



**Naftna industrija Srbije A.D.**

**Interim Condensed Financial Statements (Unaudited)**

**30 June 2019**

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

## Contents

### INTERIM CONDENSED FINANCIAL STATEMENTS

Interim Condensed Statement of Financial Position	3
Interim Condensed Statement of Profit and Loss and Other Comprehensive Income	4
Interim Condensed Statement of Changes in Shareholders' Equity	5
Interim Condensed Statement of Cash Flows	6


### Notes to the Interim Condensed Financial Statements

1. General Information	7
2. Summary of Significant Accounting Policies	7
3. Application of New IFRS	8
4. New Accounting Standards	10
5. Segment Information	11
6. Cash and Cash Equivalents	14
7. Short-term Financial Assets	14
8. Trade and Other Receivables	14
9. Inventories	15
10. Other Current Assets	15
11. Property, Plant and Equipment	16
12. Long-term Financial Assets	17
13. Other Non-Current Assets	17
14. Short-term Debt and Current Portion of Long-term Debt	17
15. Trade and Other Payables	17
16. Other Current Liabilities	18
17. Other Taxes Payable	18
18. Long-term Debt	18
19. Lease Liabilities	19
20. Production and Manufacturing Expenses	20
21. Selling, General and Administrative Expenses	20
22. Net Foreign Exchange Gain (Loss)	20
23. Finance Income	21
24. Finance Expenses	21
25. Fair Value Measurement	21
26. Contingencies and Commitments	21
27. Related Party Transactions	22

Contact Information	24
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**NIS a.d.**  
**Interim Condensed Statement of Financial Position**  
*(All amounts are in 000 RSD, unless otherwise stated)*

<b>Assets</b>	Note	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Current assets</b>		<i>(unaudited)</i>	
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
<b>Total current assets</b>		<b>94,064,925</b>	<b>96,855,223</b>
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		<b>313,870,639</b>	<b>304,618,944</b>
<b>Total assets</b>		<b>407,935,564</b>	<b>401,474,167</b>
<b>Liabilities and shareholder's equity</b>			
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		<b>64,918,735</b>	<b>54,723,262</b>
<b>Non-current liabilities</b>			
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
<b>Total non-current liabilities</b>		<b>96,330,533</b>	<b>97,447,273</b>
<b>Equity</b>			
Share capital		81,530,200	81,530,200
Reserves		108,093	92,060
Retained earnings		165,048,003	167,681,372
<b>Total equity</b>		<b>246,686,296</b>	<b>249,303,632</b>
<b>Total liabilities and shareholder's equity</b>		<b>407,935,564</b>	<b>401,474,167</b>

  
 Kirill Tyurdenev  
 Chief Executive Officer  
 25 July 2019



  
 Anton Cherepanov  
 Chief Financial Officer

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

NIS a.d.

**Interim Condensed Statement of Profit and Loss and Other Comprehensive Income**

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

	Note	Three month period ended 30 June		Six month period ended 30 June	
		2019 <i>(unaudited)</i>	2018 <i>(unaudited)</i>	2019 <i>(unaudited)</i>	2018 <i>(unaudited)</i>
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
<b>Total revenue from sales</b>	5	<b>56,157,824</b>	<b>62,269,214</b>	<b>104,453,452</b>	<b>110,731,368</b>
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)
<b>Total operating expenses</b>		<b>(51,798,546)</b>	<b>(52,386,538)</b>	<b>(98,822,216)</b>	<b>(96,059,377)</b>
Other income (expenses), net		(109,550)	105,148	(184,993)	32,679
<b>Operating profit</b>		<b>4,249,728</b>	<b>9,987,824</b>	<b>5,446,243</b>	<b>14,704,670</b>
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)
<b>Total other expense</b>		<b>(236,684)</b>	<b>(622,834)</b>	<b>(333,553)</b>	<b>(298,083)</b>
<b>Profit before income tax</b>		<b>4,013,044</b>	<b>9,364,990</b>	<b>5,112,690</b>	<b>14,406,587</b>
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)
<b>Total income tax expense</b>		<b>(880,452)</b>	<b>(1,410,185)</b>	<b>(1,220,377)</b>	<b>(2,270,791)</b>
<b>Profit for the period</b>		<b>3,132,592</b>	<b>7,954,805</b>	<b>3,892,313</b>	<b>12,135,796</b>
<b>Other comprehensive income:</b>					
<b>Items that will not be reclassified to profit</b>					
Gains (losses) from investments in equity instruments		1,465	573	7,875	(586)
<b>Other comprehensive income (loss) for the period</b>		<b>1,465</b>	<b>573</b>	<b>7,875</b>	<b>(586)</b>
<b>Total comprehensive income for the period</b>		<b>3,134,057</b>	<b>7,955,378</b>	<b>3,900,188</b>	<b>12,135,210</b>
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

