

**QUARTERLY
REPORT FOR
SECOND QUARTER
OF 2019**

The Quarterly Report for second Quarter of 2019 presents a factual overview of NIS Group's activities, development and performance in second quarter of 2019. 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 2019 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 2019 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

Continuation of modernization process and implementation of strategic projects were the priority of NIS group in the first half of 2019. In that period, the extensive investment program was implemented, involving investment of RSD 18.4 billion, which is 7 percent more than investments from the same period last year. Implementation of capital projects will stay in focus of NIS even in the forthcoming period, and especially important is the successful completion of “Bottom of the Barrel” construction, the key project of the second stage of Pancevo Oil Refinery’s modernization.

Financial results of NIS in the first six months of the current year were under influence of macroeconomic movements on one hand and planned workover in Pancevo Oil Refinery on the other. Before all, the average price of Brent type oil was 66 US dollars per barrel in the reporting period, which was six percent less than in the first half of 2018. At the same time, successfully performed workover was the most complex one in the history of the Refinery and investments in it reached RSD 2.4 billion. In addition to workover activities, the Refinery was subjected to a series of additional works on connecting the existing refining units with new units of the Bottom of the Barrel that will enable successful start of the new unit.

The capital overhaul in Pancevo Oil Refinery expectedly caused fall of the refining scope and reflected to financial indicators of NIS. After the first quarter in which net profit amounted to RSD 158 billion, in the second quarter this indicator was considerably increased and amounted to RSD 3.1 billion, but the total result is still below the level achieved in the first six months of the last year. EBITDA indicator was 15.9 billion RSD, i.e., 34 percent less than in the same period of 2018. Obligations of NIS group based on public revenues for this reporting period, amount to RSD 79.8 billion.

Volume of oil and gas production is 641 conditional tons, which is less by three percent than in the first half of the last year. Total scope of refining the crude oil and semi products in Pancevo Oil Refinery is 29 percent lower than last year due to workover activities, and it amounts to 1.2 million tons. In the first half of this year, trade with petroleum products amounted 1.5 million tons, 9 percent less than in the first six months of 2018. At the same time, results in the area of HSE-a (Health, Safety, and Environment) considerably improved, and therefore, LTIF (Lost Time Injury Frequency) indicator was reduced by 24 percent in comparison with last year.

In addition, NIS has continued to carry out consistent dividend policy, and its Shareholders Assembly adopted the decision to pay this year too, dividends to shareholders in the amount of 25 percent of the last year’s net profit, that is, RSD 6.5 billion.

In the area of business, NIS has remained dedicated to innovative solutions and modern technologies, so it marked, in March in Pancevo, festive inauguration of the construction of thermoelectric and heating power plant (TE-TO) Pancevo, the project that is being implemented in partnership of NIS and Gazprom Energoholding. In addition, at the Belgrade-Niš highway, near Velika Plana, a new GAZPROM petrol station was opened, the first one in this part of Europe that is equipped with top-notch digital technology and the first in NIS’s retail network offering its clients the service of electric vehicle recharge.

At the same time, NIS has continued to contribute to the development of local community by implementation of numerous socially responsible projects. Among other things, 20 health institutions all over Serbia was selected within the program called “Together to the Community 2019”, whose equipping will be supported by NIS and its 116.5 million RSD, primarily those healthcare centers in which for the youngest patients are treated.

Business Report

Highlights

April – June

- 23 development wells and 3 exploratory wells were drilled in Serbia
- In Serbia, 654 km² of 3D seismics performed at the exploratory area of Ada
- Drilling of two wells completed in Romania
- Construction of the compound from oil and gas preparation for trial testing is underway on Teremia North and Jimbolia fields, beginning of which is planned for the third quarter of 2019
- Plant start following the completion of turnaround
- Fine-tuning of Ekon\$ model after plant start
- Boiler repair in Unit Claus
- Staff training to operate DCU complex
- A new GAZPROM petrol station was opened on Belgrade-Niš motorway, the first in this part of Europe equipped with state-of-the-art digital technology and the first in NIS' retail network offering electric vehicle charging to the customers
- Major reconstruction of PS "Stari Banovci" (Gazprom brand) is under way
- Introduction of a new service to PS's: GIFT CARDS available at specific NIS Petrol and Gazprom PS's for the purchase of fuel and all other products (card value of 1,000 RSD, 3,000 RSD and 5,000 RSD)..
- XI general meeting of NIS Shareholders' Assembly was held, where, among other things, the Decision on distribution of profit for 2018, payment of dividends, and the amount of retained profit of the Company was adopted
- NIS' NISOTEC brand was presented with the large champion cup and eleven gold medals at the International Agricultural Fair in Novi Sad
- The jury of the Belgrade Fair presented NIS with the Grand Prix award for an innovative exhibition at the 54th International Motor Show in Belgrade
- NIS signed a Memorandum on Strategic Cooperation with the Moscow State Institute of International Relations (MGIMO) of the Ministry of Foreign Affairs of the Russian Federation
- As part of "Together for the Community 2019" social responsibility programme, 20 health facilities were selected across Serbia, for which NIS would provide financial support and, as a result, invest RSD 116.5 million in the institutions providing medical treatment to the youngest population.
- NIS made a donation to Dr Vukan Cupic Institute for Mother and Child Healthcare of Belgrade, and the funds were appropriated for the purpose of acquiring modern equipment and apparatuses for the operating room
- NIS launched a new student practice programme "NIS Calling"

NIS Group

NIS Group is one of largest vertically integrated energy systems, which employs companies in the Southeast Europe, with approximately 11,000 employees. The main activities of NIS are: exploration, production and refining of oil and natural gas, the sales and distribution of a wide range of petroleum and gas products as well as the implementation of petrochemicals and energy projects.

Main production capacities of NIS are located in Republic of Serbia, with subsidiaries and representative offices across several other countries of the world.

The goal of NIS is to become the biggest, fastest growing energy system of the region, and an example to the others by business efficiency and sustainable development dynamics, as well as to provide its shareholders, employees and the community with new values in challenging macroeconomic environment.

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 *DOWNSTREAM*² division.

Exploration and Production Block

Exploration and production

NIS is the only company in Serbia engaged in the exploration and production of oil and gas. NIS activities in this field also include operative support to production, management of oil and gas reserves, management the development of oil and gas reservoirs, and major exploration and production projects. Most of NIS oilfields are located in Serbia, while the exploration works are also conducted in Romania and Bosnia and Herzegovina. NIS' oldest foreign concession is in Angola, where oil exploitation started as far back as 1985.

This business segment operates an Elemir-based plant for the preparation of natural gas, production of LPG and natural gasoline and CO₂ capture, which has a design capacity of 65,000 tonnes of LPG and natural gasoline per year. An amine natural gas processing plant, which uses HiPACT technology (High Pressure Acidgas Capture Technology) is also located in Elemir. The Elemir-based plant is the first HiPACT plant in Europe, and the gas processing method completely prevents carbon dioxide emission into the atmosphere.

With the "Transformation" project, the production plant "Energetika", which deals with the production of electricity and heat, as well as the production of compressed gas, was formed.

NIS is determined to constantly develop its technologies and implement business innovations in every segment of its operations. In the field of research and production, scientific and technological support is provided by the Scientific and Technological Centre STC NIS Naftagas Ltd. Novi Sad.

¹ Exploration and production and subsidiary companies – NTC Naftagas d.o.o. Novi Sad, Naftagas-Naftni servisi d.o.o. Novi Sad and Naftagas Transport d.o.o. Novi Sad.

² Refining Block, Block Sales, Energy Department and subsidiary company Naftagas – Technical Services

Services

NIS has its own servicing capacities, which fully meet the Group's demands and allow NIS to provide services to third parties. Services provide oil and gas exploration and production services through geophysical surveying, well construction, outfitting and workover, as well as special operations and measurements on wells.

In addition, they provide maintenance services for the equipment required for work, construction and maintenance oil and gas systems and facilities. Apart from freighting and organizing heavy equipment employing, Services provide passenger transportation and vehicle rental services.

The goal of this business segment is to strengthen its presence in the region as well as international market, which is why its priorities are modernization of equipment, ensuring the high quality level of services, increasing technical and technological efficiency and boosting the workload in NIS and other companies.

DOWNSTREAM division

Refining

NIS manages the Pančevo Oil Refinery with maximum projected annual capacity of 4.8 million tonnes. After the MHC/DHT Complex became operational in 2012, Pančevo Oil Refinery produces: motor fuel in accordance with Euro-5 standard³, aviation fuel, liquid petroleum gas, petrochemical raw materials, fuel oil, bitumen and other petroleum products. Owing to constant modernization of refining facilities, NIS locally produces fuels which meet European standards, while NIS Group holds a strategically important leading position on the regional market of petroleum products.

The construction of a bottom of the barrel plant with delayed coking technology is currently underway at the Pančevo Oil Refinery, being a key project of the second stage of the Refinery modernization. The start of operations in the plant is planned for the second half 2019. After the completion of this project, the Pančevo Oil Refinery will produce larger quantities of the finest petroleum products, primarily diesel, and will also start producing coke, a product which is currently imported into Serbia.

Sales and Distribution

NIS Sales and Distribution includes export and local wholesale of crude oil, gas and petroleum products, as well as retail of petroleum end products, liquid petroleum gas and other supplementary products. All fuel types are subject to regular, rigorous laboratory testing and comply with national and international standards.

NIS operates the largest retail network in Serbia and its gas stations are active in the countries of the region as well - in Bosnia and Herzegovina, Bulgaria and Romania. In Serbia and in the region, NIS manages a network of over 400 retail sites and has two brands in the market: NIS Petrol and premium gas station brand - GAZPROM. As separate businesses, NIS develops aviation fuel supply, bunkering, lubricants and bitumen sales and distribution.

Lubricants represent one of the key areas of the company's 'non-fuel' business and they are of great importance in increasing brand recognition and customers' loyalty. The lubricant business includes production, sale, development and marketing of lubricants and technical fluids.

³After the completion of the mild hydrocracking and hydrotreatment plant (MHC/DHT) in 2012, NIS has completely switched to the production of motor fuel that meets the European quality standards

Energy

NIS is engaged in purchase, sale and management portfolio of natural gas, trade of CNG, trade of electrical energy, development and implementation of strategically important energy projects, as well as the projects for improving energy efficiency.

Starting from 2013 NIS has put into operation small power plants at oil and gas fields at 8 locations in Serbia with a maximum power of 14.5 MWe. The ecological advantage of using these small power plants is the production of electrical and thermal energy from gas, which has not been used previously due to its high content of carbon dioxide and nitrogen, or because it could not be valorized due to the lack of gas infrastructure in the vicinity. NIS is also actively developing in the field of electricity trade, and, apart from the Serbian market, it is present in the markets of Bosnia and Herzegovina, Montenegro, Romania, Slovenia and Hungary, and trades also at the border with the Republic of North Macedonia.

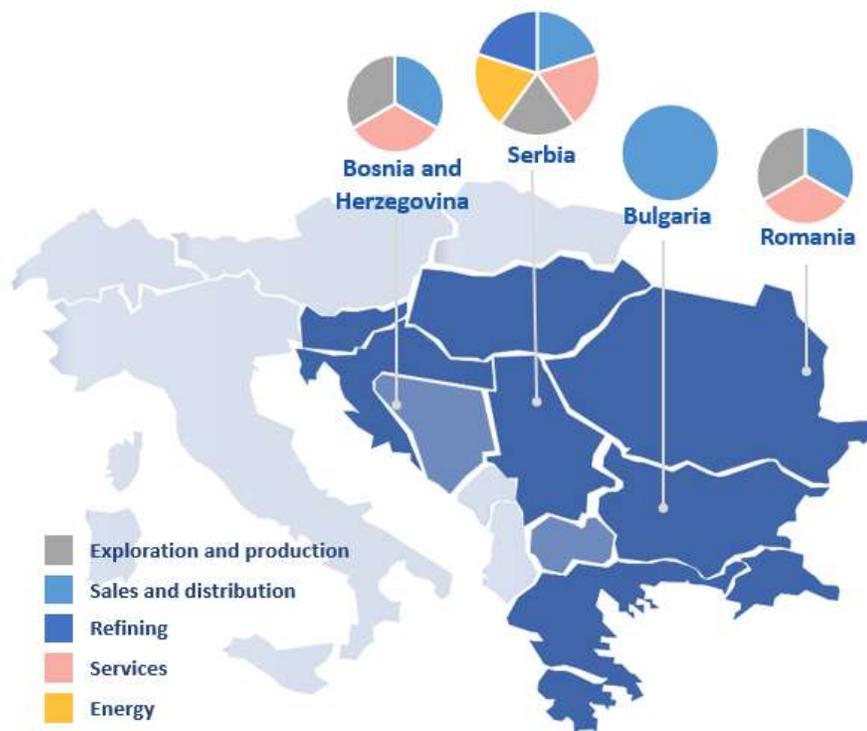
The key task of this business segment in the future will be the construction of additional facilities for the production of electrical energy. In cooperation with the company 'Gazprom Energoholding', NIS is implementing a project for the construction of a thermal power plant - heating plant (CCPP) Pančevo in the vicinity of the Oil Refinery (of power up to 196 MW), at the same time developing a wind turbine project together with its partners (of power up to 102 MW).

Nine Functions within the parent company NIS j.s.c. Novi Sad provide support to core activities. Five of these Functions are partially decentralized and have functionally subordinate departments within Blocks. These are: Finance, Economics, Planning and Accounting Function; Strategy and Investments Function; Procurement Function; Organizational Affairs Function; HSE Function. The other four functions are centralized - Legal and Corporate Affairs Function; Corporate Security Function; Function for government relations and corporate communications; Internal Audit Function (this Function is directly subordinated to the General Director), while the Internal Control Responsible reports to the Board of Directors Audit Commission⁴. One of the CEO's Deputies is in charge of petrochemicals operations.

⁴ This Function is directly subordinated to the General Director, while the Internal Control Responsible reports to the Board of Directors Audit Commission.

NIS Worldwide

NIS headquarters and main production facilities are located in the Republic of Serbia: oil and gas fields, the Oil Refinery Pančevo, network of storage facilities, as well as retail network. Following its long term development strategy, in 2010 and 2011 NIS starts expanding its business activities across the border of Serbia, while regional business development becomes one of the strategic goals of NIS. Regional expansion is developed in two main directions - in the field of oil and gas exploration and production (in Romania and Bosnia and Herzegovina) and through the development of a retail network (in Bulgaria, Bosnia and Herzegovina and Romania). Additionally, NIS is active in the field of electricity trade, and, apart from the Serbian market, is present in the markets of Bosnia and Herzegovina, Montenegro, Romania, Slovenia and Hungary.



NIS Group Business Structure



⁵ Under the Law on Tourism of the Republic of Serbia, if a company does not operate in hospitality as its core activity, the company is obliged to form a branch, i.e. 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/>.

⁶ The process of liquidation has been initiated.

Risk Management

Integrated Risk Management System

Risk is a likely future event that can exert a negative or positive influence on the achievement of the Company's objectives at all management levels. Risk management is a continuous and systematic business process that serves to support management decision-making in a risk exposed environment.

The Company's operations involve certain risks which may significantly affect the fulfilment of set objectives, if realised. The Company acknowledges risks and invests sustained efforts to manage them systematically. Efficient risk management is central to ensuring the Company's business continuity and a well-established risk management framework constitutes the basis for business decision-making.

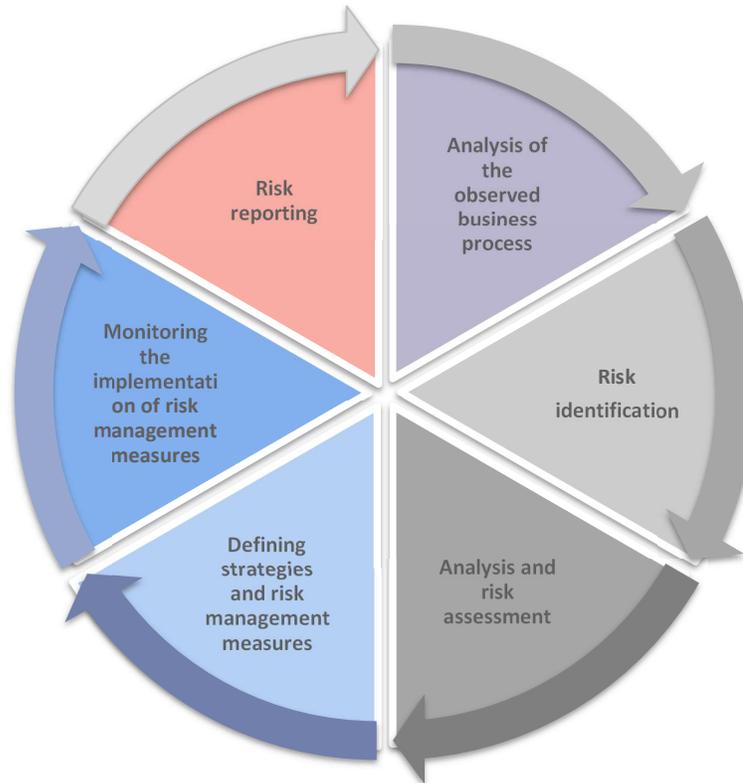
NIS has defined its risk management objectives and has an integrated risk management system (IRMS) in place. The Company's objective in the field of risk management is to increase the effectiveness and efficiency of managerial decisions through identification, analysis and assessment of associated risks and to ensure a maximum effectiveness and efficiency of risk management actions during the implementation of decisions.

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

- Establishing a risk management culture at the Company in order to reach a common understanding of the basic risk management principles and approaches by the management and employees;
- Defining and establishing a systemic approach to identifying and assessing the risks inherent in the Company's operations, both in general and in specific business areas;
- Encouraging the exchange of risk information among the corporate organisational units and a joint definition of actions to manage the risks;
- 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 the risk management process at NIS.

IRMS Business Process Flow at NIS



The basic principle underpinning this system entails that the responsibility for managing risks is assigned to risk owners, namely owners of business processes in the Company. Such approach allows for in all processes of the Company, identifying the areas of responsibility for risk management and monitoring, as well as ensuring that suitable action plans are prepared in order to manage risks at the level of business processes or NIS as a whole.

The parent Company has set up its Section for Risk Management System Monitoring to coordinate and continually develop this business process.

Furthermore, the integrated management system (IMS), organisational structure, standards and other internal regulations, the Code of Corporate Governance and the Code of Business Ethics altogether form an internal control system providing NIS guidance on how to run the business and effectively manage associated risks.

At NIS, risks are identified and assessed by analysing data sources (internal and external databases, KRIs), through interviews, risk sessions or similar, and are ranked by level against the Risk Matrix defined based on propensity to risk (Key Company Risk, Key Division/Block/Function Risk, Division/Block/Function Risk). Assessment can be carried out by means of a quantitative or qualitative method.

IRMS in business planning process

Key risks associated with corporate goals are endorsed by the Board of Directors through 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, risk management actions and financial resources needed to carry out the actions – are incorporated in the adopted business plans.

Through its operations, the Group is exposed to operational, political, market, financial and reputational risks.

Operational Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Project Risks	
<p>With respect to geological research, the goal of NIS Group is to achieve reserves growth and to increase NIS' production. This largely depends on the outcome of geological research activities, which aim to increase the number of active wells in the country and abroad.</p> <p>The main risk in oil and gas exploration and production ensues from failure to prove estimated reserves and, consequently, failure on the part of NIS to achieve its planned reserves growth.</p>	<p>Risk mitigation actions include the implementation of new 3D seismic surveys by applying the latest wireless technology, selecting candidates for exploratory drilling based on complex seismic and geological data interpretation, using the largest shareholder's expertise in geological research programs and selecting the most prospective wells along with the application of state-of-the-art exploration methods. To mitigate the risks, special attention is paid to a robust preparation of projects for implementation and advanced monitoring during geological research operations.</p> <p>In order to reduce licensing risks, geological research is carried out as per a schedule defined by Geological Research Programs and provisions of the Law on Mining and Geological Research regulating the field of exploration and production of oil and gas, among other areas.</p>

Market Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Price risk	
<p>Due to its core activity, NIS Group is exposed to risks associated with price volatility, specifically the price of crude oil and petroleum products affecting the value of inventories and refining margins, which in turn affects future cash flows.</p>	<p>These risks are partly offset by adjusting petroleum product selling prices against the changes in oil and petroleum product prices. The need to use some of 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.</p> <p>In addition, the following actions are undertaken to reduce a potentially negative impact of the risk:</p> <ul style="list-style-type: none"> • Annual planning based on multiple scenarios, plan 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 subjects related to both crude oil purchase and sale (sale of oil from Angola-Palanca crude oil); • Tendency to enter into long-term crude oil purchase contracts at most favourable commercial terms and with longer payment terms on an open account basis, and sales contracts which would exempt NIS j.s.c. Novi Sad, in line with current intergovernmental agreements, from paying customs duties at import, based on preferential status; • Expansion of the supplier portfolio, successful cooperation with EU-based companies, growing competitiveness in import tenders and more prominent progress regarding purchase prices;

- Expansion/diversification of the crude oil basket for prospective import, provision of samples of the crude oil types that have not been used for processing at the Pančevo Oil Refinery;
- Constant effort to optimise processes and achieve the most optimum economic effects and indicators;
- Occasional benchmarking to survey the market and price trends and to analyse the commercial capacities of major prospective suppliers of crude oil, reputable companies which are dominant and reliable in crude oil trading.

Political Risks

RISK DESCRIPTION

RISK MANAGEMENT ACTIONS

Risk of EU and US Economic Restrictions on Gazprom Neft Group

Economic restrictions imposed by the EU and the US on Gazprom Neft Group have brought about risks to the prospects for long-term development because of constraints regarding loan arrangements with commercial banks from some of the EU- and US-based bank groups.

NIS regularly follows international developments and assesses potential consequences for the company's business. Moreover, in line with allowed exemption from the sanctions (long-term loans are possible only if intended for funding the import of goods and services from the EU), NIS' operations are continuously being adjusted to this option by increasing the volume of imported goods and services from EU suppliers. In this way, funds are provided for financing NIS' long-term development despite the limitations of the sanctions regime.

Financial Risks

RISK DESCRIPTION

RISK MANAGEMENT ACTIONS

Foreign Exchange Risk

NIS Group 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 USD and EUR. The risk involves future trade transactions and recognised assets and liabilities.

The risks relating to fluctuations in the national currency against the US dollar is partly neutralised through natural hedging of petroleum product selling prices, which are adjusted to these fluctuations. Risk management instruments are also used, such as forward transactions on the foreign exchange market, which help reduce the impact of foreign currency losses in the event of depreciation of the national currency against the US dollar or euro. Other actions 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 liabilities; managing the currency structure of the loan portfolio etc.

