

QUARTERLY REPORT FOR SECOND QUARTER OF 2021



The Quarterly Report for Second Quarter of 2021 presents a factual overview of NIS Group's activities, development and performance in second quarter of 2021. The Report covers and presents data for NIS Group, comprising NIS j.s.c. Novi Sad and its subsidiaries. If the data pertain only to certain 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 Quarterly Report for Second Quarter of 2021 is compiled in Serbian, English and Russian. In case of any discrepancy, the Serbian version shall be given precedence.

The Quarterly Report for Second Quarter of 2021 is also available online on the corporate website. For any additional information on NIS Group, visit the corporate website www.nis.eu.

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Foreword

In the first half of 2021, the NIS Group continued to improve its financial and operational results, with the implementation of strategic projects that will enable further development and sustainable business in the market. The recovery of demand on the derivatives market, as well as the continuation of activities that contributed to increasing business efficiency at all levels led to a significant improvement in financial results, compared to the first six months of 2020. Trend of growth was recorded in oil prices – in June 2021, the price of Brent oil was 64.9 dollars per barrel, which is 63 percent more when compared with the equivalent reporting period last year.

For the first six months of the current year, the net profit of the NIS group has amounted to RSD 6.1 billion, which is much better result than last year, when a loss of RSD 10.2 billion was recorded in the equivalent time period. At the same time, the EBITDA indicator amounts to RSD 22.2 billion, which is the increase of almost nine times, if compared to the same period last year, when this indicator amounted to RSD 2.3 billion. Sales revenues during the first six months amounted to RSD 115.7 billion, which is the increase of 35% when compared to the same period last year. In this reporting period, NIS recorded a significant improvement in the operational cash flow indicator (OCF), which amounted to RS Dinar 14.5 billion, or 132% more than last year. Liabilities of NIS Group based on taxes and other public revenues amounted to RSD 95.4 billion, which is the increase of 14 percent compared to the first six months of 2020.

Success has also been recorded in most operational indicators. The total turnover of petroleum products for the first six months of 2021 amounted to 1,768 thousand tons, which represents the increase of 13 percent compared to last year. The modernization and expansion of the retail network continued, so at the end of May, the first retail facility on the "Milos Veliki" highway, the GAZPROM gas station "Sokolići 1", was put into operation. NIS also remained committed to the development of a digital portfolio in the field of retail, which is aimed at further improving the user experience. Additional innovative functionalities have been introduced within the Drive.Go mobile fuel payment application, as well as the "On the Road with Us " consumer loyalty program.

When it comes to the volume of refining, compared to the same period last year, the increase of 5 percent was recorded and the total volume of the refining of crude oil and semiproducts amounts to 1,714 thousand tons. At the same time, NIS has continued to modernize its refining complex by implementing projects within the third phase of modernization of the Pančevo Oil Refinery, whose main goal is to change the technology of fluid catalytic cracking plant (FCC) to modern INDMAX technology, as well as the construction of a new ETBE plant. tert-butyl ether). In the field of exploration and production of oil and gas, 589 thousand conditional tons were produced in the first six months of 2021.

Despite the challenges, even in this reporting period, NIS did not give up its strategic commitment and support to the community in which the company operates. A Memorandum of Cooperation was signed with the Ministry of Mining and Energy and the Ministry of Environmental Protection of the Republic of Serbia on the joint implementation of environmental projects. In addition to that, agreements were signed that are focused on supporting environmental projects between NIS and local governments, partners of NIS's program of social responsibility "Together to the Community", and the company set aside RSD 107.5 million to finance these projects. NIS has continued to support health institutions through donations to medical institutions, as a sign of support in the fight against the COVID-19 pandemic. A Memorandum was signed with the Faculty of Philosophy of the University of Niš on the cooperation in the field of education, research and knowledge transfer. In May, NIS published the 11th verified Sustainable Development Report for 2020, in order to present to the public in a transparent manner all its efforts aimed at improving business and the company's contribution to the development of the community. As a company that invests significant funds in occupational safety and health and environmental protection, NIS won the first place in the "Competition for the award of national recognitions in the field of occupational safety and health" in the category "April 28", organized by the Directorate for Safety and Health of the Ministry of Labor, Employment, Veterans and Social Affairs.

NIS's priority in the rest of the year remains to increase business efficiency, further improve financial and business indicators, through continued investment in development projects for the benefit of shareholders, employees and the community in which the company operates.

Business report

Highlights

April - June

- 13 development wells were drilled and 12 development wells were put into operation
- Seismic works on the 2D project Obudovac in Bosnia and Herzegovina completed
- Workover on Beba Veche Sud 1000 well completed
- Final stage of the contract signing for two new seismic projects (3D Dogu Varinca and 3D Cizre) with "TRAO"

- The continuation of activities on the project Reconstruction of the FCC plant and construction of a new ETBE plant in accordance with the project phases

- The implementation of digital projects:
 - the improvement of operational availability (Predictive maintenance with Mashine learning);
 - the improvement of the efficiency of technological processes (improving the monitoring system of operational availability parameters and APC availability parameters (unit level));

- Termination of the lease agreement for the PS Zrenjanin 5, rebranding of the PS and reintegration into the network
- “Jazak” water - Image campaign
- Start of the operation of the newly built PS “Sokolici 1”
- Start of the operation of the reconstructed PS “Zagubica”
- Campaign for the loyalty program “On the Road with Us” – virtual membership

The XIII regular session of the Assembly of Shareholders of NIS was held, at which, among other things, decisions were adopted on the distribution of profits of previous years, to cover the loss of NIS j.s.c. Novi Sad for 2020, payment of dividends and determination of the total amount of retained earnings of NIS j.s.c. Novi Sad, as well as the election of members of the Board of Directors.

In cooperation with VISA and the Poštanska štedionica Bank, NIS enabled its customers to withdraw cash at all NIS Petrol and GAZPROM refuelling stations.

Senior state officials, led by Zorana Mihajlović, Deputy Prime Minister of Serbia and Minister of Mining and Energy, visited the NIS Science and Technology Center.

NIS won first place in the "Competition for the award of national recognitions in the field of occupational health and safety" in the category of Charter "28th April "organized by the Directorate for Safety and Health at Work of the Ministry of Labour, Employment, Veterans and Social Affairs.

NIS participated in the Kopaonik Business Forum this year as well, where presented investments in environmental projects.

Within the program "Common Cause - Community 2021", a Memorandum of Cooperation was signed with the Ministry of Mining and Energy and the Ministry of Environmental Protection of the Republic of Serbia on the joint implementation of environmental projects. Agreements were also exchanged with 12 municipalities and cities participating in this programme.

NIS Group

NIS Group is one of the 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.

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 Block¹ and DOWNSTREAM². 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.

Exploration and production Block

Exploration and production

NIS is the only company in the Republic of 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 CO₂ 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.

Services

NIS has its own service capacities, which fully meet the Group's demands in the area of oil and gas exploration and production and allow NIS to provide services to third parties. Services provide services such

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.

as geophysical surveying, well drilling, outfitting and workover, as well as specialized operations and measurements on wells.

Additionally, equipment maintenance services are provided, as well as construction and maintenance of oil and gas systems and facilities.

Owing to its experienced personnel, cutting-edge equipment and continued investment in its modernization, the Services had the opportunity to work in other countries (Egypt, Turkmenistan, UAE, Russia and many others). Currently, Services are engaged in Bosnia and Herzegovina and Romania.

The goal of this business unit is to strengthen its presence in the region and the international market, which is why its priorities include equipment modernization, improving service quality level, and increasing technical and technological efficiency and increase in capacity utilization in NIS and other companies.

DOWNSTREAM

The DOWNSTREAM consists of the Refining Block, 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 expanding the range through the beginning of the 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.

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 develops investment projects in power and heat generation from conventional, renewable and alternative energy sources. 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.


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.

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



NIS Group Business Structure



Representative Offices and Branch Offices

- Branch Offices in Serbia³
- Angola Representative Office
- Russian Federation Representative Office
- Turkmenistan Branch Office⁴

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
- Jadran Naftagas LLC Banja Luka
- NIS-Svetlost LLC Bujanovac – in bankruptcy⁵

³Under 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/>.

⁴The process of liquidation has been initiated.

⁵On 29th March 2021 bankruptcy proceedings have been opened.

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.

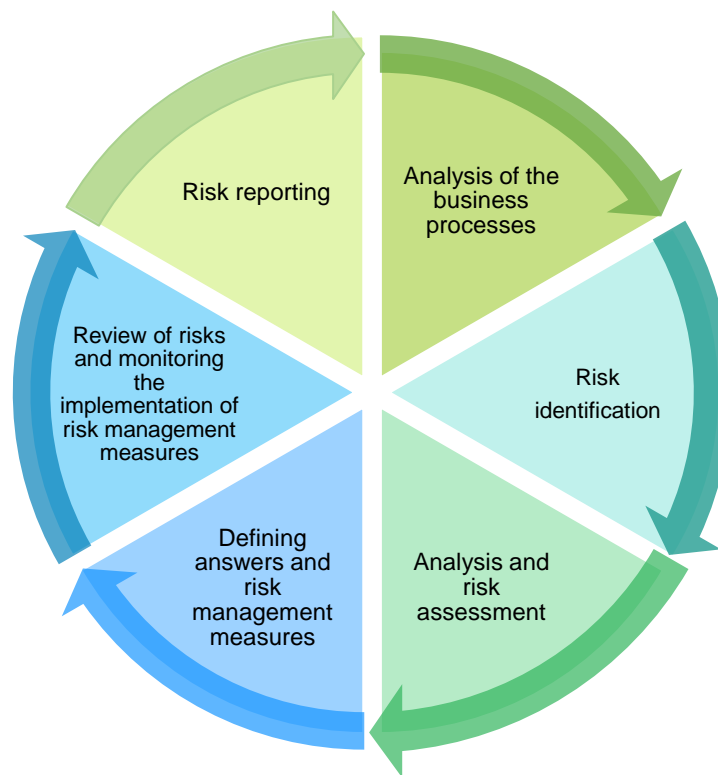
Company has defined its risk management objectives and has an integrated risk management system (IRMS) in place. The Company's objective in the field of risk management is to increase the effectiveness and efficiency of managerial decisions by identifying, analysing and assessing risks which arising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

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

IRMS Business Process Flow at NIS



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.

ISUR 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.

Nonfinancial risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Operational risks	
<i>HSE risks</i>	
<p>Due to the nature of its activity, the Company is exposed to health, safety and environmental risks.</p>	<p>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 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 are conducted through written information to employees, ie. in online format, in order to maintain a safe distance and preserve health.</p> <p>During the first and second quarters of 2021, the Company's employees were provided with collective immunization at the Company's locations and vaccines of their choice. During the second quarter, the procurement was completed and the implementation of periodic inspections for jobs with increased risk was initiated.</p> <p>The implementation of all measures and the health condition of employees who were found to be positive for the coronavirus, as well as their contacts, is monitored daily, and the status of Top Management is reported. NIS Group invests important resources and efforts in order to protect employees and combat the consequences of coronavirus.</p>

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, NIS Energy, 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.

Talent management program, Talent development program, professional/professional training of employees, calibration program - identifying talents and defining a succession plan for key positions in the Company, management training and the introduction of a unified talent management system.

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

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

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).

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 risks

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 2020, NIS negotiated/contracted over EUR 600 million in lines of credit with Serbian 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), as well as changes in the conditions for existing loans (price and maturity). Thus, in order to improve its loan portfolio, NIS secured the necessary funds for timely repayment of loans in 2020 and 2021, as well as for early repayment of expensive loans in order to improve the characteristics of the loan portfolio. 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 2022, during the first half of 2021, the Company carried out a tender for refinancing the loan portfolio in order to extend the average maturity of the portfolio, while maintaining the optimal price, as well as to optimize the covenant package for loans in the total amount of EUR 265 million, of which, at the end of the second quarter, offers for extension of maturity were accepted with the correction of conditions in the amount of EUR 160 million. Apart from the above, additional limits were obtained for bank loans that do not apply sanctions, in the amount of EUR 10.8 million and EUR 68 million from European banks. The use of these sources of financing will enable early repayment of loans with short maturities, as well as maintaining the average portfolio price within optimal limits, in order to maintain the average remaining maturity of the loan portfolio at the level of over three years at the end of 2021.

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 and successive purchases of foreign exchange, 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.).

Business environment⁶

World

Climate activists have won a great victory after the Dutch court ordered Royal Dutch Shell to drastically cut back on its global green house gas emissions, which will essentially lead to a decrease in the production of oil and gas at this company. French Total was renamed to TotalEnergies, illustrating the focus on the company's strategy of transitioning to renewable energy sources. The two US oil companies, Exxon Mobil and Chevron have also been forced by their shareholders to intensify their activities on climate change strategies. The US President has introduced a number of limitations for vehicles with petrol and diesel engines as a part of his plan to "decarbonise" the nation. Now, the US car manufacturers are required to achieve a 1.5% improvement in fuel consumption by 2026, with the proposed aim of 5% a year. Car manufacturers believe that this request is unrealistic and propose the California "compromise" agreement (Ford, Honda, Volkswagen and BMW have made an agreement with California to increase fuel efficiency by 3.7% a year as of 2022).

In early July, European Commission published the "Fit for 55" package of energy and climate laws, which should enable EU to meet its target by 2030 in reducing emissions by 55%, as compared to the 1990 levels, and for EU to become climate neutral by 2050. The package is comprised of numerous legislative proposals, some of which are new and some are revisions of existing legislature, and nearly all are related to the oil and gas industry (in addition to other CO₂-intensive industries).

The International Energy Agency deems that the oil and gas industry must significantly increase investments in clean energy, as well as seriously reduce drilling and development of new oil and gas fields to limit global temperature rise.

However, the largest global state-owned oil companies have dismissed the calls for a "quick change" in oil and gas consumption and warned that small investments in oil and gas production would affect global economy, especially in these post-pandemic times, and that the price of oil could increase to over USD 200. The leaders of some of the largest oil and gas producer countries stated that they would continue to increase the capacity of their oil and gas plants and warned others of the consequences to the global economy which might result from the lack of investments in research and opening of new oil and gas fields. They believe that the "euphoria" of the transfer to clean energy is "dangerous", especially having in mind the fact that it is necessary to provide economic growth after the pandemic, the consequences of which have been experienced by all of us, which would not be possible without fuels at affordable prices.

According to Goldman Sachs Group Inc., the demand for the transportation fuels will peak in 2026, if not earlier, mostly due to accelerated spread of electric vehicles. The total crude oil consumption will continue to grow in this decade due to airplane fuel and raw materials for the petrochemical industry, however, after 2025, the growth will be very low.

⁶ Sources for World, Oil price and Macroparamteres: Reports Wood Mackenzie, IHS, Bloomberg, Reuters, National Petroleum Committee of Serbia, EU Commission
Data sources for Serbia: Reports National bank of Serbia, papers: Danas, Bizlife, Blic Business.

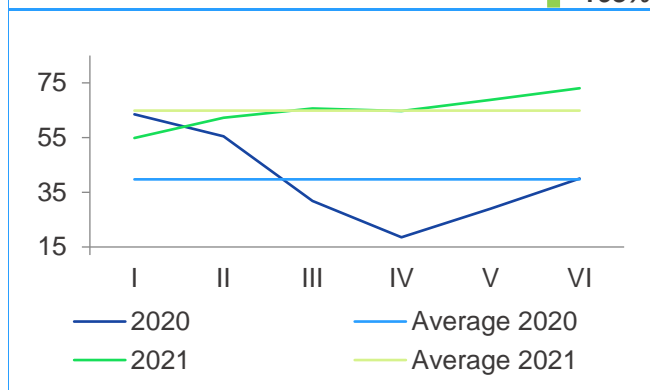
Oil price

The reopening of economies has led to an increase in crude oil prices by over 50% since the beginning of 2021, and the intensification of travel during the summer holiday season in the United States, as well as increased freight transport and renewed air traffic, could further push prices that have ranged from \$ 50.3 to \$ 76.2/barrel. At the end of June, the price of Brent crude oil rose above \$ 75/barrel for the first time since April 2019.

However, some analysts warn that, when it comes to the price of oil, investors must not rely on the economic recovery of the United States, because the situation is still dramatic in poorer countries. Investors have high expectations for the global recovery of oil due to economic growth in the United States, but those expectations could be "too optimistic." Richer countries are at the forefront of vaccination and reopening, but COVID-19 cases are still on the rise in many poorer countries, which are unlikely to be able to follow the US's path of vaccination.

Brent Dtd⁷ price trends, \$/bbl

↑ +63%



At a ministerial meeting held on 18 July, following almost three weeks of negotiations, OPEC+ members set new conditions and guidelines they will use to continue the increase in oil production from August in order to meet the growing market needs and also to reduce prices. An increase of 0.4 mln barrels per day was agreed, subject to a monthly review (OPEC+ will meet again on 1 September). Besides, five countries (Saudi Arabia, the United Arab Emirates, Iraq, Kuwait and Russia) will define a new starting point for their production by 1 May 2022 taking into account that production capacities of these members have grown considerably in the last couple of years.

Uncertainty linked to the spread of the new virus strains, the decrease of USA's reserves, on the one hand, and increased production of major global producers, on the other, trigger oscillations in crude prices. Immediately after the meeting, oil price fell by several dollars but quickly recovered almost to the pre-meeting level. Yet most analysts reviewed their price forecasts downward: Goldman Sachs estimates annual average Brent at about 75 \$/bbl, Wood Mackenzie places the price tag at 69 \$/bbl, whereas S&P is less optimistic and projects the crude price at 60 \$/bbl.

Macroeconomic trends

The IMF believes that the policy of the countries related to vaccination this year, and probably next year, will be the most important of all economic policies, while the world is trying to recover from the crisis caused by the coronavirus. Last month, the organization proposed the investment of \$ 50 billion to ensure faster vaccination implementation, as they believe that this investment would generate a profit for the global economy of \$ 9 trillion. The IMF also called for at least 40% of the world's population to be vaccinated by the end of the year, and at least 60% by June 2022.

The recovery of global economies is visible in most regions. Inflation in the markets of developing countries rose from 3.9% in April to 4.5% in May. Since the beginning of June, central banks in Brazil, Hungary, Mexico and Russia have increased inflation rates. America is recording higher inflation than the "rest of the world" due to a sharp jump in demand for durable goods, which has led to an increase in their prices. Rising prices of cars, furniture and sports equipment caused more than four-fifths of core inflation to be exceeded in May. The European supply chain faces the same problems as the US, but as demand for durable goods is more moderate, it is only 1.5% more expensive in May than a year earlier.

At the same time, the annual inflation rate in China unexpectedly fell from 1.3% to an eight-month high, to 1.1% in June 2021 due to a sharp drop in food costs.

⁷ Source: Platts.

Serbia

The reported growth of gross domestic product (GDP) in the first quarter of 2021 (1.7% on an annual basis) was unexpectedly high, and occurred due to strong external performance and intensive activities in the civil engineering sector, which recorded growth of as much as 19.5% year on year. The service sector also made a positive contribution, despite the prolonged negative effect of the pandemic. Investments act as a key driver of the expected growth of 6% this year, while the recovery of personal consumption in the second half of 2021 would be predicted. It should also contribute to overall growth, with between 2.5 and 3%.

The economic recovery in 2021 was driven by domestic and, to a lesser extent, external demand. Exports of goods and services increased by 7.9% on an annual basis, while imports of goods and services decreased by 1.4% with a total contribution of 3.3%. Investment activity recorded an increase of 10%, and contributed 2.1% to the overall growth. At the same time, the existing small stocks were consumed at high speed, which is why the change in stocks was negative. Personal consumption fell 1.9% year on year, reducing GDP by an additional 1.2%, while public spending played a more neutral role.

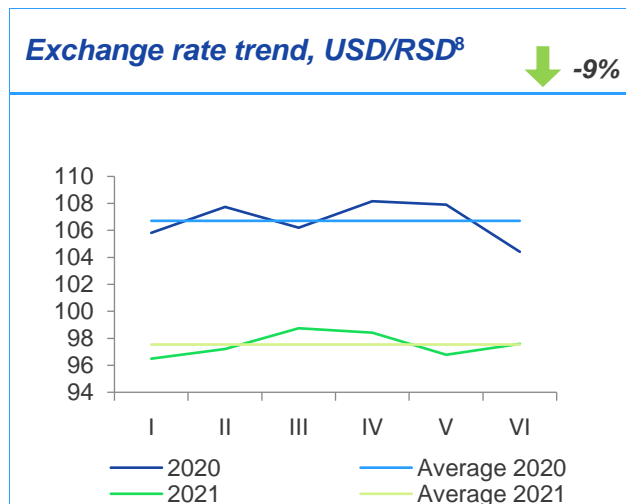
In the medium term, Serbia will maintain strong, sustainable and diversified growth, and the NBS expects that the GDP growth rate should stabilize at around 4.0% in the coming years.

Prices of consumer goods and services in June 2021, compared to May 2021, increased by 0.3% on average, while consumer prices in June 2021, compared to the same month last year, increased by 3.3%.

Industrial production in the period January-May 2021, when compared to the same period in 2020, is higher by 10.3%. Observed by sectors, in May 2021, compared to May 2020, in the Mining sector there was a decrease of 5.8%, in the Manufacturing sector there was an increase of 11.1%, and in the Electricity supply sector, gas, steam and air conditioning growth of 7.9%.

Growth in gross wages in the period January-April 2021, if compared to the same period last year, amounted to 7.8% in nominal terms and 6.0% in real terms. At the same time, net earnings increased by 8.0% in nominal terms and by 6.2% in real terms.

According to the new methodology of the Labor Force Survey, the unemployment rate in the first quarter of 2021 was 12.8%, while maintaining a high participation rate and formal employment.



- Average USD/RSD in the first six months of 2021 was lower by RSD 9.2, i.e. 9% lower compared to the average exchange rate in the same period of 2020.
- During the first six months of 2021 USD/RSD exchange rate increased by RSD 3.1 or 3.2%.
- During the first six months of 2020 USD/RSD exchange rate decreased by RSD 0.3 or 0.3%.

⁸ Source: NBS.

Performance analyses

Market share⁹

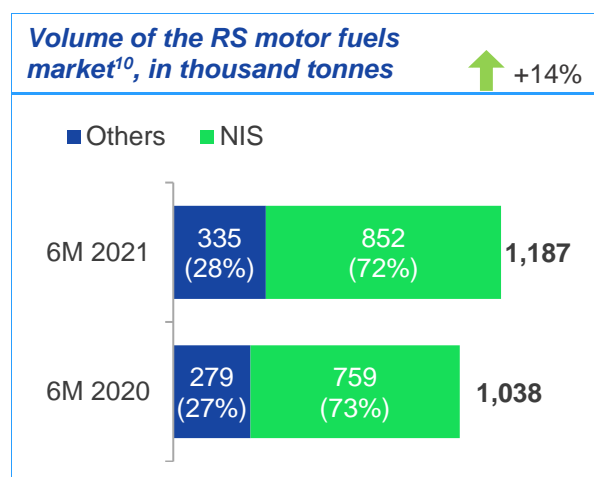
The consumption of motor fuels has different trends in the countries in the region - the main reason is the different measures that the countries introduced in the first half of 2021..

More rigorous and long-lasting measures in Bulgaria have had a negative impact on the recovery of consumption, while in other countries the recovery of consumption is mainly related to infrastructure works, road transport growth and tourism recovery.

Serbia is recording a solid recovery in motor fuel consumption.

Infrastructure works, projects in the construction industry and recovery of road transport have a positive effect, while agricultural activities are proceeding according to plans.

Market share in the Serbian market



The motor fuel market has recovered - the greatest impact on this trend was exerted by the construction and road construction and transport industries and a good farming season.

The significant drop in sales rate in the second quarter of last year (during the state of emergency because of the pandemic) is the main reason for the high growth in the sales rate in the first half of the current year.