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

**NIS a.d.**  
**Interim Condensed Statement of Changes in Shareholders' Equity**  
Six month period ended 30 June 2019 and 2018

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

<i>(unaudited)</i>	Share capital	Reserves	Retained earnings	Total
<b>Balance as at 1 January 2018</b>	<b>81,530,200</b>	<b>17,782</b>	<b>157,419,313</b>	<b>238,967,295</b>
<b>Adoption of IFRS 9:</b>				
- remeasurement of expected credit losses, net of tax			(8,860,905)	(8,860,905)
<b>Restated total equity at 1 January 2018</b>	<b>81,530,200</b>	<b>17,782</b>	<b>148,558,408</b>	<b>230,106,390</b>
Profit for the period			12,135,796	12,135,796
<b>Other comprehensive income (loss)</b>				
Loss from investments in equity instruments		(586)	-	(586)
Sale of investments in equity instruments		3,455	(3,455)	-
<b>Total comprehensive income (loss) for the period</b>		<b>2,869</b>	<b>12,132,341</b>	<b>12,135,210</b>
Dividend distribution			(6,948,004)	(6,948,004)
<b>Balance as at 30 June 2018</b>	<b>81,530,200</b>	<b>20,651</b>	<b>153,742,745</b>	<b>235,293,596</b>

<i>(unaudited)</i>	Share capital	Reserves	Retained earnings	Total
<b>Balance as at 1 January 2019</b>	<b>81,530,200</b>	<b>92,060</b>	<b>167,681,372</b>	<b>249,303,632</b>
Profit for the period			3,892,313	3,892,313
<b>Other comprehensive income (loss)</b>				
Gains from investments in equity instruments		7,875	-	7,875
Sale of investments in equity instruments		8,158	(8,158)	-
<b>Total comprehensive income (loss) for the period</b>		<b>16,033</b>	<b>3,884,155</b>	<b>3,900,188</b>
Dividend distribution			(6,517,524)	(6,517,524)
<b>Balance as at 30 June 2019</b>	<b>81,530,200</b>	<b>108,093</b>	<b>165,048,003</b>	<b>246,686,296</b>

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

NIS a.d.

**Interim Condensed Statement of Cash Flows<sup>1</sup>**

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

	Note	Six month period ended 30 June	
		2019 <i>(unaudited)</i>	2018 <i>(unaudited)</i>
<b>Cash flows from operating activities</b>			
Profit before income tax		<b>5,112,690</b>	<b>14,406,587</b>
<b>Adjustments for:</b>			
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
<b>Operating cash flow before changes in working capital</b>		<b>14,923,225</b>	<b>23,505,049</b>
<b>Changes in working capital:</b>			
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
<b>Total effect on working capital changes</b>		<b>3,261,159</b>	<b>(9,759,209)</b>
Income taxes paid		(1,947,648)	(3,282,339)
Interest paid		(853,504)	(1,117,534)
Interest received		488,995	453,503
<b>Net cash generated from operating activities</b>		<b>15,872,227</b>	<b>9,799,470</b>
<b>Cash flows from investing activities</b>			
Loans issued		(3,324,839)	(1,643,721)
Loan proceeds received		2,018,690	1,147,109
Capital expenditures <sup>2</sup>		(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
<b>Net cash used in investing activities</b>		<b>(17,840,423)</b>	<b>(14,086,948)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	14,18	18,250,098	17,768,513
Repayment of borrowings	14,18	(20,283,331)	(23,089,062)
Repayment of lease liabilities	19	(56,963)	(24,488)
<b>Net cash used in financing activities</b>		<b>(2,090,196)</b>	<b>(5,345,037)</b>
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
<b>Cash and cash equivalents as of the beginning of the period</b>		<b>12,222,578</b>	<b>23,410,724</b>
<b>Cash and cash equivalents as of the end of the period</b>		<b>8,162,601</b>	<b>13,803,249</b>

<sup>1</sup> Group policy is to present cash flow inclusive of related VAT.

<sup>2</sup> CF from investing activities includes VAT in the amount of 1,9 bln RSD (2018: 3,2 bln RSD)

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

**NIS a.d.**

**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019**

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

**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.

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.