Interest Rate Risks

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

NIS j.s.c. Novi Sad takes out loans with commercial banks at floating or fixed interest rates depending on projections of changes of base interest rates in the monetary market. Consequently, funds in the form of intercompany loans to third parties are placed at floating or fixed interest rates, whereas funds deposited as term or demand deposits are 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 NIS j.s.c. Novi Sad takes out loans and/or credit/documentary lines). In this respect, revenues and cash flows from bank deposits are substantially independent of any changes in base interest rates, whereas for loans/credits granted exposure to the risk of base interest rate volatility (EURIBOR, LIBOR, etc.) is higher for loans/credits granted.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Credit Risks	
<p>Arises in relation to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans given to third parties, and exposure to wholesale and retail risks, including unrecoverable debt and assumed liabilities.</p>	<p>Credit risk management is established at the level of 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 NIS j.s.c. Novi Sad 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).</p> <p>Regarding 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.</p>
Liquidity Risk	
<p>Liquidity risk denotes a risk of NIS Group encountering difficulty in meeting its liabilities. It is the risk of not having suitable sources to finance NIS Group's business operations.</p>	<p>NIS Group continually monitors liquidity in order to provide sufficient cash to meet its operational, investment and financial performance requirements. To this end, it is continually contracting for and securing sufficient credit and documentary lines while maintaining the maximum allowable level of credit exposure and meeting the commitments under commercial bank arrangements (covenants).</p> <p>Since mid-September 2014, NIS j.s.c. Novi Sad has been exposed to the risk of limited external financing capacities due to the imposition of sectoral sanctions by the EU and the US on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU. The sanctions prevent NIS j.s.c. Novi Sad from borrowing from the EU or US banks for a period longer than 30 and 60 days respectively. Exemption from the EU sanctions is related to the possibility of borrowing 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.</p> <p>In order to acquire necessary funds for future transactions, NIS negotiated/contracted over 700 mln EUR new credit lines with Serbian, Russian and Arabian banks for general purpose funding and with Serbia-based European banks for funding imports from the EU (financing for a period longer than 30 days is allowed if the subject of financing is import of goods or services from the EU), thus ensuring necessary funds for regular repayment of loans in 2018 and 2019, as well as for early repayment of loans in order to improve the loan portfolio (lowering the average cost of financing and extending the average portfolio maturity). In addition to improved qualities of the portfolio, restructuring of credit portfolio, carried out in 2018, has enabled us to free cash flow for the implementation of planned investments and normal operation of the company in the following 4 years.</p> <p>Furthermore, in order to further improve the characteristics of the loan portfolio and provide additional funding limits in 2019, during the first six months, NIS ensured an improvement of the conditions (interest rate reduction) for two loans which are in the total amount of EUR 145 million, as well as new limits under favourable terms in the amount of about EUR 90 million for loans and EUR 40 mn for documentary business. The use of these sources of funding</p>

will facilitate early repayment of unfavourable loans and decrease of the average price of portfolio by the end of the year, as well as the maintaining of the average portfolio maturity between 3 and 4 years at the end of 2019.

Business Environment

World

Lower oil prices are beginning to rebalance the oil market by slowing down the growth of crude oil production in the United States and encouraging Saudi Arabia and its allies to prolong the decrease in production by the end of 2019.

Oil production in Venezuela also dropped, according to US EIA data for April 2019. Venezuela's production was lower only in 2003 during a strike of national oil company employees. Not counting that, this has been the lowest level of production for decades.

At the Arctic Forum in April, Russian President Vladimir Putin said that Western sanctions against Russia have hindered, but did not stop the development of oil and gas production in the Russian Arctic. He also said that sanctions have to some extent forced Russia to actively develop its own technology. Nevertheless, it is the opinion of the analysts that as long as cheaper, conventional reserves are available, the Arctic and shales will not be the top priority for Russia, regardless of whether the Western sanctions are lifted.

Italian Eni is the first foreign company to install oil-producing equipment in the Mexican Gulf after the "denationalization" of the Mexican oil industry. It is expected that the platform will provide 8,000 barrels of crude oil per day.

In April, Saudi Aramco offered 12 billion dollars through the first emissions of bonds. The emission consists of five tranches of higher unsecured records within Global mid-term program for Saudi Aramco. Bonds will be traded on the regulated market of the London Stock Exchange and will be accepted into the official UK list.

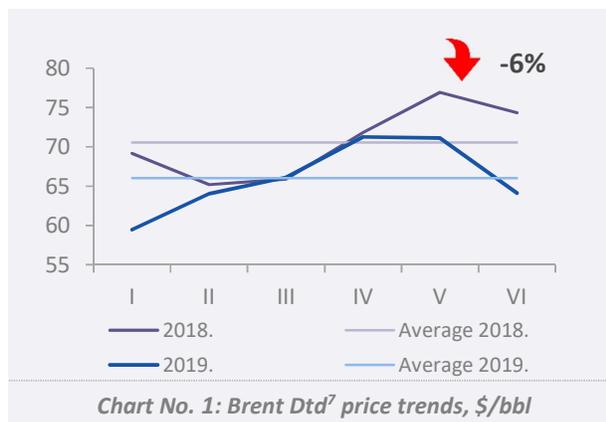
According to the latest BP Statistical Review of World Energy, by the end of 2018, global crude oil reserves amounted to 1.730 billion barrels, which is two billion barrels more than in 2017. The rate of replacement of the consumed oil with newly discovered oil (R/P ratio) shows that the reserves will meet the needs for the next 50 years, based on the current oil consumption. BP's review increases its oil reserves estimates for the United States - which have been the world's leading producer since 2018 - by 22% and 61.2 billion barrels at the end of 2017, while the estimates for Saudi oil reserves increased by 12% at the end of the year, to 297.7 billion barrels, from 266.2 billion barrels. The report includes a warning that the world risks losing its fight against climate change, as extreme temperatures have triggered an increase in global demand for energy by 2.9% - the fastest since 2010 - and increased carbon emissions in 2018.

An increasing number of cities and states in the US are suing against large oil companies, seeking compensation for climate change damages. The most recent example is the city of Baltimore, which demands oil companies to compensate for the enormous costs of upgrading drainage due to heavy rainstorms. San Francisco demands funding for the construction of seawalls. One New York court has blocked a part of Exxon Mobil's defence strategy, which the latter wanted to use in a lawsuit the State of New York brought against it, accusing the company of deceiving investors about the potential impact of climate change.

Oil price

The average price of Brent crude oil in the first six months amounted to about 66 dollars.

After a week-long tension, OPEC Member States have agreed to hold a regular meeting of the ministers on 1 July in Vienna. Ten oil producing countries and exporters not included in this export cartel decided to join this meeting. OPEC and its non-OPEC Allies will endeavour to reach agreement on the continuation of the so-called OPEC+ oil supply reduction agreement. According to the existing agreement, which expired in June, 24 oil producing countries agreed on a gross reduction in oil exports by 1.2 million barrels per day for the first half of this year, but the supply nevertheless grew and the prices of barrel subsequently fell.



As the signs and estimates of a global economy slowdown increase, hedge funds and others financial investors continue to liquidate their positions in oil and petroleum products futures. This reaction of speculators in the market has pushed oil prices further down.

With tensions in the region rising, insurance fees for maritime transport of oil are increasing. Shipowners say premiums have increased by 5% -15% since the attack on two Saudi oil tankers in the Oman Bay in May.

Macroparameters

Global trade tensions escalated during the first half of this year, while geopolitical risks persist in many key regions. This resulted in a slowdown of global economy and a weaker global demand for oil, as compared to the previous year. In the meantime, non-OPEC production continues to grow at a high pace, while voluntary adjustments of production in accordance with the Declaration of Cooperation (DoC) has again reached a record high level of compliance. Since the beginning of the year, the compensation trends in the main economies have stabilized global economic growth in the current forecast of 2019 by 3.2%, as compared to 3.6% in 2018. Despite the recent trends in trade, the growth rate in the first quarter was better than expected for big OECD economies and China. In the meantime, other economies, such as Brazil, Russia and India, were not successful. At the annual level, world business and consumer attitudes have decreased, but have remained at a healthy level. However, it is expected that recent escalations in trade disputes are expected may lower the rates of economic growth. Several emerging and developing economies continue to face challenges, including a high level of debt. Moreover, Brexit, fiscal issues in some EU member states, the downturn of Japan and the weakening of the impact of US fiscal stimulus pose additional risks.

Serbia

Positive economic trends in Serbia continue in the first half of 2019 with low inflation rates, fiscal surpluses, decreasing public debt, reduced external imbalances and the recovery of the labour market.

The GDP growth trend continues in the first and second quarters of 2019, reaching 2.5% growth in the first quarter, driven by all key sectors, while construction and investments exceeded expectations. It is expected to further accelerate in the second quarter, and remain stable throughout the year, leading to an annual growth of 3.5%. After a slowdown in late 2018, the processing industry production is recovering. Growth

⁷ Source: Platts.

in the second quarter will be crucial and if it shows to be weak, it could affect the annual economic activity, as growth seasonally slows during the summer. It also largely depends on agriculture, and unfortunately, the latter critically depends on weather conditions. Risks projections of GDP growth are also concerned with the global growth slowdown and the monetary policies of the leading central banks and price movements of primary products. On the other hand, domestic factors (macroeconomic stability, better business environment, large private and public investment and the effect of easing monetary policy) are expected to keep supporting the economic growth.

In 2019, inflation continues to move within the target value (2.2% in May), in line with the NBS projection, which kept the reference rate at 3% taking into account the expected movement of inflation and its factors from the domestic and international environment in the coming period. Inflation profile is similar to the one of developed economies. As in the other countries in the region, the inflation movement was predominantly driven by the prices of unprocessed food. The anticipated slowdown in inflation will be driven by a high base price for vegetables, while the growth of aggregate demand, the gradual fading of disinflationary pressures based on the appreciation of the dinar in the previous period, and the growth of regulated prices will drive in the opposite direction. The projections risks are symmetrical and are concerned with trends in the international commodity and financial markets, and in some cases the growth of regulated prices.

The declining public debt trend continued at the beginning of 2019 (51.8% of GDP in May). The public debt converted to dinars rose from 20.9% (end of 2016) to 26.1% in April 2019, due to the repayment of two Euro bonds, as well as the state's determination to rely more on dinar securities, and the determination of the population to take out loans and to save in dinars.

Improved structural competitiveness also contributed to better overall macroeconomic performance. However, monetary policy still needs to be cautious, primarily because of the uncertainty still present in the international environment - the normalization of the monetary policies of the leading central banks will be slower than expected; the movement of oil prices in the coming period is still unpredictable; protectionism and geopolitical tensions are still present in international trade.

NBS points out that the resilience of our economy to possible negative impacts from the international environment has increased due to reduced internal and external imbalances and favourable macroeconomic prospects for the coming period.

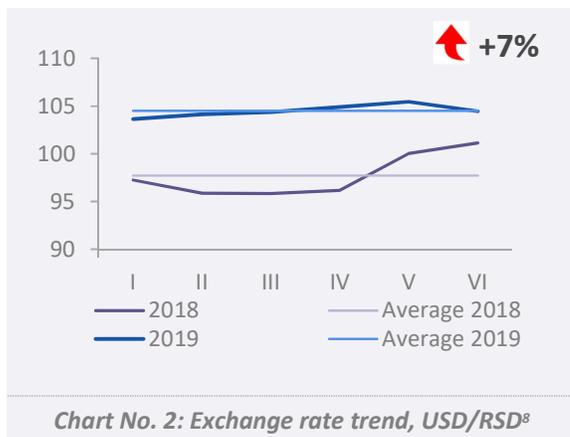
Interest rates on dinar loans dropped to a new low. In May 2019, interest rates on dinar loans amounted to 5.1% for the industry and 10.0% for the population.

According to the manpower survey for the first quarter of 2019, the unemployment rate was 12.1%, which is a YOY decline of 2.7%. The employment rate in the same period was 47.4% (YOY growth of 2.3%).

Favourable trends in the official labour market come from the private sector, where employment increased by 14.3% (April 2019/December 2014), primarily in the manufacturing, private and construction sectors.

Industrial production in the Republic of Serbia in May 2019 increased by 1.1% compared to the 2018 average. The current seasonally adjusted growth of industrial production in May 2019 as compared to April 2019 amounts to 1.3%, while the seasonally adjusted growth of the processing industry is 2.6%. Viewed by sectors, in May 2019, as compared to May 2018, the Mining sector recorded a growth of 2.2%, the Manufacturing sector was down by 1.6% and in the Electricity, gas, steam and air conditioning sector increased by 3.7%.

The total international trade of Serbia for the period January-May 2019 recorded an increase of 1,6% as compared to the same period last year (in dollars), and an increase of 9,7% (in euros). Export-import ratio is 73,9% and is lower than in the same period the previous year, when it was 75.6%.



- Average USD/RSD exchange rate in first six months of 2019 was higher by RSD 6.77, i.e. 7% compared to the average exchange rate in the same period of 2018.
- During first six months of 2019, USD/RSD exchange rate increased by RSD 0.4 or 0.4%.
- During first six months of 2018, USD/RSD exchange rate rose by RSD 2.22 or 2%.

⁸Source: NBS

Performance Analysis

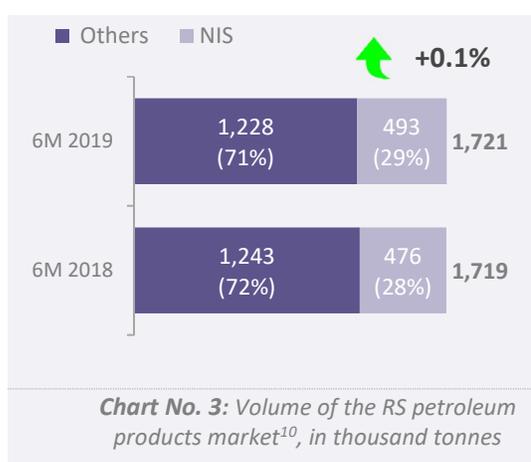
Market Share⁹

Motor fuel consumption in the region is on the rise:

- Positive macroeconomic trends
- Rise in the number of diesel-powered vehicles
- Rise in transit traffic
- Rise in agriculture and infrastructure works

Main generators of consumptions in Serbia are the growth of diesel and coke consumption. While in the first quarter, works on infrastructure were main cause of increased consumption, in the second quarter it was civil engineering and growth of transport, as well as intensive beginning of agricultural works..

Market Share in the Serbian Market



Total consumption of petroleum products in the first six months is almost at the same level as last year:

The main consumption generators are:

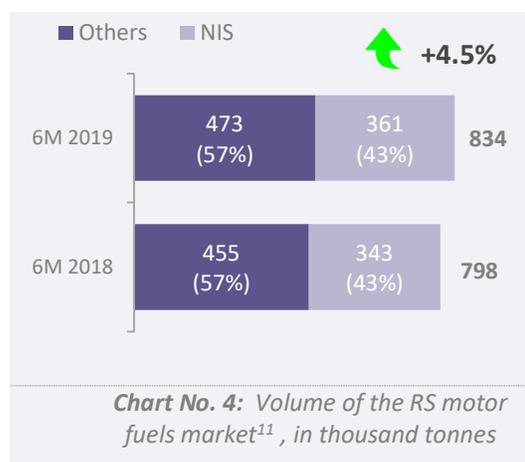
- Rise in diesel and coke consumption
- Infrastructure works, agriculture, transport
- The negative consumption trend was recorded with primary petrol (Petrohemija's turnaround) and heavy fuel oil.

NIS market share was slightly lower in the first half of the year, as a result of a significant rise in coke import (not in the NIS product range) and reduced

consumption of primary petrol and heavy fuel oil, where NIS' share is traditionally very high.

NIS' sales is growing in the segment of diesel and petrol, while in the LPG segment, it falls, in line with the market trend. Modernised stations, improved fuel product range and numerous marketing projects make a significant contribution to the share preservation.

- Rise in retail market by 4.5%
- The most important growth factor is the rise in consumption in the diesel fuel segment, primarily generated by the growing number of diesel-powered vehicles.
- The downward trend in LPG consumption continues, primarily due to a reduced number of LPG-powered vehicles, but also relatively high prices due to high charges.



⁹ Data sources for projections: for Serbia – Sales and Distribution internal analyses and estimates; for Bulgaria and Romania consumption estimates – PFC and Eurostat; For Bosnia-Herzegovina – PFC and internal estimates.

¹⁰ Data for 2019 are given on the basis of estimates.

¹¹ The sales of NIS and other competitors include motor fuels (auto-gas, CNG, gasoline and diesel). LPG cylinders are not included. Data for 2019 are given on the basis of estimates.

Market Share in Bosnia-Herzegovina, Bulgaria and Romania

Bosnia and Herzegovina

After the accident in the Brod Oil Refinery last year, it was announced at the beginning of this year that the planned turnaound began. Parallel to this, the process of independent technical testing of equipment is under way, as announced by Nestro Group. The Minister of Energy and Mining of Republika Srpska stated that the plants of the only oil refinery in Republika Srpska will be in operation in a year, and that, in the Brod Oil Refinery this year there will be no primary refining or import of crude oil, with customers supplied through Gazprom or NIS from Serbia.

Bosnia and Herzegovina is the only country in Europe that has not implemented any obligation of the Energy Community in the field of oil and petroleum products. The country does not have the required reserves of petroleum products at the state level, nor does it have a national strategy to meet the obligations of Directive 2009/119/EC, as stated in the Energy Community.

The Hifa Petrol oil company started new investment in 2019, by expanding its retail network with 4 petrol stations in Busovača, Vitez, Lašva and Golubina near Žepče. By acquisition of Čago Petrol, Hifa Petrol significantly expanded its presence in the area of Central Bosnia and increased the number of petrol stations in the network to a total of 36.

The Energopetrol Sarajevo Supervisory Board at its extraordinary Assembly passed a decision to terminate the fuel sales activity at Sarajevo International Airport. It is not clear why Energopetrol is terminating this activity. HIFA oil is listed as the second fuel service provider on the airport website.

On 1 June, the Modriča oil refinery laid off 52 employees, scheduled to return to work on 1 July. The official justification for workers' paid leave is the last year's accident at the Brod Oil Refinery plant, which supplied the raw material to the Refinery in Modriča.

With the help of the mobile phone application of the Ministry of Trade of the Federation of Bosnia and Herzegovina, which provides an overview of all petrol stations in the Federation of Bosnia and Herzegovina and all prices, drivers will be able to monitor price trend at petrol stations and compare them. The application can be downloaded in Google Play under the name FMT FBiH Oil Info. The application particularly highlights petrol stations with the lowest prices.

In Bosnia and Herzegovina, NIS has 37 petrol stations.

NIS' total market share on the motor fuel market is 17.9%, while the share on the retail market is 9.7%.

Bulgaria

Bulgarian Lukoil Neftohim Burgas announced their intention to skip the 2018 dividend payment for the second year in a row.

Legislative changes in Bulgaria foresee the introduction of bitumen into the list of fuels subject to mandatory reserves. Currently, about 50% of bitumen consumption (200 thousand t per year) is imported, and, in 2017 import was almost 100%. According to market representatives, if changes in the Crude Oil and Petroleum Product Reserves Act are adopted, import and storage will be difficult, and costs higher, which would also increase the costs of construction of roads and infrastructure. Traders and builders' calculation shows that storing the required bitumen reserves will increase the cost of this raw material by about 5%.

In Bulgaria, NIS has 35 petrol stations.

NIS' total market share on the motor fuel market amounts to 5.0%, while the share on the retail market is 4.4%.

Romania

Only four months after the founding of the Board of Directors of the investment fund by KMG I (KazMunayGas International) and SAPE, the company that manages state-owned assets in the Romanian energy sector, the fund approved 2 large investment projects worth nearly 230 million dollars. One project is the construction of a cogeneration power plant on Petromidija platform, while the second refers to the development of a network of petrol stations in Romania in the next five years. The network will benefit from fuel supply from Petromidia Navodari refinery owned by Rompetrol Rafinare, a member of KMG I. It is expected that the new petrol stations, which will operate under the Rompetrol brand, will create more than 1,000 new jobs, with more than 5,000 people involved in different development stages and more than 1,200 commercial partners. It is also expected that the Kazakh-Romanian fund will reach 1 billion dollars in investment over a period of seven years. KMG I owns 80% of fund shares, while the Romanian government owns the rest of 20%.

The Romanian Competition Council has completed fuel market research, to conclude that competition in this segment is low and that there is a large player that determines the price. The leader on the fuel distribution market is OMV Petro, then Rompetrol, Lukoil, MOL, SOKAR and Gazprom.

Romania should increase its renewable energy target from 27.9% to 34% by 2030 to contribute to the renewable energy targets of the European Union, as stated by the European Commission (EC). Also, the country should list all energy subsidies, including fossil fuel subsidies, as well as actions taken and plans for their elimination. Romania should also introduce measures to simplify licensing and permit granting procedures and provide further details on providing a renewable energy framework, as stated in EC recommendations on the integrated national energy and climate plan for Romania for 2021-2030.

Rompetrol Rafinare announces investment of 64 million dollars this year. The company invested 4 million dollars in Advanced Process Control software, designed to improve production activities at the Petromidia Refinery. In 2019, 5.88 million tons of finished products will come out of the refinery, including 1.57 million tons of petrol and 2.8 million tons of diesel.

OMV Petrom has invested nearly 19 million euros in the modernisation of Arad's fuel storage facility, second-largest in the country with a capacity of over 32,000 cubic metres. Construction works included the installation of nearly 12 kilometres of new pipelines and the modernisation of the 2-kilometre-railway line that serves the storage facility. The modernised fuel storage facility in Arad successfully completed the programme of fuel storage infrastructure optimisation. The programme objective was to concentrate

operations on six large storage facilities across the country, with some 145 million euros invested over the past 12 years.

OMV Petrom has put into operation a polycarbonate unit in the Petrobrazi refinery, which turns LPG and low-quality petrol into high-value-added petroleum products, i.e. petrol and diesel. OMV Petrom notes that this is the third unit of its kind in the world and the first to convert low-quality petrol, not just LPG.

In Romania, NIS has 18 petrol stations.

NIS' total market share on motor fuel market is 0.9%, while its retail market share is 1.3%.

Key Performance Indicators

Q2 2019	Q2 2018	Δ^{12}	Indicator	Unit of measure	6M 2019	6M 2018	Δ^{13}
68.82	74.35	-7%	Brent Dtd	\$/bbl	66.01	70.55	-6%
63.9	68.0	-6%	Sales revenue ¹⁴	RSD billion	117.4	120.4	-2%
3.1	7.8	-61%	Net profit	RSD billion	3.2	11.5	-72%
9.6	15.0	-36%	EBITDA ¹⁵	RSD billion	15.9	24.0	-34%
4.7	4.8	-3%	OCF	RSD billion	16.0	9.4	+70%
10.1	9.4	+7%	CAPEX ¹⁶	RSD billion	18.4	17.2	+7%
39.8	47.8	+20%	Accrued liabilities for taxes and other public revenue ¹⁷	RSD billion	79.8	90.95	-12%
592	536	10%	Total bank indebtedness ¹⁸	EUR million	592	536	10%
1.76	2.32	-24%	LTIF ¹⁹	number	1.76	2.32	-24%

¹² 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.

¹³ 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.

¹⁴ Consolidated operating income.

¹⁵ 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.

¹⁶ CAPEX amounts are exclusive of VAT.

¹⁷ 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.

¹⁸ Total bank indebtedness = Total debt to banks + Letters of Credit. As at 30 June 2019, this was € 2 million of total debt to banks + € 592 million in Letters of Credit.

¹⁹ 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 – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. 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, hence there is no difference between 6M and Q2.