The positive impact on motor fuel consumption was largely exerted by construction works, though it was also stimulated by two aid packages provided by the Government of Serbia totalling 5.8 billion EUR (about 13% of the country's GDP), which included the support to the health sector, wage subsidies, financial support to citizens, postponement of tax liabilities and liquidity support to small and medium-sized enterprises through

a credit guarantee scheme.

It is expected that the recovery trend of consumption will continue during the second half of the year provided there are no fresh waves of the pandemic and that no restrictive measures are introduced.

⁹Data 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. Any deviations in percentages and aggregate values result from rounding. The presented percentages of change were obtained on the basis of values that were not rounded to billions of RSD.

¹⁰ Data for 2021 are given on the basis of estimates. Any deviations in percentages and aggregate values result from rounding.

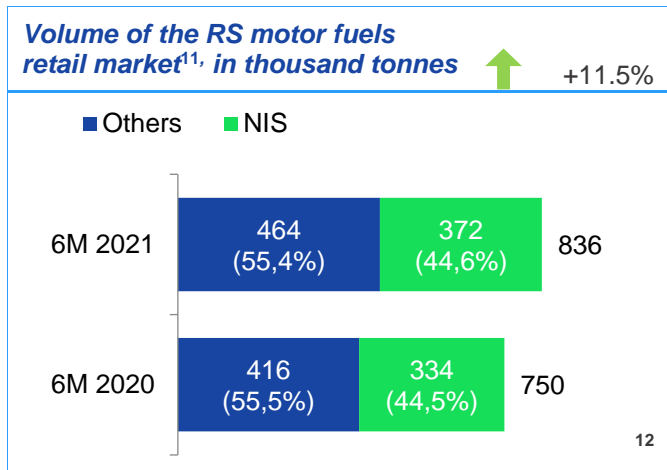
Fuel sales in the retail sector recorded significant growth in the first half of the year, with sales rate increasing compared to the previous year by 11.5%, while it was slightly higher compared to 2019 (0.2%).

The recovery trend was also noticeable in retail thanks to the recovery of the transport industry and greater freedom of movement of end consumers

The recovery of retail is taking place at a somewhat slower pace since the key drivers of fuel consumption are infrastructure projects that are supplied through the wholesale channel.

NIS's market share was at an high level in the first half of 2021, i.e. 0.4 p.p. more than in 2019, before the pandemic.

The modernisation of the petrol station network, innovative marketing solutions and improved product assortment have all contributed to that.



¹¹ 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 2021 are given on the basis of estimates. Any deviations in percentages and aggregate values result from rounding.

¹² Retail of other market participants is supplied from the wholesale of NIS and other participants of the Serbian wholesale market.

Market share in Bosnia and Herzegovina, Bulgaria and Romania

Bosnia and Herzegovina

At its meeting on 1 April, the Government of the Federation of B&H adopted a Decision setting ceilings for petroleum product retail margins. The margin ceiling for the wholesale companies was set in the total amount of 0.06 BAM/l of product, and the margin ceiling for retailers was set in the total amount of 0.25 BAM/l of product. The Decision was published in the Official Gazette of the Federation of Bosnia and Herzegovina on 2 April and became effective on the next day. A day after the Decision of the Government of B&H, the Government of the Republic of Srpska also issued its Decree on Establishing Margins for Pricing of Petroleum Products, under which the margin ceiling for the wholesalers was set in the total amount of 0.06 BAM/l of product, and the margin ceiling for retailers was set in the total amount of 0.25 BAM/l of product.

The commitments assumed under the second and third energy packs were major topics for discussion on the meeting of the Minister of Foreign Affairs and Economic Relations, Staša Košarac, with the ministries of energy and mining from the federal entities, held at the Council of Ministers. Košarac asserted that approximately 95% of the text of the Decision on the Quality of Oil and Liquid Petroleum Products has been harmonised and it could be adopted at the session of the Council of Ministers over the next 30 days, whereby the process of Bosnia and Herzegovina joining the World Trade Organisation would be facilitated.

According to the Decision of the Government of the Federation of B&H, money generated from the fees from trade in oil and petroleum products in the period 2019-2020 will be directed to the purchase of petroleum products for the creation of reserves, as well as for the supervision and control of their quality and ensurance of technical and technological operability of plants and warehouses, including the procurement or construction of new warehouses, and for the operating costs of the operator, i.e. Oil Terminals of the Federation of B&H.

Sarajevo Canton transferred ownership of oil terminals to the Government of the Federation of B&H. "It is very important that the Government of the Federation of B&H acquired what is our legal obligation, and that is that the Federation must have oil and petroleum products reserves for at least three months," said Prime Minister of the Federation of B&H Fadil Novalić after signing the Annex to the Agreement on the Transfer of the Ownership Right for the reconstruction, adaptation and construction of new ancillary facilities of Terminal Blažuj with the Prime Minister of Sarajevo Canton and the Operator Terminals of the Federation of B&H. He added that by signing that Agreement, the ownership of the relevant terminals was exchanged between the Government of the Federation of B&H and the Government of Sarajevo Canton, which resulted in the completion of the activity that lasted 12 years.

The Operator Terminals of the Federation of B&H announced a tender for the reconstruction, construction and commissioning of the terminal in Blažuj, which has been devastated in the last war. The total procurement value is estimated at BAM 19.4 million, whereas the deadline for the completion of works is 24 months in total. More than a year ago, Terminals of the Federation of B&H have commissioned a restored terminal in Živinci, thus allowing B&H to store its oil reserves for emergencies. One of the conditions imposed on the Federation of B&H by the Energy Community is to create oil reserves for 90-day period and the entity will be able to meet this condition after the reconstruction of its aboveground tanks in Blažuj, Mostar and Bihać. The Federation of B&H has eight oil terminals at the moment.

The representatives of the Hifa Oil Group and Tuzla Canton discussed at their meeting about the development and investment projects that Hifa Group is planning in the area of this Canton. The project for building a warehouse for aviation fuel and increasing the security of fuel delivery for the needs of the International Airport in Tuzla was presented at the meeting. Authority representatives said they would help speed up activities and eliminate administrative barriers to execute the investment as soon as possible.

Brod Refinery has completed its key gasification project stage by completing the gas pipeline below the Sava River's bed, which will enable the trunk gas pipeline from the Republic of Croatia to tie-into the previously constructed gas pipeline system in the territory of Brod, Optima Group has announced. The construction of the gas pipeline below the Sava River was performed by Crodux plin, which employed state-of-the-art horizontal drilling technology. In 2021, the company started the project of procuring and installing new compressor equipment. The 1st stage of the project will be completed in the 3rd quarter of the year, when the new gas compression unit will be put in operation.

At the opposite bank of the Sava River, the Croatian gas operator completed construction of a new section of direct gas pipeline and tied the section into the Croatian gas system near the village of Slobodnica and obtained a permit to tie-into the system. The refinery has been out of commission for nearly two years after a great fire.

In the first half of this year, Bosnia and Herzegovina recorded a recovery in the motor fuel market and a slight recovery in retail sales compared to the comparable period of the previous year, although this predominantly concerns the second quarter of 2020 when pandemic measures began, which are much milder this year, which is reflected in the consumption growth rate.

NIS in Bosnia and Herzegovina has 40 petrol stations (and 2 petrol stations operating in DODO regime). A total of 5 new leased stations were included in the network, which made a positive contribution to the results of the first half of the year.

In the overall motor fuel market, NIS has a market share of 32.1%, while its share in the retail market is 10.0%.

Bulgaria

Bulgarian Refinery Lukoil Neftochim Burgas plans to invest EUR 173 million in upgrading its thermal power plants by 2024, said the Bulgarian energy regulator in a report on the company's investment program for the period 2020-2024. The company plans to buy new turbines this year and boilers in 2022. It finances the investment from its own funds and borrowed capital.

A new Law on Fuel is in force in Bulgaria, a document that tends to guarantee market competition, limiting the grey sector and increasing state budget revenues. According to the new Law on Fuel, the level of minimum capital of the companies engaged in the wholesale of petroleum products is set to the amount of 1% of the company's net income. Violations of the Law are punishable by banning the operation of petroleum stations and fuel depots if they sell illegal fuel, whereas tanks transporting illegal fuel will be excluded from traffic for one year. Farmers may also be sanctioned for trading fuel if not licensed for such a business activity.

Border police, tax inspectors and customs officers have begun inspecting Lukoil's oil terminal near Burgas, Bulgarian city on the Black Sea. The inspection should collect complete information on the operation of the oil terminal, said the Minister of Economy, Assen Vassilev, to the broadcaster Free Europe. In 2011, Lukoil received a 35-year concession granted by the first government of former Prime Minister Boyko Borisov. Authorities will inspect whether the company has properly reported the profit tax, especially whether the oil is first transferred to another country, and then to Bulgaria at higher prices. This would allow the company to hide the profits made in the country where the oil is actually used. Lukoil, the owner of the largest oil refinery on the Balkan Peninsula, which is also located near Burgas, has not paid almost any profit tax in the past decade, and usually ends the year with a loss, according to media reports.

The Bulgarian government announced that it has decided to cancel the tender for the exploration of natural gas and oil in block 1-26 Tervel in the Black Sea. No candidate expressed interest in the project until the deadline for submitting bids, said the government in a statement published after Sunday's meeting.

Due to the coronavirus epidemic in Bulgaria and the epidemiological measures taken to combat the epidemic, which were in force longer and more intensively in 2021 than in most countries in the region, there was a decline in motor fuel turnover and retail market turnover in the first half of this year, compared to the comparative period of the previous year.

In Bulgaria, NIS has 34 petrol stations and petroleum product warehouses in Kostin Brod.

In the overall motor fuel market, NIS has a market share of 4.5%, while its share in the retail market is 4.1%.

Romania

Romania's Ministry of Finance announced new, increased amounts of excise duties on fuels, which are valid from 1 January 2021. Motor fuels in Romania are becoming more expensive, and prices have reached the pre-crisis level caused by the corona virus. Oil companies say that the increase in motor fuels prices is conditioned by the increase in excise duties and increase in crude oil prices on the world market.

Romp petrol Rafinare, the owner of the Petromidia and Vega refineries, controlled by KMG International, bought crude oil for a period of five years from a trader owned by the parent company in Switzerland - KazMunayGas Trading. On the first day of the current year, this company concluded a forward contract for the purchase of crude oil for the period from 1 January 2021 to 31 December 2025. The total value of the transaction is estimated at over USD 10.31 billion.

The Romanian parliament is debating about a legislative amendment establishing obligations for public and private carriers in Romania to replace the current fleet using petrol and diesel fuel with ecological fuels. Law 37/2018 stipulates that local authorities, autonomous utility companies and companies subordinated to administrative-territorial units will purchase means of transportation for passengers powered by electric motors and green technologies such as electric, hybrid, plug-in hybrid, hydrogen, CNG, LPG and biogas, in the proportion of at least 30% of future purchases. The percentage will be derived from the total number of vehicles purchased in the year. The Law also applies to privately owned companies that provide local and city transportation services, including taxi companies.

Romania's national road infrastructure administration company CNAIR has announced the winners of a tender for the construction of 26 new petrol stations on A1 and A2 motorways in Romania. The future signatories of this 20-year agreement are the companies Rompetrol and MOL. The plan is to build new petrol stations with electric vehicle chargers, refueling, restaurants and shops.

Shell company has started direct commercial road transport in Romania since April. For the last 15 years, services have been rendered through a local agent. A team of 57 people will provide support to Romanian "B2B" customers from the Bucharest office.

Enel X put into operation 6 charging stations for electric vehicles in Constanta in Romania, and the network reached 53 stations. The stations have the capacity of charging 12 vehicles simultaneously. Enel X Romania has the largest plan for electric mobility infrastructure in the country, which includes the installation of about 2,500 charging stations in all regions of the country in the next few years, which is an investment of EUR 15 to 20 million.

Romanian company OMV Petrom announced a drastic reduction of the investment budget in 2021. The investments are estimated to amount to RON 2.9 billion (EUR 595.6 million). For comparison, in 2020, the company had an investment budget of RON 5.8 billion (EUR 1.2 billion), out of which only 56% was realised.

OMV Petrom will invest EUR 70 million in the Petrobrazi Refinery to replace 4 coking drums in the period 2021-2023. This year, it will invest EUR 11 million. The replacement of the drums is a highly complex project and new units will contribute to increasing the efficiency and safety of OMV Petrom, said Radu Caprau, a member of Petrom's Executive Board for Downstream Oil. Coking drums at high temperatures ensure upgrade of heavy components to advanced products. Four coke drums are designed for a lifespan of more than 20 years and 5,000 operating cycles and will be produced in Romania. Petrobrazi has an oil refining capacity of 4.5 million tons per year and, since 2005, OMV Petrom has invested EUR 1.8 billion in the refinery, which is a third of this investment.

Romania's OMV Petrom announced that, with Auchan Retail Romania, it will open 400 stores at OMV Petrom petrol stations in Romania between 2021 and 2024. The value of the investment is estimated at more than EUR 50 million. Currently, OMV Petrom and Auchan Retail Romania established cooperation at 22 petrol stations under the Petrom brand. The cooperation between these two companies in Romania started in 2017.

By the end of 2022, OMV Petrom will install at least 40 charging stations for electric cars in partnership with Renovatio, the operator of the largest network of charging stations for electric vehicles in Romania. All locations will have at least one charging station with a minimum power of 50 kW, and 20 will have chargers power 350 kW. The latter will form the largest network of ultrafast charging stations in Romania. The goal is to allow electric vehicle drivers to return to the road in less than 20 minutes. The charging stations will be located along the Trans-European Transport Network (TEN-T) corridor in Romania and in urban areas. More and more Romanians opt for electric and hybrid vehicles and, although the number of these vehicles is currently low in Romania, electric mobility is likely to become a large-scale option. OMV Petrom was the first energy company in Romania to install the first fast charging station for electric cars 4 years ago as part of a pilot project.

Camelia Ene, CEO of MOL Romania, stated that MOL Romania sees great potential for further growth and development in the local market. MOL's digitization projects in Romania were accelerated last year. There will be many projects in the future that will lead to the transformation of MOL Romania from fuel retail to the multi-service provider.

In the first half of this year, Romania recorded a slight recovery of the motor fuel market and retail sales compared to the same period last year.

NIS has 19 petrol stations in Romania. In the overall motor fuel market, NIS has a market share of 1.2%, while its share in the retail market is 1.5%.

Key indicators

Q2 2021	Q2 2020	Δ^{13}	Indicator	Unit of measure	6M 2021	6M 2020	Δ^{14}
68.8	29.2	+136%	Brent Dtd	<i>\$/bbl</i>	64.9	39.7	+63%
67.5	33.4	+102%	Sales revenue ¹⁵	RSD billion	115.7	85.9	+35%
4.5	-9.2	+150%	Net profit	RSD billion	6.1	-10.2	+159%
12.9	-2.9	+5,5x	EBITDA ¹⁶	RSD billion	22.2	2.3	+9,6x
15.0	7.8	+91%	OCF	RSD billion	14.5	6.3	+132%
4.5	6.8	-33%	CAPEX ¹⁷	RSD billion	8.6	14.5	-40%
50.8	44.1	+15%	Accrued liabilities for taxes and other public revenue ¹⁸	RSD billion	95.4	83.9	+14%
604	616	-2%	Total bank indebtedness ¹⁹	EUR million	604	616	-2%
0.9	1.6	-48%	LTIF ²⁰	%	0.9	1.6	-48%

¹³ Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.

¹⁴ Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.

¹⁵ Consolidated operating income.

¹⁶ 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.

¹⁷ CAPEX amounts are exclusive of VAT.

¹⁸ Taxes, fees, charges and other 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.

¹⁹ Total bank indebtedness = Total debt to banks + Letters of Credit. As at 30 June, 2021, this was EUR 604 million of total debt to banks.

²⁰ 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 subsidiaries: Naftagas – Oil Services LLC Novi Sad, Naftagas – Technical services LLC Zrenjanin and Naftagas – Transport LLC Novi Sad. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 30 June 2021. Therefore, there is no difference between 6M and Q2.

Operating indicators

Exploration and production

Q2 2021	Q2 2020	Δ^{21}	Indicators	Unit of measure	6M 2021	6M 2020	Δ^{22}
297	317	-6%	Oil and gas output ²³	Thousand t.o.e.	589	636	-7%
204	211	-3%	Domestic oil output ²⁴	Thousand tonnes	402	421	-4%
1.3	2.1	-39%	LTIF ²⁵	%	1.3	2.1	-39%
7.5	2.8	+171%	EBITDA	RSD billion	13.5	8.0	+67%
2.9	4.5	-36%	CAPEX ²⁶	RSD billion	5.5	9.2	-40%

The main goal in the first half of 2021 in the Exploration and Production Block was to fulfill the hydrocarbon production plan and increase the efficiency of geological and technological activities.

In the first half of 2021, a total production volume of 571 thousand t.o.e. was achieved at deposits in Serbia. The total volume of production for the first half of this year, including concessions, amounts to 589 thousand t.o.e.

In the field of geology and deposit development, the emphasis is on maintaining the high quality of the performed geological and technological activities aimed at increasing oil and gas production.

Geological exploration and well engineering

As part of the development drilling, the Is-19 well market the opening of a new deposit in the Idoš field. Trial production has been initiated, the well shows high potential.

In the first half of the year, 21 oil wells put into operation. The documentation for hydrocarbons and groundwater is being prepared.

2/3D seismics

In the first half of the year, there is ongoing seismic and geological interpretation of the aggregated 3D polygons Majdan-Srpski Krstur, Martonoš-Velebit and Čoka.

License obligations

In order to ensure the conditions for drilling wells in the approved exploitation fields "Velebit" and "Palić", Geological Exploration Projects were carried out and exploration works were reported in accordance with legislation. For the "North Bačka" exploration area, an Annex to the project of geological exploration was made for the purpose of testing exploration and contour-exploration wells and on June 24, 2021, the Decision of the competent Provincial Secretariat was obtained, approving the continuation of geological exploration of oil and gas in this exploration area.

For the "Idoš" exploitation field, the approval of the Provincial Secretariat for the construction and execution of mining works was obtained according to the GRP for the development and exploitation of oil and dissolved gas – Bd-1a and Bd-1b deposits.

²¹ Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.

²² Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.

²³ Domestic oil output includes natural gasoline, whereas gas output takes into account commercial gas output and light condensate.

²⁴ With natural gasoline.

²⁵ Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. Data refer to Block Exploration and production (including Services).

²⁶ Financing, exclusive of VAT.

Projects abroad

The Company's operations in Romania in the Upstream part are carried out with the resources of NIS Petrol s.r.l. from Romania (a subsidiary, the sole owner of which being NIS a.d. Novi Sad) on six concession blocks. The operator on the blocks is NIS Petrol s.r.l.

Key events in the second quarter of 2021 in Romania:

- Blocks EX-7 and 8: NAMR (Romanian National Agency for Mineral Resources) has issued a formal document harmonizing the technological scheme of development (feasibility study) of the "Teremia North" deposit. The design of the infrastructure for the development of the "Teremia North" deposit is underway;
- Jimbolia Block: Experimental production of natural gas is underway;
- EX-12 Block: An official request for an extension of the exploration period was sent to the NAMR.

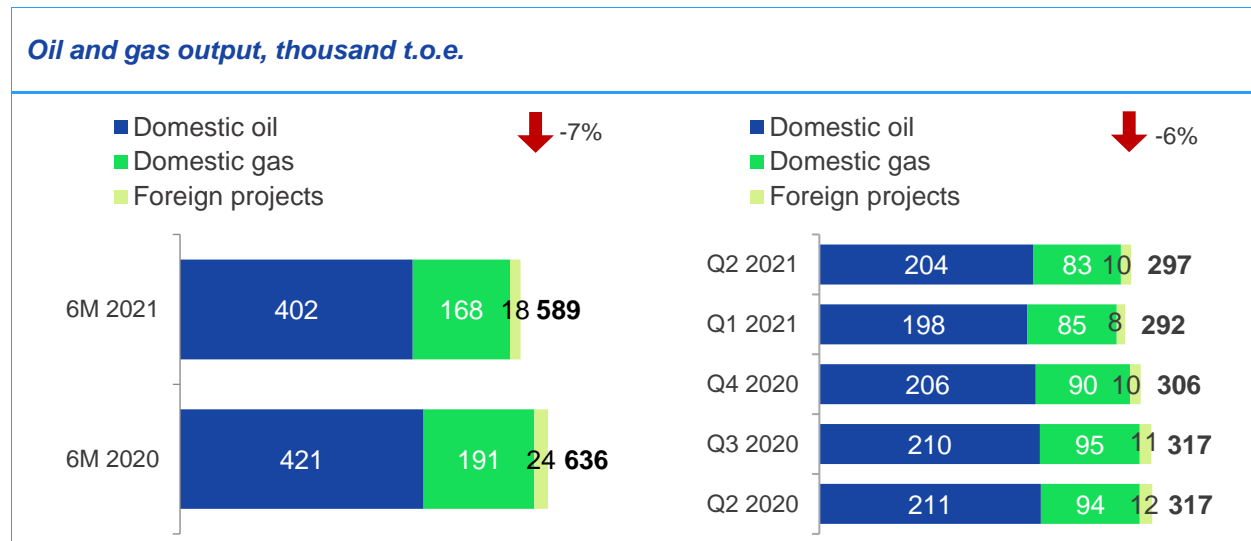
The Company's operations in the Republika Srpska (Bosnia and Herzegovina) in the Upstream part are carried out with the resources of Jadran Naftagas from Banja Luka.

Key events in the second quarter of 2021 in Bosnia and Herzegovina:

- Completed 2D seismic imaging in the Obudovac region;
- The Ministry of Energy and Mining of the Government of the Republika Srpska issued a decision for exploration works until the end of 2023.

Operating indicators

In the first six months of 2021 the total production was 589 thousand tonnes of oil and equivalent of oil and gas, which is 7% less comparing to the same period of previous year.



Downstream

Key indicators

Q2 2021	Q2 2020	Δ^{27}	Key indicators	Unit of measure	6M 2021	6M 2020	Δ^{28}
962	770	+25%	Volume of refining of crude oil and semi-finished products	Thousand tonnes	1,714	1.630	+5%
986	779	+27%	Total sales volume of petroleum products	Thousand tonnes	1,768	1.558	+13%
200	162	+24%	<i>Retail Serbia</i>	Thousand tonnes	369	332	+11%
307	264	+16%	<i>Wholesale Serbia</i> ²⁹	Thousand tonnes	566	530	+7%
49	35	+39%	<i>Retail Foreign Assets</i>	Thousand tonnes	92	81	+14%
74	54	+36%	<i>Wholesale Foreign Assets</i>	Thousand tonnes	145	95	+53%
356	263	+35%	<i>Transit, export and BU</i> ³⁰	Thousand tonnes	595	520	+14%
641	518	+24%	Motor fuels ³¹	Thousand tonnes	1,169	1.034	+13%
6.8	-5.6	+221%	EBITDA DWS	RSD billion	13.3	-5.2	+3,6x
3.6	-7.4	+149%	<i>EBITDA Refining</i> ³²	RSD billion	7.1	-11.8	+160%
3.4	3.1	+8%	<i>EBITDA Sales and distribution</i> ³³	RSD billion	6.9	6.7	+2%
1.5	2.2	-29%	CAPEX DWS ³⁴	RSD billion	3.0	5.2	-42%
0.9	1.8	-48%	<i>CAPEX Refining</i>	RSD billion	1.9	4.4	-56%
0.6	0.4	+50%	<i>CAPEX Sales and distribution</i>	RSD billion	1.0	0.8	+29%
0.6	1.7	-64%	LTIF DWS ³⁵	%	0.6	1.7	-64%
2.1	3.4	-38%	<i>LTIF Refining</i>	%	2.1	3.4	-38%
0.3	1.5	-80%	<i>LTIF Sales and distribution</i>	%	0.3	1.5	-80%

Refining

During the first half of 2021 the Refining Block ensured the processing of oil and the production of petroleum products in accordance with market plans and requirements, as well as the implementation of a planned overhaul stoppage in March of 2021. The emphasis during the first two months of 2021 was on increased production volume and provision of the necessary supplies, in order to maintain uninterrupted dispatch and regular supply of the market with all types of products during the plant stoppage in March 2021.

