



Naftna industrija Srbije A.D.

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

30 June 2018

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 CONSOLIDATED FINANCIAL STATEMENTS

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

Notes to the Interim Condensed Consolidated Financial Statements

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

Contact Information	24
---------------------	----

NIS Group
Interim Condensed Consolidated Statement of Financial Position

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

Assets	Note	30 June 2018	31 December 2017
		<i>(unaudited)</i>	
Current assets			
Cash and cash equivalents	6	17,179,409	27,075,370
Short-term financial assets	7	4,206,359	7,666,968
Trade and other receivables	8	28,904,559	28,671,743
Inventories	9	35,783,463	36,916,942
Other current assets	10	6,536,799	5,806,515
Non-current assets held for sale		163	163
Total current assets		92,610,752	106,137,701
Non-current assets			
Property, plant and equipment	11	274,015,797	264,049,497
Investment property		1,560,572	1,530,356
Goodwill and other intangible assets		5,075,459	5,561,145
Investments in associates and joint ventures		2,047,021	2,047,021
Trade and other non-current receivables		73,779	73,411
Long-term financial assets	12	125,690	2,163,760
Deferred tax assets		1,568,524	2,197,910
Other non-current assets	13	2,809,158	3,792,519
Total non-current assets		287,276,000	281,415,619
Total assets		379,886,752	387,553,320
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	14	7,233,907	6,279,124
Trade and other payables	15	28,399,776	35,300,763
Other current liabilities	16	5,707,626	5,589,872
Current income tax payable		321,238	1,952,025
Other taxes payable	17	11,531,132	10,270,700
Provisions for liabilities and charges		1,964,334	2,847,147
Total current liabilities		55,158,013	62,239,631
Non-current liabilities			
Long-term debt	18	85,187,052	90,495,878
Long-term trade and other payables		8,973	-
Provisions for liabilities and charges		9,892,722	9,766,303
Total non-current liabilities		95,088,747	100,262,181
Equity			
Share capital		81,530,200	81,530,200
Reserves		84,898	40,453
Retained earnings		148,264,981	143,713,351
Equity attributable to the Company's owners		229,880,079	225,284,004
Non-controlling interest		(240,087)	(232,496)
Total equity		229,639,992	225,051,508
Total liabilities and shareholder's equity		379,886,752	387,553,320

Kirill Tyurdenev
Chief Executive Officer
25 July 2018

Anton Fyodorov
Chief Financial Officer

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

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

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

	Note	Three month period ended 30 June		Six month period ended 30 June	
		2018	2017	2018	2017
		<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Sales of petroleum products, oil and gas		63,474,673	51,739,731	112,500,281	98,226,646
Other revenues		4,476,738	5,363,438	7,935,301	9,142,288
Total revenue from sales	5	67,951,411	57,103,169	120,435,582	107,368,934
Purchases of oil, gas and petroleum products		(38,546,998)	(31,635,885)	(69,126,986)	(58,001,808)
Production and manufacturing expenses	19	(7,076,987)	(7,041,927)	(12,939,018)	(13,086,007)
Selling, general and administrative expenses	20	(5,798,999)	(5,613,331)	(11,323,977)	(10,757,142)
Transportation expenses		(302,447)	(273,396)	(564,465)	(497,109)
Depreciation, depletion and amortization		(4,938,694)	(3,968,815)	(9,350,689)	(8,106,994)
Taxes other than income tax		(1,305,507)	(1,191,844)	(2,538,187)	(2,375,412)
Exploration expenses		-	-	(15,771)	(7,452)
Total operating expenses		(57,969,632)	(49,725,198)	(105,859,093)	(92,831,924)
Other income (expenses), net		103,469	(76,403)	22,761	(228,731)
Operating profit		10,085,248	7,301,568	14,599,250	14,308,279
Net foreign exchange gain (loss)	21	(441,430)	3,905,893	2,926	4,113,749
Finance income	22	144,382	83,852	387,936	176,234
Finance expenses	23	(571,423)	(670,304)	(1,162,000)	(1,426,248)
Total other income (expense)		(868,471)	3,319,441	(771,138)	2,863,735
Profit before income tax		9,216,777	10,621,009	13,828,112	17,172,014
Current income tax expense		(1,103,416)	(3,184,092)	(1,703,950)	(4,012,341)
Deferred tax expense		(343,157)	(394,978)	(629,518)	(743,293)
Total income tax expense		(1,446,573)	(3,579,070)	(2,333,468)	(4,755,634)
Profit for the period		7,770,204	7,041,939	11,494,644	12,416,380
Other comprehensive profit (loss):					
Components of other comprehensive income					
that will not be reclassified to profit or loss,					
net of tax					
Revaluation of property, plant and equipment transferred to investment property		-	-	-	1,399
		-	-	-	1,399
Items that may be subsequently reclassified to profit or loss					
Change in value of available-for-sale financial assets		573	1,592	(586)	1,723
Currency translation differences		33,804	280,112	42,430	287,358
		34,377	281,704	41,844	289,081
Other comprehensive profit (loss) for the period		34,377	281,704	41,844	290,480
Total comprehensive income for the period		7,804,581	7,323,643	11,536,488	12,706,860
Profit attributable to:					
- Shareholders of Naftna Industrija Srbije		7,774,559	7,047,140	11,503,089	12,426,872
- Non-controlling interest		(4,355)	(5,201)	(8,445)	(10,492)
Profit for the period		7,770,204	7,041,939	11,494,644	12,416,380
Total comprehensive income (loss) attributable to:					
- Shareholders of Naftna Industrija Srbije		7,808,264	7,322,910	11,544,079	12,712,269
- Non-controlling interest		(3,683)	733	(7,591)	(5,409)
Total comprehensive income for the period		7,804,581	7,323,643	11,536,488	12,706,860
Earnings per share attributable to shareholders of Naftna Industrija Srbije					
Basic earnings (RSD per share)		47.68	43.22	70.54	76.21
Weighted average number of ordinary shares in issue (in millions)		163	163	163	163