Operating Indicators

Exploration and Production

Q2 2019	Q2 2018	Δ^{20}	Indicator	Unit of measure	6M 2019	6M 2018	Δ^{21}
320	332	-4%	Oil and gas output ²²	Thousand t.o.e.	641	661	-3%
215	221	-3%	Domestic oil output ²³	Thousand tonnes	429	438	-2%
3.0	3.5	-14%	LTIF ²⁴	number	3.0	3.5	-14%
9.8	9.4	+4%	EBITDA	RSD billion	18.1	17.2	+6%
5.1	4.3	+18%	CAPEX ²⁵	RSD billion	9.3	8.2	+13%

In the Exploration and Production Block, with the implementation operational efficiency improvement measures and with maximum engagement of "Services", the total production of oil and gas was 641 thousand t.o.e.

20 development and two exploratory wells (19 oil and 1 gas) have been commissioned. During the first half of 2019, 12 wells were brought in at the oil fields after conducting the fracking operation, and 66 more wells underwent geologic and technological activities.

Coefficient of success of the exploratory drilling in Serbia for the past three years is 78%.

In the field of geology and development of reservoirs, the emphasis is on preserving the high quality of the performed geological and technical activities and on testing the new technologies aimed at increasing the production of oil and gas.

Geological and exploratory works and reservoir development

As part of development drilling, additional exploration was actively conducted and oil saturation was determined at the active reservoirs and the density of well network was increased.

The program for removing wells from the inactive funds was successfully continued in the past years. Also, workover and insulation works were continued, as were all other GTA in the wells.

Regarding the project documentation, two studies on hydrocarbon reserves and 4 studies on underground water reserves, seven feasibility studies and eight mining projects were presented. Based on the completed analysis of development and renewable 3D models, 50 development wells were drilled on 13 reservoirs and drilling plan for 2019 is prepared.

Exploratory drilling and well testing

As part of realization of the geological and exploratory works at Exploration and production Block, 3 wells were drilled in the second quarter. Drilling finished at the Bra-Malj-001X exploration well with the aim of

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²¹ 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.

²² Domestic oil output includes natural gasoline, whereas gas output takes into account commercial gas output and light condensate.

²³ With natural gasoline.

²⁴ Lost Time Injury Frequency Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. *The data refers to the Exploration and Production Block (including Services)*. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 30 June 2019, hence there is no difference between 6M and Q2.

²⁵ Financing, exclusive of VAT.

increasing the resource base of the Company and fulfilling license obligations on the exploration area in Serbia to the south of the rivers Sava and Danube. The well is currently in its testing phase. Drilling of two exploratory wells (Idjos and Palic) is underway.

2/3D seismics

In January 2019, acquisition of 3D seismic data began at the Ada exploratory area. Thanks to favorable weather conditions and good organization of the seismic team, production was increased. Total of 654 km² has been recorded until 1 July 2019.

Processing of 3D seismic data from the exploratory area of Turija IV is in its final phase, while complex seismologic-geological interpretation of 3D seismic data, recorded on the exploratory area of Southern Banat II is underway.

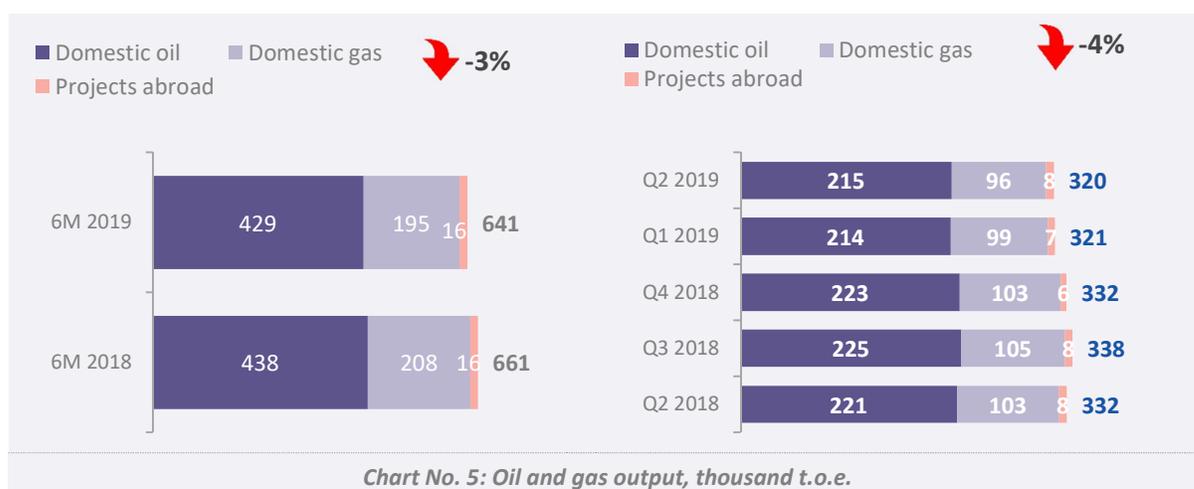
In order to secure a new Approval for continuing the exploration at the exploration area of Serbia to the south of the rivers Sava and Danube, activities were initiated on creating project and technical documentation prescribed by law for applying at the competent Ministry of Mining and Energy for renewing the approval for researching on the exploration area in question for the period of 3+2 years. Performance of 2D seismic testing on Jadra exploratory area in the total scope of 105 km is planned until the end of the year.

Projects abroad

- Drilling and testing of two exploratory wells at “EX-7 Periam” block in Romania completed;
- Beginning of moving the facility K-1 in Romania, with the aim of drilling one exploratory well and two exploratory-contour well in “EX-8 Biled” block, i.e. “DEE V-20 Jimbolia” block;
- Construction of the oil and gas preparation compound for trial production at the fields of Teremia North and Jimbolia is underway, and the beginning of their operation has been planned for the third quarter of 2019.
- On 15 May 2019 the Annex 3 to the Concession Contract with the Ministry of Mining and Energy of the RS was signed in Bosnia and Herzegovina;
- On 3 June 2019, Ministry of Mining and Energy of the RS issued the Decision on approving the detailed oil and geological explorations on the territory of the Republic of Srpska in the period 2019-2023.

Operating Indicators

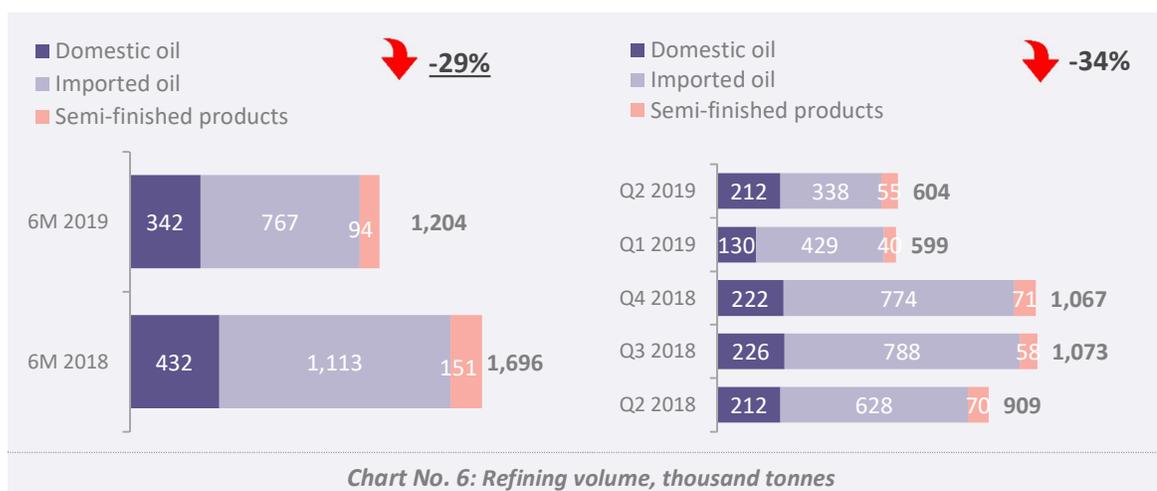
In the first six months of 2019, the total production of oil and gas was 641 thousand tonnes of oil equivalent of oil and gas.



Refining

Q2 2019	Q2 2018	Δ^{26}	Indicator	Unit of measure	6M 2019	6M 2018	Δ^{27}
604	909	-34%	Volume of refining of crude oil and semi-finished products	Thousand tonnes	1,204	1,696	-29%
1.06	0.0	+100%	LTIF ²⁸	%	1.06	0.0	+100%
-1.0	5.5	-117%	EBITDA ²⁹	RSD billion	-1.6	6.7	-125%
4.4	3.8	+15%	CAPEX ³⁰	RSD billion	7.9	6.5	+22%

Refining Activities and Volume



In the first half of 2019, the production of petroleum products decreased, compared to the same period of the previous year by -29% as a result of capital overhaul and moving the unit's start-up after prolonged reconstruction of MHC/DHT.

The implementation of capital overhaul of the plant was in the focus of the Refining Block activities in the first half of 2019.

At the end of February 2019, at the Pančevo Oil Refinery, a capital overhaul was started with the aim of more reliable work and further modernization of refining. Within the capital overhaul, the necessary technical and technological connection of the "old" refinery units with the DCU production complex units were carried out, which makes this year's overhaul the most complex one so far. Upon completion of capital workover, the performance of the project of investment maintenance was tested on Atmospheric Distillation unit. At the beginning of 2019, digital transformation activities continued, focusing on the „€kon\$“ project, with the commissioning of the first project phase on primary refining plants ("Atmospheric and Vacuum Distillation"). After the start-up of the unit, upon the completion of capital workover, adjustment of "€kon\$" model was done on other units as well. The development of digitization continues within Industry 4.0.

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²⁷ 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.

²⁸ Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.

²⁹ EBITDA of the "Refining" Block includes the power plant in POR.

³⁰ Financing, exclusive of VAT.

'Bottom of the Barrel' Project

- 236 mn EUR invested in the project
- The Detailed Design completed and all permits obtained
- 99.8% of equipment and material delivered
- Completed installation of: foundations, basic steel structure of the complex, oversized equipment, coke oven, silos and coke conveyor belt. Pre-startup activities in the complex initiated. Construction and installation works related to construction of the complex completed 81.1%
- 3,640,814 man/hours to date, 13 contractor companies in the field, 850 field workers per day on average
- Pre-startup activities are completed on 10 systems of 148

Overhaul

Within the capital overhaul of the Refinery works are being carried out on the "gasoline and diesel pool" of refinery units: Platforming, HDS Gasoline FCC complex, Alkylation, Sulfolane, Atmospheric and Vacuum distillation, Mild Hydrocracking and Hydrotreating Complex, control works, equipment and piping cleaning and restoration and replacement of catalysts, as well as works in the Manipulation Sector and on the realization of investment projects for reliability and efficiency increase of refinery production.

Nearly three thousand workers participated in the works within this overhaul. In addition to the employees from our company, 1,400 workers from the country and abroad participated at the peak of the overhaul.

The planned halt of the Refinery was used for the execution of all legal obligations when it comes to pressure vessels and pipelines, where the overhaul of the equipment was performed, elimination of the observed problems during the exploitation period, replacement of catalysts and other. All these works were performed on the group of primary and secondary refinery units.

Within this capital overhaul, technical and technological connection of the "old" refinery units with the DCU production complex units were carried out.

Other Projects

During 2019, digital transformation implementation activities continued in the Refining Block, as well as projects of operator training on plant simulators (OTS), the malfunction forecast project (Machine Learning), the implementation project of the E-learning platform for on-line employee training and operator support project ("€kon\$"), as well as the drafting of the non_core strategy development study, which is an integral part of the development of digitization (Industry 4.0). Within the "€kon\$", at the beginning of the year, project the first project phase on primary refining plants ("Atmospheric and Vacuum Distillation") has been commissioned, with the implementation continuation on other planned units. After the start of the plant, after the completion of the turnaround, the "€kon\$" model was set up on other plants.

Within the digitalization development Industry 4.0, a session was held at the level of the Refining Block Management team, with the aim of defining the key business problems and possibilities of implementing available digital technologies. a list of potential digital projects was also defined. A detailed analysis of the feasibility and cost-effectiveness of the implementation of selected digital projects (deep_dive phase of the project), as well as the preparation of a Steering Committee meeting, is underway, the adoption of the results of the study. Along with the realization of the "Bottom of the Barrel" project with delayed coking technology (DCU), professional training will be held for a team of employees, who will start the newly built production complex and work on it. This training encompasses all 49 employees who will work on the newly built complex.

Work on the implementation of the LSS (Lean Six Sigma) process of continuous improvement in the Refining Block was continued and the first improvement projects were launched as a result of the work of working groups in the entire DWS. Activities have been under way in terms of developing initiatives from workshop for continuous improvement by using Lean Six Sigma tool.

Activities on cooperation projects with schools and universities continue in 2019. The Memorandum on Cooperation with the Secondary School of Electrical Engineering in Pančevo was realized through the procurement of modern equipment for automatics classrooms and providing conditions for adapting the school program and personnel training for the business needs of the Oil Refinery in Pančevo.

Sales and Distribution

Q2 2019	Q2 2018	Δ^{31}	Indicator	Unit of measure	6M 2019	6M 2018	Δ^{32}
793	900	-12%	Total sales volume of petroleum products ³³	Thousand tonnes	1,519	1,665	-9%
92	83	11%	Sales volume – foreign assets ³⁴	Thousand tonnes	177	162	9%
605	673	-10%	Sales volume of petroleum products in the domestic market ³⁵	Thousand tonnes	1,179	1,257	-6%
579	590	-2%	Motor fuels ³⁶	Thousand tonnes	1,070	1,069	0,1%
245	239	2%	Retail ³⁷	Thousand tonnes	459	439	4%
4.2	3.7	13%	Internal Sales	Thousand tonnes	7.6	8.3	-9%
1.15	2.04	-44%	LTIF ³⁸	%	1.15	2.04	-44%
3.8	3.0	28%	EBITDA	RSD billion	7.1	4.5	58%
0.6	0.9	-33%	CAPEX ³⁹	RSD billion	0.9	1.9	-54%

Points of Sale⁴⁰ and Logistics

NIS Groups owns more than 400 active retail facilities. The majority of them, more precisely 326 retail facilities, are located in the Republic of Serbia. In addition to 10 internal petrol stations, NIS owns 316 public petrol stations (21 of them are Gazprom-branded). In the regional countries, NIS owns 37 petrol stations in Bosnia and Herzegovina (27 Gazprom-branded), 35 petrol stations in Bulgaria (all Gazprom-branded) and 18 petrol stations in Romania (all Gazprom-branded).

After major reconstruction works had been finished, PS “Velika Plana”, Autoput Desna, was introduced to exploitation in May, as the first PS in the form M highway in Serbia (“Gazprom” brand). Major reconstruction works have begun at PS Stari Banovci (“Gazprom” brand), expected to be introduced to exploitation in August 2019. Tank truck for supplying small aircrafts with aviation fuel was introduced to exploitation in Belgrade..

Loyalty and Marketing Activities Programmes

In the first half of 2019 in Serbia, over 40 marketing activities were carried out with the aim of developing consumer brands and loyalty programs and improving sales of fuel and non-fuel products.

Fifteen marketing “sales boost” actions and campaigns were conducted. With the aim of boosting sales of G-Drive products and increasing the number of transactions/sales with the SNNP card, as well as increasing

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³³ Excluding the internal sales volume (6M 2019: 7.6 thousand tonnes; 6M 2018: 8.3 thousand tonnes).

³⁴ The sales volume of foreign assets includes sales generated by the subsidiaries of NIS abroad (retail and wholesale).

³⁵ Domestic market sales includes sales volumes invoiced in local currency (RSD) and does not include sales volumes sold to foreign customers and invoiced in foreign currency.

³⁶ Total sales of motor fuels in Serbia and in foreign assets.

³⁷ Total retail in Serbia and in foreign assets.

³⁸ Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.

³⁹ Financing, exclusive of VAT.

⁴⁰ As at 30 June 2019.

recognizability and improving the image of G-Drive fuel, tactical action will be carried out in several stages in different cities around the country with the following mechanism: 10 RSD/l with the SNNP loyalty card.

The first digital petrol station was opened in May on the highway Velika Plana Desna and additional promotional activities were carried out to boost sales.

Seventeen new products (scu) have been launched in the private brand domain: G-Drive energy gums (strawberry), Drive Cafe energy bar (4 types), G-Drive energy candy (peach and strawberry), Drive Cafe Burger (7 types), Drive Cafe ice cream (3 flavours).

As regards B2B segment, in the second quarter of 2019 the awards given to corporate clients (during the event in "Promenada" in 2018) - trip to Barcelona to the Champions League quarterfinals game, were realized. Communication and marketing support was provided to the launching of the mobile application for users of the GAZPROM fuel card.

"On the Road with Us" loyalty program has been developed since late 2015 and more than 772 thousand cards were issued by the second quarter of 2019, while participation of users of the said program in the total sales to natural persons reached 61.51% in the second quarter of 2019.

In early 2018 new payment function of the "On the Road with Us" card was introduced, allowing users to purchase fuel and non-fuel products with a deferred payment of up to 45 days at all "NIS Petrol" and "Gazprom" petrol stations. Since the introduction of this new function, more than 39 thousand requests have been submitted and more than 30 thousand have been approved.

In 2019, loyalty program with "Tehnomanija" and "Gigatron", in which owners of the "On the Road with Us" card earn bonus points for every purchase, continues. Bonus points can be used only at "NIS Petrol" and "Gazprom" petrol stations. Inclusion of "Intersport", as the new partner, is expected until the end of July.

In the first half of 2019 in the countries of the region where NIS operates, over 30 marketing activities were carried out with the aim of developing consumer brands and loyalty programs and improving sales of fuel and non-fuel products. In the first half of 2019, around 86 thousand cards were issued within the loyalty program in Bosnia and Herzegovina, while participation of the program users in the total sales to natural persons reached 44.69%. Until the end of June 2019, more than 165 thousand cards were issued within the "On the Road with Us" program in Bulgaria. Participation of the program users in the total sales to natural persons reached 71.98%.

The "Agro Card" Program, aimed at farmers, has been developed since late 2013. The activities aimed at preserving the scope of sales have continued: the main discount program for Agro cards (5 RSD for Euro Diesel and G-Drive Diesel, 3 RSD for regular diesel fuel, 15% for NISOTEC). Since 06 May 2018, farmers have had the opportunity to buy LPG bottles for household at a discount of 10RSD/kg using Agro card. For the biggest NIS Agro buyers a ceremony was held on May 14 with the aim of strengthening mutual relations and continuing cooperation.

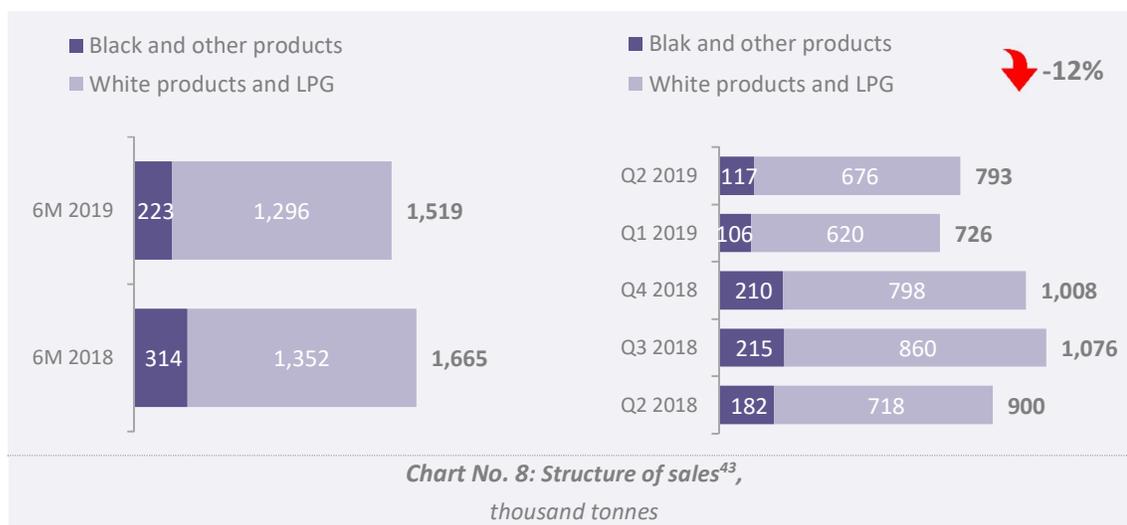
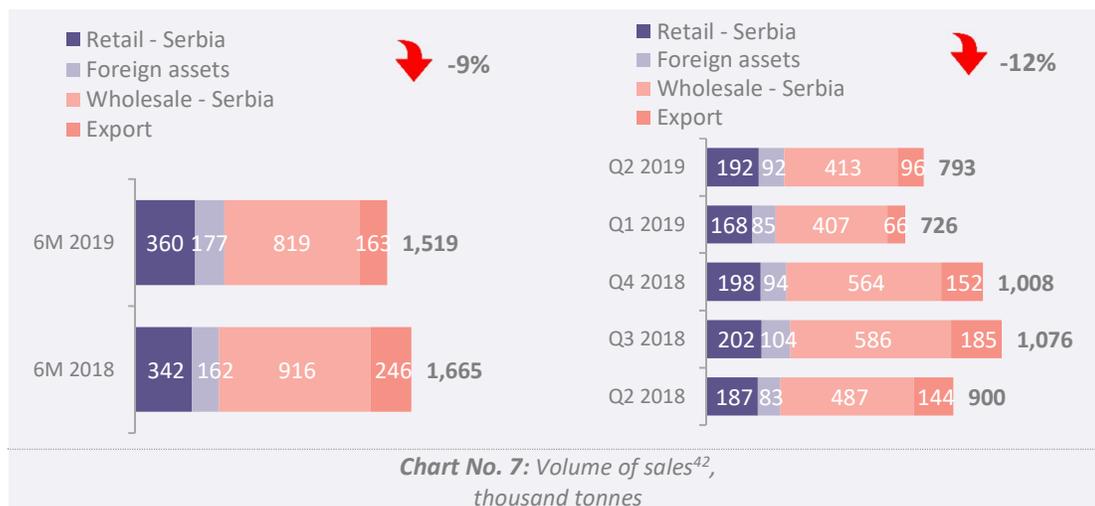
NIS participated in the International Agricultural Fair promoting the benefits of Agro program for farmers. NISOTEC brand won a large champion cup, as well as 11 gold medals, at the International Agricultural Fair in Novi Sad.

Sets of promotional activities have been carried out in the oils and lubricants sales channel with the aim of increasing the margin and sales (30% discount on part of the NISOTEC agricultural assortment with the AGRO card, 15% discount on part of the motor oil assortment with the SNNP card).

Operating indicators⁴¹

The first half of 2019 saw a sales drop of 9% on 2018, with the total sales of 1,519 thousand tonnes.

- Retail in Serbia – a retail growth by 5% stemming from diesel fuel sales growth.
- Wholesale in Serbia – a decrease of 11% mostly due to energy and non-energy fuels.
- Exports – a decrease of 34% as a result of declining energy and non-energy fuel exports.
- Foreign assets – an increase of 9% in sales volume (2% through retail channel and 21% through wholesale channel).



⁴¹ Excluding internal sales volume (6M 2019: 7.6 thous. tonnes, 6M 2018: 8.3 thousand tonnes).

⁴² Excluding internal sales volume (6M 2019: 7.6 thousand tonnes; 6M 2018: 8.3 thousand tonnes).

⁴³ Excluding internal sales volume (6M 2019: 7.6 thousand tonnes; 6M 2018: 8.3 thousand tonnes;).

Energy

Implementation of big projects of NIS, CCPP Pančevo and 'Plandište' wind farm, is underway, together with the partners.