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019**

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

**2.2. Changes in significant accounting policies**

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Financial Statements are consistent with those applied during the preparation of Financial Statements as of and for the year ended 31 December 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	<u>(108,527)</u>
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
<b>Lease liability recognised as at 1 January 2019</b>	<b><u>744,638</u></b>

Of which are:

Current lease liabilities	96,572
Non-current lease liabilities	<u>648,066</u>
	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:

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



NIS a.d.

**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019**

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

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.

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

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.

**NIS a.d.****Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019***(All amounts are in 000 RSD, unless otherwise stated)*

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:

	<b>Upstream</b>	<b>Downstream</b>	<b>Eliminations</b>	<b>Total</b>
Segment revenue	24,693,850	104,336,850	(24,577,248)	104,453,452
Intersegment	24,006,171	571,077	(24,577,248)	-
External	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 expenses, net	(50,384)	(412,502)	-	(462,886)
Income tax	(156,248)	(1,064,129)	-	(1,220,377)
<b>Segment profit /(loss)</b>	<b>12,238,317</b>	<b>(8,346,004)</b>	<b>-</b>	<b>3,892,313</b>

**NIS a.d.****Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019***(All amounts are in 000 RSD, unless otherwise stated)*

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

	<b>Upstream</b>	<b>Downstream</b>	<b>Eliminations</b>	<b>Total</b>
Segment revenue	23,533,625	111,107,203	(23,909,460)	110,731,368
Intersegment	23,389,774	519,686	(23,909,460)	-
External	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)
<b>Segment profit /(loss)</b>	<b>13,264,038</b>	<b>(1,128,242)</b>	<b>-</b>	<b>12,135,796</b>

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

	<b>Three month period ended 30 June</b>		<b>Six month period ended 30 June</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
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 (income) expense, net	109,550	(105,148)	184,993	(32,679)
Other non-operating (income) expense, net	(30,164)	89,502	(69,440)	6,909
<b>EBITDA</b>	<b>8,927,843</b>	<b>14,378,232</b>	<b>14,734,364</b>	<b>22,951,905</b>

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

	<b>Six month period ended 30 June 2019</b>		
	<b>Domestic market</b>	<b>Export and International sales</b>	<b>Total</b>
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
<b>Total sales</b>	<b>87,982,831</b>	<b>16,470,621</b>	<b>104,453,452</b>

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019**

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

	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
<b>Total sales</b>	<b>88,290,301</b>	<b>22,441,067</b>	<b>110,731,368</b>

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
	<b>16,470,621</b>	<b>22,441,067</b>

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

NIS a.d.

Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019

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

**6. CASH AND CASH EQUIVALENTS**

	<b>30 June 2019</b>	<b>31 December 2018</b>
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
	<b>8,162,601</b>	<b>12,222,578</b>

**7. SHORT-TERM FINANCIAL ASSETS**

	<b>30 June 2019</b>	<b>31 December 2018</b>
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)
	<b>4,458,113</b>	<b>6,686,363</b>

**8. TRADE AND OTHER RECEIVABLES**

	<b>30 June 2019</b>	<b>31 December 2018</b>
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)
<b>Total trade and other receivables</b>	<b>30,822,893</b>	<b>28,076,947</b>

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:

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

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019**

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

**9. INVENTORIES**

	<b>30 June 2019</b>	<b>31 December 2018</b>
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)
	<b>45,461,849</b>	<b>44,443,778</b>

**10. OTHER CURRENT ASSETS**

	<b>30 June 2019</b>	<b>31 December 2018</b>
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)
	<b>4,330,345</b>	<b>5,416,286</b>

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 claims in dispute which are impaired.

## Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019

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

## 11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
<b>As at 1 January 2018</b>						
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)
<b>Net book value</b>	<b>102,643,532</b>	<b>73,420,466</b>	<b>21,596,014</b>	<b>8,853,356</b>	<b>30,595,071</b>	<b>237,108,439</b>
<b>Period ended 30 June 2018</b>						
Additions	-	-	-	-	18,058,766	18,058,766
Acquisitions through business combinations	-	-	-	-	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
<b>As at 30 June 2018</b>	<b>106,771,994</b>	<b>71,260,646</b>	<b>23,653,678</b>	<b>8,475,525</b>	<b>37,276,135</b>	<b>247,437,978</b>
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)
<b>Net book value</b>	<b>106,771,994</b>	<b>71,260,646</b>	<b>23,653,678</b>	<b>8,475,525</b>	<b>37,276,135</b>	<b>247,437,978</b>
<b>As at 1 January 2019</b>						
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)
<b>Net book value</b>	<b>113,870,781</b>	<b>68,874,495</b>	<b>23,754,591</b>	<b>7,892,702</b>	<b>43,861,548</b>	<b>258,254,117</b>
<b>Period ended 30 June 2019</b>						
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
<b>As at 30 June 2019</b>	<b>115,884,550</b>	<b>67,165,567</b>	<b>22,631,221</b>	<b>7,975,101</b>	<b>52,543,950</b>	<b>266,200,389</b>
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)
<b>Net book value</b>	<b>115,884,550</b>	<b>67,165,567</b>	<b>22,631,221</b>	<b>7,975,101</b>	<b>52,543,950</b>	<b>266,200,389</b>

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).