²⁷ Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.

²⁸ Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.

²⁹ It includes the sale of KPG of the Energy Block and the sale of oils and lubricants to the lubricant production plant

³⁰ Business unit includes the sale of canal bitumen, bunker and aviation fuel.

³¹ Total sales of motor fuels in Serbia and in foreign assets.

³² EBITDA of the Refining Block includes the power plant in RNP.

³³ EBITDA Block Sales and distribution.

³⁴ Financing, excluding VAT.

³⁵ *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 30 June. Therefore, there is no difference between 6M and Q2.

The planned stoppage in March 2021, in addition to the basic work, also included the implementation of 12 investment maintenance projects.

During this planned stoppage, the key activity was at the S-4450 plant (new Klaus) where the BF-44501 boiler was completed replaced with a new one, which increase the reliability of the plant's operations essential for the work of the refinery.

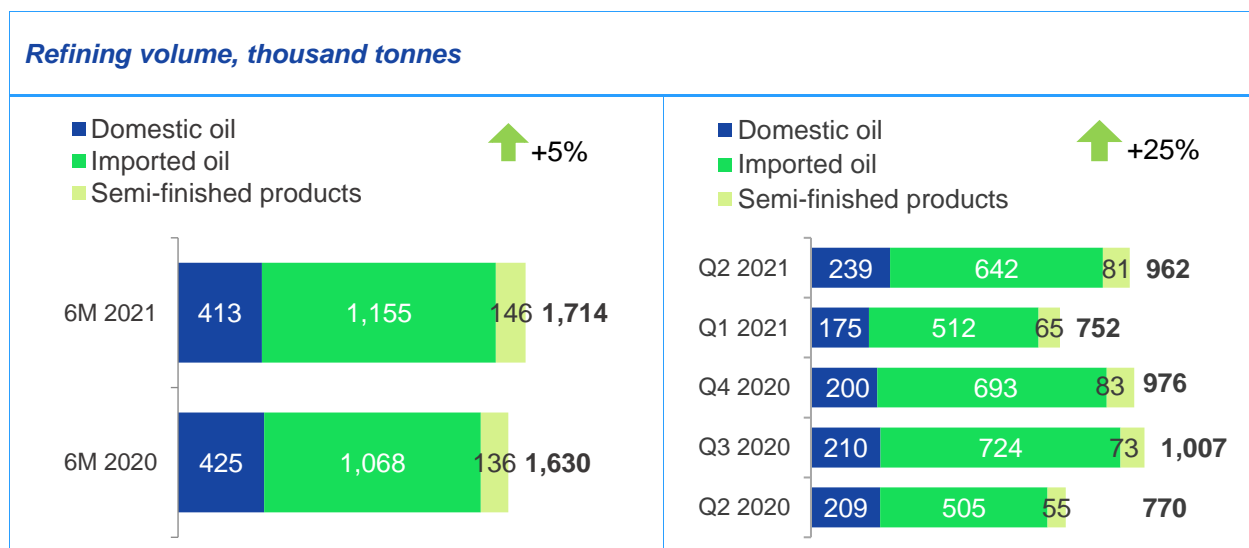
Part of the anti-erosion lining on cyclones FC-2302 on the reactor-regenerating section of the so-called "blue section" of the FCC plant was also replaced, in order to increase reliability.

The investment project „Replacement of 6kV plant in substation N1“ was implemented, in order to increase the reliability of the power supply of the S-2100/2200 plant (Atmospheric and Vacuum distillation).

As part of the planned stoppage, 13 heat exchangers were overhauled and cleaned, and additional 23 air coolers cleaned. A six-column audit and overhaul, inspection and cleaning of more than 20 containers, opening and deflection of 13 furnaces were carried out, and a number of previously agreed technical and technological changes were carried out at the plants, in order to increase the overall efficiency of refinery processing and improve operation during summer.

During the first half of 2021, and as a part of the modernization of the Pancevo Oil Refinery, activities continued on the project of the FCC plant Reconstruction and the construction of a new ETBE plant in accordance with the project phases. We are also continuously working on digitization projects and OMS etalons.

Refining activities and volume



During the first half of 2021, the production of petroleum products increased by +5%, compared to the same period in 2020, as a result of market stabilization compared to 2020, when there was a decline in demand due to the coronavirus pandemic.

Projects

The third phase of modernization of the Pancevo Oil Refinery has started with the project of the Reconstruction of the FCC plant and construction of the new ETBE plant.

The FCC/ETBE project is a key investment in the third phase of the refinery modernization, the main aim of which is to change the fluid catalytic cracking plant (FCC) technology to modern INDMAX technology, as well as the construction of a new ETBE plant (Ethyl tert-butyl ether) also by new technology.

This project is important for several reasons:

- These technologies will contribute to increasing the production of propylene by the FCC plant, as well as isobutylene, which will be processed as raw material together with bioethanol at the newly

built ETBE plant. In this way, a high-octane bio-component will be obtained, which would be mixed with gasoline

- More efficient production of gasoline with bio-component will also be enabled
- After the reconstruction and application of new technologies, the FCC plant will be able to operate both in the propylene and gasoline modes, depending on market needs. This allows for greater flexibility and optimization of the technological process
- The finalization of this project, which is planned in 2024, will also mean improvement of environmental protection by reducing particulate matter emissions.

In the first half of 2021, a contract was signed with the renowned company "Amec Foster Wheeler Italiana Srl" (Wood Group) for the development of FEED (Front End Engineering Design) documentation for the needs of FCC reconstruction project and for the construction of a new ETBE plant; the identification of potential risks (HAZID) has been completed; pipeline and instrumentation diagrams (P & ID's) for FCC and ETBE supplied; project boundaries (Plot plan) for FCC and ETBE agreed; bids for LLI (equipment with long delivery time) collected, with technical-commercial harmonization of bids.

The Refining Block ensures the continuity in the use of the "CE" marking for polymer-modified bitumen, a marking of compliance with the requirements of the European Construction Products Regulation CPR 305/2011, thus enabling the continued marketing of this product in the European Union. In mid-March, the Refining Block in Pančevo, in cooperation with the Department for Standardization of Business Processes and Services for Standardization and Mapping of Business Processes from NIS Business Services, conducted the first supervisory check of compliance of the factory control of polymer modified bitumen production with the requirements of the reference standard EN 14023:2010. In this way, our company has ensured continuity in the use of the "CE" marking for all types of polymer-modified bitumen – polymer modified bitumen 45/80-65 and 25/55-55, which gives it the opportunity to continue marketing it in the European Union.

During the first half of 2021, the Refining Block continued to work on the implementation of digital projects, which will enable a more efficient and reliable operation of the Refinery. In particular, one of the digital projects in the implementation phase is the predictive maintenance of the system, and this is one of the most important tools within the strategy meaning the transition from corrective to proactive maintenance. We are also actively working on improving the efficiency of technological processes through the improvement of the system for monitoring operational availability parameters and availability parameters, APC (unit level).

Employee trainings are conducted according to the modules for HSE training of employees for safe performance of high-risk work activities with practical trainings at the HSE training center's training ground. After each avoided or potential HSE event, employees are informed through the STOP hour.

In the process of employee training, an online Active Learner platform is available, through which our production workers can acquire theoretical knowledge and self-test. Also, the possibility of using training simulators (OTS) by use of which control panel operators have the opportunity to be trained how to lead the process on the software that is a true copy of the actual drive. In addition to professional and technical training, soft skills training is also available to employees.

Sales and distribution

Points of Sale³⁶ and Logistics

NIS Group owns over 400 active retail sites. Most of them, i.e. 326 retail sites are located in the Republic of Serbia. In addition to 10 petrol stations for NIS use only, NIS owns 316 public petrol stations (25 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).

In the past quarter, the new highway PS "Sokolići 1" (GAZPROM brand) was put into operation, and works on the total reconstruction of the "Mionica" PS (NIS brand) and the "Žagubica" PS (NIS brand) were completed. Also, works on the construction of the new PS "Zajecar 5" (NIS brand) have begun.

Loyalty program and Marketing Activities

In the second quarter of 2021, the company has held over 100 marketing campaigns in Serbia to develop consumer brands, promote loyalty programs, increase sales of fuel and non-fuel goods, and to introduce new products to the market. Over 20 marketing campaigns took place in other countries of the region during Q2 2021.

Within the loyalty program "On the Road with Us", a campaign was conducted - virtual membership. The goal of this campaign is to increase the user base of the "On the Road with Us" (SNNP) loyalty program by downloading the application and joining online, highlighting the benefits provided by the virtual loyalty card. Within this campaign, social networks were used as communication - FB and IG, sites, POSM at the point of sale and GDN (google display network).

Large projects implemented over the last quarter include:

- Jazak water – continues the national image campaign created to support distribution that is realized in the off trade channel, with the aim of raising consumers' awareness and bringing products closer to consumers. In line with the trends in the water market, we have launched a new product - Jazak Imuno water within the Jazak portfolio. Jazak Immuno water is characterized by a wealth of minerals - magnesium, zinc and selenium.
- The national Drive.Go campaign was launched in May with the aim of increasing brand awareness, traffic through this app and attracting new consumers. Communication channels such as advertising on TV and social networks, PR, direct marketing and websites were used.

The most important projects in the field of digitalization, which we would single out are the following:

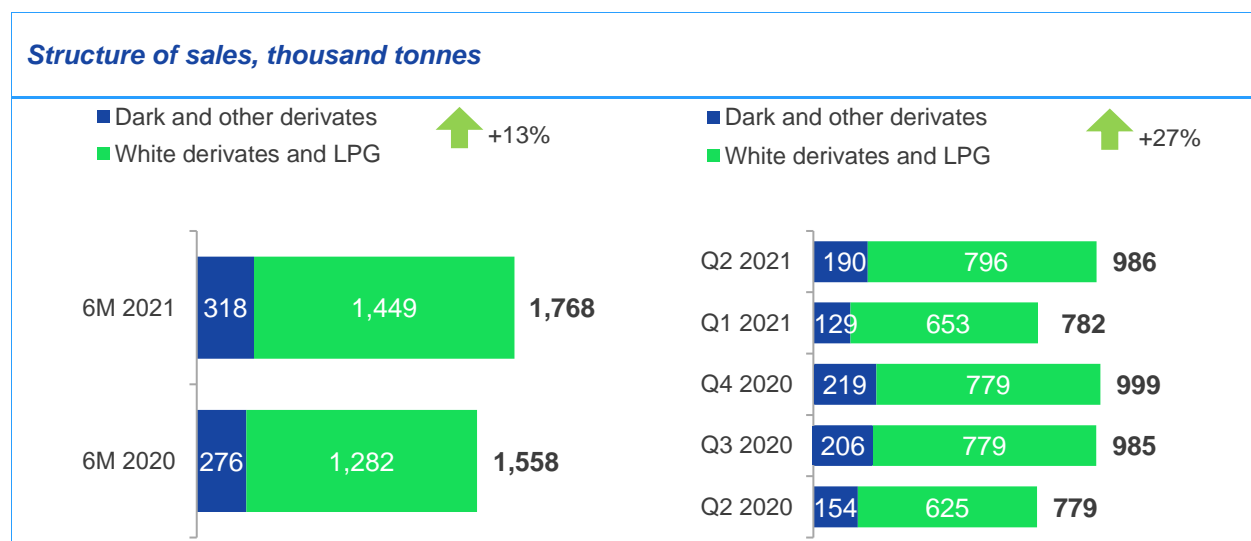
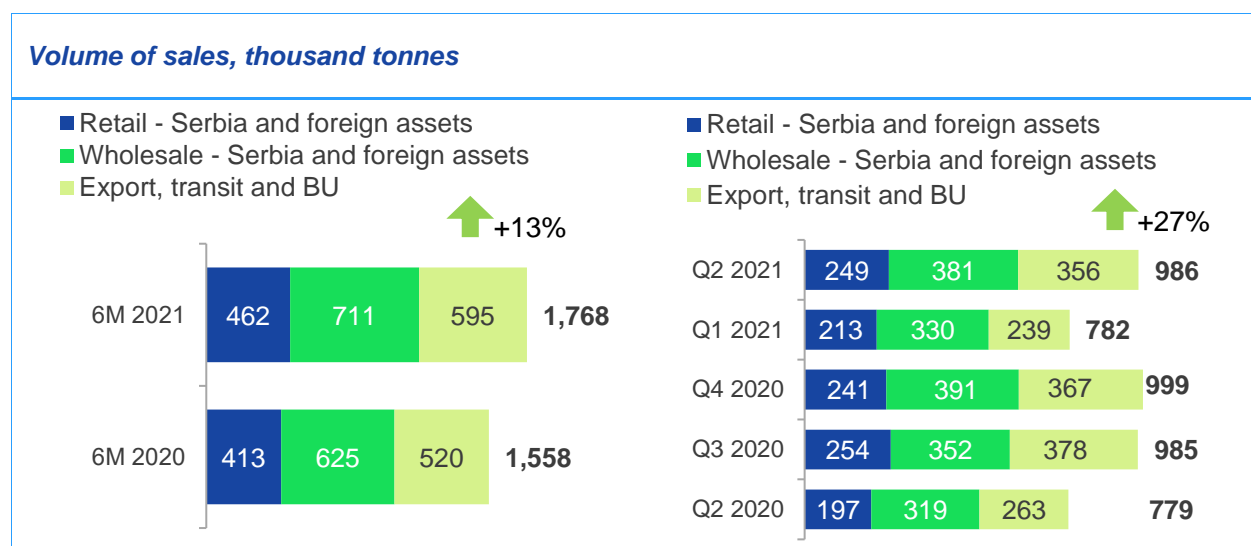
- Drive.GO - pay for fuel without going to the cash register. At the beginning of April 2020, the mobile application Drive.Go was introduced, which provides the possibility of paying for fuel at the refueling point, and for the first time in Serbia it is available to consumers at NIS Petrol and GAZPROM gas stations. In the second quarter, the application was active at 190 gas stations, and the possibility of paying with a payment card with us on the road was developed. During June, Visa card users had a discount of 3 RSD/l when paying with the application, and we also participated in a joint campaign with Visa, which aims to educate about the security of online payments.
- Virtual membership in the loyalty program - functionality has been developed within the mobile application With us on the road, which allows users to access the loyalty program with us on the road via the mobile application for free, without going to the gas station.
- Cash withdrawal at the cash register - allows payment card users to withdraw cash at the POS terminal, from their bank account when paying at all NIS gas stations.
- In 2019, this service is available to users of Master payment cards, in October 2020 to users of Dina payment cards, and from June 2021, this service is also available to users of VISA payment cards. The cash withdrawal service is a comfortable solution for all consumers, especially for the population in areas where there is no developed ATM network.

³⁶ As at 30 June 2021.

Operating indicators

The first six months of 2021 saw a sales growth of 13% comparing to the same period of previous year, with the total sales of 1,768 thousand tonnes.

- Growth of retail sales by 12% due to increased consumption of diesel and gasoline as a result of the abolition of restrictive measures that were introduced due to COVID-19;
- Growth of wholesale volume (Serbia + foreign assets)³⁷ – as a result of the increase in the sales of Eurodiesel, LPG and Mazut NSGS in Serbia and the development of the wholesale project in Bosnia;
- Growth in sales volume for Transit, Exports and Business Units³⁸, as a result of increased sales of Primary Gasoline due to the increased demand of HIP Petrohemija, growth in the sales of Aviation Fuels (related to the abolition of measures caused by COVID-19) and in the sales of Bitumen.



³⁷ It includes the sale of CNG of the Energy Block and the sale of oils and lubricants to the lubricant production plant.

³⁸ Business units include the sale of canal bitumen, bunker and aviation fuels.

Energy

CCPP Pančevo

As of the 30th June, 2021, design implementation stands at 98.34%, according to Shanghai Electric. Cumulative implementation of engineering activities (design and other documentation) is equal to 95.25%. Mechanical, electrical and construction works on power plant's facilities are under way, as well as connecting pipes with the Pancevo Refinery and connection to the electrical grid, with a degree of implementation of 98.87%. Principal equipment of the power plant is mostly delivered, the degree of implementation equals 99.00%. Commissioning activities have started (implementation: 94%).

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

Natural gas

In a bid to ensure security of supply and organization and balancing the natural gas portfolio for NIS j.s.c. Novi Sad In the second quarter of 2021, contracts on natural gas transport were signed on a monthly basis with the natural gas transportation system operator, in accordance with the requirements of internal users in NIS. Furthermore, preparatory activities for the lease of annual uninterrupted transport capacities for the Gas Year 2021/2022 were performed.

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. 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 to reduce energy consumption and increase energy efficiency in NIS for 6M 2021 achieved energy savings of 1,944 toe. The value of the savings is 69.6 million dinars.

An internal energy audit team has been set up and a regulatory and methodological framework has been established. Pilot inspections were carried out in the facilities of the "Exploration and Production" Block, the "Sales and Distribution" Block and the "Refining" Block.

Measures for improving energy efficiency have been developed and a pool of projects for "quick wins" in EE has been put together and the implementation has been initiated of 7 measures aimed at boosting energy efficiency.

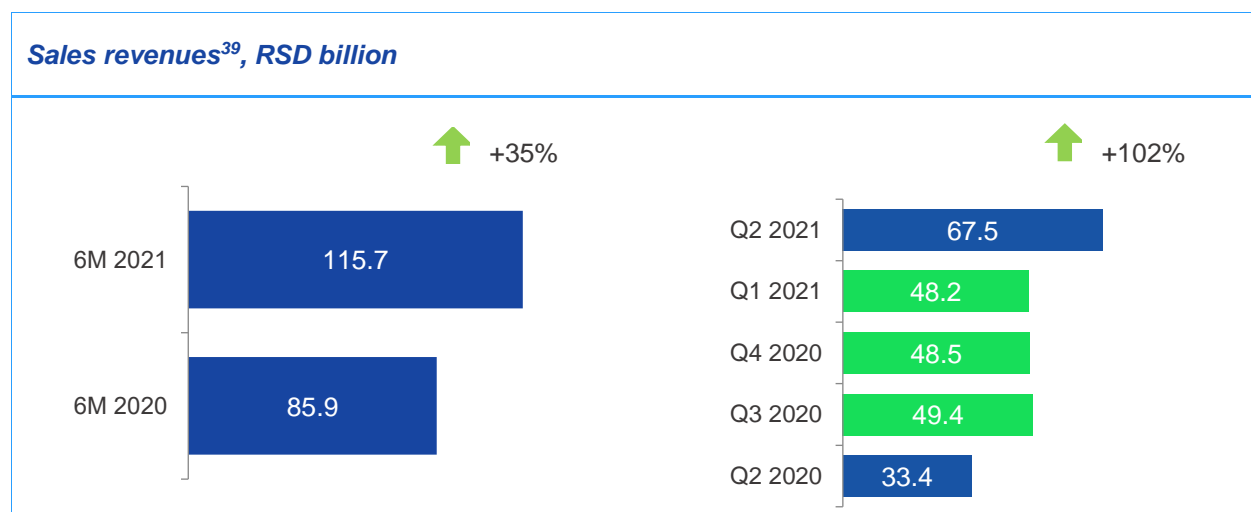
The project of external energy audit at the Novi Sad Facility for Storage of Petroleum Products has been completed and the Report on the condition of the water vapor system and condensate recovery was produced with a proposal of measures to increase energy efficiency.

Trade in the right to reduce emissions CO₂

NIS has built small power plants for the production of electricity and small power plants for the production of electricity and heat in oil fields, thus avoiding the combustion of dissolved gas at the flare.

Financial indicators

Sales revenue



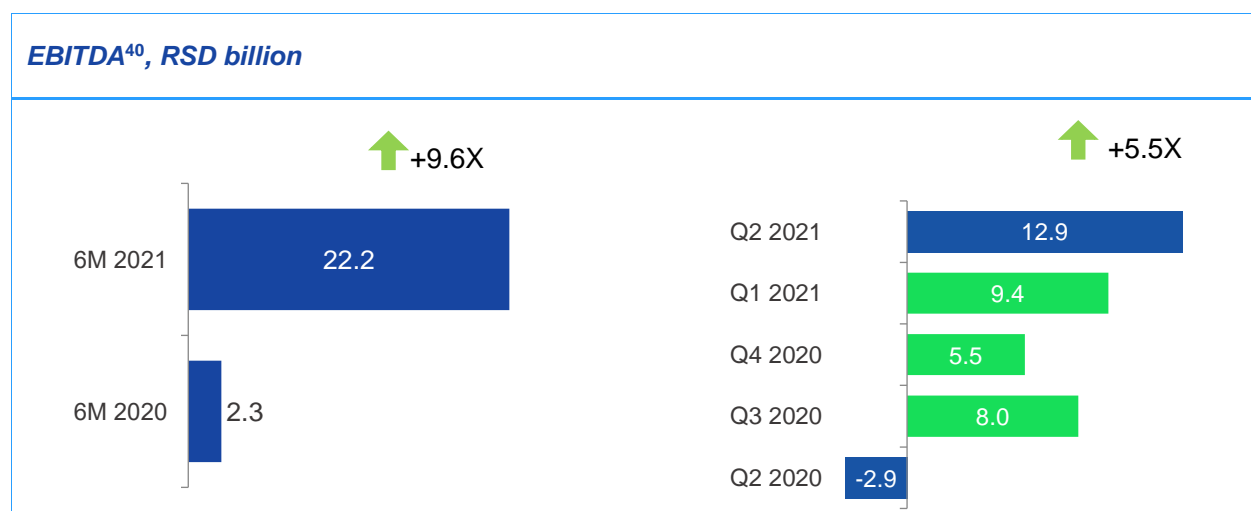
During the first six months of 2021, NIS achieved a 35-percent growth in sales revenue compared to the same period previous year.

EBITDA

EBITDA for the first six months of 2021 is 9.6 times higher than in the same period last year and amounted to RSD 22.2 billion.

The EBITDA increased in the first six months of this year in comparison to the same period last year owing to:

- Impact of the positive effect of rising oil prices as well as cheaper inventories of previous periods in refining compared to 6M 2020
- Higher sales and refining volumes, due to the lifting of the COVID-related restrictions that applied throughout 2020.



³⁹Consolidated 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.

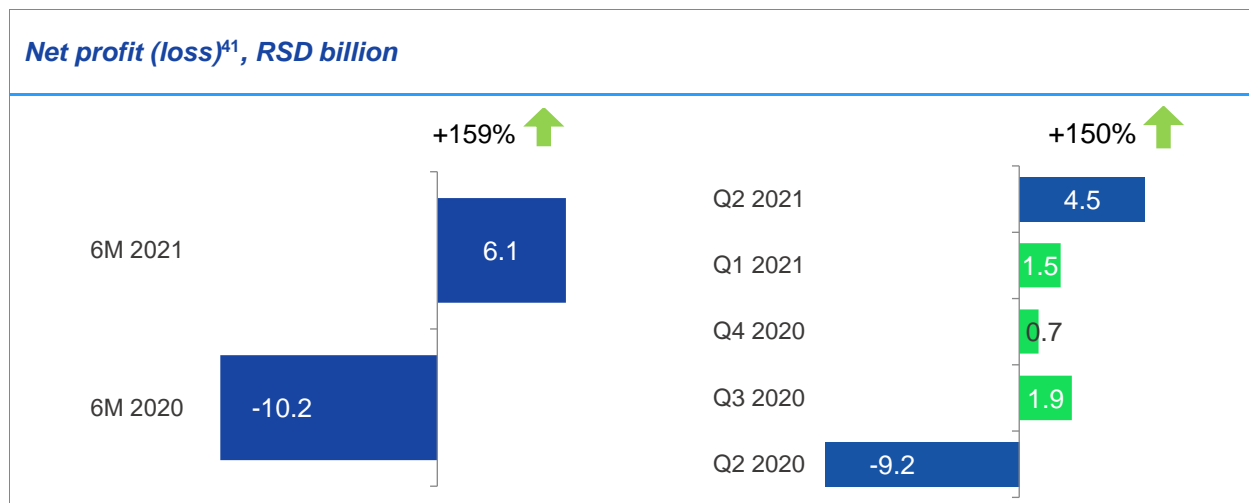
⁴⁰Consolidated operating revenue. Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.