CCPP Pančevo

A construction permit for a steam turbine power plant and a measuring station was obtained for the CCPP Pančevo project. Works on the construction of a power plant and a measuring station have been reported and started. Connection to the gas main was carried out. A positive opinion of the Audit Commission was received for the preliminary design of the construction of a 220 kV distribution station. The route of the 220 kV transmission lines were made and the draftings of modifications and amendments of the urban plans necessary for their construction was agreed.

Project windpark Plandište

- The MET Renewables Company and NIS have commenced a joint delivery of the wind farm project in Serbia
- Negotiations with EPC contractors are drawing to a close

Natural gas

NIS participated in the Call for Contracts on Annual Continuous Capacity for the Natural Gas Transport Service for the 2019/2020 Gas Year published by Operator P.C. Srbijagas. NIS' request for lease of transport capacities of natural gas has been accepted by the Operator at all required entrances and exits, except the U1-PPS Horgoš entrance. The contract on the transport of natural gas for the 2019/2020 Gas Year has been approved and sent to the Operator for signing.

CNG – commercial aspect

As for the project of the CNG plant in the 'Palić' field, commercial negotiations have been successfully concluded and the agreement for the sale of compressed natural gas from the 'Palić' gas field was signed with the wholesale customer Pan Ledi LLC.

Trade of electricity

In the area of electricity trade, NIS is present in the markets of Serbia, Bosnia and Herzegovina, Romania, Slovenia and Hungary. Apart from these markets, NIS trades on the borders with North Macedonia, Bulgaria and Croatia. NIS trades on electricity markets in Serbia (SEPEX), Romania (OPCOM) and Slovenia (South Pool). The process of registration of NIS Petrol Eood for the electricity trade in Bulgaria has begun. The process of procurement of a specialized software for the trade of el. energy and gas is underway.

Realization of Energy Efficiency Measures Program in NIS j.s.c.

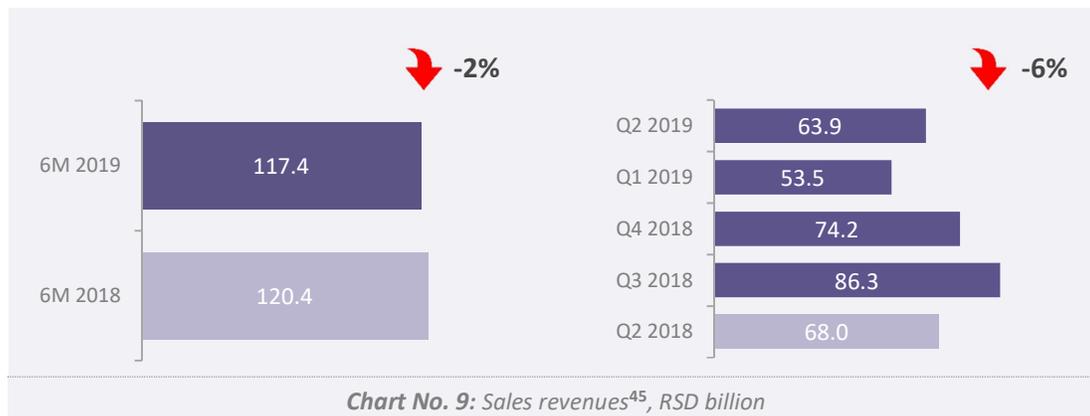
With the EE Measures Program for 6M, energy savings of 2,285 toe.

The value of savings is USD 111.8 million.

Financial indicators

Sales Revenues

Sales revenues⁴⁴ for the first six months of 2019 was 2% lower than in the same period of 2018 and amounted to RSD 117.4 billion.

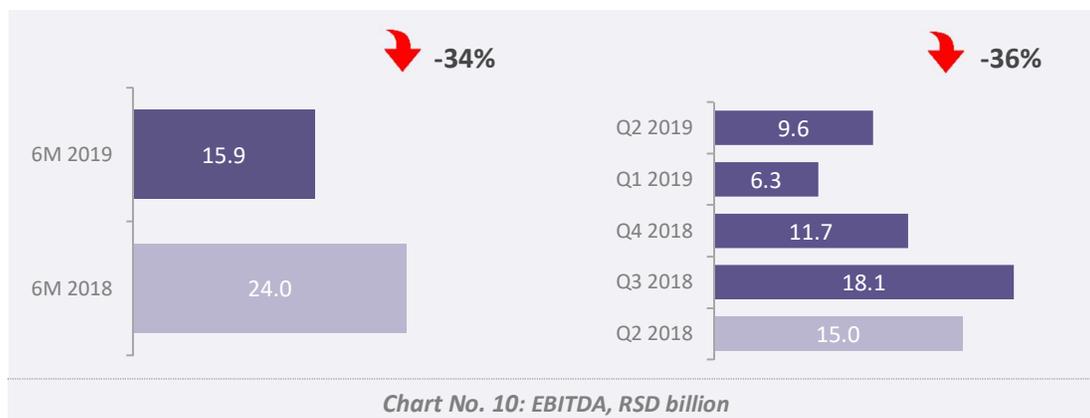


EBITDA

EBITDA for first six months of 2019 was 34% lower than in the same period in previous year and amounted to RSD 15.9 billion.

The main reasons for the decrease include:

- Lower refining volume due to capital overhaul in Pančevo Oil Refinery
- The fall of oil prices on the world market
- Lower volume of oil production.



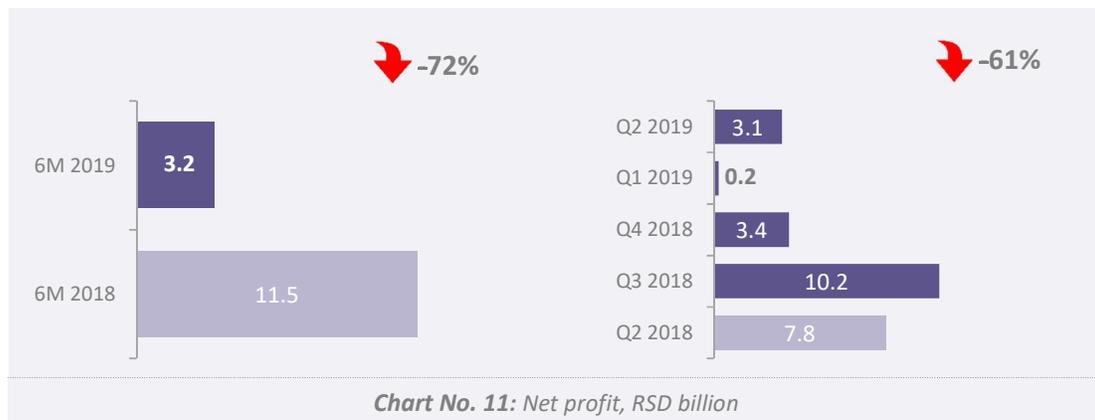
⁴⁴ Consolidated operating revenue.

⁴⁵ Consolidated operating revenue.

Net Profit

Net profit achieved in the first six months of 2019 is RSD 3.2 billion and was 72% lower than net profit in the same period in previous year.

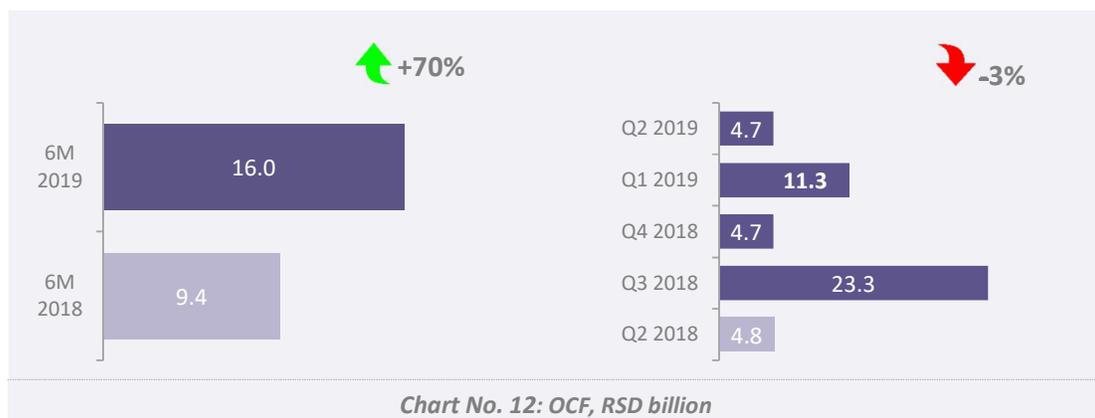
- Lower EBITDA
- Higher depreciation costs
- Negative exchange differences



OCF

In the first half of 2019, the operating cash flow amounted to RSD 16 billion and was 70% higher than the OCF in the same period in 2018:

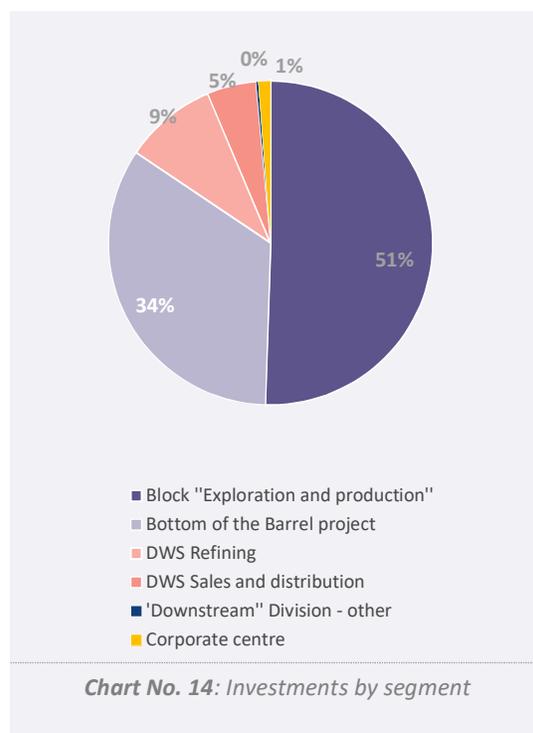
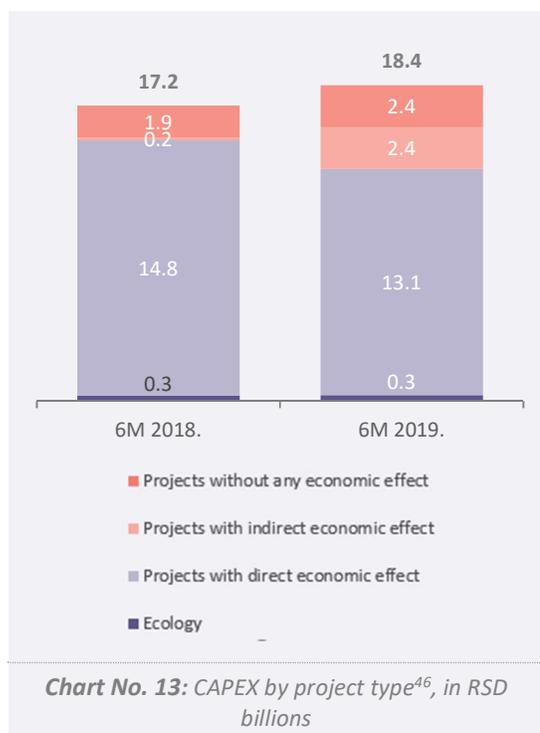
- Lower liabilities for the import of crude oil
- Lower liabilities towards the state
- Higher customs duties
- Higher derivatives duties.



CAPEX

In the first half of 2019, the main investment directions were oriented towards the implementation of projects in the production of oil and gas, as well as the project for improving the refining depth. In addition, during the first two quarters of 2019, NIS invested in sales and distribution, energy, and service projects, as well as a number of projects in the corporate center.

During the first half of 2019, RSD 18.4 billion was allocated to finance investments, which is 7% more than the amount that was allocated in the same period of 2018.



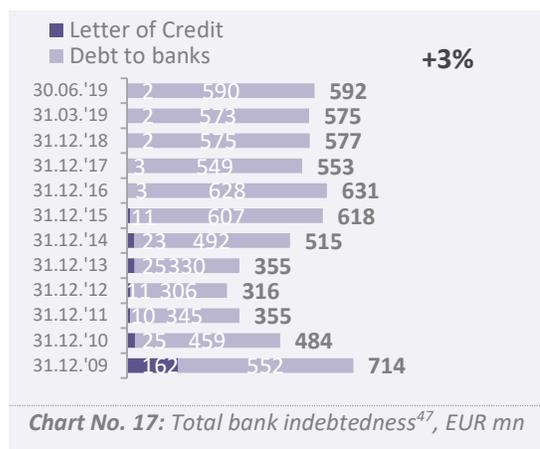
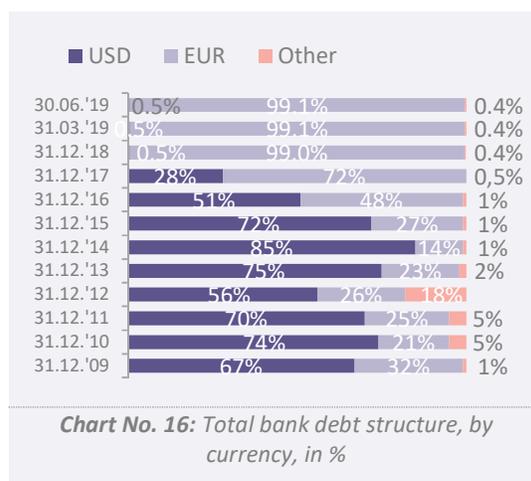
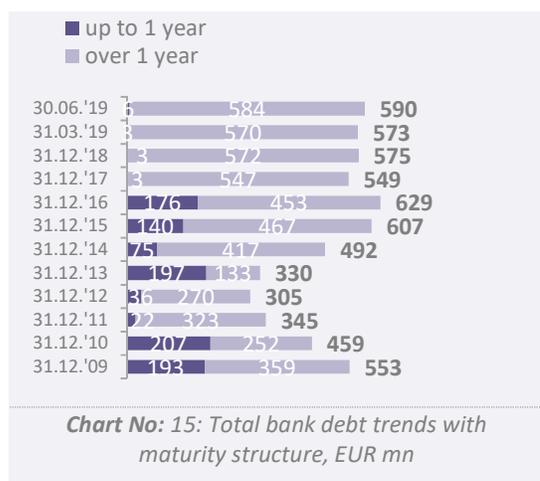
⁴⁶ The amounts are in RSD billions, and excluding VAT.

Organisational unit	Major projects
Exploration and Production Block	<ul style="list-style-type: none"> • Drilling of development wells • Investments in geological and technical activities • Program of 3D seismic surveys and drilling of exploration wells in the Republic of Serbia • Investments in concession rights • Investments in basic infrastructure
Oil Services and Transport	<ul style="list-style-type: none"> • Enabling Nacional 3 drilling rig for drilling of wells over 3,500m • Procurement of cargo delivery vehicles of the pickup van type • Project for the procurement of hydraulic pliers • Procurement of towing vehicles • Procurement of tools and drilling equipment
Deep Refining	<ul style="list-style-type: none"> • Modernization of refining - continuation of implementation according to Bottom of the Barrel project
Refining	<ul style="list-style-type: none"> • Projects for harmonization of legal norms and regulations • Corporate projects for automation of production • Refining Block investment maintenance program • Projects for production efficiency increase • Capital investments related to environmental protection
Sales and Distribution Block	<ul style="list-style-type: none"> • Development of retail network in Serbia (construction and reconstruction of petrol stations) • Procurement of a vessel – pontoon station for supplying boats with motor fuel in Veliko Gradiste • HSE projects within Sales and Distribution Block • Reconstruction of petroleum products warehouses (Novi Sad, Smederevo, Niš) • Development of retail network in the region (PS Sarajevo - Lukavica, B&H) • Other retail projects in Serbia
Energy Directorate, Technical Services, Meterology Department	<ul style="list-style-type: none"> • Decentralization and modernization of heat sources in NSR (Energy)
Corporate Centre	<ul style="list-style-type: none"> • Projects with an IT component (replacement of EoL SBA/Hyperion system, improvement of radio link system)

Indebtedness

At the end of the first half of 2019, the debt to banks was at the level of 590 million EUR, i.e. it has grown by 15.3 million EUR if compared with the end of 2018, when it amounted to 574.5 million EUR. The slight increase in the debt level was due to short term liquidity disorders at the end of second quarter, which were followed with postponement of early repayment of unfavourable loans for third quarter.

Changes in the loan portfolio during the first half were related to the improvement of the characteristics thereof through the reduction of prices, which is the result of pre-term repayment of unfavourable loans and withdrawal of loans at more favourable terms. Total of 68.4 million EUR was repaid during the first half, out of which 66.9 million EUR covered premature repayment of loans with unfavourable terms, and the total of 83.6 million EUR of more favourable loans was withdrawn. Additionally, debt to parent company PJSC "Gazprom Neft" has been reduced and currently amounts to EUR 186.0 million.



⁴⁷ In addition to debt to banks and Letters of Credit NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of €41.0 million, corporate guarantees in the amount of €41.2 million and Letters of Intent signed with banks in the amount of €0.8 million and financial leasing in the amount of € 12.7 million as at 30 June 2019.

Taxes and Other Public Revenue⁴⁸

NIS j.s.c. Novi Sad	6M 2019	6M 2018	Δ ⁴⁹
Social insurance contributions paid by employer	0.83	0.77	8%
Corporate tax	0.62	1.64	-62%
Value-added tax	9.17	11.25	-18%
Excise duties	55.93	62.68	-11%
Commodity reserves fee	2.82	2.93	-4%
Customs duties	0.22	0.32	-30%
Royalty	0.71	0.69	3%
Other taxes	0.70	0.70	-1%
Total	71.00	80.98	-12%
NIS subsidiaries in Serbia ⁵⁰			
Social insurance contributions paid by employer	0.29	0.26	14%
Corporate tax	0.09	0.06	49%
Value-added tax	0.58	0.33	76%
Excise duties	0.00	0.00	
Customs duties	0.03	0.03	-1%
Royalty	0.00	0.00	
Other taxes	0.02	0.04	-60%
Total	1.01	0.72	40%
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	72.01	81.70	-12%
NIS regional subsidiaries and Angola			
Social insurance contributions paid by employer	0.03	0.02	43%
Corporate tax	0.10	0.01	x18
Value-added tax	0.80	0.81	-1%
Excise duties	4.63	6.06	-24%
Customs duties	2.13	1.67	27%
Royalty	0.00	0.00	
Other taxes	0.07	0.05	43%
Total	7.76	8.62	-10%
Deferred taxes (total for Group)	-	0.63	-100%
Total NIS Group⁵¹	79.76	90.95	-12%

Operational Efficiency Improvement

The effect of operational efficiency improvement measures on EBITDA in first six months of 2019 is RSD 0.9 billion.

⁴⁸ In RSD billion.

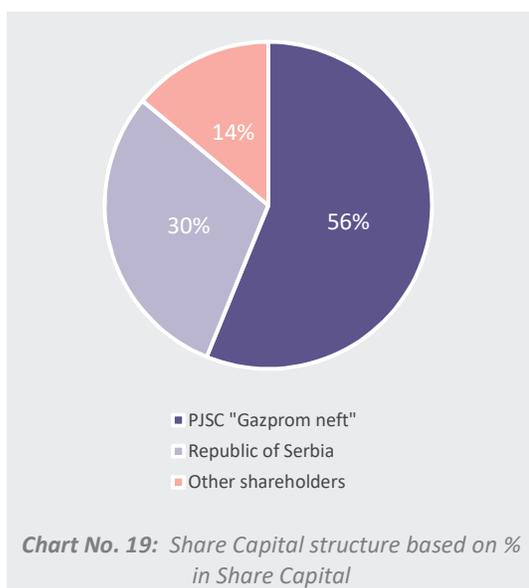
⁴⁹ Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.

⁵⁰ Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Transport d.o.o. Novi Sad and NTC NIS Naftagas d.o.o. Novi Sad.

⁵¹ Including taxes and other liabilities for public revenues for subsidiaries in the region, corporate tax in Angola and deferred taxes.

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 500.00 RSD. All issued shares are ordinary shares, vesting their holders with the following rights:

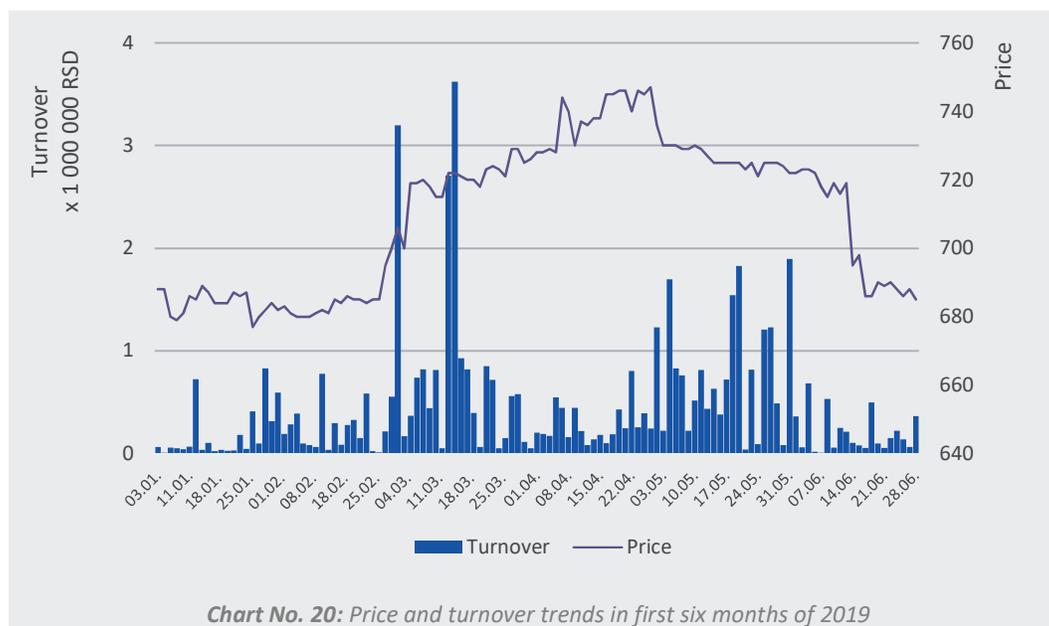
- Right to participate and vote at the shareholders' assembly meetings, according to one-share-one vote rule;
- Right to dividend in compliance with applicable legislation;
- Right to participate in the distribution of the liquidation remainder or bankruptcy estate in compliance with the bankruptcy law;
- Pre-emption right to buy a new issue of ordinary shares and other financial instruments tradable for ordinary shares, out of new issue;
- 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	48,712,094	29.87%
Societe Generale banka Srbija a.d. – custody account - fund	1,964,180	1.20%
Societe Generale banka Srbija a.d. – custody account - fund	614,829	0.38%
Global Macro Capital Opportunities	371,854	0.23%
Dunav Osiguranje a.d.o. Beograd	284,247	0.17%
Convest a.d. Novi Sad - collective account	228,634	0.14%
Aktiv-fond d.o.o. Beograd	205,228	0.13%
AWLL Communications d.o.o. Beograd	205,152	0.13%
Unicredit bank Serbia a.d. – custody account - ks	175,819	0.11%
Other shareholders	18,732,476	11.49%
Total number of shareholders as at 30 June 2019:		2,080,471

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 first six months of 2019	
Last price (28 June 2019)	685 RSD
High (17 April 2019)	750 RSD
Low (25 January 2019)	670 RSD
Total turnover	535,564,439 RSD
Total volume (number of shares)	747,300 shares
Total number of transactions	6,015 transactions
Market capitalization as at 30 June 2019	111,696,374,000 RSD
EPS	23.87 RSD
Consolidated EPS	19.84 RSD
P/E ratio	28.70
Consolidated P/E ratio	34.53
Book value as at 30 June 2019	1,512.85 RSD
Consolidated book value as at 30 June 2019	1,470.85 RSD
P/BV ratio	0.45
Consolidated P/BV ratio	0.47

In first six months of 2019, there were no acquisitions of treasury shares by the Company.

