NIS GAZPROM NEFT

FUTURE AT WORK

QUARTERLY REPORT

for second quarter

2018.

The Quarterly Report for Second Quarter of 2018 presents a factual overview of NIS Group's activities, development and performance in first six months of 2018. The Report covers and presents data for NIS Group, comprising NIS j.s.c. Novi Sad and its subsidiaries. If the data pertain only to certain individual subsidiaries or only NIS j.s.c. Novi Sad, it is so noted in the Report. The terms: 'NIS j.s.c. Novi Sad' and 'the Company' denote the parent company NIS j.s.c. Novi Sad, whereas the terms 'NIS' and 'NIS Group' pertain to NIS j.s.c. Novi Sad with its subsidiaries.

The Quarterly Report is compiled in Serbian, English and Russian. In case of any discrepancy, the Serbian version shall be given precedence.

The Quarterly Report for Second Quarter of 2018 is also available online on the corporate website. For any additional information on NIS Group, visit the corporate website www.nis.eu.

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Foreword

In the first half of 2018, NIS continued to realize positive financial results with growth of operational indicators, with particular emphasis on strategic investments in further business development. 17.2 billion dinars were invested in development projects in the first half of this year, which is 72 percent more than in the same period last year. Most of it was invested in the research and production field, and as for individual projects, the priority was given to the second phase of modernization of the Oil Refinery in Pancevo, specifically to the construction of a deep processing plant with delayed coking technology. It is important to point out that in the second quarter of the current year, NIS further improved its financial performance, so in the half-year EBITDA indicator is equal to 24 billion dinars, which is six percent more than in the first six months of 2017. At the same time, net profit of 11.5 billion dinars was realized.

In addition, the trend of growth in liabilities of the NIS group from taxes and other public revenues continued in the first half of the current year amounting to 90.95 billion dinars, or 17 percent more than in the first six months of 2017. At the same time, the total indebtedness towards banks, which now stands at 625 million USD, has been reduced by two percent. Also, on June 21, the Tenth Regular session of the Assembly of NIS Shareholders was held, where a decision was made on the payment of dividends from the net profit for 2017, on the basis of which shareholders will be paid a total of 6.95 billion dinars, or 42.61 dinars pershare gross.

When it comes to operational indicators, growth in the field of oil and semi-finished products refining, as well as petroleum products distribution, was recorded. Thus, in the first half of 2018, a total of 1.696 million tons of oil and semi-finished products were refined, which is by 3 percent better result than in the previous year. In addition, the volume of sales was increased, amounting to 1.665 million tons of petroleum products, which is 8 percent more than in the first half of 2017, including a 24% increase in export. Total oil and gas production amounted to 661.4 thousand tons, while NIS's facilities produced 78,422 MWh of electricity.

Business successes have also resulted in significant external awards, so, for the second consecutive year, NIS received the award for the best corporate brand in the category “Production Goods and Business Services” at the award ceremony of “Best of Serbia”. Also, NIS has achieved a remarkable performance at this year's International Agricultural Fair in Novi Sad, where championship trophy was won for top quality oil, as well as eight large gold medals and six gold medals for quality of products from the NISOTEC palette.

Of particular importance to NIS was the presentation of the Sustainable Development Report for 2017, which included, among other things, numerous achievements in the field of environmental protection and investments in the professional development of employees and the benefit of the wider community. Also, the first half of 2018 was marked by the visit of Ana Brnabic, President of the Serbian Government, to NIS Science and Technology Center, during which NIS was presented as a reliable partner to the Serbian Government, and an innovative business group, oriented towards modern technologies and equipment and committed to contribute to further development of the educational and scientific sector in Serbia by its investments.

Business Report

Highlights

January – June

- 28 development wells and 6 exploratory well were drilled in Serbia in the first six months.
- Annual repair and maintenance of plant in Elemir
- Completion of 6 exploratory holes
- 3D seismic project “South Banat 2” completed
- Start of a new 3D Seismic project in Serbia “Turija IV”
- Start of a new 3D Seismic project in Romania, Block EH-3
- 10 platform semi-trailers and 2 low-bed semi-trailers put into operation

- Bitumen unit revamped.
- A new gas ejector GB-2202 commissioned.
- New oil “Iran Heavy“ in processing
- Ninety percent of 3D model for work package 2 has been designed within the project "Deep Processing". Completion of construction works on forming the coke storage silos foundation basis and centrifugal compressor foundation
- Development of the plan of the digital transformation of the processing block within the OMS project
- A concrete structure for the coking reactor as well as reactor structure were constructed as a part of the ‘Bottom of the Barrel’ Project.

- Rebranding was completed at 2 PS ‘12 February’ (NIS Petrol brand) and ‘Vojvoda Misic’ (GAZPROM brand).
- Two new products of their own brand were introduced (G-Drive chewing gum ‘Spearmint’ and ‘Peppermint’).
- A new payment function of the ‘‘On the Road with Us’’ card has been introduced.
- Installation of additives system on vehicles and start of supplying and selling the OPTI fuel on SSG Gasprom;
- Expanding the «reseling» activities in the aviation fuel sales channel.
- A fuel oil flow control system installed in the Energy Plant in Pančevo, which enabled significant energy savings.

- NIS and the Ministry of Education, Science and Technological Development of the Republic of Serbia signed a Memorandum of Cooperation that envisaged joint operations in the fields of science and education.
- NIS representatives handed over a donation to the Institute for Health Protection of Children and Youth of Vojvodina in Novi Sad for procurement of new medical equipment.
- Within survey research “Best Employer 2018”, conducted by the portal Poslovi.infostud.com, NIS was declared as one of the best employers in Serbia
- Sberbank Serbia and NIS received the Banking Technology Award – Most Innovative Card Product 2018 for payment card “On the Road With Us”
- NIS received a prestigious award “Captain Misa Anastasijevic” as the best company in Serbia at a ceremony held at Matica Srpska in Novi Sad

- NIS continued its activities aiming to improve the quality of life in the local communities in Serbia, by providing a modern Volleyball Training Center in Zrenjanin, and a children's playground and an outdoor gym in Cacak
- A GAZPROM petrol station, the 20th petrol station in this premium brand in Serbia, was opened in Nis
- At the X session of the Shareholders' Assembly of NIS j.s.c. Novi Sad a Decision was adopted on the distribution of profit for 2017, payment of dividends and determining the amount of non-allocated profit of the Company.
- NIS received an award, for the second successive year, for the best corporate brand in the category "Production goods and business services" at the award ceremony "The Best from Serbia". Furthermore, at the award ceremony "Corporate Superbrands Serbia 2017/2018", NIS received the award Winner "number 1" in the category "Energy"
- Petrovaradin fortress Observatory in Novi Sad was reconstructed with the support of NIS.

NIS Group

NIS Group is one of the largest vertically integrated energy systems in South East Europe. The main activities of NIS Group are the exploration, production and refining of oil and natural gas, the sales and distribution of a wide range of petroleum and gas products and the implementation of petrochemicals and energy projects.

The main production capacities are located in the Republic of Serbia, while the Group operates in 10 countries around the world and employs an international team of experts.

NIS's goal is to be the fastest-growing energy system in the Balkans and a role model for business efficiency and sustainable development.

Business activities

Business activities of NIS Group are organized within the parent company, NIS j.s.c. Novi Sad, through five Blocks and nine Functions that support main activities. The Blocks are: Exploration and Production, Services, Refining, Sales and Distribution and Energy.

The activities of **Exploration and Production** cover exploration, production, infrastructure and operational support to production, oil and gas reserve management, oil and gas reservoir engineering, and major exploration and production projects.

The majority of NIS's oil deposits are in Serbia, but NIS is also carrying out exploration in Bosnia and Herzegovina, Hungary and Romania. NIS's oldest foreign concession is in Angola, where oil exploitation started as far back as in 1985.

This Block operates an Elemir-based plant for the preparation of natural gas, production of LPG and natural gasoline and CO_2 capture, which has a design capacity of 65,000 tonnes of LPG and natural gasoline per year. A natural gas treatment Amine Plant operates within, applying the HiPACT technology. The Elemir-based plant is the first HiPACT plant in Europe, and the gas processing method completely prevents carbon dioxide emissions into the air.

The subsidiary NTC NIS Naftagas d.o.o. Novi Sad provides scientific and technical support to the main activities of the Block, while being the development and innovation centre of the entire NIS, at the same time.

Services provide oil and gas exploration and production services through geophysical surveying, well construction, completion and workover, and performance of special operations and measurement on wells. The Block also delivers equipment maintenance services and the construction and maintenance of oil and gas systems and facilities. Moreover, the Services Block provides cargo transport and equipment operation services, as well as passenger transport and vehicle rental services. NIS has its own servicing capacities, which fully meet the Group's demands and allow NIS to provide services to third parties. All this is delivered through the subsidiaries Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad. Services have expanded the business into foreign markets: Bosnia and Herzegovina, Romania and Russia.

Refining is responsible for processing crude oil and other raw materials and for producing petroleum products. It produces a broad range of petroleum products: from motor and energy fuels to feedstock for the petrochemicals industry, and other petroleum products. The Block's refining complex includes a production plant in Pančevo[1]. Maximum design capacity of the refining plants in Pančevo equals 4.8 million tonnes per year. Following the construction of the Mild Hydrocracking and Hydrotreating Unit (MHC/DHT) in 2012, NIS now produces fuel that meets EU quality standards. At Pančevo Oil Refinery, a 'Bottom of the Barrel' plant with delayed coking technology is under construction. This capital investment is part of the second stage of modernisation, after the realisation of which Pančevo Refinery will produce greater quantities of white petroleum products, as well as a new product - coke, which is now imported into Serbia.

Sales and Distribution cover foreign and domestic trading, wholesaling and retail sale of petroleum and non-fuel products. As separate businesses, NIS develops aviation fuel supply, bunkering, lubricants and bitumen sale and distribution.

NIS operates the largest retail network in Serbia and its petrol stations are active in the countries of the region as well - in Bosnia and Herzegovina, Bulgaria and Romania. In Serbia and in the region, NIS manages a network of over 400 retail sites and has two brands in the market with two brands: the mass market NIS Petrol and the premium GAZPROM brand.

All fuel types are subject to regular, rigorous laboratory testing and comply with national and international standards. The introduction of state-of-the-art technologies has increased the network's operational efficiency.

Energy produces electricity and thermal energy from conventional and renewable sources, produces and sells compressed natural gas, sells natural gas, trades in electricity, sets up and carries out strategic energy projects, and develops and implements energy efficiency improvement projects. This Block develops and implements energy projects within NIS Group and analyses and evaluates investment projects in Serbia's energy sector under strategic partnership projects. The implementation of the TE-TO Pančevo project is in progress[2].

On 8 locations on oil and gas fields, NIS has small power plants with a total installed capacity of 13.8 MW[3]. Some small power plants also generate thermal energy, meeting the consumption requirements of their own facilities. The electricity output is mostly marketed. In addition to small power plants, NIS produces electrical and thermal energy at the Energy Plant Pančevo having a generator capacity of 10.7 MW. Electrical and thermal energy at the Energy Plant are used entirely for the Pančevo Oil Refinery purposes.

The main activities are supported by nine Functions of the parent company – NIS j.s.c. Novi Sad. Five of the ten supporting Functions are partially de-centralised and have functionally subordinate departments within Blocks[4], while other functions are centralised[5]. One of the General Director's Deputy is in charge of petrochemicals operations.

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[1] Novi Sad Oil Refinery is closed and its design capacity of 2.5 million tonnes per year is currently not being used. By virtue of the decision of the General Director dated 1 March 2016, this facility was placed under the management and responsibility of the Sales and Distribution Block.

[2] In TE-TO Pančevo d.o.o. Pančevo, NIS has a share of 49% through *Serbskaya Generaciya* d.o.o. Novi Sad.

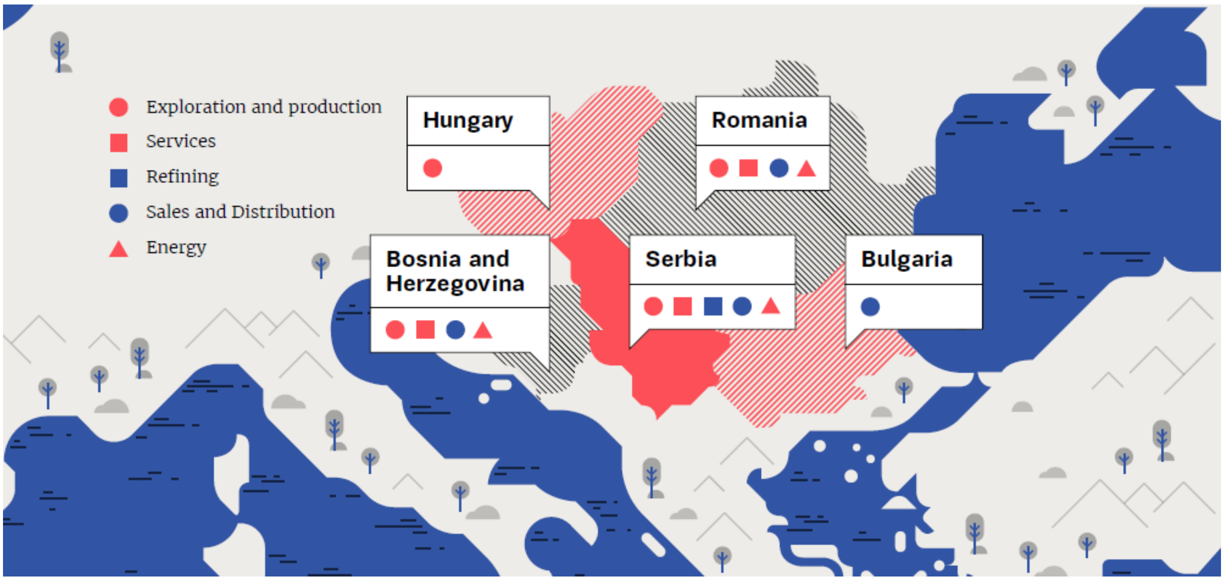
[3] Maximum capacityof small power plants is 14.5 MW.

[4] Finance, Economics, Planning and Accounting, Strategy and Investments, Material and Technical and Service Support and Capital Investments, Organisational Affairs and HSE.

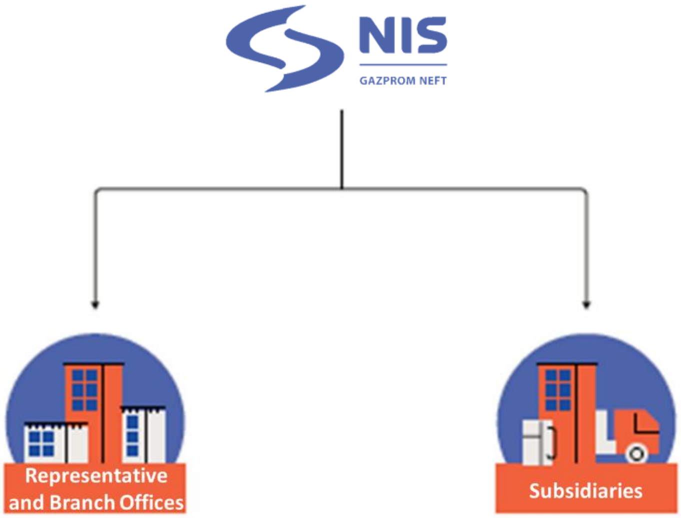
[5] Legal and Corporate Affairs, Corporate Security, External and Governmental Relations and Public Relations, and Internal Audit (Internal Audit is organisationally subordinate to the General Director, whereas the person responsible for internal audit reports to the Audit Committee of the Board of Directors).

NIS Worldwide

Business development in the region is one of the strategic goals of NIS. Following its strategy to become the leader in the region, NIS began expanding its operations to the countries of the region in 2011. Regional expansion started in two main directions - in the field of oil and gas exploration and production (in Bosnia and Herzegovina, Hungary and Romania) and through the development of a retail network (in Bulgaria, Bosnia and Herzegovina and Romania). In addition, NIS is also active in the field of electricity trade, where, apart from the Serbian market, it is present in the markets of Bosnia and Herzegovina, Romania, Slovenia and Hungary.



NIS Group Business Structure



Representative and Branch Offices

- Turkmenistan Branch Office
- Branch Offices in Serbia[6]
- Angola Representative Office
- Bulgaria Representative Office
- Croatia Representative Office
- Bosnia and Herzegovina Representative Office
- Hungary Representative Office
- Romania Representative Office
- Russian Federation Representative Office

Subsidiaries

- O Zone a.d. Beograd
  - NIS Energowind d.o.o. Beograd
- Naftagas – Naftni servisi d.o.o. Novi Sad
- Naftagas – Tehnički servisi d.o.o. Zrenjanin
- Naftagas – Transport d.o.o. Novi Sad
- NTC NIS – Naftagas d.o.o. Novi Sad
- NIS Oversees o.o.o. St. Petersburg
- NIS Petrol EOOD Sofia
- NIS Petrol SRL Bucharest
- NIS Petrol d.o.o. Banja Luka
  - G – Petrol d.o.o. Sarajevo
- Pannon Naftagas kft Budapest
- Jadran Naftagas d.o.o. Banja Luka
- NIS-Svetlost d.o.o. Bujanovac

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

Risk Management

Integrated Risk Management System

Risk is a likely future event that can exert negative or, potentially, positive influence on the achievement of the Company's objectives.

The Company’s operations are exposed to different risks which, if they occur, could essentially impede the fulfilment of the set objectives. The Company recognises that the risks exist and invests efforts to manage those risks systematically. The efficient risk management is central to ensuring the Company’s business continuity, and the established risk management framework constitutes the basis for business decision making.