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

NIS Group

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity

Six month period ended 30 June 2018 and 2017

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

	<u>Equity attributable to the Company's owners</u>				Non-controlling interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
<i>(unaudited)</i>						
Balance as at 1 January 2017	81,530,200	(567,083)	120,731,166	201,694,283	(213,773)	201,480,510
Profit (loss) for the period	-	-	12,426,872	12,426,872	(10,492)	12,416,380
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	1,723	-	1,723	-	1,723
Revaluation of intangible assets, property, plant and equipment transferred to investment property	-	1,399	-	1,399	-	1,399
Currency translation differences	-	282,275	-	282,275	5,083	287,358
Total comprehensive income (loss) for the period	-	285,397	12,426,872	12,712,269	(5,409)	12,706,860
Dividend distribution	-	-	(4,021,069)	(4,021,069)	-	(4,021,069)
Balance as at 30 June 2017	81,530,200	(281,686)	129,136,969	210,385,483	(219,182)	210,166,301

	<u>Equity attributable to the Company's owners</u>				Non-controlling interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
<i>(unaudited)</i>						
Balance as at 1 January 2018	81,530,200	40,453	143,713,351	225,284,004	(232,496)	225,051,508
Profit (loss) for the period	-	-	11,503,089	11,503,089	(8,445)	11,494,644
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	(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	148,264,981	229,880,079	(240,087)	229,639,992

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

NIS Group
Interim Condensed Consolidated Statement of Cash Flows¹

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

		Six month period ended	
		30 June	
	Note	2018	2017
		<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities			
Profit before income tax		13,828,112	17,172,014
Adjustments for:			
Finance expenses	23	1,162,000	1,426,248
Finance income	22	(387,936)	(176,234)
Net unrealised foreign exchange (gain) losses		122,520	(4,302,615)
Depreciation, depletion and amortization		9,350,689	8,106,994
Write-off dry holes		15,771	7,452
Adjustments for other provisions		159,810	(128,546)
Allowance for doubtful accounts		(92,310)	69,510
Payables write-off		(172)	(3,164)
Other non-cash items		61,703	142,596
Operating cash flow before changes in working capital		24,220,187	22,314,255
Changes in working capital:			
Trade and other receivables		(61,514)	10,850,399
Inventories		1,087,091	54,930
Other current assets		(685,321)	(967,497)
Trade payables and other current liabilities		(12,134,374)	(11,305,960)
Other taxes payable		1,212,876	55,850
Total effect on working capital changes		(10,581,242)	(1,312,278)
Income taxes paid		(3,408,030)	(742,637)
Interest paid		(1,094,299)	(1,522,662)
Interest received		257,069	172,604
		(4,245,260)	(2,092,695)
Net cash generated from operating activities		9,393,685	18,909,282
Cash flows from investing activities			
Loans issued		(47,250)	-
Capital expenditures ²		(20,429,537)	(11,306,680)
Proceeds from sale of property, plant and equipment		133,456	87,348
Bank deposits placements		5,597,114	-
Other (outflow)/inflow		(28,171)	30,055
Net cash used in investing activities		(14,774,388)	(11,189,277)
Cash flows from financing activities			
Proceeds from borrowings	18	11,525,534	9,748,116
Repayment of borrowings	18	(16,009,123)	(18,747,899)
Repayments of finance lease liabilities	18	(48,832)	(28,262)
Net cash used in financing activities		(4,532,421)	(9,028,045)
Net decrease in cash and cash equivalents		(9,913,124)	(1,308,040)
Effect of foreign exchange on cash and cash equivalents		17,163	(317,413)
Cash and cash equivalents as of the beginning of the period		27,075,370	22,899,342
Cash and cash equivalents as of the end of the period		17,179,409	21,273,889

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

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

² CF from investing activities includes VAT in the amount of 3,2 bln RSD (2017: 1,4 bln RSD)

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

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

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije, Novi Sad (the "Company") and its subsidiaries (together refer to as the "Group") is a vertically integrated oil company operating predominantly in the Republic of 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 2017, 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 2017.