Dividends

NIS j.s.c. Novi Sad dividend policy is based on a balanced approach taking into account the necessity of profit retention for investment funding purposes, 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, macroeconomic environment and legislation. Each of these factors, either individually or combined, if carrying sufficient weight, may affect the proposed dividend payment.

	Net profit (loss), RSD bn ⁵²	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 % ⁵³
2009	-4.4	0	-	-	0	-	-
2010	16.5 ⁵⁴	0	-	101.1	0	475	-
2011	40.6 ⁵⁵	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

Overview of Financial Instruments Used by the Group

Due to its exposure to foreign exchange risk, NIS Group practises forward transactions 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 instrument.

⁵² Net profit of NIS j.s.c. Novi Sad.

⁵³ Calculated as the ratio of gross dividend and year-end share price.

⁵⁴ Net profit used to cover accumulated losses.

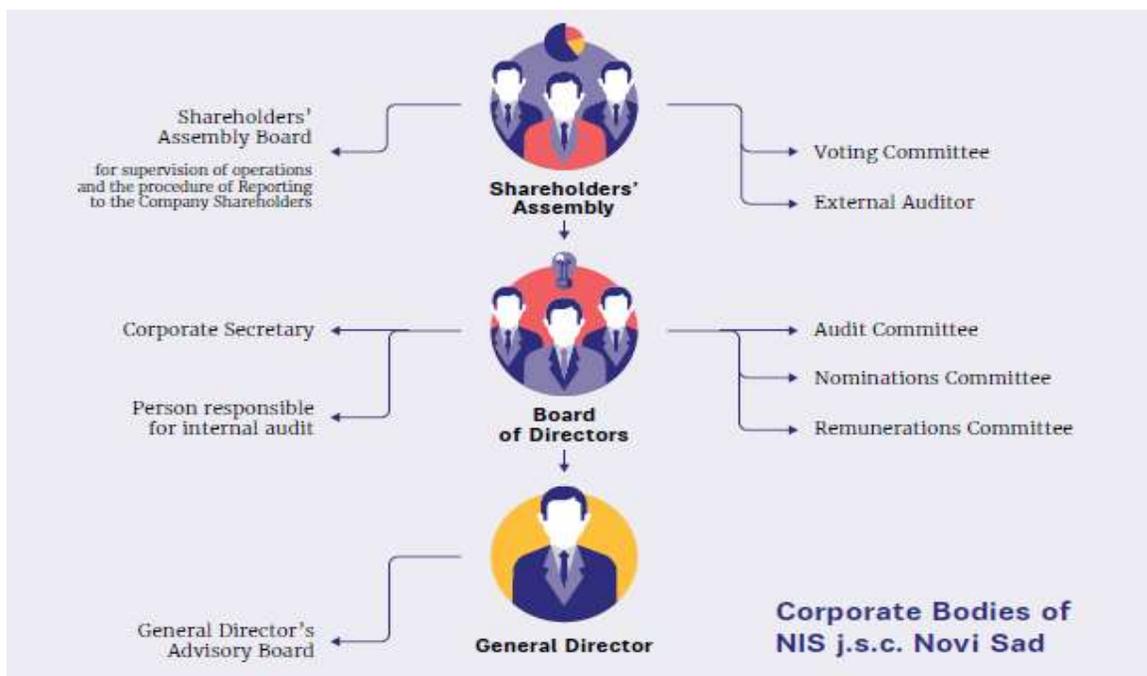
⁵⁵ Net profit used to cover accumulated losses.

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 members elect the Chairperson of the Board of Directors, while the functions of the Board of Directors' Chairperson and the General Director are clearly divided.

Members of the Board of Directors

Members of the Board of Directors are appointed and dismissed by the Shareholders' Assembly.

At the 11th regular meeting of the Shareholders' Assembly of NIS, held on June 27, 2019, the following members of NIS Board of Directors were appointed: Vadim Yakovlev, Kirill Tyurdenev, Danica Draskovic, Aleksei Yankevich, Sergei Papenko, Alexander Krylov, Dejan Radenkovic, Alexander Chepurin, Anatoly Cherner and Olga Vysotskaya.

The Board of Directors consists of executive and non-executive directors. The Board of Directors has one executive member, while all the other members are not executive and two of them are the independent members of the Board of Directors at the same time.

Board of Directors' Members as of 30 June 2019



Vadim Yakovlev

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

*Deputy Chairman of PJSC "Gazprom Neft" Executive Board,
First deputy of PJSC "Gazprom Neft" CEO in charge of exploration and
production, strategic planning and mergers and acquisitions*

Born on September 30, 1970 in Sharkan, USSR.

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 Executive Board of „Gazprom neft“ PJSC. From 2010 to 2011 – First Deputy CEO – „Gazprom neft“ PJSC Financial Director. Since 2011, he has been holding the post of the „Gazprom neft“ PJSC First Deputy CEO.

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

Kirill Tyurdenev was born on 19 April 1977.

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

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

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

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



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

Born on November 14, 1945 in Kolašin, Montenegro.

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

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

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



Alexey Yankevich
Member of NIS j.s.c. Novi Sad Board of Directors
Member of the Audit Committee⁵⁶
Deputy CEO for Economics and Finance 'Gazprom Neft' PJSC

Born on December 19, 1973 in Leningrad, USSR.

⁵⁶ Term of office of members of the Board of Directors' Committee lasted until 27 June 2019.

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.



Sergey Papenko

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

Head of Organizational Development and Joint Ventures Management Department of PJSC ‘Gazprom Neft’

Born on November 03,1973 in Yuzhnaya Lomovatka, USSR.

Graduated in 1996 from the Kharkov State University, speciality: economic cybernetics. In 1999 he obtained the MBA degree at HOFSTRA University (Hempstead, New York, USA), speciality: Finance&Banking.

From 1994 to 1996 he was Department Manager of the First international Bank of Ukraine in the City of Kharkov. From 1996 to 1998 he worked at the position of the company TACIS Project and during 1998 he also worked with PricewaterhouseCoopers, as an Auditor. From 2000 to 2007 he worked in the Moscow Representative Office of “McKinsey and Company Inc. Russia”, first at the position of Consultant and later as Junior Partner. Since 2007 to the present he has worked as Head of Organizational Development and Joint Ventures Management Department of PJSC Gazprom neft.

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



Alexander Krylov

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

Director of the Division for Regional Sales in PJSC ‘Gazprom Neft’

Born on March 17,1971 in Leningrad, USSR.

In 1992, Mr. Krylov graduated from LMU (Leningrad) and graduated from the Faculty of Law of Saint Petersburg State University in 2004. In 2007, he earned

MBA degree from Moscow International Business School MIRBIS, specializing in Strategic management and Entrepreneurship.

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

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



Dejan Radenković

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

Born on 09.09.1971 in Priština.

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

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

He is a member of the Board for supervision of operations of the „MTS bank“ j.s.c. Belgrade at the present.

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

He was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 27.06.2019.



Alexander Chepurin

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

Born on 20 September 1952 in Stavropol Krai in Russia (USSR).

He graduated from the MGIMO of the Russian Ministry of Foreign Affairs, Faculty of international relations in 1975.

He completed the Diplomacy Academy of the Russian Ministry of Foreign Affairs and awarded a Master degree in Political Science in 2009.

From 1976 to 1980 he worked as secretary of the Consular section of the Russian Embassy in Genoa, Italy.

From 2005 to 2012 he was Director of the Russian Ministry of Foreign Affairs Department and from November 2012 to 26.06.2019 – Ambassador of Russia to Serbia.

He 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
Member of the Remuneration Committee⁵⁷

Deputy Chairman of the Executive Board, CEO Deputy 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 on 10 February 2009.



Olga Vysotskaia
Independent Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of the Remuneration Committee⁵⁸

Born on February 28, in 1961 in Leningrad, USSR.

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

She held the position of Chair of the Board of Directors (BoD), CEO, Chair of science and production companies from 1988 to 1995, and she was Director of many private companies. From 1995 to 2003 she held various partner

⁵⁷ Term of office of members of the Board of Directors' Committee lasted until 27 June 2019

⁵⁸ Term of office of members of the Board of Directors' Committee lasted until 27 June 2019.

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.

Total amount paid to Board of Directors members in first six months of 2019, net RSD

BoD Members	113,432,401
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Membership in Other Companies' Boards of Directors or Supervisory Boards

Vadim Yakovlev	<ul style="list-style-type: none"> • PJSC NGK Slavneft • LTD GPN Development (Chairman of BoD) • JSC Gazprom Neft-NNG (Chairman of BoD) • LTD Gazprom Neft-Hantos (Chairman of BoD) • LTD Gazprom Neft-NTC (Chairman of BoD) • LTD Gazprom Neft-Orenburg (Chairman of BoD) • LTD Gazprom Neft-Sahalin • Salym Petroleum Development N.V. (Supervisory Board Chairperson) • LLC Gazprom Neft Shelf • LTD Technological Centre Bazen (Chairman of BoD) • LTD GPN-GEO (Chairman of BoD) • LTD GPN- Oil service (Chairman of BoD) • FGAOU „Tyumen State University (member of the Supervisory board)
Kirill Tyurdenev	<ul style="list-style-type: none"> • -
Alexey Yankevich	<ul style="list-style-type: none"> • PJSC NGK Slavneft • JSC Gazprom Neft – Aero • LTD Gazprom Neft – SM • LTD Gazprom Neft Business-Service (Chairman of BoD) • Gazprom Neft Lubricants Italy SPA (Chairman of BoD) • LTD Gazprom Neft Marine Bunker • LTD Gazprom Neft Shelf

Sergey Papenko	<ul style="list-style-type: none"> • PJSC NGK Slavneft • JSC Artikgaz • JSC Evrotek-Jugra • CJSC Nortgaz • LTD Slavneft-Krasnoyarskneftegas • LTD Gazprom Neft - Vostok • LTD Gazprom Neft - Angara • Salym Petroleum Development N.V. (member of SB) • LTD Gasprom Resurs Hortgaz (CEO) • JSC Messoyakhaneftegaz (JSC JV) • Tomskneft VNK • LTD SB GEO • LTD Noyabrskneftegazavtomatika
Alexander Krylov	<ul style="list-style-type: none"> • JSC Gazprom Neft – Novosibirsk (Chairman of BoD) • JSC Gazprom Neft – Ural (Chairman of BoD) • JSC Gazprom Neft – Yaroslavl (Chairman of BoD) • JSC Gazprom Neft - Northwest (Chairman of BoD) • LTD Gazprom Neft Asia (Chairman of BoD) • LTD Gazprom Neft - Tajikistan (Chairman of BoD) • LTD Gazprom Neft – Kazakhstan (Chairman of BoD) • LTD Gazprom Neft – Centre (Chairman of BoD) • JSC Gazprom Neft – Terminal (Chairman of BoD) • LTD Gazprom Neft – Regional Sales (Chairman of BoD) • JSC Gazprom Neft - Transport (Chairman of BoD) • LTD Gazprom Neft – Krasnoyarsk (Chairman of BoD) • LTD Gazprom Neft – Corporate Sales (Chairman of BoD) • LTD Gazprom Neft – Belnefteprodukt (Chairman of BoD) • JSC Gazprom Neft - Alternative Fuels (Chairman of BoD) • LTD ITSK • LTD Gazprom Neft – Laboratory (Chairman of BoD) • LTD Gazprom Neft Tyumen (Chairman of BoD)⁵⁹ • Association Hockey Club ‘Avangard’ (Chairman of BoD)
Dejan Radenković	<ul style="list-style-type: none"> • -
Danica Drašković	<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 • JSC Gazprom Neft – ONPZ (Chairman of BoD) • PJSC Slavneft – JANOS • JSC Gazprom Neft – MNPZ (Chairman of BoD) • JSC Gazprom Neft – Aero (Chairman of BoD) • JSC Saint-Petersburg International Mercantile Exchange • LTD Gazprom Neft – SM (Chairman of BoD) • LTD Gazprom Neft Marine Bunker (Chairman of BoD) • LTD Gazprom Neft – Logistics (Chairman of BoD) • JSC Mozirski NPZ • Gazprom Neft Lubricants Italy SPA • LLC Gazprom Neft - Catalytic Systems (Chairman of BoD) • LLC Automatica-Service (Chairman of BoD)JSC NGK Slavneft

⁵⁹ The company terminated the activity due to the merger of the GPN - Center on June 19, 2019.

Olga Vysotskaia	<ul style="list-style-type: none">• Non profit organization Silver Time (Chairperson of SB, Director)• LTD INK (Independent member of BoD, Audit Committee Chairperson)
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Number and Percentage of NIS j.s.c. Novi Sad Shares Owned by BoD Members

Name and surname	Number of shares	% in total number of shares
-	-	-

Board of Directors' Committees

In order to complete its obligations more efficiently, the Board of Directors founded 3 permanent (Audit Committee, Remuneration Committee and Nominations Committee) 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.

Term of office of the formed Commissions members lasted until the date of regular annual Shareholders Assembly session and the Commissions were of the following composition:

- Audit Committee
 - Wolfgang Ruttenstorfer, chairman
 - Aleksei Yankevich, member and
 - Nenad Mijailovic, member.
- Remuneration Committee
 - Olga Vysotskaya, chairman,
 - Anatoly Cherner, member and
 - Zoran Grujicic, member.

In the forthcoming period, Board of Directors will appoint members of the commissions of the Board of Director for the following term of office, while it may, as necessary; form other standing or ad hoc commissions that will deal with issues of relevance for the Board of Directors work.

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.

At the XI regular session of the Shareholders Assembly of NIS, held on 27 June 2019, the following members of the Shareholders Assembly Board of NIS were appointed: Zoran Grujicic, Dragan Bracika and Aleksey Urusov.

Members of the Shareholders' Assembly Board as at 30 June 2019

**Zoran Grujić**

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

Member of the Remuneration Committee⁶⁰

Born on July 28, 1955 in Čačak, Serbia.

Mr Grujić 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. Grujić has been employed with NIS j.s.c. Novi Sad and has held the following positions: Deputy Director of the Logistics Department in Jugopetrol, Head of RC Čačak at the Retail Department – Čačak Region, Manager of Retail Network Development in the Development Department, Sales and Distribution. From October 2012 to January 2016, he had served as Advisor to the Sales and Distribution Director and since February 2016 has been an Advisor to the Function for External Affairs and Government Relations Director. He has served as Advisor to the General Director since October 2017.

From 30.06.2014 to 27.06.2019, Mr Grujić 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 Shareholders' Assembly Board for the Supervision of Operations and Reporting to NIS j.s.c. Novi Sad

Born on 06.04.1982 in Sombor.

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.

⁶⁰ Term of office of members of the Board of Directors' Committee lasted until 27 June 2019.



Alexey Urusov

Member of the Shareholders' Assembly Board for the Supervision of Operations and Reporting to NIS j.s.c. Novi Sad

Director of Economics and Corporate Planning Department at PJSC 'Gazprom Neft'

Born on November 17, 1974 in Tyumen, USSR.

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.

Total amount of fees paid to SAB members in first six months of 2019, net, in RSD	
Members of SAB	12,035,313

Membership in Other Companies' Boards of Directors or Supervisory Boards

Zoran Grujičić	-
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 Marine Bunker Balkan S.A. • Board of Directors member, AS Baltic Marine Bunker • Board of Directors member, Gazpromneft - Catalytic systems LLC • Board of Directors member Gazpromneft – Energoservice LLC • Board of Directors member, Gazpromneft Business-service LLC • Board of Directors member, ITSK LLC • Board of Directors member, Noyabrskneftegazsvyaz LLC.

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%

CEO

CEO is appointed by the Board of Directors from the group of executive members of the Board of Directors. CEO coordinates the activities of the executive members of the Board of Directors and organises Company's business. Furthermore, CEO of the Company performs daily management-related activities and he is authorised to make decisions on the issues, which are not under the jurisdiction of the Shareholders' Assembly and the Board of Directors. CEO is the legal representative of NIS.

CEO Advisory Board

CEO Advisory Board is the professional body, which supports the work of CEO and the process of relevant question revision. Composition of the Advisory Board is validated by the CEO decision and it consists of a First Deputy CEO - Head of Downstream Division, First Deputy CEO - Head of Exploration and Production, Heads of Refining and Sales and Distribution, Heads of Company's Functions, as well as the director of Naftagas - Naftni Servisi d.o.o. Novi Sad. Apart from the issues related to the Company's business, the Advisory Board reviews the issues related to the development strategy and policy while their basics are determined by the Shareholders' Assembly and the Board of Directors.

Related-Party Transactions

In the year ended 31 March 2019 and in the same period in 2018, 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

NIS mission is to provide people with energy to move towards an improvement, and its employees are its driving force and the key to its success. In order to achieve this synergy, NIS creates a business environment in which every employee can realize his full potential with full respect for the rights of employees prescribed by the Labour Law, the Collective Agreement/Rules of Work, internal acts, as well as international acts such as the UN Declaration on Human Rights and the Declaration on Fundamental Principles and Rights at Work.

Employee Number and Structure

Organisational unit	6M 2019			6M 2018		
	Direct	Leasing	Total	Direct	Leasing	Total
NIS j.s.c. Novi Sad	4,060	3,661	7,721	4,095	3,690	7,785
“Exploration and Production” Block	870	203	1,073	802	217	1,019
“Services” Block	0	0	0	87	23	110
“Downstream” Division ⁶¹	2,071	3,030	5,101			
“Refining” Block ⁶²	937	20	957	851	28	879
“Sales and Distribution” Block ⁶³	988	2,991	3,979	968	2,957	3,925
“Energy” Head Office ⁶⁴	39	4	43	245	20	265
the rest of the “Downstream” Division ⁶⁵	107	15	122			
Corporate Centre	1,079	428	1,507	1,094	445	1,539
Representative Offices and Branches	40	0	40	48	0	48
Subsidiaries in the country	1,657	1,688	3,345	1,447	1,647	3,094
“Naftagas - Oil Services” Ltd. Novi Sad ⁶⁶	1,067	1,191	2,258	647	837	1,484
“Naftagas - Technical Services” Ltd. Zrenjanin	179	126	305	392	492	884
“Naftagas – Transport” Ltd. Novi Sad	84	326	410	97	286	383
NTC “NIS Naftagas” Ltd. Novi Sad	327	45	372	311	32	343
Subsidiaries abroad	74	2	76	72	1	73
“NIS Petrol” EOOD Sofia (Bulgaria)	37	0	37	36	0	36
“NIS Petrol” SRL Bucharest (Romania)	28	0	28	27	0	27
6	0	6	6	0	6	6
“NIS Petrol” Ltd. Banja Luka (Bosnia and Herzegovina)						
“Jadran Naftagas” Ltd. Banja Luka Banja Luka (Bosnia and Herzegovina)	3	0	3	3	0	3
“Pannon Naftagas” Kft. Budapest (Hungary)	0	2	2	0	1	1
Other subsidiaries included in consolidation	458	122	580	558	113	671
“O ZONE” j.s.c. Belgrade	4	122	126	5	113	118
“NIS Overseas” o.o.o. Moscow (Russian Federation)	4	0	4	111	0	111
“NIS Svetlost” Ltd. Bujanovac	0	0	0	0	0	0
“G Petrol” Ltd. Sarajevo (Bosnia and Herzegovina)	450	0	450	442	0	442
TOTAL:	6,249	5,473	11,722	6,172	5,451	11,623

⁶¹ The transfer of employees to the new structures of the “Downstream” Division begins as of July 2018 and ends in September.

⁶² The Sales and Distribution Block and Refining Block become subordinate to the new Division.

⁶³ The Sales and Distribution Block and Refining Block become subordinate to the new Division.

⁶⁴ By reorganizing and creating a new Division, the Energy Block ceases to exist; only the “Energy” Directorate subordinate to the Division remains, while the other parts are decentralized into the “Exploration and Production” Block, “Refining” Block and “Sales and Distribution” Block

⁶⁵ The rest of the “Downstream” Division consists of: Director of Division’s Office, Crude Oil Sector, Department for Planning, Optimization and Analysis of Production and Sales, Department for Metrology and Group for Administrative-Documentation Support and Department for Procurement “DWS”

⁶⁶ Including the employees in subsidiaries.

Causes of Employment Termination

In first six months of 2019, a total of 185 employees left NIS⁶⁷: 23 employees retired, 40 employees left NIS after termination of employment by mutual agreement, while the employment of 122 people was terminated on other grounds (involuntary termination, voluntary termination, redundancy, death etc.).

Cause of employment termination	NIS j.s.c. Novi Sad ⁶⁸	Subsidiaries ⁶⁹
Retirement	15	8
Termination by mutual agreement	35	5
Other	68	54
Total	118	67

⁶⁷ NIS j.s.c. Novi Sad with the subsidiaries Naftagas – Oilfield services LLC Novi Sad, Naftagas – Technical services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and NTC NIS Naftagas LLC Novi Sad.

⁶⁸ Including Representative Offices and Branches.

⁶⁹ Naftagas – Oilfield services LLC Novi Sad, Naftagas – Technical services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and NTC NIS Naftagas LLC Novi Sad.

Research and Development

In all segments of its business, NIS is dedicated to continual technological development and introducing innovations into business.

STC NIS-Naftagas LLC Novi Sad, as a daughter company which is 100 per cent owned by NIS, provides its mother company with scientific, technical and innovational support in the field of oil and gas exploration and production. The research and development activities within STC NIS-Naftagas have a dual role - coordinating and performing scientific and research work.

Implementation and development of new technologies, scientific and research activities, as well as increasing the efficiency of exploration, production and refining of oil and gas remain in focus of attention for STC management and employees. It is organised in several directions. In the *geological explorations* field, a regional project is being executed, whose aim is the discovery of hydrocarbons in Paleozoic or intra-Paleozoic rocks, and, in case of discovery, their efficient production. These types of reservoirs are not common in the world, and therefore there is no experience in their discovery and production. In the *oilfield development and oil and gas production field*, research is underway on exploring possibilities of applying polymers in the Jermenovci field with the aim of increasing the usability coefficient of the reservoir. In almost all production fields, *work is being done on testing chemical reagents* for preventing accumulation of limescale from the reservoir water as well as paraffin from oil, on production equipment in the wells, because it prevents normal operation of the wells. Where the rock collector is sand in which there is oil or gas, *work is being done to test either mechanical or chemical means*, which would stop sand from moving and enable the production process. For preparing the produced crude oil for transport to the refinery, *work is being done on optimisation of the demulsifier* in order to separate the water produced together with oil as quickly as possible and to shorten the production process. *The laboratory is introducing new methods of controlling petroleum products and having them accredited* in accordance with the EU standards. It is also extensively preparing for application of completely new methods for testing DCU products.

