing of the public about the NIS Group's activities gained special importance in the challenging days 2020, when customers were efficiently informed of market developments and changes in operation of NIS retail facilities through several communication channels. The commitment of the NIS Press Centre to establish a two-way communication with the public and provide timely replies to all inquiries of its customers and other citizens also played a crucial role in this communication process. In line with the established priorities, NIS has been informing the general public about the major activities and protection measures taken during the COVID-19 epidemics through its external website www.nis.eu, numerous press releases, interviews with the company's top managers, and specialised articles. Additionally, corporate website visitors will also find information for investors, as well as about the major development projects, career development opportunities at NIS, and open tenders and procurement procedures. The website, which can be accessed on all devices, also contains electronic versions of annual reports and sustainable development reports, as well as the "Magazin" platform; offering content in the field of culture, education, environmental protection, and sustainable development. Social networks have a special role in fostering two-way communication with all stakeholders, which is the reason why NIS keeps strengthening its presence on these platforms. NIS manages its profiles on all relevant social networks, which it uses to place the latest information on the company's activities and show the company's operations from a different perspective, while putting in maximum effort to reply to all inquiries within the shortest possible time.

More information on Investor Relations on page 114

Informing Employees

Keeping employees informed is one of the key tools to increase engagement and drive the achievement of the company's business goals. This is why the NIS Internal Communications Department is working on providing timely and accurate information on all current events to the staff. Reliable and timely information, transparency, and active two-way communication are keys for building trust and a sense of community among employees, which in turn directly influences employee engagement and their contribution to the development of the company.

The COVID-19 pandemic of 2020 had a significant influence on the intensity of the company's communications with its employees. The company had to focus on digital channels of communication to swiftly and clearly notify its workers of all changes, protection measures, and new work formats. Throughout this period, it became clear that NIS needs a communication channel available to all of its workers, so the company is currently working on a mobile version of its corporate portal. The new mobile portal will allow all employees to access any information they need quickly at any time.

The pandemic caused a lot of changes throughout the previous year, so the communication activities were first of all focused on informing employees on the prevention measures, safe behaviours, new ways of working, organisation of work from home, and other changes in the day-to-day operations of the company. Employee support was part of a comprehensive campaign under the hashtag #NIStesami (you are not alone) designed to help all workers to stay safe and motivated throughout the crisis.

Government Relations

Cooperation with Business Associations

During the year, NIS actively cooperated with the Foreign Investors Council (FIC), the American Chamber of Commerce in Serbia (AMCHAM) and the Serbian Chamber of Commerce (PKS), as well as the professional association of the National Petroleum Committee of Serbia - World Petroleum Council (NNKS-WPC).

2020 was marked by an adverse epidemiological situation due to the COVID-19 pandemic, which caused major health, social and economic problems both in the country and around the world. Bearing in mind the new circumstances, cooperation with business associations in the Republic of Serbia was extremely important in order to fully understand and propose adequate measures and mechanisms to overcome the crisis.

Acting within the business associations, NIS has intensified its cooperation with other companies operating in Serbia in order to exchange information on epidemiological measures which best ensure the protection of employees and maintenance of the business processes, information about changes to the way transportation is carried out in Serbia as well as within the region and the European Union, including daily updated information from border crossings. While adapting to the new circumstances, business associations actively monitored the changes to regulations and kept their members up to date. During the state of emergency, an appeal raised by business associates for work orders issued by the state authorities to remain valid for 7 days played a very important role, as well as did the acceptance by the CEFTA of the associations' proposal for the acceleration of cross-border transport of goods, to mirror those of the European Union, by accepting the proposal of "Green Corridors" at border crossings. Also, associations were involved in the preparation of proposals for economic measures which were aimed at supporting the economy and mitigating the adverse effects of the pandemic.

Business associations continued their regular activities through their internal workgroups and committees that made efforts to improve the business environment, and were joined by NIS representatives who took an active part in the process.

Curbing the Grey Market

NIS is supportive of the state's active and continuous suppression of the shadow economy in the country and actively works with business associations on analysing and proposing measures to combat illegal trade.

Being a significant measure aimed at suppressing the shadow economy, we particularly draw attention to the importance of adopting a new Law on Fiscalisation that introduces a new fiscal system and creates conditions for more efficient inspections to be carried out by the Tax Administration.

1.15

Research and Development

In all segments of its business, NIS is dedicated to continuous technological development and introducing innovations into business.

STC NIS-Naftagas LLC Novi Sad, a daughter company fully owned by NIS, provides its parent company with scientific, technical and innovational support in the field of oil and gas exploration and production. The research and development activities within STC NIS-Naftagas have a dual role – coordinating and performing scientific and research work.

Implementation and development of new technologies, scientific and research activities, as well as increasing the efficiency of exploration, production and refining of oil and gas remain the focus of STC management and employees and are oriented towards several directions.

Geological exploration activity in 2020 was focused on the search for new oil and gas reserves through the implementation of the Project "Fundamental Units in Neogeneous Substrate", the AVAZ project which will, when fully developed, provide a more certain interpretation of the naturally fractured petroleum-bearing formation, as they are located in the Neogeneous substrate, and the Project "Non-Structural or Hidden Traps in Neogeneous Rocks", i.e. through their locating, risk assessment and preparation for drilling.

Reservoir engineering and oil and gas production activities are oriented towards finding the optimal solution to prevent the migration of sand from loosely bound petroleum-bearing formations. A collection of such formations was prepared for oil and gas fields in Kikinda, Kikinda varoš, Velebit and Jermenovci. For these fields, a backfill selection methodology was developed and tested, as well as software for designing Gravel-packs based on actual geological parameters. Testing of our own chemicals used in the process of production and preparation of oil for transport is currently underway. The use of in-house chemicals will reduce the relevant costs by 10%. In addition to the above projects, NTC specialists will continue exploring optimal technologies for enhanced oil recovery (the so-called EOR methods). In 2019, a polymer flooding project was implemented in the Jermenovci field. Due to the current situation and global macroeconomic parameters, the project implementation was temporarily suspended in 2020. A surfactant flooding project, to be implemented in the Velebit field as an enhanced oil recovery method, is also under consideration. The laboratory continuously seeks to introduce and accredit new methods of inspecting petroleum products in accordance with the EU standards. In addition, the laboratory made preparations, procured equipment and trained its employees on how to apply brand new methods for testing deep refining products and was fully prepared to welcome the commissioning of the Bottom-of-the-barrel unit. The digital transformation of the business has become not only a global trend but also a mandatory requirement of the market. NTC offers a full scope of competencies for digitalization of all NIS business segments. The Digital Laboratory in NTC was opened in 2020. The primary task of this laboratory is to create and develop digital assets that will enable the company to improve its operating processes. More than 20 digital projects were included in the portfolio; inter alia, the drone deployment application, machine learning and image recognition technologies to improve the exploration of new geological sites, the use of neural networks to solve oil production optimization tasks, as well as the use of virtual reality for the training of employees performing high-risk jobs.

The realisation of these activities was made possible by constant improvement of our employees' expertise and by investment in information technologies, both of which represent key prerequisites for development of NIS j.s.c.

1.16

Further Development

Exploration and Production Block

Exploration and Production

- The implementation of exploratory and development drilling in Serbia and Romania
- Maintaining high intensity GTA in Serbia to support production levels
- Completing application of its own RIR technology, the expansion of RIR activities to the fields of Boka, Elemir, Palic, and Kikinda
- The implementation of 2D projects for seismic works in Bosnia and Herzegovina
- Potential continuation of cooperation with the Turkish national company on seismic surveys
- The continuation of works on well connecting, capital reconstruction of the facilities for oil and gas production and transport
- Development of the "Teremia North" field
- Implementation of the "Smart Asset" project

Downstream Division

Refining Block

During 2021, continual operation of DCU is planned, with an increase of refining depth and output of white petroleum products.

Planned suspension of the unit is planned in March 2021 in order to finalise the process of cleaning and revising the equipment, for catalyser regeneration and replacement, for replacement of the BF-44501 boiler and for the replacement of fire-resistant sheath on the cyclone-reactor section FCC.

Implementation of planned projects and measures is expected to lead to operational efficiency increase.

Within the reconstruction projects in 2021, particular focus will be given to the project of: Reconstruction of the FCC unit and construction of the new ETBE unit. Activities will be carried out in line with project document preparation:

- Preparation of FEED (extended base project);
- Preparation of LAD (the adjustment of project documentation to local regulations).

Sales and Distribution Block

The following is planned for the Sales and Distribution Block in 2021:

- The ambitious goal refers to the modernisation of the retail network in the period 2021-2023:
  - Completion of the first phase of the Expressway Program – construction of the petrol station Sokolići 1 under the GAZPROM brand
  - Construction of 3 new NIS Petrol branded petrol stations
  - Full-scope reconstruction of 6 facilities: 5 A format petrol stations and 1 GAZPROM branded petrol station
- Modernisation of the network of installations - Reconstruction of the oil depot in Niš, Serbia: The first implementation phase of the investment project - replacement and reconstruction of existing equipment and installations, accompanying works concerning legislative obligations
- Development of regional channels for the wholesale of motor fuels as an alternative to the export of petroleum products
- Development of sales of the newly introduced petroleum coke product
- Further development of the DAS segment – new projects covering other services in Serbia and the region directly affecting the growth margin (packet machines, chargers for electric vehicles, car wash rentals, etc.)
- Research and development of the functionalities of the DRIVE.GO mobile application which was first launched in 2020: rules for discounts and promotions for app users, prepaid credit model, payment of coffee
- Development of predictive analytics of the General offer within HOS DM - next best offer, system recommendation
- Introduction of the Internet Store concept - selling an additional product assortment
- Enabling payment of utility bills at petrol stations based on QR code
- Development of the web portal of the Regional Wholesale Department
- Automation of the goods acceptance process at petrol stations (Mobile PDA)
- NIS Corporate Sports 2021: Further continuation of the support whose aim is to preserve and promote employee health and team spirit through the organization of daily recreational, team and tournament activities.

2

FINANCIAL Statements

2.01 Stand-Alone Financial Statements

Independent Auditor's Report on Stand-Alone Financial Statements

KPMG

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TRANSLATION

Independent Auditor's Report

To the Shareholders of Naftna industrija Srbije a.d., Novi Sad

Opinion

We have audited the accompanying separate financial statements of Naftna industrija Srbije a.d., Novi Sad (the "Company"), which comprise:

— the separate balance sheet as at 31 December 2020;

and, for the period from 1 January to 31 December 2020:

— the separate income statement;
— the separate statement of other comprehensive income;
— the separate statement of changes in equity;
— the separate cash flow statement;

and

— notes, comprising a summary of significant accounting policies and other explanatory information

(the "separate financial statements").

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2020, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the accounting regulations effective in the Republic of Serbia.

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TRANSLATION

Basis for Opinion

We conducted our audit in accordance with the Law on Auditing and the Law on Accounting of the Republic of Serbia and applicable auditing standards in the Republic of Serbia. Our responsibilities under those regulations are further described in the Auditor's Responsibility for the audit of the separate financial statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Serbia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters.

Decommissioning and restoration provisions

Accounting policies and financial disclosures with respect to provisions for decommissioning and restoration are disclosed in Notes 2.17, 3.5, 23, 27, 35 and 37 to the separate financial statements.

Carrying amount of decommissioning and restoration provisions as at 31 December 2020: RSD 10,338,464 thousand; New decommissioning provisions and changes in estimates in decommissioning liability amount to RSD 345,084 thousand for the year 2020; Effects of unwinding of discount on decommissioning provision for the year 2020 amount to RSD 88,078 thousand; Income from release of provisions for the year 2020 amount to RSD 695,704 thousand.

Key audit matter

Decommissioning and restoration provisions represent present value of estimated costs of removal of items of property, plant and equipment at the end of their useful life and restoration of the site (decommission assets). The obligation to remove the assets and to restore the site arises on installation of extraction equipment. Decommission assets are recorded in an amount equal to the estimated provision and depreciated in accordance with the adopted accounting policy. All changes in the decommissioning provision, other than changes resulting from the unwinding of the discount, which are recorded in profit or loss, are added to or deducted from the cost of the related decommission asset in the current period. Once an item of property, plant and equipment has been fully depreciated and the asset has a net carrying amount (gross carrying amount less accumulated depreciation) of zero in the balance sheet, further changes in any related provision for decommissioning are recognised in profit or loss.

The Company reviews decommissioning and restoration provisions on an annual basis. This review incorporates the effects of any changes in local regulations, management's plans with respect to decommissioning and restoration including their expected timing, cost estimates and discount rate.

Determination of decommissioning and restoration provisions is the complex area and requires making a number of assumptions and judgments, in particular those relating to estimated costs and timing of decommissioning and restoration activities as well as discount rate. In addition, there is a large number of wells which make the estimation process time consuming and prone to errors.

Due to the above, assessment of the appropriateness of these provisions required our increased attention in the course of our audit. As a consequence, we consider the area to be our key audit matter.

Our response

In this area, our procedures included, among other things, the following:

— Obtaining understanding of the legal framework relating to the decommissioning and environmental protection and its effect on the Company's present or constructive obligation to decommission assets and to restore the site;

— Evaluating the appropriateness of the accounting policies used against requirements of the relevant reporting framework and industry practice;

— Testing the design and implementation of relevant internal controls over the identified business process for identifying obligating events, measurement and recognition of provision, subsequent changes in recognized provisions and use of provisions;

— Assessing the Company's discounted cash flow model against the relevant financial reporting standards, market practice and for internal consistency;

— Testing on a sample basis the accuracy of data with respect to the current status and depth of oil wells included in the provision to the underlying technical documentation;

— Evaluating appropriateness of assumed timing for dismantling and restoration activities by reference to documented oil reserves and approved production plans;

— Challenging the appropriateness of the discount rate by reference to publicly available market data;

— Analysing the sensitivity of the Company's estimate to changes in the discount rate and assessing whether its level indicates management bias;

— Examining whether the Company's disclosures in the separate financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

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KPMG

TRANSLATION

Other Matter

The separate financial statements of the Company as at and for the year ended 31 December 2019 were audited by another auditor who expressed an unqualified opinion on those financial statements on 26 February 2020.

Other Information

Management is responsible for the other information. The other information comprises the Annual Business Report for the year ended 31 December 2020. The Annual Business Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the separate financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Business Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and we are required to report that fact.

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TRANSLATION

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of separate financial statements that give a true and fair view in accordance with the accounting regulations effective in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law on Auditing of the Republic of Serbia and applicable auditing standards in the Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with the Law on Auditing of the Republic of Serbia and applicable auditing standards in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

— Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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KPMG

TRANSLATION

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG d.o.o., Beograd

Signed on the Serbian original

Vladimir Savković
Engagement Partner
Licenced Certified Auditor

Belgrade, 10 March 2021

This is a translation of the original Independent Auditor's Report issued in the Serbian language.
All due care has been taken to produce a translation that is as faithful as possible to the original.
However, if any questions arise related to interpretation of the information
contained in the translation, the Serbian version of the document shall prevail.
We assume no responsibility for the correctness of the translation of the Company's separate financial statements.

KPMG d.o.o., Beograd

Vladimir Savković
Engagement Partner
Licenced Certified Auditor

Belgrade, 10 March 2021

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Balance Sheet

		Note	31 December 2020	31 December 2019
A.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
B.	**NON-CURRENT ASSETS**		**321,970,723**	**320,839,098**
I.	**INTANGIBLE ASSETS**	8	**16,678,505**	**17,158,823**
1.	Development investments		11,770,445	11,439,830
2.	Concessions, licenses, software and other rights		1,916,569	1,789,031
3.	Goodwill		-	-
4.	Other intangible assets		816,102	828,521
5.	Intangible assets under development		2,175,389	3,101,441
6.	Advances for intangible assets		-	-
II.	**PROPERTY, PLANT AND EQUIPMENT**	9	**266,141,584**	**264,872,407**
1.	Land		10,289,180	10,340,860
2.	Buildings		150,825,845	141,926,803
3.	Machinery and equipment		88,940,438	57,184,859
4.	Investment property		1,688,837	1,694,307
5.	Other property, plant and equipment		81,695	77,617
6.	Construction in progress		13,934,934	53,175,055
7.	Investments in leased PP&E		130,679	135,718
8.	Advances for PP&E		249,976	337,188
III.	**BIOLOGICAL ASSETS**		-	-
1.	Forest farming		-	-
2.	Livestock		-	-
3.	Biological assets in production		-	-
4.	Advances for biological assets		-	-
IV.	**LONG-TERM FINANCIAL INVESTMENTS**		**39,065,482**	**38,573,684**
1.	Investments in subsidiary	10	13,425,627	13,425,586
2.	Investments in joint ventures	11	1,038,800	1,038,800
3.	Investments in other legal entities and other available for sales financial assets		95,316	95,662
4.	Long term investments in parent and subsidiaries	12	22,911,248	23,205,187
5.	Long-term investments in other related parties		-	-
6.	Long-term investments - domestic		-	-
7.	Long-term investments - foreign		-	-
8.	Securities held to maturity		-	-
9.	Other long-term financial investments	13	1,594,491	808,449
V.	**LONG-TERM RECEIVABLES**		**85,152**	**234,184**
1.	Receivables from parent company and subsidiaries		-	-
2.	Receivables from other related parties		-	-
3.	Receivables from sale of goods on credit		-	-
4.	Receivables arising out of finance lease contracts		9,515	9,515
5.	Claims arising from guarantees		-	-
6.	Bad and doubtful receivables		-	-
7.	Other long-term receivables		75,637	224,669
C.	**DEFFERED TAX ASSETS**	14	**2,565,957**	**962,195**
D.	**CURRENT ASSETS**		**67,173,010**	**98,006,123**
I.	**INVENTORY**	15	**24,123,563**	**44,495,986**
1.	Materials, spare parts and tools		10,772,971	27,586,180
2.	Work in progress		4,130,289	4,859,254
3.	Finished goods		7,391,813	9,636,535
4.	Merchandise		1,527,975	2,010,350
5.	Assets held for sale		42,631	91,901
6.	Advances for inventory and services		257,884	311,766
II.	**TRADE RECEIVABLES**	16	**22,531,568**	**28,372,063**
1.	Domestic trade receivables - parents and subsidiaries		393,139	378,770
2.	Foreign trade receivables - parents and subsidiaries		3,032,362	4,092,863
3.	Domestic trade receivables - other related parties		1,532,404	1,184,469
4.	Foreign trade receivables - other related parties		50,030	96,193
5.	Trade receivables - domestic		17,091,064	21,663,394
6.	Trade receivables - foreign		432,569	956,374
7.	Other trade receivables		-	-
III.	**RECEIVABLES FROM SPECIFIC OPERATIONS**		**255,870**	**266,456**
IV.	**OTHER RECEIVABLES**	17	**2,456,611**	**1,934,027**
V.	**FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS**		**-**	**-**
VI.	**SHORT TERM FINANCIAL INVESTMENTS**	18	**5,342,977**	**5,433,722**
1.	Short-term loans and investments - parent companies and subsidiaries		167,941	48,185
2.	Short-term loans and investments – other related parties		-	-
3.	Short-term loans and investments - domestic		-	-
4.	Short-term loans and investments - foreign		-	-
5.	Other short-term loans and investments		5,175,036	5,385,537
VII.	**CASH AND CASH EQUIVALENTS**	19	**7,949,785**	**13,501,827**
VIII.	**VALUE ADDED TAX**		**-**	**-**
IX.	**PREPAYMENTS AND ACCRUED INCOME**	20	**4,512,636**	**4,002,042**
E.	**TOTAL ASSETS**		**391,709,690**	**419,807,416**
F.	**OFF-BALANCE SHEET ASSETS**	21	**117,990,463**	**114,298,524**

		Note	31 December 2020	31 December 2019
A.	**EQUITY**		**250,108,611**	**260,463,602**
I.	**EQUITY**		**81,530,200**	**81,530,200**
1.	Share capital	22	81,530,200	81,530,200
2.	Stakes of limited liability companies		-	-
3.	Stakes		-	-
4.	State owned capital		-	-
5.	Socially owned capital		-	-
6.	Stakes in cooperatives		-	-
7.	Share premium		-	-
8.	Other capital		-	-
II.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
III.	**OWN SHARES**		**-**	**-**
IV.	**RESERVES**		**-**	**-**
V.	**REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT**		**152,143**	**152,143**
VI.	**UNREALISED GAINS FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**96,435**	**117,174**
VII.	**UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**58,478**	**58,183**
VIII.	**RETAINED EARNINGS**		**174,296,809**	**178,722,268**
1.	Retained earnings from previous years		174,296,809	161,022,203
2.	Retained earnings from current year		-	17,700,065
IX.	**NON-CONTROLLING INTEREST**		**-**	**-**
X.	**LOSS**		**5,908,498**	**-**
1.	Loss from previous years		-	-
2.	Loss from current year		5,908,498	-
B.	**LONG-TERM PROVISIONS AND LIABILITIES**		**83,208,132**	**94,487,675**
I.	**LONG-TERM PROVISIONS**	23	**10,132,664**	**11,251,613**
1.	Provisions for warranty claims		-	-
2.	Provision for environmental rehabilitation		9,541,537	9,862,043
3.	Provisions for restructuring costs		-	-
4.	Provisions for employee benefits		389,708	1,135,761
5.	Provisions for litigations		201,419	253,809
6.	Other long term provisions		-	-
II.	**LONG-TERM LIABILITIES**	24	**73,075,468**	**83,236,062**

		Note	31 December 2020	31 December 2019
1.	Liabilities convertible to equity		-	-
2.	Liabilities to parent and subsidiaries		8,203,270	13,673,582
3.	Liabilities to other related parties		-	-
4.	Liabilities for issued long-term securities		-	-
5.	Long term borrowings - domestic		45,862,068	46,581,100
6.	Long-term borrowings - foreign		17,130,643	22,329,288
7.	Finance lease liabilities		1,037,640	652,092
8.	Other long-term liabilities		841,847	-
C.	**DEFFERED TAX LIABILITIES**	14	**-**	**-**
D.	**SHORT-TERM LIABILITIES**		**58,392,947**	**64,856,139**
I.	**SHORT-TERM FINANCIAL LIABILITIES**	25	**13,663,179**	**7,519,940**
1.	Short term borrowings from parent and subsidiaries		1,756,035	1,594,071
2.	Short term borrowings from other related parties		-	-
3.	Short-term loans and borrowings - domestic		-	-
4.	Short-term loans and borrowings - foreign		-	-
5.	Liabilities relating to current assets and held-for-sale assets attributable to discounted operations		-	-
6.	Other short term liabilities		11,907,144	5,925,869
II.	**ADVANCES RECEIVED**		**4,051,170**	**2,040,024**
III.	**TRADE PAYABLES**	26	**20,653,938**	**36,720,956**
1.	Trade payables - parent and subsidiaries - domestic		3,452,310	4,389,956
2.	Trade payables - parent and subsidiaries - foreign		3,214,518	10,596,754
3.	Trade payables - other related parties - domestic		957,606	1,208,375
4.	Trade payables - other related parties - foreign		158,061	503,451
5.	Trade payables - domestic		4,871,113	6,496,104
6.	Trade payables - foreign		7,833,988	13,449,126
7.	Other operating liabilities		166,342	77,190
IV.	**OTHER SHORT-TERM LIABILITIES**	27	**8,258,498**	**7,589,108**
V.	**LIABILITIES FOR VAT**		**1,952,868**	**935,984**
VI.	**LIABILITIES FOR OTHER TAXES**	28	**6,373,259**	**6,979,573**
VII.	**ACCRUED EXPENSES**	29	**3,440,035**	**3,070,554**
E.	**LOSS EXCEEDING EQUITY**		**-**	**-**
F.	**TOTAL EQUITY AND LIABILITIES**		**391,709,690**	**419,807,416**
G.	**OFF-BALANCE SHEET LIABILITIES**	21	**117,990,463**	**114,298,524**

In thousand RSD

Income Statement

		Note	Year ended 31 December 2020	2019
	INCOME FROM REGULAR OPERATING ACTIVITIES			
A.	**OPERATING INCOME**	7	**169,802,824**	**245,288,826**
I.	**INCOME FROM THE SALE OF GOODS**		**8,668,186**	**29,317,171**
1.	Income from sales of goods to parent and subsidiaries on domestic market		5,134	227,251
2.	Income from sales of goods to parent and subsidiaries on foreign market		84,979	142,551
3.	Income from the sale of goods to other related parties on domestic market		4,015	1,283
4.	Income from the sale of goods to other related parties on foreign market		1,845	187,210
5.	Income from sale of goods on domestic market		8,505,669	27,314,442
6.	Income from sale of goods on foreign market		66,544	1,444,434
II.	**INCOME FROM SALES OF PRODUCTS AND SERVICES**		**160,806,365**	**215,587,750**
1.	Income from sales of products and services to parent and subsidiaries on domestic market		911,848	838,470
2.	Income from sales of products and services to parent and subsidiaries on foreign market		12,136,646	18,431,398
3.	Income from sales of products and services to other related parties on domestic market		17,016,963	19,071,606
4.	Income from sales of products and services to other related parties on foreign market		147,612	385,054
5.	Income from sales of products and services – domestic		110,615,468	150,161,146
6.	Income from sales of products and services – foreign		19,977,828	26,700,076
III.	**INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS**		-	-
IV.	**OTHER OPERATING INCOME**		**328,273**	**383,905**
	EXPENSES FROM REGULAR OPERATING ACTIVITIES			
B.	**OPERATING EXPENSES**		**176,878,956**	**222,587,880**
I.	COST OF GOODS SOLD		7,417,948	25,965,473
II.	WORK PERFORMED BY THE ENTITY AND CAPITALIZED		1,511,825	2,343,286
III.	INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		-	-
IV.	DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		2,973,687	3,470,567

		Note	Year ended 31 December 2020	2019
V.	COST OF MATERIAL	30	103,099,166	130,509,980
VI.	COST OF FUEL AND ENERGY		3,636,226	3,139,822
VII.	COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	31	17,074,338	15,593,065
VIII.	COST OF PRODUCTION SERVICES	32	13,295,670	15,108,734
IX.	DEPRECIATION, DEPLETION AND AMORTIZATION	8,9	20,866,040	19,005,884
X.	COST OF LONG-TERM PROVISIONING		210,016	604,750
XI.	NON-PRODUCTION COSTS	33	9,817,690	11,532,891
C.	**OPERATING GAIN**		-	**22,700,946**
D.	**OPERATING LOSS**		**7,076,132**	-
E.	**FINANCE INCOME**	34	**3,243,326**	**3,083,292**
I.	FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME		1,690,272	1,774,064
1.	Finance income - parent company and subsidiaries		1,685,343	1,756,956
2.	Finance income - other related parties		513	5,522
3.	Share of profit of associates and joint ventures		-	-
4.	Other financial income		4,416	11,586
II.	INTEREST INCOME (FROM THIRD PARTIES)		292,710	478,114
III.	FOREIGN EXCHANGE GAINS (THIRD PARTIES)		1,260,344	831,114
F.	**FINANCE EXPENSES**	35	**4,122,889**	**3,527,458**
I.	FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES		1,496,760	1,636,926
1.	Finance expense - parent company and subsidiaries		1,468,999	1,610,891
2.	Finance expense - other related parties		627	4,728
3.	Share of loss of associates and joint ventures		-	-
4.	Other financial expense		27,134	21,307
II.	INTEREST EXPENSE (FROM THIRD PARTIES)		1,491,628	1,446,602
III.	FOREIGN EXCHANGE LOSSES (THIRD PARTIES)		1,134,501	443,930
G.	**PROFIT FROM FINANCING OPERATIONS**		-	-
H.	**LOSS FROM FINANCING OPERATIONS**		**879,563**	**444,166**
I.	**INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**	36	**251,975**	**293,218**
J.	**LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**		**156,111**	**224,925**

		Note	Year ended 31 December 2020	2019
K.	**OTHER INCOME**	37	2,075,870	1,141,058
L.	**OTHER EXPENSES**	38	1,839,475	1,452,124
M.	**OPERATING PROFIT BEFORE TAX**		–	22,014,007
N.	**OPERATING LOSS BEFORE TAX**		7,623,436	–
O.	**NET INCOME ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS**		–	–
P.	**NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS**		–	–
Q.	**PROFIT BEFORE TAX**		–	22,014,007
R.	**LOSS BEFORE TAX**		7,623,436	–
II.	INCOME TAX			
I.	CURRENT INCOME TAX	39	(111,229)	2,870,963
II.	DEFERRED TAX EXPENSE FOR THE PERIOD	39	–	1,442,979
III.	DEFERRED TAX INCOME FOR THE PERIOD	39	1,603,709	–
S.	**PERSONAL INCOME PAID TO EMPLOYER**		–	–
T.	**NET PROFIT**		–	17,700,065
V.	**NET LOSS**		5,908,498	–
I.	NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		–	–
II.	NET INCOME ATTRIBUTABLE TO THE OWNER		–	17,700,065
III.	NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		–	–
IV.	NET LOSS ATTRIBUTABLE TO THE OWNER		5,908,498	–
V.	EARNINGS PER SHARE			
1.	Basic earnings per share		(0.036)	0.109
2.	Diluted earnings per share		-	-

In thousand RSD

Statement of other comprehensive income

		Note	Year ended 31 December 2020	2019
A.	**NET PROFIT/(LOSS)**			
I.	**PROFIT, NET**		–	17,700,065
II.	**LOSS, NET**		5,908,498	–
B.	**OTHER COMPREHENSIVE PROFIT OR LOSS**			
a)	*Items that will not be reclassified to profit or loss*			
1.	**Changes in the revaluation of intangible assets, property, plant and equipment**			
	a) increase in revaluation reserves		-	-
	b) decrease in revaluation reserves		-	-
2.	**Actuarial gains (losses) of post employment benefit obligations**			
	a) gains		-	-
	b) losses		20,739	29,837
3.	**Gains and losses arising from equity investments**			
	a) gains		-	-
	b) losses		-	-
4.	**Gains or losses arising from a share in the associate's other comprehensive profit or loss**			
	a) gains		-	-
	b) losses		-	-
b)	*Items that may be subsequently reclassified to profit or loss*			
1.	**Gains (losses) from currency translation differences**			
	a) gains		-	-
	b) losses		-	-
2.	**Gains (losses) on investment hedging instruments in foreign business**			
	a) gains		-	-
	b) losses		-	-
3.	**Gains and losses on cash flow hedges**			
	a) gains		-	-
	b) losses		-	-
4.	**Gains (losses) from change in value of available-for-sale financial assets**			

		Note	Year ended 31 December 2020	2019
	a) gains		-	7,267
	b) losses		295	-
I.	OTHER COMPREHENSIVE PROFIT BEFORE TAX		-	-
II.	OTHER COMPREHENSIVE LOSS BEFORE TAX		21,034	22,570
III.	TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD		-	-
IV.	**TOTAL NET COMPREHENSIVE PROFIT**		-	-
V.	**TOTAL NET COMPREHENSIVE LOSS**		**21,034**	**22,570**
C.	**TOTAL NET COMPREHENSIVE PROFIT**			
I.	TOTAL COMPREHENSIVE PROFIT, NET		-	17,677,495
II.	TOTAL COMPREHENSIVE LOSS, NET		5,929,532	-
D.	**TOTAL NET COMPREHENSIVE PROFIT / (LOSS)**		**5,929,532**	**17,677,495**
1.	Attributable to shareholders		5,929,532	17,677,495
2.	Attributable to non-controling interest		-	-

In thousand RSD

Statement of cash flows

		Note	Year ended 31 December 2020	2019
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflow from operating activities**		**363,097,125**	**458,104,310**
1.	Sales and advances received		362,320,551	456,750,061
2.	Interest from operating activities		448,301	970,344
3.	Other inflow from operating activities		328,273	383,905
II.	**Cash outflow from operating activities**		**334,114,963**	**404,562,970**
1.	Payments and prepayments to suppliers		143,767,421	195,327,034
2.	Salaries, benefits and other personal expenses		15,694,561	14,281,098
3.	Interest paid		1,695,706	1,748,635
4.	Income tax paid		1,162,365	4,060,442
5.	Payments for other public revenues		171,794,910	189,145,761
III.	**Net cash inflow from operating activities**		**28,982,162**	**53,541,340**
IV.	**Net cash outflow from operating activities**		-	-
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I.	**Cash flows from investing activities**		**968,195**	**486,221**
1.	Sale of shares (net inflow)		-	26,968
2.	Proceeds from sale of intangible assets, property, plant and equipment		488,186	391,938
3.	Other financial investments (net inflow)		475,735	58,858
4.	Interest from investing activities		-	-
5.	Dividend received		4,274	8,457
II.	**Cash outflow from investing activities**		**25,557,981**	**41,820,136**
1.	Acquisition of subsidiaries or other business (net outflow)		41	-
2.	Purchase of intangible assets, property, plant and equipment		25,557,940	41,820,136
3.	Other financial investments (net outflow)		-	-
III.	**Net cash inflow from investing activities**		-	-
IV.	**Net cash outflow from investing activities**		**24,589,786**	**41,333,915**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflow from financing activities**		**161,966**	-
1.	Increase in share capital		-	-
2.	Proceeds from long-term borrowings (net inflow)	24	-	-
3.	Proceeds from short-term borrowings (net inflow)	24	161,966	-
4.	Other long-term liabilities		-	-
5.	Other short-term liabilities		-	-
II.	**Cash outflow from financing activities**		**10,185,885**	**10,968,984**
1.	Purchase of own shares		-	-
2.	Repayment of long-term borrowings (net outflow)	24	5,480,423	3,700,130
3.	Repayment of short-term borrowings (net outflow)	24	-	624,306
4.	Repayment of other liabilities (net outflow)		-	-
5.	Financial lease	24	280,003	127,024
6.	Dividend distribution	22	4,425,459	6,517,524
III.	**Net cash inflow from financing activities**		-	-
IV.	**Net cash outflow from financing activities**		**10,023,919**	**10,968,984**
D.	**TOTAL CASH INFLOW**		**364,227,286**	**458,590,531**
E.	**TOTAL CASH OUTFLOW**		**369,858,829**	**457,352,090**
F.	**NET CASH INFLOW**		-	**1,238,441**
G.	**NET CASH OUTFLOW**		**5,631,543**	-
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**		**13,501,827**	**12,222,578**
I.	**CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS**		**309,535**	**256,962**
J.	**CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS**		**230,034**	**216,154**
K.	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**7,949,785**	**13,501,827**

In thousand RSD

Statement of changes in equity

	Equity components				Other comprehensive income components			
	Share capital	**Reserves**	**Loss**	**Retained earnings**	**Revaluation reserves**	**Acturial gain/(loss)**	**Gains (losses) from change in value of available-for-sale financial assets**	**Total Equity**
Balance as at 1 January 2019								
a) debit	-	-	-	-	-	-	**60,082**	-
b) credit	**81,530,200**	-	-	**167,534,359**	**152,143**	**147,011**	-	**249,303,631**
Adjustments of material errors and changes in accounting policies								
a) debit	-	-	-	-	-	-	-	-
b) credit	-	-	-	-	-	-	-	-
Restated opening balance as at 1 January 2019								
a) debit	-	-	-	-	-	-	60,082	-
b) credit	**81,530,200**	-	-	**167,534,359**	**152,143**	**147,011**	-	**249,303,631**
Changes in period								
a) debit	-	-	-	6,512,156	-	29,837	-	-
b) credit	-	-	-	17,700,065	-	-	1,899	11,159,971
Balance as at 31 December 2019								
a) debit	-	-	-	-	-	-	**58,183**	-
б) credit	**81,530,200**	-	-	**178,722,268**	**152,143**	**117,174**	-	**260,463,602**
Adjustments of material errors and changes in accounting policies								
a) debit	-		-	-	-	-	-	-
b) credit	-	-	-	-	-	-	-	-
Restated opening balance as at 1 January 2020								
a) debit	-	-	-	-	-	-	**58,183**	-
б) credit	**81,530,200**	-	-	**178,722,268**	**152,143**	**117,174**	-	**260,463,602**
Changes in period								
a) debit	-	-	5,908,498	4,425,459	-	20,739	295	-
б) credit	-	-	-	-	-	-	-	(10,354,991)
Balance as at 31 December 2020								
a) debit	-	-	5,908,498	-	-	-	**58,478**	-
б) credit	**81,530,200**	-	-	**174,296,809**	**152,143**	**96,435**	-	**250,108,611**

In thousand RSD

Notes to the Stand-Alone Financial Statements[1]

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") is a vertically integrated oil company operating predominantly in Serbia. The Company's principal activities include:

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

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

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005. On 2 February 2009, PJSC Gazprom Neft (''Gazprom Neft'') acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%. PJSC Gazprom, owns 95.7% of the shares in the Gazprom Neft. The Russian Federation is the ultimate controlling party.