Subsequent events occurring after 30 June 2018 were evaluated through 25 July 2018, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the six month period ended 30 June 2018 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 2017, except for those described in the Application of new IFRS paragraph.

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

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

3. APPLICATION OF NEW IFRS

Accounting policies applied from 1 January 2018

IFRS 9 – Financial Instruments (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). From 1 January 2018 the Group classifies its financial assets in the following measurement categories: those to be measured subsequently at fair value through profit or loss (FVPL), those to be measured subsequently at fair value through other comprehensive income (FVOCI), and those to be measured subsequently at amortized cost.

The classification of debt instruments depends on the organization's business model for managing financial assets and whether contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest ("SPPI").

The Group presents in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short-to-medium term.

Financial assets and liabilities previously classified in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" within categories loans and receivables, investments held to maturity and other financial liabilities measured at amortised cost using the effective interest method, in accordance with IFRS 9 "Financial instruments" are classified as financial assets and financial liabilities carried at amortised cost. Measurement of cash and cash equivalents, trade and other receivables and payables, long-term and short-term loans and investments, held-to-maturity investments has not changed and these financial instruments are measured at amortised cost.

IFRS 15 – Revenue from Contracts with Customers (amended in April 2016 and effective for annual periods beginning on or after 1 January 2018). The Group recognizes revenue from sales of crude oil, petroleum products, gas and other products and services when it satisfies a performance obligation and control over goods and services is passed. For the most contracts control over goods or services passes to a customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due.

The transaction price excludes amounts collected on behalf of third parties such as value added tax and sales related tax.

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2018 or later, and that the Group has not early adopted.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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.

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

(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 Group when adopted:

- IFRS 17 – Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- IFRIC 23 – Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- 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).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

5. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the six month periods ended 30 June 2018 and 2017. 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 (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 Group's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Group's ongoing 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 2018 and 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Six month period ended 30 June 2018				
Segment revenue	23,932,059	121,519,938	(25,016,415)	120,435,582
Intersegment	23,867,151	1,149,264	(25,016,415)	-
External	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

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

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

	Upstream	Downstream	Eliminations	Total
Six month period ended 30 June 2017				
Segment revenue	21,565,777	108,004,745	(22,201,588)	107,368,934
Intersegment	20,605,221	1,596,367	(22,201,588)	-
External	960,556	106,408,378	-	107,368,934
EBITDA (Segment results)	15,790,638	6,750,439	-	22,541,077
Depreciation, depletion and amortization	(3,320,230)	(4,786,764)	-	(8,106,994)
Revaluation surpluses	-	3,782	-	3,782
Net foreign exchange gain	181,980	3,931,769	-	4,113,749
Finance expenses, net	(66,810)	(1,183,204)	-	(1,250,014)
Income tax	(2,065,156)	(2,690,478)	-	(4,755,634)
Segment profit (loss)	10,451,709	1,964,671	-	12,416,380

EBITDA for the six and three month period ended 30 June 2018 and 2017 is reconciled below:

	Three month period ended 30 June		Six month period ended 30 June	
	2018	2017	2018	2017
Profit for the period	7,770,204	7,041,939	11,494,644	12,416,380
Income tax expenses	1,446,573	3,579,070	2,333,468	4,755,634
Finance expenses	571,423	670,304	1,162,000	1,426,248
Finance income	(144,382)	(83,852)	(387,936)	(176,234)
Depreciation, depletion and amortization	4,938,694	3,968,815	9,350,689	8,106,994
Net foreign exchange (gain) loss	441,430	(3,905,893)	(2,926)	(4,113,749)
Other expense (income), net	(103,469)	76,403	(22,761)	228,731
Other non-operating expense (income), net	100,186	(86,145)	28,945	(102,927)
EBITDA	15,020,659	11,260,641	23,956,123	22,541,077

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

	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

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

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

	Six month period ended 30 June 2017		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	892,095	892,095
Sale of gas	1,390,073	-	1,390,073
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,390,073	-	1,390,073
Sale of petroleum products	73,681,768	22,262,710	95,944,478
<i>Through a retail network</i>	26,361,408	9,923,041	36,284,449
<i>Wholesale activities</i>	47,320,360	12,339,669	59,660,029
Sale of electricity	282,426	4,260,723	4,543,149
Other sales	3,049,987	1,549,152	4,599,139
Total sales	78,404,254	28,964,680	107,368,934

Out of the amount of 75,657,064 RSD (2017: 59,660,029 RSD) revenue from sale of petroleum products (wholesale), the amount of 11,363,791 RSD (2017: 9,896,305 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 Gazprom Marketing & Trading Co., Ltd. in the amount of 2,398,650 RSD (2017: 4,083,822 RSD). These sales are presented within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 3,841,366 RSD (2017: 3,583,112 RSD).