Apart from the existing directions, STC has successfully worked on development and application of new technologies, as well as information and communication technologies in the main business activity. Within this direction, it makes great strides in the field of improving user software support, database maintenance, implementation and maintenance of virtual platform, provides support and maintains software for processing seismic data, coordinates and leads projects with IT elements, and also implements new infrastructural and software solutions in accordance with the main business activity of the company.

The realization of these company activities has been enabled by constant improvement of expert competence of the employees and by investment in information technologies, both of which represent key prerequisites for development of NIS j.s.c.

Financial Statements

Stand-Alone Financial Statements

Statement of Financial Position

	Notes	30 June 2019 (unaudited)	31 December 2018
ASSETS			
Current assets			
Cash and cash equivalents	6	8,162,601	12,222,578
Short-term financial assets	7	4,458,113	6,686,363
Trade and other receivables	8	30,822,893	28,076,947
Inventories	9	45,461,849	44,443,778
Current income tax prepayments		706,290	-
Other current assets	10	4,330,345	5,416,286
Non-current assets held for sale		122,834	9,271
Total current assets		94,064,925	96,855,223
Non-current assets			
Property, plant and equipment	11	266,200,389	258,254,117
Right-of-use assets	3	864,844	-
Investment property		1,692,781	1,730,100
Intangible assets		2,216,308	2,576,046
Investments in joint venture		1,038,800	1,038,800
Investments in subsidiaries		13,425,586	13,425,586
Trade and other non-current receivables		2,830	2,837
Long-term financial assets	12	24,914,822	23,408,424
Deferred tax assets		1,886,109	2,405,175
Other non-current assets	13	1,628,170	1,777,859
Total non-current assets		313,870,639	304,618,944
Total assets		407,935,564	401,474,167
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	14	7,433,062	8,242,122
Current lease liabilities	19	100,716	-
Trade and other payables	15	41,744,930	30,365,339
Other current liabilities	16	4,486,849	5,087,681
Current income tax payable		-	539,811
Other taxes payable	17	9,317,125	8,560,193
Provisions for liabilities and charges		1,836,053	1,928,116
Total current liabilities		64,918,735	54,723,262
Non-current liabilities			
Long-term debt	18	85,345,494	87,367,868
Non-current lease liabilities	19	614,602	-
Provisions for liabilities and charges		10,370,437	10,079,405
Total non-current liabilities		96,330,533	97,447,273
Equity			
Share capital		81,530,200	81,530,200
Reserves		108,093	92,060
Retained earnings		165,048,003	167,681,372
Total equity		246,686,296	249,303,632
Total liabilities and shareholder's equity		407,935,564	401,474,167

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	
		2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Sales of petroleum products, oil and gas		53,964,009	58,558,827	100,270,344	104,167,164
Other revenues		2,193,815	3,710,387	4,183,108	6,564,204
Total revenue from sales	5	56,157,824	62,269,214	104,453,452	110,731,368
Purchases of oil, gas and petroleum products		(33,694,900)	(34,305,260)	(64,422,333)	(62,013,711)
Production and manufacturing expenses	20	(6,764,625)	(6,969,580)	(12,138,002)	(12,721,200)
Selling, general and administrative expenses	21	(5,448,048)	(5,284,588)	(10,503,798)	(10,305,449)
Transportation expenses		(173,181)	(304,639)	(394,579)	(563,342)
Depreciation, depletion and amortization		(4,598,729)	(4,406,054)	(9,172,568)	(8,273,005)
Taxes other than income tax		(1,119,063)	(1,116,417)	(2,179,462)	(2,166,899)
Exploration expenses		-	-	(11,474)	(15,771)
Total operating expenses		(51,798,546)	(52,386,538)	(98,822,216)	(96,059,377)
Other income (expenses), net		(109,550)	105,148	(184,993)	32,679
Operating profit		4,249,728	9,987,824	5,446,243	14,704,670
Net foreign exchange gain (loss)	22	14,232	(434,802)	129,333	2,539
Finance income	23	226,440	361,882	492,258	819,884
Finance expenses	24	(477,356)	(549,914)	(955,144)	(1,120,506)
Total other expense		(236,684)	(622,834)	(333,553)	(298,083)
Profit before income tax		4,013,044	9,364,990	5,112,690	14,406,587
Current income tax expense		(566,483)	(1,066,672)	(701,311)	(1,640,910)
Deferred tax expense		(313,969)	(343,513)	(519,066)	(629,881)
Total income tax expense		(880,452)	(1,410,185)	(1,220,377)	(2,270,791)
Profit for the period		3,132,592	7,954,805	3,892,313	12,135,796
Other comprehensive income:					
Items that will not be reclassified to profit					
Gains (losses) from investments in equity instruments		1,465	573	7,875	(586)
Other comprehensive profit (loss) for the period		1,465	573	7,875	(586)
Total comprehensive income for the period		3,134,057	7,955,378	3,900,188	12,135,210
Earnings per share attributable to shareholders of Naftna Industrija Srbije					
Basic earnings (RSD per share)		19.21	48.78	23.87	74.42
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 2019 and 2018

(unaudited)

	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2018	81,530,200	17,782	157,419,313	238,967,295
Adoption of IFRS 9:				
- remeasurement of expected credit losses, net of tax	-	-	(8,860,905)	(8,860,905)
Restated total equity at 1 January 2018	81,530,200	17,782	148,558,408	230,106,390
Profit for the period	-	-	12,135,796	12,135,796
Other comprehensive income (loss)				
Loss from investments in equity instruments	-	(586)	-	(586)
Sale of investments in equity instruments	-	3,455	(3,455)	-
Total comprehensive income (loss) for the period	-	2,869	12,132,341	12,135,210
Dividend distribution	-	-	(6,948,004)	(6,948,004)
Balance as at 30 June 2018	81,530,200	20,651	153,742,745	235,293,596
Balance as at 1 January 2019	81,530,200	92,060	167,681,372	249,303,632
Profit for the period	-	-	3,892,313	3,892,313
Other comprehensive income (loss)				
Gains from investments in equity instruments	-	7,875	-	7,875
Sale of investments in equity instruments	-	8,158	(8,158)	-
Total comprehensive income (loss) for the period	-	16,033	3,884,155	3,900,188
Dividend distribution	-	-	(6,517,524)	(6,517,524)
Balance as at 30 June 2019	81,530,200	108,093	165,048,003	246,686,296

in 000 RSD

Statement of Cash Flows⁷⁰

		Six-month period ended	
		2019	30 June
	Note	(unaudited)	2018
			(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		5,112,690	14,406,587
Adjustments for:			
Finance expenses	24	955,144	1,120,506
Finance income	23	(492,258)	(819,884)
Net unrealised foreign exchange (gain) loss		(54,838)	429,503
Depreciation, depletion and amortization		9,172,568	8,273,005
Other non-cash items		229,919	95,332
Operating cash flow before changes in working capital		14,923,225	23,505,049
Changes in working capital:			
Accounts receivables		(2,847,989)	776,633
Inventories		(974,712)	1,218,226
Other assets		1,031,630	(824,287)
Accounts payables and other current liabilities		5,295,274	(12,104,306)
Taxes payable		756,956	1,174,525
Total effect on working capital changes		3,261,159	(9,759,209)
Income taxes paid		(1,947,648)	(3,282,339)
Interest paid		(853,504)	(1,117,534)
Interest received		488,995	453,503
Net cash generated from operating activities		15,872,227	9,799,470
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans issued		(3,324,839)	(1,643,721)
Loan proceeds received		2,018,690	1,147,109
Capital expenditures ⁷¹		(18,650,943)	(19,310,109)
Proceeds from sale of property, plant and equipment		124,965	126,325
Bank deposits placements, net		1,986,458	5,586,458
Other inflow		5,246	6,990
Net cash used in investing activities		(17,840,423)	(14,086,948)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	14,18	18,250,098	17,768,513
Repayment of borrowings	14,18	(20,283,331)	(23,089,062)
Repayments of finance lease liabilities	19	(56,963)	(24,488)
Net cash used in financing activities		(2,090,196)	(5,345,037)
Net decrease in cash and cash equivalents		(4,058,392)	(9,632,515)
Effect of foreign exchange on cash and cash equivalents		(1,585)	25,040
Cash and cash equivalents as of the beginning of the period		12,222,578	23,410,724
Cash and cash equivalents as of the end of the period		8,162,601	13,803,249

in 000 RSD

⁷⁰ Group policy is to present cash flow inclusive of related VAT.

⁷¹ CF from investing activities includes VAT in the amount of 1.9 bln RSD (2018: 3.2 bln RSD)

Notes to Stand-Alone Financial Statements⁷²

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, Russian Federation is the ultimate owner of the Company.

The Company is an open joint stock company, listed on the prime market 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 2018, 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 2018.

Subsequent events occurring after 30 June 2019 were evaluated through 25 July 2019, the date these Interim Condensed Financial Statements were authorised for issue.

⁷² All amounts are in 000 RSD, unless otherwise stated

The results for the six month period ended 30 June 2019 are not necessarily indicative of the results expected for the full year.

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

2.2. Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Financial Statements are consistent with those applied during the preparation of Financial Statements as of and for the year ended 31 December 2018, except for those described in the Application of new IFRS paragraph.

3. APPLICATION OF NEW IFRS

Accounting policies applied from 1 January 2019

The Company has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

Operating lease commitments disclosed as at 31 December 2018	265,067
(Less): short-term leases recognised on a straight-line basis as expense	(31,155)
(Less): low-value leases recognised on a straight-line basis as expense	(108,527)
Undiscounted leases recognized under IFRS 16	125,385
Discounted using the lessee's incremental borrowing rate at the date of initial application	100,027
Add: finance lease liabilities recognised as at 31 December 2018	644,611
Lease liability recognised as at 1 January 2019	744,638
Of which are:	
Current lease liabilities	96,572
Non-current lease liabilities	648,066
	744,638

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustments to the right-of-use assets at the date of initial application.

The recognized right-of-use assets relates to the following types of assets:

	30 June 2019	1 January 2019
Property	514,643	540,388
Plant and equipment	301,383	324,713
Motor vehicles	48,818	54,331
Total right-of-use assets	864,844	919,432

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

Property, plant and equipment – decrease	(819,405)
Right-of-use assets – increase	919,432
Long-term and current portion of long-term debt – decrease	644,611
Lease liabilities – increase	(744,638)

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the accounting for operating leases for which the underlying asset is of low value
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a lease.

Accounting policy

The Company leases various offices, warehouses, retail stores, equipment and cars. Rental contracts are typically made for fixed periods of 2 to 20 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2019 or later, and that the Company has not early adopted.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Company will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is

material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company is currently assessing the impact of the amendments on its financial statements.

The following other new standards and pronouncements are not expected to have any material impact on the Company when adopted:

- IFRS 17 – Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

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

5. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the six month periods ended 30 June 2019 and 2018. 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 2019 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	24,693,850	104,336,850	(24,577,248)	104,453,452
<i>Intersegment</i>	24,006,171	571,077	(24,577,248)	-
<i>External</i>	687,679	103,765,773	-	104,453,452
EBITDA (Segment results)	18,374,712	(3,640,348)	-	14,734,364
Depreciation, depletion and amortization	(5,083,574)	(4,088,994)	-	(9,172,568)
Impairment of non-financial assets	-	(59,529)	-	(59,529)
Net foreign exchange gain (loss)	(1,509)	130,842	-	129,333
Finance income (expenses), net	(50,384)	(412,502)	-	(462,886)
Income tax	(156,248)	(1,064,129)	-	(1,220,377)
Segment profit/(loss)	12,238,317	(8,346,004)	-	3,892,313

Reportable segment results for the six month period ended 30 June 2018 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	23,533,625	111,107,203	(23,909,460)	110,731,368
<i>Intersegment</i>	23,389,774	519,686	(23,909,460)	-
<i>External</i>	143,851	110,587,517	-	110,731,368
EBITDA (Segment results)	17,059,006	5,892,899	-	22,951,905
Depreciation, depletion and amortization	(3,885,876)	(4,387,129)	-	(8,273,005)
Impairment of non-financial assets	(1,041)	(2,782)	-	(3,823)
Net foreign exchange gain (loss)	(45,079)	47,618	-	2,539
Finance income (expenses), net	32,811	(333,433)	-	(300,622)
Income tax	-	(2,270,791)	-	(2,270,791)
Segment profit/(loss)	13,264,038	(1,128,242)	-	12,135,796

EBITDA for the six and three month period ended 30 June 2019 and 2018 is reconciled below:

	Three-month period ended		Six month period ended	
	2019	30 June 2018	2019	30 June 2018
Profit for the period	3,132,592	7,954,805	3,892,313	12,135,796
Income tax expenses	880,452	1,410,185	1,220,377	2,270,791
Finance expenses	477,356	549,914	955,144	1,120,506
Finance income	(226,440)	(361,882)	(492,258)	(819,884)
Depreciation, depletion and amortization	4,598,729	4,406,054	9,172,568	8,273,005
Net foreign exchange (gain) loss	(14,232)	434,802	(129,333)	(2,539)
Other expense, net	109,550	(105,148)	184,993	(32,679)
Other non-operating (income) expense, net	(30,164)	89,502	(69,440)	6,909
EBITDA	8,927,843	14,378,232	14,734,364	22,951,905

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

	Six-month period ended 30 June 2019		
	Domestic market	Export and International sales	Total
Sale of crude oil	-	663,497	663,497
Sale of gas	1,264,613	-	1,264,613
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,264,613	-	1,264,613
Sale of petroleum products	82,683,106	15,659,128	98,342,234
<i>Through a retail network</i>	30,491,602	-	30,491,602
<i>Wholesale activities</i>	52,191,504	15,659,128	67,850,632
Sale of electricity	396,678	73,306	469,984
Lease revenue	197,612	-	197,612
Other sales	3,440,822	74,690	3,515,512
Total sales	87,982,831	16,470,621	104,453,452

	Six-month period ended 30 June 2018		
	Domestic market	Export and International sales	Total
Sale of crude oil	-	-	-
Sale of gas	984,682	-	984,682
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	984,682	-	984,682
Sale of petroleum products	83,563,688	19,618,794	103,182,482
<i>Through a retail network</i>	28,073,614	-	28,073,614
<i>Wholesale activities</i>	55,490,074	19,618,794	75,108,868
Sale of electricity	227,133	2,710,274	2,937,407
Other sales	3,514,798	111,999	3,626,797
Total sales	88,290,301	22,441,067	110,731,368

Out of the amount of 67,850,632 RSD (2018: 75,108,868 RSD) revenue from sale of petroleum products (wholesale), the amount of 7,268,469 RSD (2018: 11,363,791 RSD) are derived from a single domestic customer HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Network For Trading doo Belgrade in the amount of 168,024 RSD (2018: Gazprom Marketing & Trading Co., Ltd. in the amount of 2,398,650 RSD).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 2,785,690 RSD (2018: 2,605,251 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 87,982,831 RSD (2018: 88,290,301 RSD), and the total revenue from external customer from other countries is 16,470,621 RSD (2018: 22,441,067 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	
	2019	2018
Sale of crude oil	663,497	-
Sale of petroleum products (retail and wholesale)		
Bulgaria	2,900,492	4,751,990
Bosnia and Herzegovina	4,934,709	4,021,740
Romania	1,470,890	2,880,238
Switzerland	719,690	1,626,586
Croatia	802,683	1,104,376
Northern Macedonia	375,199	821,437
Hungary	658,384	755,248
Great Britain	618,466	753,258
All other markets	3,178,615	2,903,921
	15,659,128	19,618,794
Sale of electricity	73,306	2,710,274
Other sales	74,690	111,999
	16,470,621	22,441,067

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

6. CASH AND CASH EQUIVALENTS

	30 June 2019	31 December 2018
Cash in bank and in hand	7,923,381	5,621,605
Deposits with original maturity of less than three months	-	6,367,102
Cash held on escrow account	15,615	17,364
Cash equivalents	223,605	216,507
	8,162,601	12,222,578

7. SHORT-TERM FINANCIAL ASSETS

	30 June 2019	31 December 2018
Short-term loans	292,222	27,633
Deposits with original maturity more than 3 months less than 1 year	-	2,122,961
Current portion of long-term investments (note 12)	11,536,177	10,654,662
Less impairment loss provision	(7,370,286)	(6,118,893)
	4,458,113	6,686,363

8. TRADE AND OTHER RECEIVABLES

	30 June 2019	31 December 2018
Trade receivables:	40,842,398	37,762,042
Other receivables	107,484	122,807
Accrued assets	-	314,496
<i>Less credit loss allowance for trade receivables</i>	(10,070,522)	(10,062,788)
<i>Less credit loss allowance for other receivables</i>	(56,467)	(59,610)
Total trade and other receivables	30,822,893	28,076,947

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 2019	31 December 2018
RSD	26,417,653	23,649,335
EUR	4,002,930	3,734,398
USD	402,310	693,041
Other	-	173
	30,822,893	28,076,947

9. INVENTORIES

	30 June 2019	31 December 2018
Crude oil	29,191,139	24,596,883
Petroleum products	14,604,397	18,794,803
Materials and supplies	5,652,186	5,148,165
Other	757,361	734,454
Less impairment provision	(4,743,234)	(4,830,527)
	45,461,849	44,443,778

10. OTHER CURRENT ASSETS

	30 June 2019	31 December 2018
Advances paid	712,792	716,164
Deferred VAT	1,832,126	1,567,844
Prepaid expenses	386,964	220,882
Prepaid custom duties	6,198	4,625
Prepaid excise	1,356,163	2,743,083
Other current assets	7,655,656	7,781,630
Less impairment provision	(7,619,554)	(7,617,942)
	4,330,345	5,416,286

Deferred VAT as at 30 June 2019 amounting to 1,832,126 RSD (31 December 2018: 1,567,844 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 2019 amounting to 1,356,163 RSD (31 December 2018: 2,743,083 RSD) relates to the excise paid for finished products stored in non-excise warehouse.

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

11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2018						
Cost	135,319,517	114,239,048	47,083,673	17,694,721	32,591,816	346,928,775
Depreciation and impairment	(32,675,985)	(40,818,582)	(25,487,659)	(8,841,365)	(1,996,745)	(109,820,336)
Net book value	102,643,532	73,420,466	21,596,014	8,853,356	30,595,071	237,108,439
Period ended 30 June 2018						
Additions	-	-	-	-	18,058,766	18,058,766
Acquisitions through business combination	-	-	-	-	217,660	217,660
Changes in decommissioning obligations	115,108	-	-	-	-	115,108
Transfer from assets under construction	7,934,533	780,203	2,630,796	128,713	(11,474,245)	-
Transfer to investment property	-	-	(38,530)	-	-	(38,530)
Transfer to non-current assets held for sale	-	-	-	(5,260)	-	(5,260)
Impairment	-	-	(6,100)	-	(1,043)	(7,143)
Depreciation	(3,858,258)	(2,813,455)	(834,208)	(266,774)	-	(7,772,695)
Disposals and write-off	(36,276)	(72,038)	(4,512)	(5,531)	(128,251)	(246,608)
Other transfers	(26,645)	(54,530)	310,218	(228,979)	8,177	8,241
	106,771,994	71,260,646	23,653,678	8,475,525	37,276,135	247,437,978
As at 30 June 2018						
Cost	143,226,836	114,811,751	50,346,813	17,070,922	39,273,923	364,730,245
Depreciation and impairment	(36,454,842)	(43,551,105)	(26,693,135)	(8,595,397)	(1,997,788)	(117,292,267)
Net book value	106,771,994	71,260,646	23,653,678	8,475,525	37,276,135	247,437,978
As at 1 January 2019						
Cost	156,367,336	115,028,154	51,380,912	16,193,480	45,864,852	384,834,734
Depreciation and impairment	(42,496,555)	(46,153,659)	(27,626,321)	(8,300,778)	(2,003,304)	(126,580,617)
Net book value	113,870,781	68,874,495	23,754,591	7,892,702	43,861,548	258,254,117
Period ended 30 June 2019						
Additions	-	-	-	-	17,762,090	17,762,090
Changes in decommissioning obligations	58,729	-	-	-	-	58,729
Transfer from assets under construction	7,215,129	997,065	546,722	372,263	(9,131,179)	-
Transfer to non-current assets held for sale	(19,652)	(12,273)	(4)	(44,358)	-	(76,287)
Impairment	-	-	(55,762)	-	(16,405)	(72,167)
Depreciation	(5,058,011)	(2,689,754)	(840,923)	(272,170)	-	(8,860,858)
Disposals and write-off	(98,698)	(1,540)	(9,647)	(3,842)	(77,778)	(191,505)
Transfer to right of use assets (note 3)	(54,331)	-	(765,074)	-	-	(819,405)
Other transfers	(29,397)	(2,426)	1,318	30,506	145,674	145,675
	115,884,550	67,165,567	22,631,221	7,975,101	52,543,950	266,200,389
As at 30 June 2019						
Cost	163,272,014	115,990,014	50,804,504	16,490,219	54,563,659	401,120,410
Depreciation and impairment	(47,387,464)	(48,824,447)	(28,173,283)	(8,515,118)	(2,019,709)	(134,920,021)
Net book value	115,884,550	67,165,567	22,631,221	7,975,101	52,543,950	266,200,389

Capitalized borrowing costs for the six months ended 30 June 2019 include interest expense in the amount of 81,946 RSD (30 June 2018: 23,685 RSD).

12. LONG-TERM FINANCIAL ASSETS

	30 June 2019	31 December 2018
LT loans issued	39,047,903	37,976,787
Financial assets at FVTOCI	26,007	177,767
Other LT placements	180,340	25,984
<i>Less Current portion of LT loans issued (note 7)</i>	<i>(11,536,177)</i>	<i>(10,654,662)</i>
<i>Less provision of other LT placements</i>	<i>(2,803,251)</i>	<i>(4,117,452)</i>
	24,914,822	23,408,424

13. OTHER NON-CURRENT ASSETS

	30 June 2019	31 December 2018
Advances paid for PPE	672,076	790,744
Prepaid expenses	143,984	151,070
Other assets	1,214,064	1,240,438
<i>Less allowance for Other financial assets</i>	<i>(369,378)</i>	<i>(371,817)</i>
<i>Less allowance for advances paid</i>	<i>(32,576)</i>	<i>(32,576)</i>
	1,628,170	1,777,859

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

	30 June 2019	31 December 2018
Short-term loans	1,134,492	2,218,378
Interest liabilities	156,742	100,154
Current portion of long-term loans (note 18)	6,141,828	5,852,524
Current portion of finance lease liabilities (note 18)	-	71,066
	7,433,062	8,242,122

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

	Six month period ended 30 June	
	30 June 2019	31 December 2018
Short-term loans at 1 January	2,218,378	2,298,487
Proceeds	8,383,439	6,242,979
Repayment	(9,467,325)	(7,079,939)
Short-term loans at 30 June	1,134,492	1,461,527

15. TRADE AND OTHER PAYABLES

	30 June 2019	31 December 2018
Trade payables:	31,449,435	26,584,597
Dividends payable	10,289,832	3,772,308
Other accounts payable	5,663	8,434
	41,744,930	30,365,339

As at 30 June 2019 trade payables amounting to 31,449,435 RSD (31 December 2018: 26,584,597 RSD) mainly relate to payables for crude oil in the amount of 13,300,861 RSD (31 December 2018: 10,240,742 RSD), to the suppliers Glencore Energy, Great Britain in the amount of 7,301,907 RSD (31 December 2018: 0 RSD) and Gazprom Neft, St Petersburg in the amount of 5,998,954 RSD (31 December 2018: 10,240,742 RSD).