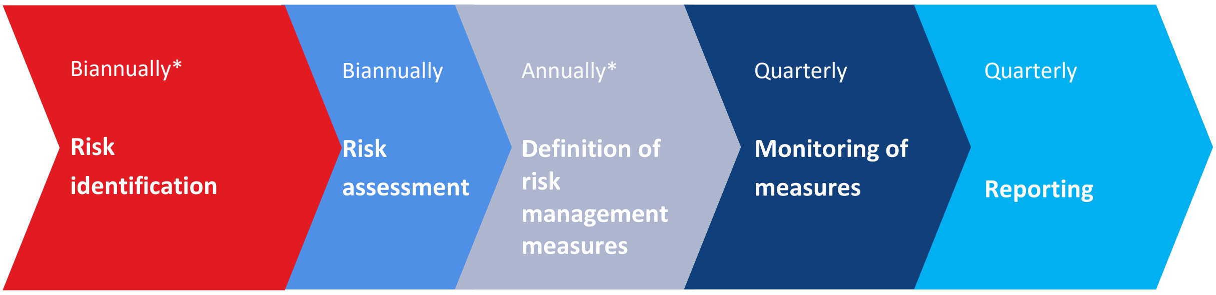
NIS has set its risk management objectives and established an integrated risk management system (IRMS). The Company's objective in the field of risk management is to increase the effectiveness and efficiency of

> **The Company’s risk management objectives are met through the performance of the following tasks:**
> - Establishing a risk management culture at the Company in order to reach a common understanding of the basic risk management principles and approaches by management and employees;
> - Defining and establishing a systemic approach to identifying and assessing the risks that exist in the Company’s operations, both in general and in certain areas of business;
> - Encouraging the exchange of information on risks among the corporate organisational units and jointly defining risk management measures;
> - Providing systematic information on risks to the corporate governing bodies.

management decisions through identification, analysis and assessment of the risks that accompany them, as well as to ensure maximum effectiveness and efficiency of risk management measures during the implementation of the decisions taken.

The IRMS is a set of processes, methodological framework and instruments aimed at ensuring the efficiency and effectiveness of the risk management process at NIS.

IRMS Business Process Flow at NIS



*or as needed

The basic principle underpinning this system is that the responsibility for managing different risks be assigned to different management levels relative to the estimated level of impact of a risk on the Company’s operations (financial impact, impact on the reputation, environmental impact, and impact on people).. Such approach allows for identifying the areas of responsibility for risk management and oversight at all management levels and for ensuring the preparation of suitable action plans for managing key risks, at the level of organisational units and NIS as a whole.

In the parent company, a Section for Risk Management System Monitoring was established to coordinate and continuously develop this business process.

Furthermore, integrated management systems, organisational structure, business processes, standards and other internal regulations, the Code of Corporate Governance and the Code of Business Ethics all together form an internal control system which provides guidance on how to conduct NIS' operations and manage associated risks effectively.

In NIS, risks are identified and assessed by analysing data sources, inspections, interviews, risk-sessions, etc., and they are ranked by levels (Company, Blocks/Functions, Organisational units, Subsidiaries/Large Projects/Business Units, Assets, Projects/Plants, Units of Equipment).

IRMS in Business Planning Process

Key risks, associated with corporate goals, are identified at all levels in NIS and endorsed by the Board of Directors through the adoption of business plans. Risk assessment is an integral part of the business planning process, while information on key risks – estimated financial effect of the risks, management strategies, risk management actions and the funds needed to carry out the actions forms an integral part of the adopted business plans.

Through its operations, the Group is exposed to operational and market risks, state regulation and policy risks, and financial risks.

Operational Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Project Risks	
With respect to geological research, the goal of NIS Group is to increase the resource base and output. This largely depends on the outcome of geological research activities aiming to increase the number of active wells in the country and abroad. The main risk in oil and gas exploration and production ensues from failure to prove estimated reserves and, consequently, failure to achieve planned resource base growth.	The measures applied in order to reduce the risks are the implementation of new 3D seismic exploration using the latest wireless technology, the selection of candidates for exploratory drilling based on complex seismic and geological interpretation of data, the expertise of the geological exploration programme by the largest shareholder and the selection of the most promising wells using state-of-the-art exploration methods. In order to reduce the risks, special attention is paid to good preparation of projects for implementation and quality monitoring during the geological exploration. In order to reduce the licensing risks, geological exploration is carried out in accordance with the schedule defined by the Geological Exploration Projects and the provisions of the Law on Mining and Geological Exploration which, among other things, regulates the field of exploration and production of oil and gas.

Market Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Price Change Risk	
In view of its core activity, NIS Group is exposed to price change risks, namely the price of crude oil and petroleum products, which affect the value of stock and margins in oil refining, which in turn affects future cash flows.	These risks are partly offset by adjusting petroleum product selling prices against the changes in oil and petroleum product prices. The need to use some of the commodity hedging instruments in the Group's subsidiaries, including NIS j.s.c. Novi Sad as a subsidiary, is at the discretion of Gazprom Neft Group. In addition, the following actions are undertaken to reduce a potentially negative impact of the risk: • Annual planning based on multiple scenarios, plan follow-up and timely adjustment of operating plans for crude oil procurement; • Regular sessions of NIS j.s.c. Novi Sad Committee in charge of crude oil purchase/sale to discuss all major subjects related both to crude oil purchase and sale (sale of Angola-Palanca crude oil); • Tendency to enter into long-term crude oil purchase contracts at favourable commercial terms, with longer payment terms on an open account basis and sales contracts which would exempt NIS j.s.c. Novi Sad, in line with current intergovernmental agreements, from paying customs duties at import, based on preferential status; • Expansion of the supplier portfolio, successful cooperation with EU companies, growing competitiveness in import tenders and more prominent progress regarding purchase prices; • Expansion/diversification of the crude oil basket for prospective import, provision of samples of the crude oil types that have not been processed by the Pančevo Oil Refinery; • Continuous effort to optimise processes and striving to achieve the most optimum economic effects and indicators; • Occasional benchmarking to examine the market and price trends, that is, to analyse the commercial capacities of major prospective suppliers of crude oil, renowned companies which are dominant and reliable in crude oil trading.

State Regulation and Policy Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Risk of EU and US Economic Restrictions on Gazprom Neft Group	
The economic restrictions imposed by the EU and the USA on Gazprom Neft Group brought about risks to the prospects for long-term development because of the limitation of loan arrangements with commercial banks from some of the EU- and USA-based bank groups.	NIS continuously follows international developments and assess consequences for the company's business. In addition, in accordance with allowed exceptions from the imposed sanctions (long-term loans are possible only if they are intended for funding the import of goods and services from the EU); NIS' operations continuously adjust to this option by increasing the volume of imported goods and services from EU suppliers. In this way, funds are provided to finance the long-term development of NIS despite the limitations of the sanctions regime.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Foreign Exchange Risk	
NIS Group operates in an international setting and is thus exposed to the risk of fluctuating foreign currency exchange rates arising from business transactions in different currencies, primarily USD and EUR. The risk involves future trade transactions and recognised assets and liabilities.	The risks relating to changes in the national currency exchange rate against the USD is partly neutralised through natural hedging of petroleum product selling prices, which are adjusted to these changes. Risk management instruments are also used, such as forward transactions on the foreign exchange market, which help reduce the impact of foreign currency losses in the event of depreciation of the national currency against the USD or EUR. Other actions include balancing of the foreign exchange equilibrium in terms of adjusting the currencies in which export transactions are denominated to the currencies of foreign liabilities; managing the currency structure of the loan portfolio etc.
Interest Rate Risk	
NIS Group is exposed to the risk of change in interest rate both in terms of its bank loans and fund placement.	NIS j.s.c. Novi Sad takes out loans with commercial banks at floating interest rates and performs sensitivity analysis against interest rate changes and assesses if taking out of a loan at a flat interest rate is required to a certain extent. Funds in the form of intercompany loans/credits to third parties are placed at floating interest rates whereas funds in the form of tied or a vista deposits are placed at flat interest rates. The funds are placed as deposits in line with the credit limit methodologies of commercial banks (the funds are reciprocally placed only with major commercial banks from which NIS j.s.c. Novi Sad takes out loans and/or credit/documentary lines). In this respect, income and cash flows from bank deposits are largely independent of changes in base interest rates, while in the case of placements in the form of credits/loans, the exposure to the risk of base interest rate change (EURIBOR, LIBOR, etc.) is higher.
Credit Risks	
Arises in relation to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans given to third parties, and exposure to wholesale and retail risks, including outstanding debt and assumed liabilities.	Credit risk management is established at the level of NIS Group. With respect to credit limits, banks are ranked based on the adopted methodologies applicable to major and other banks, in order to determine the maximum exposure of NIS j.s.c. Novi Sad to the bank at any given time (through deposits, documentary instruments: bank guarantees, Letters of Credit, etc. – issued for the benefit of NIS j.s.c. Novi Sad). Regarding accounts receivable, there is a credit limit methodology in place which serves to define the level of exposure in relation to individual customers, depending on their financial indicators.
Liquidity Risk	
A liquidity risk involves a risk of NIS Group encountering difficulty in meeting its liabilities. It is the risk of not having suitable sources to finance NIS Group's business activities.	NIS Group continually monitors liquidity in order to provide sufficient cash to meet its operational, investment and financial performance requirements. To this end, it is continually contracting and securing sufficient credit and documentary lines while maintaining the maximum allowable level of credit exposure and meeting the commitments under commercial bank arrangements (covenants). Projection of liquidity takes into account the Group's debt repayment schedules, compliance with contractual terms and internally-set goals, and is based on daily cash flow projections for the entire NIS Group, which form a basis for deciding on raising external loans, in which case adequate bank financing sources are secured within the allowable limits set by PJSC 'Gazprom Neft'.

Aiming to increase liquidity and decrease dependence on external financing sources, as well as to decrease NIS Group's costs of financing, the cash pooling system was introduced on 1 January 2014 for the purpose of liquidity management, which involves centralised management of liquidity and financing of the part of NIS Group in the Republic of Serbia[7].

Since mid-September 2014, NIS j.s.c. Novi Sad has been exposed to the risk of limited external financing capacities due to the imposition of sectoral sanctions by the EU and the USA on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU. Namely, the sanctions prevent NIS j.s.c. Novi Sad from borrowing from the EU or US banks for a period longer than 30 days, i.e. 60 days respectively. The exception foreseen by the EU sanctions refers to the possibility of borrowing for a period longer than 30 days from EU banks exclusively if the loan is intended for the payment of non-sanctioned goods and services imported from the EU.

In order to acquire necessary funds for future transactions NIS negotiated/contracted new credit lines with Serbian, Russian and Arabian banks for general purpose funding and with Serbia-based European banks for funding imports from the EU (financing for a period longer than 30 days is allowed if the subject of financing is import of goods or services from the EU), thus ensuring the necessary funds for regular repayment of loans in 2018 and 2019, as well as for early repayment of loans in order to improve the portfolio (lowering the average cost of financing and extending the average portfolio maturity.

During 2017, the first stage of the loan portfolio restructuring process was carried out (first such restructuring since the introduction of the sanctions in 2014). Loans granted under favourable terms were used to repay loans with shorter maturities and high interest rates (mainly USD loans whose price increased significantly due to the USD LIBOR trends), which helped to reduce the average price of loan portfolio and extend the average maturity of the portfolio. The process of restructuring the credit portfolio continued during the first half of 2018 thanks to the new bank limits granted during the tender conducted in December 2017, as well as the new bank offers received in 2018. The bank limits will be used in line with the exemptions provided under the sanctions regime for the import of goods and services from the EU, which will enable NIS to use liquidity surpluses from loans granted under better terms to repay the loans under more unfavourable terms from its portfolio before their maturity and thereby practically restructure maturity of its credit portfolio (increase the share of long-term loans in the portfolio or extent the average credit portfolio term), with a smaller share of dollar-denominated loans which carry a risk of increased base rate (USD LIBOR). Furthermore, new loans in EUR will be taken out at more favourable interest rates (as opposed to the EU sanctions, USD loans are not possible due to the USA sanctions, which do not provide for exemptions), all within the allowed loan limits, which will unburden the company's cash flow for investments in the next 3 years (especially the 'Bottom of the Barrel' Project)

[7] NIS j.s.c. Novi Sad and subsidiaries Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Transport d.o.o. Novi Sad and NTC NIS Naftagas d.o.o. Novi Sad.

Business Enviroment

The World

Oil

The price of Brent type of oil remained above $ 70 a barrel during the second quarter, although manufacturers have been announcing an increase in oil and gas supplies for a long time.

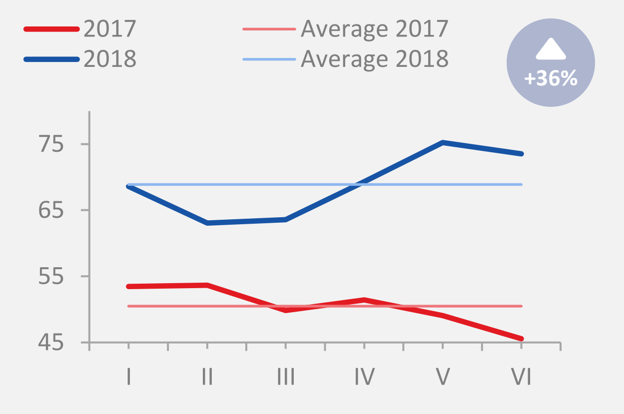


Chart No. 1: *Oil price trend of Urals RMBC type[8], $/bbl*

Saudi Arabia, the biggest manufacturer within OPEC, at the end of June, announced that the member states unanimously agreed to increase oil production by one million barrels per day, with the explanation that it will satisfy the announced oil demands in the second part of the year. But this increase of million barrels a day is not mentioned in the text which was signed at the meeting held in Vienna by this Organization, so further discussions were announced. Certain analysts who attended the conference of OPEC were surprised by the fact that there was no data on increasing production in the final announcement of the meeting in Vienna.

The world's largest crude oil exporter believes the Agreement of 2016 leaves room for maneuver, as all countries are not making the same efforts to reduce production. Some decreases in production are the result of insufficient investment and OPEC is aware of that. Oil producers that have the means to increase production should speed up the extraction of oil to offset possible deficits of other countries, according to the comments on this decision made by OPEC.

Iran, whose production and export capacities are limited by American sanctions, is opposed to the increase of million barrels a day, because it does not want the losses of revenue in relation to other countries.

This communication influenced the oil prices that increased in the time of announcing the decision for 2.84% to 75.13 $ a barrel for European Brent oil and for 3.23% to 67.66 $ for American WTI oil.

Macroeconomic Trends

OECD in its newest economic review makes comments that the growth in global GDP is on the way of reaching an average of 4% in 2018 and 2019. This standpoint is in accordance with the viewpoints of IMF and World bank.

This year they expect GDP growth in the OECD countries to be 2.6% on average, with a moderate decrease in 2019 to 2.5%. At the same time, GDP growth in non-OECD countries shall probably to 4.8% before an increase to 5.1% in 2019.

For USA this organization envisages an increase of 2.9% in 2018 and a slight decrease to 2.8% in 2019. On the other hand, there are opinions heard that the protectionism of American market shall influence on lower GDP growth in Unites States in the following year (2.4%). For other OECD countries a higher growth is expected in the following year.

[8] Source: Platts.

In non-OECD countries, despite the risks, China and India shall continue to develop, while Brazil have recently returned to a positive trend. OECD expects GDP growth in China to reach 6.7% in 2018 and 6.4% in 2019, while expected GDP growth in India is 7.4% in 2018 and 7.5% in 2019.

After a long period of weakness, Brazil should continue with the return to economic growth, with GDP growth which should exceed 2% in 2018 and 2.8% in 2019.

Although the general situation and forecasts remain positive, the risks are growing, and some key indicators fail to reach expected values, including global trade

A trade war could harm the environment, UN experts warn. A global trade war could harm the fight against climate changes and poverty, as well as environmental protection, and greatly aggravate the convergence in other issues, peace and development. The termination of global cooperation and flow of pure technologies could have a long-term global effect.

Although it could be said that in general, economic decline could reduce carbon dioxide emissions, the “gains” acquired this way would quickly be cancelled by the negative trend in the economy.

Serbia

The positive trend in economic activities in Serbia continues in the first half of 2018. Serbia is characterized by a growing economy with low inflation, the fiscal deficit has been eliminated the public debt is in decline, external imbalance is decreased and job market is in the recovery stage. An improved structural competitiveness has contributed to better overall macroeconomic results.

Diversified growth is supported by investments, export and job market recovery. GDP has accelerated its growth to 4.6% in the first quarter, driven by a high growth of investments - both private and government, higher consumption, and supported by strong growth of the export.

A strong growth of investment activities confirm the movement of key indicators of construction, then growth of the equipment import, a strong net FDI inflow and growth of domestic sources of financing. On the production side, strong growth in construction (26.4%) contributed to a more accelerated growth of GDP than expected. Other sectors have also given a positive contribution, primarily industrial production and private sector services. High private and government investments, accelerated growth of export and increased consumption shall be the main drivers of GDP growth of 3.5% in 2018 and 2019. The factors that will contribute to sustainable medium-term growth include macroeconomic stability, better business environment (structural reforms), investments in infrastructure and effects of previous monetary policy. Investment share in GDP has been steadily increasing during the last 3 years and will exceed 21.5% in 2018. Domestic factors, primarily investments, point to the risks most in terms of growth in the short term, while the slowdown in the euro zone can affect unfavorably.

Inflation slowed at the beginning of 2018 - from 3.0% in December 2017 to 2.3% in June, and is expected to remain in the lower half of the inflation target in the short term, with a gradual approach to the central target value in 2019. Inflation expectations are anchored around the central target value of 3.0%.

State budget in 2017 went into surplus (1.2% GDP) and this trend continued in the beginning of 2018 (0.4% GDP in the first quarter). After a sharp fall of the public debt in 2017 for more than 10% GDP, in the beginning of 2018 it was further reduced to 60.0% GDP (May 2018).