The Group is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 87,863,158 RSD (2017: 78,404,254 RSD), and the total revenue from external customer from other countries is 32,572,424 RSD (2017: 28,964,680 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	
	2018	2017
Sale of crude oil	-	892,095
Sale of petroleum products (retail and wholesale)		
Bulgaria	7,935,655	6,283,423
Bosnia and Herzegovina	7,139,078	5,459,350
Romania	5,817,343	4,389,989
All other markets	7,343,374	6,129,948
	28,235,450	22,262,710
Sale of electricity	2,696,579	4,260,723
Other sales	1,640,395	1,549,152
	32,572,424	28,964,680

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 2018	31 December 2017
Serbia	258,624,276	249,437,031
Bosnia and Herzegovina	7,181,288	7,334,652
Bulgaria	7,248,968	7,401,758
Romania	7,597,293	6,967,529
Hungary	3	28
	280,651,828	271,140,998

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

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

6. CASH AND CASH EQUIVALENTS

	30 June 2018	31 December 2017
Cash in bank and in hand	5,923,955	15,897,022
Deposits with original maturity of less than three months	9,573,303	9,417,753
Cash held on escrow account	1,455,446	1,521,241
Cash equivalents	226,705	239,354
	17,179,409	27,075,370

Cash held on escrow accounts as of 30 June 2018 amounting to 1,455,446 RSD (31 December 2017: 1,521,241 RSD) mostly relates to deposited funds in accordance with the interest in a joint venture through which the operation of future wind farm "Plandiste" will be managed. According to the Agreement, the Group can withdraw cash at any time.

7. SHORT-TERM FINANCIAL ASSETS

	30 June 2018	31 December 2017
Short-term loans	50,143	2,210
Deposits with original maturity more than 3 months less than 1 year	4,141,943	7,645,689
Other short-term financial assets	16,529	21,325
Less impairment loss provision	(2,256)	(2,256)
	4,206,359	7,666,968

As at 30 June 2018 deposits with original maturity more than 3 months less than 1 year amounting to 4,141,943 RSD (31 December 2017: 7,645,689 RSD) relates to bank deposits placements with interest rates from 4,15% to 4,65% p.a. denominated in RSD.

8. TRADE AND OTHER RECEIVABLES

	30 June 2018	31 December 2017
Trade receivables:		
- related parties	499,155	1,024,133
- third parties	31,126,157	28,265,729
- state and state owned companies	7,803,541	10,233,306
	39,428,853	39,523,168
Other receivables - related parties	304,699	269,242
Accrued assets	358,574	227,630
	40,092,126	40,020,040
<i>Less impairment provision for trade and other receivables:</i>		
- <i>third parties</i>	(9,398,195)	(9,483,852)
- <i>state and state owned companies</i>	(1,789,372)	(1,864,445)
	(11,187,567)	(11,348,297)
Total trade and other receivables	28,904,559	28,671,743

The ageing of trade and other receivables is as follows:

	30 June 2018	31 December 2017
Neither impaired nor past due	25,998,511	25,624,198
Past due but not impaired:		
within 30 days	1,754,192	2,156,358
1 to 3 months	352,065	237,143
3 months to 1 year	303,484	146,553
over 1 year	496,307	507,491
Total	28,904,559	28,671,743

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

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

Group management believes that net receivables included in the ageing table above are fully recoverable.

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

	30 June 2018	31 December 2017
RSD	25,374,905	21,681,702
EUR	1,029,218	4,283,546
USD	796,879	982,442
Other	1,703,557	1,724,053
	28,904,559	28,671,743

Movements on the Group's impairment provision for of trade and other receivables are as follows:

	Trade & other receivables		
	Third parties	State and state owned companies	Total
As at 1 January 2017	9,728,531	11,563,533	21,292,064
Provision for receivables impairment	142,895	21,878	164,773
Release of provision	(132,232)	(18,160)	(150,392)
Receivables written off during the year as uncollectible	(922)	-	(922)
Exchange differences	(454)	(206,680)	(207,134)
Unwinding of discount (note 23)	-	(36,303)	(36,303)
Transfer from non-current part	-	208,808	208,808
Other	(1,788)	-	(1,788)
As at 30 June 2017	9,736,030	11,533,076	21,269,106
As at 1 January 2018	9,483,852	1,864,445	11,348,297
Provision for receivables impairment	64,149	6,467	70,616
Release of provision	(115,097)	(58,162)	(173,259)
Receivables written off during the year as uncollectible	(10,548)	(3,534)	(14,082)
Exchange differences	1,002	-	1,002
Unwinding of discount (note 23)	-	(44,661)	(44,661)
Other	(25,163)	24,817	(346)
As at 30 June 2018	9,398,195	1,789,372	11,187,567

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Consolidated Profit and Loss. Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The other classes within trade and other receivables do not contain impaired assets.