NIS a.d.

Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019

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

**12. LONG-TERM FINANCIAL ASSETS**

	<b>30 June 2019</b>	<b>31 December 2018</b>
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>
	<b>24,914,822</b>	<b>23,408,424</b>

**13. OTHER NON-CURRENT ASSETS**

	<b>30 June 2019</b>	<b>31 December 2018</b>
Advances paid for PPE	672,076	790,744
Prepaid expenses	143,984	151,070
Other financial 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>
	<b>1,628,170</b>	<b>1,777,859</b>

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

	<b>30 June 2019</b>	<b>31 December 2018</b>
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
	<b>7,433,062</b>	<b>8,242,122</b>

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

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

**15. TRADE AND OTHER PAYABLES**

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

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).

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019**

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

**16. OTHER CURRENT LIABILITIES**

	<b>30 June 2019</b>	<b>31 December 2018</b>
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
	<b>4,486,849</b>	<b>5,087,681</b>

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**

	<b>30 June 2019</b>	<b>31 December 2018</b>
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
	<b>9,317,125</b>	<b>8,560,193</b>

**18. LONG-TERM DEBT**

	<b>30 June 2019</b>	<b>31 December 2018</b>
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)
	<b>85,345,494</b>	<b>87,367,868</b>

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

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

*(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.

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019**

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

(b) *Bank loans*

	<b>30 June 2019</b>	<b>31 December 2018</b>
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)
	<b>68,892,642</b>	<b>67,553,341</b>

The maturity of bank loans was as follows:

	<b>30 June 2019</b>	<b>31 December 2018</b>
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
	<b>68,892,642</b>	<b>67,553,341</b>

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

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

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

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

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:

	<b>Six month period ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
<b>As at 1 January</b>	<b>644,611</b>	<b>247,210</b>
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)
<b>As at 30 June</b>	<b>715,318</b>	<b>549,036</b>

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019**

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

**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
	<b>6,764,625</b>	<b>6,969,580</b>	<b>12,138,002</b>	<b>12,721,200</b>

**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
	<b>5,448,048</b>	<b>5,284,588</b>	<b>10,503,798</b>	<b>10,305,449</b>

**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)
	<b>14,232</b>	<b>(434,802)</b>	<b>129,333</b>	<b>2,539</b>

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019**

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

**23. FINANCE INCOME**

	Three month period ended 30 June		Six month period ended 30 June	
	2019	2018	2019	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
	<b>226,440</b>	<b>361,882</b>	<b>492,258</b>	<b>819,884</b>

**24. FINANCE EXPENSES**

	Three month period ended 30 June		Six month period ended 30 June	
	2019	2018	2019	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
Financial assets: 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)
	<b>477,356</b>	<b>549,914</b>	<b>955,144</b>	<b>1,120,506</b>

**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.

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019**

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

**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:

	<b>Subsidiaries</b>	<b>Parent company</b>	<b>Joint ventures, associates and parent's subsidiaries and associates</b>
<b>As at 30 June 2019</b>			
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)	-	-
	<b>53,569,755</b>	<b>(27,936,090)</b>	<b>670,863</b>

	<b>Subsidiaries</b>	<b>Parent company</b>	<b>Joint ventures, associates and parent's subsidiaries and associates</b>
<b>As at 31 December 2018</b>			
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)	-
	<b>44,982,248</b>	<b>(34,982,048)</b>	<b>1,341,651</b>

**NIS a.d.****Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019***(All amounts are in 000 RSD, unless otherwise stated)*

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

	<b>Subsidiaries</b>	<b>Parent company</b>	<b>Joint ventures, associates and parent's subsidiaries, and associates</b>
<b>Six month period ended 30 June 2019</b>			
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)	-
	<b>4,173,663</b>	<b>(22,404,645)</b>	<b>172,569</b>

	<b>Subsidiaries</b>	<b>Parent company</b>	<b>Joint ventures, associates and parent's subsidiaries, and associates</b>
<b>Six month period ended 30 June 2018</b>			
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)	-
	<b>5,286,988</b>	<b>(27,893,627)</b>	<b>359,579</b>

**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.

**NIS a.d.**

**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2019**

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

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