Macroeconomic stability with structural reforms created a more favorable environment for FDI which are well diversified and contribute to export potential of the country. Correction of the business environment was confirmed by further progress on the Doing Business list of the World Bank, Serbia has made progress from 91st place (2015) to 47th place (2017), and then to 43rd place (2018).

In May and June, the NBS kept the reference rate at 3% taking into account the expected inflation trends and its factors in the upcoming period, as well as the effects of the recent mitigation of monetary policy. Uncertainty in the international commodity market, primarily on the basis of oil price trends and prices of agricultural products, the various monetary policies of the FED and the ECB, as well as the current geopolitical tensions, requires caution in the conduct of monetary policy. The NBS points out that the resistance of domestic economy to possible negative effects from international environment is increased thanks to better macroeconomic foundations and more favorable outlooks for the upcoming period.

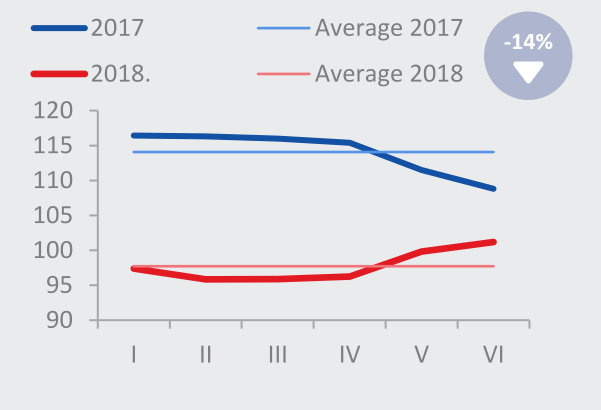


***Chart No. 2:** Exchange rate trend, USD/RSD*[9]

- Average USD/RSD exchange rate in first six months of 2018 was lower by RSD 16.34, i.e. 14% compared to the average exchange rate in the same period of 2017.
- During first six months of 2018, USD/RSD exchange rate rose by RSD 2.22 or 2%.
- During first six months of 2017, USD/RSD exchange rate fell by RSD 11.49 or 10%.

[9] Source: NBS

Performance Analysis

Market Share[10]

Market Share in the Serbian Market

Consumption of motor fuels recorded an upward trend, primarily due to the increase in diesel fuel consumption.

The cold April postponed the start of agricultural activities, partly affecting the normal seasonality in consumption.

The restricted grey market and infrastructural works have positively impacted on diesel consumption, while a high gasoline price is the most influential negative factor in the consumption of this petroleum product.

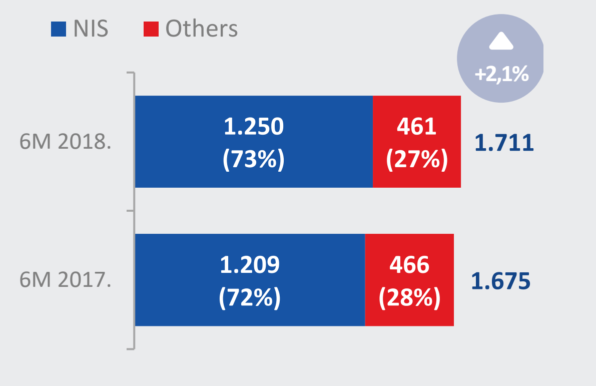


Chart No. 3: *Volume of the RS petroleum products market[11], in thousand tonnes*

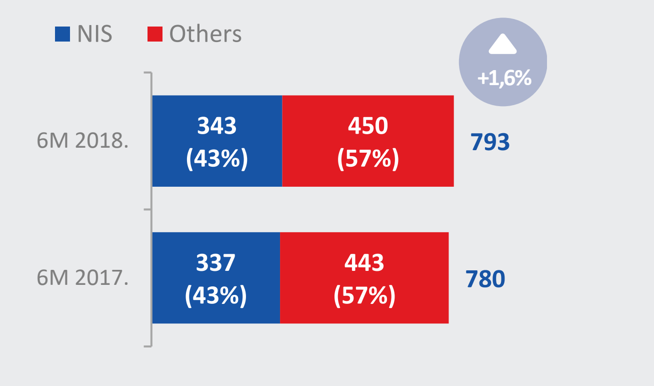


Chart No. 4*: Volume of the RS motor fuels market[12], in thousand tonnes*

Petroleum product consumption follows an overall positive growing trend. This is primarily due to:

- The increased consumption of bitumen and coke owing to the favourable weather conditions in January and February
- The construction industry and road construction industry as the main drivers in Diesel consumption
- A good agricultural season which, due to the cold spell in April, shifted slightly towards the summer.

The NIS' share in the overall petroleum product market has increased resulting from a bigger share in the sales of virgin naphtha, diesel, liquid petroleum gas and lubricants.

Market Share in Bosnia-Herzegovina, Bulgaria and Romania

Bosnia and Herzegovina

According to the price of fuel in the region (gasoline and diesel), Bosnia and Herzegovina is traditionally listed at the bottom of the list.

After reporting the set of excise laws in Bosnia and Herzegovina, which did not increase excise duties (except for biofuels and biodiversity), road prices increased by 0.15 KM, there was an increase in oil and oil

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

[11] Data for 2018 are given on the basis of estimates.

[12] The sales of NIS and other competitors include motor fuels (gas, motor fuels, diesel and EL fuel oil used as motor fuel). LPG bottles are not included. Data for 2018 are given on the basis of estimates.

derivatives prices. This increase in prices leads to a chain increase in the prices of other goods and services. The Board of Directors for Indirect Taxation of Bosnia and Herzegovina shall make a decision to change the previous allocation coefficients of the collected funds by amending excise (97 million KM) which came into force on 01.02.2018, according to which the Federation has the right on 59%, the Republic of Srpska 39% and Brčko district 2%.

NIS has 37 petrol stations in Bosnia and Herzegovina.

NIS’s market share in the total motor fuel marketis 13.2%, with an 9.6% retail market share.

Bulgaria

More intensive imports of used vehicles from the European Union have affected sales growth in the diesel segment. The situation on the wholesale market is stable

The "Lukoil" company is planning to build a polypropylene production complex in the territory of "Neftochim" in Burgas and is trying to maintain an aggressive pricing policy through increasing the utilization of the capacity of the refinery in Burgas.

In the process of aligning with EU regulations, a new Law on Oil and Petroleum Trade has been adopted, whose amendments are encompassing the obligatory registration of companies and the increasing of the bank guarantees of oil and oil derivatives companies in order to reduce the gray sector. The small traders of oil derivatives opposed to this modification and, according to some estimates, this modification will lead to bankruptcy of about 400 gas stations that make up 15% of the market.

NIS has 35 petrol stations in Bulgaria.

NIS’s market share in the total motor fuel market is 6.1%, with a retail market share of 4.6%.

Romania

The Romanian National Agency for Mineral Resources (ANRM) has approved new increased transport tariffs through a national oil, gasoline, condensate and ethane transport system that has been applied since June 19th, 2018. The modification was announced by the company CONPET SA - a company specializing in the transportation of oil and gas pipelines, whose main business partners are OMV Petrom, Lukoil and Rompetrol.

The Petrobrazi Refinery in Ploiesti (OMV Petrom) is operating again after a two-month modernization process whose value is estimated on 45 million EUR.

NIS has 18 petrol stations in Romania.

NIS’s market share in the total motor fuel market is 0.8%, with a retail market share of 1.1%.

Key Performance Indicators

Q2 2018	Q2 2017	Δ[13]	Indicator	Unit of measure	6M 2018	6M 2017	Δ[14]
72.7	48.7	*+49%*	*Urals RCMB*	$/bbl	68.9	50.5	+36%
67.9	57.1	+19%	Sales revenue[15]	RSD billion	120.4	107.4	+12%
7.8	7.0	+10%	Net profit	RSD billion	11.5	12.4	-7%
15.0	11.3	*+33%*	EBITDA[16]	RSD billion	24.0	22.5	6%
4.8	14.4	*-67%*	OCF	RSD billion	9.4	18.9	-50%
9.4	5.3	*+77%*	CAPEX[17]	RSD billion	17.2	10.0	72%
47.8	42.4	+13%	Accrued liabilities for taxes and other public revenue[18]	RSD billion	90.95	77.9	+17%
625	636	-2%	Total bank indebtedness[19]	USD million	625	636	-2%
2.3	1.6	+43%	LTIF[20]	number	2.32	1.6	+43%

Operating Indicators

Exploration and Production

Q2 2018	Q2 2017	Δ[21]	Indicator	Unit of measure	6M 2018	6M 2017	Δ[22]
332	*349*	*-5%*	**Oil and gas output[23]**	Thousand t.o.e.	**661**	692	-4%
221	226	-2%	**Domestic oil output[24]**	Thousand tonnes	**438**	446	-2%
1.1	0.0	100%	***LTIF[25]***	number	**1.1**	0.0	100%
9.4	7.1	*34%*	***EBITDA***	RSD billion	**17.2**	14.5	18%
4.3	4.0	9%	***CAPEX[26]***	RSD billion	**8.2**	7.1	16%

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

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

[15] Consolidated operating income.

[16] EBITDA = Sales revenues (exclusive of excise duties) – costs of inventories (oil, petroleum products and other products) – Operating Expenses (OPEX) – other costs that may be controlled by the management.

[17] CAPEX amounts are exclusive of VAT.

[18] Taxes, fees, charges and other public revenue calculated for the reporting period. The overview is inclusive of the liabilities of NIS for taxes and other public revenue in Serbia and other countries of operation.

[19] Total bank indebtedness =Total debt to banks + Letters of Credit. As at 30 June 2018, this was $624,5 million of total debt to banks

[20] Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The indicator shown refers to NIS j.s.c. Novi Sad with its subsidiaries: Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad.

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

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

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

[24] With natural gasoline.

[25] Lost Time Injury Frequency Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 30 June, hence there is no difference between 6M and Q2

[26] Financing, exclusive of VAT.

The main focus of the Exploration and Production Block in the second quarter of 2018 was to achieve the planned production of hydrocarbons, implement the projects and improve the efficiency of geological and exploration works, as well as to improve the production and technological efficiency by implementing measures aimed at increasing operational efficiency.

In 2018, the Exploration and Production Block plans to increase the hydrocarbon reserves by 0.6%. In the last three years, the success of exploration and development drilling remains at the highest level. As to geology and reservoir engineering, the focus was on improving the effectiveness of all geological and technological activities, reducing the cost of operations and experimenting with inexpensive methods aimed at increasing the output of oil and applying new technologies and innovative solutions.

Exploratory Drilling and Well Testing

As part of geological research operations carried out by Exploration and Production, it is planned to complete the drilling of 11 wells and to start drilling two exploratory wells slated for completion in 2019.The exploration drilling candidates were approved at the Technical Session held at GPN level in February and June 2018.

In February, the drilling of *Majd-X*-2 was completed. The well is tested and hydrodynamic well testing is under way. The Is-X-7 well was drilled at the Iđoš structure in March, then tested and now it is in test production; Is-X-2 was drilled and tested in June and now pending hydrodynamic well testing. The drilling of Kiz-X-3 and Lo-X-2 finished in May. The Kiz-X-3 well was tested in test production, designs and technical documents for tie-in are being prepared, whereas Lo-X-2 is tested and in test production. The drilling of Čes-1X finished in June and pending well testing. The drilling of Itj-1X and wellsite construction for Km-X-2 and Pć-1X are under way. It is planned to drill Km-X-2, Pć-1X, Ve-1X, Sir-24X and to start drilling Majd-X-3 and Bra-Malj-1X.

3D Seismic Surveys

Acquisition operations under the South Banat II Project finished in May, covering 706.95 km2. Acquisition operations at Turija IV started in June, covering 89.474 km2. A total of 1,243 km2 is planned to be covered in 2018.

Currently on-going is the processing of 3D seismic data acquired from the South Banat II area (706.95 km2) and the geological interpretation of seismic data at exploration areas South Banat I (755 km2), Turija III (505 km2) and Morović (301 km2).

International Projects

At Kiskunhalas exploration block in Hungary, it is planned to abandon the remaining three wells and return the exploration license. The first well Pirto-1 is abandoned and abandonment operations are being launched at the Kiha-003 well.The project for Sever exploration field has been approved, which includes two wells – Teremia 1001 and Teremia 1002 at Ex-7 and Ex-8 blocks. 2D seismic survey covered 102 km at the EX-7 block. Access to Beba Veche Sud was provided. Site access tracks are being constructed at the Beba Veche Sud well. Permitting activities will continue yet in another two blocks, and a seismic survey in Ex-3 Block is underway.

Approval has been granted to a project stipulating further exploration operations at the Teremia North oilfield, which envisages two more boreholes at Ex-7 and Ex-8 Blocks. At EX-7 Block 102 km of 2D seismic explorations have been completed. Seismic operations started at EX-3 Block. Access roads construction has been under way and preparation of a location surrounding the location of the BVS-1000 well. Gaining permits for two locations for exploration drilling at EX-8 block and one in EX-2 block. Continuation of gaining permits for seismic exploration operations in blocks Ex-2 and Ex-12

In Bosnia and Herzegovina, preparations for the geological research project for 2019-2022 are under way at Block 2, South Herzegovina. Reconnaissance operations at Block 2, South Herzegovina, finished in June.

Operating Indicators

A total of 661 thousand tons of oil and gas equivalent were produced in the first six months of 2018.

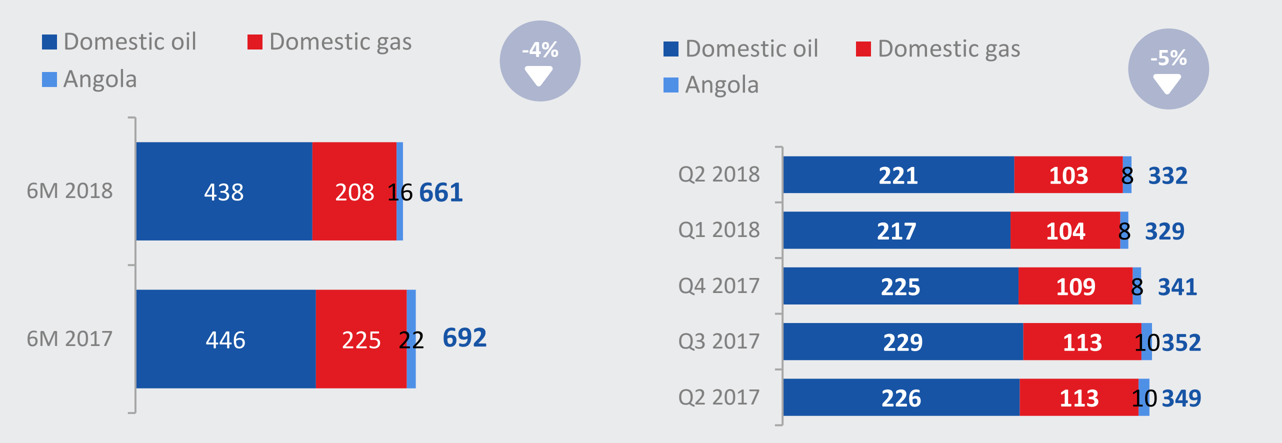


Chart No. 5: Oil and gas output, thousand t.o.e.

Services

Q2 2018	Q2 2017	Δ[27]	Indicator	Unit of measure	6M 2018	6M 2017	Δ[28]
18	18	0%	Wells finished	Number of wells	**34**	31	10%
3.93	3.33	18%	***LTIF***[29]	%	**3.93**	3.33	+17%
0.4	0.9	-55%	*EBITDA*	RSD billion	**0.7**	1.3	-48%
0.2	0.1	+86%	*CAPEX*[30]	RSD billion	**0.3**	0.2	+22%

In the first six months of 2018, Services drilled 34 wells including 6 exploration wells. The project of 3D seismic "South Banat II" was successfully completed and works have started on project "Turija IV" in Serbia. In 2018, the EU market presence trend continues in the second quarter the works of 3D seismic project in Romania have started. In the first six months the Block Services successfully continued its works for Block Sales and the reconstruction works on SSG „Bagrdan“-Jagodina and the reconstruction works on “Subotica 1” and “Lazarevac” filling stations commenced

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

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

[29] Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The indicator shown refers to NIS j.s.c. Novi Sad with its subsidiaries: Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad.

[30] Financing, exclusive of VAT.

Oilfield Services

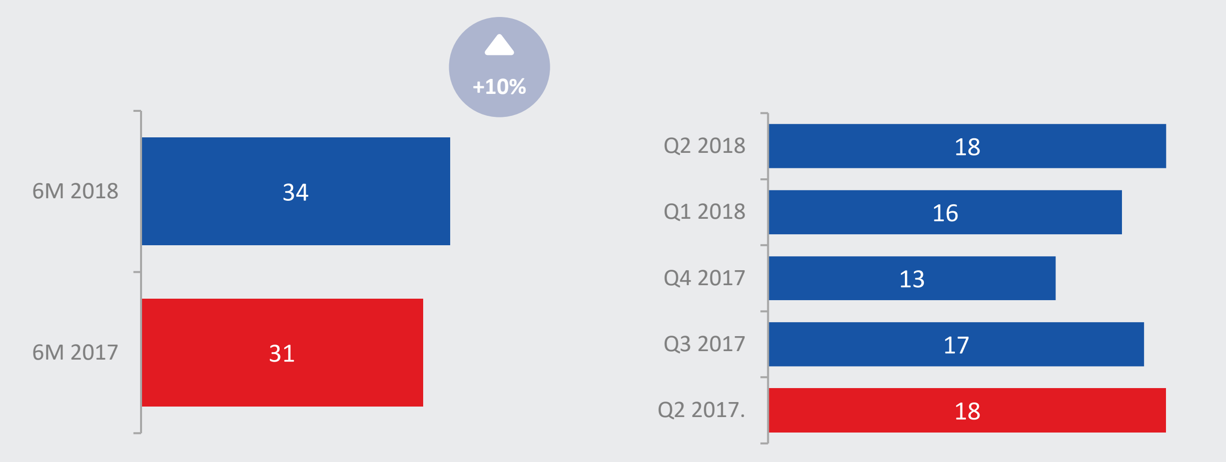


Chart No.6: Number of wells finished

In the first six months in 2018, Naftagas - Naftni Servisi d.o.o. performed their works with 6 drilling rigs on average. 34 wells were drilled for the Exploration and Production purposes. When it comes to technically and technologically challenging wells, Majd-x-2, Lo-x-2 and Kiz-x-3 have been successfully completed. The strategy "Technical Limits" is still being implemented with the aim of increasing the drilling rate and efficiency of the process itself.