The Company is an open joint stock company listed on the Belgrade Stock Exchange.

1 All amounts are in RSD 000, unless otherwise stated.

These financial statements are separate financial statements of the Company. The Company also prepares consolidated financial statements.

These 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

These financial statements for the year ended 31 December 2020 were prepared in accordance with the applicable Law on Accounting of the Republic of Serbia, which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. The translation of IFRS which is confirmed and published by the Ministry of Finance comprises the basic texts of IAS and IFRS as published by the International Accounting Standards Board, including interpretations issued by the International Financial Reporting Interpretations Committee in the form in which they are published and which do not include basis for conclusions, illustrative examples, guidelines, comments, opposing opinions, developed examples and other additional explanatory materials which can be adopted in respect of the standards or interpretations, unless it is explicitly stated that they are integral to the standard or interpretation. Also, the Law on Accounting establishes the dinar (RSD) as the official reporting currency (functional and presentation currency). In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

- The financial statements are prepared in the format prescribed by the Ministry of Finance of the Republic of Serbia,
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

As a result, the accompanying financial statements cannot be considered as financial statements prepared in full compliance with IFRS.

The preparation of financial statements in conformity with the Law on Accounting of the Republic of Serbia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Financial Statements have been prepared based on the going concern principle, which assumes that the Company will continue to operate in the foreseeable future. In order to assess the reasonability of this assumption, management reviews forecasts of future cash inflows. Based on these reviews, management believes that the Company will be able to continue to operate as a going concern in the foreseeable future (refer to note 3.1 for Going Concern and Implications of COVID-19) and, therefore, this principle should be applied in the preparation of these Financial Statements.

At the date of signing Financial Statements, crude oil price increased since 31 December 2020 from 50.485 $/barrel to 68.735 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any major fluctuation of crude oil prices.

2.2. Basis of measurement

These Financial Statements are prepared on the historical cost basis, except certain financial assets and liabilities and investment properties measured at fair value.

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors and the General Manager Advisory Board. The main indicator for assessing performance of operating segments is EBITDA, which is regularly reported to the chief operating decision-maker. The information on segment assets and liabilities are not regularly provided to the chief operating decision-maker.

2.4. Seasonality of Operations

The Company as a whole is not subject to significant seasonal fluctuation.

2.5. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (''the functional currency''). The financial statements are presented in Serbian dinars ("RSD"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents and other monetary assets and liabilities are presented in the income statement within 'finance income or cost'.

2.6. Intangible assets

(a) Licenses and rights (concessions)

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives (average usefull life is 5 years).

Licenses and rights include Oil and Gas Upstream Exploration Rights, which are amortised in accordance with the terms and conditions of the rights.

(b) Software

These include primarily the costs of implementation the (SAP) computer software program. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised over their estimated useful lives (not to exceed 8 years).

2.7. Oil and Gas properties

(a) Exploration and evaluation expenditure

The Company follows the successful efforts method of accounting for its exploration and evaluation assets.

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, that may include drilling of further wells, are likely to be developed commercially; then the costs continue to be carried as Oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

(b) Development costs of fixed and intangible assets

Development costs are incurred to obtain access to proven reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proven reserves as well as costs of production facilities.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within construction in progress according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortisation are charged during development.

(c) Oil and gas production assets

Oil and gas production assets comprise exploration and evaluation assets as well as development costs associated with the production of proved reserves.

(d) Depreciation/amortization

Oil and gas properties/intangible assets are depleted using the unit-of-production method. The unit-of production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

(e) Impairment – exploration and evaluation assets

Exploration property leasehold acquisition costs are assessed for impairment when there are indications of impairment. For the purpose of impairment testing, exploration property leasehold acquisition costs subject to impairment testing are grouped with existing cash-generating units (CGUs) of related production fields located in the same geographical region.

(f) Impairment – proved oil and gas properties and intangible assets

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.8. Property, plant and equipment

As of the date of establishment, the Company's property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and works of art are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Description	Useful lives
Buildings	10 - 50
Machinery and Equipment:	
- Production equipment	2 - 35
- Furniture	3 - 10
- Vehicles	5 - 25
- Computers	3 - 10
Other PP&E	3 - 20

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/(expenses)" in the income statement (notes 37 and 38).

2.9. Leases

The Company leases various offices, warehouses, retail stores, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

	Useful lives in years
Land	25
Buildings	2 - 22
Machinery	3 - 15
Motor vehicles	2 - 10

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

2.10. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11. Investment property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property principally comprises of petrol stations and business facilities rented out for a period exceeding one year.

Investment property is carried at fair value. Changes in fair values are recorded in the income statement as part of other income/expenses (notes 37 and 38).

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.12. Financial instruments

(a) Key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Amortized cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL").

(b) Classification and measurement

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

At initial recognition, the Company measures a financial asset as its fair value plus, in case of a financial assets not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at FVTPL are expensed in profit and loss. After the initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Factors considered by the Company in determining the business model include the purpose and composition of portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

There are three measurement categories into which the Company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented separately.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest (''SPPI''), are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented separately.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Trade and other receivables. Trade and other receivables are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method, less provision for impairment. Trade receivables are amounts due from customers for products and merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortized cost using the effective interest method.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognized initially at fair value and subsequently carried at amortized cost using the effective interest method. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

(c) Write-off

Financial assets are written-off, in whole or in part, when the Company has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(d) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

(e) Modification

The Company sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Company assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Company derecognises the original financial asset and recognises a new asset at its fair value. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

(f) Financial assets impairment

The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and recognises Net impairment losses at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the balance sheet net of the allowance for ECL. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

- General model of impairment of financial assets – three stage model

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL").

If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

When defining default for the purposes of determining the risk of a default occurring, Company applies a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate.

For the purposes of measuring expected credit losses, the estimate of expected cash shortfalls reflects the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately.

Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

- Simplified approach for impairment of receivables and lease receivables

Company applies simplified approach for trade receivables and lease receivables and measure the loss allowance at an amount equal to lifetime expected credit losses ("Lifetime ECL").

Company uses a provision matrix in the calculation of the expected credit losses on trade receivables. Company use historical credit loss experience (adjusted as appropriate on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions) for trade receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling, general and administrative expenses.

Impairment losses are reversed through profit or loss if the amount of the impairment loss decreases and the decrease can be attributed to an event occurring after the impairment was recognized.

2.13. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as Other expense (note 38).

2.14. Off-balance sheet assets and liabilities

Off-balance sheet assets/liabilities include: material received from third parties for further processing and other assets not owned by the Company, as well as receivables/payables relating to collaterals received/given such as guarantees and other warrants.

2.15. Share capital

The Company is registered as open joint stock company. Ordinary shares are classified as share capital.

2.16. Earnings per share

The Company calculates and discloses the basic earnings per share. Basic earnings per share is calculated by dividing the net income that belongs to shareholders, the owners of ordinary shares of the Company, by the weighted average number of ordinary shares issued during the period.

2.17. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as cost of provision and charged to income statement.

2.18. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case deferred tax liability is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in Serbia, where the Company operates and generates taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.19. Employee benefits

(a) Pension obligations

The Company operates a defined contribution pension plan. The Company pays contributions to publicly administered pension insurance plans on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Employee benefits provided by the Collective Agreement

The Company provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Serbian Treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

(c) Bonus plans

The Company recognises a liability and an expense for bonuses and profit-sharing based on an Individual performance assessment. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

In 2017, the Company has made decision to introduce new three-year (2018-2020) program for Company's managers which will be based on the Key Performance Indicators ("KPI") reached during the program (note 23).

2.20. Revenue recognition from contracts with customers

The Company recognizes revenue from sales of crude oil, petroleum products, gas and other products and services when it satisfies a performance obligation and control over goods and services is passed. For the most contracts control over goods or services passes to a customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due.

Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is shown net of returns, rebates and discounts.

Sales taxes

Revenue does not amount collected on behalf of tax authorities – value added taxes (VAT), excise duties and other sales taxes (fee for improvement of energy efficiency).

The accounting for excise duties is based on the Company's assessment whether it is primarily obligated for payment of excise duties or whether it collects the amount from the customer on behalf of the tax authorities.

Excise duties imposed during the inventory procurement process are included in the transaction price, revenue is determined on a gross basis and paid excise duties are also included in the cost of goods sold.

Excise duties incurred in production and sale of products are assessed as part of amounts collected on behalf of tax authorites and are accounted on a net basis.

(a) Sales - wholesale

The Company manufactures and sells oil, petrochemical products, liquefied natural gas and energy in the wholesale market. Sales of goods are recognised when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales with discounts is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognised for expected volume discounts entitled to customers in relation to sales made until the end of the reporting period.

No element of financing is deemed present as the sales are made with a credit term of less than one year and is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Sales – retail

The Company operates a chain of Petrol Stations. Sales of goods are recognised when the Company sells a product to the customer. Retail sales are usually in cash or by credit card. Company offers customer incentives mostly in the form of loyalty programs described under section d).

(c) Sales of electricity

The Company sells electricity on a short and long term basis with a contract terms generally accepted in the energy industry (via bilateral forward standardized general EFET agreements). Majority of sales are made on a wholesale market without structured trades.

In accordance with contract terms if Company expects to physically deliver factual agreed quantity of electricity revenue is recognized at gross basis in financial statements. In general, delivery of electricity represent transfer of a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer over time. Accordingly, delivery of electricity is treated as a single performance obligation to which transaction price is allocated. Revenue is recognized by applying a single measure of progress to the identified single performance obligation.

(d) Customer loyalty program

The Company operates a loyalty program where customers accumulate award points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire after the initial transaction. The transaction price is allocated to the goods sold and the award points on the basis of their relative stand-alone selling prices. A contract liability for the award points is recognized at the time of the sale. Contract liabilities arising from customer loyalty program are presented in the note 29.

(e) Interest income

Interest income is recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income, all fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums or discounts.

Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within ‘finance income’ line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the Company relating to the creation or acquisition of a financial asset, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the amortized cost.

2.21. Dividend distribution

Dividend distribution to the Company’s shareholders is recognised as a liability in the period in which the dividends are approved by the Company’s shareholders.

2.22. Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. All other borrowing costs are expensed in the period in which they are incurred.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Preparing financial statements required Management to make estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and other facts that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimates is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, Management also makes other judgments in the process of applying the Company’s accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Information on the effect of macroeconomic factors on the estimates with the greatest impact on the amounts reflected in these Financial Statements is provided below.

3.1. Going Concern and Implications of COVID-19

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 2020, as well as significant volatility in the commodity markets since March 2020, have negatively affected the Company’s results in the reporting period. These developments result in loss for the period of RSD 5,908,498 thousand and decline in EBITDA disclosed in note 7. On the other hand, local currency RSD maintained a relatively stable against the US dollar and EURO (note 6).

Given the recent volatility in global oil and commodity prices and potential impact on demand as a result of the COVID-19 virus management has considered the impact of the COVID-19 virus on the Company's future sales and specifically the Company's cash flow. The virus may result in a sustained low oil price which may impact the price of petroleum products and as well in short term decline in demand from customers which negatively impacts future cash inflows.

Management has performed the following assessment and concluded that there is no material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern:

- Assessment of going concern is based on cash flow projections and approved business plans. Cash flow projection is analysed under note 6 – section related to liquidity risk;
- Compliance with debt covenants (note 6 – liquidity risk section);
- Management assess ability to secure financing. Despite the situation with the COVID-19 pandemic, during 2020 additional optimization of the loan portfolio indicator was performed in terms of reducing the financing price by about 8% compared to the end of 2019, while maintaining the average maturity to 3.02 years, at the end of 2020. A significant part of loan portfolio was restructured (early repayment of existing loans with withdrawal of new ones on more favourable terms and correction of conditions of existing loans, in terms of lowering the interest rate and / or extending the maturity, as well as regular repayments);
- Management performed sensitivity analysis over their cash flow forecast to factor in the impact of a decline in both oil prices and production as a result of the effects of the COVID-19 virus on the global economy;
- During 2020, Management performed successfully optimisation of operational expenses and prioritization of the investments.

3.2. Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Company estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved and probable reserves. Accounting measures such as depreciation, depletion and amortization charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the financial statements, most notably depreciation, depletion and amortization as well as impairment expenses.

Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Detailed disclosure about Oil and gas reserves was not given as these data prescribed by the law of the Republic of Serbia are classified as a state secret.

3.3. Useful Lives of Property, Plant and Equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located.

Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the year.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2020 would be to increase/decrease it by RSD 1,886,343 thousand (2019: RSD 1,735,354 thousand).

3.4. Employee benefits

The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to calculate the present value of estimated future cash outflows which are expected to be required to settle the employee benefits obligations.

In determining the appropriate discount rate, the Company takes into consideration the interest rates of Serbian Treasury bonds which are denominated in the currency in which pension liabilities will be settled and whose maturity dates approximate the maturity date of the related pension liability.

If the discount rate used to calculate the present value of employee benefit obligations had been 5.30% (rather than 4.30%) per year, the past service liability (DBO) for the Company would decrease by about 7.04% for retirement indemnity and 5.0% for jubilee benefit. If pay increased by 1% higher than assumed on an annual basic, than the past service liability (DBO) for the Company would increase by amount 8.4% for the retirement indemnity.

3.5. Decommissioning and environmental protection provision

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Company's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

If the discount rate used to calculate the present value of decommissioning obligations had been 5.30% (rather than 4.30%) per year, the present liability would have decreased by approx. RSD 721,372 thousand (31 December 2019: 5.40% (rather than 4.40%) per year the present liability would have decreased by approx. RSD 419,182 thousand).

3.6. Contingencies

Certain conditions may exist as of the date of these financial statements are issued that may result in a loss to the Company, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.
If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 40).

3.7. Recoverability of carrying amount of Property, Plant and Equipment

In the line with changes in the crude oil price on the world market, management of the Company performed stress sensitivity analysis of its impact on recoverability of the Company PPE and overall business performance. Based on the currently available information and crude oil price forecast obtained from a reputable firm management believe that at reporting date recoverable amount of Company's PPE exceed its carrying value.

The management reviewed external and internal sources of information for assessing potential impairment indicators such as changes in the Company's business plans, changes in oil and commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage, changes in market interest rates, worseining performance of particular assets or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. The Company realized EBITDA in the amount of RSD 14.1 bln in the current year (FY 2019: RSD 42.0 bln) and net loss in the amount of RSD 5.9 bln. Net loss in the current year was impacted by the covid-19 implications which primarily affected the first half of 2020 when net loss was reported in the amount of RSD 9.0 bln while the recovery of business performance was restored in the second half of 2020 when the Company reported net profit in the amount of RSD 3.1 bln. The business plan of the Company for the FY 2021 predicts profitable operatons and restoring EBITDA to the historical level with further stabilization in the period FY 2022-23. The price of oil significantly restored by year end (31 December 2020) and subsequent to that date, currently exceeding all medium forecast projections for the period 2020-2025. In addition, the Company completed major contruction project during the last quarter of FY 2020 which will significantly increase the utilization of oil refinery and increase the efficiency of operations in the future periods. Details on this, recognized impairment losses and the result of assessment of impairment indicators are presented in the Note 9.

The Company assessed crude oil price volatility as main impairment indicator. If the actual crude oil price would decrease for 10$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Company's PPE by 57.2 bln RSD (31 December 2019: 46.5 bln RSD).

Oil prices are based on the available forecasts from globally recognized research institutions such as Wood Mackenzie, Platts/PIRA, Energy Group and others.

Management will continue to monitor the crude oil price fluctuation and its influence on business performance in order to adequately take measure to mitigate impact if the negative trends on the market continue.

4. APPLICATION OF NEW IFRS

The following amendments to the existing standards which became effective did not have any material impact on the Financial Statements:

- 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 Material - 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 1 January 2020);
- 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);
- Lease Incentives – Amendments to Illustrative Example 13 accompanying IFRS 16 (issued in May 2020).

5. NEW ACCOUNTING STANDARDS

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

- 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 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;
- 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);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued in September 2014 and effective for annual periods beginning on or after a date to be determined by IASB).

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk, liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the finance and finance control department within the Company's Function for Finance, Economics, Planning and Accounting (further "FEPA") which under the policies approved by the Company identifies and evaluates financial risks in close co-operation with the Company's operating units.

In the normal course of its operations the Company has exposure to the following financial risks:

(a) market risk (including currency risk, interest rate risk and commodity price risk);
(b) credit risk and
(c) liquidity risk.

Market risk

The Company takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates (c) commodity price, all of which are exposed to general and specific market movements. Management analyse and monitoring risk that may be accepted, however, the use of this approach does not prevent losses in the event of more significant market movements.

Currency risk

The Company operates internationally and is exposed to currency risk arising from various currency exposures, primarily with respect to USD and EUR. Currency risk arises from future commercial transactions and recognised assets and liabilities.

Management has set up a policy to manage its currency risk against its functional currency. In order to manage its currency risk arising from future transactions and recognised assets and liabilities, responsible persons in the finance department within the FEPA negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day the purchase is made. Currency risks arise when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company functional currency.

The Company has borrowings denominated in foreign currency mainly in EUR which predominantly expose Company to the currency translation risk. Currency exposure arising from the borrowings is managed through the participation of the borrowing denominated in functional currency of the Company in the total credit portfolio.

The carrying values (net of allowance) of the Company's financial instruments by currencies they are denominated are as follows:

As of 31 December 2020	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Financial instrument at FVTOCI	95,316	-	-	-	95,316
Long-term investments in subsidiaries	-	22,911,248	-	-	22,911,248
Other long-term investments	84,336	1,504,415	5,740	-	1,594,491
Long term receivables	9,374	75,778	-	-	85,152
Current					
Trade receivables	18,627,387	3,808,757	95,424	-	22,531,568
Receivables from specific operations	63,062	42,855	149,953	-	255,870
Other receivables	1,182,894	1,270,570	2,855	292	2,456,611
Short term financial investments	179,617	5,163,360	-	-	5,342,977
Cash and cash equivalents	4,526,215	3,173,675	243,184	6,711	7,949,785
Financial liabilities					
Non-current					
Long-term liabilities	(14,199)	(72,780,867)	(120,107)	(160,295)	(73,075,468)
Current					
Short-term financial liabilities	(1,770,865)	(11,801,674)	(37,751)	(52,889)	(13,663,179)
Trade payables	(9,462,425)	(7,834,253)	(3,324,991)	(32,269)	(20,653,938)
Other short-term liabilities	(8,024,143)	(79,851)	(152,390)	(2,114)	(8,258,498)
Net exposure	**5,496,569**	**(54,545,987)**	**(3,138,083)**	**(240,564)**	**(52,428,065)**

As of 31 December 2019	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Financial instrument at FVTOCI	95,662	-	-	-	95,662
Long-term investments in subsidiaries	-	23,205,187	-	-	23,205,187
Other long-term investments	73,592	729,893	4,964	-	808,449
Long term receivables	6,825	227,359	-	-	234,184
Current					
Trade receivables	23,075,088	5,168,855	128,120	-	28,372,063
Receivables from specific operations	59,001	42,976	164,460	19	266,456
Other receivables	837,217	1,093,045	3,215	550	1,934,027
Short term financial investments	49,444	5,384,278	-	-	5,433,722
Cash and cash equivalents	6,084,928	5,267,369	2,141,426	8,104	13,501,827
Financial liabilities					
Non-current					
Long-term liabilities	(12,490)	(82,824,750)	(173,130)	(225,692)	(83,236,062)
Current					
Short-term financial liabilities	(1,609,631)	(5,810,904)	(36,162)	(63,243)	(7,519,940)
Trade payables	(12,588,893)	(7,832,250)	(16,266,990)	(32,823)	(36,720,956)
Other short-term liabilities	(7,319,417)	(87,658)	(167,593)	(14,440)	(7,589,108)
Net exposure	**8,751,326**	**(55,436,600)**	**(14,201,690)**	**(327,525)**	**(61,214,489)**

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2020	31 December 2019
EUR	117.5802	117.5928
USD	95.6637	104.9186

Sensitivity analysis

The Company has chosen to provide information about market and potential exposure to hypothetical gain/(loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis below reflects the hypothetical effect on the Company's financial instruments and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

As at 31 December 2020, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit for the year and equity would have been RSD 2,727,299 thousand (2019: RSD 2,771,830 thousand) higher/lower, mainly as a result of foreign exchange gains/(losses) on translation of EUR – denominated borrowings.

As at 31 December 2020, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit and equity for the year would have been RSD 313,808 thousand (2019: RSD 1,420,169 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated accounting payables.

Commodity price risk

The Company's financial performance relates directly to prices for crude oil and petroleum products. The Company is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Company's planning system calculates different scenarious for key performance facors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms. Such activities help to decrease risk to an acceptable level.

Interest rate risk

Borrowings withdrawn at variable interest rates expose the Company to cash flow interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR) has a proportionate impact on the Company's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit and equity for 2020 would have been RSD 667,008 thousand (2019: RSD 718,111 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

The Company exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Company's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position is as follows:

	31 December	
	2020	2019
Financial instrument at FVTOCI	95,316	95,662
Long term investments in subsidiaries	22,911,248	23,205,187
Other long-term investments	1,594,491	808,449
Long term receivables	85,152	234,184
Trade receivables	22,531,568	28,372,063
Receivables from specific operations	255,870	266,456
Other receivables	2,456,611	1,934,027
Short term financial investments	5,342,977	5,433,722
Cash and cash equivalents	7,949,785	13,501,827
Total maximum exposure to credit risk	**63,223,018**	**73,851,577**

Credit risk management. Credit risk is the single largest risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Limits. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- scoring Serbian Business Register Agency, NIS and/or D&B reports;
- amount of registered pledges;
- data on customer’s account blockade;
- history of relationships with the Company;
- planned sales volume;
- duration of relationship with the Company, including ageing profile, maturity and existence of any financial difficulties.

Trade, Specific and Other receivables

The Company’s exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which use a lifetime expected loss allowance.

To measure the expected credit losses, trade,specific and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 60 months before 31 December 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates were not adjusted with forward-looking information on macroeconomic factors as no correlation were identified that significantly affect ability of the customers to settle the receivables.

The credit loss allowance for trade, specific and other receivables is determined according to provision matrix presented in the table below.

At 31 December 2020 the provision matrix is based on the number of days that an asset is past due:

	Loss rate	Gross carrying amount	Lifetime ECL	Total trade, specific and other receivables
Trade, specific and other receivables				
- current	0.03%	22,136,726	(5,769)	22,130,957
- less than 30 days overdue	0.17%	1,267,322	(2,175)	1,265,147
- 31 to 90 days overdue	0.88%	304,903	(2,698)	302,205
- 91 to 270 days overdue	3.69%	319,980	(11,792)	308,188
- over 270 days overdue	93.14%	18,040,589	(16,803,037)	1,237,552
Total trade, specific and other receivables		**42,069,520**	**(16,825,471)**	**25,244,049**

At 31 December 2019 the provision matrix is based on the number of days that an asset is past due:

	Loss rate	Gross carrying amount	Lifetime ECL	Total trade, specific and other receivables
Trade, specific and other receivables				
- current	0.05%	28,101,985	(13,606)	28,088,379
- less than 30 days overdue	0.18%	1,207,976	(2,179)	1,205,797
- 31 to 90 days overdue	1.10%	117,107	(1,292)	115,815
- 91 to 270 days overdue	2.58%	173,681	(4,479)	169,202
- over 270 days overdue	94.64%	18,540,231	(17,546,878)	993,353
Total trade, specific and other receivables		**48,140,980**	**(17,568,434)**	**30,572,546**

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, advance payment or other security.

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

Management believes that not impaired trade, specific and other receivables are fully recoverable.

Movements on the Company's provision for impairment of trade receivables and lease receivables are as follows:

	Trade receivables			
	Individually impaired	Collectively impaired	Lease receivables	Total
As at 1 January 2019	**2,442,854**	**3,539,446**	**59,609**	**6,041,909**
Provision for receivables impairment	-	74,646	2,321	76,967
Unused amounts reversed (note 36)	-	(73,383)	(7,867)	(81,250)
Receivables written-off during the year as uncollectible	-	(262,377)	(1,232)	(263,609)
Other	-	(1,806)	-	(1,806)
As at 31 December 2019	**2,442,854**	**3,276,526**	**52,831**	**5,772,211**
Provision for receivables impairment	-	90,356	5,126	95,482
Unused amounts reversed (note 36)	-	(112,728)	(11,634)	(124,362)
Receivables written-off during the year as uncollectible	-	(609,621)	(285)	(609,906)
Other	-	4	-	4
As at 31 December 2020	**2,442,854**	**2,644,537**	**46,038**	**5,133,429**

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement. Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The other classes within trade, specific and other receivables do not contain impaired assets.

As of 31 December 2020 receivables from specific operations amounting RSD 2,177,080 thousand (31 December 2019: RSD 2,213,511 thousand) are mostly impaired in the amount of RSD 1,921,210 thousand (31 December 2019: RSD 1,947,055 thousand). 99.7% of these receivables are older than 5 years.

Movements on the provision for other receivables:

	Interest on long – term placements (current part)	Other Interest receivables	Other receivables	Total
As at 1 January 2019	**430,715**	**2,131,095**	**7,400,617**	**9,962,427**
Provision for other receivables impairment	-	4,802	9,342	14,144
Unused amounts reversed (note 36)	(5,951)	(12,914)	(1,088)	(19,953)
Reclassification from non-current to current part	(40,320)	-	-	(40,320)
Exchange differences	(2,226)	-	-	(2,226)
Receivables written off during the year as uncollectible and other	-	(57,932)	(6,971)	(64,903)
As at 31 December 2019	**382,218**	**2,065,051**	**7,401,900**	**9,849,169**
Provision for other receivables impairment	-	8,165	2,006	10,171
Unused amounts reversed (note 36)	-	(38,415)	(369)	(38,784)
Reclassification from non-current to current part	(2,365)	-	-	(2,365)
Exchange differences	(42)	-	-	(42)
Receivables written off during the year as uncollectible and other	-	(46,480)	(837)	(47,317)
As at 31 December 2020	**379,811**	**1,988,321**	**7,402,700**	**9,770,832**

Other financial assets at amortised cost

Movements on the provision for long-term placements to subsidiaries:

	Total
As at 1 January 2019	**4,043,046**
Remeasurement of expected credit losses	94,891
Reclassification from non-current to current part	(1,822,844)
Exchange differences	(14,939)
As at 31 December 2019	**2,300,154**
As at 1 January 2020	**2,300,154**
Remeasurement of expected credit losses	-
Reclassification from non-current to current part	1,359,610
Exchange differences	(344)
As at 31 December 2020	**3,659,420**

Movements on the provision for short-term placements:

	Short-term financial loans - subsidiaries	Short-term financial loans - Domestic	Current portion of long-term placements	Total
As at 1 January 2019	**-**	**2,019**	**5,686,160**	**5,688,179**
Remeasurement of expected credit losses	-	-	5,000	5,000
Unused amounts reversed	-	-	(172,425)	(172,425)
Reclassification from non-current to current part	-	-	1,863,164	1,863,164
Exchange differences	-	-	(34,393)	(34,393)
As at 31 December 2019	**-**	**2,019**	**7,347,506**	**7,349,525**
Remeasurement of expected credit losses	-	-	17,822	17,822
Unused amounts reversed	-	-	-	-
Reclassification from non-current to current part	-	-	(1,357,245)	(1,357,245)
Exchange differences	-	-	(685)	(685)
As at 31 December 2020	**-**	**2,019**	**6,007,398**	**6,009,417**

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	BBB and higher	Less than BBB	Without rating	Total
As at December 2020				
Cash and cash equivalents	2,310,366	3,888,729	1,750,690	**7,949,785**
As at December 2019				
Cash and cash equivalents	3,926,559	5,109,275	4,465,993	**13,501,827**

As at December 2020 and 2019 there were no deposits with original maturity more than three months.

The Company uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets.

As of 31 December 2020 and 2019 no significant credit loss allowance for impairment in respect of these assets was recognized.