9. INVENTORIES

	30 June 2018	31 December 2017
Crude oil	19,598,054	22,312,814
Petroleum products	13,484,982	12,708,119
Materials and supplies	6,680,029	5,918,849
Other	1,060,663	1,085,655
Less impairment provision	(5,040,265)	(5,108,495)
	35,783,463	36,916,942

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018***(All amounts are in 000 RSD, unless otherwise stated)***10. OTHER CURRENT ASSETS**

	30 June 2018	31 December 2017
Advances paid	755,497	666,931
VAT receivables	387,168	286,562
Deferred VAT	2,136,738	1,419,963
Prepaid expenses	411,964	236,846
Prepaid custom duties	32,041	32,368
Prepaid excise	2,272,289	1,898,628
Other current assets	12,497,185	13,213,771
Less impairment provision	(11,956,083)	(11,948,554)
	6,536,799	5,806,515

Deferred VAT as at 30 June 2018 amounting to 2,136,738 RSD (31 December 2017: 1,419,963 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 2018 amounting to 2,272,289 RSD (31 December 2017: 1,898,628 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.

Movements on the Group's impairment provision for other current assets are as follows:

	Advances paid	Other current assets	Total
As at 1 January 2017	261,983	11,736,780	11,998,763
Increase of provision during the year	5,432	71,282	76,714
Release of provision	(340)	(36,163)	(36,503)
Receivables written off during the year as uncollectible	-	(25,709)	(25,709)
Other	1	(286)	(285)
As at 30 June 2017	267,076	11,745,904	12,012,980
As at 1 January 2018	261,100	11,687,454	11,948,554
Increase of provision during the year	1,962	15,182	17,144
Release of provision	(733)	(6,381)	(7,114)
Receivables written off during the year as uncollectible	-	(2,456)	(2,456)
Other	-	(45)	(45)
As at 30 June 2018	262,329	11,693,754	11,956,083

The ageing of other current assets is as follows:

	30 June 2018	31 December 2017
Neither impaired nor past due	604,413	1,294,564
Not impaired and past due in the following periods:		
Less than 1 month	10,302	11,365
1 - 3 months	8,996	7,147
3 month - 1 year	28,781	36,055
Over 1 year	-	41,710
Total	652,492	1,390,841

Net amount of other current assets shown in ageing analysis does not include non-financial assets like VAT, excise etc.

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

(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
As at 1 January 2017						
Cost	127,806,623	110,525,127	65,310,661	20,170,463	34,864,554	358,677,428
Depreciation and impairment	(30,936,760)	(35,174,792)	(27,816,298)	(9,600,428)	(1,388,883)	(104,917,161)
Net book value	96,869,863	75,350,335	37,494,363	10,570,035	33,475,671	253,760,267
Period ended 30 June 2017						
Additions	-	-	-	626	10,694,379	10,695,005
Changes in decommissioning obligations	84,292	-	-	-	-	84,292
Transfer from assets under construction	8,603,201	1,407,219	1,053,179	189,655	(11,253,254)	-
Transfer to investment property	-	-	(17,195)	(2,313)	-	(19,508)
Impairment	-	-	-	-	(1,642)	(1,642)
Depreciation	(3,114,786)	(2,826,057)	(1,173,500)	(393,031)	(2,491)	(7,509,865)
Disposals and write-off	(14,889)	(6,444)	(123,297)	(4,436)	(50,435)	(199,501)
Other transfers	(40,793)	93	(37,349)	36,687	43,149	1,787
Translation differences	11	-	(328,505)	2,314	(134,161)	(460,341)
	102,386,899	73,925,146	36,867,696	10,399,537	32,771,216	256,350,494
As at 30 June 2017						
Cost	136,324,917	111,900,824	65,573,918	20,248,995	34,880,573	368,929,227
Depreciation and impairment	(33,938,018)	(37,975,678)	(28,706,222)	(9,849,458)	(2,109,357)	(112,578,733)
Net book value	102,386,899	73,925,146	36,867,696	10,399,537	32,771,216	256,350,494
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