Net profit (loss)

Net profit realised in the first six months of 2021 is RSD 6.1 billion, a 159% increase compared to the same period last year.

The main causes of the increase in the net result:

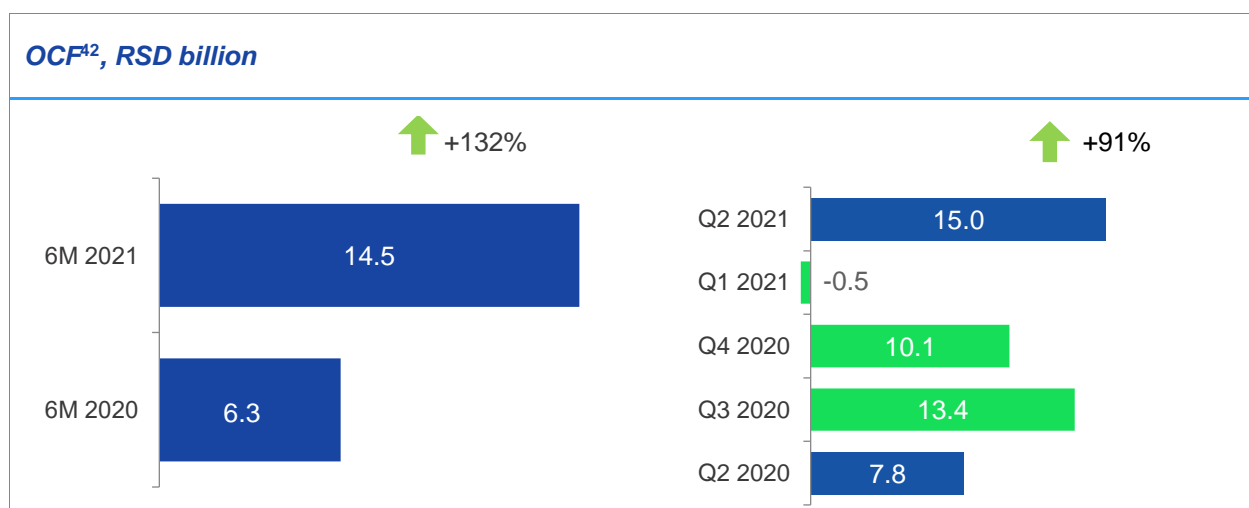
- increase of EBITDA indicator, at higher depreciation costs.



OCF

In the first half of 2021, the operating cash flow amounts to RSD 14.5 billion, 132% increase compared to the same period last year:

- higher inflows from customer



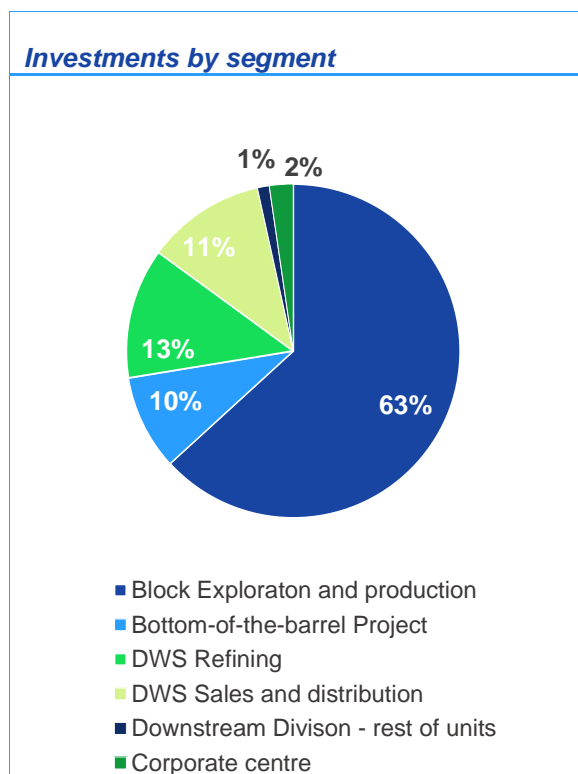
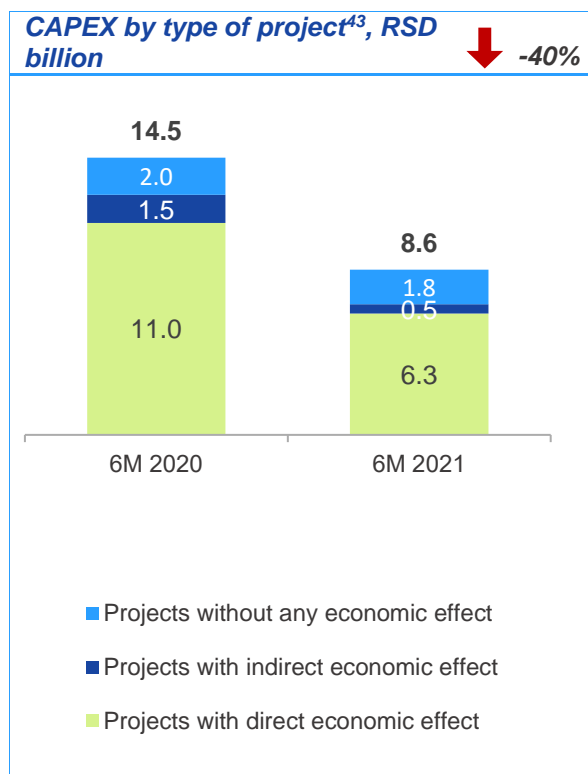
⁴¹ Consolidated operating revenue. Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.

⁴² 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.

CAPEX

In the first six months of 2021, the main investment directions were oriented towards the realization of projects in the production of oil and gas. A significant part of the investment was set aside for the finalization of payments for the project of improving the depth of refinery processing. In addition, during first six months, NIS invested in refining, sales and distribution, energy, and service projects, as well as a number of projects in the corporate center.

During the first six months of 2021, RSD 8.6 billion was allocated to finance investments, which is 40% less than allocated last year.



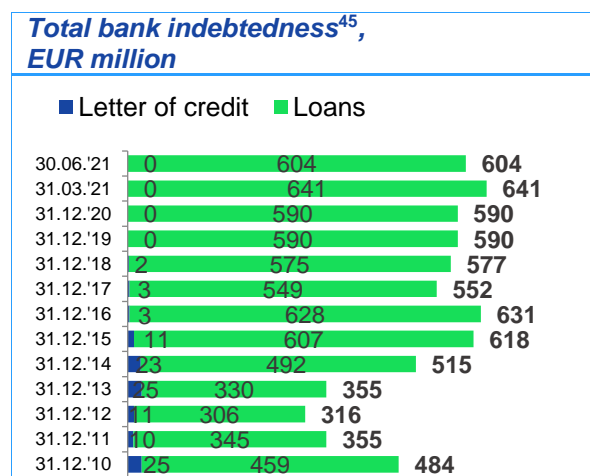
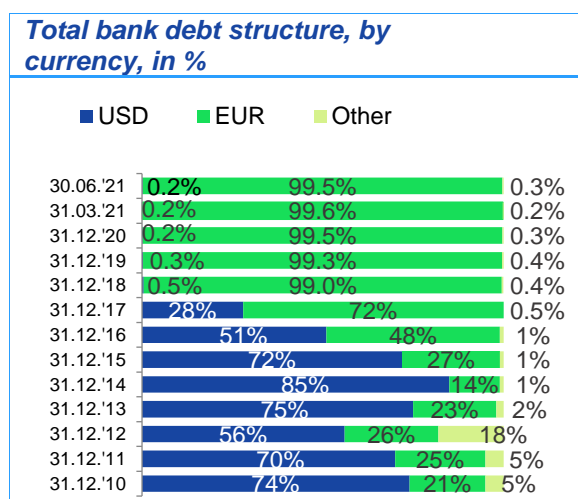
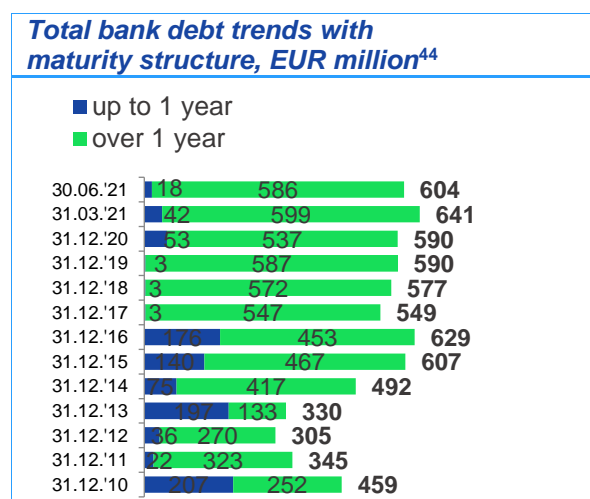
⁴³ All amounts are expressed in RSD billion, excluding VAT. Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.

Organisational unit	Major projects
Exploration and production	<ul style="list-style-type: none"> • drilling of development wells • investing in geological and technical activities • investing in basic infrastructure • investing in concession rights • program of 3D seismic surveys and drilling of exploration wells in the Republic of Serbia
Services	<ul style="list-style-type: none"> • replacement of the equipment for drilling tool handling • replacement of cement tanks • general workover of id-6 drilling rig assemblies • replacement of obsolete HDM equipment
Bottom-of-the-Barrel Project	<ul style="list-style-type: none"> • modernisation of the refining process – finalization of works on the project Bottom-of-the-barrel
Refining	<ul style="list-style-type: none"> • program of investment maintaining of Refining Block • projects aimed at ensuring compliance with legal norms and regulations • projects to increase production efficiency • reconstruction of the fcc (catalytic cracking plant) and the construction of a new etbe plant (high-octane gasoline components) • capital investments related to environmental protection • energy projects
Sales and distribution	<ul style="list-style-type: none"> • 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 the retail network in Bosnia and Herzegovina (technical protection of the retail network in Bosnia and Herzegovina) • other retail projects in serbia and the region
Rest of Downstream projects (Energy, Technical services)	<ul style="list-style-type: none"> • procurement of specialised software for electricity trading, gas and risk management (ETRM) • locksmith tool restoration • central compressor for process air
Corporate centre	<ul style="list-style-type: none"> • projects of corporate security (replacement of video surveillance system on petrol stations) • projects with information technology component (the improvement of cloud infrastructure, digitalization of multimedia archives, SAP success)

Indebtedness

At the end of the first half year of 2021, the debt to banks increased when compared to the end of 2020 to the level of EUR 604 million. This increase in debt is a consequence of the schedule of the loan portfolio restructuring and the need to repay and withdraw bank loans at a time when there is a basis for loan withdrawal (imports from the EU, in accordance with the exemptions from sanctions). Thus, during the first half year, the loan was withdrawn in the amount of EUR 74.2 million and repaid the total of EUR 59.8 million, out of which EUR 53 million prematurely. Repayment of loans with less favorable conditions is planned during the second half of year, in accordance with the possibilities of the cash flow, and the level of debt by the end of 2021 will not be higher than at the end of 2020 and will amount to a maximum of EUR 590 million. During the first half of year, a tender for the restructuring of the loan portfolio was realized with the aim of extending the average maturity of the portfolio to over 3 years at the end of 2021, while maintaining the optimal price level.

In addition, the debt to the parent company PJSC "Gazprom Neft", amounted to EUR 94.43 million, was reduced and at the end of the first half of 2021.



⁴⁴ Any deviations in percentages and aggregate values result from rounding.

⁴⁵ 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 28.5 million, corporate guarantees in the amount of EUR 74.3 million and Letters of Intent signed with banks in the amount of EUR 3.4 million and financial leasing in the amount of EUR 19.95 million as at 30 June 2021.

Taxes and Other Public Revenue⁴⁶

NIS j.s.c. Novi Sad	6M 2020	6M 2021	%⁴⁷
Social insurance contributions paid by employer	1.01	0.96	+5%
Energy efficiency fee ⁴⁸	0.17	0.16	+6%
Corporate tax	1.52	0.95	+60%
Value-added tax	13.22	10.86	+22%
Excise duties	60.99	56.57	+8%
Commodity reserves fee	2.91	2.76	+5%
Customs duties	0.51	0.25	+106%
Royalty	0.57	0.45	+29%
Other taxes	0.67	0.69	-3%
Total	81.57	73.64	+11%
NIS subsidiaries in Serbia⁴⁹			
Social insurance contributions paid by employer	0.67	0.55	+23%
Corporate tax	0.17	0.00	-
Value-added tax	1.24	0.76	+64%
Excise duties	0.00	0.00	-
Customs duties	0.02	0.04	-53%
Royalty	0.00	0.00	-
Other taxes	0.05	0.04	+16%
Total	2.15	1.39	+55%
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	83.73	75.03	+12%
NIS regional subsidiaries and Angola			
Social insurance contributions paid by employer	0.03	0.03	+11%
Corporate tax	0.00	0.00	-
Value-added tax	0.46	0.47	-2%
Excise duties	6.65	5.55	+20%
Customs duties	4.46	2.80	+59%
Royalty	0.01	0.01	-35%
Other taxes	0.04	0.05	-18%
Total	11.67	8.92	+31%
Deferred taxes (total for Group)	-	-	-
Total NIS Group⁵⁰	95.40	83.95	+14%

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 83.73 billion in 6M 2021.

The amount of accrued liabilities for public revenue payable by NIS Group in 6M 2021 totalled RSD 95.4 billion, an increase of 14% on the same period in 2020.

⁴⁶ In RSD billion.

⁴⁷ Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.

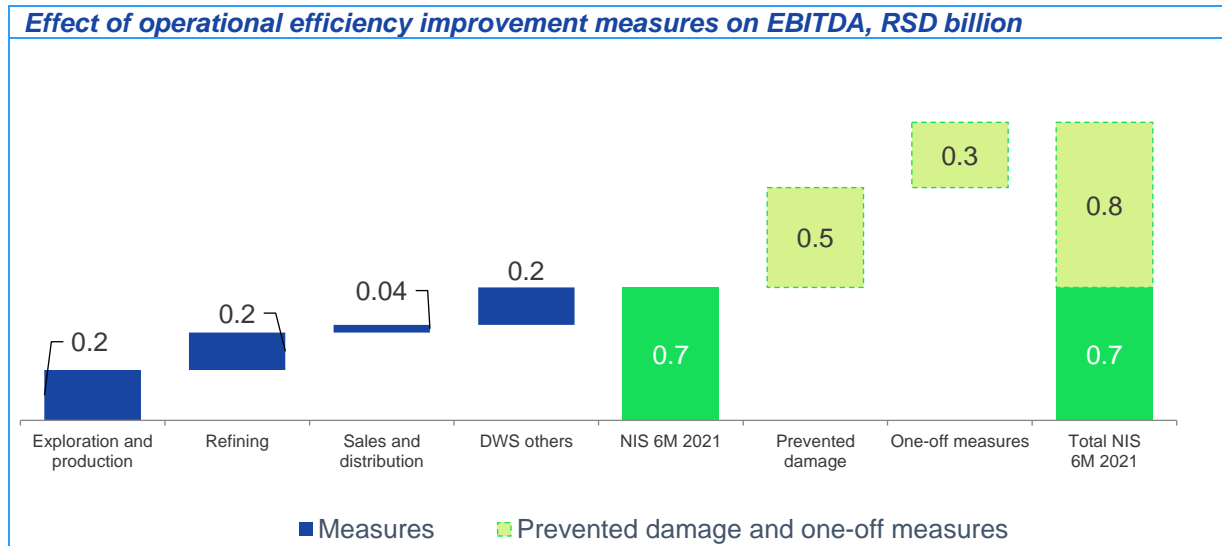
⁴⁸ Calculated from 1 July 2019.

⁴⁹ Naftagas – Oil Services LLC Novi Sad, Naftagas – Technical Services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and NTC NIS Naftagas LLC Novi Sad and NIS Petrol a.d. Belgrade.

⁵⁰ Including taxes and other liabilities for public revenues for subsidiaries in the region, corporate tax in Angola and deferred taxes.

Operational Efficiency Improvement

The effect of operational efficiency improvement measures on EBITDA in the first six months of 2021 is RSD 0.7 billion.

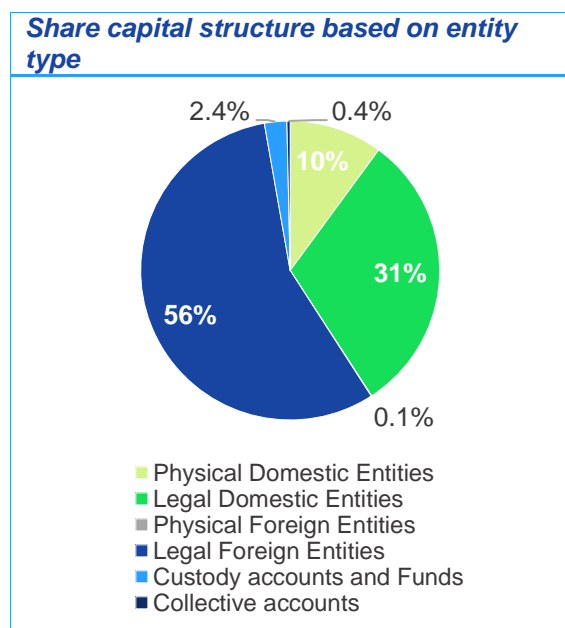
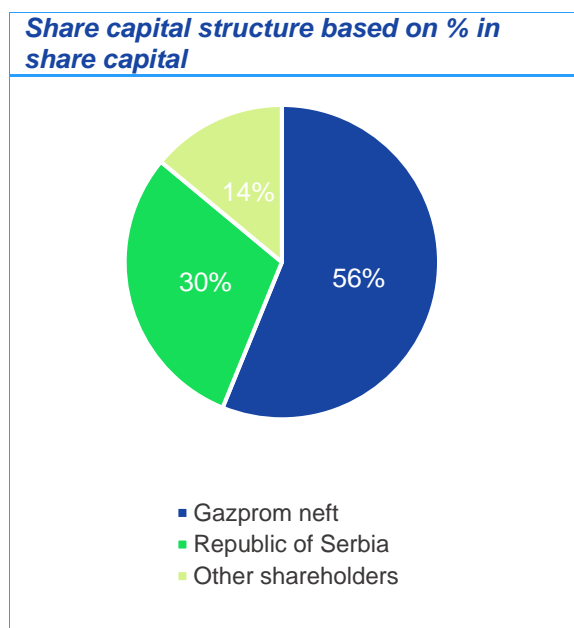


Securities

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.

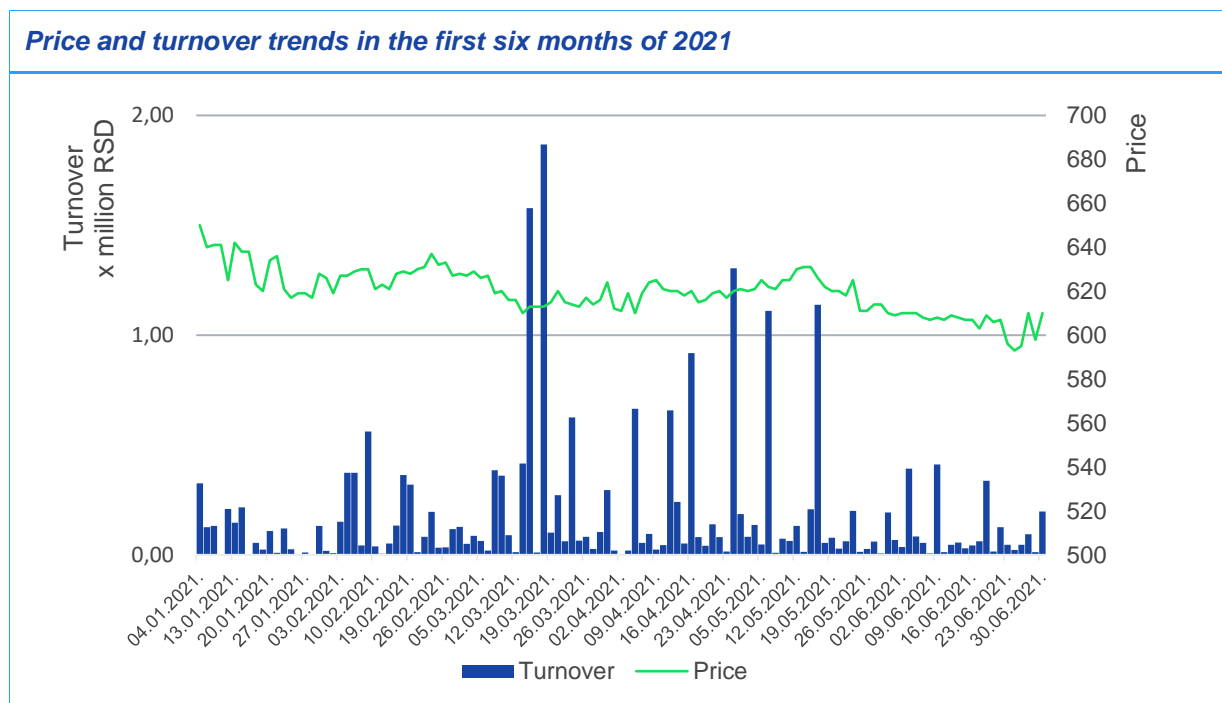


The structure of top 10 shareholders with the largest stake in equity capital is shown in the table below:

Shareholder	Number of shares	% in share capital
PJSC Gazprom Neft	91,565,887	56,15%
Republic of Serbia	48,712,159	29,87%
OTP banka Srbija a.d. – custody account – fund	2,549,875	1,56%
OTP banka Srbija a.d.– custody account – fund	1,049,901	0,64%
Dunav osiguranje a.d.o.	394,229	0,24%
Convest a.d. Novi Sad – collective account	224,440	0,14%
Raiffeisen banka a.d. – custody account	208,638	0,13%
Aktiv-fond d.o.o.	179,399	0,11%
Unicredit bank Srbija a.d. – custody account	161,879	0,10%
Unicredit bank Srbija a.d. – collective account	141,792	0,09%
Other shareholders	17,872,201	10,96%
Total number of shareholders as at 30 June 2021:		2,064,664

Share Trading and Indicators per Share

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



Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in the first six months of 2021

Last price (30 June 2021)	610 RSD
High (4 January 2021)	650 RSD
Low (30 June 2021)	530 RSD
Total turnover	218,288,099 RSD
Total volume (number of shares)	352,178 shares
Total number of transactions	2,672 transactions
Market capitalization as at 30 June 2021	99,466,844,000 RSD
EPS	44.09
Consolidated EPS	37.26
P/E ratio	13.83
Consolidated P/E ratio	16.37
Book value as at 30 June 2021	1,571.80
Consolidated book value as at 30 June 2021	1,520.39
P/BV ratio	0.39
Consolidated P/BV ratio	0.40

In the first six months of 2021 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.

On 29 June 2021 Shareholders' Assembly of NIS j.s.c. Novi Sad has adopted the Decision on distribution of profit from previous years, coverage of loss of NIS j.s.c. Novi Sad for 2020, dividend payment and determining the total amount of retained profit of NIS j.s.c. Novi Sad. This decision determines that the dividend will be paid to NIS j.s.c. Novi Sad shareholders in cash, in the gross amount of RSD 1,001,190,856.