Liquidity risk

Cash flow forecasting is performed as aggregated at the Company's level. The Company's finance function monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all time so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the Company over and above the balance required for working capital management is invested as surplus cash in time deposits.

The table below analyses the Company's financial liabilities into relevant maturity groupings at the balance sheet.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
As at 31 December 2020					
Financial liabilities (debt+lease)	85,896,800	90,216,843	15,008,689	62,413,869	12,794,285
Trade payables and dividends payable	24,438,955	24,438,955	24,438,955	-	-
	110,335,755	**114,655,798**	**39,447,644**	**62,413,869**	**12,794,285**
As at 31 December 2019					
Financial liabilities (debt+lease)	90,756,002	95,865,051	9,052,606	82,868,103	3,944,342
Trade payables and dividends payable	40,501,648	40,501,648	40,501,648	-	-
	131,257,650	**136,366,699**	**49,554,254**	**82,868,103**	**3,944,342**

6.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

On the Company level capital is monitored on the basis of the net debt to EBITDA ratio. Net debt to EBITDA is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, other finance income (expenses) net, other non-operating income (expenses).

The Company's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	31 December 2020	31 December 2019
Total borrowings	86,738,647	90,756,002
Less: cash and cash equivalents (note 19)	(7,949,785)	(13,501,827)
Net debt	**78,788,862**	**77,254,175**
EBITDA	14,110,653	42,093,360
Net debt to EBITDA	**5.58**	**1.84**

The Company has committed (at the level of Gazprom Neft Group) to maintain debt cover ratio of total indebtedness and EBITDA not exceeding 3.0 during the terms of long-term borrowings agreements with certain commercial banks. Company is constantly monitoring the established commitments to maintain the height of debt cover ration and there has been no breach of these obligation.

There were no changes in the Company's approach to capital management during the year.

6.3. Fair value estimation

The fair value of financial instruments traded in an active market (such as available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date.

The carrying amount of trade, specific and other receivables and trade and other payable due to their short-term nature is considered to be the same as their fair value. For the majority of the non-current financial assets and non-current financial liabilities the fair values are also not significantly different to their carrying amounts.

7. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the years ended 31 December 2020 and 2019. Operating segments are components are engaged in business activities which 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 Company manages its operations in two operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Company 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 (refining and marketing). Corporate centre and Energy business activities expenses are presented within the Downstream segment.

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

EBITDA represents the Company's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Company's on-going operating activities, as it reflects the Company'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 year ended 31 December 2020 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	29,495,217	169,879,540	(29,571,933)	169,802,824
Intersegment	29,007,674	564,259	(29,571,933)	-
External	487,543	169,315,281		169,802,824
Adjusted EBITDA (Segment results)	**15,334,689**	**(1,224,036)**	**-**	**14,110,653**
Depreciation, depletion and amortization	(11,455,129)	(9,410,911)	-	(20,866,040)
Impairment losses/ /Revaluation surpluses (note 37 and 38)	331	(721,373)	-	(721,042)
Write-off of exploration works (note 9)	(136,994)	-	-	(136,994)
Finance expenses, net	(79,509)	(800,054)	-	(879,563)
Income tax	(50,469)	1,765,407	-	1,714,938
Segment profit (loss)	**4,415,459**	**(10,323,957)**	**-**	**(5,908,498)**

Reportable segment results for the year ended 31 December 2019 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	47,931,163	245,511,573	(48,153,910)	245,288,826
Intersegment	47,212,926	940,984	(48,153,910)	-
External	718,237	244,570,589	-	245,288,826
Adjusted EBITDA (Segment results)	**33,009,472**	**9,083,888**	**-**	**42,093,360**
Depreciation, depletion and amortization	(10,446,800)	(8,559,084)	-	(19,005,884)
Impairment losses/ /Revaluation surpluses (note 37 and 38)	(17,482)	339,903	-	322,421
Write-off of exploration works (note 9)	(377,207)	-	-	(377,207)
Finance expenses, net	(145,912)	(298,254)	-	(444,166)
Income tax	(74,711)	(4,239,231)	-	(4,313,942)
Segment profit (loss)	**22,249,370**	**(4,549,305)**	**-**	**17,700,065**

Adjusted EBITA for the downstream segment includes Corporate centre EBITDA in the negative amount of RSD 6,150,081 thousand for the year ended 31 December 2020 (31 December 2019: negative EBITDA in the amount of RSD 6,679,539 thousand). Adjusted EBITDA for Downstream segment prior allocation of Corporate centre EBITDA is presented in the following table:

	Year ended 31 December	
	2020	2019
Adjusted EBITDA after allocation of Corporate centre	(1,224,036)	9,083,888
Corporate centre EBITDA	(6,150,081)	(6,679,539)
Adjusted EBITDA prior allocation of Corporate centre	**4,926,045**	**15,763,427**

Adjusted EBITDA for the year ended 31 December 2020 and 2019 is reconciled below:

	Year ended 31 December	
	2020	2019
Profit (loss) for the year	(5,908,498)	17,700,065
Income tax expenses	(1,714,938)	4,313,942
Other expenses	1,839,475	1,452,124
Other income	(2,075,870)	(1,141,058)
Loss from valuation of assets at fair value through profit and loss	156,111	224,925
Income from valuation of assets at fair value through profit and loss	(251,975)	(293,218)
Finance expense	4,122,889	3,527,458
Finance income	(3,243,326)	(3,083,292)
Depreciation, depletion and amortization	20,866,040	19,005,884
Other non operating expenses, net*	320,745	386,530
EBITDA	**14,110,653**	**42,093,360**

*Other non-operating expense, net mainly relate to reversal of impairment, decommissioning and site restoration cost, allowance of receivables and other.

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

	Year ended 31 December 2020		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	445,567	445,567
Sale of gas	375,908	-	375,908
Through a retail network	-	-	-
Wholesale activities	375,908	-	375,908
Sale of petroleum products	127,562,408	31,581,906	159,144,314
Through a retail network	49,100,165	-	49,100,165
Wholesale activities	78,462,243	31,581,906	110,044,149
Lease revenue	312,087	4,642	316,729
Sales of electricity	1,160,202	80,034	1,240,236
Other sales	7,976,765	303,305	8,280,070
Total sales	**137,387,370**	**32,415,454**	**169,802,824**

	Year ended 31 December 2019		
	Domestic market	Export and international sales	Total
Sale of crude oil	824,056	665,186	1,489,242
Sale of gas	1,408,299	-	1,408,299
Through a retail network	-	-	-
Wholesale activities	1,408,299	-	1,408,299
Sale of petroleum products	187,113,944	46,228,751	233,342,695
Through a retail network	66,171,840	-	66,171,840
Wholesale activities	120,942,104	46,228,751	167,170,855
Lease revenue	374,599	1,967	376,566
Sales of electricity	782,645	205,143	987,788
Other sales	7,494,560	189,676	7,684,236
Total sales	**197,998,103**	**47,290,723**	**245,288,826**

Out of the amount of RSD 110,044,149 thousand (2019: RSD 167,170,855 thousand) revenue from sale of petroleum products (wholesale), the amount of RSD 16,743,010 thousand (2019: RSD 19,070,224 thousand) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Network for Trading d.o.o. Belgrade in the amount of RSD 504,652 thousand (2019: Network for Trading in the amount of RSD 309,224 thousand).

Other sales mainly relate to sales of non-fuel products at petrol stations.

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 Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 137,387,370 thousand (2019: 197,998,103 thousand), and the total of revenue from external customer from other countries is RSD 32,415,454 thousand (2019: RSD 47,290,723 thousand).

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

	Year ended 31 December	
	2020	2019
Sale of crude oil	445,567	665,186
Sale of petroleum products (retail and wholesale)		
Bosnia and Herzegovina	10,627,713	16,294,267
Bulgaria	6,741,459	7,793,206
Romania	4,398,452	6,018,001
Croatia	1,656,265	2,431,173
Great Britain	903,215	1,063,213
Northern Macedonia	790,710	1,343,723
Hungary	779,414	1,610,845
Switzerland	453,057	1,888,635
All other markets	5,231,621	7,785,688
	31,581,906	46,228,751
Lease revenue	4,642	1,967
Sales of electricity	80,034	205,143
Other sales	303,305	189,676
	32,415,454	**47,290,723**

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

Presentation of excise duties

The following table presents sales revenue earned and related calculated excise duties for 2020 and 2019:

	Year ended 31 December	
	2020	**2019**
Sales revenue	297,313,937	383,367,247
Excise duties	(127,511,113)	(138,078,421)
Net sales revenue	**169,802,824**	**245,288,826**

In the Republic of Serbia excise duties become payable when products subject of excise duties exit from excise warehouse. This incurs when the goods are loaded for transport either for direct sales to customers (wholesale) or for transport to own retail network. Calculated excise duties are payable in 15 days. The Company assessed that for excise duties levied in wholesale it bears no inventory risk nor significant credit risk. In retail sales, the Company estimates that average turnover of inventories approximates payment period for excise duties, and that there are no significant inventory or credit risk. Accordingly, since the Company bears no significant risks in both cases, excise duties are collected on behalf of tax authority and consequently deducted from revenue.

8. INTANGIBLE ASSET

	Development investments	Concessions, patents, licenses, software and other rights	Other intangibles	Intangible assets under development	Total
At 1 January 2019					
Cost	11,630,139	8,301,639	968,089	4,951,217	25,851,084
Accumulated amortisation and impairment	(2,323,773)	(6,823,199)	(119,180)	(45,506)	(9,311,658)
Net book amount	**9,306,366**	**1,478,440**	**848,909**	**4,905,711**	**16,539,426**
Year ended 31 December 2019					
Additions	-	-	-	2,232,327	2,232,327
Transfer from assets under development	3,139,293	795,980	-	(3,935,273)	-
Amortization	(1,005,829)	(485,018)	(20,388)	-	(1,511,235)
Transfer to PP&E (note 9)	-	-	-	(47,459)	(47,459)
Disposals and write-off	-	(371)	-	(53,865)	(54,236)
Closing net book amount	**11,439,830**	**1,789,031**	**828,521**	**3,101,441**	**17,158,823**
As at 31 December 2019					
Cost	14,769,431	9,013,191	967,444	3,125,788	27,875,854
Accumulated amortization and impairment	(3,329,601)	(7,224,160)	(138,923)	(24,347)	(10,717,031)
Net book amount	**11,439,830**	**1,789,031**	**828,521**	**3,101,441**	**17,158,823**
At 1 January 2020					
Cost	14,769,431	9,013,191	967,444	3,125,788	27,875,854
Accumulated amortization and impairment	(3,329,601)	(7,224,160)	(138,923)	(24,347)	(10,717,031)
Net book amount	**11,439,830**	**1,789,031**	**828,521**	**3,101,441**	**17,158,823**
Year ended 31 December 2020					
Additions	-	-	-	1,095,013	1,095,013
Transfer from assets under development	1,474,226	655,092	6,635	(2,135,953)	-
Amortization	(1,143,611)	(527,554)	(19,054)	-	(1,690,219)
Impairment (note 38)	-	-	-	(58,941)	(58,941)
Transfer to PP&E (note 9)	-	-	-	173,829	173,829
Closing net book amount	**11,770,445**	**1,916,569**	**816,102**	**2,175,389**	**16,678,505**
As at 31 December 2020					
Cost	16,243,658	9,664,728	973,761	2,258,677	29,140,824
Accumulated amortization and impairment	(4,473,213)	(7,748,159)	(157,659)	(83,288)	(12,462,319)
Net book amount	**11,770,445**	**1,916,569**	**816,102**	**2,175,389**	**16,678,505**

Intangible assets under development as at 31 December 2020 amounting to RSD 2,175,389 thousand (31 December 2019: RSD 3,101,441 thousand) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 1,887,368 thousand (31 December 2019: RSD 2,841,508 thousand).

9. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2019								
Cost	10,660,018	198,580,407	117,308,009	41,282,441	77,653	496,173	790,744	369,195,445
Accumulated depreciation and impairment	(298,333)	(63,339,863)	(58,178,109)	(2,000,174)	(1,117)	(296,369)	(32,576)	(124,146,541)
Net book amount	**10,361,685**	**135,240,544**	**59,129,900**	**39,282,267**	**76,536**	**199,804**	**758,168**	**245,048,904**
Year ended 31 December 2019								
Additions	-	777,397	-	36,110,411	-	-	2,047,039	38,934,847
Transfer from assets under development	35,821	16,004,521	5,470,872	(21,512,305)	1,091	-	-	-
Impairment charge (note 38)	-	(98,929)	-	(141,530)	-	-	-	(240,459)
Depreciation	-	(9,949,991)	(7,339,460)	-	-	(64,086)	-	(17,353,537)
Transfer from intangible assets (note 8)	-	-	-	47,459	-	-	-	47,459
Transfer to assets held for sale	(56,573)	(18,619)	(30,607)	-	-	-	-	(105,799)
Disposals and write-off	(73)	(61,976)	(136,427)	(611,234)	(10)	-	(2,468,019)	(3,277,739)
Transfer to right-of-use assets	-	(456,413)	(362,992)	-	-	-	-	(819,405)
Other transfers	-	970	(963)	(13)	-	-	-	(6)
Closing net book amount	**10,340,860**	**141,437,504**	**56,730,323**	**53,175,055**	**77,617**	**135,718**	**337,188**	**262,234,265**
At 31 December 2019								
Cost	10,639,193	213,989,196	121,515,375	55,160,985	78,734	496,173	358,551	402,238,207
Accumulated depreciation and impairment	(298,333)	(72,551,692)	(64,785,052)	(1,985,930)	(1,117)	(360,455)	(21,363)	(140,003,942)
Net book amount	**10,340,860**	**141,437,504**	**56,730,323**	**53,175,055**	**77,617**	**135,718**	**337,188**	**262,234,265**
Year ended 31 December 2020								
Additions	-	345,084	-	20,756,791	-	-	1,010,635	22,112,510
Transfer from assets under development	17,882	19,093,734	39,789,691	(58,915,497)	4,090	10,100	-	-
Impairment charge (note 38)	-	(3,025)	-	(655,359)	-	-	-	(658,384)
Depreciation	-	(10,695,994)	(8,152,301)	-	-	(15,139)	-	(18,863,434)
Transfer from intangible assets (note 8)	-	-	-	(173,829)	-	-	-	(173,829)
Transfer to assets held for sale	(77,770)	(1,284)	(70,190)	-	-	-	-	(149,244)
Disposals and write-off	(1,205)	(32,944)	(87,776)	(252,227)	(12)	-	(1,097,847)	(1,472,011)
Other transfers	4,407	163,089	(167,496)	-	-	-	-	-
Closing net book amount	**10,284,174**	**150,306,164**	**88,042,251**	**13,934,934**	**81,695**	**130,679**	**249,976**	**263,029,873**
At 31 December 2020								
Cost	10,578,355	233,341,485	159,941,116	16,442,597	82,811	506,273	271,339	421,163,976
Accumulated depreciation and impairment	(294,181)	(83,035,321)	(71,898,865)	(2,507,663)	(1,116)	(375,594)	(21,363)	(158,134,103)
Net book amount	**10,284,174**	**150,306,164**	**88,042,251**	**13,934,934**	**81,695**	**130,679**	**249,976**	**263,029,873**
Investment property (note 9c)	-	1,688,837	-	-	-	-	-	1,688,837
Right of use assets (note 9b)	5,006	519,681	898,187	-	-	-	-	1,422,874
Total	**10,289,180**	**152,514,682**	**88,940,438**	**13,934,934**	**81,695**	**130,679**	**249,976**	**266,141,584**

In 2020, the Company capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 118,773 thousand (2019: RSD 160,017 thousand).

Of the total amount of activations in 2020 in the amount of RSD 58,915,497 thousand, the most significant part refers to the completion and commissioning of the Bottom of the Barrel Project at the Pancevo Refinery in the amount of RSD 38,844,486 thousand. The Bottom of the Barrel Project ensure optimal utilization of the capacities of the Pancevo Oil Refinery and an increase in the depth of refining to 99.2 per cent (up from 86 per cent in 2017). This implies increased output of high-quality fuels – diesel, gasoline and liquid petroleum gas, as well as the start of production of petroleum coke. This will give Company a competitive edge in the market and trigger its further growth.

The management of the Company assesses at each reporting date whether there is an indication that the recoverable amount of property, plant and equipment fell below its book value.

As at 31 December 2020, the Company assessed impairment indicators. In addition the Company considered value-in-use of cash generating units ("CGU") grouped on the segment level (upstream and downstream). Based on cash flow projections for the period of 20 years (2021-2040) the Company determined that recoverable amount of CGUs belonging to the Upstream and Downstream segment is higher than its carrying amount as at 31 December 2020. Cash flow projections were based on real terms, nominal WACC of 7.97% used as discount rate is reduced to 5.70%. Accordingly based on this and based on other factors considered in the note 3.7, the Company concluded that impaiarment indicators do not exist as at reporting date which would require detail impairment testing of the PPE. In addition, Company has assessed and recognized impairment losses in amount RSD 658,384 thousand (2019: RSD 240,459 thousand) for the individual asset which has disposed due to obsolete, physically damage or for assets under constructions for which exist indication that expected recoverable amounts would not recover carrying value of the assets. The most significant amount refers to the partial impairment of the temporary suspended Base Oil Project in Refinery Novi Sad in amount of RSD 683,196 thousand of which RSD 58,941 thousand relates to impairment of intangible assets (as at 31 December 2020 outstanding amount is RSD 731,532 thousand). Decisions on the project's perspective are expected during 2021.

(b) Right of use of assets

	Land	Property	Plant and equipment	Vehicles	Total
As at 1 January 2019	**-**	**-**	**-**	**-**	**-**
Changes in opening balances	-	540,388	324,713	54,331	919,432
Additions	-	30	48,222	116,789	165,041
Depreciation	-	(51,593)	(78,398)	(11,121)	(141,112)
Transfers	-	-	(19,911)	19,911	-
Effect of contract modifications and changes in estimates	-	474	-	-	474
As at 31 December 2019	**-**	**489,299**	**274,626**	**179,910**	**943,835**
As at 1 January 2020	**-**	**489,299**	**274,626**	**179,910**	**943,835**
Additions	7,509	83,270	215,988	495,615	802,382
Depreciation	(2,503)	(51,532)	(99,763)	(158,589)	(312,387)
Transfers	-	-	(223,326)	223,326	-
Effect of contract modifications and changes in estimates	-	(1,356)	-	(9,600)	(10,956)
As at 31 December 2020	**5,006**	**519,681**	**167,525**	**730,662**	**1,422,874**

c) *Investment property – carried at fair value*

Investment properties are valued at the reporting date at fair value representing the investment property market value.

Movements on the account were as follows:

	2020	2019
As at 1 January	1,694,307	1,730,100
Fair value loss (note 38)	-	(8,290)
Disposals	(5,470)	(27,503)
As at 31 December	**1,688,837**	**1,694,307**

As at 31 December 2020, investment properties amounting to RSD 1,688,837 thousand (31 December 2019: RSD 1,694,307 thousand) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

Fair value of investment properties

Valuation of the Company's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2020 and 2019. The revaluation loss was debited to other expenses (note 38).

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value measurements at 31 December 2020 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
– Shops and other facilities for rents	-	953,396	-
– Gas stations	-	-	735,442
Total	**-**	**953,396**	**735,442**

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
– Shops and other facilities for rents	-	958,865	-
– Gas stations	-	-	735,442
Total	**-**	**958,865**	**735,442**

Valuation techniques used to derive level 2 fair values

Level 2 fair values of shops, apartments and other properties for rent have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

Fair value measurements using significant unobservable inputs (Level 3)

Level 3 fair values of gas stations have been derived using value-in-use approach where fair value of gas station is determined as the present value of future net benefits which will belong to the Company based on long-term rental contracts. The most significant input into this valuation approach is rental price per gas station.

The key assumptions used for value-in-use calculations:

	2020	2019
Long term growth rate	0%	0%
Discount rate	12%	12%

Reconciliation of changes in fair value measurement, assets categorised within Level 3 of the fair value hierarchy:

	2020	2019
Assets as at 1 January	**735,442**	**743,682**
Changes in fair value measurement:		
Loss/Gains recognised in profit or loss, fair value measurement	-	(8,290)
Other	-	50
Total (decrease) increase in fair value measurement, assets	-	(8,240)
Assets as at 31 December	**735,442**	**743,682**

d) Oil and gas production assets

Oil and gas production assets comprise of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.7).

Oil and gas production assets are presented in balance sheet within property, plant and equipment and intangible assets, as presented below:

	31 December 2020			31 December 2019		
	Oil and gas assets	Other assets	Total	Oil and gas assets	Other assets	Total
Ingangible asset (note 8)						
Development investments	11,770,445	-	11,770,445	11,439,830	-	11,439,830
Concessions, licenses, software and other rights	54,115	1,862,454	1,916,569	65,923	1,723,108	1,789,031
Other intangible assets	-	816,102	816,102	-	828,521	828,521
Intangible assets under development	1,887,368	288,021	2,175,389	2,841,508	259,933	3,101,441
	13,711,928	**2,966,577**	**16,678,505**	**14,347,261**	**2,811,562**	**17,158,823**
Property, plant and equipment (note 9a)						
Land	535,628	9,753,552	10,289,180	530,843	9,810,017	10,340,860
Buildings	100,887,246	49,938,599	150,825,845	96,845,396	45,081,407	141,926,803
Machinery and equipment	12,586,996	76,353,442	88,940,438	13,067,383	44,117,476	57,184,859
Investment property	-	1,688,837	1,688,837	-	1,694,307	1,694,307
Other property, plant and equipment	4,413	77,282	81,695	4,030	73,587	77,617
Construction in progress	9,346,244	4,588,690	13,934,934	12,438,926	40,736,129	53,175,055
Investments in leased PP&E	-	130,679	130,679	-	135,718	135,718
Advances for PP&E	-	249,976	249,976	-	337,188	337,188
	123,360,527	**142,781,057**	**266,141,584**	**122,886,578**	**141,985,829**	**264,872,407**
Net book amount	**137,072,455**	**145,747,634**	**282,820,089**	**137,233,839**	**144,797,391**	**282,031,230**

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2019						
Cost	14,401,241	1,103,654	15,504,895	156,367,336	22,742	171,894,973
Depreciation and impairment	-	(2,428)	(2,428)	(42,496,555)	(20,321)	(42,519,304)
Net book amount	**14,401,241**	**1,101,226**	**15,502,467**	**113,870,781**	**2,421**	**129,375,669**
Year ended 31 December 2019						
Additions	4,496,878	13,559,151	18,056,029	777,397	-	18,833,426
Transfer from asset under construction	(6,747,789)	(11,223,519)	(17,971,308)	17,971,308	-	-
Other transfers	120,288	102,175	222,463	(173,746)	1,620	50,337
Impairment	-	-	-	(17,482)	-	(17,482)
Depreciation and depletion	-	-	-	(10,376,256)	-	(10,376,256)
Unsuccessful exploration expenditures derecognised (note 7)	(377,207)	-	(377,207)	-	-	(377,207)
Disposals and write-off	(151,518)	(491)	(152,009)	(102,629)	(10)	(254,648)
	11,741,893	**3,538,542**	**15,280,435**	**121,949,373**	**4,031**	**137,233,839**
As at 31 December 2019						
Cost	11,741,893	3,538,542	15,280,435	174,428,161	24,376	189,732,972
Depreciation and impairment	-	-	-	(52,478,788)	(20,345)	(52,499,133)
Net book amount	**11,741,893**	**3,538,542**	**15,280,435**	**121,949,373**	**4,031**	**137,233,839**
Year ended 31 December 2020						
Additions	1,351,329	9,462,898	10,814,227	345,084	-	11,159,311
Transfer from asset under construction	(2,772,074)	(12,233,741)	(15,005,815)	15,005,815	-	-
Other transfers	30,446	290,724	321,170	(44,287)	382	277,265
Impairment	-	(431)	(431)	-	-	(431)
Depreciation and depletion	-	-	-	(11,331,021)	-	(11,331,021)
Unsuccessful exploration expenditures derecognised (note 7)	(136,994)	-	(136,994)	-	-	(136,994)
Disposals and write-off	(32,469)	(6,511)	(38,980)	(90,534)	-	(129,514)
	10,182,131	**1,051,481**	**11,233,612**	**125,834,430**	**4,413**	**137,072,455**
As at 31 December 2020						
Cost	10,182,131	1,051,481	11,233,612	189,297,948	24,761	200,556,321
Depreciation and impairment	-	-	-	(63,463,518)	(20,348)	(63,483,866)
Net book amount	**10,182,131**	**1,051,481**	**11,233,612**	**125,834,430**	**4,413**	**137,072,455**

Unsuccessful exploration expenditures derecognised in the amount of RSD 136,994 thousand (2019: RSD 377,207 thousand) mainly relate to exploration assets located in Serbia due to uncertain viability of commercial production.

10. INVESTMENTS IN SUBSIDIARY

	31 December 2020	31 December 2019
Investments in subsidiaries:		
- In shares	3,457,576	3,457,576
- In stakes	11,157,359	13,389,990
	14,614,935	16,847,566
Less: Provision	(1,189,308)	(3,421,980)
	13,425,627	**13,425,586**

Investments in subsidiaries as at 31 December 2020 relate to the following companies:

Company	Share %	Investment	Impairment	Net book value
NIS Petrol a.d., Belgrade, Serbia	100%	3,457,576	(1,172,263)	2,285,313
NIS Petrol e.o.o.d. Sofija, Bulgaria	100%	28,938	-	28,938
NIS Petrol SRL, Bucharest, Romania	100%	997	-	997
NIS Petrol doo, Banja Luka, BiH	100%	1,030	-	1,030
NTC NIS-Naftagas d.o.o. Novi Sad, Serbia	100%	905,000	-	905,000
Naftagas-Tehnicki servisi d.o.o. Zrenjanin, Serbia	100%	1,177,032	-	1,177,032
Naftagas-Naftni servisi d.o.o. Novi Sad, Serbia	100%	7,300,000	-	7,300,000
Naftagas-Transport d.o.o. Novi Sad, Serbia	100%	1,717,349	-	1,717,349
NIS Oversiz, Moscow, Russia	100%	9,856	-	9,856
Jadran-Naftagas d.o.o. Banja Luka, BiH	100%	112	-	112
Svetlost, Bujanovac, Serbia	51%	17,045	(17,045)	-
		14,614,935	**(1,189,308)**	**13,425,627**

During 2020 subsidiary Pannon Naftagas Kft, Budapest was liquidated. Also, in 2020 the Company acquired additional 34% of share in Jadran Naftagas.

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying value of the investments in associates and joint ventures as of 31 December 2020 and 2019 is presented below:

		Ownership percentage	31 December 2020	31 December 2019
Gazprom Energoholding Serbia d.o.o. Novi Sad	Joint venture	49%	1,038,800	1,038,800
HIP Petrohemija ad Pančevo	Associate	20.86%	11,572,197	11,572,197
Less: Provision			(11,572,197)	(11,572,197)
			1,038,800	**1,038,800**

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

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

Gazprom Energoholding Serbia d.o.o. Novi Sad

In 2015, the Company and Centrenergoholding OAO Russian Federation established the holding company Gazprom Energoholding, through which they will 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 and corporate loan from CEH in amount of 41 mln EUR. Handing over CHP TE-TO Pancevo is expected to be completed during 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 Company increased its equity interest. After conversion, Company holds, directly more than 20,86% per cent of the voting power of the HIP Petrohemija. Also, Company has representatives on the BoD and Supervisory boards.

The summarised financial information for the joint ventures as of 31 December 2020 and 2019 and for the years ended 31 December 2020 and 2019 is presented in the table below:

	Gazprom Energoholding Serbia
31 December 2020	
Current assets	399,874
Non-current assets	16,016,723
Current liabilities	211,951
Non-current liabilities	14,563,190
Revenue	17,193
Loss for the year	(149,762)
31 December 2019	
Current assets	698,256
Non-current assets	12,154,427
Current liabilities	71,219
Non-current liabilities	10,963,037
Revenue	44,430
Loss for the year	(146,948)

12. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES

	31 December 2020	31 December 2019
LT loans - Subsidiaries - Domestic	79,697	79,077
LT loans - Subsidiaries - Foreign	26,490,971	25,426,264
	26,570,668	25,505,341
Less: Impairment	(3,659,420)	(2,300,154)
	22,911,248	**23,205,187**

Long-term loans to subsidiaries denominated in RSD relate to:

	Currency	31 December 2020	31 December 2019
Domestic			
Petrol a.d. Belgrade, Serbia	EUR	79,697	79,077
		79,697	79,077
Foreign			
NIS Petrol e.o.o.d. Sofija, Bulgaria	EUR	5,794,933	5,806,390
NIS Petrol SRL, Bucharest, Romania	EUR	17,896,740	16,798,944
NIS Petrol d.o.o. Banja Luka, BiH	EUR	2,681,713	2,703,332
Jadran - Naftagas d.o.o. Banja Luka, BiH	EUR	117,585	117,598
		26,490,971	25,426,264
		26,570,668	**25,505,341**

Long-term loans to foreign subsidiaries are approved at the fixed rate (2,1% p.a.) for a period of 7 to 11 years from the date of payment of the last tranche. Long-term loan to domestic subsidiary NIS Petrol a.d. Beograd is approved at variable interest rate (3M Euribor + 1,15%), for a period of 3 years. The carrying value of long-term loans is equal to their fair value.

13. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2020	31 December 2019
Other LT investments	8,621	9,176
LT loans given to employees	1,126,857	1,153,957
Other LT investments at FV	841,847	-
Less: Impairment	(382,834)	(354,684)
	1,594,491	**808,449**

Loans to employees as at 31 December 2020 amounting to RSD 1,126,857 thousand (31 December 2019: RSD 1,153,957 thousand) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes, and are repaid through monthly instalments. These loans are impaired in amount of RSD 382,775 thousand.

Other long-term investments at fair value in the amount of RSD 841,847 thousand (31 December 2019: RSD 0 thousand) are recognised in accordance with Novation agreement and Assignement agreement concluded between ZN, NIS and Jadran Naftagas (note 24).

14. DEFERRED TAX ASSETS AND LIABILITIES

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	31 December 2020	31 December 2019
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	2,606,230	2,783,455
- Deferred tax assets to be recovered within 12 months	-	-
	2,606,230	2,783,455
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(40,273)	(1,821,259)
	(40,273)	(1,821,259)
Deferred tax assets (net)	**2,565,957**	**962,196**

The gross movement on the deferred income tax account is as follows:

	2020	2019
At 1 January	**962,196**	**2,405,175**
Charged to the income statement (note 39)	1,603,709	(1,442,979)
Charged to other comprehensive income	52	-
31 December	**2,565,957**	**962,196**

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	Carrying value of PP&E vs Tax base	Revaluation reserve	Total
Deferred tax liabilities			
As at 1 January 2019	**(2,111,733)**	**(26,848)**	**(2,138,581)**
Charged to the income statement (note 39)	317,322	-	317,322
As at 31 December 2019	**(1,794,411)**	**(26,848)**	**(1,821,259)**
Charged to the income statement (note 39)	1,780,986	-	1,780,986
As at 31 December 2020	**(13,425)**	**(26,848)**	**(40,273)**

	Provisions	Impairment loss	Investment credit	Tax losses	Fair value loss	Total
Deferred tax assets						
As at 1 January 2019	**921,476**	**2,515,217**	**1,096,461**	**-**	**10,602**	**4,543,756**
Charged to the income statement (note 39)	(6,637)	(657,203)	(1,096,461)	-	-	(1,760,301)
As at 31 December 2019	**914,839**	**1,858,014**	**-**	**-**	**10,602**	**2,783,455**
Charged to the income statement (note 39)	(12,580)	(653,180)	-	488,483	-	(177,277)
Charged to other comprehensive income	-	-	-	-	52	52
As at 31 December 2020	**902,259**	**1,204,834**	**-**	**488,483**	**10,654**	**2,606,230**

The recognition of deferred tax assets was based on a five-year business plan of the Company and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

The Company recognized deferred tax assets in respect of unused tax loss carry forwards in the amount of RSD 488,483 thousand which are available for offsetting against future taxable profits.