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

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

Oil and gas production assets

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2017						
Cost	20,139,905	4,274,452	24,414,357	127,806,623	31,406	152,252,386
Depreciation and impairment	(26,494)	(876)	(27,370)	(30,936,760)	(20,312)	(30,984,442)
Net book amount	20,113,411	4,273,576	24,386,987	96,869,863	11,094	121,267,944
Period ended 30 June 2017						
Additions	1,763,103	6,726,246	8,489,349	-	-	8,489,349
Changes in decommissioning obligations	-	-	-	84,292	-	84,292
Transfer from asset under construction	(2,999,387)	(5,602,645)	(8,602,032)	8,603,201	(1,169)	-
Other transfers	(33,239)	42,550	9,311	(40,793)	1,249	(30,233)
Depreciation and depletion	(2,491)	-	(2,491)	(3,114,786)	(21)	(3,117,298)
Disposals and write-off	(45,229)	(2,678)	(47,907)	(14,889)	-	(62,796)
Translation differences	(123,633)	-	(123,633)	11	(3)	(123,625)
	18,672,535	5,437,049	24,109,584	102,386,899	11,150	126,507,633
As at 30 June 2017						
Cost	18,697,432	5,437,925	24,135,357	136,324,917	32,362	160,492,636
Depreciation and impairment	(24,897)	(876)	(25,773)	(33,938,018)	(21,212)	(33,985,003)
Net book amount	18,672,535	5,437,049	24,109,584	102,386,899	11,150	126,507,633
As at 1 January 2018						
Cost	18,580,168	2,929,684	21,509,852	147,452,224	32,323	168,994,399
Depreciation and impairment	(58,882)	(2,087)	(60,969)	(37,114,232)	(21,223)	(37,196,424)
Net book amount	18,521,286	2,927,597	21,448,883	110,337,992	11,100	131,797,975
Period ended 30 June 2018						
Additions	2,412,889	6,110,834	8,523,723	-	-	8,523,723
Changes in decommissioning obligations	-	-	-	115,108	-	115,108
Transfer from asset under construction	(856,049)	(7,353,305)	(8,209,354)	8,209,354	-	-
Other transfers	451,024	(469,011)	(17,987)	(26,645)	(28)	(44,660)
Impairment	-	(1,047)	(1,047)	-	-	(1,047)
Depreciation and depletion	(2,399)	-	(2,399)	(4,330,304)	-	(4,332,703)
Disposals and write-off	(86,599)	(15,515)	(102,114)	(36,907)	-	(139,021)
Translation differences	(22,432)	-	(22,432)	2	-	(22,430)
	20,417,720	1,199,553	21,617,273	114,268,600	11,072	135,896,945
As at 30 June 2018						
Cost	20,478,812	1,202,687	21,681,499	155,632,042	31,381	177,344,922
Depreciation and impairment	(61,092)	(3,134)	(64,226)	(41,363,442)	(20,309)	(41,447,977)
Net book amount	20,417,720	1,199,553	21,617,273	114,268,600	11,072	135,896,945

12. LONG-TERM FINANCIAL ASSETS

	30 June 2018	31 December 2017
Deposits with original maturity more than 1 year	-	2,029,483
Available for sale financial assets	179,699	187,310
Other LT placements	25,861	26,567
Less provision of available for sale financial assets	(67,294)	(67,392)
Less provision of other LT placements	(12,576)	(12,208)
	125,690	2,163,760

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018***(All amounts are in 000 RSD, unless otherwise stated)***13. OTHER NON-CURRENT ASSETS**

	30 June 2018	31 December 2017
Advances paid for PPE	1,155,890	2,105,408
Prepaid expenses	659,386	689,450
Other assets	1,030,828	1,034,607
Less impairment provision	(36,946)	(36,946)
	2,809,158	3,792,519

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

	30 June 2018	31 December 2017
Interest liabilities	211,212	179,540
Current portion of long-term loans (note 18)	6,969,791	6,047,159
Current portion of finance lease liabilities (note 18)	52,904	52,425
	7,233,907	6,279,124

15. TRADE AND OTHER PAYABLES

	30 June 2018	31 December 2017
Trade payables:		
- related parties	520,590	12,774,912
- third parties	17,139,737	18,727,747
Dividends payable	10,720,312	3,772,308
Other accounts payable	19,137	25,796
	28,399,776	35,300,763

As at 30 June 2018 payables to related parties amounting to 520,590 RSD (31 December 2017: 12,774,912 RSD) mainly relate to payables to the supplier Gazprom Marketing & Trading Co., Ltd. in the amount of 509,892 RSD for electricity purchase (31 December 2017: Gazprom Neft, St Petersburg in the amount of 11,727,340 RSD mostly based on purchase of crude oil).

16. OTHER CURRENT LIABILITIES

	30 June 2018	31 December 2017
Advances received	2,300,547	1,439,243
Payables to employees	2,908,790	3,664,823
Accruals and deferred income	475,255	455,538
Other current non-financial liabilities	23,034	30,268
	5,707,626	5,589,872

17. OTHER TAXES PAYABLE

	30 June 2018	31 December 2017
Mineral extraction tax	373,045	280,971
VAT	2,178,689	1,913,685
Excise tax	6,131,091	5,258,815
Contribution for buffer stocks	514,578	527,858
Custom duties	227,464	209,018
Other taxes	2,106,265	2,080,353
	11,531,132	10,270,700

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018***(All amounts are in 000 RSD, unless otherwise stated)***18. LONG-TERM DEBT**

	30 June 2018	31 December 2017
Long-term loan - Gazprom Neft	27,457,582	30,306,970
Bank and other long term loans	63,983,620	65,796,475
Finance lease liabilities	733,092	432,562
Other long-term borrowings	35,453	59,455
Less Current portion (note 14)	<u>(7,022,695)</u>	<u>(6,099,584)</u>
	<u>85,187,052</u>	<u>90,495,878</u>