The Workover Unit worked on average with 14 workover rigs and carried out 225 well workovers in the first six months this year. In the given period, the HPHT (high pressure-high temperature) deep well Majd-x-002 went into production.The Well Services Unit performed 3,475 operations, while the cementation section performed 804 stimulating operations. In the Well Services Department, a test commissioning was conducted for a GPPU for high-concentration gravel pack and the cleanout of the well JE116 by means of coiled tubing units and SpinCat tools. Geophysical Service Department completed the Južni Banat II project and started a new one - Turija IV. For the first six months in Serbia total of 483.37km2 were surveyed by way of 3D seismic method. Seismic personnel in Romania completed the 2D seismic survey of Valkani, covering 102.1km2, and the works began in the EX-3 Block in Oradea, where 15.06km2 were surveyed by means of a 3D seismic method.

Technical Services

In the first six months of 2018, Naftagas – Tehnički servisi d.o.o. Zrenjanin completed the reconstruction of Bagrdan – Jagodina fuelling station and started work on the construction of Subotica 1 and Lazarevac fueling stations The equipment was overhauled for Naftagas-Naftni servisi d.o.o. and Exploration and Production purposes and the capital workover and rebranding of 19 sucker rods were performed.

The overhaul works were performed during the suspension of operation of refinery units in Pančevo Oil Refinery and the overhaul of *C*-100 was started (atmospheric distillation unit).

Transport

As a process of supporting the activities of all blocks, Naftagas - Transport d.o.o. Novi Sad provided transportation services of passenger, freight, special-purpose and bus vehicles. The total volume of kilometres travelled in the first six months of 2018 is 13.57 million kilometres.

In early 2018, Naftagas-Transport d.o.o. Novi Sad received a certificate for public and international transportation in accordance with the latest changes in the legislation of the Republic of Serbia. Currently, the preparations are in progress for the transport of tools and equipment for NFS Drilling Department to the site in Romania, which will be realized in the third quarter of 2018.

Refining

Q2 2018	Q2 2017	Δ[31]	Indicator	Unit of measure	6M 2018	6M 2017	Δ[32]
909	879	+3%	Volume of refining of crude oil and semi-finished products	Thousand tonnes	**1,696**	1,645	+3%
0.0	1.2	-100%	*LTIF*[33]	%	0.0	1.2	-100%
5.5	2.1	+159%	*EBITDA*[34]	RSD billion	**6.7**	5.0	+32%
3.8	0.9	x3	*CAPEX*[35]	RSD billion	**6.5**	2.1	x2

In the first six months of 2018 , in Refining Block, EBITDA amounted to 6.65 billion dinars. Effect of efficiency increase programs on EBITDA was 0.1 billion dinars.

In the first quarter of 2018, a mini overhaul was carried out in February by applying modern equipment cleaning methods.

Refining of new crude oil “Iranian Heavy “ started in May 2018.

The structure for two reactors was erected at the Bottom of the Barrel construction site. These are the parts of the equipment in which the coking processes will take place, thus successfully completing one of the milestones in the realization of this investment. A contractor for furnace installation was selected, as well as the contractor for electrical power and instrumentation equipment installation.

Refining Activities and Volume

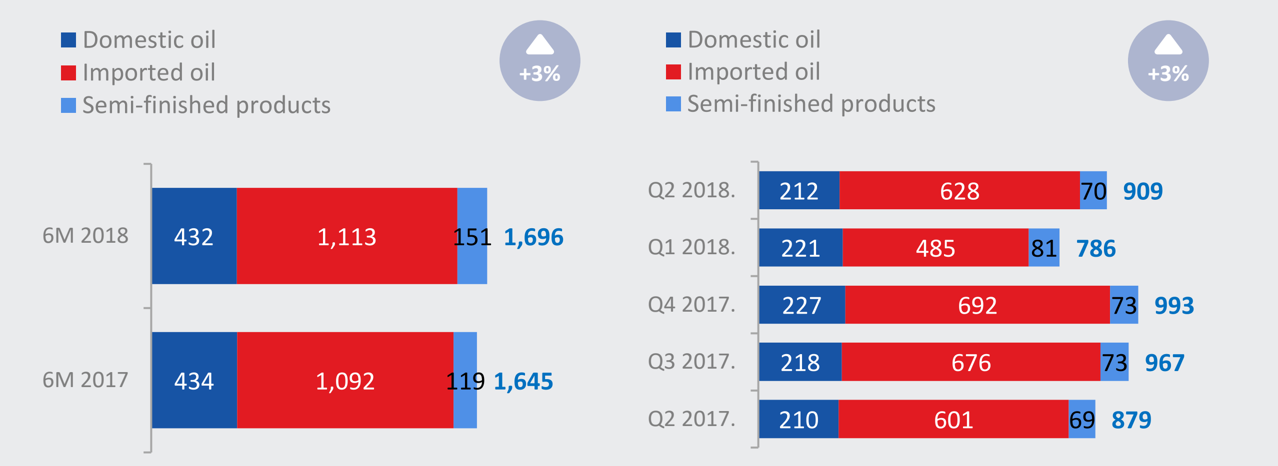


Chart No.7: Refining volume, thousand tonnes

In the six months of 2018, the production of petroleum products increased compared to the same period of the previous year by 3% as a result of market demands (diesel, jet fuel, virgin naphtha, bitumen).

[31] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[32] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[33] Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.
[34] EBITDA of the Refining Block includes the Energy Plant at the Pančevo Refinery, which is eliminated at a consolidated level as the effect of the Energy Plant is also included in the Energy Block’s EBITDA.
[35] Financing, exclusive of VAT.

A new gas ejector was commissioned on vacuum distillation plant.

The *APC system* (*Advanced Process Control*) was implemented on the hydrocracking unit.Replacement of burner on vacuum distillation plant has been performed.

'Bottom of the Barrel' Project

The concrete structure for the coking reactor was constructed. The hydro test of the columns of the sour water stripping unit (*SWS*) and amine regeneration unit (*ARU*) was performed.

The structure for two reactors was constructed, thus successfully completing one of the milestones in the implementation of the Bottom of the Barrel Project.

In the second quarter of 2018, 90% of 3D model design was completed for work package 2 (modernization of the existing units: MHC/DHT, OMP, SRU II).

The furnace installation contractor was selected, mobilization was carried out and the works started. Furthermore, the contractor for electrical power and instrumentation equipment was selected.

Pipeline installation activities on pipe rack JA-5301, installation of reactor internals and equipment installation started.

Construction work on the foundation base for coke storage silos and the foundation for the centrifugal compressor were completed.

Overhaul

In January, the bitumen production unit was overhauled and the bitumen loading system was reconstructed without shutting down this production unit.

In mid-February 2018, a mini overhaul was conducted by applying modern equipment cleaning methods. During this scheduled shutdown, the technological line of the hydrogen unit was completely replaced, which will result in higher reliability of operation of this and other refinery processing units. Furthermore, 14 heat exchangers and more than 20 air cooler sections were replaced. The revision and overhaul of four columns were carried out and several technical and technological modifications were made on process units in order to increase the total efficiency of refinery processing and improve the operation the during summer period.

The scheduled workover was completed a day ahead of schedule despite very bad weather conditions and all refinery units are in commercial operation with the stable operation of production units.

The catalysts were replaced on the pyrolytic gasoline hydrodesulphurisation unit.

Overhaul activities on the Small Atmospheric Distillation Unit were carried out.

Other Projects

The LOTO system is currently being implemented (lockout and tagout equipment) in order to increase the safety at work.

The following investment projects have been put into operation: Installation of On-Line Analysers for Measurements on API Separator and Clarifier Lines in Pančevo Oil Refinery, Modernisation of Bitumen Loading / Unloading Installations at the Tank Car/Tank Truck Loading Terminal in Pančevo Oil Refinery, Application of Antireflective Coating on *C*-300 Furnace, "Installation of on-line analyzer for simulated distillation and for cloud point at the diesel line from MHC/DHT" and "Modernization of radio system in POR".

Implementation of Digital Transformation in the Refining Block started with projects for training operators on Unit simulators (OTS) and with the failure prediction project (Machine learning).

The Feasibility Study preparation for “Automatic Fire Safety Systems for Extinguishing and Cooling Old Units in POR”.

The implementation of the project for improving the safety on the section of the road in Spoljnostarčevačka Street in front of the entrance to the Pancevo Refinery started, under which traffic signalization and all other necessary equipment will be procured and installed.

The project “Career Path” was implemented in the Refining Block.

Sales and Distribution

Q2 2018	Q2 2017	Δ[36]	Indicator	Unit of measure	6M 2018	6M 2017	Δ[37]
900	831	+8%	Totalsalesvolumeofpetroleumproducts[38]	Thousandtonnes	**1,665**	1,544	8%
83	75	+10%	Salesvolume–foreignassets[39]	Thousandtonnes	**162**	145	12%
673	630	+7%	Salesvolumeofpetroleumproductsinthedomesticmarket[40]	Thousandtonnes	**1,257**	1,202	5%
590	522	+13%	Motorfuels[41]	Thousandtonnes	**1,069**	958	+12%
239	233	3%	Retail[42]	Thousandtonnes	**439**	433	+2%
3.7	3.9	-5%	InternalSales	Thousandtonnes	**8.3**	7.5	+11%
2.0	1.5	+37%	LTIF[43]	%	**2.0**	1.5	37%
3.0	*3.1*	*-2%*	EBITDA	RSDbillion	**4.5**	5.2	-13%
0.9	*0.1*	*x8*	CAPEX[44]	RSDbillion	**1.9**	0.3	x7

Points of Sale[45] and Logistics

NIS Group has over 400 active retail facilities. The largest number of it, namely 333 retail facilities, are located in the Republic of Serbia. In addition to 10 internal petrol stations, NIS owns 323 public petrol stations (of which 20 are in *GAZPROM* brand). In the countries of the region, NIS owns 35[46] petrol stations in Bosnia and Herzegovina (27 in *GAZPROM* brand), 35 petrol stations in Bulgaria (all in *GAZPROM* brand) and 18 petrol stations in Romania (all in the *GAZPROM* brand).

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

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

[38] Excluding the internal sales volume (6M 2018: 8.34 thousand tonnes; 6M 2017: 7.48.thousand tonnes).

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

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

[41] Total sales of motor fuels in Serbia and in foreign assets.

[42] Total retail in Serbia and in foreign assets.

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

[44] Financing, exclusive of VAT.

[45] As at 30 June 2018.

[46] In addition to 35 petrol stations owned by NIS in Bosnia and Herzegovina, two gas stations operating in *DODO* (*Dealer Owned Dealer Operated*).

In Serbia, upon completion of rebranding works, in the first half of the year, three petrol stations were put into operation: “Bagrdan” (GAZPROM brand) and two petrol stations in Niš – “12. februar” and “Vojvode Mišića”(one in GAZPROM and the other one in NIS Petrol brand).

Loyalty and Marketing Activities Programmes

In the second quarter of 2018 in Serbia, over 37 marketing activities were realized in order to develop consumer brands, loyalty programs and improve fuel sales and supplementary assortment. Additional promotional campaigns to boost sales were run on three newly opened petrol stations.

Four new products have been launched under the private label: G-Drive energy chewing gum, Spearmint and Peppermint, G-Drive energy cherry and Drive Cafe oatmeal..

Loyalty program ‘On the Road with Us’ has been developing since the end of 2015 and over 604 thousand cards have been issued by June 30, 2018, and the participation of users of this program in total sales to individuals in the second quarter of 2018 reached 55%. A new payment function of the card ‘On the Road with Us’ has been introduced which allows users to purchase fuel and supplementary assortment, with a deferred payment of up to 45 days, on all NIS Petrol and *GAZPROM* petrol stations. Since the introduction of new functionality, over 17,000 requests have been submitted, and over 13,000 have been approved. In 2018, the loyalty program with Tehnomanija continues, where the owners of the ‘On the Road with Us’ card earn bonus points for every purchase. Bonus points can be used exclusively at NIS Petrol and *GAZPROM* petrol stations.

Until June 30, 2018, as part of the loyalty program in Bosnia and Herzegovina, 71,000 cards were issued, and the share of users of this program in total sales to individuals reached 46% in the second quarter of 2018. Over 65,000 cards were issued in the program ‘With Us on the Road’ in Bulgaria until June 30, 2018. Participation of users of this program in total sales to individuals reached 37% in the second quarter of 2018.

The Agro Card Loyalty Program is aimed at farmers and is been developing since the end of 2013. By June 30, 2018, 128,088 cards were realized. The activities aimed at maintaining the 2017 sales volumes and achieving the projected volumes for 2018, as well as client reactivation, continue..

The new product Adblue with pouring spout was launched. The motivation program for distributors in Serbia and in the region was run. The already traditional marketing campaign for promotion of NISOTEC brand “My Car Loves NISOTEC” has been launched..

Operating indicators[47]

In the first six months of 2018, the turnover growth was 8% compared to the first six months of 2017, so the total turnover amounted to 1,665 thousand tons.

- Retail sales in Serbia – retail volume growth of 2% is the result of the increase in sales of diesel fuel.
- Wholesale in Serbia – growth of 6% for the most part due to motor fuels.
- Exports – growth of 24% because of the growth of exports of motor fuels.
- Foreign assets – growth of sales volume by 12% (wholesale channel by 33%).

[47] Excluding internal sales volume (6M 2018: 8.34 thousand tonnes; 6M 2017: 7.48 thousand tonnes).

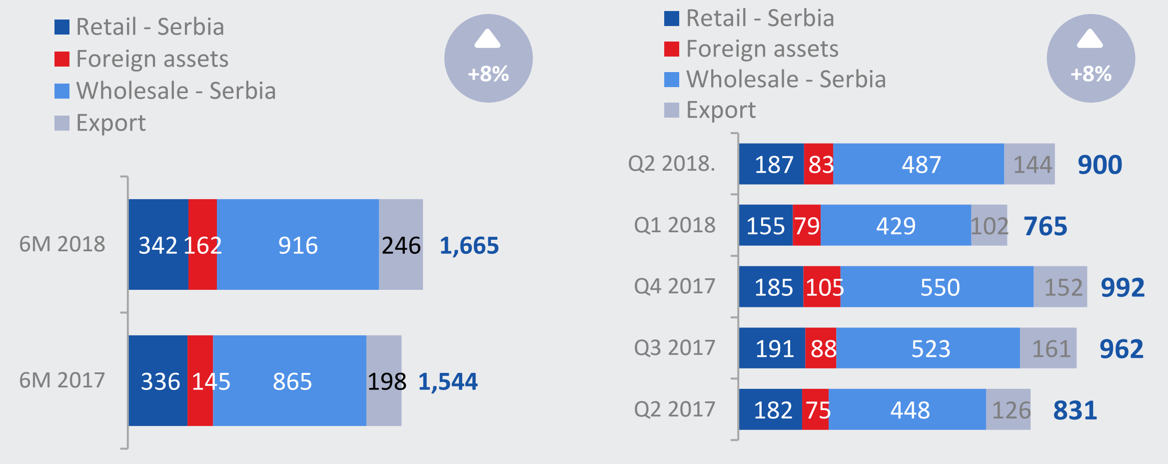


Chart No. 8: Volume of sales [48]*,*
thousand tonnes

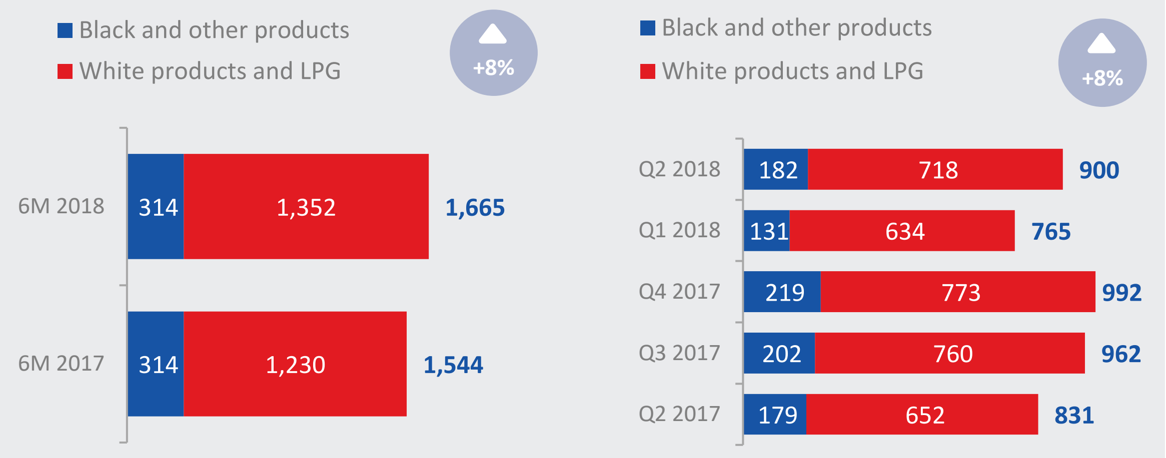


*Chart No. 9: **Structure of sales*** [49]*,*
thousand tonnes

[48] Excluding internal sales volume (6M 2018.: 8.34 thousand tonnes; 6M 2017.: 7.48 thousand tonnes; Q2 2018.: 3.74 thousand tonnes; Q2 2017.:3.94 thousand tonnes).
[49] Excluding internal sales volume (6M 2018.: 8,34 thousand tonnes; 6M 2017.: 7,48 thousand tonnes; Q2 2018.: 3,74 thousand tonnes; Q2 2017.:3,94 thousand tonnes).