15. INVENTORY

	31 December 2020	31 December 2019
Materials, spare parts and tools	15,401,060	32,249,441
Work in progress	4,130,289	4,859,254
Finished goods	7,391,813	9,636,535
Goods for sale	1,560,961	2,017,721
Advances	407,864	461,016
Less: impairment of inventory	(4,661,075)	(4,670,632)
Less: impairment of advances	(149,980)	(149,250)
	24,080,932	**44,404,085**
Non-current assets held for sale	80,625	135,670
Less: impairment of assets held for sale	(37,994)	(43,769)
	24,123,563	**44,495,986**

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of Advances	Impairment of Assets held for sale	Total
Balance as of 1 January 2019	**4,830,527**	**217,327**	**5,823**	**5,053,677**
Provision for inventories and advances (note 38)	287	543	-	830
Unused amounts reversed (note 37)	(117,575)	(51)	-	(117,626)
Write-off and other	(42,607)	(68,569)	37,946	(73,230)
Balance as of 31 December 2019	**4,670,632**	**149,250**	**43,769**	**4,863,651**
Provision for inventories and advances (note 38)	55,080	3,453	-	58,533
Unused amounts reversed (note 37)	(36,147)	(31)	-	(36,178)
Write-off and other	(28,490)	(2,692)	(5,775)	(36,957)
Balance as of 31 December 2020	**4,661,075**	**149,980**	**37,994**	**4,849,049**

16. TRADE RECEIVABLES

	31 December 2020	31 December 2019
Parents and subsidiaries - domestic	396,649	382,280
Parents and subsidiaries - foreign	3,032,362	4,092,863
Other related parties - domestic	1,563,227	1,215,292
Other related parties - foreign	50,030	96,193
Trade receivables domestic – third parties	22,171,216	27,383,247
Trade receivables foreign – third parties	451,513	974,399
	27,664,997	**34,144,274**
Less: Impairment	(5,133,429)	(5,772,211)
	22,531,568	**28,372,063**

17. OTHER RECEIVABLES

	31 December 2020	31 December 2019
Interest receivables	3,631,461	3,547,652
Receivables from employees	75,712	78,384
Income tax prepayment	1,034,617	647,660
Other receivables	7,485,653	7,509,500
Less: Impairment	(9,770,832)	(9,849,169)
	2,456,611	**1,934,027**

18. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2020	31 December 2019
ST loans and placements - Parent and subsidiaries	167,941	48,185
ST loans and placements - Domestic	2,019	2,019
Current portion of LT placements - Parent and subsidiaries	11,105,589	12,656,088
Other ST financial placements	76,845	76,955
Less: Impairment	(6,009,417)	(7,349,525)
	5,342,977	**5,433,722**

19. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash in bank and in hand	5,151,570	9,730,067
Deposits with original maturity of less than three months	2,530,000	3,493,536
Cash with restriction	8,071	13,716
Cash equivalents	260,144	264,508
	7,949,785	**13,501,827**

20. PREPAYMENTS AND ACCRUED INCOME

	31 December 2020	31 December 2019
Deferred input VAT	1,823,813	1,713,617
Prepaid expenses	186,100	222,038
Accrued revenue	44,896	37,062
Prepaid excise duty	2,188,620	1,701,028
Housing loans and other prepayments	269,207	328,297
	4,512,636	**4,002,042**

Deferred input VAT as at 31 December 2020 amounting to RSD 1,823,813 thousand (31 December 2019: RSD 1,713,617 thousand) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty as at 31 December 2020 amounting to RSD 2,188,620 thousand (31 December 2019: RSD 1,701,028 thousand) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

21. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2020	31 December 2019
Issued warranties and bills of exchange	79,165,987	74,704,889
Received warranties and bills of exchange	14,817,223	15,078,163
Properties in ex-Republics of Yugoslavia	5,357,687	5,357,689
Receivables from companies from ex-Yugoslavia	5,873,647	6,441,861
Third party merchandise in NIS warehouses	9,302,871	9,749,090
Assets for oil fields liquidation in Angola	1,361,966	1,361,966
Mortgages and pladges recived	1,880,676	1,398,288
Other off-balance sheet assets and liabilities	230,406	206,578
	117,990,463	**114,298,524**

22. SHARE CAPITAL

Share capital represents share capital of the Company, which is listed on Belgrade Stock Exchange. Par value per share is RSD 500.

Share capital as of 31 December 2020 and 31 December 2019 comprise of 163,060,400 ordinary shares.

Dividend declared for the year ended 31 December 2019, amounted to RSD 4,425,459 thousand or 27.14 RSD per share (31 December 2018: RSD 6,517,524 thousand or 39.97 RSD per share) were approved on the General Assembly Meeting held on 30 June 2020 and paid on 27 November 2020.

Calculation of basic earnings per share is disclosed in the following table:

	Year ended 31 December	
	2020	**2019**
Profit/(loss) attributable to the ordinary equity holder	(5,908,498)	17,700,065
Weighted average number of ordinary shares	163,060,400	163,060,400
Earnings per share (in RSD 000)	**(0.036)**	**0.109**

The Company does not have any convertible instruments, options or warrants accordingly, diluted earnings per share is equal to the basic earnings per share as stated in the table above.

23. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2019	**10,041,518**	**637,414**	**334,935**	**494,021**	**499,633**	**12,007,521**
Charged to the income statement	147,500	197,704	80,118	294,414	32,514	752,250
New obligation incurred and change in estimates	777,397	-	-	-	-	777,397
Actuarial loss charged to other comprehensive income	-	-	29,837	-	-	29,837
Settlement and other	(294,701)	(346,260)	(47,957)	-	(53,931)	(742,849)
As at 31 December 2019	**10,671,714**	**488,858**	**396,933**	**788,435**	**478,216**	**12,824,156**
As at 1 January 2020	**10,671,714**	**488,858**	**396,933**	**788,435**	**478,216**	**12,824,156**
Charged to the income statement	88,078	-	84,032	125,984	-	298,094
New obligation incurred and change in estimates	345,084	-	-	-	-	345,084
Release of provision (note 37)	(695,704)	-	-	-	(1,582)	(697,286)
Actuarial loss charged to other comprehensive income	-	-	20,739	-	-	20,739
Settlement and other	(70,708)	(80,317)	(58,783)	-	(99,019)	(308,827)
As at 31 December 2020	**10,338,464**	**408,541**	**442,921**	**914,419**	**377,615**	**12,481,960**

Analysis of total provisions:

	31 December 2020	31 December 2019
Non-current	10,132,664	11,251,613
Current	2,349,296	1,572,543
	12,481,960	**12,824,156**

(a) Decommissioning

The Company's Management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells based on previous experience in similar projects. The Company released provision in amount of RSD 695,704 thousand for ARO decommissioning mostly due to extension of the period by which the wells are expected to be in operation (note 37).

(b) Environmental protection

The Company has to comply with environmental protection regulations. At the reporting date Company recorded provision for environmental protection of RSD 408,541 thousand (31 December 2019: RSD 488,858 thousand) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) Long-term incentive program

In 2011, the Company started setting-up a long-term incentive program for Company managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2020 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in the total amount of RSD 914,419 thousand (2019: RSD 788,435 thousand).

(d) Legal claims provisions

As at 31 December 2020, the Company assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Company released provision for litigation amounting to RSD 1,582 thousand (charged provision in 2019: RSD 32,514 thousand) for proceedings which were assessed to have positive (in 2019 negative) outcome. The Company estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2020.

(e) Provision for employee benefits

Employee benefits:

	31 December 2020	31 December 2019
Retirement allowances	150,464	123,679
Jubilee awards	292,457	273,254
	442,921	**396,933**

The principal actuarial assumptions used were as follows:

	31 December 2020	31 December 2019
Discount rate	4.3%	4.4%
Future salary increases	0.07%	2.0%
Future average years of service	15	15

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2019	**96,176**	**238,759**	**334,935**
Benefits paid directly	(14,304)	(33,653)	(47,957)
Actuarial loss charged to other comprehensive income	29,837	-	29,837
Debited to the income statement	11,970	68,148	80,118
Balances as at 31 December 2019	**123,679**	**273,254**	**396,933**
Benefits paid directly	(34,844)	(23,939)	(58,783)
Actuarial loss charged to other comprehensive income	20,739	-	20,739
Debited to the income statement	40,890	43,142	84,032
Balances as at 31 December 2020	**150,464**	**292,457**	**442,921**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December	
	2020	2019
Current service cost	72,825	24,673
Interest cost	17,942	18,678
Curtailment loss	35,126	840
Actuarial (gain)/loss (jubilee awards)	(41,861)	35,927
	84,032	**80,118**

24. LONG-TERM LIABILITIES

	31 December 2020	31 December 2019
Long-term loan - Gazprom Neft	13,672,117	19,143,014
Bank loans	69,109,853	69,207,492
Lease liabilities	1,358,795	811,424
Other non-current financial liabilities	841,847	-
	84,982,612	89,161,930
Less Current portion (note 25)	(11,907,144)	(5,925,868)
	73,075,468	**83,236,062**

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

	Long-term loans	Short-term loans (note 25)	Lease	Total
As at 1 January 2019	**92,646,847**	**2,218,378**	**644,611**	**95,509,836**
Change in opening balance	-	-	100,027	100,027
Proceeds	15,060,454	12,564,054	-	27,624,508
Repayment	(18,760,584)	(13,188,360)	(127,024)	(32,075,968)
Non-cash transactions	-	-	192,294	192,294
Foreign exchange difference	(596,211)	-	1,516	(594,695)
As at 31 December 2019	**88,350,506**	**1,594,072**	**811,424**	**90,756,002**
As at 1 January 2020	**88,350,506**	**1,594,072**	**811,424**	**90,756,002**
Proceeds	6,182,780	23,666,126	-	29,848,906
Repayment	(11,663,203)	(23,504,160)	(280,003)	(35,447,366)
Non-cash transactions	(53,824)	(3)	830,606	776,779
Foreign exchange difference	(34,289)	-	(3,232)	(37,521)
As at 31 December 2020	**82,781,970**	**1,756,035**	**1,358,795**	**85,896,800**

(a) Long-term loan - Gazprom Neft

As at 31 December 2020 long-term loan - Gazprom Neft amounting to RSD 13,672,117 thousand (31 December 2019: RSD 19,143,014 thousand), with current portion of RSD 5,468,847 thousand (31 December 2019: RSD 5,469,432 thousand), 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

	31 December 2020	31 December 2019
Domestic	51,785,404	46,832,414
Foreign	17,324,449	22,375,078
	69,109,853	69,207,492
Current portion of long-term loans	(6,117,142)	(297,104)
	62,992,711	**68,910,388**

The maturity of non-current loans was as follows:

	31 December 2020	31 December 2019
Between 1 and 2 years	9,920,841	10,845,263
Between 2 and 5 years	41,197,751	54,737,906
Over 5 years	11,874,119	3,327,219
	62,992,711	**68,910,388**

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

	31 December 2020	31 December 2019
USD	157,858	209,292
EUR	68,740,979	68,732,685
RSD	338	498
JPY	210,678	265,017
	69,109,853	**69,207,492**

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

The loan agreements contain financial covenants that require the Company's ratio (GPN Group ratio) of indebtedness to EBITDA (note 6). The Company is in compliance with these covenants as of 31 December 2020 and 31 December 2019 respectively.

(c) Lease liabilities

Amounts recognized in profit and loss:

	2020	2019
Interest expense (included in finance cost) (note 35)	30,967	20,604
Expense relating to short-term leases (note 32)	342,528	289,710
Expense relating to leases of low value assets that are not shown above as short-term leases (note 32)	126,666	87,343
Expense relating to variable lease payments not included in lease liabilities (note 32)	780,141	1,348,818

(d) Other non-current financial liabilities

Other non-current financial liabilities in the amount of RSD 841,847 thousand in total represent deferred consideration to PJSC Zarubeznjeft (further ZN) for O&G exploration project that is ongoing through subsidiary Jadran Naftagas. This obiligation depends on occurance 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 Assignement 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 RSD 41 thousand. These transactions of shares acquisition and transfer of liabilities should be consider together.

25. SHORT-TERM FINANCE LIABILITIES

	31 December 2020	31 December 2019
Short-term loans from subsidiaries	1,756,035	1,594,072
Current portion of long-term loans (note 24)	11,907,144	5,925,868
	13,663,179	**7,519,940**

26. TRADE PAYABLES

As at 31 December 2020 payables in a amount of RSD 20,653,938 thousand (31 December 2019: RSD 36,720,956 thousand) include payables to parents and subsidiaries in amount of RSD 6,666,828 thousand (31 December 2019: RSD 14,986,710 thousand), mainly relate to payables to the supplier Gazprom Neft, St Petersburg in amount of RSD 3,204,199 thousand (31 December 2019: RSD 10,498,354 thousand), mostly based on purchase of crude oil and trade payables – foreign amounting to RSD 7,833,988 thousand (31 December 2019: RSD 13,449,126 thousand) mostly relate to payables for crude oil IPLOM S.P.A. Italy 2,869,608 (31 December 2019 0 RSD) and Petraco Oil Company LLP, London in the amount of RSD 2,641,621 thousand (31 December 2019 0 RSD thousand).

27. OTHER SHORT-TERM LIABILITIES

	31 December 2020	31 December 2019
Specific liabilities	166,877	175,275
Liabilities for unpaid wages and salaries, gross	1,125,281	928,258
Interest liabilities	216,927	588,170
Dividends payable	3,785,017	3,780,692
Other payables to employees	1,523,876	518,686
Decommissioning and site restoration costs	1,091,258	1,170,430
Environmental provision	114,210	128,099
Litigation and claims	176,196	224,407
Other current liabilities	58,856	75,091
	8,258,498	**7,589,108**

28. LIABILITIES FOR OTHER TAXES

	31 December 2020	31 December 2019
Excise tax	5,379,743	5,301,814
Contribution for buffer stocks	257,505	280,070
Energy efficiency fee	30,168	32,299
Income tax	-	-
Other taxes payables	705,843	1,365,390
	6,373,259	**6,979,573**

29. ACCRUED EXPENSES

Accrued expenses as at 31 December 2020 amounting to RSD 3,440,035 thousand (31 December 2019: RSD 3,070,554 thousand) mainly relate to accrued employee bonuses of RSD 2,033,852 thousand (31 December 2019: RSD 1,827,611 thousand), and contract liabilities arising from contracts with customers related to customer loyalty programme in amount RSD 693,356 thousand (31 December 2019: RSD 635,355 thousand).

Revenue in the amount of RSD 1,916,116 thousand (31 December 2019: RSD 1,532,390 thousand) was recognized in the current reporting period related to the contract liabilities as at 1 January 2020, of which RSD 1,488,701 thousand (31 December 2019: RSD 1,170,838 thousand) related to advances and RSD 427,415 thousand (31 December 2019: RSD 361,552 thousand) to customer loyalty programme.

30. COST OF MATERIAL

	Year ended 31 December	
	2020	**2019**
Costs of raw materials	102,579,543	129,772,094
Overheads and other costs	183,886	232,219
Other	335,737	505,667
	103,099,166	**130,509,980**

31. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES

	Year ended 31 December	
	2020	**2019**
Wages and salaries (gross)	14,342,015	12,963,207
Taxes and contributions on wages and salaries paid by employer	1,885,100	1,655,663
Cost of service agreement	111,215	181,734
Cost of other personal wages	9,497	33,077
Fees paid to board of directors and general assembly board	132,140	103,981
Termination costs	38,976	37,513
Other personal expenses	555,395	617,890
	17,074,338	**15,593,065**

In 2020, there was a change in the structure of employee costs and costs of service organizations (note 35) due to new Agency employee low and company strategic decisions.

32. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2020	**2019**
Cost of production services	2,167,321	2,495,924
Transportation services	3,034,457	3,225,168
Maintenance	4,730,810	4,814,010
Rental costs	1,249,335	1,725,871
Fairs	-	10,091
Advertising costs	529,421	887,139
Exploration expenses	218,527	436,927
Cost of other services	1,365,799	1,513,604
	13,295,670	**15,108,734**

33. NON-PRODUCTION COSTS

	Year ended 31 December	
	2020	**2019**
Costs of non-production services	3,419,462	6,983,488
Representation costs	45,766	152,954
Insurance premium	472,343	510,600
Bank charges	271,923	333,400
Cost of taxes	1,101,105	1,133,800
Mineral extraction tax	872,606	1,402,477
Other non-production expenses	3,634,485	1,016,172
	9,817,690	**11,532,891**

Cost of non-production services for the year ended 31 December 2020 amounting to RSD 3,419,462 thousand (2019: RSD 6,983,488 thousand) mainly relate to costs of service organizations of RSD 1,306,370 thousand (2019: RSD 4,467,605 thousand), project management costs of RSD 1,101,821 thousand (2019: RSD 1,166,221 thousand), security costs of RSD 369,595 thousand (2019: RSD 533,601 thousand) and consulting service costs of RSD 143,504 thousand (2019: RSD 325,438 thousand).

	Year ended 31 December	
	2020	**2019**
Finance income - related parties		
- foreign exchange differences	1,004,211	1,085,351
- other finance income	681,645	677,127
Interest income	200,692	328,287
Modification gain	53,673	149,827
Income from discounting of receivables	38,345	-
Foreign exchange gains	1,260,345	831,114
Other finance income	4,415	11,586
	3,243,326	**3,083,292**

35. FINANCE EXPENSE

	Year ended 31 December	
	2020	**2019**
Finance expenses – related parties		
- foreign exchange differences	1,083,427	1,076,794
- modification loss	66,293	99,107
- other finance expense	319,905	439,718
Interest expenses	1,403,550	1,279,841
Decommissioning provision: unwinding of the present value discount	88,078	147,500
Amortization of non-current finacial instruments	-	19,261
Foreign exchange losses	1,134,501	443,930
Other finance expense	27,135	21,307
	4,122,889	**3,527,458**

36. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 December	
	2020	**2019**
Reversal of impairment of LT financial investments	88,363	16,522
Income from valuation:		
- trade and specific receivables (note 6)	124,828	84,318
- short-term investments	-	178,376
- other receivables (note 6)	38,784	14,002
	251,975	**293,218**

37. OTHER INCOME

	Year ended 31 December	
	2020	**2019**
Gains on disposal – PPE	45,557	21,681
Gains on disposal – materials	21,552	43,845
Surpluses from stock count	176,298	282,887
Payables written off	965,918	77,508
Release of long-term provisions (note 23)	697,286	-
Release of impairment:		
- Inventory (note 15)	36,147	117,575
- PPE and other property	52,713	454,425
Penalty interest	51,673	49,490
Other income	28,726	93,647
	2,075,870	**1,141,058**

Payables written off in amount of RSD 965,918 thousand refers to the write-off of liabilities for which there is no legal basis for repayment.

38. OTHER EXPENSES

	Year ended 31 December	
	2020	**2019**
Loss on disposal - PPE	107,666	305,520
Shortages from stock count	355,234	552,845
Write-off receivables	17,253	6,694
Write-off inventories	35,247	41,221
Impairment:		
- Intangible assets (note 8)	58,941	-
- PPE (note 9)	658,384	240,459
- Investment property and asset held for sale	34,044	8,290
- Inventory (note 15)	55,080	287
- Other property	3,453	543
Other expenses	514,173	296,265
	1,839,475	**1,452,124**

39. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2020	2019
Income tax for the year	(111,229)	2,870,963
Deferred income tax for the period		
Origination and reversal of temporary differences (note 14)	(1,603,709)	1,442,979
	(1,714,938)	**4,313,942**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Company's profits as follows:

	Year ended 31 December	
	2020	2019
Profit (loss) before tax	**(7,623,436)**	**22,014,007**
Tax calculated at domestic tax rates – 15%	(1,143,515)	3,302,101
Tax effect on:		
Revenues exempt from taxation	(325,200)	(222)
Expenses not deductible for tax purposes		
- Tax paid in Angola	(50,469)	74,711
- Other expenses not deductable	(135,256)	1,306,972
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	262	(40,924)
Other tax effects for reconciliation between accounting profit and tax expense	(60,760)	(328,696)
	(1,714,938)	**4,313,942**
Effective income tax rate	**0%**	**19.60%**

40. COMMITMENTS AND CONTINGENT LIABILITIES

Economic environment in the Republic of Serbia

The Company 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 Company's operations and financial position.

The management is taking necessary measures to ensure sustainability of the Company'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 Company 's management recognised an environmental provision in the amount of RSD 408,541 thousand (31 December 2019: RSD 488,858 thousand).

The Company'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.

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company 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 Company has paid all tax liabilities as of 31 December 2020.

Capital commitments

As of 31 December 2020 the Company has entered into contracts to purchase property, plant and equipment for RSD 1,536,920 thousand (31 December 2019: RSD 2,818,801 thousand).

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

41. RELATED PARTIES TRANSACTIONS

The majority owner of the Company 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, owns 95.7% of the shares in the Gazprom Neft. The Russian Federation is the ultimate controlling party.

During 2020 and 2019, the Company 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.

As of 31 December 2020 and 31 December 2019 the outstanding balances with related parties were as follows:

	Subsidiary	Parent	Entities under comon control and associates	Total
As at 31 December 2020				
Right of use assets	46,395	-	125	46,520
Investments in subsidiaries, associates and joint ventures	13,425,627	-	1,038,800	14,464,427
Long-term loans	22,911,248	-	-	22,911,248
Other long-term investments	841,847	-	-	841,847
Advances for inventory and services	2,359	-	25,095	27,454
Trade receivables	3,425,501	-	1,582,434	5,007,935
Receivables from specific operations	60,188	-	299	60,487
Other receivables	1,256,747	-	4	1,256,751
Short-term investments	5,266,132	-	-	5,266,132
Long-term liabilities	(46,076)	(8,203,270)	-	(8,249,346)
Short-term financial liabilities	(1,758,283)	(5,468,847)	(84)	(7,227,214)
Advances received	(54,151)	-	(4,530)	(58,681)
Trade payables	(3,462,629)	(3,204,199)	(1,115,667)	(7,782,495)
Other short-term liabilities	(1,423)	-	-	(1,423)
Other current liabilities	(3,239)	-	-	(3,239)
	41,910,243	**(16,876,316)**	**1,526,476**	**26,560,403**

	Subsidiary	Parent	Entities under comon control and associates	Total
As at 31 December 2019				
Right of use assets	52,049	-	-	52,049
Investments in subsidiaries, associates and joint ventures	13,425,586	-	1,038,800	14,464,386
Long-term loans	23,205,187	-	-	23,205,187
Advances for inventory and services	15,998	-	34,371	50,369
Trade receivables	4,471,633	-	1,280,662	5,752,295
Receivables from specific operations	71,121	-	44	71,165
Other receivables	1,089,170	-	-	1,089,170
Short-term investments	5,356,767	-	-	5,356,767
Long-term liabilities	(48,010)	(13,673,582)	(128)	(13,721,720)
Short-term financial liabilities	(1,599,147)	(5,469,432)	(159)	(7,068,738)
Advances received	(3,148)	-	(3,080)	(6,228)
Trade payables	(4,488,356)	(10,498,354)	(1,711,826)	(16,698,536)
Other short-term liabilities	(2,283)	-	-	(2,283)
	41,546,567	**(29,641,368)**	**638,684**	**12,543,883**

For the year ended 31 December 2020 and 2019 the following transaction occurred with related parties:

	Subsidiary	Parent	Entities under comon control and associates	Total
Year ended 31 December 2020				
Sales revenue	13,138,607	-	17,170,435	30,309,042
Other operating income	36,852	-	8,602	45,454
Cost of goods sold	(53,346)	-	(236,321)	(289,667)
Cost of material	(382,798)	(24,674,912)	(996,914)	(26,054,624)
Fuel and energy expenses	(89)	-	-	(89)
Employee benefits expenses	(19,814)	-	-	(19,814)
Production services	(4,003,482)	-	(198,978)	(4,202,460)
Depreciation	(4,298)	-	(188)	(4,486)
Non-material expense	(3,783,590)	(3,118)	(34,079)	(3,820,787)
Finance income	681,591	-	56	681,645
Finance expense	(90,795)	(295,405)	-	(386,198)
Loss from valuation of assets at fair value through profit and loss	(17,822)	-	-	(17,822)
Other income	285	6,475	-	6,760
Other expenses	(797)	(50,164)	(260)	(51,221)
	5,500,504	**(25,017,124)**	**15,712,353**	**(3,804,267)**

	Subsidiary	Parent	Entities under comon control and associates	Total
Year ended 31 December 2019				
Sales revenue	19,639,670	-	19,645,153	39,284,823
Other operating income	45,790	-	144	45,934
Cost of goods sold	(311,040)	-	(384,815)	(695,855)
Cost of material	(302,423)	(51,345,851)	(333,140)	(51,981,414)
Fuel and energy expenses	(313)	-	-	(313)
Employee benefits expenses	(114,348)	-	-	(114,348)
Production services	(4,601,967)	-	(200,399)	(4,802,366)
Depreciation	(9,143)	-	-	(9,143)
Non-material expense	(905,958)	-	(35,435)	(941,393)
Finance income	677,127	-	-	677,127
Finance expense	(144,935)	(393,887)	(3)	(538,825)
Income from valuation of assets at fair value through profit and loss	178,375	-	-	178,375
Loss from valuation of assets at fair value through profit and loss	(99,891)	-	-	(99,891)
Other income	435	40,230	-	40,665
Other expenses	(2,423)	(111,235)	(593)	(114,251)
	14,048,956	**(51,810,743)**	**18,690,912**	**(19,070,875)**

Main balances and transactions with state and mayor state owned companies:

	Entities under comon control and associates	Other
As at 31 December 2020		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,461,095	-
• *Srbijagas*	-	256,036
• *AIR Serbia*	-	87,447
Trade and other payables		
• *HIP Petrohemija*	(942,412)	-
• *Srbijagas*	-	(302,531)
Other current liabilities		
• *HIP Petrohemija*	(3,532)	-
	515,151	**40,952**
As at 31 December 2019		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,183,648	-
• *Srbijagas*	-	418,784
• *AIR Serbia*	-	371,395
Trade and other payables		
• *HIP Petrohemija*	(1,208,375)	-
• *Srbijagas*	-	(361,934)
Other current liabilities		
• *HIP Petrohemija*	(3,064)	-
	(27,791)	**428,245**

	Entities under comon control and associates	Other
As at 31 December 2020		
Operating income		
• *HIP Petrohemija*	16,746,580	-
• *Srbijagas*	-	380,042
• *AIR Serbia*	-	1,685,134
Operating expenses		
• *HIP Petrohemija*	(193,856)	-
• *Srbijagas*	-	(782,731)
	16,552,724	**1,282,445**
As at 31 December 2019		
Operating income		
• *HIP Petrohemija*	19,070,224	-
• *Srbijagas*	-	1,419,220
• *AIR Serbia*	-	5,124,131
Operating expenses		
• *HIP Petrohemija*	(198,691)	-
• *Srbijagas*	-	(912,530)
	18,871,533	**5,630,821**

Transactions with state controlled entities mainly relates to sales of petroleum products based on the price lists in force and terms that would be available to third parties.

Transactions with Key Management Personnel

In the year ended 31 December 2020 and 2019 the Company recognized RSD 997,434 thousand and RSD 943,715 thousand 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.

42. RECONCILIATION OF RECEIVABLES AND PAYABLES

In accordance with the Accounting Law, the Company reconciled account receivables and payables with the customers and the suppliers before preparing financial statements. The total amount of unreconciled account receivables amounts to RSD 367,326 thousand (44 customers) which is 1.46% of the total amount of receivables (trade, from specific business operations and other receivables). The total amount of unreconciled account payables amounts to RSD 275,882 thousand (71 suppliers) which is 1.34% of the total amount of trade payables.

43. EVENTS AFTER THE REPORTING DATE

There are no material events after the reporting date.

Subsequent events occurring after 31 December 2020 were evaluated through 9 March 2021, the date these Financial Statements were authorised for issue.

2.02 Consolidated Financial Statements

Independent Auditor's Report on Consolidated Financial Statements

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Independent Auditor's Report

To the Shareholders of Naftna industrija Srbije a.d., Novi Sad Group

Opinion

We have audited the accompanying consolidated financial statements of Naftna industrija Srbije a.d., Novi Sad Group (the "Group"), whose parent entity is Naftna industrija Srbije a.d., Novi Sad, which comprise:

— the consolidated balance sheet as at 31 December 2020;

and, for the period from 1 January to 31 December 2020:

— the consolidated income statement;
— the consolidated statement of other comprehensive income;
— the consolidated statement of changes in equity;
— the consolidated cash flow statement;

and

— notes, comprising a summary of significant accounting policies and other explanatory information

(the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting regulations effective in the Republic of Serbia.

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Basis for Opinion

We conducted our audit in accordance with the Law on Auditing and the Law on Accounting of the Republic of Serbia and applicable auditing standards in the Republic of Serbia. Our responsibilities under those regulations are further described in the Auditor's Responsibility for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Serbia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

Impairment of goodwill

As at 31 December 2020, carrying amount of goodwill: RSD 1,322,704 thousand (31 December 2019: RSD 1,354,508 thousand). For the year ended 31 December 2020, impairment losses: RSD 26,506 thousand (2019: RSD 180,004 thousand).

We refer to the consolidated financial statements: Note 8 "Intangible assets", Note 36 „Other expenses", Note 2.8 „Goodwill", Note 2.9 „Intangible assets", Note 3.4 „ Impairment of Goodwill".

Key audit matter	*Our response*

In prior years the Group recognized goodwill on business combinations which as at 31 December 2020 is carried at RSD 1,322,704 thousand. Pursuant to the relevant provisions of the financial reporting standards, goodwill should be tested for impairment on an annual basis or earlier when impairment indications exist. As disclosed in Note 8, based on its current year's test, the Group recognized an impairment loss of RSD 26,506 thousand in respect of goodwill.
 	
The Group monitors goodwill either on individual CGUs or a group of cash generating units ("CGUs"). The recoverable amount of the underlying CGUs is determined by value-in-use calculations which are based on future discounted cash flows. Determination of the recoverable amount requires from the Group to make significant assumptions and judgments, in particular those relating to future gross margin, discount rates and growth rates.
 	
Complex models using forward-looking assumptions tend to be prone to greater risk of management bias, error and inconsistent application. These conditions necessitate our additional attention in the audit, in particular to address the objectivity of sources used for assumptions, and their consistent application.
 	
Due to the above factors, we considered this area to be a key audit matter.
	In this area, our procedures included, among other things, the following:
	— Considering the appropriateness of the Group's value in use model ("impairment model") applied to perform the annual impairment test, against the relevant requirements of the financial reporting standards;
	— Evaluation the appropriateness of asset grouping into CGUs, based on our understanding of the Group's operations and business units;
	— Evaluating the quality of the Group's forecasting by comparing future projections with the actual outcomes, and also tracing the forecast cash flows in the impairment model to management approved forecasts;
	— Assisted by our own valuation specialists:
	  - challenging the reasonableness of the Group's key assumptions and judgments used in estimating the recoverable amount, including the average gross margin by reference to historical data of the Group, the discount and growth rates used by reference to publicly available market data,
	  - assessing the internal integrity of the impairment model including the accuracy of the underlying calculation formulas.
	— Considering the sensitivity of the impairment model to changes in forecast gross margin, growth rates and discount rates to identify the assumptions at higher risk of bias or inconsistency in application;
	— Assessing impairment-related disclosures in the consolidated financial statements against the requirements of the financial reporting standards.

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Decommissioning and restoration provisions

Accounting policies and financial disclosures with respect to provisions for decommissioning and restoration are disclosed in Notes 2.19, 3.6, 21, 25, 33 and 35 to the consolidated financial statements.

Carrying amount of decommissioning and restoration provisions as at 31 December 2020: RSD 10,338,464 thousand; New decommissioning provisions and changes in estimates in decommissioning liability amount to RSD 345,084 thousand for the year 2020; Effects of unwinding of discount on decommissioning provision for the year 2020 amount to RSD 88,078 thousand; Income from release of provisions for the year 2020 amount to RSD 696,704 thousand.

Key audit matter	Our response
Decommissioning and restoration provisions represent present value of estimated costs of removal of items of property, plant and equipment at the end of their useful life and restoration of the site (decommission assets). The obligation to remove the assets and to restore the site arises on installation of extraction equipment. Decommission assets are recorded in an amount equal to the estimated provision and depreciated in accordance with the adopted accounting policy. All changes in the decommissioning provision, other than changes resulting from the unwinding of the discount, which are recorded in profit or loss, are added to or deducted from the cost of the related decommission asset in the current period. Once an item of property, plant and equipment has been fully depreciated and the	In this area, our procedures included, among other things, the following: — Obtaining understanding of the legal framework relating to the decommissioning and environmental protection and its effect on the Group's present or constructive obligation to decommission assets and to restore the site; — Evaluating the appropriateness of the accounting policies used against requirements of the relevant reporting framework and industry practice; — Testing the design and implementation of relevant internal controls over the identified business process for identifying obligating events, measurement and

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asset has a net carrying amount (gross carrying amount less accumulated depreciation) of zero in the balance sheet, further changes in any related provision for decommissioning are recognised in profit or loss.