	Net profit (loss), RSD bn ⁵¹	Total amount of dividend, RSD bn	Payment ratio	Earnings per share, RSD	Dividend per share, gross, RSD	Share price as at 31 December, RSD	Shareholders' dividend yield, in % ⁵²
2009	-4.4	0	-	-	0	-	-
2010	16.5 ⁵³	0	-	101.1	0	475	-
2011	40.6 ⁵⁴	0	-	249	0	605	-
2012	49.5	12.4	25%	303.3	75.83	736	10.3
2013	52.3	13.1	25%	320.9	80.22	927	8.7
2014	30.6	7.6	25%	187.4	46.85	775	6
2015	16.1	4	25%	98.8	24.69	600	4.1
2016	16.1	4	25%	98.6	24.66	740	3.3
2017	27.8	6.9	25%	170.43	42.61	724	5.9
2018	26.1	6.5	25%	159.86	39.97	690	5.8
2019	17.7	4.4	25%	108.55	27.14	749	3.6
2020	(5.9)	1.0	-	(36.24)	6.14	644	1.0

Overview of Financial Instruments Used by the Group

Due to its exposure to foreign exchange risk, NIS Group practises forward transactions and successive purchases in the foreign exchange market as an instrument for managing this type of risk.

Being 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.

⁵¹ Net profit of NIS j.s.c. Novi Sad.

⁵² Calculated as the ratio of gross dividend and year-end share price.

⁵³ Net profit used to cover accumulated losses.

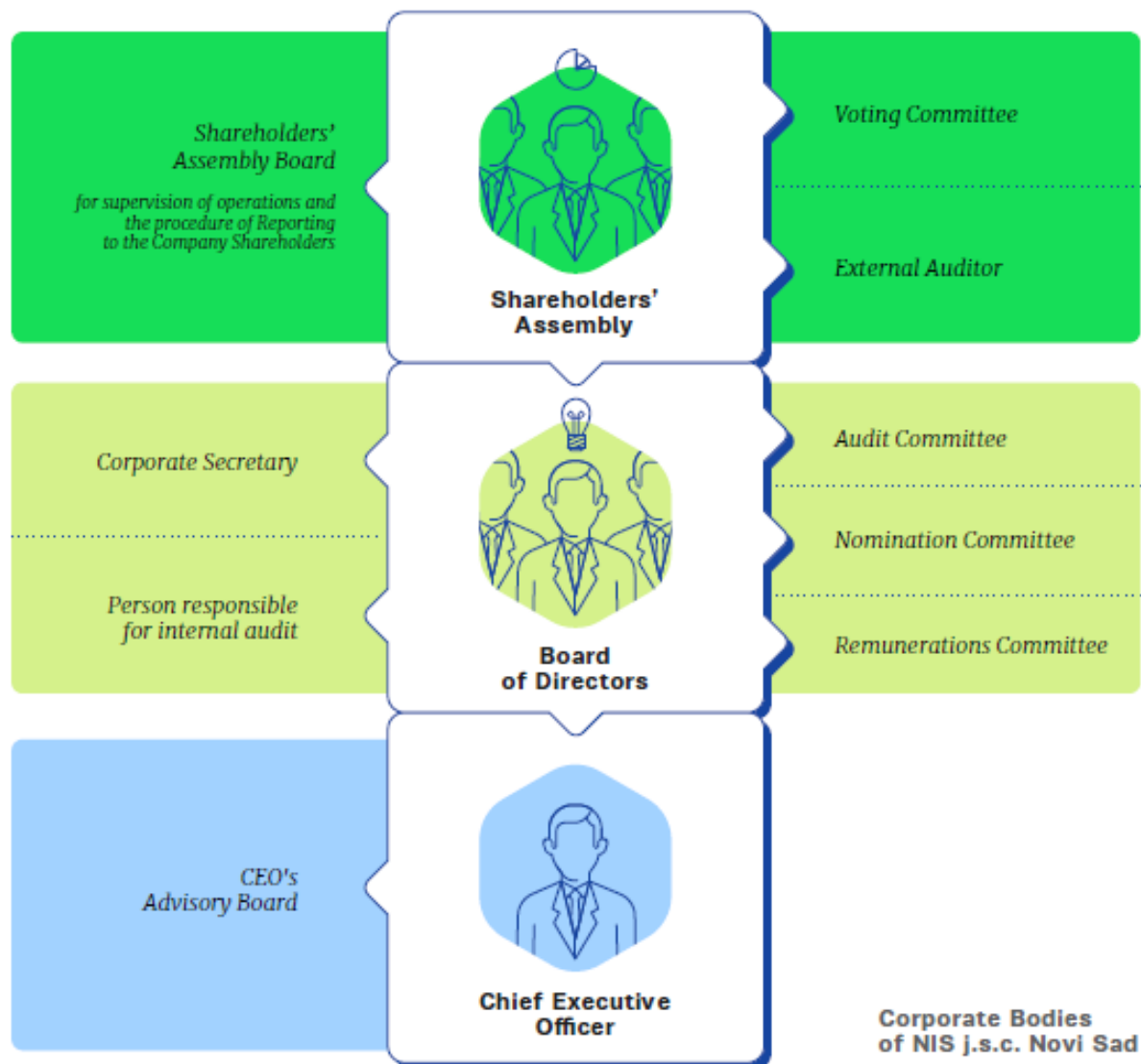
⁵⁴ Net profit used to cover accumulated losses.

Corporate Governance

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 set and the achievement of results, while 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, General Director of the Company and the bodies set up by corporate governance bodies.



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, wherein one share carries one vote.

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, for setting main business objectives and identifying the company's further courses of development, as well as for identifying and controlling the effectiveness of the corporate business strategy.

The Board of Directors has 11 members appointed by the Shareholders Assembly. 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.

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.

The 13th regular Shareholders' Assembly on June 29, 2021, appointed the following Board members: Vadim Yakovlev, Kirill Tyurdenev, Danica Drašković, Aleksey Yankevich, Pavel Oderov, Dmitry Shepelsky, Dragutin Matanović, Dejan Radenković, Aleksandr Chepurin, Anatoly Cherner and Olga Vysotskaya.

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.

Board of Directors' Members as of 30 June 2021



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 Committee⁵⁵

Born in 1977.

He undertook studies at the Moscow State Institute of International Relations (MGIMO), graduating from the Faculty of International Relations with a Bachelor's degree in Political Science and International Relations (with honors), and subsequently earning his Master's degree in International Law (with honors). He also obtained a Master of Laws (LL.M) degree from the University of Manchester and completed executive education programs at INSEAD and London Business School.

From 2000 to 2004, Mr. Tyurdenev worked for A.T. Kearney and Unilever and in 2004 he joined McKinsey & Co. From 2007 to 2012, Mr. Tyurdenev worked for Sibur Fertilizers as Deputy CEO for Strategy and Business Development. From 2012, he served as Executive Vice President and a member of the Management Board in JSFC Sistema. Prior to joining NIS j.s.c. Novi Sad, Kirill Tyurdenev held the positions of the President and Chairman of the Board at United Petrochemical Company, which at that time was part of the JSFC Sistema group, and of Chairman of the Board of Directors of Ufaorgsintez.

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

In December 2016, he was elected member of the Board of Directors, and in March 2017 he was appointed 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.

⁵⁵ The mandates of the Board of Director Committees members expired on June 29, 2021.



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 head 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.

Dmitry Shepelsky

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

Head of Department for coordination of Sales of petroleum products, PJSC "Gazprom Neft"



Born 1970.

In 1993, Mr. Shepelsky graduated from the Moscow Institute of Radio Engineering, Electronics and Automation.

In the early stage of his career, Mr. Shepelsky held positions of Deputy Head of Department for supply of petroleum products – Head of Directorate PJSC “Gazprom Neft”.

At the present Mr. Shepelsky serves as Head of Department for coordination of Sales of petroleum products, PJSC “Gazprom Neft”.

Mr. Shepelsky was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 29 June 2021.



Dragutin Matanović

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

Chairman of the Nomination Committee⁵⁶

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 06.09.2019.



Dejan Radenković

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

Member of the Audit Committee⁵⁷

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 is a member of the Socialist Party of Serbia and 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 27.06.2019.



Alexander Chepurin

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

Member of Nomination Committee⁵⁸

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.

⁵⁶ The mandates of the Board of Director Committees members expired on June 29, 2021.

⁵⁷ The mandates of the Board of Director Committees members expired on June 29, 2021.

⁵⁸ The mandates of the Board of Director Committees members expired on June 29, 2021.

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 Resources 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 27.06.2019.



Anatoly Cherner

**Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of the Remuneration Committee⁵⁹**

*Deputy Chairman of the PJSC “Gazprom Neft” Executive Board,
Deputy CEO for Logistics, Refining and Sales at PJSC “Gazprom Neft”*

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 Committee⁶⁰
Member of the Remuneration Committee⁶¹**

Born 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.

⁵⁹The mandates of the Board of Director Committees members expired on June 29, 2021.

⁶⁰ The mandates of the Board of Director Committees members expired on June 29, 2021.

⁶¹ The mandates of the Board of Director Committees members expired on June 29, 2021.

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 "NefteTransService" Board of Directors, Chair of the Audit Commission, member of Remuneration Commission. As of 2013 she is holding position of independent member of LTD "ĪNK" 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.

Membership in Other Companies' Boards of Directors or Supervisory Boards

Vadim Yakovlev	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • -
Danica Drašković	<ul style="list-style-type: none"> • -
Alexey Yankevich	<ul style="list-style-type: none"> • PJSC "NGK Slavneft" • "Gazprom Neft Lubricants Italia s.p.a." (Chairman of the BoD)
Pavel Oderov	<ul style="list-style-type: none"> • 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“
Dmitry Shepelski	<ul style="list-style-type: none"> • -
Dragutin Matanović	<ul style="list-style-type: none"> • -
Dejan Radenković	<ul style="list-style-type: none"> • -
Alexander Chepurin	<ul style="list-style-type: none"> • -
Anatoly Cherner	<ul style="list-style-type: none"> • PJSC NGK "Slavneft" • PJSC "Slavneft-YANOS" • Saint Petersburg International Mercantile Exchange • "Gazprom Neft Lubricants Italia s.p.a."
Olga Vysotskaia	<ul style="list-style-type: none"> • Nonprofit organization «Serebryanoe vremya» (Chair of the Supervisory Board, Director)

Total amount paid to Board of Directors members in the first six months 2021, net RSD	
Members of BoD	114,611,782 RSD

Board of Directors' Committees

In order to complete its obligations more efficiently, the Board of Directors founded 3 permanent committees as advisory and professional bodies, which support its work, especially in terms of consideration of the questions under its jurisdiction, preparation and supervision of implementation of the decisions and acts adopted by BoD, as well as conduction of certain expert activities necessary for the Board of Directors.

The mandate of the members of the Board of Director Committees lasted until the 13th Regular Shareholders Assembly Meeting, which took place on June 29, 2021. The Committees included:

- Audit Committee:
 - Olga Vysotskaya, chairman,
 - Dejan Radenković, member,
 - Aleksey Urusov, member,
- Remuneration Committee:
 - Anatoly Cherner, chairman,
 - Olga Vysotskaya, member,
 - Zoran Grujičić, member,
- Nomination Committee:
 - Dragutin Matanović, chairman,
 - Aleksandr Chepurin, member,
 - Kirill Tyurdenev, member.

The Board of Directors will appoint new members of its Committees and, is necessary, establish new regular or ad hoc committees to support the activities of the Board.

Shareholders' Assembly Board

The Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to Company 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 consideration of issues within its scope of competence. Members of the Shareholders' Assembly Board report to the Shareholders' Assembly, which appoints them and relieves them of duty.

The 13th regular Shareholders' Assembly on June 29, 2021, appointed the following Shareholders' Assembly Board members Zoran Grujičić, Dragan Bračika and Aleksey Urusov.

Members of the Shareholders' Assembly Board as at 30 June 2021



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 Committee⁶²

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

⁶² The mandates of the Board of Director Committees members expired on June 29, 2021.

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
Member of the Audit Committee⁶³

Director of Economics and Corporate Planning Department in "Gazprom Neft" PJSC

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 the Board of Directors or Supervisory Boards of Other Companies

Zoran Grujičić

• -

⁶³ The mandates of the Board of Director Committees members expired on June 29, 2021.

Dragan Bračika	<ul style="list-style-type: none"> Board of Directors member, Specialized hospital for prevention, treatment of lung diseases and rehabilitation Sokobanja Director, Center for economy and technology development Ceptor Andrevlje
Alexey Urusov	<ul style="list-style-type: none"> 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 of fees paid to SAB members in the first six months of 2021, net in RSD

Members of SAB	7,041,499 RSD
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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%

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.

Related-Party Transactions

In the year ended 30 June 2021 and in the same period in 2020, 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. An outline of related-party transactions is part of the Notes to the Financial Statements.

Human resources

The long-term commitment of the company to be an even better employer and to improve its HR practices, is increasingly recognized by the external professional community. This is supported by the fact that the company NIS received two significant awards in this area in the second quarter of 2021. The platform "Respect, before all" was declared one of the 3 best HR projects in Serbia, within the event "HR Experience", organized by the Infostud company.

In June 2021, the results of the research of the company Manpower Group were published, where NIS was declared the second most desirable employer for generation 3.

In the second quarter of 2021, we also defined the strategy of Diversity and Inclusion of Employees, with the goal of NIS being an employer that provides everyone with equal opportunities for employment and career development. As a part of the strategy implementation, we have started cooperation with the Youth with Disabilities Forum, as well as the AFA organization, which aims to strengthen gender equality. Also, in June, we participated in a gender analysis project implemented by the Ministry of Mining and Energy.

Investing in young people and providing opportunities for the first work experience is one of the priorities of our company, and in February 2021 we started the first season of the employment program for young graduates and master students - NIS Energy. NIS Energy is a paid program that lasts 12 months, with the aim of training young graduates and master students to take up specialist / expert positions in the company. Every year, up to thirty young people make their first career steps through the program, and the positions are defined in accordance with the needs of the business - all positions come from the Business Blocks. In addition to practical work, the participants of the new season had the opportunity to develop through more than 10 different workshops focused on their further development.

In 2021, we will continue with the implementation of the seasonal internship program "NIS Calling", which allows students to gain their first work experience during 320 hours of internship, with flexible working hours that can be combined with their obligations at the University. A recruitment campaign for the program was launched in February, and after two weeks of advertising, over 900 students applied for the program. The program was realized in the period April - June, for 25 practitioners. The plan for 2021 is to conduct another season of internship, as well as to revise the program taking into account the feedback of participants of all 5 seasons, as well as of mentors.

Employee Number and Structure

Organisational unit	6/30/2021			6/30/2020		
	Direct	Leasing	Total	Direct	Leasing	Total
NIS j.s.c Novi Sad	5,063	0	5,063	5,200	75	5,275
Exploration and Production Block	1,085	0	1,085	1,103	0	1,103
Downstream Division	2,520	0	2,520	2,518	75	2,593
Refining Block	977	0	977	965	0	965
Sales and Distribution Block	1,326	0	1,326	1,393	75	1,468
Energy Directorate	37	0	37	41	0	41
the rest of Downstream Division ⁶⁴	180	0	180	119	0	119
Corporate Centre	963	0	963	1,056	0	1,056
Multifunctional Shared Service Center ⁶⁵	490	0	490	517	0	517
Representative and Branch Offices	5	0	5	6	0	6
Local subsidiaries	5,762	0	5,762	5,678	0	5,678
Naftagas – Oil Services LLC Novi Sad	1,771	0	1,771	1,933	0	1,933
Naftagas – Technical Services LLC Zrenjanin	388	0	388	348	0	348
Naftagas – Transport LLC Novi Sad	373	0	373	367	0	367
STC NIS – Naftagas LLC Novi Sad	375	0	375	363	0	363
NIS Petrol j.s.c. Belgrade ⁶⁶	2,855	0	2,855	2,667	0	2,667
Subsidiaries abroad	138	0	138	130	2	132
NIS Petrol e.o.o.d. Sofia (Bulgaria)	52	0	52	49	0	49
NIS Petrol s.r.l. Bucharest (Romania)	77	0	77	73	0	73
NIS Petrol LLC Banja Luka (Bosnia and Herzegovina)	3	0	3	4	0	4
Jadran Naftagas LLC Banja Luka (Bosnia and Herzegovina)	6	0	6	4	0	4
Panon Naftagas k.f.t. Budapest (Hungary)				0	2	2
Other subsidiaries included in consolidation	487	0	487	457	0	457
O Zone j.s.c. Belgrade ⁶⁷				0	0	0
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)	484	0	484	453	0	453
TOTAL:	11,450	0	11,450	11,465	77	11,542

⁶⁴ 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.

⁶⁵ At the end of 2019, the Multifunctional Share Service Center is set to be established, which is particularly prominent because of its specificity.

⁶⁶ 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.

⁶⁷ 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.

Causes of Employment Termination

In first six months of 2021, a total of 694 employees left NIS⁶⁸: 42 employees retired, 163 employees left NIS after termination of employment by mutual agreement, while the employment of 489 people was terminated on other grounds (involuntary termination, voluntary termination, redundancy).

Cause of employment termination	NIS j.s.c. Novi Sad ⁶⁹	Subsidiaries ⁷⁰
Retirement	20	22
Termination by mutual agreement	141	22
Other	108	381
Total	269	425

⁶⁸ 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.

⁶⁹ Including Representative Offices and Branches. Out of the total number of departures, 18 departures from representative offices and branches.

⁷⁰ 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.

Research and Development

In all business segments, NIS is committed to continuous technological development and the introduction of innovations in business.

Scientific Technological Center - NTC NIS-Naftagas d.o.o. Novi Sad, a subsidiary in which NIS j.s.c. is the holder of 100% shares, provides scientific, technical and innovative support to its parent company in the field of oil and gas exploration and production. Research and development activities within the NTC NIS-Naftagas have a dual role - coordinator and executor of scientific research.

Implementation and development of new technologies, scientific and research activity, as well as the improvement of the efficiency of oil and gas exploration, production and refining remain the focal point of the management and employees of STC. These activities are realised in several directions. In the field of geological research, a regional project is being worked on, the goal of which is the discovery of hydrocarbons in Paleozoic or intra Paleozoic rocks, as well as their efficient production in case of discovery. In the field of reservoir development and oil and gas production, we are working on finding the optimal solution to prevent the removal of sand from weakly bound collector rocks, the right choice of polymers for deposits with heavy and viscous oil in order to increase efficiency and agents to prevent chemical deposits on production equipment in wells. For the preparation of produced oil for transport to the refinery, we are working on the optimization of demulsifiers, so that the water produced with oil is separated from it as soon as possible and the preparation process is shortened. In accordance with the strategic plans of the Company, the Downstream Laboratory is preparing for quality control of biocomponents and biofuels, whose production and marketing are planned by the end of 2021. Also, the DWS Laboratory carried out comprehensive internal control activities in the process of quality assurance for production, storage and distribution of jet fuel, in order to make preparations for external audit in accordance with the requirements of EI JIG 1530 JET A1, planned in early Q3 2021.

NTC is also actively involved in the development of digital technologies, as well as the application of information and communication technologies in the core business. Within this direction, digital projects in the field of Data Science, Machine learning, Business Intelligence, Software Development are being implemented. In addition, NTC implements a large number of digital projects for the oil industry in the directions of seismic, advanced petrophysics, geology and reservoir development, analysis of production and trade of petroleum products, and implements new infrastructure and software solutions in accordance with the company's core business.

The realization of these activities is enabled by the constant improvement of professional competencies of employees and investment in information technology, which is a key prerequisite for the development of NIS a.d.

Financial Statements

Standalone financial statements

Statement of Financial Position

Assets	Note	30 June 2021 <i>(unaudited)</i>	31 December 2020
Current assets			
Cash and cash equivalents	5	11,020,973	7,949,785
Short-term financial assets	6	10,531,057	6,522,880
Trade and other receivables	7	30,306,020	22,794,275
Inventories	8	34,574,200	23,823,048
Current income tax prepayments		-	1,034,617
Other current assets	9	4,936,362	4,879,209
Non-current assets held for sale		47,858	42,631
Total current assets		91,416,470	67,046,445
Non-current assets			
Property, plant and equipment	10	273,244,592	276,491,824
Right-of-use assets	11	1,552,063	1,422,877
Investment property		1,695,987	1,688,837
Intangible assets		2,982,230	2,966,576
Investments in joint venture		1,038,800	1,038,800
Investments in subsidiaries		13,425,627	13,425,627
Trade and other non-current receivables		2,822	78,459
Long-term financial assets	12	20,432,376	23,863,665
Deferred tax assets		2,052,995	2,565,957
Other non-current assets	13	1,093,000	1,120,623
Total non-current assets		317,520,492	324,663,245
Total assets		408,936,962	391,709,690
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	14	9,265,403	13,419,540
Current lease liabilities	19	325,501	321,155
Trade and other payables	15	39,523,716	24,827,894
Other current liabilities	16	5,596,325	8,431,806
Current income tax payable		355,167	-
Other taxes payable	17	9,333,766	9,043,254
Provisions for liabilities and charges		1,633,343	2,349,296
Total current liabilities		66,033,221	58,392,945
Non-current liabilities			
Long-term debt	18	74,216,962	71,195,981
Non-current lease liabilities	19	1,016,977	1,037,640
Other non-current financial liabilities		846,189	841,847
Provisions for liabilities and charges		10,524,723	10,132,663
Total non-current liabilities		86,604,851	83,208,131
Equity			
Share capital		81,530,200	81,530,200
Reserves		95,075	93,664
Retained earnings		174,673,615	168,484,750
Total equity		256,298,890	250,108,614
Total liabilities and shareholder's equity		408,936,962	391,709,690

in 000 RSD

Statement of Profit and Loss and Other Comprehensive Income

	Note	Three month period ended 30 June		Six month period ended 30 June	
		2021 (unaudited)	2020 (unaudited)	2021 (unaudited)	2020 (unaudited)
Sales of petroleum products, oil and gas		59,819,482	28,533,769	100,625,325	75,054,998
Other revenues		3,375,282	2,123,075	6,439,043	4,269,132
Total revenue from sales	4	63,194,764	30,656,844	107,064,368	79,324,130
Purchases of oil, gas and petroleum products		(37,133,028)	(22,584,272)	(59,442,297)	(54,266,160)
Production and manufacturing expenses	20	(6,411,113)	(5,133,646)	(12,430,718)	(10,399,341)
Selling, general and administrative expenses	21	(6,009,602)	(4,997,178)	(11,168,554)	(10,235,198)
Transportation expenses		(301,462)	(213,553)	(545,685)	(468,977)
Depreciation, depletion and amortization		(5,674,468)	(5,158,731)	(11,367,571)	(10,173,541)
Taxes other than income tax		(1,123,068)	(978,996)	(2,189,193)	(2,025,128)
Exploration expenses		(6,588)	-	(6,588)	(3,579)
Total operating expenses		(56,659,329)	(39,066,376)	(97,150,606)	(87,571,924)
Other income (expenses), net		21,715	(371,554)	(64,120)	(454,656)
Operating profit (loss)		6,557,150	(8,781,086)	9,849,642	(8,702,450)
Net foreign exchange loss	22	(230,194)	(1,306)	(249,762)	(143,337)
Finance income	23	211,311	194,163	432,675	392,808
Finance expenses	24	(416,423)	(527,005)	(808,598)	(939,661)
Total other expense		(435,306)	(334,148)	(625,685)	(690,190)
Profit (loss) before income tax		6,121,844	(9,115,234)	9,223,957	(9,392,640)
Current income tax expense		(807,276)	(5,686)	(1,520,939)	(50,472)
Deferred tax income (expense)		(433,751)	278,503	(512,962)	477,534
Total income tax		(1,241,027)	272,817	(2,033,901)	427,062
Profit (loss) for the period		4,880,817	(8,842,417)	7,190,056	(8,965,578)
Other comprehensive income (loss):					
Items that will not be reclassified to profit (loss)					
Gains (losses) from investments in equity instruments		1,433	(194)	1,411	(1,175)
Other comprehensive income (loss) for the period		1,433	(194)	1,411	(1,175)
Total comprehensive income (loss) for the period		4,882,250	(8,842,611)	7,191,467	(8,966,753)
Earnings (Loss) per share attributable to shareholders of Naftna Industrija Srbije					
Basic earnings (RSD per share)		29.93	(54.23)	44.09	(54.98)
Weighted average number of ordinary shares in issue (in millions)		163	163	163	163