Energy

Q2 2018	Q2 2017	Δ[50]	Indicator	Unit of measure	6M 2018	6M 2017	Δ[51]
34,809	37,700	-8%	Electricity output	MWh	78,422	83,776	-6%
4.45	0.00	100%	**LTIF[52]**	%	4.45	0.00	100%
0.1	0.2	-45%	EBITDA[53]	RSD billion	0.4	0.5	-35%
0.1	0.1	+78%	CAPEX[54]	RSD billion	0.2	0.1	+71%

The EBITDA from regular operations in the first six months of 2018 amounted to 0.4 billion dinars. The further implementation of TE-TO Pančevo d.o.o. Pančevo project is in progress. The electricity trading volume contracted for 2018 amounts to 1.16 *TWh*. The Energy proceeds with the activities aimed at developing business and improving operational efficiency.

Gas Monetisation

The elaboration of the design is prepared for a small power plant on OS Kikinda polje and the technical and economic parameters of the power plant are defined. The passport of the project is made for the planning phase and preparation for approval of the project on the IK, which is in the process of harmonization. Technical tasks for the procurement of the main equipment and service of preparation of the technical documentation are made.

The heat accumulator is installed for the reconstruction of a small power plant Velebit 3, in order to obtain the incentive prices for electricity. Works are in progress on the construction of the heat substation. A tender for the procurement of reconstruction service of CHP is published.

In order to reduce heating costs of consumers in the area of the ex Oil Refinery of Novi Sad (project of decentralisation of the heat source), works on the installation of the steam boiler (steam production 10 t/h) and the steam boiler for waste water treatment facility have started. The tender procedure for procurement of the service of delivery and installation of four small hot water boilers is completed.

Within the investment maintenance of the equipment of the combined heat and power plant and electric energy system in the oil refinery in Pancevo, the technical documentation for the works to be executed during the overhaul of the refinery, passports of the projects for the phase of implementation and technical tasks for the procurement of services works are prepared. .

The tender procedure for selection of a contractor to construct a CNG plant on SSG Žarkovo 2 (Belgrade) is completed and the procedure for harmonization and signing of the contract is initiated. A request for obtaining a building permit is submitted to the competent authority. The tender procedure for procurement of the main equipment for the construction of CNG plant on SSG Blok 45 in New Belgrade and the technical evaluation of quotations is completed. The projects of construction of CNG plant at locations SSG Ledena stena Niš, SSG Vrbas 3, Autopunilište TNG Niš and Autopunilište TNG Novi Sad are at the stage of elaboration. Also, the analysis of other possible locations for this purpose is made. For the realization of

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

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

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

[53] EBITDA of the Energy Block includes the Energy Plant at the Pančevo Oil Refinery which is eliminated at a consolidated level as the effect of the Energy Plant is also included in the Refining Block’s EBITDA.

[54] Financing, exclusive of VAT.

the project of reconstruction of CNG plant in the field of Palic, the preparation of technical documentation is completed and procurement procedures for services of reconstruction of the plant is conducted.

Trade in Electricity

In the area of electricity trade, NIS is present in the markets of Serbia, Bosnia and Herzegovina, Romania, Slovenia and Hungary. In addition to these markets, NIS also traded on the border with the Former Yugoslav Republic of Macedonia. NIS has started trading at the stock exchange of electricity in Serbia (SEEPEX). In the same period the registration is completed and the work at the auction house JAO (Joint Auction Office), which confers cross-border transmission capacities in Central and Southeast Europe, has started.

Operating Indicators

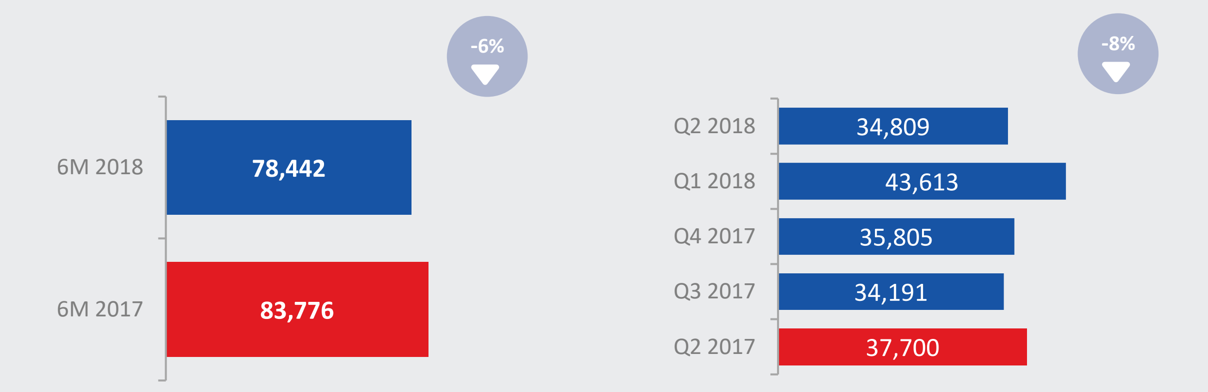


Chart No. 10: *Electricity output, MWh*[55]

In the first six months of 2018, a total production of78,422 MWh of electricity was achieved. At small power plants the production is lower by 7% compared to last year, due to less gas availability in the fields Sirakovo and Majdan. Production of electricity in the combined heat and power plant Pancevo is dependent on the volume and structure of needs for steam of Block Refining.

In order to produce electricity at cogeneration units, 18.0 million m^3 of non-commercial gas were used in first six months of 2018.

[55] Including Energy Plant in Pančevo Oil Refinery.

Financial indicators

Sales Revenues

During the first six months of 2018, NIS achieved a 12-percent growth in sales revenue[56] compared to the same period previous year. This growth was achieved due to an increase in the volume of sales, as well as an increase in the retail prices of petrol and diesel fuels, which was prompted by the rise in crude oil prices in the global market.

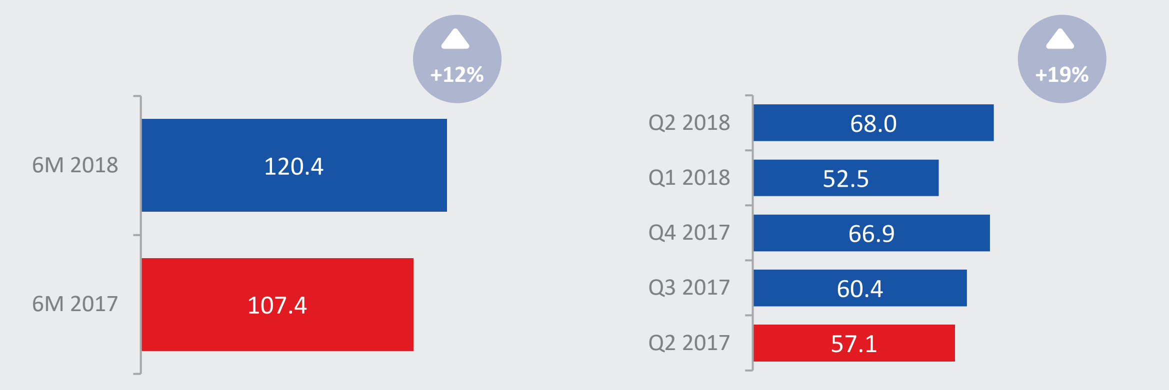


Chart No. 11: *Sales revenues[57], RSD billion*

EBITDA

EBITDA for first six months of 2018 was 6% higher than in the previous year and amounted to RSD 24 billion.

The main reasons for the decrease include:

- impact of oil prices,
- Improvement of efficiency due to decrease in costs

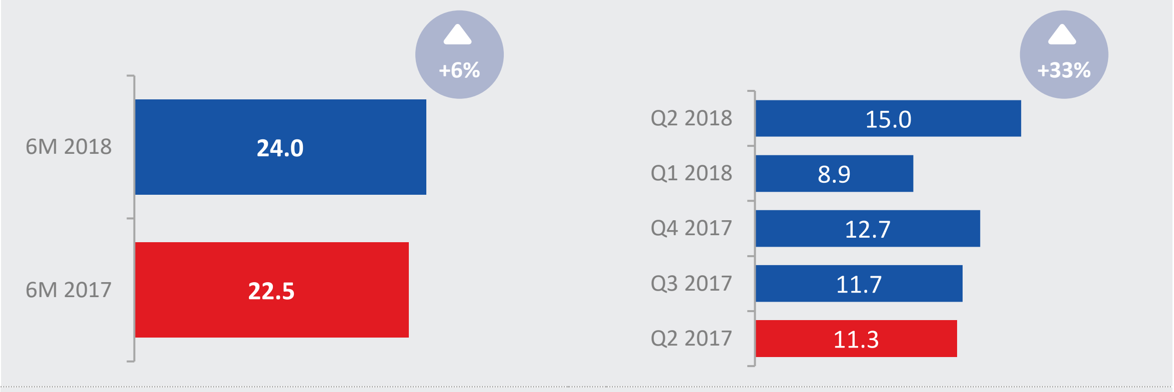


Chart No 12: EBITDA, *RSD billion*

[56] Consolidated operating revenue.

[57] Consolidated operating revenue.

Net Profit

Net profit realised in first six months of 2018 is RSD 11.5 billion, which is 7% less than the net profit achieved in the same period in 2017

- Lower forex exchange gains
- Higher depreciation costs.

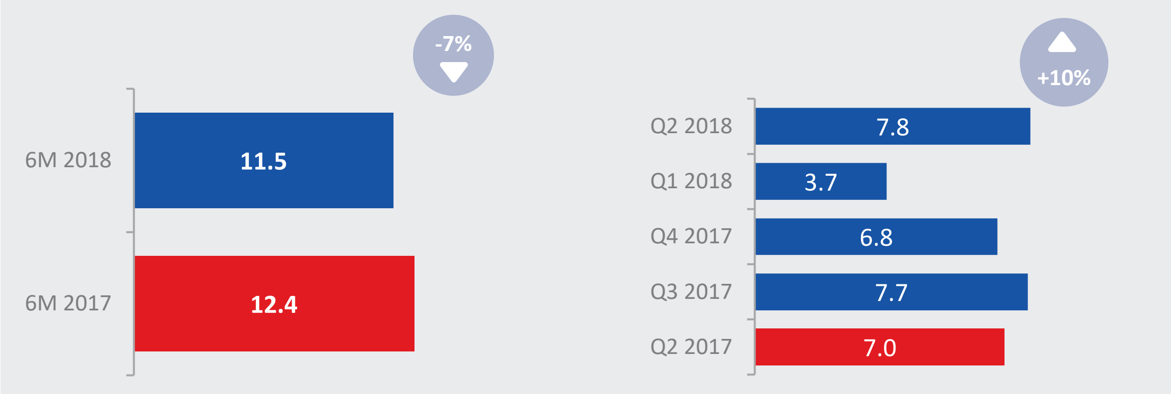


Chart No 13: Net profit, RSD billion

OCF

In the first six months of 2018, the operating cash flow amounted to 9.4 billion dinars and was 50% lower than the OCF in the same period in 2017:

- Increase in oil prices on the world market
- In 2017. receivables from HIP have been fully collected
- Higher liabilities towards the state.
- Higher Customs duties
- Higher derivatives duties
- Higher liabilities for the import of crude oil.

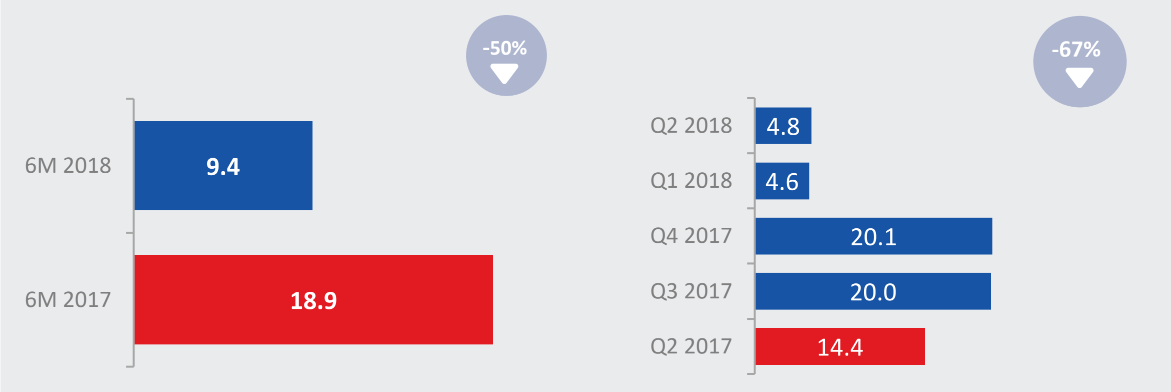


Chart No 14: OCF, RSD billion

CAPEX

In 2018, the main directions of investments are focused on the modernisation of the refining process. As before, the largest investments in the Exploration and Production Block are allocated for the oil and gas production projects. A significant part of investments is allocated for the retail network development projects in the Sales and Distribution Block. In addition, during the first six months of 2018, NIS invested in the energy and service projects as well as to a number of projects in the corporate centre.

In the first six months of 2018, 17.2 billion dinars were allocated to finance investments, which is 72% more than the amount allocated in the same period in 2017. The increase in financing compared to the previous year directly results from the beginning of the implementation of the refinery process modernization project (Increasing of Refining Depth).

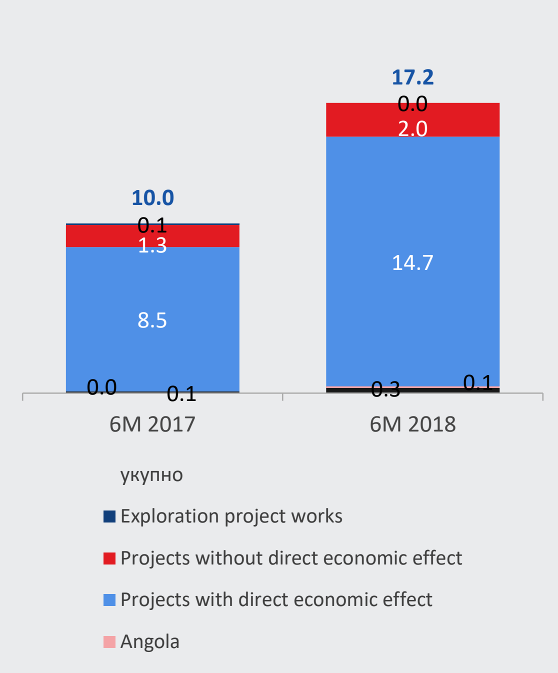


Chart No. 15: *CAPEX by type of project[58], RSD billion*

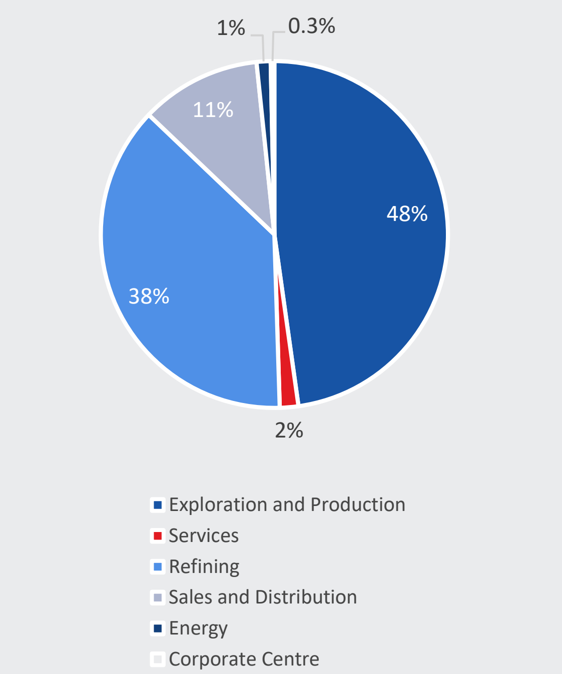


Chart No. 16: *Investments by segment*

Organisational unit	Major projects
Exploration and Production Block	• Drilling of development wells • Investments in geological and technical activities • Investments in basic, development and gas infrastructure • Program of *3D* seismic surveys and drilling of exploration wells in the Republic of Serbia • Investments in concession rights
Services Block	• Projects for the Drilling Unit needs (procurement of BOP equipment) • Projects of the Workover Unit (improvement of the real time current and capital workover monitoring system, procurement of protective equipment in order to increase occupational safety and HSE culture) • Implementation of the projects of the cementing and stimulation section • Technical services and transport projects
Refining Block	• Refining process modernisation • Investment maintenance of the Refining

[58] Amounts given in RSD billion, excluding VAT.

	• Investments in environmental projects • Efficiency increase projects
Sales and Distribution Block	• Retail network development in Serbia. Logistics projects (purchase of tank trucks, replacement of fuel dispensers) • Other retail projects (implementation of the *Drive Cafe* concept at fuelling stations)
Energy Block	• Construction of Ostrovo gas gathering station • Energy investment maintenance program • Reliability improvement projects (adaptation of low voltage units in the substations)
Corporate Centre	• Projects with an *IT* component (purchase of software licenses). Implementation of the cSRM user environment for services (material and technical services support and capital construction) • Program for the digital transformation of the company

Indebtedness

In first six monthsof 2018, a slight reduction in debt to banks was achieved, up to the level of USD 624.5 million, accompanied by an increase in Eurocurrency loans compared to December 31, 2017. Additionally, debt to parent company PJSC 'Gazprom Neft' has been reduced and currently amounts to 232.6 million EUR.