The Group reviews decommissioning and restoration provisions on an annual basis. This review incorporates the effects of any changes in local regulations, management's plans with respect to decommissioning and restoration including their expected timing, cost estimates and discount rate.

Determination of decommissioning and restoration provisions is the complex area and requires making a number of assumptions and judgments, in particular those relating to estimated costs and timing of decommissioning and restoration activities as well as discount rate. In addition, there is a large number of wells which makes the estimation process time consuming and prone to errors.

Due to the above, assessment of the appropriateness of these provisions required our increased attention in the course of our audit. As a consequence, we consider the area to be our key audit matter.

recognition of provision, subsequent changes in recognized provisions and use of provisions;

- Assessing the Group's discounted cash flow model against the relevant financial reporting standards, market practice and for internal consistency;
- Testing on a sample basis the accuracy of data with respect to the current status and depth of oil wells included in the provision to the underlying technical documentation;
- Evaluating appropriateness of assumed timing for dismantling and restoration activities by reference to documented oil reserves and approved production plans;
- Challenging the appropriateness of the discount rate by reference to publicly available market data.
- Analysing the sensitivity of the Group's estimate to changes in the discount rate and assessing whether its level indicates management bias;
- Examining whether the Group's disclosures in the consolidated financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework;

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2019 were audited by another auditor who expressed an unqualified opinion on those financial statements on 25 February 2020.

Other Information

Management is responsible for the other information. The other information comprises the consolidated Annual Business Report for the year ended 31 December 2020. The consolidated Annual Business Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the consolidated Annual Business Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and we are required to report that fact.

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the accounting regulations effective in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law on Auditing of the Republic of Serbia and applicable auditing standards in the Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law on Auditing of the Republic of Serbia and applicable auditing standards in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG d.o.o., Beograd

Signed on the Serbian original

Vladimir Savković
Engagement Partner
Licenced Certified Auditor

Belgrade, 10 March 2021

This is a translation of the original Independent Auditor's Report issued in the Serbian language.
All due care has been taken to produce a translation that is as faithful as possible to the original.
However, if any questions arise related to interpretation of the information
contained in the translation, the Serbian version of the document shall prevail.
We assume no responsibility for the correctness of the translation of the Group's consolidated financial statements.

KPMG d.o.o., Beograd

Vladimir Savković
Engagement Partner
Licenced Certified Auditor

Belgrade, 10 March 2021

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Consolidated balance sheet

		Note	31 December 2020	31 December 2019
A.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
B.	**NON-CURRENT ASSETS**		**318,219,559**	**317,342,624**
I.	**INTANGIBLE ASSETS**	8	**23,940,194**	**24,413,233**
1.	Development investments		11,770,444	11,439,829
2.	Concessions, licenses, software and other rights		2,040,880	1,988,931
3.	Goodwill		1,322,704	1,354,508
4.	Other intangible assets		888,189	924,956
5.	Intangible assets under development		7,917,977	8,705,009
6.	Advances for intangible assets		-	-
II.	**PROPERTY, PLANT AND EQUIPMENT**	9	**291,598,823**	**289,781,916**
1.	Land		17,016,279	17,050,221
2.	Buildings		158,773,921	149,732,966
3.	Machinery and equipment		97,469,518	65,767,335
4.	Investment property		1,574,329	1,579,798
5.	Other property, plant and equipment		94,203	89,817
6.	Construction in progress		16,176,448	55,064,088
7.	Investments in leased PP&E		155,043	152,325
8.	Advances for PP&E		339,082	345,366
III.	**BIOLOGICAL ASSETS**		**-**	**-**
1.	Forest farming		-	-
2.	Livestock		-	-
3.	Biological assets in production		-	-
4.	Advances for biological assets		-	-
IV.	**LONG-TERM FINANCIAL INVESTMENTS**		**2,595,390**	**2,913,291**
1.	Investments in subsidiary		-	-
2.	Investments in joint ventures	10	1,747,430	1,851,101
3.	Investments in other legal entities and other available for sales financial assets		95,316	95,662
4.	Long term investments in parent and subsidiaries		-	-
5.	Long-term investments in other related parties		-	-
6.	Long-term investments - domestic		-	-
7.	Long-term investments - foreign		-	-
8.	Securities held to maturity		-	-
9.	Other long-term financial investments	11	752,644	966,528
V.	**LONG-TERM RECEIVABLES**		**85,152**	**234,184**
1.	Receivables from parent company and subsidiaries		-	-
2.	Receivables from other related parties		-	-
3.	Receivables from sale of goods on credit		-	-
4.	Receivables arising out of finance lease contracts		9,515	9,515
5.	Claims arising from guarantees		-	-
6.	Bad and doubtful receivables		-	-
7.	Other long-term receivables		75,637	224,669
C.	**DEFFERED TAX ASSETS**	12	**2,313,438**	**697,689**
D.	**CURRENT ASSETS**		**64,738,800**	**97,223,713**
I.	**INVENTORY**	13	**28,152,987**	**48,001,622**
1.	Materials, spare parts and tools		13,429,199	29,878,660
2.	Work in progress		4,130,186	4,855,798
3.	Finished goods		7,493,521	9,758,823
4.	Merchandise		2,695,319	2,986,653
5.	Assets held for sale		39,146	88,416
6.	Advances for inventory and services		365,616	433,272
II.	**TRADE RECEIVABLES**	14	**20,615,680**	**25,572,859**
1.	Domestic trade receivables - parents and subsidiaries		-	-
2.	Foreign trade receivables - parents and subsidiaries		-	-
3.	Domestic trade receivables - other related parties		1,525,369	1,184,469
4.	Foreign trade receivables - other related parties		121,631	100,451
5.	Trade receivables - domestic		18,487,194	23,265,532
6.	Trade receivables - foreign		481,486	1,022,407
7.	Other trade receivbles		-	-
III.	**RECEIVABLES FROM SPECIFIC OPERATIONS**		**217,641**	**673,870**
IV.	**OTHER RECEIVABLES**	15	**1,775,523**	**935,757**
V.	**FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS**		**-**	**-**
VI.	**SHORT TERM FINANCIAL INVESTMENTS**	16	**343,069**	**1,843,473**
1.	Short-term loans and investments - parent companies and subsidiaries		-	-
2.	Short-term loans and investments – other related parties		-	-
3.	Short-term loans and investments - domestic		-	-
4.	Short-term loans and investments - foreign		-	-
5.	Other short-term loans and investments		343,069	1,843,473
VII.	**CASH AND CASH EQUIVALENTS**	17	**8,488,302**	**15,295,810**
VIII.	**VALUE ADDED TAX**		**117,430**	**452,571**
IX.	**PREPAYMENTS AND ACCRUED INCOME**	18	**5,028,168**	**4,447,751**
E.	**TOTAL ASSETS**		**385,271,797**	**415,264,026**
F.	**OFF-BALANCE SHEET ASSETS**	19	**120,346,882**	**117,099,179**

		Note	31 December 2020	31 December 2019
A.	**EQUITY**		**242,762,307**	**254,694,792**
I.	**EQUITY**	**20**	**81,548,930**	**81,548,930**
1.	Share capital	20.1	81,548,930	81,548,930
2.	Stakes of limited liability companies		-	-
3.	Stakes		-	-
4.	State owned capital		-	-
5.	Socially owned capital		-	-
6.	Stakes in cooperatives		-	-
7.	Share premium		-	-
8.	Other capital		-	-
II.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
III.	**OWN SHARES**		**-**	**-**
IV.	**RESERVES**		**-**	**-**
V.	**REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT**		**79,755**	**79,755**
VI.	**UNREALISED GAINS FROM SECURITAS AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**459,383**	**400,112**
VII.	**UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**58,477**	**58,183**
VIII.	**RETAINED EARNINGS**		**168,298,719**	**172,724,178**
1.	Retained earnings from previous years		168,298,719	156,127,776
2.	Retained earnings from current year		-	16,596,402
IX.	**NON-CONTROLLING INTEREST**		**-**	**-**
X.	**LOSS**		**7,566,003**	**-**
1.	Loss from previous years		-	-
2.	Loss from current year		7,566,003	-
B.	**LONG-TERM PROVISIONS AND LIABILITIES**		**84,312,231**	**95,462,060**
I.	**LONG-TERM PROVISIONS**	**21**	**10,332,213**	**11,419,129**
1.	Provisions for warranty claims		-	-
2.	Provision for environmental rehabilitation		9,561,809	9,882,315
3.	Provisions for restructuring costs		-	-
4.	Provisions for employee benefits		536,608	1,262,848
5.	Provisions for litigations		233,796	273,966
6.	Other long term provisions		-	-
II.	**LONG-TERM LIABILITIES**	**22**	**73,980,018**	**84,042,931**
1.	Liabilities convertible to equity		-	-

		Note	31 December 2020	31 December 2019
2.	Liabilities to parent and subsidiaries		8,203,270	13,673,582
3.	Liabilities to other related parties		-	-
4.	Liabilities for issued long-term securities		-	-
5.	Long term borrowings - domestic		45,862,103	46,581,096
6.	Long-term borrowings - foreign		17,130,642	22,404,642
7.	Finance lease liabilities		1,868,666	1,326,436
8.	Other long-term liabilities		915,337	57,175
C.	**DEFFERED TAX LIABILITIES**	**12**	**-**	**-**
D.	**SHORT-TERM LIABILITIES**		**58,197,259**	**65,107,174**
I.	**SHORT-TERM FINANCIAL LIABILITIES**	**23**	**12,196,715**	**6,761,897**
1.	Short term borrowings from parent and subsidiaries		-	-
2.	Short term borrowings from other related parties		-	-
3.	Short-term loans and borrowings - domestic		-	-
4.	Short-term loans and borrowings - foreign		-	-
5.	Liabilities relating to current assets and held-for-sale assets attributable to discounted operations		-	-
6.	Other short term liabilities		12,196,715	6,761,897
II.	**ADVANCES RECEIVED**		**4,170,271**	**2,323,105**
III.	**TRADE PAYABLES**	**24**	**19,278,679**	**35,341,330**
1.	Trade payables - parent and subsidiaries - domestic		-	-
2.	Trade payables - parent and subsidiaries - foreign		3,204,199	10,500,427
3.	Trade payables - other related parties - domestic		975,060	1,208,375
4.	Trade payables - other related parties - foreign		183,963	543,563
5.	Trade payables - domestic		6,767,096	9,170,737
6.	Trade payables - foreign		7,981,985	13,786,047
7.	Other operating liabilities		166,376	132,181
IV.	**OTHER SHORT-TERM LIABILITIES**	**25**	**9,251,427**	**8,375,054**
V.	**LIABILITIES FOR VAT**		**2,270,118**	**1,088,459**
VI.	**LIABILITIES FOR OTHER TAXES**	**26**	**6,889,458**	**7,584,465**
VII.	**ACCRUED EXPENSES**	**27**	**4,140,591**	**3,632,864**
E.	**LOSS EXCEEDING EQUITY**		**-**	**-**
F.	**TOTAL EQUITY AND LIABILITIES**		**385,271,797**	**415,264,026**
G.	**OFF-BALANCE SHEET LIABILITIES**	**19**	**120,346,882**	**117,099,179**

In thousand RSD

Consolidated Income Statement

		Note	Year ended 31 December 2020	2019
	INCOME FROM REGULAR OPERATING ACTIVITIES			
A.	**OPERATING INCOME**	7	**183,833,859**	**272,096,500**
I.	**INCOME FROM THE SALE OF GOODS**		**29,785,309**	**65,592,808**
1.	Income from sales of goods to parent and subsidiaries on domestic market		-	-
2.	Income from sales of goods to parent and subsidiaries on foreign market		-	-
3.	Income from the sale of goods to other related parties on domestic market		4,033	1,312
4.	Income from the sale of goods to other related parties on foreign market		1,845	187,210
5.	Income from sale of goods on domestic market		8,504,984	27,314,259
6.	Income from sale of goods on foreign market		21,274,447	38,090,027
II.	**INCOME FROM SALES OF PRODUCTS AND SERVICES**		**153,705,504**	**206,093,358**
1.	Income from sales of products and services to parent and subsidiaries on domestic market		-	-
2.	Income from sales of products and services to parent and subsidiaries on foreign market		-	-
3.	Income from sales of products and services to other related parties on domestic market		17,035,839	19,072,216
4.	Income from sales of products and services to other related parties on foreign market		288,092	405,754
5.	Income from sales of products and services – domestic		111,209,003	150,765,338
6.	Income from sales of products and services – foreign		25,172,570	35,850,050
III.	**INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS**		**1,045**	**-**
IV.	**OTHER OPERATING INCOME**		**342,001**	**410,334**
	EXPENSES FROM REGULAR OPERATING ACTIVITIES			
B.	**OPERATING EXPENSES**		**191,237,985**	**248,735,954**
I.	COST OF GOODS SOLD		16,499,875	44,635,555
II.	WORK PERFORMED BY THE ENTITY AND CAPITALIZED		9,964,736	14,451,129
III.	INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		-	-
IV.	DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		2,993,931	3,437,901
V.	COST OF MATERIAL	28	105,883,608	136,940,194

		Note	Year ended 31 December 2020	2019
VI.	COST OF FUEL AND ENERGY		4,597,008	4,371,248
VII.	COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	29	27,282,885	21,364,042
VIII.	COST OF PRODUCTION SERVICES	30	12,661,812	15,605,920
IX.	DEPRECIATION, DEPLETION AND AMORTIZATION	8,9	22,805,904	20,976,349
X.	COST OF LONG-TERM PROVISIONING		263,945	652,769
XI.	NON-PRODUCTION COSTS	31	8,213,753	15,203,105
C.	**OPERATING GAIN**		**-**	**23,360,546**
D.	**OPERATING LOSS**		**7,404,126**	**-**
E.	**FINANCE INCOME**	32	**2,775,056**	**2,563,129**
I.	FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME		1,162,980	1,126,759
1.	Finance income - parent company and subsidiaries		1,152,788	1,103,117
2.	Finance income - other related parties		5,776	12,004
3.	Share of profit of associates and joint ventures		-	-
4.	Other financial income		4,416	11,638
II.	INTEREST INCOME (FROM THIRD PARTIES)		311,272	515,861
III.	FOREIGN EXCHANGE GAINS (THIRD PARTIES)		1,300,804	920,509
F.	**FINANCE EXPENSES**	33	**4,816,945**	**4,178,538**
I.	FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES		2,009,285	2,066,382
1.	Finance expense - parent company and subsidiaries		1,867,161	1,901,458
2.	Finance expense - other related parties		11,319	14,330
3.	Share of loss of associates and joint ventures		103,671	129,287
4.	Other financial expense		27,134	21,307
II.	INTEREST EXPENSE (FROM THIRD PARTIES)		1,623,164	1,578,043
III.	FOREIGN EXCHANGE LOSSES (THIRD PARTIES)		1,184,496	534,113
G.	**PROFIT FROM FINANCING OPERATIONS**		**-**	**-**
H.	**LOSS FROM FINANCING OPERATIONS**		**2,041,889**	**1,615,409**
I.	**INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**	34	**259,147**	**121,212**
J.	**LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**		**154,834**	**134,564**
K.	**OTHER INCOME**	35	**2,296,523**	**1,265,910**
L.	**OTHER EXPENSES**	36	**2,085,221**	**1,868,685**

		Note	Year ended 31 December 2020	2019
M.	**OPERATING PROFIT BEFORE TAX**		-	21,129,010
N.	**OPERATING LOSS BEFORE TAX**		9,130,400	-
O.	**NET INCOME ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS**		-	-
P.	**NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS**		-	-
Q.	**PROFIT BEFORE TAX**		-	21,129,010
R.	**LOSS BEFORE TAX**		9,130,400	-
II.	INCOME TAX			
I.	CURRENT INCOME TAX	37	51,298	3,100,414
II.	DEFERRED TAX EXPENSE FOR THE PERIOD	37	285	1,443,301
III.	DEFERRED TAX INCOME FOR THE PERIOD	37	1,615,980	11,107
S.	**PERSONAL INCOME PAID TO EMPLOYER**		-	-
T.	**NET PROFIT**		-	16,596,402
V.	**NET LOSS**		7,566,003	-
I.	NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		-	-
II.	NET INCOME ATTRIBUTABLE TO THE OWNER		-	16,610,847
III.	NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		-	14,445
IV.	NET LOSS ATTRIBUTABLE TO THE OWNER		7,566,003	-
V.	EARNINGS PER SHARE			
1.	Basic earnings per share	20.1	(0.046)	0.102
2.	Diluted earnings per share		-	-

In thousand RSD

Consolidated Statement of Other Comprehensive Income

		Note	Year ended 31 December 2020	2019
A.	**NET PROFIT/(LOSS)**			
I.	**PROFIT, NET**		-	16,596,402
II.	**LOSS, NET**		7,566,003	-
B.	**OTHER COMPREHENSIVE PROFIT OR LOSS**			
a)	*Items that will not be reclassified to profit or loss*			
1.	**Changes in the revaluation of intangible assets, property, plant and equipment**			
	a) increase in revaluation reserves		-	-
	b) decrease in revaluation reserves		-	-
2.	**Actuarial gains (losses) of post employment benefit obligations**			
	a) gains		-	-
	b) losses		52,595	45,334
3.	**Gains and losses arising from equity investments**			
	a) gains		-	-
	b) losses		-	-
4.	**Gains or losses arising from a share in the associate's other comprehensive profit or loss**			
	a) gains		-	-
	b) losses		-	-
b)	*Items that may be subsequently reclassified to profit or loss*			
1.	**Gains (losses) from currency translation differences**			
	a) gains		111,866	193,947
	b) losses		-	-
2.	**Gains (losses) on investment hedging instruments in foreign business**			
	a) gains		-	-
	b) losses		-	-
3.	**Gains and losses on cash flow hedges**			
	a) gains		-	-
	b) losses		-	-

		Note	Year ended 31 December 2020	2019
4.	**Gains (losses) from change in value of available-for-sale financial assets**			
	a) gains		-	7,267
	b) losses		294	-
I.	OTHER COMPREHENSIVE PROFIT BEFORE TAX		58,977	155,880
II.	OTHER COMPREHENSIVE LOSS BEFORE TAX		–	–
III.	TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD		–	–
IV.	**TOTAL NET COMPREHENSIVE PROFIT**		**58,977**	**155,880**
V.	**TOTAL NET COMPREHENSIVE LOSS**		–	–
C.	**TOTAL NET COMPREHENSIVE PROFIT**			
I.	TOTAL COMPREHENSIVE PROFIT, NET		–	16,752,282
II.	TOTAL COMPREHENSIVE LOSS, NET		7,507,026	
D.	**TOTAL NET COMPREHENSIVE PROFIT / (LOSS)**		**7,507,026**	**16,752,282**
1.	Attributable to shareholders		7,507,026	16,752,282
2.	Attributable to non-controling interest		-	-

In thousand RSD

Consolidated Statement of Cash Flows

		Note	Year ended 31 December 2020	2019
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflow from operating activities**		**399,595,497**	**508,836,518**
1.	Sales and advances received		399,128,596	508,048,842
2.	Interest from operating activities		124,900	377,342
3.	Other inflow from operating activities		342,001	410,334
II.	**Cash outflow from operating activities**		**369,891,800**	**451,903,613**
1.	Payments and prepayments to suppliers		146,960,952	210,583,641
2.	Salaries, benefits and other personal expenses		25,193,207	19,854,905
3.	Interest paid		1,672,794	1,705,155
4.	Income tax paid		1,346,537	4,329,868
5.	Payments for other public revenues		194,718,310	215,430,044
III.	**Net cash inflow from operating activities**		**29,703,697**	**56,932,905**
IV.	**Net cash outflow from operating activities**		–	–
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I.	**Cash flows from investing activities**		**2,166,948**	**317,597**
1.	Sale of shares (net inflow)		–	26,968
2.	Proceeds from sale of intangible assets, property, plant and equipment		518,404	282,172
3.	Other financial investments (net inflow)		1,644,270	–
4.	Interest from investing activities		–	–
5.	Dividend received		4,274	8,457
II.	**Cash outflow from investing activities**		**28,254,220**	**46,878,392**
1.	Acquisition of subsidiaries or other business (net outflow)		41	–
2.	Purchase of intangible assets, property, plant and equipment		28,254,179	46,846,795
3.	Other financial investments (net outflow)		–	31,597
III.	**Net cash inflow from investing activities**		–	–
IV.	**Net cash outflow from investing activities**		**26,087,272**	**46,560,795**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflow from financing activities**		–	–
1.	Increase in share capital		–	–
2.	Proceeds from long-term borrowings (net inflow)		–	–
3.	Proceeds from short-term borrowings (net inflow)		–	–
4.	Other long-term liabilities		–	–
5.	Other short-term liabilities		–	–
II.	**Cash outflow from financing activities**		**10.494.899**	**10.584.793**
1.	Purchase of own shares		–	–
2.	Repayment of long-term borrowings (net outflow)	22	5.480.419	3.700.129
3.	Repayment of short-term borrowings (net outflow)		–	–
4.	Repayment of other liabilities (net outflow)		–	–
5.	Financial lease	22	589,021	367,140
6.	Dividend distribution	20.1	4,425,459	6,517,524
III.	**Net cash inflow from financing activities**		–	–
IV.	**Net cash outflow from financing activities**		**10,494,899**	**10,584,793**
D.	**TOTAL CASH INFLOW**		**401,762,445**	**509,154,115**
E.	**TOTAL CASH OUTFLOW**		**408,640,919**	**509,366,798**
F.	**NET CASH INFLOW**		–	–
G.	**NET CASH OUTFLOW**		**6,878,474**	**212,683**
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**		**15,295,810**	**15,480,830**
I.	**CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS**		**312,207**	**268,965**
J.	**CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS**		**241,241**	**241,302**
K.	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**8,488,302**	**15,295,810**

In thousand RSD

Consolidated Statement of Changes in Equity

	Equity components			Other comprehensive income components	Other comprehensive income components			
	Share capital	Loss	Retained earnings	Revaluation reserves	Acturial gain/(loss)	Gains (losses) from currency translation differences	Gains (losses) from change in value of available-for-sale financial assets	Total Equity
Balance as at 1 January 2019								
a) debit	**-**	**-**	**-**	**-**	**-**	**-**	**60,082**	**-**
b) credit	**81,548,930**	**-**	**161,055,702**	**79,755**	**198,531**	**52,968**	**-**	**242,875,804**
Adjustments of material errors and changes in accounting policies								
a) debit	-	-	-	-	-	-	**-**	-
b) credit	-	-	-	-	-	-	-	**-**
Restated opening balance as at 1 January 2019								
a) debit	**-**	**-**	**-**	**-**	**-**	**-**	**60,082**	**-**
b) credit	**81,548,930**	**-**	**161,055,702**	**79,755**	**198,531**	**52,968**	**-**	**242,875,804**
Changes in period								
a) debit	-	-	6,517,524	-	45,334	-	**-**	-
b) credit	-	-	18,186,000	-	-	193,947	1,899	11,818,988
Balance as at 31 December 2019								
a) debit	**-**	**-**	**-**	**-**	**-**	**-**	**58,183**	**-**
b) credit	**81,548,930**	**-**	**-**	**79,755**	**153,197**	**246,915**	**-**	**254,694,792**
Adjustments of material errors and changes in accounting policies								
a) debit	-		-	-	-	-	-	-
b) credit	-	-	-	-	-	-	-	-
Restated opening balance as at 1 January 2020								
a) debit	**-**	**-**	**-**	**-**	**-**	**-**	**58,183**	**-**
b) credit	**81,548,930**	**-**	**172,724,178**	**79,755**	**153,197**	**246,915**	**-**	**254,694,792**
Changes in period								
a) debit	-	7,566,003	4,425,459	-	52,595	-	294	-
b) credit	-	-	-	-	-	111,866	-	(11,932,485)
Balance as at 31 December 2020								
a) debit	**-**	**7,566,003**	**-**	**-**	**-**	**-**	**58,477**	**-**
b) credit	**81,548,930**	**-**	**168,298,719**	**79,755**	**100,602**	**358,781**	**-**	**242,762,307**

in thousand RSD

Notes to the Consolidated Financial Statements[1]

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

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

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005. On 2 February 2009, PJSC Gazprom Neft (''Gazprom Neft'') acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%. PJSC Gazprom, owns 95.7% of the shares in the Gazprom Neft. The Russian Federation is the ultimate controlling party.

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

These 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

These consolidated financial statements for the year ended 31 December 2020 were prepared in accordance with the Law on Accounting of the Republic of which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. The translation of IFRS which is confirmed and published by the Ministry of Finance comprises the basic texts of IAS and IFRS as published by the International Accounting Standards Board, including interpretations issued by the International Financial Reporting Interpretations Committee in the form in which they are published and which do not include basis for conclusions, illustrative examples, guidelines, comments, opposing opinions, developed examples and other additional explanatory materials which can be adopted in respect of the standards or interpretations, unless it is explicitly stated that they are integral to the standard or interpretation. Also, the Law on Accounting establishes the dinar (RSD) as the official reporting currency (functional and presentation currency).In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

- The financial statements are prepared in the format prescribed by the Ministry of Finance of the Republic of Serbia,
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

As a result, the accompanying consolidated financial statements cannot be considered as financial statements prepared in full compliance with IFRS.

The preparation of financial statements in conformity with the Law on Accounting of the Republic of Serbia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

The Consolidated Financial Statements have been prepared based on the going concern principle, which assumes that the Group will continue to operate in the foreseeable future. In order to assess the reasonability of this assumption, management reviews forecasts of future cash inflows. Based on these reviews, management believes that the Group will be able to continue to operate as a going concern in the foreseeable future (refer to note 3.1 for Implications of Going Concern and Implications of COVID-19) and, therefore, this principle should be applied in the preparation of these Consolidated Financial Statements.

At the date of signing consolidated financial statements, crude oil price increased since 31 December 2020 from 50.485 $/barrel to 68.735 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any major fluctuation of crude oil prices.

2.2. Basis of measurement

These consolidated financial statements are prepared on the historical cost basis, except certain financial assets and liabilities and investment properties measured at fair value.

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors and the General Manager Advisory Board. The main indicator for assessing performance of operating segments is EBITDA, which is regularly reported to the chief operating decision-maker. The information on segment assets and liabilities are not regularly provided to the chief operating decision-maker.

2.4. Seasonality of Operations

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

1 All amounts are in RSD 000, unless otherwise stated.

2.5. Foreign currency translation

a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (''the functional currency''). The consolidated financial statements are presented in Serbian dinars (“RSD”), which is the functional currency of the Company and presentation currency of the Group.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents and other monetary assets and liabilities are presented in the consolidated income statement within ‘Finance income or expense’.

c) Group’s Companies

The result and financial position of all Group companies whose functional currency is different from the Group's presentation currency are calculated as follows:

I. assets and liabilities are translated into the RSD using the exchange rate as at reporting date;
II. income and expenses are translated at average exchange rates and all resulting foreign exchange differences are recognized in reserves as separate items in equity.

2.6. Principles of consolidation

The consolidated financial statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee’s returns. An investor is exposed, or has the right to variable returns from its involvement with investee when the investor’s return from its involvement has the potential to vary as a result of the investee’s performance. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date when control commences until the date when control ceases.

In accessing control, Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group’s interest in the assets, liabilities, expenses and revenue of the joint operation. All other investments are classified either as held-to-maturity or as available for sale.

a) Joint Operations and Joint Ventures

A joint operation is a joint arrangement whereby parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

b) Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c) Non-controlling interests

In the consolidated financial statements, non-controlling interests in subsidiaries are presented separately from the Group equity as non-controlling interests. Non-controlling interest is measured at fair value or at its proportionate share in the acquiree’s net identifiable assets. For each business combination a separate measurement principle is determined.

d) Investments in associates

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associate are accounted for using equity method and are recognised initially at cost. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired.

2.7. Business combinations

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group and recognised goodwill or a gain from a bargain purchase. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

2.8. Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ('bargain purchase') is recognized in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated profit or loss. Transaction costs, that the Group incurs in connection with a business combination are expensed as incurred.

2.9. Intangible assets

a) Goodwill

Goodwill that arises from business combination is included in intangible assets. Subsequently goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed (note 8).

b) Licenses and rights

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. (average usefull life is 5 years).

Licenses and rights include Oil and Gas Upstream Exploration Rights, which are amortised in accordance with the terms and conditions of the rights.

c) Software

These include primarily the costs of implementation the (SAP) computer software program. Acquired software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised over their estimated useful lives (not to exceed 8 years).

2.10. Oil and Gas properties

a) Exploration and evaluation expenditure

The Group follows the successful efforts method of accounting for its exploration and evaluation assets.

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a ‘field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, that may include drilling of further wells, are likely to be developed commercially; then the costs continue to be carried as Oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

b) Development costs of fixed and intangible assets

Development costs are incurred to obtain access to proven reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proven reserves as well as costs of production facilities.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within construction in progress according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortisation are charged during development.

c) Oil and gas production assets

Oil and gas production assets comprise exploration and evaluation assets as well as development costs associated with the production of proved reserves.

d) Depreciation/amortization

Oil and gas properties/intangible assets are depleted using the unit-of-production method. The unit-of production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

e) Impairment – exploration and evaluation assets

Exploration property leasehold acquisition costs are assessed for impairment when there are indications of impairment. For the purpose of impairment testing, exploration property leasehold acquisition costs subject to impairment testing are grouped with existing cash-generating units (CGUs) of related production fields located in the same geographical region.

f) Impairment – proved oil and gas properties and intangible assets

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.11. Property, plant and equipment

As of the date of establishment, the Group's property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Land and works of art are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Description	Useful lives
Buildings	10 - 50
Machinery and Equipment:	
- Production equipment	2 - 35
- Furniture	3 - 10
- Vehicles	5 - 25
- Computers	3 - 10
Other PP&E	3 - 20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/expenses" in the consolidated income statement (notes 35 and 36).

2.12. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13. Investment property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property principally comprises of petrol stations and business facilities rented out for a period exceeding one year.

Investment property is carried at fair value. Changes in fair values are recorded in the consolidated income statement as part of "Other income/expense".

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.14. Financial instruments

a) Key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Amortized cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses (“ECL”).

b) Classification and measurement

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

At initial recognition, the Group measures a financial asset as its fair value plus, in case of a financial assets not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at FVTPL are expensed in profit and loss. After the initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group’s objective is: (i) solely to collect the contractual cash flows from the assets (“hold to collect contractual cash flows”,) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets (“hold to collect contractual cash flows and sell”) or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of “other” business model and measured at FVTPL.

Factors considered by the Group in determining the business model include the purpose and composition of portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets’ performance is assessed.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest (“SPPI”). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented separately.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest (‘’SPPI’’), are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented separately.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Trade and other receivables. Trade and other receivables are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method, less provision for impairment. Trade receivables are amounts due from customers for products and merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortized cost using the effective interest method.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognized initially at fair value and subsequently carried at amortized cost using the effective interest method. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group’s management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

c) Write-off

Financial assets are written-off, in whole or in part, when the Group has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

d) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

e) Modification

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

f) Financial assets impairment

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and recognises Net impairment losses at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated balance sheet net of the allowance for ECL. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

- General model of impairment of financial assets – three stage model

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL").

If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

When defining default for the purposes of determining the risk of a default occurring, Group applies a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate.

For the purposes of measuring expected credit losses, the estimate of expected cash shortfalls reflects the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately.

Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

- Simplified approach for impairment of receivables and lease receivables

Group applies simplified approach for trade receivables, contract assets and lease receivables and measure the loss allowance at an amount equal to lifetime expected credit losses ("Lifetime ECL").

Group uses a provision matrix in the calculation of the expected credit losses on trade receivables. Group use historical credit loss experience (adjusted as appropriate on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions) for trade receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement.

Impairment losses are reversed through profit or loss if the amount of the impairment loss decreases and the decrease can be attributed to an event occurring after the impairment was recognized.