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

	Long-term loans	Short-term loans (note 14)	Finance lease	Total
As at 1 January 2017	103,449,326	12,189,945	343,080	115,982,351
Proceeds	9,748,116	-	-	9,748,116
Repayment	(11,975,535)	(6,772,364)	(28,262)	(18,776,161)
Non-cash transactions	-	-	69,428	69,428
Foreign exchange difference (note 21)	(5,041,060)	(134,899)	(4,572)	(5,180,531)
As at 30 June 2017	<u>96,180,847</u>	<u>5,282,682</u>	<u>379,674</u>	<u>101,843,203</u>
As at 1 January 2018	96,103,445	-	432,562	96,536,007
Proceeds	11,525,534	-	-	11,525,534
Repayment	(16,009,123)	-	(48,832)	(16,057,955)
Non-cash transactions	-	-	351,551	351,551
Foreign exchange difference (note 21)	(178,654)	-	(2,189)	(180,843)
As at 30 June 2018	<u>91,441,202</u>	<u>-</u>	<u>733,092</u>	<u>92,174,294</u>

(a) Long-term loan - Gazprom Neft

As at 30 June 2018 long-term loan - Gazprom Neft amounting to 27,457,582 RSD (31 December 2017: 30,306,970 RSD), with current portion of 5,491,516 RSD (2017: 5,510,358 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 2018	31 December 2017
Domestic	47,581,861	43,338,384
Foreign	16,401,759	22,458,091
	63,983,620	65,796,475
Current portion of long-term loans	<u>(1,478,275)</u>	<u>(536,801)</u>
	<u>62,505,345</u>	<u>65,259,674</u>

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

	30 June 2018	31 December 2017
Between 1 and 2 years	15,529,285	23,403,612
Between 2 and 5 years	44,502,665	39,342,047
Over 5 years	2,473,395	2,514,015
	<u>62,505,345</u>	<u>65,259,674</u>

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018***(All amounts are in 000 RSD, unless otherwise stated)*

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

	30 June 2018	31 December 2017
USD	6,458,012	17,934,250
EUR	57,218,391	47,551,800
RSD	722	814
JPY	306,495	309,611
	63,983,620	65,796,475

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 2018 and 31 December 2017, respectively.

19. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 30 June		Six month period ended 30 June	
	2018	2017	2018	2017
Employee costs	1,660,128	1,435,476	3,155,957	2,903,150
Materials and supplies (other than purchased oil, petroleum products and gas)	520,087	507,134	1,130,514	976,745
Repair and maintenance services	989,242	711,252	1,869,259	1,330,176
Electricity for resale	1,633,349	2,792,320	2,599,660	4,274,547
Electricity and utilities	764,074	623,301	1,506,338	1,230,330
Safety and security expense	145,721	86,771	228,464	144,050
Insurance services	67,838	70,762	138,254	141,145
Transportation services for production	430,827	468,574	903,767	931,999
Other	865,721	346,337	1,406,805	1,153,865
	7,076,987	7,041,927	12,939,018	13,086,007

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended 30 June		Six month period ended 30 June	
	2018	2017	2018	2017
Employee costs	2,851,015	2,693,197	5,533,820	5,073,732
Legal, audit and consulting services	199,993	243,871	371,425	464,072
Rent expense	95,944	100,285	189,514	196,155
Business trips expense	80,930	84,675	147,541	142,263
Safety and security expense	134,987	137,035	258,922	271,204
Insurance expense	30,391	28,085	53,933	51,676
Transportation and storage	43,414	53,715	77,672	103,446
Allowance for doubtful accounts	(151,493)	6,023	(136,284)	(49,294)
Other	2,513,818	2,266,445	4,827,434	4,503,888
	5,798,999	5,613,331	11,323,977	10,757,142

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

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

21. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three month period ended 30 June		Six month period ended 30 June	
	2018	2017	2018	2017
Foreign exchange gain (loss) on financing activities including:				
- foreign exchange gain	(60,740)	4,948,126	719,290	5,711,595
- foreign exchange loss	(298,362)	207,520	(538,447)	(531,064)
Net foreign exchange gain (loss) on operating activities	(82,328)	(1,249,753)	(177,917)	(1,066,782)
	(441,430)	3,905,893	2,926	4,113,749

22. FINANCE INCOME

	Three month period ended 30 June		Six month period ended 30 June	
	2018	2017	2018	2017
Interest on bank deposits	141,364	79,555	382,263	167,366
Interest income on loans issued	3,018	4,297	5,673	8,868
	144,382	83,852	387,936	176,234

23. FINANCE EXPENSES

	Three month period ended 30 June		Six month period ended 30 June	
	2018	2017	2018	2017
Interest expense	597,202	787,053	1,218,700	1,644,309
Decommissioning provision: unwinding of the present value discount	21,955	33,988	43,684	67,488
Trade receivables: unwinding of discount	(17,864)	(134,681)	(44,661)	(251,367)
Less: interest expense capitalised on qualifying assets	(29,870)	(16,056)	(55,723)	(34,182)
	571,423	670,304	1,162,000	1,426,248

24. 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 2017. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 30 June 2018 the carrying value of financial assets approximates their fair value.

25. BUSINESS COMBINATIONS

In 2018, the Group acquired one petrol station in Serbia. The total consideration paid for acquisition amounted to 205,722 RSD. The fair value of net identifiable asset acquired amounted to 217,660 RSD and remaining amount was recognised as gain on bargain purchase. The acquisition agreement includes only acquisition of petrol station and do not contain any contingent consideration.