in 000 RSD

Statement of Changes in Shareholders' Equity

Six month period ended 30 June 2021 and 2020

<i>(unaudited)</i>	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2020	81,530,200	93,959	178,839,446	260,463,605
Loss for the period	-	-	(8,965,578)	(8,965,578)
Other comprehensive income (loss)				
Loss from investments in equity instruments	-	(1,175)	-	(1,175)
Total comprehensive income (loss) for the period	-	(1,175)	(8,965,578)	(8,966,753)
Dividend distribution	-	-	(4,425,459)	(4,425,459)
Balance as at 30 June 2020	81,530,200	92,784	165,448,409	247,071,393
Balance as at 1 January 2021	81,530,200	93,664	168,484,750	250,108,614
Profit for the period	-	-	7,190,056	7,190,056
Other comprehensive income (loss)				
Gain from investments in equity instruments	-	1,411	-	1,411
Total comprehensive income (loss) for the period	-	1,411	7,190,056	7,191,467
Dividend distribution	-	-	(1,001,191)	(1,001,191)
Balance as at 30 June 2021	81,530,200	95,075	174,673,615	256,298,890

in 000 RSD

Condensed Statement of Cash Flows⁷¹

	Note	Six month period ended 30 June	
		2021 (unaudited)	2020 (unaudited)
Cash flows from operating activities			
Profit (loss) before income tax		9,223,957	(9,392,640)
Adjustments for:			
Finance expenses	24	808,598	939,661
Finance income	23	(432,675)	(392,808)
Net unrealised foreign exchange loss		254,290	229,216
Depreciation, depletion and amortization		11,367,571	10,173,541
Other non-cash items		367,704	182,091
Operating cash flow before changes in working capital		21,589,445	1,739,061
Changes in working capital:			
Accounts receivables		(7,452,957)	6,633,393
Inventories		(10,729,065)	18,705,504
Other assets		(426,301)	(1,791,946)
Accounts payables and other current liabilities		10,840,461	(20,012,894)
Taxes payable		290,715	3,309,874
Total effect on working capital changes		(7,477,147)	6,843,931
Income taxes paid		(134,759)	(1,162,365)
Interest paid		(706,234)	(885,664)
Interest received		206,471	228,276
Net cash generated from operating activities		13,477,776	6,763,239
Cash flows from investing activities			
Net cash outflow on acquisition of subsidiaries		-	(41)
Loans issued		(2,161,712)	(3,629,477)
Loan proceeds received		1,800,764	4,276,196
Capital expenditures ⁷²		(8,799,142)	(14,962,617)
Proceeds from sale of property, plant and equipment		139,208	139,573
Net cash used in investing activities		(9,020,882)	(14,176,366)
Cash flows from financing activities			
Proceeds from borrowings	14,18	15,378,500	19,092,041
Repayment of borrowings	14,18	(16,552,072)	(19,055,485)
Repayment of lease liabilities	19	(192,429)	(53,288)
Net cash used in financing activities		(1,366,001)	(16,732)
Net increase (decrease) in cash and cash equivalents		3,090,893	(7,429,859)
Effect of foreign exchange on cash and cash equivalents		(19,705)	86,950
Cash and cash equivalents as of the beginning of the period		7,949,785	13,501,827
Cash and cash equivalents as of the end of the period		11,020,973	6,158,918

in 000 RSD

⁷¹ Company's policy is to present cash flow inclusive of related VAT.

⁷² CF from investing activities includes VAT in the amount of 1 bln RSD (2020: 1.5 bln RSD)

Notes to the Financial Statements⁷³

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije, Novi Sad (the “Company”) is a vertically integrated oil company operating predominantly in the Republic of 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
- Electricity generation and trading.

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

The Company was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005. On 2 February 2009 PJSC Gazprom Neft (“Gazprom Neft”) acquired a 51% of the share capital of Naftna Industrija Srbije which became a subsidiary of Gazprom Neft. In March 2011, under the Company’s Share Sale and Purchase Agreement, Gazprom Neft acquired an additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%. PJSC Gazprom, 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 Interim Condensed Financial Statements have been approved and authorized for issue by Chief Executive Officer and will be presented to Board of Directors for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

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

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

The Company does not disclose information which would substantially duplicate the disclosures contained in its audited Financial Statements for 2020, such as significant accounting policies, significant estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Company believes that the disclosures in these Interim Condensed Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Financial Statements are read in conjunction with the Company’s Financial Statements for 2020.

The Company continues to monitor the impact of the coronavirus pandemic (COVID-19) and the related preventive measures which lead to decrease in the economic activity of market participants, as well as persistent volatility in the currency and commodity markets on the critical accounting estimates which are used by the Company in the Interim Condensed Financial Statements preparation. In the first half of 2021, the specified macroeconomic factors did not result in change of these estimates by the Company.

The results in these Interim Condensed Financial Statements for the three and six months ended 30 June 2021 are not necessarily indicative of the Company’s results expected for the full year.

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

⁷³ All amounts are in 000 RSD, unless otherwise stated

2.2. Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Financial Statements are consistent with those applied during the preparation of Financial Statements as of and for the year ended 31 December 2020, except for those described in the Application of new IFRS paragraph.

3. NEW ACCOUNTING STANDARDS

Application of amendments to the existing standards

The following amendments to the existing standards which became effective did not have any material impact on the Interim Condensed Financial Statements:

- 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);
- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16 (issued in March 2021 and effective for annual periods on or after 1 April 2021).

New standards and amendments to the existing standards that are not yet effective

The following new standards and amendments to the existing standards are not expected to have any material impact on the Interim Condensed 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;
- 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);
- Disclosure of Accounting Policies – Amendments to IAS 1 (issued in February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Definition of Accounting Estimates – Amendments to IAS 8 (issued in February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 (issued in May 2021 and effective for annual periods beginning on or after 1 January 2023).

4. SEGMENT INFORMATION

Presented below is information about the Company’s operating segments for the six month period ended 30 June 2021 and 2020. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Company manages its operations in 2 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 are presented within the Downstream segment.

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

EBITDA represents the Company's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Company's ongoing 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 six month period ended 30 June 2021 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	20,317,460	106,073,049	(19,326,141)	107,064,368
Intersegment	19,083,946	242,195	(19,326,141)	-
External	1,233,514	105,830,854	-	107,064,368
EBITDA (Segment results)	13,024,984	8,252,135	-	21,277,119
Depreciation, depletion and amortization	(5,949,955)	(5,417,616)	-	(11,367,571)
Net foreign exchange loss	(25,201)	(224,561)	-	(249,762)
Finance expenses, net	(22,946)	(352,977)	-	(375,923)
Income tax	(135,898)	(1,898,002)	-	(2,033,901)
Segment profit /(loss)	6,855,818	334,238	-	7,190,056

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	15,217,488	79,168,131	(15,061,489)	79,324,130
Intersegment	14,746,593	314,896	(15,061,489)	-
External	470,895	78,853,235	-	79,324,130
EBITDA (Segment results)	7,893,657	(5,953,307)	-	1,940,350
Depreciation, depletion and amortization	(5,636,092)	(4,537,449)	-	(10,173,541)
Net foreign exchange loss	(32,961)	(110,376)	-	(143,337)
Finance expenses, net	(33,591)	(513,262)	-	(546,853)
Income tax	(44,786)	471,848	-	427,062
Segment profit /(loss)	2,137,834	(11,103,412)	-	(8,965,578)

EBITDA for the three and six month period ended 30 June 2021 and 2020 is reconciled below:

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Profit (loss) for the period	4,880,817	(8,842,417)	7,190,056	(8,965,578)
Income tax	1,241,027	(272,817)	2,033,901	(427,062)
Finance expenses	416,423	527,005	808,598	939,661
Finance income	(211,311)	(194,163)	(432,675)	(392,808)
Depreciation, depletion and amortization	5,674,468	5,158,731	11,367,571	10,173,541
Net foreign exchange loss	230,194	1,306	249,762	143,337
Other expense (income), net	(21,715)	371,554	64,120	454,656
Other non-operating expense (income), net	27,061	18,377	(4,214)	14,603
EBITDA	12,236,964	(3,232,424)	21,277,119	1,940,350

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

	Six month period ended 30 June 2021		
	Domestic market	Export and International sales	Total
Sale of crude oil	-	1,212,510	1,212,510
Sale of gas	173,371	-	173,371
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	173,371	-	173,371
Sale of petroleum products	78,540,989	20,698,455	99,239,444
<i>Through a retail network</i>	28,563,257	-	28,563,257
<i>Wholesale activities</i>	49,977,732	20,698,455	70,676,187
Sale of electricity	1,019,389	189,878	1,209,267
Lease revenue	164,737	2,565	167,302
Other sales	4,895,707	166,767	5,062,474
Total sales	84,794,193	22,270,175	107,064,368

	Six month period ended 30 June 2020		
	Domestic market	Export and International sales	Total
Sale of crude oil	-	445,567	445,567
Sale of gas	287,992	-	287,992
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	287,992	-	287,992
Sale of petroleum products	60,009,719	14,311,720	74,321,439
<i>Through a retail network</i>	23,675,110	-	23,675,110
<i>Wholesale activities</i>	36,334,609	14,311,720	50,646,329
Sale of electricity	313,732	15,132	328,864
Lease revenue	159,748	2,195	161,943
Other sales	3,680,489	97,836	3,778,325
Total sales	64,451,680	14,872,450	79,324,130

Out of the amount of 70,676,187 thousand RSD (2020: 50,646,329 thousand RSD) revenue from sale of petroleum products (wholesale), the amount of 11,526,213 thousand RSD (2020: 6,688,373 thousand RSD) are derived from a single domestic customer HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations for 3,693,888 thousand RSD (2020: 2,842,677 thousand RSD).

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

The Company is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 84,794,193 thousand RSD (2020: 64,451,680 thousand RSD), and the total revenue from external customer from other countries is 22,270,175 thousand RSD (2020: 14,872,450 thousand RSD).

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

	Six month period ended	
	30 June	
	2021	2020
Sale of crude oil	1,212,510	445,567
Sale of petroleum products (retail and wholesale)		
Bosnia and Herzegovina	8,285,068	4,705,985
Bulgaria	2,867,464	3,105,687
Romania	1,946,512	1,511,755
Croatia	1,093,398	790,710
Switzerland	756,472	360,100
Hungary	251,626	414,385
Great Britain	1,415,150	447,001
Northern Macedonia	253,044	425,770
All other markets	3,829,721	2,550,327
	20,698,455	14,311,720
Sale of electricity	189,878	15,132
Lease revenue	2,565	2,195
Other sales	166,767	97,836
	22,270,175	14,872,450

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

5. CASH AND CASH EQUIVALENTS

	30 June 2021	31 December 2020
Cash in bank and in hand	9,244,362	5,151,570
Deposits with original maturity of less than three months	1,500,000	2,530,000
Cash held on escrow account	7,599	8,071
Cash equivalents	269,012	260,144
	11,020,973	7,949,785

6. SHORT-TERM FINANCIAL ASSETS

	30 June 2021	31 December 2020
Short-term loans	261,374	170,007
Current portion of long-term investments (note 12)	16,658,140	12,742,101
Less impairment loss provision	(6,388,457)	(6,389,228)
	10,531,057	6,522,880

7. TRADE AND OTHER RECEIVABLES

	30 June 2021	31 December 2020
Trade receivables	39,233,190	31,745,192
Other receivables	94,821	91,786
Accrued assets	-	259
<i>Less credit loss allowance for trade receivables</i>	(8,979,206)	(8,996,923)
<i>Less credit loss allowance for other receivables</i>	(42,785)	(46,039)
Total trade and other receivables	30,306,020	22,794,275

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

Management believes that not impaired trade, specific and other receivables are fully recoverable.

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

	30 June 2021	31 December 2020
RSD	24,133,274	18,697,088
EUR	5,922,033	3,851,810
USD	250,673	245,377
Other	40	-
	30,306,020	22,794,275

8. INVENTORIES

	30 June 2021	31 December 2020
Crude oil	23,334,902	14,084,875
Petroleum products	11,102,132	9,809,004
Materials and supplies	3,960,495	3,770,150
Other	789,340	820,094
Less impairment provision	(4,612,669)	(4,661,075)
	34,574,200	23,823,048

9. OTHER CURRENT ASSETS

	30 June 2021	31 December 2020
Advances paid	373,431	407,865
Deferred VAT	2,157,911	1,823,813
Prepaid expenses	480,669	230,996
Prepaid custom duties	67,452	76,921
Prepaid excise	1,736,614	2,201,437
Other current assets	7,673,521	7,690,856
Less impairment provision	(7,553,236)	(7,552,679)
	4,936,362	4,879,209

Deferred VAT as at 30 June 2021 amounting to 2,157,911 thousand RSD (31 December 2020: 1,823,813 thousand RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 30 June 2021 amounting to 1,736,614 thousand RSD (31 December 2020: 2,201,437 thousand RSD) relates to the excise paid for finished products stored in non-excise warehouse.

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

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2020						
Cost	174,428,161	119,078,761	51,810,197	16,384,499	58,002,489	419,704,107
Depreciation and impairment	(52,478,788)	(51,705,166)	(28,785,148)	(8,504,734)	(1,985,930)	(143,459,766)
Net book value	121,949,373	67,373,595	23,025,049	7,879,765	56,016,559	276,244,341
Period ended 30 June 2020						
Additions	-	-	-	-	12,803,182	12,803,182
Changes in decommissioning obligations	158,782	-	-	-	-	158,782
Transfer from assets under construction	8,338,622	2,599,400	1,449,398	122,647	(12,510,067)	-
Transfer to non-current assets held for sale	(45,468)	-	-	(76,235)	-	(121,703)
Impairment	-	-	(3,031)	-	(18,289)	(21,320)
Depreciation	(5,586,212)	(3,040,435)	(889,398)	(289,118)	-	(9,805,163)
Disposals and write-off	(8,967)	(5,005)	(27,695)	(5,491)	(44,050)	(91,208)
Other transfers	(44,005)	(272,783)	34,600	282,187	37,932	37,931
	124,762,125	66,654,772	23,588,923	7,913,755	56,285,267	279,204,842
As at 30 June 2020						
Cost	182,651,993	121,344,116	53,118,823	16,493,020	58,287,490	431,895,442
Depreciation and impairment	(57,889,868)	(54,689,344)	(29,529,900)	(8,579,265)	(2,002,223)	(152,690,600)
Net book value	124,762,125	66,654,772	23,588,923	7,913,755	56,285,267	279,204,842
As at 1 January 2021						
Cost	189,297,949	160,908,071	54,118,866	16,582,366	18,329,919	439,237,171
Depreciation and impairment	(63,463,518)	(57,807,804)	(30,128,250)	(8,838,112)	(2,507,663)	(162,745,347)
Net book value	125,834,431	103,100,267	23,990,616	7,744,254	15,822,256	276,491,824
Period ended 30 June 2021						
Additions	-	-	-	-	8,024,384	8,024,384
Changes in decommissioning obligations	92,238	-	-	-	-	92,238
Transfer from assets under construction	7,926,894	1,495,308	743,698	109,512	(10,275,412)	-
Impairment	-	-	-	-	(881)	(881)
Depreciation	(5,881,214)	(3,959,071)	(866,676)	(250,390)	-	(10,957,351)
Disposals and write-off	(20,874)	(8,057)	(29,545)	(345)	(6,588)	(65,409)
Transfer to non-current assets held for sale	-	-	-	(15,860)	-	(15,860)
Transfer to Right of use assets	-	-	(153,427)	-	-	(153,427)
Other transfers	(2,610)	496,059	(472,013)	(21,436)	(170,926)	(170,926)
	127,948,865	101,124,506	23,212,653	7,565,735	13,392,833	273,244,592
As at 30 June 2021						
Cost	197,101,765	163,273,874	53,645,304	16,594,519	15,901,377	446,516,839
Depreciation and impairment	(69,152,900)	(62,149,368)	(30,432,651)	(9,028,784)	(2,508,544)	(173,272,247)
Net book value	127,948,865	101,124,506	23,212,653	7,565,735	13,392,833	273,244,592

11. RIGHT-OF-USE ASSETS

Movements in right-of-use assets for the six months ended 30 June 2021 and 2020 are as follows:

	Land	Property	Plant and equipment	Vehicles	Total
As at 1 January 2020	-	489,299	274,626	179,910	943,835
Additions	7,509	83,270	-	495,176	585,955
Depreciation	(1,251)	(26,111)	(30,385)	(54,014)	(111,761)
Disposals	-	(1,355)	-	(3,976)	(5,331)
As at 30 June 2020	6,258	545,103	244,241	617,096	1,412,698
As at 1 January 2021	5,006	519,681	167,526	730,664	1,422,877
Additions	-	158,785	10,739	1,509	171,033
Depreciation	(1,252)	(26,792)	(43,411)	(106,894)	(178,349)
Transfer from PPE	-	153,427	-	-	153,427
Effect of contract modifications and changes in estimates	-	(15,114)	-	-	(15,114)
Disposals	-	-	-	(1,811)	(1,811)
As at 30 June 2021	3,754	789,987	134,854	623,468	1,552,063

12. LONG-TERM FINANCIAL ASSETS

	30 June 2021	31 December 2020
LT loans issued	39,798,945	39,312,769
Financial assets at FVTPL	841,747	841,847
Financial assets at FVTOCI	159,339	163,975
Other LT placements	30,239	30,055
<i>Less Current portion of LT loans issued (note 6)</i>	(16,658,140)	(12,742,101)
<i>Less provision of other LT placements</i>	(3,739,754)	(3,742,880)
	20,432,376	23,863,665

13. OTHER NON-CURRENT ASSETS

	30 June 2021	31 December 2020
Advances paid for PPE	257,704	271,340
Prepaid expenses	108,272	126,564
Other assets	1,144,078	1,126,857
<i>Less allowance for Other assets</i>	(395,691)	(382,775)
<i>Less allowance for advances paid</i>	(21,363)	(21,363)
	1,093,000	1,120,623

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

	30 June 2021	31 December 2020
Short-term loans	1,456,508	1,756,036
Interest liabilities	89,889	77,515
Current portion of long-term loans (note 18)	7,719,006	11,585,989
	9,265,403	13,419,540

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

	Six month period ended	
	30 June	
	2021	2020
Short-term loans at 1 January	1,756,035	1,594,072
Proceeds	7,156,687	16,642,798
Repayment	(7,456,214)	(16,149,542)
Short-term loans at 30 June	1,456,508	2,087,328

15. TRADE AND OTHER PAYABLES

	30 June 2021	31 December 2020
Trade payables	34,587,035	20,843,294
Dividends payable	4,785,533	3,785,017
Other accounts payable	151,148	199,583
	39,523,716	24,827,894

As at 30 June 2021 trade payables amounting to 34,587,035 thousand RSD (31 December 2020: 20,843,294 thousand RSD) mainly relate to payables for crude oil in the amount of 21,403,463 thousand RSD (31 December 2020: 9,413,234 thousand RSD), to the most significant suppliers Gazprom Neft, St Petersburg in the amount of 11,457,671 thousand RSD (31 December 2020: 3,200,890 RSD) and Petraco Oil Company LLP, London in the amount of 9,941,346 thousand RSD (31 December 2020: 2,641,621 thousand RSD).

16. OTHER CURRENT LIABILITIES

	30 June 2021	31 December 2020
Contract liabilities arising from contracts with customers:		
- Advances received	2,190,153	4,045,584
- Customer loyalty	721,038	693,356
Payables to employees	2,664,374	3,675,411
Other current non-financial liabilities	20,760	17,455
	5,596,325	8,431,806

As at 30 June 2021 revenue in the amount of 4,033,440 thousand RSD (30 June 2020: 1,685,920 thousand RSD) was recognized in the current reporting period related to the contract liabilities as at 1 January 2021, of which 3,667,749 thousand RSD (30 June 2020: 1,365,682 thousand RSD) related to advances and 365,691 thousand RSD (30 June 2020: 320,238 thousand RSD) to customer loyalty programme.

17. OTHER TAXES PAYABLE

	30 June 2021	31 December 2020
Mineral extraction tax	309,529	210,991
VAT	1,747,398	2,011,510
Excise tax	5,857,371	5,379,743
Contribution for buffer stocks	269,047	266,499
Custom duties	13,921	31,517
Energy efficiency fee	32,166	30,687
Other taxes	1,104,334	1,112,307
	9,333,766	9,043,254

18. LONG-TERM DEBT

	30 June 2021	31 December 2020
Long-term loan - Gazprom Neft	11,101,876	13,672,117
Bank loans	70,834,092	69,109,853
Less Current portion (note 14)	(7,719,006)	(11,585,989)
	74,216,962	71,195,981

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

	Six month period ended 30 June	
	2021	2020
Long-term loans at 1 January	82,781,970	88,350,506
Proceeds	8,221,813	2,449,243
Repayment	(9,095,858)	(2,905,943)
Non-cash transactions	40,521	-
Foreign exchange difference (note 22)	(12,478)	(11,215)
Long-term loans at 30 June	81,935,968	87,882,591

(a) Long-term loan - Gazprom Neft

As at 30 June 2021 long-term loan - Gazprom Neft amounting to 11,101,876 thousand RSD (31 December 2020: 13,672,117 thousand RSD), with current portion of 5,633,690 thousand RSD (2020: 5,468,847 thousand RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) Bank loans

	30 June 2021	31 December 2020
Domestic	48,869,919	51,785,404
Foreign	21,964,173	17,324,449
	70,834,092	69,109,853
Current portion of long-term loans	(2,085,316)	(6,117,142)
	68,748,776	62,992,711

The maturity of bank loans was as follows:

	30 June 2021	31 December 2020
Between 1 and 2 years	17,445,890	9,920,841
Between 2 and 5 years	39,548,869	41,197,751
Over 5 years	11,754,017	11,874,119
	68,748,776	62,992,711

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

	30 June 2021	31 December 2020
USD	144,116	157,858
EUR	70,510,152	68,740,978
RSD	280	339
JPY	179,544	210,678
	70,834,092	69,109,853

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

The loan agreements contain financial covenants that require the Company's ratio of Indebtedness to EBITDA. Management believes the Company is in compliance with these covenants as of 30 June 2021 and 31 December 2020, respectively.