2.15. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as "Other expense" (note 36).

2.16. Off-balance sheet assets and liabilities

Off-balance sheet assets/liabilities include: material received from third parties for further processing and other assets not owned by the Group, as well as receivables/payables related to collaterals such as guarantees and other warrants.

2.17. Share capital

The Company is registered as open joint stock company. Ordinary shares are classified as share capital.

2.18. Earnings per share

The Group calculates and discloses the basic earnings per share. Basic earnings per share is calculated by dividing the net income that belongs to shareholders, the owners of ordinary shares of the Company, by the weighted average number of ordinary shares issued during the period.

2.19. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as cost of provision and charged to consolidated income statement.

2.20. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized directly in equity, in which case deferred tax liability is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in Serbia, where the Group operates and generates taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.21. Employee benefits

a) Pension obligations

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Employee benefits provided by the Collective Agreement

The Group provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in consolidated statement of other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Serbian Treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

c) Bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on an Individual performance assessment. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

In 2017, the Group has made decision to introduce new three-year (2018-2020) program for Group's managers which will be based on the Key Performance Indicators ("KPI") reached during the program (note 21).

2.22. Revenue recognition from contracts with customers

The Group recognizes revenue from sales of crude oil, petroleum products, gas and other products and services when it satisfies a performance obligation and control over goods and services is passed. For the most contracts control over goods or services passes to a customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due.

Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is shown net of returns, rebates and discounts after eliminating sales within the Group.

Sales taxes

Revenue does not amounts collected on behalf of tax authorities – value added taxes (VAT), excise duties and other sales taxes (fee for improvement of energy efficiency).

The accounting for excise duties is based on the Group's assessment whether it is primarily obligated for payment of excise duties or whether it collects the amount from the customer on behalf of the tax authorities. This determination is made based on the analysis of the local regulatory requirements for each country in which the Group operates. Due to complexity and variety in tax legislations, significant judmenent is applied in the assessment whether excise duties would be accounted on gross or net basis.

Excise duties imposed during the inventory procurement process are included in the transaction price, revenue is determined on a gross basis and paid excise duties are also included in the cost of goods sold.

Excise duties incurred in production and sale of products are assessed as part of amounts collected on behalf of tax authorites and are accounted on a net basis.

a) Sales - wholesale

The Group manufactures and sells oil, petrochemical products, liquefied natural gas and energy in the wholesale market. Sales of goods are recognised when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales with discounts is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognised for expected volume discounts entitled to customers in relation to sales made until the end of the reporting period.

No element of financing is deemed present as the sales are made with a credit term of less than one year and is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

b) Sales – retail

The Group operates a chain of Petrol Stations. Sales of goods are recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card. Group offers customer incentives mostly in the form of loyalty programs described under section d).

c) Sales of electricity

The Group sells electricity on a short and long term basis with a contract terms generally accepted in the energy industry (via bilateral forward standardized general EFET agreements). Majority of sales are made on a wholesale market without structured trades.

In accordance with contract terms if Group expects to physically deliver factual agreed quantity of electricity revenue is recognized at gross basis in consolidated financial statements. In general, delivery of electricity represent transfer of a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer over time. Accordingly, delivery of electricity is treated as a single performance obligation to which transaction price is allocated. Revenue is recognized by applying a single measure of progress to the identified single performance obligation.

d) Customer loyalty program

The Group operates a loyalty program where customers accumulate award points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire after the initial transaction. The transaction price is allocated to the goods sold and the award points on the basis of their relative stand-alone selling prices. A contract liability for the award points is recognized at the time of the sale. Contract liabilities arising from customer loyalty program are presented in the note 27.

e) Interest income

Interest income is recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income, all fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums or discounts.

Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within 'finance income' line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the Group relating to the creation or acquisition of a financial asset, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the amortized cost.

2.23. Leases

The Group leases various offices, warehouses, retail stores, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

	Useful lives in years
Land	25
Buildings	2 - 22
Machinery	3 - 15
Motor vehicles	2 - 10

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

2.24. Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividends are approved by the Group's shareholders.

2.25. Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. All other borrowing costs are expensed in the period in which they are incurred.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Preparing consolidated financial statements required Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and other facts that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimates are revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, Management also makes other judgments in the process of applying the Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Information on the effect of macroeconomic factors on the estimates with the greatest impact on the amounts reflected in these Consolidated Financial Statements is provided below.

3.1. Going concern and Implications of COVID-19

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 2020, as well as significant volatility in the commodity markets since March 2020, have negatively affected the group's results in the reporting period. These developments result in Loss for the period of RSD 7,566,003 thousand and decline in EBITDA disclosed in note 7. On the other hand, local currency RSD maintained a relatively stable against the US dollar and EURO (note 6).

Given the recent volatility in global oil and commodity prices and potential impact on demand as a result of the COVID-19 virus management has considered the impact of the COVID-19 virus on the Group's future sales and specifically the Group's cash flow.The virus may result in a sustained low oil price which may impact the price of petroleum products and as well in short term decline in demand from customers which negatively impacts future cash inflows.

Management has performed the following assessment and concluded that there is no material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern:

- Assessment of going concern is based on cash flow projections and approved business plans. Contractual cash flow projection is analysed under note 6 – section related to liquidity risk;
- Compliance with debt covenants (note 6 – liquidity risk section);

- Management assess ability to secure financing. Despite the situation with the COVID 19 pandemic, during 2020 additional optimization of the loan portfolio indicator was performed in terms of reducing the financing price by about 8% compared to the end of 2019, while maintaining the average maturity to 3.02 years, at the end of 2020. A significant part of loan portfolio was restructured (early repayment of existing loans with withdrawal of new ones on more favourable terms and correction of conditions of existing loans, in terms of lowering the interest rate and / or extending the maturity, as well as regular repayments);
- Management performed sensitivity analysis over their cash flow forecast to factor in the impact of a decline in both oil prices and production as a result of the effects of the COVID-19 virus on the global economy;
- During 2020, management perform successfully optimisation of operational expenses and prioritization of the investments.

3.2. Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved and probable reserves. Accounting measures such as depreciation, depletion and amortization charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortization as well as impairment expenses.

Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Detailed disclosure about Oil and gas reserves was not given as these data prescribed by the law of the Republic of Serbia are classified as a state secret.

3.3. Useful Lives of Property, Plant and Equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the year.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2020 would be to increase/decrease it by RSD 2,041,522 thousand (2019: RSD 1,900,267 thousand).

3.4. Impairment of goodwill

Goodwill is tested for impairment annually.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU. The estimated future cash flows include estimation of future costs to produce reserves, future commodity prices, foreign exchange rate, discount rate etc. (note 8)

3.5. Employee benefits

The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to calculate the present value of estimated future cash outflows which are expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Group takes into consideration the interest rates of Serbian Treasury bonds which are denominated in the currency in which pension liabilities will be settled and whose maturity dates approximate the maturity date of the related pension liability.

If the discount rate used to calculate the present value of employee benefit obligations had been 5.30% (rather than 4.30%) per year, the past service liability (DBO) for the whole NIS Group would decrease by about 9.25% for retirement indemnity and 5.71% for jubilee benefit. If pay increased by 1.0% higher than assumed on an annual basic, than the past service liability (DBO) for the whole NIS Group would increase by amount 5.73% for the retirement indemnity.

3.6. Decommissioning and environmental protection provision

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision (note 21) is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

If the discount rate used to calculate the present value of decommissioning obligations had been 5.30% (rather than 4.30%) per year, the present liability would have decreased by approx. RSD 721,372 thousand (31 December 2019: 5.40% (rather than 4.40%) per year the present liability would have decreased by approx. RSD 419,182 thousand).

3.7. Contingencies

Certain conditions may exist as of the date of these consolidated financial statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 38).

3.8. Recoverability of carrying amount of Property, Plant and Equipment

In the line with changes in the crude oil price on the world market, management of the Group performed stress sensitivity analysis of its impact on recoverability of the Group PPE and overall business performance. Based on the currently available information and crude oil price forecast obtained from a reputable firm management believe that at reporting date recoverable amount of Group's PPE exceed its carrying value.

The management reviewed external and internal sources of information for assessing potential impairment indicators such as changes in the Group's business plans, changes in oil and commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage, changes in market interest rates, worseining performance of particular assets or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. The Group realized EBITDA in the amount of RSD 15,8 bln in the current year (FY 2019: RSD 44,5 bln) and net loss in the amount of RSD 7,5 bln. Net loss in the current year was impacted by the covid-19 implications which primarily affected the first half of 2020 when net loss was reported in the amount of RSD 10,2 bln while the recovery of business performance was restored in the second half of 2020 when the Group reported net profit in the amount of RSD 2,7 bln. The business plan of the Group for the FY 2021 predicts profitable operatons and restoring EBITDA to the historical level with further stabilization in the period FY 2022-23. The price of oil significantly restored by year end (31 December 2020) and subsequent to that date, currently exceeding all medium forecast projections for the period 2020-2025. In addition, the Group completed major contruction project during the last quarter of FY 2020 which will significantly increase the utilization of oil refineries and increase the efficiency of operations in the future periods. Details on this, recognized impairment losses and the result of assessment of impairment indicators are presented in the Note 8.

The Group assessed crude oil price volatility as main impairment indicator. If the actual crude oil price would decrease for 10$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Group's PPE by RSD 57.2 bln (31 December 2019: RSD 46.5 bln).

Oil prices are based on the available forecasts from globally recognized research institutions such as Wood Mackenzie, Platts/PIRA, Energy Group and others.

Management will continue to monitor the crude oil price fluctuation and its influence on business performance in order to adequately take measure to mitigate impact.

4. APPLICATION OF NEW IFRS

The following amendments to the existing standards which became effective did not have any material impact on the Consolidated Financial Statements:

- 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 Material - 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 1 January 2020);
- 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);
- Lease Incentives – Amendments to Illustrative Example 13 accompanying IFRS 16 (issued in May 2020).

5. NEW ACCOUNTING STANDARDS

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

- 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 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;
- 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);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued in September 2014 and effective for annual periods beginning on or after a date to be determined by IASB).

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk, liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance and finance control department within the Company's Function for Economics, Finance, Planning and Accounting (further "FEPA") which under the policies approved by the Group identifies and evaluates financial risks in close co-operation with the Group's operating units.

In the normal course of its operations the Group has exposure to the following financial risks:

a) market risk (including foreign exchange risk and interest rate risk);
b) credit risk and
c) liquidity risk.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates, all of which are exposed to general and specific market movements. Management analyse and monitoring risk that may be accepted, however, the use of this approach does not prevent losses in the event of more significant market movements.

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and EUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, responsible persons in the finance department within the FEPA negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day the purchase is made. Foreign exchange risks arise when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group functional currency.

The Group has borrowings denominated in foreign currency mainly in EUR which predominantly expose Group to the foreign currency translation risk.

The carrying values (net of allowance) of the Group's financial instruments by currencies they are denominated are as follows:

As of 31 December 2020	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Financial instrument at FVTOCI	95,316	-	-	-	95,316
Other long-term financial investments	84,336	662,568	5,740	-	752,644
Long term receivables	9,515	75,637	-	-	85,152
Current assets					
Trade receivables	18,293,378	797,131	95,424	1,429,747	20,615,680
Receivables from specific operations	42,945	16,749	149,953	7,994	217,641
Other receivables	1,233,026	481,239	3,220	58,038	1,775,523
Short term financial investments	116,181	226,888	-	-	343,069
Cash and cash equivalents	4,571,789	3,318,178	243,231	355,104	8,488,302
Financial liabilities					
Non-current					
Long-term liabilities	(14,198)	(72,721,977)	(120,107)	(1,123,736)	(73,980,018)
Current liabilies					
Short-term financial liabilities	(14,831)	(11,877,242)	(37,751)	(266,891)	(12,196,715)
Trade payables	(6,721,073)	(7,973,347)	(3,329,805)	(1,254,454)	(19,278,679)
Other short-term liabilities	(8,888,449)	(79,884)	(152,390)	(130,704)	(9,251,427)
Net exposure	**8,807,935**	**(87,074,060)**	**(3,142,485)**	**(924,902)**	**(82,333,512)**

As of 31 December 2019	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Financial instrument at FVTOCI	95,662	-	-	-	95,662
Other long-term financial investments	231,671	729,893	4,964	-	966,528
Long term receivables	9,515	224,669	-	-	234,184
Current assets					
Trade receivables	22,758,194	1,107,544	128,120	1,579,001	25,572,859
Receivables from specific operations	497,459	2,822	164,460	9,129	673,870
Other receivables	877,230	19,232	3,567	35,728	935,757
Short term financial investments	1,114,559	75,810	-	653,104	1,843,473
Cash and cash equivalents	6,206,398	5,408,179	2,148,914	1,532,319	15,295,810
Financial liabilities					
Non-current					
Long-term liabilities	(12,489)	(82,942,688)	(173,130)	(914,624)	(84,042,931)
Current liabilies					
Short-term financial liabilities	(15,559)	(6,462,042)	(36,162)	(248,134)	(6,761,897)
Trade payables	(9,280,442)	(8,013,428)	(16,284,376)	(1,763,084)	(35,341,330)
Other short-term liabilities	(7,860,308)	(227,495)	(168,997)	(118,254)	(8,375,054)
Net exposure	**14,621,890**	**(90,077,504)**	**(14,212,640)**	**765,185**	**(88,903,069)**

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2020	31 December 2019
EUR	117.5802	117.5928
USD	95.6637	104.9186

Sensitivity analysis

The Group has chosen to provide information about market and potential exposure to hypothetical gain / (loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis below reflects the hypothetical effect on the Group's financial statements and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

As at 31 December 2020, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit and equity for the year would have been RSD 4,353,703 thousand (2019: RSD 4,503,875 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings and account payables.

As at 31 December 2020, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit and equity for the year would have been RSD 314,249 thousand (2019: RSD 1,421,264 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated accounting payables.

Interest rate risk

Borrowings withdrawn at variable interest rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (Euribor or Libor) has a proportionate impact on the Group’s results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit and equity for 2020 would have been RSD 667,008 thousand (2019: RSD 718,111 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Commodity price risk

The Group’s financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group’s planning system calculates different scenarious for key performance facors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms. Such activities help to decrease risk to an acceptable level.

Credit risk

The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Group’s lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

Group’s maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the balance sheet is as follows:

	Year end 31 December	
	2020	2019
Financial instrument at FVTOCI	95,316	95,662
Other long-term investments (note 11)	752,644	966,528
Long term receivables	85,152	234,184
Trade receivables (note 14)	20,615,680	25,572,859
Receivables from specific operations	217,641	673,870
Other receivables (note 15)	1,775,523	935,757
Short term financial investments (note 16)	343,069	1,843,473
Cash and cash equivalents (note 17)	8,488,302	15,295,810
Total maximum exposure to credit risk	**32,373,327**	**45,618,143**

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Limits. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- scoring Serbian Business Register Agency, NIS and/or D&B reports;
- amount of registered pledges;
- data on customer’s account blockade;
- history of relationships with the Group;
- planned sales volume;

- duration of relationship with the Group, including ageing profile, maturity and existence of any financial difficulties.

Trade, Specific and Other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which use a lifetime expected loss allowance.

To measure the expected credit losses, trade, specific and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 60 months before 31 December 2020 and 48 months before 1 January 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates were not adjusted with forward-looking information on macroeconomic factors as no correlation were identified that significantly affect ability of the customers to settle the receivables.

The credit loss allowance for trade, specific and other receivables is determined according to provision matrix presented in the table below.

At 31 December 2020 the provision matrix is based on the number of days that an asset is past due:

	Loss rate	Gross carrying amount	Lifetime ECL	Total trade, specific and other receivables
Trade, specific and other receivables				
- current	0.03%	21,105,745	(2,548)	21,103,197
- less than 30 days overdue	0.17%	941,970	(4)	941,966
- 31 to 90 days overdue	0.88%	106,502	(3,371)	103,131
- 91 to 270 days overdue	3.69%	158,376	(55,610)	102,766
- over 270 days overdue	98.53%	16,664,957	(16,307,173)	357,784
Total trade, specific and other receivables		**38,977,550**	**(16,368,706)**	**22,608,844**

At 31 December 2019 the provision matrix is based on the number of days that an asset is past due:

	Loss rate	Gross carrying amount	Lifetime ECL	Total trade, specific and other receivables
Trade, specific and other receivables				
- current	0.05%	24,959,646	(12,085)	24,947,561
- less than 30 days overdue	0.18%	1,313,262	(2,369)	1,310,893
- 31 to 90 days overdue	1.10%	124,561	(1,375)	123,186
- 91 to 270 days overdue	2.58%	113,860	(2,936)	110,924
- over 270 days overdue	96.09%	17,776,085	(17,086,163)	689,922
Total trade, specific and other receivables		**44,287,414**	**(17,104,928)**	**27,182,486**

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, advance payment or other security.

The Management of the Group regularly assesses the credit quality of trade, specific 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, specific and other receivables and other current assets are fully recoverable.

Movements on the Group's provision for impairment of trade and lease receivables are as follows:

	Trade receivables			
	Individually impaired	Collectively impaired	Lease receivables	Total
As at 1 January 2019	**2,340,228**	**3,745,269**	**59,612**	**6,145,109**
Provision for receivables impairment	7,261	75,724	2,321	85,306
Unused amounts reversed (note 34)	(6,218)	(73,532)	(7,870)	(87,620)
Receivables written off during the year as uncollectible	-	(263,040)	(1,232)	(264,272)
Other	(953)	3,298	-	2,345
As at 31 December 2019	**2,340,318**	**3,487,719**	**52,831**	**5,880,868**
As at 1 January 2020	**2,340,318**	**3,487,719**	**52,831**	**5,880,868**
Provision for receivables impairment	4,402	101,789	5,126	111,317
Unused amounts reversed (note 34)	(6,660)	(113,101)	(11,634)	(131,395)
Receivables written off during the year as uncollectible	(87)	(609,650)	(284)	(610,021)
Other	(35)	(4,196)	-	(4,231)
As at 31 December 2020	**2,337,938**	**2,862,561**	**46,039**	**5,246,538**

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement. Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned. The other classes within trade, sprecific and other receivables do not contain impaired assets.

Movements on the Group's provision for impairment of receivables from specific operations are as follows:

	Receivables from specific operations
As at 1 January 2019	**1,754,714**
Provision for receivables impairment	2,185
Unused amounts reversed (note 34)	(3,068)
Receivables written off during the year as uncollectible	(12,958)
Other	(480)
As at 31 December 2019	**1,740,393**
Provision for receivables impairment	5,126
Unused amounts reversed (note 34)	(552)
Receivables written off during the year as uncollectible	(30,209)
Other	175
As at 31 December 2020	**1,714,933**

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2019	**2,130,865**	**7,417,765**	**9,548,630**
Provision for other receivables impairment	4,813	9,415	14,228
Unused amounts reversed (note 34)	(12,914)	(1,088)	(14,002)
Receivables written off during the year as uncollectible	(55,294)	(7,177)	(62,471)
Other	(2,629)	(89)	(2,718)
As at 31 December 2019	**2,064,841**	**7,418,826**	**9,483,667**
Provision for other receivables impairment	8,260	2,089	10,349
Unused amounts reversed (note 34)	(38,421)	(370)	(38,791)
Receivables written off during the year as uncollectible	(46,524)	(1,129)	(47,653)
Other	(541)	204	(337)
As at 31 December 2020	**1,987,615**	**7,419,620**	**9,407,235**

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	BBB and higher	Less than BBB	Without rating	Total
As at December 2020				
Cash and cash equivalents (note 17)	2,362,115	4,247,736	1,878,451	**8,488,302**
Deposits with original maturity more than 3 months less than 1 year (note 16)	-	-	266,224	**266,224**
As at December 2019				
Cash and cash equivalents (note 17)	4,156,429	6,447,759	4,691,622	**15,295,810**
Deposits with original maturity more than 3 months less than 1 year (note 16)	-	653,218	1,113,346	**1,766,564**
Deposits with original maturity more than 1 year (note 11)	-	-	158,079	**158,079**

The Group uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets.

As of 31 December 2020 and 2019 no significant credit loss allowance for impairment in respect of these assets was recognized.

Liquidity risk

Cash flow forecasting is performed as aggregated at the Group's level. The Company's finance function monitors rolling forecasts of the Group's liquidity requirements to ensure It has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the Group over and above balance required for working capital management are invested as surplus cash in time deposits.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 31 December 2020	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
Financial liabilities (debt+lease)	86,176,733	90,113,828	13,520,395	63,382,156	13,211,277
Trade payables and dividends	23,063,696	23,063,696	23,063,696	-	-
	109,240,429	**113,177,524**	**36,584,091**	**63,382,156**	**13,211,277**
As at 31 December 2019					
Financial liabilities (debt+lease)	90,804,828	96,685,828	8,528,198	83,672,824	4,484,806
Trade payables and dividends	39,122,022	39,122,022	39,122,022	-	-
	129,926,850	**135,807,850**	**47,650,220**	**83,672,824**	**4,484,806**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio. Net debt to EBITDA is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, other finance income (expenses) net, other non-operating income (expenses).

The Group's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	31 December 2020	31 December 2019
Total borrowings (notes 22 and 23)	86,176,733	90,804,828
Less: cash and cash equivalents (note 17)	(8,488,302)	(15,295,810)
Net debt	**77,688,431**	**75,509,018**
EBITDA	15,824,303	44,479,734
Net debt to EBITDA	**4.91**	**1.70**

The Group has committed (at the level of Gazprom Neft Group) to maintain debt cover ratio of total indebtedness and EBITDA not exceeding 3.0 during the terms of long-term borrowings agreements with certain commercial banks. Group constantly monitoring the established commitments to maintain the height of debt cover ration and there has been no breach of these obligation.

There were no changes in the Group's approach to capital management during the year.

The fair value of financial instruments traded in an active market (such as available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying amount of trade and other receivables, other current assets and trade and other payable due to their short-term nature is considered to be the same as their fair value. For the majority of the non-current receivables and non-current payables the fair values are also not significantly different to their carrying amounts.

7. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the years ended 31 December 2020 and 2019. Operating segments are components that engaged 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 (refining and marketing). Corporate centre and Energy business activities expenses are presented within the Downstream segment.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealized 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 year ended 31 December 2020 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	30,291,847	183,613,051	(30,071,039)	183,833,859
Intersegment	29,491,961	579,078	(30,071,039)	-
External	799,886	183,033,973	-	183,833,859
Adjusted EBITDA (Segment results)	**16,154,650**	**(330,347)**	**-**	**15,824,303**
Depreciation, depletion and amortization	(12,770,569)	(10,035,335)	-	(22,805,904)
Impairment losses/Revaluation surpluses (note 35 and 36)	61,646	(771,504)	-	(709,858)
Writte off exploration works (note 9)	(136,812)	-	-	(136,812)
Share of loss of associates and joint ventures	-	(103,671)	-	(103,671)
Finance expenses, net	(276,348)	(1,661,870)	-	(1,938,218)
Income tax	(193,607)	1,758,004	-	1,564,397
Segment profit (loss)	3,367,063	(10,933,066)	-	(7,566,003)

Reportable segment results for the year ended 31 December 2019 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	48,317,499	272,263,504	(48,484,503)	272,096,500
Intersegment	47,501,435	983,068	(48,484,503)	-
External	816,064	271,280,436	-	272,096,500
Adjusted EBITDA (Segment results)	**34,188,266**	**10,291,468**	**-**	**44,479,734**
Depreciation, depletion and amortization	(11,402,076)	(9,574,273)	-	(20,976,349)
Impairment losses/Revaluation surpluses (note 35 and 36)	(18,054)	32,032	-	13,978
Writte off exploration works (note 9)	(377,207)	-	-	(377,207)
Share of loss of associates and joint ventures	-	(129,287)	-	(129,287)
Finance expenses, net	(365,574)	(1,120,548)	-	(1,486,122)
Income tax	(212,842)	(4,319,766)	-	(4,532,608)
Segment profit (loss)	21,632,035	(5,035,633)	-	16,596,402

Adjusted EBITDA for the downstream segment includes Corporate centre EBITDA in the negative amount of RSD 6,150,081 thousand for the year ended 31 December 2020 (31 December 2019: negative EBITDA in the amount of RSD 6,679,539 thousand). Adjusted EBITDA for Downstream segment prior allocation of Corporate centre EBITDA is presented in the following table:

	Year ended 31 December	
	2020	2019
Adjusted EBITDA after allocation of Corporate centre	(330,347)	10,291,468
Corporate centre EBITDA	(6,150,081)	(6,679,539)
Adjusted EBITDA prior allocation of Corporate centre	**5,819,734**	**16,971,007**

Adjusted EBITDA for the year ended 31 December 2020 and 2019 is reconciled below:

	Year ended 31 December	
	2020	2019
Profit for the year	(7,566,003)	16,596,402
Income tax	(1,564,397)	4,532,608
Other expenses	2,085,221	1,868,685
Other income	(2,296,523)	(1,265,910)
Loss from valuation of assets at fair value through profit and loss	154,834	134,564
Income from valuation of assets at fair value through profit and loss	(259,147)	(121,212)
Finance expense	4,816,945	4,178,538
Finance income	(2,775,056)	(2,563,129)
Depreciation, depletion and amortization	22,805,904	20,976,349
Other non operating expenses, net*	422,525	142,839
EBITDA	**15,824,303**	**44,479,734**

*Other non-operating expense, net mainly relate to reversal of impairment, decommissioning and site restoration cost, allowance of receivables and other.

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

	Year ended 31 December 2020		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	445,567	445,567
Sale of gas	362,369	-	362,369
Through a retail network	-	-	-
Wholesale activities	362,369	-	362,369
Sale of petroleum products	127,044,342	43,165,194	170,209,536
Through a retail network	49,100,165	10,910,927	60,011,092
Wholesale activities	77,944,177	32,254,267	110,198,444
Sales of electricity	1,160,202	298,446	1,458,648
Lease revenue	291,237	6,106	297,343
Other sales	8,232,649	2,827,747	11,060,396
Total sales	**137,090,799**	**46,743,060**	**183,833,859**

	Year ended 31 December 2019		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	824,057	665,186	1,489,243
Sale of gas	1,388,688	-	1,388,688
Through a retail network	-	-	-
Wholesale activities	1,388,688	-	1,388,688
Sale of petroleum products	186,520,141	70,167,285	256,687,426
Through a retail network	66,171,840	17,557,295	83,729,135
Wholesale activities	120,348,301	52,609,990	172,958,291
Sales of electricity	782,645	233,715	1,016,360
Lease revenue	351,477	6,439	357,916
Other sales	7,696,451	3,460,416	11,156,867
Total sales	**197,563,459**	**74,533,041**	**272,096,500**

Out of the amount of RSD 110,198,444 thousand (2019: RSD 172,958,291 thousand) revenue from sale of petroleum products (wholesale), the amount of RSD 16,743,010 thousand (2019: RSD 19,070,224 thousand) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Network for trading d.o.o. Belgrade in the amount of RSD 504,652 thousand (2019: RSD 309,224 thousand).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of RSD 8,758,716 thousand (2019: RSD 8,828,683 thousand).

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 result of its revenue from external customers in the Republic of Serbia is RSD 137,090,799 thousand (2019: RSD 197,563,459 thousand), and the total of revenue from external customer from other countries is RSD 46,743,060 thousand (2019: RSD 74,533,041 thousand).

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

	Year ended 31 December	
	2020	**2019**
Sale of crude oil	445,567	665,186
Sale of petroleum products (retail and wholesale)		
Bulgaria	10,190,296	14,559,719
Bosnia and Herzegovina	13,463,146	27,417,504
Romania	10,903,430	13,415,451
Croatia	1,656,265	2,431,173
Northern Macedonia	790,710	1,343,723
Hungary	779,414	1,610,845
Great Britain	903,215	1,063,213
Switzerland	453,057	1,888,635
All other markets	4,025,661	6,437,022
	43,165,194	70,167,285
Sales of electricity	298,446	233,715
Lease revenue	6,106	6,439
Other sales	2,827,747	3,460,416
	46,743,060	**74,533,041**

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

Presentation of excise duties

The following table presents sales revenue earned and related calculated excise duties frot 2020 and 2019:

	2020	**2019**
Sales revenue	316,037,510	415,794,117
Excise duties	(132,203,651)	(143,697,617)
Net sales revenue	**183,833,859**	**272,096,500**

In the Republic of Serbia excise duties become payable when products subject of excise duties exit from excise warehouse. This incurs when the goods are loaded for transport either for direct sales to customers (wholesale) or for transport to own retail network. Calculated excise duties are payable in 15 days. The Group assessed that for excise duties levied in wholesale it bears no inventory risk nor significant credit risk. In retail sales, the Group estimates that average turnover of inventories approximates payment period for excise duties, and that there are no significant inventory or credit risk. Accordingly, since the Group bears no significant risks in both cases, excise duties are collected on behalf of tax authority and consequently deducted from revenue.

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

	31 December 2020	**31 December 2019**
Serbia	288,696,880	287,838,624
Romania	12,430,336	11,853,104
Bosnia and Herzegovina	7,649,494	7,276,613
Bulgaria	6,423,225	6,881,442
	315,199,935	**313,849,783**

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Goodwill	Other intangibles	Intangible assets under development	Total
At 1 January 2019						
Cost	11,630,138	9,287,315	2,262,796	1,443,305	9,721,470	34,345,024
Accumulated amortization and impairment	(2,323,773)	(7,558,187)	(713,418)	(316,885)	(61,377)	(10,973,640)
Net book amount	**9,306,365**	**1,729,128**	**1,549,378**	**1,126,420**	**9,660,093**	**23,371,384**
Year ended 31 December 2019						
Additions	-	-	-	704	3,283,123	3,283,827
Transfer from assets under development	3,139,293	829,622	-	-	(3,968,915)	-
Amortization	(1,005,829)	(574,386)	-	(46,496)	-	(1,626,711)
Impairment (note 36)	-	-	(180,004)	-	-	(180,004)
Transfer to PP&E (note 9)	-	-	-	-	(42,660)	(42,660)
Other transfers	-	4,697	-	(1,457)	(108,081)	(104,841)
Transfer to right of use assets	-	-	-	(153,119)	-	(153,119)
Translation differences	-	(130)	(14,866)	(1,096)	(118,551)	(134,643)
Closing net book amount	**11,439,829**	**1,988,931**	**1,354,508**	**924,956**	**8,705,009**	**24,413,233**
As at 31 December 2019						
Cost	14,769,430	10,033,485	2,233,762	1,252,029	8,760,424	37,049,130
Accumulated amortization and impairment	(3,329,601)	(8,044,554)	(879,254)	(327,073)	(55,415)	(12,635,897)
Net book amount	**11,439,829**	**1,988,931**	**1,354,508**	**924,956**	**8,705,009**	**24,413,233**
At 1 January 2020						
Cost	14,769,430	10,033,485	2,233,762	1,252,029	8,760,424	37,049,130
Accumulated amortization and impairment	(3,329,601)	(8,044,554)	(879,254)	(327,073)	(55,415)	(12,635,897)
Net book amount	**11,439,829**	**1,988,931**	**1,354,508**	**924,956**	**8,705,009**	**24,413,233**
Year ended 31 December 2020						
Additions	-	-	-	-	1,335,647	1,335,647
Transfer from assets under development	1,474,226	661,805	-	9,946	(2,145,977)	-
Amortization	(1,143,611)	(610,561)	-	(46,584)	(4,719)	(1,805,475)
Impairment (note 36)	-	-	(26,506)	-	(58,941)	(85,447)
Transfer to PP&E (note 9)	-	-	-	-	122,924	122,924
Other transfers	-	782	-	-	49,464	50,246
Translation differences	-	(77)	(5,298)	(129)	(85,430)	(90,934)
Closing net book amount	**11,770,444**	**2,040,880**	**1,322,704**	**888,189**	**7,917,977**	**23,940,194**
As at 31 December 2020						
Cost	16,243,657	10,694,203	2,220,431	1,253,796	8,036,878	38,448,965
Accumulated amortization and impairment	(4,473,213)	(8,653,323)	(897,727)	(365,607)	(118,901)	(14,508,771)
Net book amount	**11,770,444**	**2,040,880**	**1,322,704**	**888,189**	**7,917,977**	**23,940,194**

Intangible assets under development as at 31 December 2020 amounting to RSD 7,917,977 thousand (31 December 2019: RSD 8,705,009 thousand) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 7,749,359 thousand (31 December 2019: RSD 8,538,201 thousand).