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 583,473 RSD (31 December 2017: 681,162 RSD).

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

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

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 2018.

Capital commitments

As of 30 June 2018 the Group has entered into contracts to purchase property, plant and equipment for 12,176,939 RSD (31 December 2017: 11,347,097 RSD) and drilling and exploration works estimated to 82.61 USD million (31 December 2017: 58.17 USD million).

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

27. RELATED PARTY TRANSACTIONS

For the purpose of these Interim Condensed 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. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

In the six month period ended 30 June 2018 and in the same period in 2017, 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 2018 and 31 December 2017 the outstanding balances with related parties were as follows:

	Parent's		
	Parent company	subsidiaries and associates	Joint venture
As at 30 June 2018			
Trade and other receivables	-	493,832	310,022
Investments in joint venture and associates	-	-	2,047,021
Trade and other payables	-	(517,540)	(3,050)
Other current liabilities	-	(149)	-
Short-term debt and current portion of long-term debt	(5,491,516)	-	-
Long-term debt	(21,966,066)	-	-
	(27,457,582)	(23,857)	2,353,993
	Parent company	Parent's subsidiaries and associates	Joint venture
As at 31 December 2017			
Trade and other receivables	-	1,024,133	269,242
Investments in joint venture and associates	-	-	2,047,021
Other current assets	-	2,754	-
Trade and other payables	(11,727,340)	(1,047,572)	-
Other current liabilities	-	(60,730)	-
Short-term debt and current portion of long-term debt	(5,510,358)	-	-
Long-term debt	(24,796,612)	-	-
	(42,034,310)	(81,415)	2,316,263

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018***(All amounts are in 000 RSD, unless otherwise stated)*

For the six month period ended 30 June 2018 and 2017 the following transaction occurred with related parties:

	Parent	Parent's subsidiaries and associates	Joint venture
Six month period ended 30 June 2018			
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

	Parent	Parent's subsidiaries and associates	Joint venture
Six month period ended 30 June 2017			
Petroleum products and oil and gas sales	-	243,300	-
Other revenues	-	3,957,544	-
Purchases of oil, gas and petroleum products	(13,976,780)	(243,302)	-
Production and manufacturing expenses	-	(4,110,568)	-
Selling, general and administrative expenses	-	(3,159)	-
Other expenses, net	(4,438)	(47)	-
Finance expense	(337,565)	-	-
	(14,318,783)	(156,232)	-

Main balances and transactions with state and state owned companies are shown below:

	Parent's subsidiaries and associates	Other
As at 30 June 2018		
Trade and other receivables (gross)		
• <i>HIP Petrohemija</i>	1,516,503	-
• <i>Srbijagas</i>	-	100,390
• <i>Other state owned companies</i>	-	6,186,648
Trade and other payables		
• <i>HIP Petrohemija</i>	(1,137,468)	-
• <i>Srbijagas</i>	-	(77,517)
Other current liabilities		
• <i>HIP Petrohemija</i>	(3,896)	-
	375,139	6,209,521
As at 31 December 2017		
Trade and other receivables (gross)		
• <i>HIP Petrohemija</i>	1,446,685	-
• <i>Srbijagas</i>	-	109,748
• <i>Republika Srbija</i>	-	3,740,763
• <i>Other state owned companies</i>	-	4,936,110
Trade and other payables		
• <i>HIP Petrohemija</i>	(1,252,736)	-
• <i>Srbijagas</i>	-	(77,059)
Other current liabilities		
• <i>HIP Petrohemija</i>	(13,646)	-
	180,303	8,709,562

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018**

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

	Parent's subsidiaries and associates	Other
Six month period ended 30 June 2018		
<i>Operating income</i>		
• <i>HIP Petrohemija</i>	11,363,791	-
• <i>Srbijagas</i>	-	414,813
<i>Operating expenses</i>		
• <i>HIP Petrohemija</i>	(96,290)	-
• <i>Srbijagas</i>	-	(451,722)
	11,267,501	(36,909)
Six month period ended 30 June 2017		
<i>Operating income</i>		
• <i>HIP Petrohemija</i>	9,896,305	-
• <i>Srbijagas</i>	-	489,454
<i>Operating expenses</i>		
• <i>HIP Petrohemija</i>	(86,298)	-
• <i>Srbijagas</i>	-	(588,462)
	9,810,007	(99,008)

Transactions with state and state owned companies mainly relates to sales of petroleum products based on the price lists in force and terms that would be available to third parties.

Transactions with Key Management Personnel

For the six month period ended on 30 June 2018 and 2017 the Group recognized 520,220 RSD and 491,405 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 Group

Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2018

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

NIS Group

Contact Information

The Group's office is:

12 Narodnog Fronta St.
Novi Sad, Republic of Serbia
21000

Telephone: (+ 381 21) 481 1111

e-mail: office@nis.eu

www.nis.eu

Investor relations

e-mail: investor.relations@nis.eu