16. OTHER CURRENT LIABILITIES

	30 June 2019	31 December 2018
Contract liabilities arising from contracts with customers:		
- Advances received	1,271,418	1,322,558
- Customer loyalty	549,770	502,254
Payables to employees	2,588,839	3,199,959
Other current non-financial liabilities	76,822	62,910
	4,486,849	5,087,681

Revenue in the amount of 1,320,450 RSD was recognized in the current reporting period related to the contract liabilities as at 1 January 2019, of which 1,070,359 RSD related to advances and 250,091 RSD to customer loyalty programme.

17. OTHER TAXES PAYABLE

	30 June 2019	31 December 2018
Mineral extraction tax	377,837	378,481
VAT	1,854,074	1,187,246
Excise tax	4,238,621	4,680,755
Contribution for buffer stocks	357,910	260,905
Custom duties	662,204	291,534
Other taxes	1,826,479	1,761,272
	9,317,125	8,560,193

18. LONG-TERM DEBT

	30 June 2019	31 December 2018
Long-term loan - Gazprom Neft	21,937,136	24,738,405
Bank loans	69,550,186	67,908,442
Finance lease liabilities (note 19)	-	644,611
Less Current portion (note 14)	(6,141,828)	(5,923,590)
	85,345,494	87,367,868

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

	Six month period ended 30 June	
	2019	2018
Long-term loans at 1 January	92,646,847	95,404,544
Proceeds	9,866,659	11,525,534
Repayment	(10,816,006)	(16,009,123)
Foreign exchange difference (note 22)	(210,178)	(176,257)
Long-term loans at 30 June	91,487,322	90,744,698

(a) Long-term loan - Gazprom Neft

As at 30 June 2019 long-term loan - Gazprom Neft amounting to 21,937,136 RSD (31 December 2018: 24,738,405 RSD), with current portion of 5,484,284 RSD (2018: 5,497,423 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 2019	31 December 2018
Domestic	47,570,024	50,621,113
Foreign	21,980,162	17,287,329
	69,550,186	67,908,442
Current portion of long-term loans	(657,544)	(355,101)
	68,892,642	67,553,341

The maturity of bank loans was as follows:

	30 June 2019	31 December 2018
Between 1 and 2 years	2,385,892	1,403,463
Between 2 and 5 years	61,967,277	61,219,659
Over 5 years	4,539,473	4,930,219
	68,892,642	67,553,341

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

	30 June 2019	31 December 2018
USD	337,497	361,696
EUR	68,926,837	67,250,132
RSD	570	649
JPY	285,282	295,965
	69,550,186	67,908,442

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 2019 and 31 December 2018, respectively.

19. LEASE LIABILITIES

	30 June 2019	31 December 2018
Non-current lease liabilities	614,602	-
Current lease liabilities	100,716	-
	715,318	-

At 31 December 2018 finance lease liabilities was recognised within balance sheet lines Long-term debt (note 18) and Current portion of long-term debt (note 14) in total amount of 644,611 RSD.

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

	Six month period ended	
	30 June 2019	2018
As at 1 January	644,611	247,210
Changes in opening balance	100,027	-
Repayment	(56,963)	(24,488)
Non-cash transactions	25,437	327,860
Foreign exchange difference (note 22)	2,206	(1,546)
As at 30 June	715,318	549,036

20. PRODUCTION AND MANUFACTURING EXPENSES

	Three-month period ended 30 June		Six-month period ended 30 June	
	2019	2018	2019	2018
Employee costs	843,684	866,020	1,693,361	1,677,703
Materials and supplies (other than purchased oil, petroleum products and gas)	205,084	146,643	489,361	373,244
Repair and maintenance services	2,511,081	1,159,390	3,797,135	2,047,185
Electricity for resale	79,875	1,635,613	182,952	2,619,456
Electricity and utilities	481,335	508,039	930,833	957,714
Safety and security expense	109,332	145,721	263,671	228,464
Insurance services	75,749	67,838	137,990	138,254
Transportation services for production	413,497	475,301	827,247	958,875
Other	2,044,988	1,965,015	3,815,452	3,720,305
	6,764,625	6,969,580	12,138,002	12,721,200

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three-month period ended 30 June		Six-month period ended 30 June	
	2019	2018	2019	2018
Employee costs	2,507,014	2,534,939	4,917,451	4,939,946
Commission and agency fees	71,342	94,943	139,761	180,211
Legal, audit and consulting services	438,726	346,742	725,183	630,618
Current repair cost	220,482	193,174	378,636	355,250
Costs on advertising and marketing	79,378	86,731	124,429	144,930
Rent expense	76,073	33,983	126,568	66,221
Business trips expense	59,909	79,350	109,545	145,811
Safety and security expense	118,270	123,175	231,413	231,592
Insurance expense	27,790	29,535	57,140	52,388
Transportation and storage	87,416	86,777	160,421	168,476
Allowance for doubtful accounts	(63,098)	(149,426)	(68,235)	(133,479)
Other	1,824,746	1,824,665	3,601,486	3,523,485
	5,448,048	5,284,588	10,503,798	10,305,449

22. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three-month period ended 30 June		Six-month period ended 30 June	
	2019	2018	2019	2018
Foreign exchange gain (loss) on financing activities including:				
- foreign exchange gain	253,521	(80,951)	606,010	654,524
- foreign exchange loss	(206,478)	(280,547)	(398,038)	(476,721)
Net foreign exchange loss on operating activities	(32,811)	(73,304)	(78,639)	(175,264)
	14,232	(434,802)	129,333	2,539

23. FINANCE INCOME

	Three-month period ended		Six month period ended	
	2019	30 June 2018	2019	30 June 2018
Interest on bank deposits	55,492	141,138	156,426	381,819
Interest income on loans issued	170,948	220,744	335,832	438,065
	226,440	361,882	492,258	819,884

24. FINANCE EXPENSES

	Three-month period ended 30		Six-month period ended 30	
	2019	June 2018	2019	June 2018
Interest expense	485,249	573,526	971,009	1,172,871
Decommissioning provision: unwinding of the present value discount	36,297	21,955	72,431	43,685
Trade receivables: unwinding of discount	(1,133)	(17,864)	(6,350)	(44,661)
Less: interest expense capitalised on qualifying assets	(43,057)	(27,703)	(81,946)	(51,389)
	477,356	549,914	955,144	1,120,506

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. 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 2018. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 30 June 2019 the carrying value of financial assets approximates their fair value.

26. CONTINGENCIES AND COMMITMENTS*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 600,707 RSD (31 December 2018: 637,414 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 2019.

Capital commitments

As of 30 June 2019 the Company has entered into contracts to purchase property, plant and equipment for 8,542,587 RSD (31 December 2018: 15,944,407 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, Russian Federation is the ultimate owner of the Company.

In the six month period ended 30 June 2019 and in the same period in 2018, 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 2019 and 31 December 2018 the outstanding balances with related parties were as follows:

As at 30 June 2019	Subsidiaries	Parent company	Joint ventures associates and parent's subsidiaries and associates
Short-term financial assets	11,826,380	-	-
Trade and other receivables	3,642,096	-	933,841
Other current assets	5,044	-	58,981
Right to use assets	56,526	-	-
Investments in subsidiaries, associates and joint ventures	16,847,566	-	1,038,800
Long-term financial assets	27,511,726	-	-
Other non-current assets	72,399	-	-
Trade and other payables	(5,193,861)	(5,998,954)	(1,358,388)
Other current liabilities	(3,047)	-	(2,371)
Short-term debt and current portion of long-term debt	(1,137,505)	(5,484,284)	-
Current lease liabilities	(8,228)	-	-
Long-term debt	-	(16,452,852)	-
Non-current lease liabilities	(49,341)	-	-
	53,569,755	(27,936,090)	670,863

As at 31 December 2018	Subsidiaries	Parent company	Joint ventures associates and parent's subsidiaries and associates
Short-term financial assets	10,224,339	-	-
Trade and other receivables	3,318,542	99	634,017
Other current assets	30,338	-	337,220
Investments in subsidiaries, associates and joint ventures	13,425,586	-	1,038,800
Long-term financial assets	23,279,079	-	-
Other non-current assets	3,582	-	-
Trade and other payables	(3,074,680)	(10,243,742)	(668,097)
Other current liabilities	(2,097)	-	(289)
Short-term debt and current portion of long-term debt	(2,222,441)	(5,497,423)	-
Long-term debt	-	(19,240,982)	-
	44,982,248	(34,982,048)	1,341,651

For the six month period ended 30 June 2019 and 2018 the following transaction occurred with related parties:

Six month period ended 30 June 2019	Subsidiaries	Parent company	Joint ventures associates and parent's subsidiaries and associates
Petroleum products and oil and gas sales	6,564,858	-	263,889
Other revenues	185,502	-	32,139
Purchases of oil, gas and petroleum products	(21,864)	(22,202,884)	(2,700)
Production and manufacturing expenses	(2,619,454)	-	(100,087)
Selling, general and administrative expenses	(231,609)	-	(20,323)
Transportation expenses	(669)	-	-
Depreciation	(4,536)	-	-
Other income (expenses), net	(1,089)	13,831	(349)
Finance income	330,188	-	-
Finance expense	(27,664)	(215,592)	-
	4,173,663	(22,404,645)	172,569

Six month period ended 30 June 2018	Subsidiaries	Parent company	Joint ventures associates and parent's subsidiaries and associates
Petroleum products and oil and gas sales	6,894,907	-	348,275
Other revenues	365,710	462	2,409,436
Purchases of oil, gas and petroleum products	(24,160)	(27,619,340)	(7,156)
Production and manufacturing expenses	(2,081,651)	-	(2,387,533)
Selling, general and administrative expenses	(232,410)	-	(3,217)
Transportation expenses	(46,068)	-	-
Other expenses, net	-	(17,562)	(226)
Finance income	432,392	-	-
Finance expense	(21,732)	(257,187)	-
	5,286,988	(27,893,627)	359,579

Transactions with Key Management Personnel

For the six month period ended on 30 June 2019 and 2018 the Company recognized 456,698 RSD and 520,220 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.

Consolidated Financial Statements

Consolidated Statement of Financial Position

ASSETS	Notes	30 June 2019 (unaudited)	31 December 2018
Current assets			
Cash and cash equivalents	6	10,594,232	15,480,830
Short-term financial assets	7	1,270,346	2,188,488
Trade and other receivables	8	29,410,392	26,933,563
Inventories	9	48,941,628	47,856,312
Current income tax prepayments		697,586	-
Other current assets	10	5,706,546	6,283,241
Non-current assets held for sale		114,547	-
Total current assets		96,735,277	98,742,434
Non-current assets			
Property, plant and equipment	11	294,700,996	286,454,546
Right-of-use assets	3	1,676,177	-
Investment property		1,578,273	1,615,391
Goodwill and other intangible assets		4,082,809	4,653,550
Investments in associates and joint ventures	12	1,909,332	1,980,388
Trade and other non-current receivables		2,830	73,858
Long-term financial assets		290,244	129,345
Deferred tax assets		25,843	545,497
Other non-current assets	13	1,581,140	1,781,202
Total non-current assets		305,847,644	297,233,777
Total assets		402,582,921	395,976,211
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	14	6,971,332	6,614,417
Current lease liabilities	19	292,535	-
Trade and other payables	15	40,497,192	30,357,413
Other current liabilities	16	5,770,954	5,956,257
Current income tax payable		-	625,985
Other taxes payable	17	10,247,036	9,575,333
Provisions for liabilities and charges		1,846,583	1,941,795
Total current liabilities		65,625,632	55,071,200
Non-current liabilities			
Long-term debt	18	85,545,277	87,819,202
Non-current lease liabilities	19	1,200,871	-
Provisions for liabilities and charges		10,510,083	10,210,005
Total non-current liabilities		97,256,231	98,029,207
Equity			
Share capital		81,530,200	81,530,200
Reserves		200,476	77,130
Retained earnings		158,225,628	161,516,302
Equity attributable to the Company's owners		239,956,304	243,123,632
Non-controlling interest		(255,246)	(247,828)
Total equity		239,701,058	242,875,804
Total liabilities and shareholder's equity		402,582,921	395,976,211

in 000 RSD

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	Three-month period ended		Six-month period ended	
		2019	2018	2019	2018
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales of petroleum products, oil and gas		60,905,430	63,474,673	111,741,928	112,500,281
Other revenues		3,030,953	4,476,738	5,705,647	7,935,301
Total revenue from sales	5	63,936,383	67,951,411	117,447,575	120,435,582
Purchases of oil, gas and petroleum products		(39,860,481)	(38,546,998)	(74,369,160)	(69,126,986)
Production and manufacturing expenses	20	(6,785,079)	(7,076,987)	(12,293,211)	(12,939,018)
Selling, general and administrative expenses	21	(6,088,671)	(5,798,999)	(11,738,659)	(11,323,977)
Transportation expenses		(199,245)	(302,447)	(447,352)	(564,465)
Depreciation, depletion and amortization		(5,095,881)	(4,938,694)	(10,190,853)	(9,350,689)
Taxes other than income tax		(1,336,125)	(1,305,507)	(2,599,480)	(2,538,187)
Exploration expenses		-	-	(11,474)	(15,771)
Total operating expenses		(59,365,482)	(57,969,632)	(111,650,189)	(105,859,093)
Other income (expenses), net		(182,637)	103,469	(250,293)	22,761
Operating profit		4,388,264	10,085,248	5,547,093	14,599,250
Share of loss of associates and joint ventures		(51,850)	-	(71,056)	-
Net foreign exchange gain (loss)	22	98,355	(441,430)	(106,005)	2,926
Finance income	23	67,607	144,382	175,413	387,936
Finance expenses	24	(497,233)	(571,423)	(991,633)	(1,162,000)
Total other expense		(383,121)	(868,471)	(993,281)	(771,138)
Profit before income tax		4,005,143	9,216,777	4,553,812	13,828,112
Current income tax expense		(620,990)	(1,103,416)	(807,131)	(1,703,950)
Deferred tax expense		(315,325)	(343,157)	(519,726)	(629,518)
Total income tax expense		(936,315)	(1,446,573)	(1,326,857)	(2,333,468)
Profit for the period		3,068,828	7,770,204	3,226,955	11,494,644
Other comprehensive income:					
Items that will not be reclassified to profit					
Gains (loss) from investments in equity instruments		1,465	573	7,875	(586)
Items that may be subsequently reclassified to profit					
Currency translation differences		(18,685)	33,804	107,948	42,430
Other comprehensive income for the period		(17,220)	34,377	115,823	41,844
Total comprehensive income for the period		3,051,608	7,804,581	3,342,778	11,536,488
Profit attributable to:					
- Shareholders of Naftna Industrija Srbije		3,072,700	7,774,559	3,235,008	11,503,089
- Non-controlling interest		(3,872)	(4,355)	(8,053)	(8,445)
Profit for the period		3,068,828	7,770,204	3,226,955	11,494,644
Total comprehensive income (loss) attributable to:					
- Shareholders of Naftna Industrija Srbije		3,055,344	7,808,264	3,350,196	11,544,079
- Non-controlling interest		(3,736)	(3,683)	(7,418)	(7,591)
Total comprehensive income for the period		3,051,608	7,804,581	3,342,778	11,536,488
Earnings per share attributable to shareholders of Naftna Industrija Srbije					
Basic earnings (RSD per share)		18.84	47.68	19.84	70.54
Weighted average number of ordinary shares in issue (in millions)		163	163	163	163

in 000 RSD

Consolidated Statement of Changes in Shareholders' Equity

Six-month period ended 30 June 2019 and 2018

(unaudited)

	Total attributable to the Company's owners			Total	Non-controlling interest	Total equity
	Share capital	Reserves	Retained earnings			
Balance as at 1 January 2018	81,530,200	40,453	143,713,351	225,284,004	(232,496)	225,051,508
Adoption of IFRS 9:						
- remeasurement of expected credit losses, net of tax	-	-	(401,527)	(401,527)	-	(401,527)
Restated total equity at 1 January 2018	81,530,200	40,453	143,311,824	224,882,477	(232,496)	224,649,981
Profit (loss) for the period	-	-	11,503,089	11,503,089	(8,445)	11,494,644
Other comprehensive income (loss)						
Loss from investments in equity instruments	-	(586)	-	(586)	-	(586)
Sale of available-for-sale financial assets	-	3,455	(3,455)	-	-	-
Currency translation differences	-	41,576	-	41,576	854	42,430
Total comprehensive income (loss) for the period	-	44,445	11,499,634	11,544,079	(7,591)	11,536,488
Dividend distribution	-	-	(6,948,004)	(6,948,004)	-	(6,948,004)
Balance as at 30 June 2018	81,530,200	84,898	147,863,454	229,478,552	(240,087)	229,238,465
Balance as at 1 January 2019	81,530,200	77,130	161,516,302	243,123,632	(247,828)	242,875,804
Profit (loss) for the period	-	-	3,235,008	3,235,008	(8,053)	3,226,955
Other comprehensive income (loss)						
Gains from investments in equity instruments	-	7,875	-	7,875	-	7,875
Sale of investments in equity instruments	-	8,158	(8,158)	-	-	-
Currency translation differences	-	107,313	-	107,313	635	107,948
Total comprehensive income (loss) for the period	-	123,346	3,226,850	3,350,196	(7,418)	3,342,778
Dividend distribution	-	-	(6,517,524)	(6,517,524)	-	(6,517,524)
Balance as at 30 June 2019	81,530,200	200,476	158,225,628	239,956,304	(255,246)	239,701,058

in 000 RSD

Consolidated Statement of Cash Flows⁷³

	Note	Six-month period ended	
		2019	30 June
		(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		s	13,828,112
Adjustments for:			
Share of loss of associates and joint ventures		71,056	-
Finance expenses	24	991,633	1,162,000
Finance income	23	(175,413)	(387,936)
Net unrealised foreign exchange loss, net		63,243	122,520
Depreciation, depletion and amortization		10,190,857	9,350,689
Other non-cash items		300,541	144,802
Operating cash flow before changes in working capital		15,995,729	24,220,187
Changes in working capital:			
Accounts receivable		(2,504,328)	(61,514)
Inventories		(1,048,050)	1,087,091
Other assets		452,653	(685,321)
Accounts payables and other liabilities		5,069,740	(12,134,374)
Taxes payable		672,401	1,212,876
Total effect on working capital changes		2,642,416	(10,581,242)
Income taxes paid		(2,131,049)	(3,408,030)
Interest paid		(826,675)	(1,094,299)
Interest received		294,562	257,069
		(2,663,162)	(4,245,260)
Net cash generated from operating activities		15,974,983	9,393,685
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans issued		-	(47,250)
Loan proceeds received		23,596	-
Capital expenditures ⁷⁴		(20,446,998)	(20,429,537)
Proceeds from sale of property, plant and equipment		103,913	133,456
Bank deposits repayment (placements), net		598,196	5,597,114
Other outflow		(18,591)	(28,171)
Net cash used in investing activities		(19,739,884)	(14,774,388)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	18	9,866,658	11,525,534
Repayment of borrowings	18	(10,816,006)	(16,009,123)
Repayments of finance lease liabilities	19	(166,279)	(48,832)
Net cash used in financing activities		(1,115,627)	(4,532,421)
Net decrease in cash and cash equivalents		(4,880,528)	(9,913,124)
Effect of foreign exchange on cash and cash equivalents		(6,070)	17,163
Cash and cash equivalents as of the beginning of the period		15,480,830	27,075,370
Cash and cash equivalents as of the end of the period		10,594,232	17,179,409

in 000 RSD

⁷³ Group policy is to present cash flow inclusive of related VAT.

⁷⁴ CF from investing activities includes VAT in the amount of 2.1 bln RSD (2018: 3.2 bln RSD)

Notes to Consolidated 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, Russian Federation is the ultimate owner of the Group.

The Company is an open joint stock company, listed on the prime market 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 2018, 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 2018.

Subsequent events occurring after 30 June 2019 were evaluated through 25 July 2019, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

⁷⁵ All amounts are in 000 RSD, unless otherwise stated

The results for the six month period ended 30 June 2019 are not necessarily indicative of the results expected for the full year.

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

2.2. Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Consolidated Financial Statements are consistent with those applied during the preparation of Consolidated Financial Statements as of and for the year ended 31 December 2018, except for those described in the Application of new IFRS paragraph.

3. APPLICATION OF NEW IFRS

Accounting policies applied from 1 January 2019

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

Operating lease commitments disclosed as at 31 December 2018	1,548,081
(Less): short-term leases recognised on a straight-line basis as expense	(54,306)
(Less): contracts with commencement date after 1.1.2019	(385,001)
(Less): low-value leases recognised on a straight-line basis as expense	(206,937)
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	2,954
(Less): advances paid as of date of initial application of IFRS 16	(71,944)
Other	(11,255)
Undiscounted leases recognized under IFRS 16	821,592
Discounted using the lessee's incremental borrowing rate of at the date of initial application	790,946
Add: finance lease liabilities recognised as at 31 December 2018	828,104
Lease liability recognised as at 1 January 2019	1,619,050
Of which are:	
Current lease liabilities	298,269
Non-current lease liabilities	1,320,781
	1,619,050

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustments to the right-of-use assets at the date of initial application.

The recognized right-of-use assets relates to the following types of assets:

	30 June 2019	1 January 2019
Property (land and buildings)	1,290,117	1,414,558
Plant and equipment	312,640	335,712
Motor vehicles	73,420	85,151
Total right-of-use assets	1,676,177	1,835,421

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

Property, plant and equipment and intangible assets – decrease	(972,531)
Right-of-use assets – increase	1,835,421
Prepayments – decrease	(71,944)
Borrowings – decrease	828,104
Lease liabilities – increase	(1,619,050)

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the accounting for operating leases for which the underlying asset is of low value
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a lease.