Impairment test for goodwill

Goodwill is monitored by the management on an individual CGU basis or groups of CGUs. Groups of CGUs relate to the whole retail network of one subsidiary in Bosnia and Herzegovina where goodwill is allocated on this basis. The recoverable amount of each CGUs has been determined by independent appraisal based on higher of value-in-use and fair value less cost to disposed calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

The average key assumptions used in value-in use calculations:

	2020	2019
Average gross margin	23.3%	21.0%
Growth rate	1%	1%
Discount rate		
- Romania market	6.72%	6.99%
- Bulgaria market	5.84%	6.30%
- Bosnia and Herzegovina market	7.71%	8.73%

Management determined the budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relation to the relevant CGU. The following is a summary of goodwill allocation:

	Opening balance	Addition	Impairment	Translation differences	Closing balance
2020					
Bosnia and Herzegovina	482,387	-	-	(51)	482,336
Romania	278,560	-	-	(5,183)	273,377
Bulgaria	593,561	-	(26,506)	(64)	566,991
	1,354,508	**-**	**(26,506)**	**(5,298)**	**1,322,704**
2019					
Bosnia and Herzegovina	484,855	-	-	(2,468)	482,387
Romania	286,915	-	-	(8,355)	278,560
Bulgaria	777,608	-	(180,004)	(4,043)	593,561
	1,549,378	**-**	**(180,004)**	**(14,866)**	**1,354,508**

Except recognised impairment loss in Bulgaria in the amount of RSD 26,506 thousand (2019: RSD 180,004 thousand), impairment test in Bosnia and Romania shows that the recoverable amount calculated based on value in use / fair value exceeds carrying value.

If the revised estimated growth rate would be 0.5% instead of 1% and if applied discounted rate would be 1pp higher than the figures used in recoverable amounts calculation, the recoverable amount of tested assets where impairment initially has not been determined, still exceeds its carrying amount. If growth rate would be 0% in a combination with the applied discount rate as stated in the table above, recoverable amount also exceeds respective carrying amounts. With respect to the discount rate, impairment test is most sensitive for the Bosnia and Hercegovina market, where value in use exceeds carrying amounts of related assets at discount rate higher than 9.04%.

The management considers the average fuel gross margin as a part of the overall average gross margin to be the key assumption which affects the sensitivity of value in use calculation. The following table shows sensitivity of this calculation against the change in this assumption by showing how much the average fuel gross margin should decrease in order for value in use to be equal to the carrying amount of tested assets:

	Used assumption on average gross fuel margin	Decrease in pp
Romania market	24.3%	12.6pp
Bulgaria market	25.0%	8.3pp
Bosnia and Herzegovina market	20.7%	0.3pp

9. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2019								
Cost	17,282,588	209,356,843	134,383,253	41,899,970	90,751	539,696	799,493	404,352,594
Accumulated depreciation and impairment	(300,931)	(66,529,570)	(66,652,875)	(2,003,696)	(2,019)	(327,298)	(37,982)	(135,854,371)
Net book amount	**16,981,657**	**142,827,273**	**67,730,378**	**39,896,274**	**88,732**	**212,398**	**761,511**	**268,498,223**
Year ended 31 December 2019								
Additions	-	777,397	1,676	38,786,941	-	-	2,226,024	41,792,038
Transfer from assets under development	36,531	16,021,521	6,770,855	(22,841,975)	1,634	11,434	-	-
Impairment charge (note 36)	-	(98,929)	-	(152,630)	(543)	-	-	(252,102)
Depreciation	-	(10,156,657)	(8,778,245)	-	-	(67,765)	-	(19,002,667)
Transfer from intangible assets (note 8)	-	-	-	42,660	-	-	-	42,660
Transfer to investment property	-	-	-	(10,016)	-	-	-	(10,016)
Transfer to non-current assets held for sale	(56,573)	(18,619)	(30,607)	-	-	-	-	(105,799)
Disposals and write-off	(2,836)	(117,232)	(147,252)	(611,682)	(22)	(3,686)	(2,642,072)	(3,524,782)
Transfer to right of use assets	-	(456,413)	(362,999)	-	-	-	-	(819,412)
Other transfers	-	967	(108,025)	49,464	(13)	-	-	(57,607)
Translation differences	(57,234)	(69,541)	(10,370)	(94,948)	29	(56)	(97)	(232,217)
Closing net book amount	**16,901,545**	**148,709,767**	**65,065,411**	**55,064,088**	**89,817**	**152,325**	**345,366**	**286,328,319**
At 31 December 2019								
Cost	17,202,401	224,462,317	139,661,505	57,064,616	91,807	547,316	372,108	439,402,070
Accumulated depreciation and impairment	(300,856)	(75,752,550)	(74,596,094)	(2,000,528)	(1,990)	(394,991)	(26,742)	(153,073,751)
Net book amount	**16,901,545**	**148,709,767**	**65,065,411**	**55,064,088**	**89,817**	**152,325**	**345,366**	**286,328,319**
Year ended 31 December 2020								
Additions	-	345,084	-	22,746,197	-	-	1,354,232	24,445,513
Transfer from assets under development	124,786	19,241,134	41,074,162	(60,468,951)	4,090	24,779	-	-
Impairment charge (note 36)	(45,771)	(3,025)	-	(655,841)	-	-	-	(704,637)
Depreciation	-	(10,875,319)	(9,517,841)	-	-	(22,059)	-	(20,415,219)
Transfer from intangible assets (note 8)	-	-	-	(122,924)	-	-	-	(122,924)
Transfer to non-current assets held for sale	(77,770)	(1,284)	(72,246)	-	-	-	-	(151,300)
Disposals and write-off	(32,023)	(60,891)	(106,497)	(256,424)	(578)	-	(1,360,417)	(1,816,830)
Other transfers	21,264	146,231	(186,276)	(49,527)	-	-	-	(68,308)
Translation differences	(19,484)	(27,746)	(4,287)	(80,170)	874	(2)	(99)	(130,914)
Closing net book amount	**16,872,547**	**157,473,951**	**96,252,426**	**16,176,448**	**94,203**	**155,043**	**339,082**	**287,363,700**
At 31 December 2020								
Cost	17,214,976	243,861,639	178,964,414	18,688,125	95,319	553,404	365,823	459,743,700
Accumulated depreciation and impairment	(342,429)	(86,387,688)	(82,711,988)	(2,511,677)	(1,116)	(398,361)	(26,741)	(172,380,000)
Net book amount	**16,872,547**	**157,473,951**	**96,252,426**	**16,176,448**	**94,203**	**155,043**	**339,082**	**287,363,700**
Investment property (note 9b)	-	1,574,329	-	-	-	-	-	1,574,329
Right of use assets (note 9d)	143,732	1,299,970	1,217,092	-	-	-	-	2,660,794
Total	**17,016,279**	**160,348,250**	**97,469,518**	**16,176,448**	**94,203**	**155,043**	**339,082**	**291,598,823**

In 2020, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 120,146 thousand (2019: RSD 168,790 thousand).

Of the total amount of activations in 2020 in the amount of RSD 60,468,951 thousand, the most significant part refers to the completion and commissioning of the Bottom of the Barrel Project at the Pancevo Refinery in the amount of RSD 38,844,486 thousand. The Bottom of the Barrel Project ensure optimal utilization of the capacities of the Pancevo Oil Refinery and an increase in the depth of refining to 99.2 per cent (up from 86 per cent in 2017). This implies increased output of high-quality fuels – diesel, gasoline and liquid petroleum gas, as well as the start of production of petroleum coke. This will give Group a competitive edge in the market and trigger its further growth.

The management of the Group assesses at each reporting date whether there is an indication that the recoverable amount of property, plant and equipment fell below its book value.

As at 31 December 2020, the Group assessed impairment indicators. In addition the Group considered value-in-use of cash generating units ("CGU") grouped on the segment level (upstream and downstream). Based on cash flow projections for the period of 20 years (2021-2040) the Group determined that recoverable amount of CGUs belonging to the Upstream and Downstream segment is higher than its carrying amount as at 31 December 2020. Cash flow projections were based on real terms, nominal WACC of 7.97% used as discount rate is reduced to 5.70%. Accordingly based on this and based on other factors considered in the note 3.8, the Group concluded that impaiarment indicators do not exist as at reporting date which would require detail impairment testing of the PPE. In addition, Group has assessed and recognized impairment losses in amount RSD 704,637 thousand (2019: RSD 252,102 thousand) for the individual asset which has disposed due to obsolete, physically damage or for assets under constructions for which exist indication that expected recoverable amounts would not recover carrying value of the assets. The most significant amount refers to the partial impairment of the temporary suspended Base Oil Project in Refinery Novi Sad in amount of RSD 683,196 of which RSD 58,941 thousands relates to impairment of intangible assets (as at 31 December 2020 outstanding amount is RSD 731,532 thousand). Decisions on the project's perspective are expected during 2021.

b) Investment property – carried at fair value

Investment properties are valued at the reporting date at fair value representing the investment property market value.

Movements on the account were as follows:

	2020	2019
As at 1 January	**1,579,798**	**1,615,391**
Fair value loss (note 35 and 36)	-	(8,290)
Transfer from PP&E carried at cost	-	10,016
Disposals	(5,469)	(37,319)
As at 31 December	**1,574,329**	**1,579,798**

As at 31 December 2020, investment properties amounting to RSD 1,574,329 thousand (31 December 2019: RSD 1,579,798 thousand) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

Fair value of investment properties

Valuation of the Group's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2020 and 2019. The revaluation gain was credited to other income (note 35).

Fair value measurements at 31 December 2020 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements Land and buildings			
- Shops and other facilities for rents	-	838,887	-
- Gas stations	-	-	735,442
Total	**-**	**838,887**	**735,442**

Fair value measurements at 31 December 2019 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements Land and buildings			
- Shops and other facilities for rents	-	844,356	-
- Gas stations	-	-	735,442
Total	**-**	**844,356**	**735,442**

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Valuation techniques used to derive level 2 fair values

Level 2 fair values of shops, apartments and other properties for rent have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

Fair value measurements using significant unobservable inputs (Level 3)

Level 3 fair values of gas stations have been derived using value-in-use approach where fair value of gas station is determined as the present value of future net benefits which will belong to the Group based on long-term rental contracts. The most significant input into this valuation approach is rental price per gas station.

The key assumptions used for value-in-use calculations:

	2020	2019
Long term growth rate	0%	0%
Discount rate	12%	12%

Reconciliation of changes in fair value measurement, assets categorised within Level 3 of the fair value hierarchy:

	2020	2019
Assets as at 1 January	**735,442**	**743,682**
Changes in fair value measurement:		
Gains (loss) recognised in profit or loss, fair value measurement	-	(8,290)
Other	-	50
Total increase (decrease) in fair value measurement, assets		(8,240)
Assets as at 31 December	**735,442**	**735,442**

c) Oil and gas production assets

Oil and gas production assets comprise of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.10).

Oil and gas production assets are presented in consolidated balance sheet within property, plant and equipment and intangible assets, as presented below:

	31 December 2020			31 December 2019		
	Oil and gas assets	Other assets	Total	Oil and gas assets	Other assets	Total
Ingangible asset (note 8)						
Development investments	11,770,444	-	11,770,444	11,439,829	-	11,439,829
Concessions, licenses, software and other rights	54,115	1,986,765	2,040,880	65,922	1,923,009	1,988,931
Goodwill	-	1,322,704	1,322,704	-	1,354,508	1,354,508
Other intangible assets	-	888,189	888,189	-	924,956	924,956
Intangible assets under development	7,749,359	168,618	7,917,977	8,587,664	117,345	8,705,009
	19,573,918	**4,366,276**	**23,940,194**	**20,093,415**	**4,319,818**	**24,413,233**
Property, plant and equipment (note 9a)						
Land	601,976	16,414,303	17,016,279	597,192	16,453,029	17,050,221
Buildings	99,598,639	59,175,282	158,773,921	95,390,138	54,342,828	149,732,966
Machinery and equipment	19,533,841	77,935,677	97,469,518	19,993,400	45,773,935	65,767,335
Investment property	-	1,574,329	1,574,329	-	1,579,798	1,579,798
Other property, plant and equipment	-	94,203	94,203	-	89,817	89,817
Construction in progress	14,110,555	2,065,893	16,176,448	16,502,467	38,561,621	55,064,088
Investments in leased PP&E	-	155,043	155,043	-	152,325	152,325
Advances for PP&E	-	339,082	339,082	-	345,366	345,366
	133,845,011	**157,753,812**	**291,598,823**	**132,483,197**	**157,298,719**	**289,781,916**
Net book amount	**153,418,929**	**162,120,088**	**315,539,017**	**152,576,612**	**161,618,537**	**314,195,149**

As as 31 December 2020 the intangible assets under development with respect to the oil and gas assets in the amount of RSD 7,749,359 thousand include the amount of 2,666,712 thousand with respect to the project in Romania.

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2019						
Cost	22,258,139	1,399,503	23,657,642	166,462,451	32,008	190,152,101
Depreciation and impairment	(31,743)	(2,428)	(34,171)	(47,674,989)	(20,321)	(47,729,481)
Net book amount	**22,226,396**	**1,397,075**	**23,623,471**	**118,787,462**	**11,687**	**142,422,620**
Year ended 31 December 2019						
Additions	6,741,856	14,402,084	21,143,940	-	-	21,143,940
Changes in decommissioning obligations	-	-	-	777,397	-	777,397
Transfer from asset under construction	(6,163,618)	(12,287,002)	(18,450,620)	18,439,064	11,556	-
Impairment	-	(29)	(29)	(17,482)	(543)	(18,054)
Other transfers	126,491	216,036	342,527	(155,581)	1,619	188,565
Depreciation and depletion	(4,751)	-	(4,751)	(11,043,359)	-	(11,048,110)
Unsuccessful exploration expenditures derecognised (note 7)	(377,207)	-	(377,207)	-	-	(377,207)
Transfer to right-of-use assets	-	-	-	(54,331)	-	(54,331)
Disposals and write-off	(151,518)	(491)	(152,009)	(98,252)	(3,708)	(253,969)
Translation differences	(204,232)	(1)	(204,233)	(6)	-	(204,239)
	22,193,417	**3,727,672**	**25,921,089**	**126,634,912**	**20,611**	**152,576,612**
As at 31 December 2019						
Cost	22,229,550	3,727,699	25,957,249	185,208,089	40,956	211,206,294
Depreciation and impairment	(36,133)	(27)	(36,160)	(58,573,177)	(20,345)	(58,629,682)
Net book amount	**22,193,417**	**3,727,672**	**25,921,089**	**126,634,912**	**20,611**	**152,576,612**
As at 1 January 2020						
Cost	22,229,550	3,727,699	25,957,249	185,208,089	40,956	211,206,294
Depreciation and impairment	(36,133)	(27)	(36,160)	(58,573,177)	(20,345)	(58,629,682)
Net book amount	**22,193,417**	**3,727,672**	**25,921,089**	**126,634,912**	**20,611**	**152,576,612**
Year ended 31 December 2020						
Additions	2,252,926	10,407,399	12,660,325	-	-	12,660,325
Changes in decommissioning obligations	-	-	-	345,084	-	345,084
Transfer from asset under construction	(2,692,111)	(13,257,831)	(15,949,942)	15,935,291	14,651	-
Impairment	-	(713)	(713)	-	-	(713)
Other transfers	30,446	355,800	386,246	(108,434)	382	278,194
Depreciation and depletion	(4,719)	-	(4,719)	(12,044,001)	(3,175)	(12,051,895)
Unsuccessful exploration expenditures derecognised (note 7)	(136,812)	-	(136,812)	-	-	(136,812)
Disposals and write-off	(32,469)	(6,511)	(38,980)	(51,330)	-	(90,310)
Translation differences	(161,463)	-	(161,463)	(26)	(67)	(161,556)
	21,449,215	**1,225,816**	**22,675,031**	**130,711,496**	**32,402**	**153,418,929**
As at 31 December 2020						
Cost	21,489,893	1,226,125	22,716,018	201,221,015	55,925	223,992,958
Depreciation and impairment	(40,678)	(309)	(40,987)	(70,509,519)	(23,523)	(70,574,029)
Net book amount	**21,449,215**	**1,225,816**	**22,675,031**	**130,711,496**	**32,402**	**153,418,929**

Unsuccessful exploration expenditures derecognised in the amount of RSD 136,812 thousand mainly relate to exploration assets located in Serbia due to uncertain viability of commercial production (2019: amount of RSD 377,207 thousand mainly relate to exploration assets located in Serbia).

d) Right of use assets

	Land	Property	Plant and equipment	Vehicles	Total
As at 1 January 2019	-	-	-	-	-
Changes in opening balances	153,119	1,261,439	335,712	85,151	1,835,421
Additions	-	4,278	216,426	175,197	395,901
Depreciation	-	(238,406)	(81,205)	(27,360)	(346,971)
Transfers	-	-	(30,910)	30,910	-
Effect of contract modifications and changes in estimates	-	344	-	-	344
Translation differences	(4,443)	(4,456)	(1,528)	(469)	(10,896)
As at 31 December 2019	**148,676**	**1,023,199**	**438,495**	**263,429**	**1,873,799**
As at 1 January 2020	**148,676**	**1,023,199**	**438,495**	**263,429**	**1,873,799**
Additions	7,509	565,671	247,685	614,888	1,435,753
Depreciation	(9,722)	(242,249)	(121,726)	(211,513)	(585,210)
Transfers	-	-	(223,326)	223,326	-
Disposals	-	(41,300)	-	(12,289)	(53,589)
Effect of contract modifications and changes in estimates	-	(4,990)	-	1,082	(3,908)
Translation differences	(2,731)	(361)	(2,804)	(155)	(6,051)
As at 31 December 2020	**143,732**	**1,299,970**	**338,324**	**878,768**	**2,660,794**

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

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

		Ownership percentage	31 December 2020	31 December 2019
NIS MET Energowind d.o.o. Belgrade	Joint venture	50%	915,921	946,208
Gazprom Energoholding Serbia d.o.o. Novi Sad	Joint venture	49%	831,509	904,893
HIP Petrohemija ad Pančevo	Associate	20.86%	11,572,197	11,572,197
Less Impairment provision			(11,572,197)	(11,572,197)
Total investments			**1,747,430**	**1,851,101**

The principal place of business of joint ventures disclosed above is the 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. Belgrade

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. NIS MET Energowind d.o.o. is a private company and there is no available quoted market price.

Gazprom Energoholding Serbia d.o.o. Novi Sad

In 2015, the Group and Centrenergoholding OAO Russian Federation established the holding company Gazprom Energoholding Serbia LLC, 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 and corporate loan from CEH in amount of 41 mln EUR. Handing over CHP TE-TO Pancevo is expected to be completed during 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 a.d. Pancevo

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 boards.

The summarised financial information for the joint ventures as of 31 December 2020 and 2019 and for the years ended 31 December 2020 and 2019 is presented in the table below:

	NIS MET Energowind	Gazprom Energoholding Serbia
31 December 2020		
Current assets	36,102	399,874
Non-current assets	3,162,171	16,016,723
Current liabilities	951,167	211,951
Non-current liabilities	-	14,563,190
Revenue	7,437	17,193
Loss for the year	(60,575)	(149,762)
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
Revenue	661	44,430
Loss for the year	(114,565)	(146,948)

11. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2020	31 December 2019
Deposits with original maturity more than 1 year	-	158,079
Other long-term financial investments	8,621	9,176
LT loans given to employees	1,126,857	1,153,957
Less provision	(382,834)	(354,684)
	752,644	**966,528**

Loans to employees as at 31 December 2020 amounting to RSD 1,126,857 thousand (31 December 2019: RSD 1,153,957 thousand) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes, and are repaid through monthly instalments. These loans are impaired in amount of RSD 382,775 thousand.

12. DEFERRED TAX ASSETS AND LIABILITIES

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	31 December 2020	31 December 2019
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	488,483	2,466,610
- Deferred tax assets to be recovered within 12 months	2,117,749	316,846
	2,606,232	**2,783,456**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	-	(2,085,767)
- Deferred tax liabilities to be recovered within 12 months	(292,794)	-
	(292,794)	**(2,085,767)**
Deferred tax assets (net)	**2,313,438**	**697,689**

The gross movement on the deferred income tax account is as follows:

	2020	2019
At 1 January	**697,689**	**545,497**
Charged to the income statement (note 37)	1,615,695	(1,432,194)
Charged to other comprehensive income	52	-
Charged directly to equity	-	1,584,230
Other	2	156
31 December	**2,313,438**	**697,689**

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	Provisions	Carrying value of PP&E vs Tax base	Revaluation reserve	Total
Deferred tax liabilities				
As at 1 January 2019	**-**	**(2,399,954)**	**(14,075)**	**(2,414,029)**
Charged to the income statement (note 37)	-	328,107	-	328,107
Translation difference	-	155	-	155
As at 31 December 2019	**-**	**(2,071,692)**	**(14,075)**	**(2,085,767)**
Charged to the income statement (note 37)	-	1,792,971	-	1,792,971
Translation difference	-	2	-	2
As at 31 December 2020	**-**	**(278,719)**	**(14,075)**	**(292,794)**

	Provisions	Impairment loss	Investment credit	Tax losses	Fair value gains	Total
Deferred tax assets						
As at 1 January 2019	**921,429**	**930,986**	**1,096,509**	**-**	**10,602**	**2,959,526**
Charged to the income statement (note 37)	(6,636)	(657,203)	(1,096,462)	-	-	(1,760,301)
Charged directly to equity	-	1,584,230	-	-	-	1,584,230
Other	-	287	-	-	(286)	1
As at 31 December 2019	**914,793**	**1,858,300**	**47**	**-**	**10,316**	**2,783,456**
Charged to the income statement (note 37)	(12,578)	(653,181)	-	488,483	-	(177,276)
Charged to other comprehensive income	-	-	-	-	52	52
Other	47	-	(47)	-	-	-
As at 31 December 2020	**902,262**	**1,205,119**	**-**	**488,483**	**10,368**	**2,606,232**

The recognition of deferred tax assets was based on a five-year business plan of the Group and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

The Group recognize deferred tax assets in respect of unused tax loss carry forwards in the amount of RSD 488,483 thousand which are available for offsetting against future taxable profits of the companies in which the losses arose.

13. INVENTORY

	31 December 2020	31 December 2019
Materials, spare parts and tools	17,535,373	34,018,674
Work in progress	4,130,186	4,855,798
Finished goods	8,112,133	10,387,422
Goods for sale	2,728,305	2,994,024
Advances	515,693	582,559
Less: impairment of inventory	(4,757,772)	(4,775,984)
Less: impairment of advances	(150,077)	(149,287)
	28,113,841	**47,913,206**
Non-current assets held for sale	77,140	132,185
Less: impairment of assets held for sale	(37,994)	(43,769)
	39,146	**88,416**
	28,152,987	**48,001,622**

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of Advances	Impairment of Assets held for sale	Total
Balance as of 1 January 2019	**4,947,073**	**219,191**	**5,943**	**5,172,207**
Provision for inventories and advances (note 36)	8,579	561	-	9,140
Unused amounts reversed (note 35)	(128,739)	(50)	-	(128,789)
Writte off during the year	-	(70,415)	-	(70,415)
Other	(50,929)	-	37,826	(13,103)
Balance as of 31 December 2019	**4,775,984**	**149,287**	**43,769**	**4,969,040**
Provision for inventories and advances (note 36)	56,758	3,530	-	60,288
Unused amounts reversed (note 35)	(43,546)	(31)	-	(43,577)
Writte off during the year	-	(2,709)	-	(2,709)
Other	(31,424)	-	(5,775)	(37,199)
Balance as of 31 December 2020	**4,757,772**	**150,077**	**37,994**	**4,945,843**

14. TRADE RECEIVABLES

	31 December 2020	31 December 2019
Other related parties - domestic	1,525,369	1,184,469
Other related parties - foreign	121,631	100,451
Trade receivables domestic – third parties	23,714,786	29,128,401
Trade receivables foreign – third parties	500,432	1,040,406
	25,862,218	31,453,727
Less: Impairment	(5,246,538)	(5,880,868)
	20,615,680	**25,572,859**

15. OTHER RECEIVABLES

	31 December 2020	31 December 2019
Interest receivables	1,994,243	2,076,082
Receivables from employees	84,901	93,805
Income tax prepayment	1,053,837	672,332
Other receivables	8,049,777	7,577,205
Less: Impairment	(9,407,235)	(9,483,667)
	1,775,523	**935,757**

16. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2020	31 December 2019
Deposits with original maturity more than 3 months less than 1 year	266,224	1,766,564
Other short-term financial assets	76,845	76,909
	343,069	**1,843,473**

As at 31 December 2020 deposits with original maturity more than 3 months less than 1 year amounting to RSD 266,224 thousand (2019: RSD 1,766,564 thousand) relate to bank deposits with interest rates 0.50% to 2.80% p.a. (2019: from 0.02% monthly to 3.5% p.a.).

17. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash in bank and in hand	5,576,620	10,953,668
Deposits with original maturity of less than three months	2,643,210	4,063,656
Cash with restriction	8,328	13,978
Cash equivalents	260,144	264,508
	8,488,302	**15,295,810**

18. PREPAYMENTS AND ACCRUED INCOME

	31 December 2020	31 December 2019
Deferred input VAT	2,111,479	1,929,283
Prepaid expenses	204,044	251,119
Prepaid excise duty	2,258,271	1,767,622
Housing loans and other prepayments	454,374	499,727
	5,028,168	**4,447,751**

Deferred input VAT as at 31 December 2020 amounting to RSD 2,111,479 thousand (31 December 2019: RSD 1,929,283 thousand) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty as at 31 December 2020 amounting to RSD 2,258,271 thousand (31 December 2019: RSD 1,767,622 thousand) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

19. OFF-BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2020	31 December 2019
Issued warranties and bills of exchange	79,867,366	75,404,707
Received warranties and bills of exchange	16,426,088	17,074,113
Properties in ex-Republics of Yugoslavia	5,357,687	5,357,689
Receivables from companies from ex-Yugoslavia	5,873,647	6,441,861
Third party merchandise in NIS warehouses	9,402,918	9,851,859
Assets for oil fields liquidation in Angola	1,361,966	1,361,966
Mortgages and pladges received	1,880,676	1,398,289
Other off-balance sheet assets and liabilities	176,534	208,695
	120,346,882	**117,099,179**

20. EQUITY

	Equity attributable to owners of the Group									
	Share capital	Other capital	Reserves	Retained earnings (loss)	Translation reserves	Unrealised gains (losses) from securities	Actuarial gain (loss)	Total	Non-controlling interest	Total Equity
Balance as at 1 January 2019	**81,530,200**	**-**	**79,755**	**161,318,549**	**57,457**	**(60,082)**	**197,753**	**243,123,632**	**(247,828)**	**242,875,804**
Profit (loss) for the year	-	-	-	16,618,072	-	-	-	16,618,072	(21,670)	16,596,402
Gains from securities	-	-	-	-	-	7,267	-	7,267	-	7,267
Dividend distribution	-	-	-	(6,517,524)	-	-	-	(6,517,524)	-	(6,517,524)
Actuarial gain	-	-	-	-	-	-	(45,334)	(45,334)	-	(45,334)
Other	-	-	-	1,589,598	192,616	(5,368)	-	1,776,846	1,331	1,778,177
Balance as at 31 December 2019	**81,530,200**	**-**	**79,755**	**173,008,695**	**250,073**	**(58,183)**	**152,419**	**254,962,959**	**(268,167)**	**254,694,792**
Balance as at 1 January 2020	**81,530,200**	**-**	**79,755**	**173,008,695**	**250,073**	**(58,183)**	**152,419**	**254,962,959**	**(268,167)**	**254,694,792**
Profit (loss) for the year	-	-	-	(7,566,003)	-	-	-	(7,566,003)	-	(7,566,003)
Loss from securities	-	-	-	-	-	(294)	-	(294)	-	(294)
Dividend distribution	-	-	-	(4,425,459)	-	-	-	(4,425,459)	-	(4,425,459)
Actuarial gain	-	-	-	-	-	-	(52,595)	(52,595)	-	(52,595)
Other	-	-	-	(287,845)	111,866	-	-	(175,979)	287,845	111,866
Balance as at 31 December 2020	**81,530,200**	**-**	**79,755**	**160,729,388**	**361,939**	**(58,477)**	**99,824**	**242,742,629**	**19,678**	**242,762,307**

Non-controlling interest in the amount of RSD 19,678 thousand relates to following balance sheet lines: share capital in the amount of RSD 18,730 thousand, retained earning in the amount of RSD 3,328 thousand and translation reservas in the amount of RSD (2,380) thousand.

20.1.SHARE CAPITAL

Share capital represents share capital of the Company, which is listed on Belgrade Stock Exchange. Par value per share is RSD 500. Share capital as of 31 December 2020 and 31 December 2019 comprise of 163,060,400 of ordinary shares.

Dividend declared for the year ended 31 December 2019, amounted to RSD 4,425,459 thousand or 27.14 RSD per share (31 December 2018: RSD 6,517,524 thousand or 39.97 RSD per share) were approved on the General Assembly Meeting held on 30 June 2020 and paid on 27 November 2020.

Calculation of basic earnings per share is disclosed in the following table:

	Year ended 31 December	
	2020	**2019**
Profit/(loss) attributable to the ordinary equity holder of the parent entity	(7,566,003)	16,610,847
Weighted average number of ordinary shares	163,060,400	163,060,400
Earnings per share (in RSD 000)	**(0.046)**	**0.102**

The Group does not have any convertible instruments, options or warrants accordingly, diluted earnings per share is equal to the basic earnings per share as stated in the table above.

21. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2019	**10,041,518**	**657,686**	**431,765**	**494,022**	**526,809**	**12,151,800**
Charged to the income statement	147,500	197,704	95,872	314,327	44,868	800,271
New obligation incurred and change in estimates	777,397	-	-	-	-	777,397
Release of provision (note 35)	-	-	(1,107)	-	(1,539)	(2,646)
Actuarial loss charged to other comprehensive income	-	-	45,334	-	-	45,334
Settlement	(294,700)	(346,261)	(58,923)	-	(61,117)	(761,001)
Other	-	-	(38)	-	(90)	(128)
As at 31 December 2019	**10,671,715**	**509,129**	**512,903**	**808,349**	**508,931**	**13,011,027**
As at 1 January 2020	**10,671,715**	**509,129**	**512,903**	**808,349**	**508,931**	**13,011,027**
Charged to the income statement	88,078	-	119,210	131,486	13,249	352,023
New obligation incurred and change in estimates	345,084	-	-	-	-	345,084
Release of provision (note 35)	(695,704)	-	(8)	(8,362)	(2,306)	(706,380)
Actuarial loss charged to other comprehensive income	-	-	52,595	-	-	52,595
Settlement	(70,709)	(80,316)	(79,684)	-	(108,532)	(339,241)
Other	-	-	-	-	(150)	(150)
As at 31 December 2020	**10,338,464**	**428,813**	**605,016**	**931,473**	**411,192**	**12,714,958**

Analysis of total provisions:

	31 December 2020	31 December 2019
Non-current	10,332,213	11,419,129
Current	2,382,745	1,591,898
	12,714,958	**13,011,027**

a) Decommissioning

The Group's Management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells based on previous experience in similar projects. The Group released provision in amount of RSD 695,704 thousand for ARO decommissioning mostly due to extension of the period by which the wells are expected to be in operation (note 35).

b) Environmental protection

The Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 428,813 thousand (31 December 2019: RSD 509,129 thousand) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

c) Long-term incentive program

In 2011, the Group started setting-up a long-term incentive program for Group managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2020 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in amount of RSD 931,473 thousand (2019: RSD 808,349 thousand).

d) Legal claims provisions

As at 31 December 2020, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group charged provision for litigation amounting to RSD 13,249 thousand (2019: RSD 44,868 thousand) for proceedings which were assessed to have negative outcome. The Group estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2020.

e) Provision for employee benefits

Employee benefits:

	31 December 2020	31 December 2019
Retirement allowances	253,488	188,783
Jubilee awards	351,528	324,120
	605,016	**512,903**

The principal actuarial assumptions used were as follows:

	31 December 2020	31 December 2019
Discount rate	4.3%	4.4%
Future salary increases	0.07%	2.0%
Future average years of service	14.4	14.4

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2019	**147,206**	**284,559**	**431,765**
Benefits paid directly	(21,534)	(37,389)	(58,923)
Actuarial loss charged to other comprehensive income	45,334	-	45,334
Debited to the income statement	17,815	76,950	94,765
Translation difference	(38)	-	(38)
Balances as at 31 December 2019	**188,783**	**324,120**	**512,903**
Benefits paid directly	(47,286)	(32,398)	(79,684)
Actuarial loss (gain) charged to other comprehensive income	52,828	(233)	52,595
Debited to the income statement	59,163	60,039	119,202
Balances as at 31 December 2020	**253,488**	**351,528**	**605,016**

The amounts recognized in the consolidated income statement are as follows:

	Year ended 31 December	
	2020	2019
Current service cost	83,783	29,955
Interest cost	22,964	23,728
Curtailment loss	47,774	729
Actuarial (gain)/loss (jubilee awards)	(35,319)	40,352
Amortisation of past service cost	-	1
	119,202	**94,765**

22. LONG-TERM LIABILITIES

	31 December 2020	31 December 2019
Long-term loan - Gazprom Neft	13,672,117	19,143,014
Bank loans	69,109,888	69,901,198
Lease liabilities	2,479,391	1,703,441
Other non-current financial liabilities	841,847	-
Other long-term borrowings	73,490	57,175
	86,176,733	**90,804,828**
Less Current portion (note 23)	(12,196,715)	(6,761,897)
	73,980,018	**84,042,931**

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

	Long-term loans	Short-term loans	Finance lease	Total
As at 1 January 2019	**93,344,087**	**-**	**828,104**	**94,172,191**
Change in opening balance	-	-	790,946	790,946
Proceeds	15,060,454	-	-	15,060,454
Repayment	(18,760,583)	-	(367,140)	(19,127,723)
Non-cash transactions	(149,827)	-	447,079	297,252
Foreign exchange difference	(449,919)	-	4,452	(445,467)
As at 31 December 2019	**89,044,212**	**-**	**1,703,441**	**90,747,653**
As at 1 January 2020	**89,044,212**	**-**	**1,703,441**	**90,747,653**
Proceeds	6,182,783	11,500,000	-	17,682,783
Repayment	(11,663,202)	(11,500,000)	(589,021)	(23,752,223)
Non-cash transactions	(747,499)	-	1,365,708	618,209
Foreign exchange difference	(34,289)	-	(737)	(35,026)
As at 31 December 2020	**82,782,005**	**-**	**2,479,391**	**85,261,396**

a) Long-term loan – Gazprom Neft

As at 31 December 2020 long-term loan – Gazprom Neft amounting to RSD 13,672,117 thousand (2019: RSD 19,143,014 thousand), with current portion of RSD 5,468,847 thousand (2019: RSD 5,469,432 thousand), 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

	31 December 2020	31 December 2019
Domestic	51,785,439	46,832,409
Foreign	17,324,449	23,068,789
	69,109,888	69,901,198
Current portion of long-term loans	(6,117,143)	(915,460)
	62,992,745	**68,985,738**

The maturity of non-current loans was as follows:

	31 December 2020	31 December 2019
Between 1 and 2 years	9,920,841	10,845,263
Between 2 and 5 years	41,197,751	54,813,261
Over 5 years	11,874,153	3,327,214
	62,992,745	**68,985,738**

The carrying amounts of the Group's bank and other long-term loans are denominated in the following currencies:

	31 December 2020	31 December 2019
USD	157,858	209,292
EUR	68,740,978	69,426,390
RSD	374	499
JPY	210,678	265,017
	69,109,888	**69,901,198**

The Group repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Group has 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 (GPN Group) of consolidated indebtedness to consolidated EBITDA (note 6). The Group is in compliance with these covenants as of 31 December 2020 and 31 December 2019 respectively.

c) Lease liabilities

	31 December 2020	31 December 2019
Non-current portion of lease liabilities	1,868,666	1,326,436
Current portion of lease liabilities	610,725	377,005
	2,479,391	**1,703,441**

Amounts recognized in profit and loss:

	31 December 2020	31 December 2019
Interest expense (included in finance cost) (note 32)	87,363	71,930
Expense relating to short-term leases (note 30)	818,707	899,787
Expense relating to leases of low value assets that are not shown above as short-term leases (note 30)	201,931	92,722
Expense relating to variable lease payments not included in lease liabilities (note 30)	1,237,012	1,939,368

c) Other non-current financial liabilities

Other non-current financial liabilities in the amount of RSD 841,847 thousand in total represents deferred consideration to PJSC Zarubeznjeft (further ZN) for O&G exploration project that is ongoing through subsidiary Jadran Naftagas. This obiligation depends on occurance 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 Assignement 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 RSD 41 thousand. These transactions of shares acquisition and transfer of liabilities should be consider together.

23. SHORT-TERM FINANCE LIABILITIES

	31 December 2020	31 December 2019
Current portion of long-term loans (note 22)	11,585,990	6,384,892
Current portion of lease liabilities (note 22)	610,725	377,005
	12,196,715	**6,761,897**

24. TRADE PAYABLES

As at 31 December 2020 trade payables in a amount of RSD 19,278,679 thousand (31 December 2019: RSD 35,341,330 thousand) including payables to parents and subsidiaries-foreign amounting to RSD 3,204,199 thousand (31 December 2019: RSD 10,498,354 thousand) fully relate to payables to the supplier Gazprom Neft, St Petersburg, mostly based on purchase of crude oil and trade payables – foreign amounting to RSD 7,981,985 thousand (31 December 2019: RSD 13,786,047 thousand) mostly relate to payables for crude oil to suppliers IPLOM S.P.A. Italy RSD 2,869,608 thousand (31 December 2019 RSD 0) and Petraco Oil Company LLP, London in the amount of RSD 2,641,621 thousand (31 December 2019 RSD 0).

25. OTHER SHORT-TERM LIABILITIES

	31 December 2020	31 December 2019
Specific liabilities	183,324	199,734
Liabilities for unpaid wages and salaries, gross	1,710,219	1,310,849
Interest liabilities	215,504	742,362
Dividends payable	3,785,017	3,780,692
Other payables to employees	1,891,199	709,716
Decommissioning and site restoration costs	1,091,258	1,170,430
Environmental provision	114,210	128,099
Litigation and claims	177,396	234,965
Other current liabilities	83,300	98,207
	9,251,427	**8,375,054**

26. LIABILITIES FOR OTHER TAXES

	31 December 2020	31 December 2019
Excise tax	5,713,647	5,750,900
Contribution for buffer stocks	257,505	280,070
Energy efficiency fee	30,168	32,299
Income tax	41,612	70,083
Other taxes payables	846,526	1,451,113
	6,889,458	**7,584,465**

27. ACCRUED EXPENSES

Accrued expenses as at 31 December 2020 amounting to RSD 4,140,591 thousand (31 December 2019: RSD 3,632,864 thousand) mainly relate to accrued employee bonuses of RSD 2,473,886 thousand (31 December 2019: RSD 2,193,730 thousand) and contract liabilities arising from contracts with customers related to customer loyalty RSD 770,993 thousand (31 December 2019: RSD 722,239 thousand).

Revenue in the amount of RSD 2,192,358 thousand was recognized in the current reporting period (31 December 2019: RSD 1,636,651 thousand) related to the contract liabilities as at 1 January 2020, of which RSD 1,764,943 thousand (31 December 2019: RSD 1,275,099 thousand) related to advances and RSD 427,415 thousand (31 December 2019: RSD 361,552 thousand) to customer loyalty programme.

28. COST OF MATERIAL

	Year ended 31 December	
	2020	2019
Costs of raw materials	104,716,293	135,055,679
Overheads and other costs	237,684	470,181
Other	929,631	1,414,334
	105,883,608	**136,940,194**

29. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES

	Year ended 31 December	
	2020	**2019**
Wages and salaries (gross)	22,761,842	17,898,688
Taxes and contributions on wages and salaries paid by employer	3,114,396	2,315,884
Cost of service agreement	113,035	198,446
Cost of other personal wages	14,372	45,780
Fees paid to board of directors and general assembly board	132,140	103,981
Termination costs	51,880	41,802
Other personal expenses	1,095,220	759,461
	27,282,885	**21,364,042**

In 2020, there was a change in the structure of employee costs and costs of service organizations due to new Agency employee low and company strategic decisions.

30. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2020	**2019**
Cost of production services	1,669,556	2,306,469
Transportation services	2,670,195	2,974,675
Maintenance	3,831,426	4,243,216
Rental costs (note 22)	2,257,650	2,931,877
Fairs	-	10,091
Advertising costs	573,153	984,933
Exploration expenses	218,524	436,944
Cost of other services	1,441,308	1,717,715
	12,661,812	**15,605,920**

31. NON-PRODUCTION EXPENSES

	Year ended 31 December	
	2020	**2019**
Costs of non-production services	3,504,149	9,340,298
Representation costs	47,206	147,947
Insurance premium	542,321	601,327
Bank charges	336,952	409,957
Cost of taxes	1,290,948	1,309,729
Mineral extraction tax	894,335	1,419,705
Other non-production expenses	1,597,842	1,974,142
	8,213,753	**15,203,105**

Costs of non-production services for the year ended 31 December 2020 amounting to RSD 3,504,149 thousand (2019: RSD 9,340,298 thousand) mainly relate to costs of service organizations of RSD 1,809,833 thousand (2019: RSD 6,965,810 thousand); consulting service costs of RSD 171,940 thousand (2019: RSD 331,896 thousand); security cost of RSD 558,546 thousand (2019: RSD 581,563 thousand) and project management costs of RSD 396,242 thousand (2019: RSD 500,370 thousand).

32. FINANCE INCOME

	Year ended 31 December	
	2020	**2019**
Finance income - related parties		
- foreign exchange differences	1,158,564	1,115,121
Interest income	219,254	366,034
Amortisation income – discount of receivables	38,345	-
Gains on restructuring of borrowings	53,673	149,827
Foreign exchange gains	1,300,804	920,509
Other finance income	4,416	11,638
	2,775,056	**2,563,129**

33. FINANCE EXPENSE

	Year ended 31 December	
	2020	**2019**
Finance expenses – related parties		
- foreign exchange differences	1,583,073	1,521,899
- other finance expense	295,406	393,887
Interest expenses	1,535,086	1,411,282
Decommissioning provision: unwinding of the present value discount	88,078	147,500
Provision of trade and other non-current receivables: discount	-	19,261
Foreign exchange losses	1,184,496	534,113
Share of loss of associates and joint ventures	103,671	129,287
Other finance expenses	27,135	21,309
	4,816,945	**4,178,538**

34. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 December	
	2020	**2019**
Reversal of impairment of LT financial investments	88,363	16,522
Income from valuation:		
- trade and specific receivables (note 6)	131,947	90,688
- short-term invesmtents	46	-
- other receivables (note 6)	38,791	14,002
	259,147	**121,212**

35. OTHER INCOME

	Year ended 31 December	
	2020	**2019**
Gains on disposal - PPE	51,765	39,217
Gains on disposal - materials	28,714	55,746
Surpluses from stock count	242,634	324,814
Payables written off	976,748	82,894
Release of long-term provisions (note 21)	706,380	2,646
Release of impairment:		
- PPE (note 9)	111,187	-
- Inventory (note 13)	43,546	128,739
- Other property	31	50
Penalty interest	96,137	73,871
Other income	39,381	557,933
	2,296,523	**1,265,910**

Payables written off in amount of RSD 976,748 thousand refers to the write-off of liabilities for which there is no legal basis for repayment.

36. OTHER EXPENSES

	Year ended 31 December	
	2020	2019
Loss on disposal - PPE	177,673	316,783
Loss on disposal - material	21,560	52,954
Shortages from stock count	419,137	660,074
Write-off receivables	23,331	7,460
Write-off inventories	51,932	62,523
Impairment:		
- Intangible assets (note 8)	85,447	180,004
- PPE (note 9)	704,637	252,102
- Inventory (note 13)	56,758	8,579
- Other property	3,530	561
- Investment property (note 9)	-	8,290
Other expenses	541,216	319,355
	2,085,221	**1,868,685**

37. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2020	2019
Income tax for the year	51,298	3,100,414
Deferred income tax for the period (note 12)		
Origination and reversal of temporary differences	(1,615,695)	1,432,194
	(1,564,397)	**4,532,608**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Group's profits as follows:

	Year ended 31 December	
	2020	2019
Profit (loss) before income tax	**(9,130,400)**	**21,129,010**
Tax expense (income) at applicable domestic tax rate (15%)	(1,369,560)	3,169,352
Effect of unrecognized tax losses and tax rates in foreign jurisdictions	186,376	159,079
Tax effects of:		
- Revenues exempt from taxation	(328,081)	(640)
- Expenses not deductible for tax purposes		
- Tax paid in Angola	(50,469)	74,711
- Other expenses not deductible	128,123	1,502,341
- Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	(62,100)	(59,798)
- Other tax effects for reconciliation between accounting profit and tax expense	(68,686)	(312,437)
	(1,564,397)	**4,532,608**
Effective income tax rate	0%	21.45%

38. COMMITMENTS AND CONTINGENT LIABILITIES

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 RSD 428,813 thousand (31 December 2019: RSD 509,129 thousand).

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.

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 31 December 2020.

Capital commitments

As of 31 December 2020 the Group has entered into contracts to purchase property, plant and equipment for RSD 1,531,697 thousand (31 December 2019: RSD 2,809,071 thousand) and drilling and exploration works estimated to 57.89 USD million (31 December 2019: 56.89 USD million).

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

39. GROUP ENTITIES

The consolidated financial statements of below listed subsidiaries are consolidated as at 31 December 2020 and 31 December 2019:

Subsidiary	Country of incorporation	Nature of business	Share %	
			31-Dec 2020	31-Dec 2019
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-Naftni servisi d.o.o. Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o. Novi Sad	Serbia	O&G activity	100	100
Naftagas-Tehnicki servisi d.o.o. Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o. Novi Sad	Serbia	Transport	100	100
NIS Petrol a.d., Belgrade	Serbia	Other	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	Trade	100	100
Jadran - Naftagas d.o.o. Banja Luka	Bosnia and Herzegovina	O&G activity	100	66
Svetlost, Bujanovac	Serbia	Trade	51	51
Pannon Naftagas Kft, Budapest	Hungary	O&G activity	-	100

During 2020 subsidiary Pannon Naftagas Kft, Budapest was liquidated. Also, in 2020 the Group acquired additional 34% of share in Jadran Naftagas.

The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

40. RELATED PARTIES TRANSACTIONS

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, owns 95.7% of the shares in the Gazprom Neft. The Russian Federation is the ultimate controlling party.

During 2020 and 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.

As of 31 December 2020 and 31 December 2019 the outstanding balances with related parties other than state and state own companies were as follows:

	Associates and joint venture	Parent	Parent's subsidiaries and associates
As at 31 December 2020			
Right of use assets	-	-	125
Investments in associates and joint ventures	1,747,430	-	-
Trade receivables	1,462,469	-	184,531
Receivables from specific operations	286	-	13
Other receivables	4	-	-
Advances paid	-	-	25,095
Long-term liabilities	-	(8,203,270)	-
Short-term financial liabilities	-	(5,468,847)	(84)
Advances received	(4,493)	-	(37)
Trade payables	(942,412)	(3,204,199)	(216,611)
	2,263,284	**(16,876,316)**	**(6,968)**
As at 31 December 2019			
Investments in associates and joint ventures	1,851,101	-	-
Trade receivables	1,184,469	-	100,451
Receivables from specific operations	415,683	-	-
Advances paid	-	-	34,371
Long-term liabilities	-	(13,673,582)	(128)
Short-term financial liabilities	-	(5,469,432)	(159)
Advances received	(3,782)	-	(2)
Trade payables	(1,208,375)	(10,500,427)	(543,563)
	2,239,096	**(29,643,441)**	**(409,030)**

For the year ended 31 December 2020 and 2019 the following transaction occurred with related parties:

	Associates and Joint venture	Parent	Parent's subsidiaries and associates
Year ended 31 December 2020			
Sales revenue	16,772,500	-	557,309
Other operating income	7,364	-	1,237
Cost of goods sold	-	-	(255,403)
Cost of material	-	(24,674,912)	(996,914)
Cost of production services	(193,856)	-	(12,896)
Depreciation, depletion and amortisation expenses	-	-	(188)
Non-material expense	-	(3,118)	(78,316)
Finance income	-	-	56
Finance expense	-	(295,406)	-
Other income	-	6,475	-
Other expenses	-	(50,164)	(260)
	16,586,008	**(25,017,125)**	**(785,375)**
Year ended 31 December 2019			
Sales revenue	19,073,529	-	592,963
Other operating income	8,855	-	-
Cost of goods sold	-	-	(241,897)
Cost of material	-	(51,345,851)	(333,140)
Cost of production services	(198,691)	-	(1,708)
Non-material expense	-	(2,072)	(95,959)
Finance expense	-	(393,887)	(3)
Other income	-	40,230	-
Other expenses	-	(111,235)	(593)
	18,883,693	**(51,812,815)**	**(80,337)**

Main balances and transactions with state and state owned companies are shown below:

	Associates and joint venture	Other
As at 31 December 2020		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,461,095	-
• *Srbijagas*	-	256,036
• *AIR Serbia*	-	87,447
Trade and other payables		
• *HIP Petrohemija*	(942,412)	-
• *Srbijagas*	-	(302,531)
Other current liabilities		
• *HIP Petrohemija*	(3,532)	-
	515,151	**40,952**
As at 31 December 2019		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,183,648	-
• *Srbijagas*	-	418,784
• *AIR Serbia*	-	371,395
Trade and other payables		
• *HIP Petrohemija*	(1,208,375)	-
• *Srbijagas*	-	(361,934)
Other current liabilities		
• *HIP Petrohemija*	(3,064)	-
	(27,791)	**428,245**

	Associates and joint venture	Other
As at 31 December 2020		
Operating income		
• *HIP Petrohemija*	16,746,580	-
• *Srbijagas*	-	380,042
• *AIR Serbia*	-	1,685,134
Operating expenses		
• *HIP Petrohemija*	(193,856)	-
• *Srbijagas*	-	(782,731)
	16,552,724	**1,282,445**
As at 31 December 2019		
Operating income		
• *HIP Petrohemija*	19,070,224	-
• *Srbijagas*	-	1,419,220
• *AIR Serbia*	-	5,124,131
Operating expenses		
• *HIP Petrohemija*	(198,691)	-
• *Srbijagas*	-	(912,530)
	18,871,533	**5,630,821**

Transactions with Key Management Personnel

In the year ended 31 December 2020 and 2019 the Group recognized RSD 997,434 thousand and RSD 943,715 thousand; 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.

41. RECONCILIATION OF RECEIVABLES AND PAYABLES

In accordance with The Accounting Law, the Group reconciled account receivables and payables with the customers and the suppliers before preparing financial statements. There are no material unconfirmed receivables or payables in the Group.

42. EVENTS AFTER THE REPORTING DATE

There are no material events after the reporting date.

Subsequent events occurring after 31 December 2020 were evaluated through 9 March 2021, the date these Consolidated Financial Statements were authorised for issue.

Report on Payments to Governmental Authorities

for the year ending on December 31, 2020

Articles 39 and 40 of the Law on Accounting ("Official gazette", No. 73/2019) require the public interest companies operating in the extractive or primary forest felling industries to compile and publish a report or consolidated report on payments to authorities on an annual basis.

Information about the preparation of the Report on Payments to Governmental Authorities:

Legal entities subject to reporting

Pursuant to the Law on Accounting, NIS j.s.c. Novi Sad as a legal entity operating in the extractive industry is required to prepare a consolidated Report on Payments to Governmental Authorities for every completed business year, both for NIS and all of its subsidiaries (engaged in the extractive industry) subject to consolidation of the Consolidated financial statements of NIS Group.

Payments included in the Report on Payments to Governmental Authorities

All payments of NIS Group made during the indicated business year for activities including exploration, prospecting, discovery, development and extraction of coal, crude oil and natural gas, metal ores, non-ferrous, other mining and quarrying of stone, sand, clay, gravel, etc. are presented in this Report.

Within the meaning of the law, payment represents an amount paid in money, goods, services or rights for activities of legal entities operating in the extractive industry or engaged in felling of primary forests.

Types of payments subject to this Report are as follows:

Right to production – The right to production includes the share of production that belongs to the state during the reporting period. As a rule, this payment is made in kind. These payments were not identified within NIS Group.

Income, production or profit tax of legal entities excluding consumption taxes such as value added tax, personal income tax or excise duties – The Report on Payments to Governmental Authorities includes all payments related to income tax and production tax. VAT, excise duties and property tax are not shown in this Report. Payments based on environmental protection fees and not included.

Benefits – Include royalty-related payments.

Dividends – All dividends paid out to the Republic of Serbia except for dividends paid out on the basis of ownership rights from common shares. These payments were not identified within NIS Group in 2020.

Signing, discovery and production bonuses – It includes bonuses paid out after signing of an agreement or a contract, or when a commercial discovery is announced, or when production started, or when production reached a milestone. In 2020, there were no payments of this type.

License fees, lease fees, entry fees and other licenses and/or concessions – It includes fees and other amounts paid as fees to obtain access to a certain area where extractive activities are carried out. Administrative fees that are not specifically related to the extractive sector or access to the extractive resources are excluded. Payments in exchange of services provided by the Government are also excluded. Payments of this type were not identified within NIS Group in 2020.

Infrastructure improvement payments – Include payments for development and improvement of the local infrastructure (roads, bridges or railway), except when infrastructure is used exclusively for operational purposes. Socially significant payments (construction of schools and hospitals) are not included. In 2020, there were no payments of this type within the NIS Group.

The Report on Payments to Governmental Authorities includes payments in excess of EUR 100,000 in dinar equivalent.

Governmental Authorities

In terms of this law, Governmental authorities are any national, regional or local authorities of the Republic of Serbia, a member state or a third country. This includes a department, agency or company that controls such authorities as per provisions of Articles 39 and 40 of the Law on Accounting.

Project

A Project represents operational activities regulated by a single contract, license, lease, concession or similar agreement and forms the basis for payment of obligations to authorities. If several such contracts are considerably interconnected, they are considered a single project.

Reporting Currency

All amounts presented in this Report are expressed in dinars (RSD).

Total amount by payment type

Payments, by countries	Right to production	Taxes	Benefits	Dividends	Bonuses	Fees[1]	Infrastructure improvement payments
Republic of Serbia	0	1,110,970	905,012	0	0	0	0
Angola	0	51,395	0	0	0	0	0
Bosnia and Herzegovina	0	0	0	0	0	0	0
Romania	0	0	22,373	0	0	0	0
Total	**0**	**1,162,365**	**927,384**	**0**	**0**	**0**	**0**

1 License fees, lease fees, entry fees and other licenses and/or concessions

In thousands RSD

Payments, by authorities

Serbia

Payments	Right to production	Taxes	Benefits	Dividends	Bonuses	Fees[1]	Infrastructure improvement payments
Ministry of Finance Treasure Department	-	-	905,012	-	-	-	-
Ministry of Finance, Tax administration, Center for large taxpayers	-	1,110,970	-	-	-	-	-
Total	-	**1,110,970**	**905,012**	-	-	-	-

1 License fees, lease fees, entry fees and other licenses and/or concessions

In thousands RSD

Angola

Payments	Right to production	Taxes	Benefits	Dividends	Bonuses	Fees[1]	Infrastructure improvement payments
Ministry	-	51,395	-	-	-	-	-
Total	-	**51,395**	-	-	-	-	-

1 *License fees, lease fees, entry fees and other licenses and/or concessions*

In thousands RSD

Romania

Payments	Right to production	Taxes	Benefits	Dividends	Bonuses	Fees[1]	Infrastructure improvement payments
NAMR National Agency for Mineral Resources	-	-	22,373	-	-	-	-
Total	-	-	**22,373**	-	-	-	-

1 *License fees, lease fees, entry fees and other licenses and/or concessions*

In thousands RSD

Payments, by projects

Angola

Payments	Right to production	Taxes	Benefits	Dividends	Bonuses	Fees[1]	Infrastructure improvement payments
Angola Block3	-	51,395	-	-	-	-	-
Total	-	**51,395**	-	-	-	-	-

1 *License fees, lease fees, entry fees and other licenses and/or concessions*

In thousands RSD

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STATEMENT of Individuals Responsible for the Preparation of Financial Statements

3.01 Statement of Individuals Responsible for the Preparation of Financial Statements

We hereby declare that, to the best of our knowledge, the annual Financial Statements are compiled against relevant International Financial Reporting Standards and in compliance with the Law on Accounting of the Republic of Serbia ("Official Gazette of the Republic of Serbia", no. 62/2013, 30/2018 and 73/2019 - State Law), stipulating that financial statements be prepared in compliance with all IFRSs and regulations issued by the Ministry of Finance of the Republic of Serbia[1] and that they provide accurate and objective information on the assets and liabilities and financial standing and performance, profit and losses, cash flows and changes in equity of the public company, including the companies which are part of the consolidated statements.

Kirill Tyurdenev
CEO
NIS j.s.c. Novi Sad

1 Considering the differences between the two regulations, these Financial Statements depart from the IFRS in the following:
- *Group compiled the Financial Statements using the templates prescribed by the Ministry of Finance of the Republic of Serbia, which are not in compliance with the requirements of IAS 1 – Presentation of Financial Statements.*
- *Off-balance Sheet Assets and Liabilities are presented on the Balance Sheet Template. As defined by the IFRS, these items are neither assets nor liabilities.*

4

APPENDICES

4.01

General Information about NIS j.s.c. Novi Sad

Business name:	NIS j.s.c. Novi Sad
Company Registration No:	20084693
Address:	12 Narodnog fronta Street. Novi Sad
TIN:	104052135
Website:	www.nis.eu
Email:	office@nis.eu
Core activity:	0610 - Crude Oil Exploitation
Date of Establishment:	1 October 2005
Audit Company which audited the last financial report (as at 31 December 2020):	KPMG d.o.o. Beograd Bulevar Milutina Milankovica 1J 11070 Beograd
Organized market where shares of the Issuer are traded in:	Belgrade Stock Exchange a.d. 1 Omladinskih brigada Street 11070 Novi Beograd

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Glossary

Abbreviation	Meaning
3D	Three-dimensional
2D	Two-dimensioal
a.d.o.	Insurance joint stock company
ALARP	As low as reasonably possible
AMCHAM	American Chamber of Commerce
ANRM	National Agency for Mineral Resources
APC	Advanced Process Control
BAM	Convertible mark, Bosnia and Herzegovina currency
BoD	Board of Directors
BPGA	Bulgarian Petrol and Gas Association
BV	Book Value
CAC/RCP	Codex Alimentarius Commission/Recommended Code of Practice
CAPEX	Capital Expenditures
CCIS	Chamber of Commerce and Industry of Serbia
CCPP	Combined-Cycle Power Plant
CEEC	Central-Eastern Europe and Caspian
CEMS	Continuous Emission Monitoring System
CFA	Certified Financial Analyst
CIS	Commonwealth of Independent States
CJSM	Closed joint stock company
CMMS	Computerized maintenance management system
CNG	Compressed Natural Gas
CO_2	Carbon Dioxide
CSM	Contractor Safety Management
DCU	Delayed Coking Unit
DT	Digital Transformation
DWS	Downstream
EBITDA	Earnings before interest, Taxes, depreciation and amortisation
ELV	Emission limit values
EIA	Energy Information Administration

Abbreviation	Meaning
e.o.o.d.	Solely owned limited liability company (in Bulgaria)
EPCm	Engineering, procurement and construction management
EPS	Earnings per share
PS	Primary School
EIP	Efficiency Improvement Program
EnMS	Energy Management System
ETF	Faculty of Electrical Engineering
ETBE	Ethyl tert-butyl ether
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offer Rate
EU ETS	EU Emissions Trading System
FB&H	Federation of Bosnia and Herzegovina
FCC	Fluid Catalytic Cracker
FIC	Foreign Investors Council
FMECA	Failure mode, effects and cricicality analysis
FTN	Faculty of Technical Sciences
FU	Firefighting Unit
FYR Macedonia	Former Yugoslav Republic Macedonia
GDP	Gross Domestic Product
GPN	PJSC Gazprom Neft
GTA	Geological-technical activities
GWh	Gigawatt hours
HAZID	Hazard Identification Study
HAZOP	Hazard Operational Analysis
HiPACT	High Pressure Acid Gas Capture Technology
HQ	Highly-qualified worker
HR	Human Resources
HS	High School
HSE	Health, Safety and the Environment
HVGO	Heavy vacuum gas oil
IAF	International Accounting Standard
IC	Investment Committee
IMF	International Monetary Fund
IMS	Integrated Management System
IPPC	Integrated Pollution Prevention and Control

Abbreviation	Meaning
IRMS	Integrated Risk Management System
ISO	International Standardisation Organisation
IT	Information Technology
IVMS	In-Vehicle Monitoring System
j.s.c. or JSC	Joint Stock Company
k.f.t.	Limited liability company (in Hungary)
km	kilometre
KPI	Key Performance Indicator
KRI	Key risk indicator
kW	Kilowatt, unit for measuring electrical energy
LFP	Law on Fire Protection
LIBOR	London Interbanking Offer Rate
LLC or llc	Limited Liability Company
LNG	Liquefied natural gas
LOTO	Lockout-tagout safety procedure
LPG	Liquefied Petroleum Gas
LSP	Leading Safety Performance
LTD	Limited
m^2	Square meter
m^3	Cubic meter
MSc/MA	Master of Science/Master of Arts
MBA	Master of Business Administration
MHC/DHT	Mild hydrocracking and hydro treating unit
mn	million
MoC	Management of Change
MT and SS	Material,technical and service support
MTSS and CC	Material, technical and service support and capital construction
MW	Megawatt, SI unit of electricity
MWA	Management walk-around
MWe	Megawatt electrical – a unit of electrical generating capacity
MWh	Megawatt hour, unit of electricity
N_2	Nitrogen
NALED	National Alliance for Local Economic Development
NAMR	National Agency of Mineral Resources
NATO	North Atlantic Treaty Organisation/North Atlantic Alliance
NBS	National Bank of Serbia

Abbreviation	Meaning
NMD	Regulatory methodology document
NOX	Nitrogen Oxides
NPCS-WPC	National Petroleum Committee of Serbia - World Petroleum Council
OCF	Operating Cash Flow
OF	Oil field
OHSAS	Occupational Health and Safety Standard
OJSC	Open joint stock company
OMS	Operating Management System
OPEC	Organisation of the Petroleum Exporting Countries
OPEX	Operational Expenditure
OTS	Operator Training Simulators
PDW	Project and design works
PJSC	Public Joint Stock Company
P/BV	Price/Book Value
P/E	Price/EPS
PE	Public Enterprise
PEC	Planning, Economics and Controlling
PhD	Doctor of Philosophy
PS	Primary school
Q	Qualified worker
R&D	Research and Development
RAG	Red, Amber, Green
RAR	Road Accident Rate
RC	Research Centre or Regional Centre
RCM	Reliability-centered maintenance
RCSC	Russian Centre for Science and Culture
RF	Russian Federation
RMP	Regular Management Practice
RNP	Pančevo Oil Refinery
ROA	Return on Assets
ROE	Return on Equity
RS	Republic of Serbia
RCLT/TTLT	Rail car loading terminal, tank truck loading terminal
RSD	Serbian Dinar
SAB	Shareholders' Assembly Board for the Supervision of Operations and Reporting to the Company's Shareholders

Abbreviation	Meaning
SARU	Spent Acid Regeneration Unit
SEVESO	HSE-related Directive
SMSB	Safe Mind Safe Body
SO_2	Sulphur Dioxide
SORS	Statistical Office of the Republic of Serbia
SQ	Semi-qualified worker
s.r.l.	Limited liability company (in Romania)
SRU	Sulphur Recovery Unit
SS	Secondary School
STC	Scientific and Technological Centre
STEM	Science, Technology, Engineering and Mathematics
SUV	Sport utility vehicle or suburban utility vehicle
THS	Technical Services
t.o.e.	Tonnes of oil equivalent
TWh	Terawatt hour – unit of electricity
UB	University of Belgrade
UNS	University of Novi Sad
UPS	Upstream
UQ	Unqualified worker
USA	United States of America
UQ	Unqualified worker
US	United States
USD	US dollar
USD/bbl	US dollars per barrel
VAT	Value Added Tax
WTI	West Texas Intermediate

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