Despite sanctions, NIS successfully continued the second phase of the credit portfolio restructuring in the first six months of 2018. This is the first such restructuring under sanctions. The expected results are the extension of the average portfolio maturity followed by a simultaneous reduction of average borrowing costs. In addition, thanks to the tender conducted in December 2017 and in the first half of 2018, the key partner banks of NIS were selected, which will provide more than 500 million euros of additional long-term financing sources for the implementation of the second phase of restructuring with the additional optimisation of the financing costs, all within the limits of the allowed debt to EBITDA ratio.

In this way, NIS will virtually release the free cash flow for timely financing of major investment projects (especially the strategically important 'Bottom of the Barrel' Project and other planned investments) in the period 2018 to 2020.

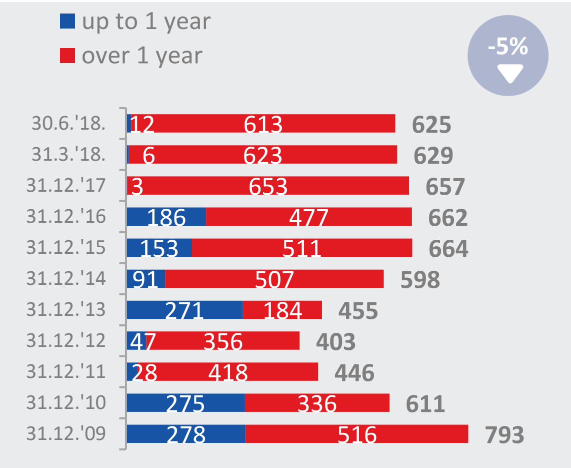


Chart No. 17: *Total bank debt trends with maturity structure, USD mn*

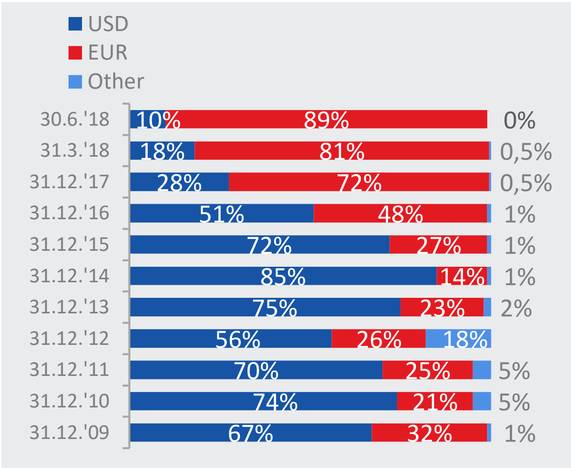


Chart No. 18*: Total bank debt structure, by currency, in %*

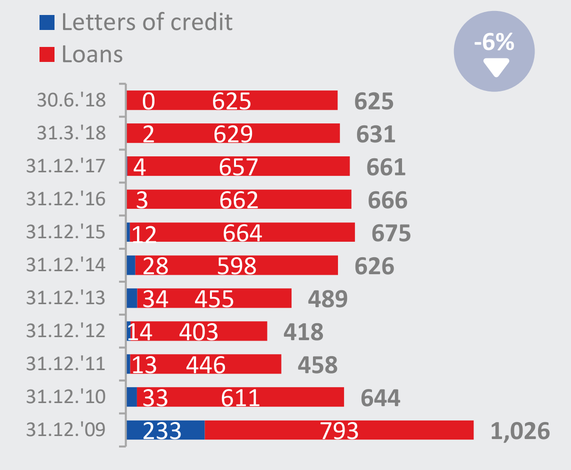


***Chart No. 19:** Total bank indebtedness[59], USD mn*

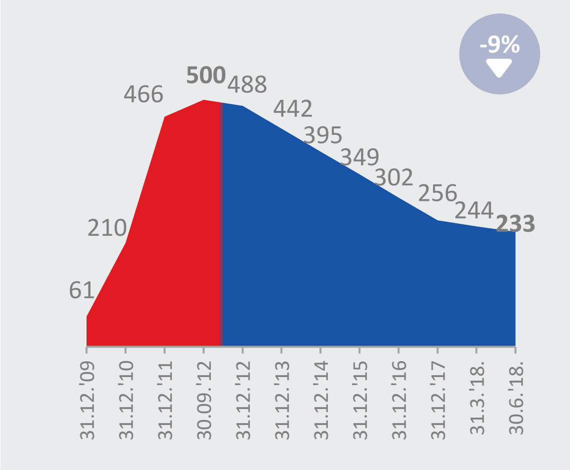


***Chart No. 20**: GPN loan, EUR mn*

[59] In addition to debt to banks and Letters of Credit NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of $54.6 million, corporate guarantees in the amount of $46.8 million and Letters of Intent signed with banks in the amount of $1.4 million and financial leasing in the amount of $7.2 million as at 30 June 2018.

Taxes and Other Public Revenue[60]

The total amount of accrued liabilities for public revenue payable by NIS j.s.c. Novi Sad along with the subsidiaries deriving from its organisational structure[61] in Serbia is RSD 81,7 billion in first six months of 2018, which is which 21% higher than in same period in 2017.

The total amount of accrued liabilities for public revenue payable by NIS Group in first six months of 2018 is RSD 90.95 billion, which is 17% higher than in same period in 2017.

NIS j.s.c. Novi Sad	6M 2018	6M 2017	Δ[62]
Social insurance contributions paid by employer	0.77	0.76	2%
Corporate tax	1.64	1.93	-15%
Value-added tax	11.25	10.36	9%
Excise duties[63]	62.68	49.20	27%
Commodity reserves fee	2.93	2.83	4%
Customs duties	0.32	0.33	-3%
Royalty	0.69	0.59	16%
Other taxes	0.70	0.66	7%
Total	**80.98**	**66.65**	22%
NIS subsidiaries in Serbia [64]			
Social insurance contributions paid by employer	0.26	0.24	5%
Corporate tax	0.06	0.15	-60%
Value-added tax	0.33	0.66	-50%
Excise duties	0.00	0.00	/
Customs duties	0.03	0.02	62%
Royalty	0.00	0.00	/
Other taxes	0.04	0.04	9%
Total	**0.72**	**1.11**	-35%
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	**81.70**	**67.76**	21%
NIS regional subsidiaries and Angola			
Social insurance contributions paid by employer	0.02	0.03	-46%
Corporate tax	0.01	1.93	-100%
Value-added tax	0.81	0.76	7%
Excise duties	6.06	5.87	3%
Customs duties	1.67	0.79[65]	113%
Royalty	0.00	0.00	/
Other taxes	0.05	0.05	2%
Total	**8.62**	**9.43**	-9%
Deferred taxes (total for Group)	0.63	0.74	-15%
Total NIS Group [66]	**90.95**	**77.93**	17%

[60] In RSD billion.

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

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

[63] According to Serbian legislative excise tax is adjusted at the beginning of the year.

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

[65] This item shows exclusively the amount of customs liabilities, while earlier it indicated the entire amount of the customs debt inclusive of taxes payable on import

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

Operational Efficiency Improvement

The effect of operational efficiency improvement measures on EBITDA in first six months of 2018 is RSD 2.7 billion.

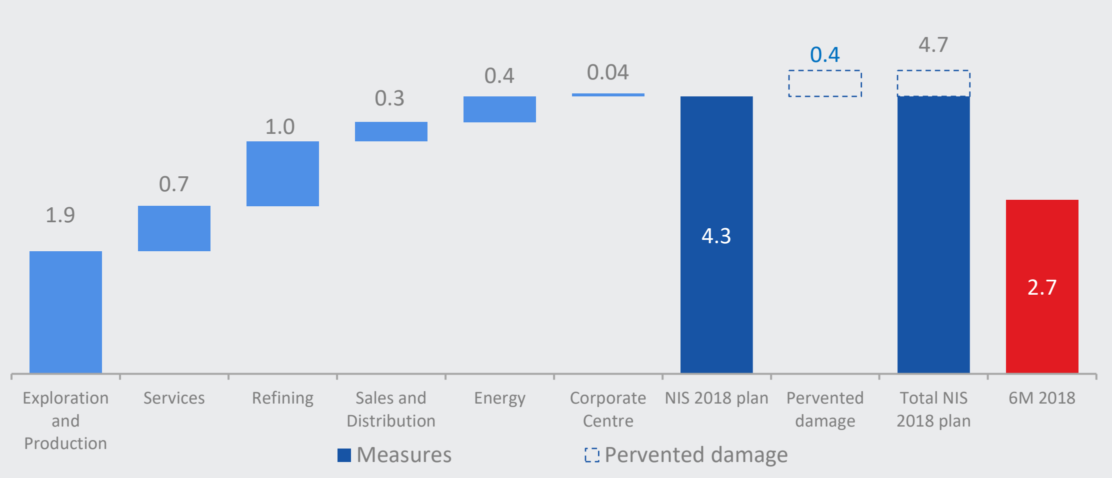


***Chart No. 21**: Effect of operational efficiency improvement measures on EBITDA, RSD bn*

Securities

Share Capital Structure

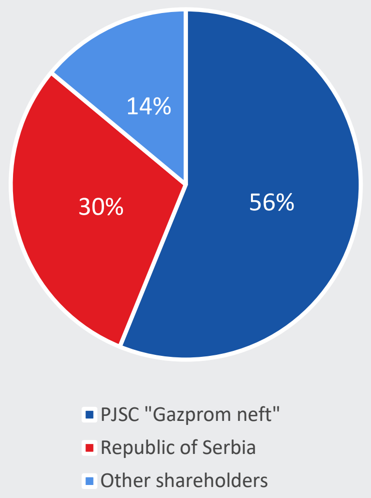


***Chart No. 22:** Share Capital structure based on % in Share Capital*

NIS share capital is RSD 81.53 billion and is divided into a total of 163,060,400 shares with a nominal value of 500.00 RSD. All issued shares are ordinary shares, vesting their holders with the following rights:

- Right to participate and vote at the shareholders' assembly meetings, according to one-share-one vote rule;
- Right to dividend in compliance with applicable legislation;
- Right to participate in the distribution of the liquidation remainder or bankruptcy estate in compliance with the bankruptcy law;
- Pre-emption right to buy a new issue of ordinary shares and other financial instruments tradable for ordinary shares, out of new issue;
- Other rights in accordance with the Company Law and corporate documents.

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

Shareholder	Number of shares	% in share capital
PJSC 'Gazprom Neft'	91,565,887	56.15%
Republic of Serbia	48,712,094	29.87%
Societe Generale banka Srbija a.d. – custody account - fund	1,467,574	0.90%
Societe Generale banka Srbija a.d. – custody account - fund	508,616	0.31%
Global Macro Capital Opportunities	397,817	0.24%
UniCredit Bank Serbia a.d. – custody account	342,465	0.21%
Aktiv-fond d.o.o. Beograd	236,330	0.14%
Dunav Osiguranje a.d.o. Beograd	227,352	0.14%
AWLL Communications d.o.o. Beograd	203,824	0.12%
Keramika Jovanović d.o.o. Zrenjanin	196,517	0.12%
Other shareholders	19,201,924	11.78%
Total number of shareholders as at 30 June2018:		**2,098,702**

Share Trading and Indicators per Share

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

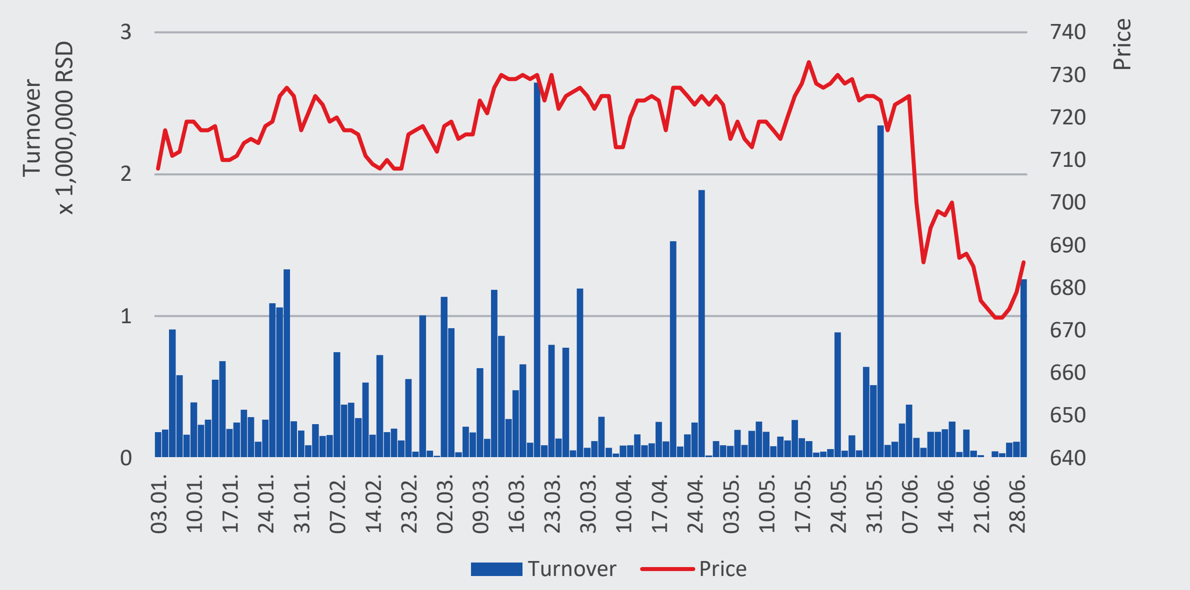


Chart No. 23: Price and turnover trends

Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in first six months of 2018	
Last price (29 June 2018)	686 *RSD*
High (29 January 2018)	750 *RSD*
Low (18 June 2018)	662 *RSD*
Total turnover	442,919,586 *RSD*
Total volume (number of shares)	615,436 shares
Total number of transactions	14,035 transactions
Market capitalization as at 30 June 2018	111,859,434,400 *RSD*
EPS	74.42 *RSD*
Consolidated EPS	70.54 *RSD*
P/E ratio	9.22
Consolidated P/E ratio	9.73
Book value as at 30 June 2018	1,497.32 *RSD*
Consolidated book value as at 30 June 2018	1,408.31 *RSD*
P/BV ratio	0.46
Consolidated P/BV ratio	0.49

In first six months of 2018, there were no acquisitions of treasury shares by the Company.

Dividends

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

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

	2009	2010	2011	2012	2013	2014	2015	2016
Net profit (loss), RSD bn[67]	(4.4)	16.5[68]	40.6[69]	49.5	52.3	30.6	16.1	16.1
Total amount of dividend, RSD bn	0.00	0.00	0.00	12.4	13.1	7.6	4.0	4.0
Payment ratio	-	-	-	25%	25%	25%	25%	25%
Earnings per share, RSD	-	101.1	249.0	303.3	320.9	187.4	98.8	98.6
Dividend per share, gross, RSD	0.00	0.00	0.00	75.83	80.22	46.85	24.69	24.66
Share price as at 31 December, RSD	-	475	605	736	927	775	600	740
Shareholders' dividend yield, in %[70]	-	-	-	10.3	8.7	6.0	4.1	3.3

Overview of Financial Instruments Used by the Group

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

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

[67] Net profit of NIS j.s.c. Novi Sad.

[68] Net profit used to cover accumulated losses.

[69] Net profit used to cover accumulated losses.

[70] Calculated as the ratio of gross dividend and year-end share price.

Corporate Governance

Corporate Governance System

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

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

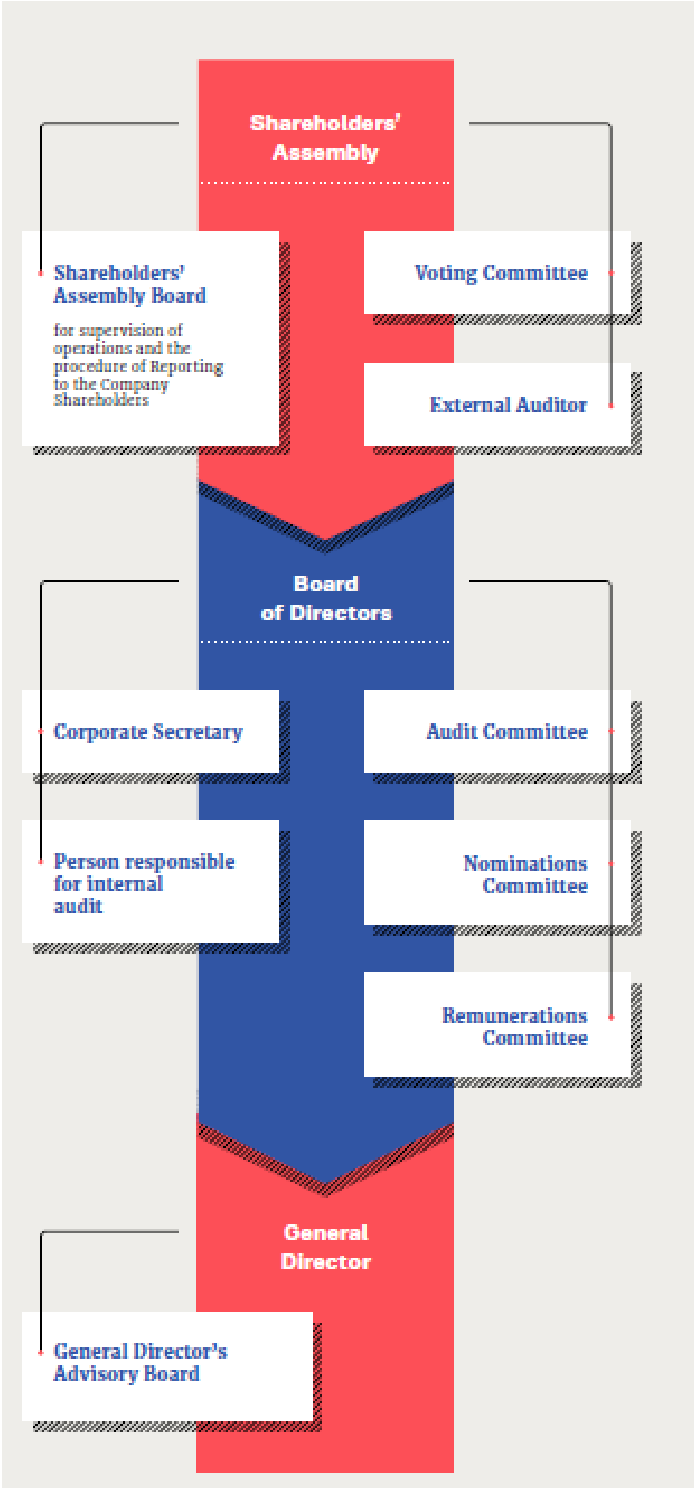
Shareholders' Assembly and Shareholders' Rights

As the highest authority of the Company, the Shareholders' Assembly is made up of all shareholders. All NIS j.s.c. Novi Sad shares are ordinary shares that give their owners the same rights, wherein one share carries one vote.