Accounting policy

The Group leases various offices, warehouses, retail stores, equipment and cars. Rental contracts are typically made for fixed periods of 2 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2019 or later, and that the Group has not early adopted.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair

value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

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

- IFRS 17 – Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

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

5. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the six month periods ended 30 June 2019 and 2018. 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 2019 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	24,731,275	117,313,447	(24,597,147)	117,447,575
<i>Intersegment</i>	24,006,171	590,976	(24,597,147)	-
<i>External</i>	725,104	116,722,471	-	117,447,575
EBITDA (Segment results)	18,115,357	(2,214,178)	-	15,901,179
Depreciation, depletion and amortization	(5,590,063)	(4,600,790)	-	(10,190,853)
Impairment of non-financial assets	(382)	(70,600)	-	(70,982)
Share of loss of associates and joint ventures	-	(71,056)	-	(71,056)
Net foreign exchange loss	(103,827)	(2,178)	-	(106,005)
Finance expenses, net	(62,515)	(753,705)	-	(816,220)
Income tax	(156,248)	(1,170,609)	-	(1,326,857)
Segment profit (loss)	11,978,963	(8,752,008)	-	3,226,955

Reportable segment results for the six month period ended 30 June 2018 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	23,932,059	121,519,938	(25,016,415)	120,435,582
<i>Intersegment</i>	23,867,151	1,149,264	(25,016,415)	-
<i>External</i>	64,908	120,370,674	-	120,435,582
EBITDA (Segment results)	17,827,864	6,128,259	-	23,956,123
Depreciation, depletion and amortization	(4,541,653)	(4,809,036)	-	(9,350,689)
Net of impairment of non-financial assets	(1,047)	(2,783)	-	(3,830)
Net foreign exchange gain (loss)	(49,326)	52,252	-	2,926
Finance income (expenses), net	22,345	(796,409)	-	(774,064)
Income tax	(2,328,418)	(5,050)	-	(2,333,468)
Segment profit (loss)	13,139,027	(1,644,383)	-	11,494,644

EBITDA for the three and six month period ended 30 June 2019 and 2018 is reconciled below:

	Three-month period ended 30 June		Six month period ended 30 June	
	2019	2018	2019	2018
Profit for the period	3,068,828	7,770,204	3,226,955	11,494,644
Income tax expenses	936,315	1,446,573	1,326,857	2,333,468
Finance expenses	497,233	571,423	991,633	1,162,000
Finance income	(67,607)	(144,382)	(175,413)	(387,936)
Depreciation, depletion and amortization	5,095,881	4,938,694	10,190,853	9,350,689
Share of loss of associates and joint ventures	51,850	-	71,056	-
Net foreign exchange (gain) loss	(98,355)	441,430	106,005	(2,926)
Other expense (income), net	182,637	(103,469)	250,293	(22,761)
Other non-operating expense (income), net	(55,182)	100,186	(87,060)	28,945
EBITDA	9,611,600	15,020,660	15,901,179	23,956,123

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

	Six month period ended 30 June 2019		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	663,496	663,496
Sale of gas	1,251,721	-	1,251,721
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,251,721	-	1,251,721
Sale of petroleum products	82,485,099	27,341,612	109,826,711
<i>Through a retail network</i>	30,491,602	8,166,556	38,658,158
<i>Wholesale activities</i>	51,993,497	19,175,056	71,168,553
Sale of electricity	396,677	68,802	465,479
Lease revenue	187,056	3,815	190,871
Other sales	3,426,342	1,622,955	5,049,297
Total sales	87,746,895	29,700,680	117,447,575

	Six-month period ended 30 June 2018		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	-	-
Sale of gas	979,783	-	979,783
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	979,783	-	979,783
Sale of petroleum products	83,285,049	28,235,450	111,520,499
<i>Through a retail network</i>	28,073,614	7,789,821	35,863,435
<i>Wholesale activities</i>	55,211,435	20,445,629	75,657,064
Sale of electricity	227,132	2,696,579	2,923,711
Other sales	3,371,194	1,640,395	5,011,589
Total sales	87,863,158	32,572,424	120,435,582

Out of the amount of 71,168,553 RSD (2018: 75,657,064 RSD) revenue from sale of petroleum products (wholesale), the amount of 7,268,496 RSD (2018: 11,363,791 RSD) are derived from a single domestic customer HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Network For Trading doo Beograd in the amount of 168,024 RSD (2018: Gazprom Marketing & Trading Co., Ltd. in the amount of 2,398,650 RSD).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 4,051,352 RSD (2018: 3,841,366 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 87,746,895 RSD (2018: 87,863,158 RSD), and the total revenue from external customer from other countries is 29,700,680 RSD (2018: 32,572,424 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	
	2019	2018
Sale of crude oil	663,496	-
Sale of petroleum products (retail and wholesale)		
Bulgaria	6,298,910	7,935,655
Bosnia and Herzegovina	10,347,916	7,139,078
Romania	4,962,750	5,817,343
Croatia	802,683	1,104,376
Switzerland	719,690	1,626,586
Hungary	658,384	755,248
Great Britain	618,466	753,258
Northern Macedonia	375,199	821,437
All other markets	2,557,614	2,282,469
	27,341,612	28,235,450
Sale of electricity	68,802	2,696,579
Lease revenue	3,815	-
Other sales	1,622,955	1,640,395
	29,700,680	32,572,424

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 2019	31 December 2018
Serbia	277,285,417	269,381,825
Romania	10,061,589	9,103,409
Bosnia and Herzegovina	7,424,893	7,304,192
Bulgaria	7,266,356	6,934,061
	302,038,255	292,723,487

6. CASH AND CASH EQUIVALENTS

	30 June 2019	31 December 2018
Cash in bank and in hand	10,209,802	6,930,192
Deposits with original maturity of less than three months	144,942	6,926,396
Cash held on escrow account	15,883	1,407,735
Cash equivalents	223,605	216,507
	10,594,232	15,480,830

7. SHORT-TERM FINANCIAL ASSETS

	30 June 2019	31 December 2018
Short-term loans	2,210	27,433
Deposits with original maturity more than 3 months less than 1 year	1,270,392	2,123,007
Other short-term financial assets	-	40,304
Less impairment loss provision	(2,256)	(2,256)
	1,270,346	2,188,488

As at 30 June 2019 deposits with original maturity more than 3 months less than 1 year amounting to 1,270,392 RSD (31 December 2018: 2,163,311 RSD) relates to bank deposits placements with interest rates to 3.5% p.a. denominated in RSD (2018: 4,65% p.a.).

8. TRADE AND OTHER RECEIVABLES

	30 June 2019	31 December 2018
Trade receivables:	38,996,208	36,154,738
Other receivables	457,066	450,274
Accrued assets	7,851	370,858
<i>Less credit loss allowance for trade receivables</i>	(9,994,266)	(9,982,695)
<i>Less credit loss allowance for other receivables</i>	(56,467)	(59,612)
Total trade and other receivables	29,410,392	26,933,563

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 2019	31 December 2018
RSD	26,197,290	23,712,198
EUR	1,168,256	1,053,529
USD	474,544	698,248
Other	1,570,302	1,469,588
	29,410,392	26,933,563

9. INVENTORIES

	30 June 2019	31 December 2018
Crude oil	29,242,163	24,596,883
Petroleum products	15,970,201	20,155,760
Materials and supplies	7,453,071	6,959,371
Other	1,125,849	1,091,372
<i>Less impairment provision</i>	(4,849,656)	(4,947,074)
	48,941,628	47,856,312

10. OTHER CURRENT ASSETS

	30 June 2019	31 December 2018
Advances paid	1,000,931	834,950
VAT receivables	613,577	295,900
Deferred VAT	2,062,888	1,774,863
Prepaid expenses	437,477	270,456
Prepaid custom duties	6,485	4,935
Prepaid excise	1,418,139	2,818,462
Other current assets	7,805,589	7,920,632
<i>Less impairment provision</i>	(7,638,540)	(7,636,957)
	5,706,546	6,283,241

Deferred VAT as at 30 June 2019 amounting to 2,062,888 RSD (31 December 2018: 1,774,863 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 2019 amounting to 1,418,139 RSD (31 December 2018: 2,818,462 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.

11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2018						
Cost	147,452,224	114,239,048	65,305,683	20,338,124	36,549,810	383,884,889
Depreciation and impairment	(37,114,232)	(40,818,582)	(29,653,958)	(10,189,787)	(2,058,833)	(119,835,392)
Net book value	110,337,992	73,420,466	35,651,725	10,148,337	34,490,977	264,049,497
Period ended 30 June 2018						
Additions	-	-	-	-	18,748,476	18,748,476
Acquisitions through business combinations	-	-	-	-	217,660	217,660
Changes in decommissioning obligations	115,108	-	-	-	-	115,108
Transfer from assets under construction	8,209,354	780,203	2,648,178	274,949	(11,912,684)	-
Transfer from intangible assets	-	-	-	-	7,255	7,255
Transfer to investment property	-	-	(38,530)	-	-	(38,530)
Transfer to non-current assets held for sale	-	-	-	(5,260)	-	(5,260)
Impairment	-	-	(6,100)	-	(1,051)	(7,151)
Depreciation	(4,330,304)	(2,813,455)	(1,230,254)	(389,959)	(2,399)	(8,766,371)
Disposals and write-off	(36,907)	(72,037)	(4,511)	(10,522)	(113,675)	(237,652)
Other transfers	(26,645)	(54,530)	310,219	(228,547)	-	497
Translation differences	2	(1)	(47,954)	63	(19,842)	(67,732)
	114,268,600	71,260,646	37,282,773	9,789,061	41,414,717	274,015,797
As at 30 June 2018						
Cost	155,632,042	114,811,750	68,521,409	19,850,973	43,476,800	402,292,974
Depreciation and impairment	(41,363,442)	(43,551,104)	(31,238,636)	(10,061,912)	(2,062,083)	(128,277,177)
Net book value	114,268,600	71,260,646	37,282,773	9,789,061	41,414,717	274,015,797
As at 1 January 2019						
Cost	166,462,451	115,028,154	69,909,749	19,153,698	54,204,141	424,758,193
Depreciation and impairment	(47,674,989)	(46,153,659)	(32,557,309)	(9,886,290)	(2,031,400)	(138,303,647)
Net book value	118,787,462	68,874,495	37,352,440	9,267,408	52,172,741	286,454,546
Period ended 30 June 2019						
Additions	-	-	-	-	19,043,099	19,043,099
Changes in decommissioning obligations	58,729	-	-	-	-	58,729
Transfer from assets under construction	7,169,416	997,065	583,491	490,164	(9,240,136)	-
Impairment	-	-	(55,762)	-	(27,858)	(83,620)
Depreciation	(5,405,927)	(2,689,754)	(1,218,078)	(406,118)	(2,382)	(9,722,259)
Disposals and write-off	(12,993)	(1,539)	(9,645)	(7,994)	(77,779)	(109,950)
Transfer to right-of-use assets	(54,331)	-	(918,200)	-	-	(972,531)
Other transfers	(154,767)	(14,699)	154,439	(14,210)	245,239	216,002
Translation differences	(6)	(1)	(75,050)	194	(108,157)	(183,020)
	120,387,583	67,165,567	35,813,635	9,329,444	62,004,767	294,700,996
As at 30 June 2019						
Cost	173,408,030	115,990,014	69,263,977	19,562,905	64,069,928	442,294,854
Depreciation and impairment	(53,020,447)	(48,824,447)	(33,450,342)	(10,233,461)	(2,065,161)	(147,593,858)
Net book value	120,387,583	67,165,567	35,813,635	9,329,444	62,004,767	294,700,996

Capitalized borrowing costs for the six months ended 30 June 2019 include interest expense in the amount of 86,344 RSD (30 June 2018: 55,723 RSD).

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying values of the investments in associates and joint ventures as of 30 June, 2019 and 31 December, 2018 are summarised below:

		Ownership percentage	30 June 2019	31 December 2018
NIS MET Energowind d.o.o. Beograd	Joint venture	50%	998,073	1,003,491
Gazprom energoholding Serbia doo Novi Sad	Joint venture	49%	911,259	976,897
HIP Petrohemija ad Pančevo	Associate	20.86%	11,572,197	11,572,197
Less Impairment provision			(11,572,197)	(11,572,197)
Total investments			1,909,332	1,980,388

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

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

NIS MET Energowind d.o.o. Beograd

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

Gazprom energoholding Serbia d.o.o. Novi Sad

In 2015, the Group and Centrenergoholding OAO Russian Federation established the holding company Serbskaya Generaciya, through which they would jointly operate with the Thermal and Heating Power Plant Gazprom energoholding Serbia "TE-TO" Pancevo with a projected capacity of 208 MW. In October 2017 the contract with Shanghai Electric Group Co., Ltd. was signed on a "turnkey" basis and the design phase started. The project is mostly financed from the loan from Gazprombank (140 mln EUR) with the loan tenor of 12 years. Handing over CHP TE-TO Pancevo is expected to be completed by the 30th August 2020. During the March 2019, Serbskaya Generaciya changed company name to Gazprom energoholding Serbia.

HIP Petrohemija

In accordance with the laws in force in the Republic of Serbia, at the beginning of October 2017 all the condition were met for the full implementation of the earlier prepared plan for restructuring of the company HIP Petrohemija a.d. Pancevo. In accordance with the adopted plan, the structure of the share capital of the company HIP Petrohemija has been changed, whereby NIS increased its equity interest. After conversion, NIS holds, directly more than 20,86% (12,72%) per cent of the voting power of the HIP Petrohemija. Also, NIS has representatives on the BoD and Supervisory board.

13. OTHER NON-CURRENT ASSETS

	30 June 2019	31 December 2018
Advances paid for PPE	630,439	799,493
Prepaid expenses	143,984	151,070
Other financial assets	1,214,064	1,240,438
<i>Less allowance of other financial assets</i>	(369,378)	(371,817)
<i>Less allowance for advances paid</i>	(37,969)	(37,982)
	1,581,140	1,781,202

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

	30 June 2019	31 December 2018
Interest liabilities	285,028	219,326
Current portion of long-term loans (note 18)	6,686,304	6,322,562
Current portion of finance lease liabilities (note 19)	-	72,529
	6,971,332	6,614,417

15. TRADE AND OTHER PAYABLES

	30 June 2019	31 December 2018
Trade payables:	30,197,034	26,573,555
Dividends payable	10,289,832	3,772,308
Other accounts payable	10,326	11,550
	40,497,192	30,357,413

As at 30 June 2019 trade payables amounting to 30,197,034 RSD (31 December 2018: 26,573,555 RSD) mainly relate to payables for crude oil in the amount of 13,300,861 RSD (31 December 2018: 10,240,742 RSD), to the suppliers Glencore Energy, Great Britain in the amount of 7,301,907 RSD (31 December 2018: 0 RSD) and Gazprom Neft, St Petersburg in the amount of 5,998,954 RSD (31 December 2018: 10,240,742 RSD).

16. OTHER CURRENT LIABILITIES

	30 June 2019	31 December 2018
Contract liabilities arising from contracts with customers:		
- Advances received	1,750,076	1,456,981
- Customer loyalty	604,364	545,945
Payables to employees	3,338,475	3,888,062
Other current non-financial liabilities	78,039	65,269
	5,770,954	5,956,257

Revenue in the amount of 1,419,420 RSD was recognized in the current reporting period related to the contract liabilities as at 1 January 2019, of which 1,169,329 RSD related to advances and 250,091 RSD to customer loyalty programme.

17. OTHER TAXES PAYABLE

	30 June 2019	31 December 2018
Mineral extraction tax	381,195	378,481
VAT	2,138,982	1,424,142
Excise tax	4,595,329	5,173,979
Contribution for buffer stocks	357,910	260,905
Custom duties	664,378	323,623
Other taxes	2,109,242	2,014,203
	10,247,036	9,575,333

18. LONG-TERM DEBT

	30 June 2019	31 December 2018
Long-term loan - Gazprom Neft	21,937,136	24,738,405
Bank and other long term loans	70,245,773	68,605,682
Finance lease liabilities (note 19)	-	828,104
Other long-term borrowings	48,672	42,102
Less Current portion (note 14)	(6,686,304)	(6,395,091)
	85,545,277	87,819,202

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

	Six-month period ended 30 June 2019	2018
Long-term loans at 1 January	93,344,087	96,103,445
Proceeds	9,866,658	11,525,534
Repayment	(10,816,006)	(16,009,123)
Foreign exchange difference (note 22)	(211,830)	(178,654)
Long-term loans at 30 June	92,182,909	91,441,202

(a) Long-term loan - Gazprom Neft

As at 30 June 2019 long-term loan - Gazprom Neft amounting to 21,937,136 RSD (2018: 24,738,405 RSD), with current portion of 5,484,284 RSD (2018: 5,497,423 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 and other long-term loans

	30 June 2019	31 December 2018
Domestic	47,570,016	50,621,092
Foreign	22,675,757	17,984,590
	70,245,773	68,605,682
Current portion of long-term loans	(1,202,019)	(825,139)
	69,043,754	67,780,543

The maturity of bank and other long-term loans was as follows:

	30 June 2019	31 December 2018
Between 1 and 2 years	2,385,892	1,479,321
Between 2 and 5 years	62,118,397	61,371,002
Over 5 years	4,539,465	4,930,220
	69,043,754	67,780,543

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

	30 June 2019	31 December 2018
USD	337,497	361,695
EUR	69,622,433	67,947,394
RSD	562	628
JPY	285,281	295,965
	70,245,773	68,605,682

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 2019 and 31 December 2018, respectively.

19. LEASE LIABILITIES

	30 June 2019	31 December 2018
Non-current lease liabilities	1,200,871	-
Current lease liabilities	292,535	-
	1,493,406	-

At 31 December 2018 finance lease liabilities were recognised within balance sheet lines Long-term debt (note 18) and Current portion of long-term debt (note 14) in total amount of 828,104 RSD.

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

	Six-month period ended 30 June	
	2019	2018
As at 1 January	828,104	432,562
Changes in opening balance	790,946	-
Repayment	(166,279)	(48,832)
Non-cash transactions	39,623	351,551
Foreign exchange difference (note 22)	1,012	(2,189)
As at 30 June	1,493,406	733,092

20. PRODUCTION AND MANUFACTURING EXPENSES

	Three-month period ended		Six-month period ended	
	2019	30 June 2018	2019	30 June 2018
Employee costs	1,654,915	1,660,128	3,230,908	3,155,957
Cost of service organization	704,102	636,563	1,359,100	1,212,437
Materials and supplies (other than oil and gas and petroleum products)	707,507	520,087	1,337,397	1,130,514
Repair and maintenance services	2,108,245	989,242	3,388,151	1,869,259
Electricity for resale	78,691	1,633,349	176,322	2,599,660
Electricity and utilities	856,919	764,074	1,632,425	1,506,338
Safety and security expense	109,332	145,721	263,671	228,464
Insurance services	75,749	67,838	137,990	138,254
Transportation services for production	408,099	430,827	766,341	903,767
Other	81,520	229,158	906	194,368
	6,785,079	7,076,987	12,293,211	12,939,018

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three-month period ended 30 June		Six-month period ended 30 June	
	2019	2018	2019	2018
Employee costs	2,959,024	2,851,015	5,816,342	5,533,820
Cost of service organization	896,262	894,129	1,783,694	1,733,400
Commission and agency fees	244,055	273,531	485,186	526,820
Legal, audit and consulting services	255,544	199,993	385,791	371,425
Current repair cost	227,775	203,981	405,773	375,322
Costs on advertising and marketing	91,761	106,785	144,503	183,571
Rent expense	74,129	95,944	121,561	189,514
Business trips expense	62,322	80,930	112,122	147,541
Safety and security expense	138,280	134,987	268,278	258,922
Insurance expense	30,123	30,391	62,147	53,933
Transportation and storage	47,049	43,414	79,727	77,672
Allowance for doubtful accounts	(10,286)	(151,493)	(24,234)	(136,284)
Other	1,072,633	1,035,392	2,097,769	2,008,321
	6,088,671	5,798,999	11,738,659	11,323,977

22. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three-month period ended 30 June		Six-month period ended 30 June	
	2019	2018	2019	2018
Foreign exchange gain (loss) on financing activities including:				
- foreign exchange gain (note 18 and 19)	326,145	(60,740)	729,080	719,290
- foreign exchange loss (note 18 and 19)	(255,054)	(298,362)	(518,262)	(538,447)
Net foreign exchange gain (loss) on operating activities	27,264	(82,328)	(316,823)	(177,917)
	98,355	(441,430)	(106,005)	2,926

23. FINANCE INCOME

	Three-month period ended 30 June		Six-month period ended 30 June	
	2019	2018	2019	2018
Interest on bank deposits	64,676	141,364	169,769	382,263
Interest income on loans issued	2,931	3,018	5,644	5,673
	67,607	144,382	175,413	387,936

24. FINANCE EXPENSES

	Three-month period ended 30 June		Six-month period ended 30 June	
	2019	2018	2019	2018
Interest expense	507,332	597,202	1,011,896	1,218,700
Decommissioning provision: unwinding of the present value discount	36,297	21,955	72,431	43,684
Financial assets: unwinding of discount	(1,133)	(17,864)	(6,350)	(44,661)
Less: interest expense capitalised on qualifying assets	(45,263)	(29,870)	(86,344)	(55,723)
	497,233	571,423	991,633	1,162,000

25. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Consolidated Financial Statements: investment properties and financial investments classified as available for sale. 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 2018. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 30 June 2019 the carrying value of financial assets approximates their fair value.

26. CONTINGENCIES AND COMMITMENTS

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 620,979 RSD (31 December 2018: 657,686 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.

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 2019.

Capital commitments

As of 30 June 2019 the Group has entered into contracts to purchase property, plant and equipment for 8,542,587 RSD (31 December 2018: 15,944,407 RSD) and drilling and exploration works estimated to 65.97 USD million (31 December 2018: 69.01 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, Russian Federation is the ultimate owner of the Group.

In the six month period ended 30 June 2019 and in the same period in 2018, 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 2019 and 31 December 2018 the outstanding balances with related parties were as follows:

As at 30 June 2019	Parent company	Parent's subsidiaries and associates	Joint venture
Trade and other receivables	-	930,863	354,964
Investments in joint venture and associates	-	-	1,909,331
Other current assets	-	58,981	-
Trade and other payables	(5,998,954)	(1,358,350)	(36)
Other current liabilities	-	(1,591)	(780)
Short-term debt and current portion of long-term debt	(5,484,284)	-	-
Long-term debt	(16,452,852)	-	-
	(27,936,090)	(370,097)	2,263,479

As at 31 December 2018	Parent company	Parent's subsidiaries and associates	Joint venture
Trade and other receivables	99	645,804	333,512
Investments in joint venture and associates	-	-	1,980,388
Other current assets	-	337,220	-
Trade and other payables	(10,243,742)	(684,856)	(1,246)
Other current liabilities	-	(90)	(199)
Short-term debt and current portion of long-term debt	(5,497,423)	-	-
Long-term debt	(19,240,982)	-	-
	(34,982,048)	298,078	2,312,455

For the six month period ended 30 June 2019 and 2018 the following transaction occurred with related parties:

Six month period ended 30 June 2019	Parent company	Parent's subsidiaries and associates	Joint venture
Petroleum products and oil and gas sales	-	263,347	542
Other revenues	-	31,112	5,948
Purchases of oil, gas and petroleum products	(22,202,884)	(1,969)	-
Production and manufacturing expenses	-	(108,439)	-
Selling, general and administrative expenses	-	(20,323)	-
Other income (expenses), net	13,831	(349)	-
Finance expense	(215,592)	-	-
	(22,404,645)	163,379	6,490

Six month period ended 30 June 2018	Parent Company	Parent's subsidiaries and associates	Joint venture
Petroleum products and oil and gas sales	-	348,050	226
Other revenues	462	2,398,650	10,787
Purchases of oil, gas and petroleum products	(27,619,340)	(7,156)	(230)
Production and manufacturing expenses	-	(2,387,533)	-
Selling, general and administrative expenses	-	(3,217)	-
Other expenses, net	(17,562)	(226)	-
Finance expense	(257,187)	-	-
	(27,893,627)	348,568	10,783

Transactions with Key Management Personnel

For the six month period ended on 30 June 2019 and 2018 the Group recognized 465,698 RSD and 520,220 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.

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 applicable international financial reporting standards, and also in compliance with the Law on Accounting ('Official Gazette of the Republic of Serbia' no. 62/2013 and 30/2018), which requires full scope of IFRS to be applied as well as the regulations issued by the Ministry of Finance of the Republic of Serbia⁷⁶ 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



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

⁷⁶ Due to the difference between these two regulations, these financial statements differ from IFRS in the following respects:

- The financial statements are prepared in format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 – “Presentation of Financial Statements” requirements.
- “Off-balance sheet assets and liabilities” are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

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