19. LEASE LIABILITIES

	30 June 2021	31 December 2020
Non-current lease liabilities	1,016,977	1,037,640
Current lease liabilities	325,501	321,155
	1,342,478	1,358,795

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

	Six month period ended 30 June	
	2021	2020
As at 1 January	1,358,795	811,424
Repayment	(192,429)	(53,288)
Non-cash transactions	175,576	604,202
Foreign exchange difference (note 22)	536	(11,015)
As at 30 June	1,342,478	1,351,323

Amounts recognized in profit and loss:

	Six month period ended 30 June	
	2021	2020
Interest expense (included in finance cost)	16,330	15,473
Expense relating to short-term leases	36,933	193,465
Expense relating to leases of low value assets that are not shown above as short-term leases	10,728	66,079
Expense relating to variable lease payments not included in lease liabilities	540,738	550,445

20. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Employee costs	985,497	935,665	1,912,702	1,833,282
Materials and supplies (other than purchased oil, petroleum products and gas)	157,111	65,088	313,537	247,547
Repair and maintenance services	986,824	907,039	2,156,133	1,817,266
Electricity for resale	499,964	29,955	929,730	112,202
Electricity and utilities	649,238	605,925	1,249,514	1,228,426
Safety and security expense	90,557	96,040	172,766	212,143
Insurance services	87,342	97,874	171,938	159,334
Transportation services for production	459,115	431,729	918,987	933,171
Other	2,495,465	1,964,331	4,605,411	3,855,970
	6,411,113	5,133,646	12,430,718	10,399,341

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Employee costs	3,074,520	2,653,154	5,765,891	5,398,483
Commission and agency fees	1,133,255	799,871	2,008,612	1,083,838
Legal, audit and consulting services	324,560	331,219	557,498	550,720
Current repair cost	225,512	169,713	397,640	357,429
Costs on advertising and marketing	66,671	32,950	112,352	82,370
Rent expense	16,577	41,170	42,693	87,168
Business trips expense	25,543	14,222	39,934	48,155
Safety and security expense	140,549	94,570	261,495	209,311
Insurance expense	16,898	14,928	32,438	32,061
Transportation and storage	33,861	22,745	58,315	65,939
Allowance for doubtful accounts	(65,344)	23,466	(65,479)	(96,502)
Other	1,017,000	799,170	1,957,165	2,416,226
	6,009,602	4,997,178	11,168,554	10,235,198

22. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Foreign exchange gain (loss) on financing activities including:				
- foreign exchange gain	217,209	860,401	407,532	1,119,313
- foreign exchange loss	(202,578)	(906,972)	(395,590)	(1,097,083)
Net foreign exchange gain (loss) on operating activities	(244,825)	45,265	(261,704)	(165,567)
	(230,194)	(1,306)	(249,762)	(143,337)

23. FINANCE INCOME

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Interest on bank deposits	17,130	23,507	28,914	47,660
Gains on restructuring of borrowings	21,673	-	60,882	-
Interest income on loans issued	172,508	170,656	342,879	345,148
	211,311	194,163	432,675	392,808

24. FINANCE EXPENSES

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Interest expense	390,531	549,729	771,763	995,902
Decommissioning provision: unwinding of the present value discount	19,600	23,024	39,019	43,827
Losses on restructuring of borrowings	18,484	-	40,521	-
Financial assets: unwinding of discount	(12,192)	(10,087)	(42,705)	(29,530)
Less: interest expense capitalised on qualifying assets	-	(35,661)	-	(70,538)
	416,423	527,005	808,598	939,661

Interest expense includes expenses on lease liabilities in amount of 16,330 thousand RSD for the six months ended 30 June 2021 (15,473 thousand RSD for the six months ended 30 June 2020, accordingly).

25. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Financial Statements: investment properties and financial investments classified as available for sale and other non-current financial asset and liabilities. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Financial Statements as of 31 December 2020. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 30 June 2021 the carrying value of financial assets approximates their fair value.

26. CONTINGENCIES AND COMMITMENTS*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 stable 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 384,818 thousand RSD (31 December 2020: 408,540 thousand RSD).

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 30 June 2021.

Capital commitments

As of 30 June 2021 the Company has entered into contracts to purchase property, plant and equipment for 1,233,603 thousand RSD (31 December 2020: 1,536,920 thousand RSD).

There were no other material contingencies and commitments of the Company.

27. RELATED PARTY TRANSACTIONS

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

The majority owner of the 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.

In the six month period ended 30 June 2021 and in the same period in 2020, 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 at 30 June 2021 and 31 December 2020 the outstanding balances, net of impairment, with related parties were as follows:

As at 30 June 2021	Subsidiaries	Parent company	Joint ventures, associates and parent's subsidiaries and associates
Short-term financial assets	10,531,049	-	-
Trade and other receivables	4,763,254	-	1,741,769
Other current assets	4,461	-	2,394
Right of use assets	45,054	-	31
Investments in subsidiaries, associates and joint ventures	13,425,627	-	1,038,800
Long-term financial assets	20,320,204	-	-
Trade and other payables	(4,291,943)	(11,457,671)	(1,902,220)
Other current liabilities	(18,809)	-	(2,242)
Short-term debt and current portion of long-term debt	(1,457,742)	(5,663,690)	-
Current lease liabilities	(2,284)	-	(13)
Long-term debt	-	(5,468,186)	-
Non-current lease liabilities	(45,076)	-	-
	43,273,795	(22,559,547)	878,519

As at 31 December 2020	Subsidiaries	Parent company	Joint ventures, associates and parent's subsidiaries and associates
Short-term financial assets	6,522,880	-	-
Trade and other receivables	3,485,689	-	1,582,736
Other current assets	2,359	-	25,095
Right of use assets	46,396	-	125
Investments in subsidiaries, associates and joint ventures	13,425,627	-	1,038,800
Long-term financial assets	23,753,095	-	-
Trade and other payables	(3,465,869)	(3,204,199)	(1,115,667)
Other current liabilities	(54,150)	-	(4,530)
Short-term debt and current portion of long-term debt	(1,757,459)	(5,468,847)	-
Current lease liabilities	(2,249)	-	(84)
Long-term debt	-	(8,203,270)	-
Non-current lease liabilities	(46,076)	-	-
	41,910,243	(16,876,316)	1,526,475

For the six month period ended 30 June 2021 and 30 June 2020 the following transaction occurred with related parties:

Six month period ended 30 June 2021	Subsidiaries	Parent company	Joint ventures, associates and parent's subsidiaries, and associates
Petroleum products and oil and gas sales	9,482,786	-	12,076,763
Other revenues	547,627	1,455	33,589
Purchases of oil, gas and petroleum products	(9,657,480)	(1,105,219)	(453,111)
Production and manufacturing expenses	(2,237,266)	-	(280,133)
Selling, general and administrative expenses	(2,127,566)	-	(4,436)
Transportation expenses	(339)	-	-
Depreciation	(1,341)	-	(94)
Other income (expenses), net	777	-	(2)
Finance income	399,289	-	-
Finance expense	(10,018)	(96,822)	-
	(3,603,531)	(1,200,586)	11,372,576

Six month period ended 30 June 2020	Subsidiaries	Parent company	Joint ventures, associates and parent's subsidiaries, and associates
Petroleum products and oil and gas sales	5,800,286	-	6,820,375
Other revenues	357,634	-	10,550
Purchases of oil, gas and petroleum products	(231,572)	(20,144,958)	(510,638)
Production and manufacturing expenses	(1,752,696)	-	(156,212)
Selling, general and administrative expenses	(1,455,134)	-	(7,066)
Transportation expenses	(806)	-	-
Depreciation	(2,956)	-	-
Other income (expenses), net	(17,855)	5,233	(142)
Finance income	340,248	-	-
Finance expense	(14,031)	(163,378)	-
	3,023,118	(20,303,103)	6,156,867

Transactions with Key Management Personnel

For the six month period ended on 30 June 2021 and 2020 the Company recognized 467,191 thousand RSD and 456,072 thousand RSD, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

28. EVENTS AFTER THE REPORTING DATE

There are no material events after the reporting date.

Subsequent events occurring after 30 June 2021 were evaluated through 28 July 2021, the date these Interim Condensed Financial Statements were authorised for issue.

Consolidated Financial Statements

Consolidated Statement of Financial Position

Assets	Note	30 June 2021	31 December 2020
		<i>(unaudited)</i>	
Current assets			
Cash and cash equivalents	5	12,269,820	8,488,302
Short-term financial assets	6	249,150	266,224
Trade and other receivables	7	27,760,363	20,898,742
Inventories	8	38,461,989	27,748,226
Current income tax prepayments		-	1,012,225
Other current assets	9	6,428,882	6,117,761
Non-current assets held for sale		44,373	39,146
Total current assets		85,214,577	64,570,626
Non-current assets			
Property, plant and equipment	10	303,024,756	306,479,078
Right-of-use assets	11	2,647,540	2,660,794
Investment property		1,581,468	1,574,329
Goodwill and other intangible assets		4,465,197	4,485,734
Investments in associates and joint ventures	12	1,660,539	1,747,430
Trade and other non-current receivables		2,822	78,459
Long-term financial assets		112,172	110,571
Deferred tax assets		1,791,973	2,313,438
Other non-current assets	13	1,192,519	1,209,728
Total non-current assets		316,478,986	320,659,561
Total assets		401,693,563	385,230,187
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	14	7,807,660	11,662,083
Current lease liabilities	19	617,297	610,725
Trade and other payables	15	37,779,255	23,501,690
Other current liabilities	16	7,167,949	9,887,618
Current income tax payable		454,007	-
Other taxes payable	17	10,558,194	10,110,787
Provisions for liabilities and charges		1,644,077	2,382,745
Total current liabilities		66,028,439	58,155,648
Non-current liabilities			
Long-term debt	18	74,305,305	71,269,506
Non-current lease liabilities	19	1,728,074	1,868,666
Other non-current financial liabilities		846,166	841,847
Provisions for liabilities and charges		10,870,046	10,332,213
Total non-current liabilities		87,749,591	84,312,232
Equity			
Share capital		81,530,200	81,530,200
Reserves		462,301	383,186
Retained earnings		165,903,354	160,829,243
Equity attributable to the Company's owners		247,895,855	242,742,629
Non-controlling interest		19,678	19,678
Total equity		247,915,533	242,762,307
Total liabilities and shareholder's equity		401,693,563	385,230,187

in 000 RSD

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	Three month period ended 30 June		Six month period ended 30 June	
		2021 <i>(unaudited)</i>	2020 <i>(unaudited)</i>	2021 <i>(unaudited)</i>	2020 <i>(unaudited)</i>
Sales of petroleum products, oil and gas		63,398,723	30,662,403	107,869,424	80,440,556
Other revenues		4,131,802	2,714,053	7,839,386	5,502,838
Total revenue from sales	4	67,530,525	33,376,456	115,708,810	85,943,394
Purchases of oil, gas and petroleum products		(39,832,707)	(24,066,232)	(65,013,705)	(58,088,192)
Production and manufacturing expenses	20	(6,656,540)	(5,105,816)	(12,708,028)	(10,654,450)
Selling, general and administrative expenses	21	(6,356,750)	(5,517,289)	(12,214,510)	(11,728,919)
Transportation expenses		(329,293)	(233,852)	(596,938)	(512,307)
Depreciation, depletion and amortization		(6,272,499)	(5,634,657)	(12,497,169)	(11,124,691)
Taxes other than income tax		(1,519,871)	(1,369,870)	(2,972,965)	(2,710,434)
Exploration expenses		(6,588)	-	(6,588)	(3,579)
Total operating expenses		(60,974,248)	(41,927,716)	(106,009,903)	(94,822,572)
Other income (expenses), net		44,427	(322,531)	(13,344)	(398,611)
Operating profit (loss)		6,600,704	(8,873,791)	9,685,563	(9,277,789)
Share of gain (loss) of associates and joint ventures		(50,068)	13,121	(86,891)	(42,617)
Net foreign exchange (loss)	22	(238,110)	(62,965)	(468,818)	(381,729)
Finance income	23	20,427	26,727	35,475	63,181
Finance expenses	24	(444,027)	(551,869)	(864,082)	(988,244)
Total other expense		(711,778)	(574,986)	(1,384,316)	(1,349,409)
Profit (loss) before income tax		5,888,926	(9,448,777)	8,301,247	(10,627,198)
Current income tax (expense) income		(897,082)	977	(1,704,763)	(51,370)
Deferred tax income (expense)		(441,971)	261,029	(521,182)	429,997
Total income tax		(1,339,053)	262,006	(2,225,945)	378,627
Profit (loss) for the period		4,549,873	(9,186,771)	6,075,302	(10,248,571)
Other comprehensive income (loss):					
Items that will not be reclassified to profit (loss)					
Gains (loss) from investments in equity instruments		1,433	(194)	1,411	(1,175)
Items that may be subsequently reclassified to profit (loss)					
Currency translation differences		4,055	14,019	77,704	76,657
Other comprehensive income (loss) for the period		5,488	13,825	79,115	75,482
Total comprehensive income (loss) for the period		4,555,361	(9,172,946)	6,154,417	(10,173,089)
Profit (loss) attributable to:					
- Shareholders of Naftna Industrija Srbije		4,549,873	(9,186,771)	6,075,302	(10,248,571)
- Non-controlling interest		-	-	-	-
Profit (loss) for the period		4,549,873	(9,186,771)	6,075,302	(10,248,571)
Total comprehensive income (loss) attributable to:					
- Shareholders of Naftna Industrija Srbije		4,555,361	(9,172,946)	6,154,417	(10,173,089)
- Non-controlling interest		-	-	-	-
Total comprehensive income (loss) for the period		4,555,361	(9,172,946)	6,154,417	(10,173,089)
Earnings (loss) per share attributable to shareholders of Naftna Industrija Srbije					
Basic earnings (RSD per share)		27,90	(56.34)	37,26	(62.85)
Weighted average number of ordinary shares in issue (in millions)		163	163	163	163

in 000 RSD

Consolidated Statement of Changes in Shareholders' Equity

<i>(unaudited)</i>	Equity attributable to the Company's owners				Non-controlling interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
Balance as at 1 January 2020	81,530,200	271,614	173,153,889	254,955,703	(260,911)	254,694,792
Profit (loss) for the period	-	-	(10,248,571)	(10,248,571)	-	(10,248,571)
Other comprehensive income (loss)						
Loss from investments in equity instruments	-	(1,175)	-	(1,175)	-	(1,175)
Currency translation differences	-	76,657	-	76,657	-	76,657
Total comprehensive income (loss) for the period	-	75,482	(10,248,571)	(10,173,089)	-	(10,173,089)
New investments in shares	-	-	(280,589)	(280,589)	280,589	-
Dividend distribution	-	-	(4,425,459)	(4,425,459)	-	(4,425,459)
Balance as at 30 June 2020	81,530,200	347,096	158,199,270	240,076,566	19,678	240,096,244
Balance as at 1 January 2021	81,530,200	383,186	160,829,243	242,742,629	19,678	242,762,307
Profit (loss) for the period	-	-	6,075,302	6,075,302	-	6,075,302
Other comprehensive income (loss)						
Gain from investments in equity instruments	-	1,411	-	1,411	-	1,411
Currency translation differences	-	77,704	-	77,704	-	77,704
Total comprehensive income (loss) for the period	-	79,115	6,075,302	6,154,417	-	6,154,417
Dividend distribution	-	-	(1,001,191)	(1,001,191)	-	(1,001,191)
Balance as at 30 June 2021	81,530,200	462,301	165,903,354	247,895,855	19,678	247,915,533

in 000 RSD

Statement of Cash Flows

	Note	Six month period ended 30 June	
		2021 (unaudited)	2020 (unaudited)
Cash flows from operating activities			
Profit (loss) before income tax		8,301,247	(10,627,198)
Adjustments for:			
Share of loss of associates and joint ventures		86,891	42,617
Finance expenses	24	864,082	988,244
Finance income	23	(35,475)	(63,181)
Net unrealised foreign exchange loss (gain), net		(65,688)	(20,094)
Depreciation, depletion and amortization		12,497,169	11,124,691
Other non-cash items		330,348	214,653
Operating cash flow before changes in working capital		21,978,574	1,659,732
Changes in working capital:			
Accounts receivable		(6,803,997)	6,084,214
Inventories		(10,695,197)	18,678,841
Other assets		(314,558)	(1,631,230)
Accounts payables and other current liabilities		10,823,933	(19,906,086)
Taxes payable		447,907	3,466,068
Total effect on working capital changes		(6,541,912)	6,691,807
Income taxes paid		(242,150)	(1,274,858)
Interest paid		(697,014)	(872,237)
Interest received		30,279	62,809
		(908,885)	(2,084,286)
Net cash generated from operating activities		14,527,777	6,267,253
Cash flows from investing activities			
Net cash outflow on acquisition of subsidiaries		-	(41)
Capital expenditures ⁷⁴		(9,706,368)	(16,224,011)
Proceeds from sale of property, plant and equipment		194,786	183,011
Bank deposits repayment, net		17,449	1,598,297
Other outflow		(17,643)	(17,641)
Net cash used in investing activities		(9,511,776)	(14,460,385)
Cash flows from financing activities			
Proceeds from borrowings	14,18	8,721,813	13,949,244
Repayment of borrowings	14,18	(9,595,858)	(13,655,944)
Repayment of lease liabilities	19	(339,193)	(179,728)
Net cash (used in) generated from financing activities		(1,213,238)	113,572
Net increase/(decrease) in cash and cash equivalents		3,802,763	(8,079,560)
Effect of foreign exchange on cash and cash equivalents		(21,245)	82,371
Cash and cash equivalents as of the beginning of the period		8,488,302	15,295,810
Cash and cash equivalents as of the end of the period		12,269,820	7,298,621

in 000 RSD

⁷⁴ CF from investing activities includes VAT in the amount of 1,1 bln RSD (2020: 1,7 bln RSD).

Notes to the Financial Statements⁷⁵

1. GENERAL INFORMATION

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

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

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

The Company was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005. On 2 February 2009 PJSC Gazprom Neft (“Gazprom Neft”) acquired a 51% of the share capital of Naftna Industrija Srbije which became a subsidiary of Gazprom Neft. In March 2011, under the Company’s Share Sale and Purchase Agreement, Gazprom Neft acquired an additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%. PJSC Gazprom, 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 Interim Condensed Consolidated Financial Statements have been approved and authorized for issue by Chief Executive Officer and will be presented to Board of Directors for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

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

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

The Group does not disclose information which would substantially duplicate the disclosures contained in its audited Consolidated Financial Statements for 2020, such as significant accounting policies, significant estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Group believes that the disclosures in these Interim Condensed Consolidated Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Consolidated Financial Statements are read in conjunction with the Group’s Consolidated Financial Statements for 2020.

The Group continues to monitor the impact of the coronavirus pandemic (COVID-19) and the related preventive measures which lead to decrease in the economic activity of market participants, as well as persistent volatility in the currency and commodity markets on the critical accounting estimates which are used by the Group in the Condensed Interim Consolidated Financial Statements preparation. In the first half of 2021, the specified macroeconomic factors did not result in change of these estimates by the Group.

The results in these Condensed Interim Consolidated Financial Statements for the three and six months ended 30 June 2021 are not necessarily indicative of the Group’s results expected for the full year.

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

⁷⁵ All amounts are in 000 RSD, unless otherwise stated

2.2. Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Consolidated Financial Statements are consistent with those applied during the preparation of Consolidated Financial Statements as of and for the year ended 31 December 2020, except for those described in the Application of new IFRS paragraph.

3. NEW ACCOUNTING STANDARDS

Application of amendments to the existing standards

The following amendments to the existing standards which became effective did not have any material impact on the Condensed Interim Consolidated Financial Statements:

- 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);
- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16 (issued in March 2021 and effective for annual periods on or after 1 April 2021).

New standards and amendments to the existing standards that are not yet effective

The following new standards and amendments to the existing standards are not expected to have any material impact on the Condensed Interim 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;
- 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);
- Disclosure of Accounting Policies – Amendments to IAS 1 (issued in February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Definition of Accounting Estimates – Amendments to IAS 8 (issued in February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 (issued in May 2021 and effective for annual periods beginning on or after 1 January 2023).

4. SEGMENT INFORMATION

Presented below is information about the Group’s operating segments for the six month periods ended 30 June 2021 and 2020. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

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

Reportable segment results for the six month period ended 30 June 2021 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	20,680,928	114,522,796	(19,494,914)	115,708,810
Intersegment	19,247,904	247,010	(19,494,914)	-
External	1,433,024	114,275,786	-	115,708,810
EBITDA (Segment results)	13,453,118	8,768,441	-	22,221,559
Depreciation, depletion and amortization	(6,616,362)	(5,880,807)	-	(12,497,169)
Share of loss of associates and joint ventures	-	(86,891)	-	(86,891)
Net foreign exchange loss	(156,556)	(312,262)	-	(468,818)
Finance expenses, net	(13,072)	(815,535)	-	(828,607)
Income tax	(323,414)	(1,902,531)	-	(2,225,945)
Segment profit (loss)	6,016,472	58,830	-	6,075,302

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	15,542,505	85,742,246	(15,341,357)	85,943,394
Intersegment	15,014,540	326,817	(15,341,357)	-
External	527,965	85,415,429	-	85,943,394
EBITDA (Segment results)	8,039,455	(5,724,680)	-	2,314,775
Depreciation, depletion and amortization	(6,108,080)	(5,016,611)	-	(11,124,691)
Share of loss of associates and joint ventures	-	(42,617)	-	(42,617)
Net foreign exchange loss	(169,594)	(212,135)	-	(381,729)
Finance expenses, net	(46,783)	(878,280)	-	(925,063)
Income tax	(62,196)	440,823	-	378,627
Segment profit (loss)	1,387,981	(11,636,552)	-	(10,248,571)

EBITDA for the three and six month period ended 30 June 2021 and 2020 is reconciled below:

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Profit (loss) for the period	4,549,873	(9,186,771)	6,075,302	(10,248,571)
Income tax	1,339,053	(262,006)	2,225,945	(378,627)
Finance expenses	444,027	551,869	864,082	988,244
Finance income	(20,427)	(26,727)	(35,475)	(63,181)
Depreciation, depletion and amortization	6,272,499	5,634,657	12,497,169	11,124,691
Share of loss (gain) of associates and joint ventures	50,068	(13,121)	86,891	42,617
Net foreign exchange loss	238,110	62,965	468,818	381,729
Other expense (income), net	(44,427)	322,531	13,344	398,611
Other non-operating expense, net	34,308	59,661	25,483	69,262
EBITDA	12,863,084	(2,856,942)	22,221,559	2,314,775

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

	Six month period ended 30 June 2021		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,212,510	1,212,510
Sale of gas	173,227	-	173,227
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	173,227	-	173,227
Sale of petroleum products	78,279,786	28,203,901	106,483,687
<i>Through a retail network</i>	28,563,257	6,600,777	35,164,034
<i>Wholesale activities</i>	49,716,529	21,603,124	71,319,653
Sale of electricity	1,149,766	153,605	1,303,371
Lease revenue	151,250	6,766	158,016
Other sales	4,660,961	1,717,038	6,377,999
Total sales	84,414,990	31,293,820	115,708,810

	Six month period ended 30 June 2020		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	445,567	445,567
Sale of gas	276,144	-	276,144
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	276,144	-	276,144
Sale of petroleum products	59,696,877	20,021,968	79,718,845
<i>Through a retail network</i>	23,675,110	5,424,510	29,099,620
<i>Wholesale activities</i>	36,021,767	14,597,458	50,619,225
Sale of electricity	313,732	95,409	409,141
Lease revenue	149,562	2,815	152,377
Other sales	3,665,467	1,275,853	4,941,320
Total sales	64,101,782	21,841,612	85,943,394

Out of the amount of 71,319,653 thousand RSD (2020: 50,619,225 thousand RSD) revenue from sale of petroleum products (wholesale), the amount of 11,526,213 thousand RSD (2020: 6,688,373 thousand RSD) are derived from a single domestic customer HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 4,964,356 RSD (2020: 3,882,312 thousand RSD).

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

The Group is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 84,414,990 thousand RSD (2020: 64,101,782 thousand RSD), and the total revenue from external customer from other countries is 31,293,820 thousand RSD (2020: 21,841,612 thousand RSD).

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

	Six month period ended	
	30 June	
	2021	2020
Sale of crude oil	1,212,510	445,567
Sale of petroleum products (retail and wholesale)		
Bulgaria	5,729,856	4,842,681
Bosnia and Herzegovina	10,350,177	6,245,702
Romania	5,717,980	4,624,820
Switzerland	756,472	360,100
Croatia	1,093,398	790,710
Northern Macedonia	253,044	425,770
Hungary	251,626	414,385
Great Britain	1,415,150	447,001
Germany	587,548	520,291
All other markets	2,048,650	1,350,508
	28,203,901	20,021,968
Sale of electricity	153,605	95,409
Lease revenue	6,766	2,815
Other sales	1,717,038	1,275,853
	31,293,820	21,841,612

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

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

	30 June 2021	31 December 2020
Serbia	285,294,701	288,696,880
Romania	12,551,060	12,430,336
Bosnia and Herzegovina	7,608,136	7,649,494
Bulgaria	6,265,064	6,423,225
	311,718,961	315,199,935

5. CASH AND CASH EQUIVALENTS

	30 June 2021	31 December 2020
Cash in bank and in hand	10,110,475	5,576,619
Deposits with original maturity of less than three months	1,882,478	2,643,210
Cash held on escrow account	7,855	8,329
Cash equivalents	269,012	260,144
	12,269,820	8,488,302

6. SHORT-TERM FINANCIAL ASSETS

	30 June 2021	31 December 2020
Short-term loans	2,019	2,019
Deposits with original maturity more than 3 months less than 1 year	249,150	266,224
Less impairment loss provision	(2,019)	(2,019)
	249,150	266,224

As at 30 June 2021 deposits with original maturity more than 3 months less than 1 year amounting to 249,150 thousand RSD (31 December 2020: 266,224 thousand RSD) relates to bank deposits placements with interest rates to 0.50% to 2.40% p.a. denominated in RSD and EUR (31 December 2020: 0.50% to 2.80% p.a. denominated in RSD and EUR).