Board of Directors

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

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



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

Members of the Board of Directors

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

At the X regular session of NIS's Assembly of Shareholders held on 21 June 2018, the following members of the Board of Directors of NIS were appointed: Vadim Yakovlev, Kiril Tjurdenjev, Danica Draskovic, Aleksej

Jankevic, Sergej Papenko, Aleksandar Krilov, Nikola Martinovic, Wolfgang Ruttenstorfer, Anatoly Cherner and Olga Visocka.

The Board of Directors consists of executive and non-executive directors. The Board of Directors consists of one executive member, with the other members of the Board of Directors being non-executive, two of whom are also independent members of the Board of Directors.

Board of Directors' Members as of 30 June 2018

Vadim Yakovlev

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

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

Born in 1970.

In 1993, Mr Yakovlev graduated from the Moscow Engineering Physics Institute, Department of Applied Nuclear Physics. Mr Yakovlev graduated from the Faculty of Finance at the International University in Moscow in 1995. Since 1999, he has been a qualified member of the ACCA (the Association of Chartered Certified Accountants). In 2009, he earned a degree from the British Institute of Directors (IoD). During his employment with PricewaterhouseCoopers from 1995 to 2000, Mr Yakovlev held various positions, from Consultant to Audit Manager. In the period 2001 to 2002, he served as Deputy Head of Finance and Economics Department, YUKOS EP c.j.s.c. From 2003 to 2004, he was the CFO of Yugansk Neftegaz, NK Yukos. From 2005 to 2006, Mr Yakovlev held the position of CEO Deputy in charge of economics and finance at SIBUR-Russian Tyres.

From 2007 to 2010 he was CEO Deputy in charge of Economics and Finance at PJSC 'Gazprom Neft'. Since 2007, he has been Deputy Chairman of the Executive Board of PJSC 'Gazprom Neft'. From 2010 to 2011, he was the CFO of PJSC 'Gazprom Neft'. Since 2011, he has been the first deputy of the CEO of PJSC 'Gazprom Neft'.

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

Kirill Tyurdenev

General Director of NIS j.s.c. Novi Sad

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

Born in 1977.

Graduated with honours from the School of International Relations (Bachelor's Degree with specialisation) and then obtained a Master's Degree in International Law (with specialisation) from the Moscow State Institute of International Relations (MGIMO). Also obtained a Master of Law (LL.M) degree from the University of Manchester. Completed executive education programmes at the international business school INSEAD and London Business School. From 2000 to 2004, worked for A.T. Kearney and Unilever. In 2004, joined McKinsey & Co. From 2007 to 2012, worked as Deputy CEO for Strategy and Corporate Development with SIBUR – Fertilisers. In 2012, joined JSFC Sistema, as Executive Vice-President and Executive Board Member. Before his arrival at NIS, Mr Tyurdenev held the position of the President and Chairman of the Executive Board at United Petrochemical Company, which was being acquired by JSFC Sistema at the time, and as Chairman of the Board of Directors of Ufaorgsintez. In April 2016, he joined NIS in the position of First Deputy of General Director for Refining, Sales and Distribution. Mr Tyurdenev was appointed General Director of NIS j.s.c. Novi Sad on 22 March 2017.

Mr Tyurdenev was elected member of the NIS j.s.c. Novi Sad Board of Directors on 8 December 2016.

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

Born in 1945.

Ms Drašković graduated from the Faculty of Law, University of Belgrade in 1968. From 1968 to 1990, she worked in the field of finance in the banking sector, and in the field of law and commerce within the economic sector, and as a Belgrade City Magistrate. Ms Drašković is the owner of the publishing house Srpska Reč, founded in 1990. She has authored three books written in the opinion journalism style.

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

Alexey Yankevich
Member of NIS j.s.c. Novi Sad Board of Directors
Member of Audit Commission[71]
CEO Deputy for Economics and Finance at PJSC 'Gazprom Neft'

Born in 1973.

In 1997, Mr Yankevich graduated from Saint-Petersburg State Electrical Engineering University (LETI), majoring in Optical Instruments and Systems. In 1998, he completed a course at LETI-Lovanium International School of Management in Saint-Petersburg. Mr Yankevich was employed with CARANA, a consulting company from 1998 to 2001. In the period 2001 to 2005, he served as Deputy Head of Planning, Budgeting and Controlling Department at YUKOS RM o.j.s.c. (business unit responsible for logistics and downstream operations). In 2004, he became a Certified Management Accountant (CMA). From 2005 to 2007, he worked as deputy CFO at LLK-International (production and sale of lubricants and special petroleum products; part of the LUKOIL group). From 2007 to 2011, he held the post of Head of Planning and Budgeting Department and was Head of Economics and Corporate Planning Department at PJSC 'Gazprom Neft'. Since August 2011 he has served as acting CEO Deputy for Economics and Finance at PJSC 'Gazprom Neft'. Mr Yankevich has been a member of the Management Board of PJSC 'Gazprom Neft' and

[71]The mandate of members of the Board of Directors Committee lasted until 21 June 2018.

Deputy CEO of PJSC 'Gazprom Neft' for Economics and Finance since March 2012.

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

Sergey Papenko

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

Head of Business Efficiency and Management of Joint Ventures Department of PJSC Gazprom neft.

Born in 1973.

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

From 1994 to 1996 he was Department Manager of the First international Bank of Ukraine in the City of Kharkov. From 1996 to 1998 he worked at the position of the company TACIS Project and during 1998 he also worked with PricewaterhouseCoopers, as an Auditor. From 2000 to 2007 he worked in the Moscow Representative Office of "McKinsey and Company Inc. Russia", first at the position of Consultant and later as Junior Partner. Since 2007 to the present he has worked as Head of Business Efficiency and Management of Joint Ventures Department of PJSC Gazprom neft.
Mr. Papenko was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 21 June 2018.

Alexander Krylov

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

Director of the Regional Sales Department at PJSC 'Gazprom Neft'

Born in 1971.

In 1992, Mr Krylov graduated from LMU (Leningrad) and in 2004, he graduated from the Faculty of Law of Saint Petersburg State University. In 2007, he earned an MBA degree from Moscow International Business School MIRBIS, specialising in Strategic Management and Entrepreneurship. From 1994 to 2005, Mr Krylov held managerial positions in the field of real estate sales (Chief Executive Officer, Chairman) with the following companies: Russian-Canadian SP Petrobild; c.j.s.c. Alpol. From 2005 to 2007, he was Deputy Head of the Sales Department at Sibur Ltd. Since April 2007 to date, Mr Krylov has been serving as Head of the Petroleum Product Supply Department, Head of the Regional Sales Department and Director of the Regional Sales Department at PJSC 'Gazprom Neft'.

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

Nikola Martinović

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

Born in 1947.

Mr Martinović completed his primary education in Feketić, and secondary in Srbobran. He graduated from the Faculty of Economics in Subotica, where he also defended his Master's Thesis, titled 'Transformation of Tax System in Serbia by Implementing VAT'. From 1985 to 1990, he was the CEO of Solid from Subotica, and from 1990 to 1992, he served as Assistant Minister of the Interior of the Republic of Serbia. From 1992 to 2000, Mr Martinović held the position of Assistant CEO of Naftna Industrija Srbije in charge of financial affairs and was the CEO of Naftagas Promet from 1996 to 2000. From 2005 to 31 August 2013, Mr Martinović worked as a Special Advisor at NIS j.s.c. Novi Sad. On 1 September 2013, he was appointed Special Advisor to the CEO of O Zone a.d. Beograd, and from 15 December 2013 until retirement on 17 November 2014, he performed the duties of the Advisor to the Director of NTC NIS Naftagas d.o.o. Novi Sad. He has been a member of the Council of the Governor of the National Bank of Serbia since 22 November 2011.

Mr Martinović was a member of the Naftna Industrija Srbije/NIS j.s.c. Novi Sad BoD from 2004 to 2008, and he was re-elected on 10 February 2009.

Wolfgang Ruttenstorfer

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

Chairman of Audit Commission [72]

Born in 1950.

In 1976, he majored in Economics and Business Administration at the Vienna University of Economics and Business. He holds a PhD degree. Mr. Ruttenstorfer's career started with the Austrian OMV in 1976. In 1985, he was transferred to the Planning and Control Department and in 1989, he became responsible for the strategic development of the OMV Group. Being appointed Marketing Director in 1990, he became a member of the Executive Board in 1992 and was in charge of finance and chemical products. He was a member of the OMV EB by early 1997, when he was appointed Deputy Minister of Finance. On 1 January 2000, he was re-appointed a member of the OMV EB, being in charge of finance by April 2002 and gas operations by December 2006. In the period from 1 January 2002 to 31 March 2011, Mr Ruttenstorfer was the Chairman of the Executive Board of the OMV Group. Mr. Ruttenstorfer was or still is a member of the Board of Directors of companies such as VIG, Roche, RHI MAGNESITA and Telekom Austria.

He was elected Independent Member of the NIS j.s.c. Novi Sad Board of Directors on 20 April 2012.

[72]The mandate of members of the Board of Directors Committee lasted until 21 June 2018.

Anatoly Cherner

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

Member of Remuneration Commission [73]***Deputy Chairman of the Executive Board, CEO Deputy for logistics, refining and sales at PJSC 'Gazprom Neft'***

Born in 1954.

Mr Cherner graduated from Grozny Oil Institute in 1976, majoring in Oil and Gas Chemical Engineering. From 1976 to 1993, he was employed with the Sheripov Grozny Refinery, starting as an operator and ending up as a refinery director. In 1996, he joined SlavNeft as Head of the Oil and Petroleum Product Trading Department and was later appointed Vice-Chairman of the company. In April 2006, he was appointed Vice-Chairman for refining and marketing at SibNeft (Gazprom Neft since June 2006). In December 2007 he was appointed Deputy CEO for logistics, refining and sales at PJSC 'Gazprom Neft'.

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

Olga Vysotskaia

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

Born in 1961.

Graduated cum laude from the Leningrad State University in 1984, from the Department of Economy Cybernetics, with specialisation in economic mathematics. Post-graduate studies in mathematical cybernetics at the Institute of social and economic studies of the USSR Academy of science, Leningrad division, in 1987.

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

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

[73] The mandate of members of the Board of Directors Committee lasted until 21 June 2018.

Total amount paid to Board of Directors members in first six months of 2018, net RSD	
BoD Members	106,332,506

Membership in Other Companies' Boards of Directors or Supervisory Boards

Vadim Yakovlev	• JSC NGK Slavneft • JSC SN-MNG • LTD GPN Development (Chairman of BoD) • JSC Gazprom Neft-NNG (Chairman of BoD) • LTD Gazprom Neft-East • LTD Gazprom Neft-Hantos (Chairman of BoD) • LTD Gazprom Neft-NTC (Chairman of BoD) • LTD Gazprom Neft-Orenburg (Chairman of BoD) • LTD Gazprom Neft-Sahalin • Salim Petroleum Development N.V. (Supervisory Board member) • JSC Tomskneft VNK (Chairman of BoD) • LTD Gazprom Neft Shelf
Kirill Tyurdenev	• -
Alexey Yankevich	• JSC NGK Slavneft • JSC Gazprom Neft – Aero • LTD Gazprom Neft – SM • LTD Gazprom Neft Business-Service (Chairman of BoD) • Gazprom Neft Lubricants Italy SPA (Chairman of BoD) • LTD Gazprom Neft Marine Bunker • LTD Gazprom Neft Shelf
Alexander Krylov	• JSC "Gazprom Neft-Novosibirsk" (Chairman of the BoD) • PJSC "Gazprom Neft-Tumen" (Chairman of the BoD) [74] • JSC "Gazprom Neft-Ural" (Chairman of the BoD) • JSC "Gazprom Neft-Yaroslavl" (Chairman of the BoD) • JSC "Gazprom Neft-Northwest" (Chairman of the BoD) • LTD "Gazprom Neft Asia" (Chairman of the BoD) • LTD "Gazprom Neft - Tajikistan'' (Chairman of the BoD) • LTD "Gazprom Neft - Kazakhstan'' (Chairman of the BoD) • LTD "Gazprom Neft - Centr" (Chairman of the BoD) • JSC "Gazprom Neft - Terminal" (Chairman of the BoD) • LTD "Gazprom Neft – Regional sales"(Chairman of the BoD) • • JSC "Gazprom Neft – Transport" (Chairman of the BoD) • LTD "Gazprom Neft – Krasnoyarsk" (Chairman of the BoD) • LTD "Gazprom Neft – Corporate Sales" (Chairman of the BoD) • LLC "Gazprom Neft – Belnefteprodukt" (Chairman of the BoD) • JSC "Gazprom Neft – Alternative Fuels" (Chairman of the BoD) • LTD "ITSK" • LTD "Gazprom Neft – Laboratory"(Chairman of the BoD) • LTD "Gazprom Neft-Tumen" (Chairman of the BoD) • Association Hockey Club „Avangard" (Chairman of the BoD)

[74] The business company has been undergoing the liquidation process

Sergey Papenko	• OJSC NGC „Slavneft“ • JSC „Artikgaz“ • JSC „Evrotech-Yugra“ • CJSC „Nortgas“ • LTD “Slavneft-Krasnoyarskneftegaz“ • LTD “Gazprom neft – Vostok“ • LTD „Gazrpm neft - Angara“ • Salym Petroleum Development N.V. (member of the SB) • LTD „Gazprom Resource Nortgaz“ (CEO)
	• JSC “Gazprom Neft-Novosibirsk” (Chairman of the BoD) • PJSC “Gazprom Neft-Tumen” (Chairman of the BoD) • JSC “Gazprom Neft-Ural” (Chairman of the BoD) • JSC “Gazprom Neft-Yaroslavl” (Chairman of the BoD) • JSC “Gazprom Neft-Northwest” (Chairman of the BoD) • LTD “Gazprom Neft Asia” (Chairman of the BoD) • LTD “Gazprom Neft - Tajikistan'' (Chairman of the BoD) • LTD “Gazprom Neft - Kazakhstan'' (Chairman of the BoD) • LTD “Gazprom Neft - Centr” (Chairman of the BoD) • JSC “Gazprom Neft - Terminal” (Chairman of the BoD) • LTD “Gazprom Neft – Regional sales“(Chairman of the BoD) • JSC “Gazprom Neft – Transport” (Chairman of the BoD) • LTD “Gazprom Neft – Krasnoyarsk” (Chairman of the BoD) • LTD “Gazprom Neft – Corporate Sales” (Chairman of the BoD) • LLC “Gazprom Neft – Belnefteprodukt” (Chairman of the BoD) • JSC “Gazprom Neft – Alternative Fuels” (Chairman of the BoD) • LTD “ITSK” • LTD “Gazprom Neft – Laboratory“(Chairman of the BoD) • LTD “Gazprom Neft-Tumen” (Chairman of the BoD) • Association Hockey Club „Avangard“ (Chairman of the BoD
Nikola Martinović	-
Danica Drašković	-
Wolfgang Ruttenstorfer	• Flughafen Wien AG, Vienna (Member of the Supervisory Board) • RHI MAGNESITA , Vienna (Member of the Supervisory Board) •
Anatoly Cherner	• JSC NGK Slavneft • JSC Gazprom Neft – ONPZ (Chairman of BoD) • JSC Slavneft – JANOS • JSC Gazprom Neft – MNPZ (Chairman of BoD) • JSC Gazprom Neft – Aero (Chairman of BoD) • JSC Saint-Petersburg International Mercantile Exchange • LTD Gazprom Neft – SM (Chairman of BoD) • LTD Gazprom Neft Marine Bunker (Chairman of BoD) • LTD Gazprom Neft – Logistics (Chairman of BoD) • JSC Mozirski NPZ • Gazprom Neft Lubricants Italy SPA • LTD Gazprom Neft - Catalytic Systems (Chairman of BoD) • LTD Automatica-Service (Chairman of BoD)
Olga Vysotskaya	• «Serebryanoe vremya» (Chair of the Supervisory Board, Director) • LTD INK (independent member of the BoD, Chair of the Audit Commission) • JSC «SUEK» (independent member of the BoD)

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

Name and surname	Number of shares	% in total number of shares
Nikola Martinović	224	0.0001%

Board of Directors' Committees

With a view to ensuring the efficient performance of its activities, the Board of Directors established three standing committees (Audit Committee, Remuneration Committee and Nomination Committee) as its advisory and expert bodies providing assistance to its activities, especially in the consideration of issues within its scope of competence, preparation and control of the enforcement of decisions and documents adopted, and performance of certain specialised tasks for the Board of Directors.