7. TRADE AND OTHER RECEIVABLES

	30 June 2021	31 December 2020
Trade receivables	36,600,408	29,709,881
Other receivables	92,766	91,781
Accrued assets	-	55,204
<i>Less credit loss allowance for trade receivables</i>	(8,890,026)	(8,912,085)
<i>Less credit loss allowance for other receivables</i>	(42,785)	(46,039)
Total trade and other receivables	27,760,363	20,898,742

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

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

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

	30 June 2021	31 December 2020
RSD	23,636,772	18,381,025
EUR	1,792,673	833,832
USD	250,673	245,377
Other	2,080,245	1,438,508
	27,760,363	20,898,742

8. INVENTORIES

	30 June 2021	31 December 2020
Crude oil	23,388,570	14,118,415
Petroleum products	12,634,476	11,279,391
Materials and supplies	5,976,684	5,904,420
Other	1,168,399	1,203,773
<i>Less impairment provision</i>	(4,706,140)	(4,757,773)
	38,461,989	27,748,226

9. OTHER CURRENT ASSETS

	30 June 2021	31 December 2020
Advances paid	496,911	515,693
VAT receivables	111,961	117,430
Deferred VAT	2,573,751	2,111,479
Prepaid expenses	585,876	248,940
Prepaid custom duties	68,247	77,694
Prepaid excise	1,808,721	2,271,345
Other current assets	8,354,801	8,344,888
Less impairment provision	(7,571,386)	(7,569,708)
	6,428,882	6,117,761

Deferred VAT as at 30 June 2021 amounting to 2,573,751 thousand RSD (31 December 2020: 2,111,479 thousand RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 30 June 2021 amounting to 1,808,721 thousand RSD (31 December 2020: 2,271,345 thousand RSD) relates to the excise paid for finished products stored in non-excise warehouse.

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

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2020						
Cost	185,208,089	119,078,761	70,157,189	19,406,385	69,075,268	462,925,692
Depreciation and impairment	(58,573,177)	(51,705,166)	(34,354,810)	(10,321,625)	(2,036,347)	(156,991,125)
Net book value	126,634,912	67,373,595	35,802,379	9,084,760	67,038,921	305,934,567
Period ended 30 June 2020						
Additions	-	-	-	-	13,824,318	13,824,318
Changes in decommissioning obligations	158,782	-	-	-	-	158,782
Transfer from assets under construction	8,547,460	2,599,400	1,778,340	122,859	(13,048,059)	-
Impairment	-	-	(3,031)	-	(18,494)	(21,525)
Depreciation	(5,927,926)	(3,040,435)	(1,234,343)	(369,145)	(2,363)	(10,574,212)
Disposals and write-off	(8,967)	(5,005)	(29,518)	(6,434)	(44,032)	(93,956)
Other transfers	(106,272)	(272,783)	34,600	205,951	92,456	(46,048)
Translation differences	(22)	-	(36,709)	1	(116,008)	(152,738)
	129,297,967	66,654,772	36,311,718	9,037,992	67,726,739	309,029,188
As at 30 June 2020						
Cost	193,746,870	121,344,116	71,730,611	19,505,816	69,781,824	476,109,237
Depreciation and impairment	(64,448,903)	(54,689,344)	(35,418,893)	(10,467,824)	(2,055,085)	(167,080,049)
Net book value	129,297,967	66,654,772	36,311,718	9,037,992	67,726,739	309,029,188
As at 1 January 2021						
Cost	201,221,015	160,908,071	72,666,132	19,440,677	29,971,204	484,207,099
Depreciation and impairment	(70,509,519)	(57,807,804)	(36,316,450)	(10,542,208)	(2,552,040)	(177,728,021)
Net book value	130,711,496	103,100,267	36,349,682	8,898,469	27,419,164	306,479,078
Period ended 30 June 2021						
Additions	-	-	-	-	8,822,047	8,822,047
Changes in decommissioning obligations	224,629	-	-	-	-	224,629
Transfer from assets under construction	11,357,323	1,495,308	853,648	125,988	(13,832,267)	-
Impairment	-	-	-	-	(891)	(891)
Depreciation	(6,418,581)	(3,959,071)	(1,172,522)	(335,813)	(2,340)	(11,888,327)
Disposals and write-off	(20,873)	(8,057)	(31,391)	(345)	(6,588)	(67,254)
Transfer to right of use assets	-	-	(153,427)	-	-	(153,427)
Other transfers	(2,610)	496,059	(471,874)	(37,584)	(157,323)	(173,332)
Translation differences	(17,442)	-	(32,313)	1	(168,013)	(217,767)
	135,833,942	101,124,506	35,341,803	8,650,716	22,073,789	303,024,756
As at 30 June 2021						
Cost	212,686,059	163,273,874	72,238,159	19,299,456	24,628,731	492,126,279
Depreciation and impairment	(76,852,117)	(62,149,368)	(36,896,356)	(10,648,740)	(2,554,942)	(189,101,523)
Net book value	135,833,942	101,124,506	35,341,803	8,650,716	22,073,789	303,024,756

11. RIGHT-OF-USE ASSETS

Movements in right-of-use assets for the six months ended 30 June 2021 and 2020 are as follows:

	Land	Property	Plant and equipment	Vehicles	Total
As at 1 January 2020	148,676	1,023,199	438,495	263,429	1,873,799
Additions	7,509	149,575	-	603,883	760,967
Depreciation of right-of-use assets	(1,252)	(121,498)	(35,902)	(78,591)	(237,243)
Disposals	-	(541)	-	(6,666)	(7,207)
Effect of contract modifications and changes in estimates	-	(5,050)	-	(60)	(5,110)
Foreign currency translation	(185)	(1,665)	(2,222)	(32)	(4,104)
As at 30 June 2020	154,748	1,044,020	400,371	781,963	2,381,102
As at 1 January 2021	143,732	1,299,970	338,324	878,768	2,660,794
Additions	-	169,667	11,670	4,094	185,431
Depreciation of right-of-use assets	(4,810)	(132,733)	(54,252)	(135,271)	(327,066)
Transfer from PPE	-	153,427	-	-	153,427
Disposals	-	-	-	(5,094)	(5,094)
Effect of contract modifications and changes in estimates	-	(15,835)	-	-	(15,835)
Foreign currency translation	(1,611)	(740)	(1,681)	(85)	(4,117)
As at 30 June 2021	137,311	1,473,756	294,061	742,412	2,647,540

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying values of the investments in associates and joint ventures as of 30 June 2021 and 31 December 2020 are summarised below:

		Ownership percentage	30 June 2021	31 December 2020
NIS MET Energowind d.o.o. Beograd	Joint venture	50%	902,293	915,921
Gazprom Energoholding Serbia d.o.o. Novi Sad	Joint venture	49%	758,246	831,509
HIP Petrohemija a.d. Pančevo	Associate	20.86%	11,572,197	11,572,197
Less Impairment provision			(11,572,197)	(11,572,197)
Total investments			1,660,539	1,747,430

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

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

NIS MET Energowind d.o.o. Beograd

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

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

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 20.86% 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 30 June 2021 and 31 December 2020 and for the six month period ended 30 June 2021 and 30 June 2020 is presented in the table below:

	NIS MET Energowind	Gazprom Energoholding Serbia
30 June 2021		
Current assets	33,447	433,178
Non-current assets	3,161,492	18,172,643
Current liabilities	(975,108)	(194,458)
Non-current liabilities	-	(16,873,182)
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)

	NIS MET Energowind	Gazprom Energoholding Serbia
30 June 2021		
Other income	3,066	8,640
Loss for the year	(27,255)	(149,517)
30 June 2020		
Other income	1,783	6,153
Loss for the year	(29,232)	(57,144)

13. OTHER NON-CURRENT ASSETS

	30 June 2021	31 December 2020
Advances paid for PPE	362,600	365,823
Prepaid expenses	108,272	126,564
Other assets	1,144,078	1,126,857
<i>Less allowance of other assets</i>	(395,691)	(382,775)
<i>Less allowance for advances paid</i>	(26,740)	(26,741)
	1,192,519	1,209,728

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

	30 June 2021	31 December 2020
Interest liabilities	88,654	76,094
Current portion of long-term loans (note 18)	7,719,006	11,585,989
	7,807,660	11,662,083

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

	Six month period ended 30 June	
	2021	2020
Short-term loans at 1 January	-	-
Proceeds	500,000	11,500,000
Repayment	(500,000)	(10,750,000)
Short-term loans at 30 June	-	750,000

15. TRADE AND OTHER PAYABLES

	30 June 2021	31 December 2020
Trade payables	32,820,055	19,497,552
Dividends payable	4,785,533	3,785,017
Other accounts payable	173,667	219,121
	37,779,255	23,501,690

As at 30 June 2021 trade payables amounting to 32,820,055 thousand RSD (31 December 2020: 19,497,552 thousand RSD) mainly relate to payables for crude oil in the amount of 21,399,017 thousand RSD to the suppliers Gazprom Neft in the amount 11,457,671 thousand RSD (31 December 2020 3,200,890 thousand RSD) and Petraco Oil Company LLP, London in the amount 9,941,346 thousand RSD (31 December 2020 2,641,621 thousand RSD).

16. OTHER CURRENT LIABILITIES

	30 June 2021	31 December 2020
Contract liabilities arising from contracts with customers:		
- Advances received	2,362,256	4,164,685
- Customer loyalty	827,019	770,993
Payables to employees	3,956,393	4,933,413
Other current non-financial liabilities	22,281	18,527
	7,167,949	9,887,618

Revenue in the amount of 3,959,624 thousand RSD was recognized in the current reporting period (30 June 2020: 1,859,770 thousand RSD) related to the contract liabilities as at 1 January 2020, of which

of 3,724,295 thousand RSD (30 June 2020: 1,539,532 thousand RSD) related to advances and 365,691 thousand RSD (30 June 2020: and 320,238 thousand RSD) to customer loyalty programme

17. OTHER TAXES PAYABLE

	30 June 2021	31 December 2020
Mineral extraction tax	314,144	214,971
VAT	2,025,901	2,333,069
Excise tax	6,236,690	5,713,647
Contribution for buffer stocks	269,047	266,499
Custom duties	61,581	63,541
Energy efficiency fee	32,166	30,687
Other taxes	1,618,665	1,488,373
	10,558,194	10,110,787

18. LONG-TERM DEBT

	30 June 2021	31 December 2020
Long-term loan - Gazprom Neft	11,101,876	13,672,117
Bank loans	70,834,092	69,109,887
Other long-term borrowings	88,343	73,491
Less Current portion (note 14)	(7,719,006)	(11,585,989)
	74,305,305	71,269,506

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

	Six month period ended 30 June	
	2021	2020
Long-term loans at 1 January	82,782,004	89,044,212
Proceeds	8,221,813	2,449,244
Repayment	(9,095,858)	(2,905,944)
Non-cash transactions	39,553	(693,251)
Foreign exchange difference (note 22)	(11,544)	(11,672)
Long-term loans at 30 June	81,935,968	87,882,589

(a) Long-term loan - Gazprom Neft

As at 30 June 2021 long-term loan - Gazprom Neft amounting to 11,101,876 thousand RSD (31 December 2020: 13,672,117 thousand RSD), with current portion of 5,633,690 thousand RSD (31 December 2020: 5,468,847 thousand RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) Bank loans

	30 June 2021	31 December 2020
Domestic	48,869,919	51,785,438
Foreign	21,964,173	17,324,449
	70,834,092	69,109,887
Current portion of long-term loans	(2,085,316)	(6,117,142)
	68,748,776	62,992,745

The maturity of bank loans was as follows:

	30 June 2021	31 December 2020
Between 1 and 2 years	17,445,887	9,920,841
Between 2 and 5 years	39,548,864	41,197,751
Over 5 years	11,754,025	11,874,153
	68,748,776	62,992,745

The carrying amounts of bank and other long-term loans are denominated in the following currencies:

	30 June 2021	31 December 2020
USD	144,116	157,858
EUR	70,510,152	68,740,978
RSD	280	373
JPY	179,544	210,678
	70,834,092	69,109,887

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

The loan agreements contain financial covenants that require the Group's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of 30 June 2021 and 31 December 2020, respectively.

19. LEASE LIABILITIES

	30 June 2021	31 December 2020
Non-current lease liabilities	1,728,074	1,868,666
Current lease liabilities	617,297	610,725
	2,345,371	2,479,391

Amounts recognized in profit and loss:

	Six month period ended 30 June	
	2021	2020
Interest expense (included in finance cost)	46,165	41,643
Expense relating to short-term leases	284,200	468,681
Expense relating to leases of low value assets that are not shown above as short-term leases	29,815	100,459
Expense relating to variable lease payments not included in lease liabilities	759,088	840,708

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

	Six month period ended 30 June	
	2021	2020
As at 1 January	2,479,391	1,703,441
Repayment	(339,193)	(179,728)
Non-cash transactions	206,030	788,771
Foreign exchange difference (note 22)	(857)	(6,766)
As at 30 June	2,345,371	2,305,718

20. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Employee costs	2,284,474	2,199,083	4,435,274	4,122,026
Materials and supplies (other than oil and gas and petroleum products)	456,943	329,569	868,923	838,402
Repair and maintenance services	661,926	634,546	1,442,777	1,593,707
Electricity for resale	537,988	32,770	998,193	116,241
Electricity and utilities	927,894	804,831	1,795,239	1,772,552
Safety and security expense	90,710	96,062	173,062	212,165
Insurance services	87,374	97,874	172,001	159,334
Transportation services for production	325,942	337,724	671,655	765,884
Other	1,283,289	573,357	2,150,904	1,074,139
	6,656,540	5,105,816	12,708,028	10,654,450

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Employee costs	4,408,298	3,765,125	8,370,247	7,338,492
Commission and agency fees	203,287	196,142	392,406	424,377
Legal, audit and consulting services	113,890	192,732	277,431	416,409
Current repair cost	230,814	185,411	411,632	393,428
Costs on advertising and marketing	72,664	35,382	125,944	90,445
Rent expense	36,319	53,380	82,336	108,982
Business trips expense	29,118	16,975	45,690	54,035
Safety and security expense	156,891	106,544	293,426	245,691
Insurance expense	20,062	16,697	38,315	37,197
Transportation and storage	41,347	29,931	76,170	71,797
Allowance for doubtful accounts	(64,355)	22,278	(68,839)	(97,824)
Other	1,108,415	896,692	2,169,752	2,645,890
	6,356,750	5,517,289	12,214,510	11,728,919

22. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Foreign exchange gain (loss) on financing activities including:				
- foreign exchange gain (note 18 and 19)	269,015	877,709	474,961	1,150,075
- foreign exchange loss (note 18 and 19)	(254,342)	(924,485)	(462,560)	(1,131,637)
Net foreign exchange gain (loss) on operating activities	(252,783)	(16,189)	(481,219)	(400,167)
	(238,110)	(62,965)	(468,818)	(381,729)

23. FINANCE INCOME

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Interest on bank deposits	18,167	24,506	31,003	58,280
Interest income on loans issued	2,260	2,221	4,472	4,901
	20,427	26,727	35,475	63,181

24. FINANCE EXPENSES

	Three month period ended 30 June		Six month period ended 30 June	
	2021	2020	2021	2020
Interest expense	417,592	574,593	826,704	1,045,858
Losses on restructuring of borrowings	18,484	-	40,521	-
Decommissioning provision: unwinding of the present value discount	20,143	23,024	39,562	43,827
Financial assets: unwinding of discount	(12,192)	(10,087)	(42,705)	(29,530)
Less: interest expense capitalised on qualifying assets	-	(35,661)	-	(71,911)
	444,027	551,869	864,082	988,244

Interest expense includes expenses on lease liabilities in the amount of 46,165 thousand RSD for the six months ended 30 June 2021 (41,643 RSD for the six months ended 30 June 2020 accordingly).

25. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Consolidated Financial Statements: investment properties, financial investments classified as available for sale and other non-current financial asset and liabilities. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Consolidated Financial Statements as of 31 December 2020. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 30 June 2021 the carrying value of financial assets approximates their fair value.

26. CONTINGENCIES AND COMMITMENTS

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Group has paid all tax liabilities as of 30 June 2021.

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 405,090 thousand RSD (31 December 2020: 428,813 thousand RSD).

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

Capital commitments

As of 30 June 2021 the Group has entered into contracts to purchase property, plant and equipment 1,228,380 thousand RSD (31 December 2020: 1,531,697 thousand RSD) and drilling and exploration works estimated to 64.33 USD million (31 December 2020: 57.89 USD million).

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

27. RELATED PARTY TRANSACTIONS

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

The majority owner of the Group is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The second largest shareholder with 29.87% interest is Republic of Serbia, while remaining 13.98% of interest owned by various minority shareholders are traded on the Belgrade Stock Exchange and are owned by various shareholders. PJSC Gazprom, owns 95.7% of the shares in the Gazprom Neft. The Russian Federation is the ultimate controlling party.

In the six month period ended 30 June 2021 and in the same period in 2020, 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 at 30 June 2021 and 31 December 2020 the outstanding balances, presented net of impairment, with related parties were as follows:

As at 30 June 2021	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Trade and other receivables	-	176,359	1,614,761
Investments in joint venture and associates	-	-	1,660,539
Other current assets	-	484,025	-
Right of use assets	-	31	-
Trade and other payables	(11,457,671)	(306,610)	(1,611,136)
Other current liabilities	-	(52)	(2,190)
Short-term debt and current portion of long-term debt	(5,633,690)	-	-
Current lease liabilities	-	(13)	-
Long-term debt	(5,468,186)	-	-
	(22,559,547)	353,740	1,661,974

As at 31 December 2020	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Trade and other receivables	-	184,545	1,462,758
Investments in joint venture and associates	-	-	1,747,430
Other current assets	-	25,095	-
Right of use assets	-	125	-
Trade and other payables	(3,204,199)	(216,612)	(942,413)
Other current liabilities	-	(37)	(4,493)
Short-term debt and current portion of long-term debt	(5,468,847)	-	-
Current lease liabilities	-	(84)	-
Long-term debt	(8,203,270)	-	-
	(16,876,316)	(6,968)	2,263,282

For the six month period ended 30 June 2021 and 2020 the following transaction occurred with related parties:

Six month period ended 30 June 2021	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Petroleum products and oil and gas sales	-	549,828	11,526,935
Other revenues	1,455	66,584	22,957
Purchases of oil, gas and petroleum products	(1,105,219)	(453,111)	-
Production and manufacturing expenses	-	(185,622)	(131,589)
Depreciation, depletion and amortization	-	(94)	-
Selling, general and administrative expenses	-	(3,490)	(946)
Other income (expenses), net	2,836	-	(44)
Finance expense	(96,822)	-	-
	(1,197,750)	(25,905)	11,417,313

Six month period ended 30 June 2020	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Petroleum products and oil and gas sales	-	131,322	6,689,053
Other revenues	-	2,191	8,359
Purchases of oil, gas and petroleum products	(20,144,958)	(510,638)	-
Production and manufacturing expenses	-	(69,533)	(86,679)
Selling, general and administrative expenses	-	(6,000)	(1,066)
Other income (expenses), net	5,233	(142)	-
Finance expense	(163,378)	(1)	-
	(20,303,103)	(452,801)	6,609,667

Transactions with Key Management Personnel

For the six month period ended on 30 June 2021 and 2020 the Group recognized 467,191 thousand RSD and 456,072 thousand RSD, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

28. EVENTS AFTER THE REPORTING DATE

There are no material events after the reporting date.

Subsequent events occurring after 30 June 2021 were evaluated through 28 July 2021, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

Statement of individuals responsible for the preparation of financial statements

We hereby state that, to our best knowledge, the interim financial reports have been prepared in compliance with the international financial reporting standards and that they show true and objective information on the assets, liabilities, profit and loss, financial position and operations of the Company, including subsidiaries encompassed by the consolidated statements.

Anton Cherepanov



Deputy General Director,
Head of Function for Finance,
Economics, Planning and Accounting
NIS j.s.c. Novi Sad



Branko Mitrović



Head of Accounting and Financial
Services
Multifunctional Shared Service Center
NIS j.s.c. Novi Sad

Glossary

Abbreviation	Meaning
3D	Three-dimensional
2D	Two-dimensional
a.d.o.	Insurance joint stock company
ALARP	As low as reasonably possible
B&H	Bosnia and Herzegovina
BC	Business Centre
bn	billion
BoD	Board of Directors
BV	Book Value
CAPEX	Capital Expenditures
CCPP	Combined-Cycle Power Plant
CMMS	Computerized maintenance management system
CNG	Compressed natural gas
CO	Carbon Oxide
CO ₂	Carbon Dioxide
DCU	Delayed Coking Unit
DWS	Downstream
EBITDA	Earnings before interest, Taxes, depreciation and amortisation
e.o.o.d.	Solely owned limited liability company (in Bulgaria)
EPS	Earnings per share
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offer Rate
GDP	Gross Domestic Product
GPN	PJSC Gazprom Neft
GTA	Geological-technical activities
GU	Gasoline unleaded
GWh	Gigawatt hours
HiPACT	High Pressure Acid Gas Capture Technology
HR	Human Resources
HSE	Health, Safety and the Environment
IMF	International Monetary Fund
IRMS	Integrated Risk Management System
IT	Information Technology
j.s.c. or JSC	Joint Stock Company
k.f.t.	Limited liability company (in Hungary)
km	kilometre
LIBOR	London Interbanking Offer Rate
LLC or Ilc	Limited Liability Company
LPG	Liquefied Petroleum Gas
LTIF	Lost Time Injury Frequency
m ²	Square meter
m ³	Cubic meter
MHC/DHT	Mild hydrocracking and hydro treating unit
mn	million
MW	Megawatt, SI unit of electricity
MWh	Megawatt hour, unit of electricity
N ₂	Nitrogen
NBS	National Bank of Serbia
NMD	Regulatory methodology document
OCF	Operating Cash Flow
OPEC	Organisation of the Petroleum Exporting Countries
OPEX	Operational Expenditure
PJSC	Public Joint Stock Company

Abbreviation	Meaning
POS	Point of sale
P/BV	Price/Book Value
P/E	Price/EPS
RNP	Pančevo Oil Refinery
RSD	Serbian Dinar
SNNP	Sa nama na putu card (On the road with us card)
s.r.l.	Limited liability company (in Romania)
STC	Scientific and Technological Centre
t.o.e.	Tonnes of oil equivalent
USD	US dollar
USD/bbl	US dollars per barrel
VAT	Value Added Tax

Contacts

NIS j.s.c. Novi Sad

E-mail: office@nis.eu

12, Narodnog fronta St.
21000 Novi Sad, Serbia
(+381 21) 481 1111

1, Milentija Popovića St.
11000 Belgrade, Serbia
(+381 11) 311 3311

Investor Relations Services

E-mail: Investor.Relations@nis.eu

12, Narodnog fronta St.
21000 Novi Sad, Serbia

Sector for Minority Shareholders Affairs

E-mail: servis.akcionara@nis.eu

12, Narodnog fronta St.
21000 Novi Sad, Serbia
Info Service: (+381 11) 22 000 55

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