The mandate of members of the Audit Committee and the Compensation Committee lasted until the date of the regular annual Assembly of Shareholders, and the Committees had the following composition:

- The Audit Committee:
  - Wolfgang Ruttenstorfer, the Chairman,
  - Aleksej Jankevic, a member and
  - Nenad Mijailovic, a member.
- The Remuneration Committee:
  - Stanislav Šekšnja, the Chairman,
  - Anatoly Cherner, a member and
  - Zoran Grujicic, a member.

The Board of Directors shall in future appoint members of the Board of Directors Committees for the next mandate, and it can, if necessary, form other permanent or *ad hoc* committees that will deal with issues relevant to the work of the Board of Directors..

Shareholders' Assembly Board

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

Members of the Shareholders' Assembly Board as at 30 June 2018

Nenad Mijailović

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

Member of Audit Commission [75]

Born in 1980.

Mr Mijailović graduated from the Faculty of Economics, University of Belgrade in 2003. In 2007, he obtained a Master's Degree from the University of Lausanne, Switzerland. In 2010, he started his PhD studies at the Faculty of Economics, University of Belgrade. In 2011, he obtained an international CFA licence in the field of Finance. From 2003 to 2009, he worked as a finance and banking consultant and manager in the following companies: Deloitte Belgrade, AVS Fund de Compensation Geneve, JP Morgan London, and KBC Securities Corporate Finance Belgrade. From December 2009 to August 2012, Mr Mijailović served as Advisor to the Minister in the Ministry of Economy and Regional Development, Department of Economy and Privatisation. In August 2012, he was appointed Deputy Minister of Finance and Economy of the Republic of Serbia. Since August 2014, he has been serving as the State Secretary in the Ministry of Finance of the Republic of Serbia. Mr Mijailović was a member of NIS j.s.c. Novi Sad BoD from 18 June 2013 to 30 June 2014.

He was appointed Chairman of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders on 30 June 2014.

Zoran Grujičić

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

Member of Remuneration Commission[76]

Born in 1955.

Mr Grujičić graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994, he was employed with Heat Transfer Appliances Plant 'Cer' in Čačak, where he held a variety of positions, including General Manager, Technical Manager, Production Manager and Design Engineer. From May 1994 to February 1998, he served as Advisor to the General Manager of Interkomerc, Belgrade. From February 1998 to June 2004, he was Managing Director of MNG Group d.o.o. Čačak. From June 2004 to February 2007, he was Managing Director of the Trading Company Agrostroj j.s.c. Čačak, Managing Director of the limited partnership company Leonardo from Čačak and Managing Director of the Vojvodina Highway Centre. Since February 2007, Mr Grujičić has been employed with NIS j.s.c. Novi Sad and has held the following positions: Deputy Director of Logistics Department, Jugopetrol; Head of RC Čačak at Retail Department – Čačak Region; Retail

[75] The mandate of members of the Board of Directors Committee lasted until 21 June 2018

[76] The mandate of members of the Board of Directors Committee lasted until 21 June 2018

Network Development Manager at Development Department, Sales and Distribution. From 1 October 2012 to January 2016, he served as Advisor to the Sales and Distribution Director, and in February 2016, he became Advisor to the Director of External and Governmental Relations. Since October 2017, he has been Advisor to the General director.

He was appointed member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders on 30 June 2014.

Alexey Urusov

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

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

Born in 1974.

Mr Urusov graduated from the Tyumen State University (specialist in finance) and the University of Wolverhampton in the United Kingdom (BA (Hons) Business Administration). Mr Urusov holds a Master's Degree in Sociology. From 2006 to 2008, he worked as executive vice-president for planning and performance management at the Integra Group. From 2002 to 2006, he worked at TNK-VR. From 2002 to 2003, Mr Urusov was a member of TNK BoD's Group for monitoring and control, and in period from 2004 to 2006 worked as CFO at TNK-VR Ukraine. From 2009 to 2012, Mr Urusov was employed with NIS j.s.c. Novi Sad as Chief Financial Officer. Since 2012, he has been the Director of Economics and Corporate Planning Department at PJSC 'Gazprom Neft'.

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

Total amount of fees paid to SAB members in first six months of 2018, net, in RSD	
Members of SAB	8,895,445

Membership in Other Companies' Boards of Directors or Supervisory Boards

Nenad Mijailović	-
Zoran Grujičić	-
Alexey Urusov	• Gazprom Neft Marine Bunker Balkan S.A. (Member of BoD) • AS Baltic Marine Bunker (Member of BoD) • LTD Gazprom Neft – Catalytic Systems (Member of BoD) • LTD Gazprom Neft Energoservice (Member of BoD) • LTD Gazprom Neft Business Service (Member of BoD) • LTD ITSK (Member of BoD) • LTD Noyabrskneftegazsvyaz (Member of BoD)

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

Name and surname	Number of shares	% in total number of shares
Nenad Mijailović	5	0.000003066%

General Director

The Board of Directors appoints one of its executive members to act as the General Director. General Director coordinates the activities of the executive members of the Board of Directors and organise the Company’s activities. In addition to this, the General Director is responsible for day-to-day management and is authorised to decide on matters which do not fall within the competence of the Shareholders’ Assembly and the Board of Directors. The General Director is a legal representative of NIS j.s.c. Novi Sad.

General Director’s Advisory Board

The General Director’s Advisory Board is a professional body that helps the General Director in their activities and in the consideration of matters within their responsibilities. The General Director decides on the composition of the Advisory Board and its members are General Director first deputies, Directors of Corporate Blocks and Functions, Deputy Director General for Petrochemical Affairs and Regional Director of NIS j.s.c. Novi Sad for Romania. The Advisory Board is managed by the General Director and provides them with assistance in relation to the issues concerning the Company’s operational management. Apart from the issues concerning the Company's current operations (monthly and quarterly business results, annual business plans, monthly investment plans), the Advisory Board deals with strategy and development policy, the foundation of which is laid by the Shareholders Assembly and the Board of Directors of the Company.

Related-Party Transactions

In first six months of 2018, NIS Group entered into business partnerships with its affiliates. The most important related-party transactions were made based on the supply/delivery of crude oil, petroleum products and electricity. An outline of related-party transactions is part of the Notes to the Financial Statements.

Human Resources

NIS mission is to provide people with energy to move towards an improvement, and its employees are its driver and the key to its success. In order to achieve this synergy, NIS creates a business environment where every employee can realise their full potential with full respect for employee rights. It is extremely important for NIS to provide an environment where the principle of prohibition of any form of discrimination is strictly observed. To this end, an Equality Policy was adopted to provide such an environment, but also to provide the employees with mechanisms to be used if the Policy principles are violated.

Employee Number and Structure

	30 June 2018			30 June 2017		
Organisational Unit	**Full-time Employees**	**Leasing**	**Total**	**Full-time Employees**	**Leasing**	**Total**
NIS j.s.c. Novi Sad	**4,095**	**3,690**	**7,785**	**4,058**	**3,556**	**7,614**
Exploration and Production Block	**802**	**217**	**1,019**	797	217	1,014
Services Block	**87**	**23**	**110**	90	20	110
Refining Block	**851**	**28**	**879**	853	35	888
Sales and Distribution Block	**968**	**2,957**	**3,925**	961	2,800	3,761
Energy Block	**245**	**20**	**265**	246	24	270
Corporate Centre	**1,094**	**445**	**1,539**	1,050	460	1,510
Representative Offices and Branches	**48**	**0**	**48**	61	0	61
Subsidiaries in Serbia	**1,447**	**1,647**	**3,094**	**1,380**	**1,582**	**2,962**
Naftagas – Naftni servisi d.o.o. Novi Sad[77]	**647**	**837**	**1,484**	584	811	1,395
Naftagas – Tehnički servisi d.o.o. Zrenjanin	**392**	**492**	**884**	396	472	868
Naftagas – Transport d.o.o. Novi Sad	**97**	**286**	**383**	95	273	368
NTC NIS Naftagas d.o.o. Novi Sad	**311**	**32**	**343**	305	26	331
Subsidiaries abroad	**72**	**1**	**73**	**86**	**1**	**87**
NIS Petrol e.o.o.d. Sofia (Bulgaria)	**36**	**0**	**36**	38	0	38
NIS Petrol s.r.l. Bucharest (Romania)	**27**	**0**	**27**	24	0	24
NIS Petrol d.o.o. Banja Luka (B&H)	**6**	**0**	**6**	18	0	18
Jadran Naftagas d.o.o Banja Luka (B&H)	**3**	**0**	**3**	6	0	6
Pannon Naftagas k.f.t. Budapest (Hungary)	**0**	**1**	**1**	0	1	1
Other subsidiaries reflected in consolidated statements	**558**	**113**	**671**	**542**	**103**	**645**
O Zone a.d. Beograd	**5**	**113**	**118**	5	103	108
NIS Overseas o.o.o. Saint Petersburg (RF)	**111**	**0**	**111**	115	0	115
NIS Svetlost d.o.o. Bujanovac	**0**	**0**	**0**			0
G Petrol d.o.o. Sarajevo (B&H)	**442**	**0**	**442**	422	0	422
TOTAL:	**6,172**	**5,451**	**11,623**	**6,066**	**5,242**	**11,308**

[77] Including employees in Branches.

Causes of Employment Termination

In first six months of 2018, a total of 148 employees left NIS[78]: 10 employees retired, 25 employees left NIS after termination of employment by mutual agreement, while the employment of 113 people was terminated on other grounds (involuntary termination, voluntary termination, redundancy, death etc.).

Cause of employment termination	NIS j.s.c. Novi Sad[79]	Subsidiaries[80]
Retirement	3	1
Termination by mutual agreement	16	2
Other	45	23
Total	**64**	**26**

[78] NIS j.s.c. Novi Sad with the subsidiaries Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Transport d.o.o. Novi Sad and NTC NIS Naftagas d.o.o. Novi Sad.

[79] Including Representative Offices and Branches.

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

Research and Development

The introduction and efficient use of new technologies is one of the priorities of NIS development in all business areas, from production and refining to human resources. Equipment modernisation, innovative approach and application of up-to-date technologies are the prerequisite for progress, competitiveness and regional leadership. NIS constantly modernises its oil and gas business, introduces and upgrades new oil and gas exploitation methods, builds new refining units, automates its operations, and develops and modernises its retail network.

With regard to research and development, NIS has in place the Rules on Planning, Execution, and Control of Innovative, Scientific, Research & Development and Technological Studies at NIS j.s.c. Novi Sad. The Science and Technology Council, which meets at a quarterly level, was set up as part of the General Director's Office. In parallel, a Research and Development Section was established within the Science and Technology Centre and was tasked with the coordination and delivery of research and development projects.

In NIS Group, the research and development activity is organised within the subsidiary NTC NIS Naftagas d.o.o. Novi Sad, which, in synergy with PJSC 'Gazprom Neft', uses resources and technology of the parent company and performs two functions:

- Coordinates science and research activities, and
- Executes science and research activities.

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Statement of Financial Position

	Notes	30 June 2018 *(unaudited)*	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	6	13,803,249	23,410,724
Short-term financial assets	7	12,334,371	11,507,390
Trade and other receivables	8	29,606,272	30,213,371
Inventories	9	32,205,992	33,451,244
Other current assets	10	5,547,564	4,868,561
Non-current assets held for sale		163	163
Total current assets		**93,497,611**	**103,451,453**
Non-current assets			
Property, plant and equipment	11	247,437,978	237,108,439
Investment property		1,560,572	1,530,356
Intangible assets		2,682,327	3,082,914
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		2,834	2,222
Long-term financial assets	12	28,427,503	34,188,042
Deferred tax assets		1,857,610	2,487,491
Other non-current assets	13	2,879,961	3,835,469
Total non-current assets		**299,313,171**	**296,699,319**
Total assets		**392,810,782**	**400,150,772**
LIABILITIES AND SHAREHOLDER’S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	14	8,287,574	8,305,932
Trade and other payables	15	28,584,742	34,596,516
Other current liabilities	16	4,806,082	4,880,705
Current income tax payable		277,717	1,915,676
Other taxes payable	17	10,409,664	9,235,139
Provisions for liabilities and charges		1,957,507	2,837,875
Total current liabilities		**54,323,286**	**61,771,843**
Non-current liabilities			
Long-term debt	18	84,567,446	89,751,052
Long-term trade and other payables		8,973	-
Provisions for liabilities and charges		9,756,576	9,660,582
Total non-current liabilities		**94,332,995**	**99,411,634**
Equity			
Share capital		81,530,200	81,530,200
Reserves		20,651	17,782
Retained earnings		162,603,650	157,419,313
Total equity		**244,154,501**	**238,967,295**
Total liabilities and shareholder’s equity		**392,810,782**	**400,150,772**

All amounts are in 000 RSD, unless otherwise stated

Statement of Profit and Loss and Other Comprehensive Income

		Three-month period ended 30 June		Six-month period ended 30 June	
	Note	2018 *(unaudited)*	2017 *(unaudited)*	2018 *(unaudited)*	2017 *(unaudited)*
Sales of petroleum products, oil and gas		58,558,827	47,289,286	104,167,164	90,176,998
Other revenues		3,710,387	4,644,243	6,564,204	7,769,103
Total revenue from sales	**5**	**62,269,214**	**51,933,529**	**110,731,368**	**97,946,101**
Purchases of oil, gas and petroleum products		(34,305,260)	(27,953,469)	(62,013,711)	(51,248,089)
Production and manufacturing expenses	19	(6,969,580)	(7,558,660)	(12,721,200)	(13,523,111)
Selling, general and administrative expenses	20	(5,284,588)	(5,155,238)	(10,305,449)	(9,834,755)
Transportation expenses		(304,639)	(270,104)	(563,342)	(496,032)
Depreciation, depletion and amortization		(4,406,054)	(3,408,260)	(8,273,005)	(6,982,502)
Taxes other than income tax		(1,116,417)	(1,001,497)	(2,166,899)	(2,007,235)
Exploration expenses		-	-	(15,771)	(7,452)
Total operating expenses		**(52,386,538)**	**(45,347,228)**	**(96,059,377)**	**(84,099,176)**
Other expenses, net		105,148	(49,102)	32,679	(234,803)
Operating profit		**9,987,824**	**6,537,199**	**14,704,670**	**13,612,122**
Net foreign exchange gain	21	(434,802)	3,865,004	2,539	4,111,626
Finance income	22	361,882	309,903	819,884	624,673
Finance expenses	23	(549,914)	(641,970)	(1,120,506)	(1,375,436)
Total other income (expense)		**(622,834)**	**3,532,937**	**(298,083)**	**3,360,863**
Profit before income tax		**9,364,990**	**10,070,136**	**14,406,587**	**16,972,985**
Current income tax expense		(1,066,672)	(3,072,199)	(1,640,910)	(3,858,439)
Deferred tax expense		(343,513)	(405,112)	(629,881)	(749,419)
Total income tax expense		**(1,410,185)**	**(3,477,311)**	**(2,270,791)**	**(4,607,858)**
Profit for the period		**7,954,805**	**6,592,825**	**12,135,796**	**12,365,127**
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
		573	1,592	(586)	1,723
Other comprehensive profit (loss) for the period		**573**	**1,592**	**(586)**	
Total comprehensive income for the period		**7,955,378**	**6,594,417**	**12,135,210**	**12,368,249**
Earnings per share attributable to shareholders of Naftna Industrija Srbije					
Basic earnings (RSD per share)		**48.79**	**40.44**	**74.42**	**75.85**
Weighted average number of ordinary shares in issue (in millions)		163	163	163	163

All amounts are in 000 RSD, unless otherwise stated

Statement of Changes in Shareholders' Equity

Six-month period ended 30 June 2018 and 2017
(unaudited)

	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2017	**81,530,200**	**14,088**	**133,630,354**	**215,174,642**
Profit for the period	-	-	12,365,127	12,365,127
Other comprehensive income (loss)				
Change in value of available-for-sale financial assets	-	1,723	-	1,723
Revaluation of intangible assets, property, plant and equipment transferred to investment property	-	1,399	-	1,399
Total comprehensive income (loss) for the period	-	3,122	12,365,127	12,368,249
Dividend distribution	-	-	(4,021,069)	(4,021,069)
Balance as at 30 June 2017	**81,530,200**	**17,210**	**141,974,412**	**223,521,822**
Balance as at 1 January 2018	**81,530,200**	**17,782**	**157,419,313**	**238,967,295**
Profit for the period	-	-	12,135,796	12,135,796
Other comprehensive income (loss)				
Change in value of available-for-sale financial assets	-	(586)	-	(586)
Sale of available for sale financial assets	-	3,455	(3,455)	-
Total comprehensive income (loss) for the period	-	2,869	12,132,341	12,135,210
Dividend distribution	-	-	(6,948,004)	(6,948,004)
Balance as at 30 June 2018	**81,530,200**	**20,651**	**162,603,650**	**244,154,501**

All amounts are in 000 RSD, unless otherwise stated

Statement of Cash Flows[81]

	Note	Six-month period ended 30 June 2018 (unaudited)	2017 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**14,406,587**	**16,972,985**
Adjustments for:			
Finance expenses	23	1,120,506	1,375,436
Finance income	22	(819,884)	(624,673)
Net unrealised foreign exchange (gain) losses		429,503	(3,746,768)
Depreciation, depletion and amortization		8,273,005	6,982,502
Adjustments for other provisions		125,961	18,690
Allowance for doubtful accounts		(89,548)	71,218
Write off of dry holes		15,771	7.452
Payables write off		-	(3,034)
Other non-cash items		43,148	125.735
Operating cash flow before changes in working capital		**23,505,049**	**21,179,543**
Changes in working capital:			
Trade and other receivables		776,633	11,158,749
Inventories		1,218,226	(6,393)
Other current assets		(824,287)	(601,539)
Trade payables and other current liabilities		(12,104,306)	(10,197,144)
Other taxes payable		1,174,525	(199,842)
Total effect on working capital changes		**(9,759,209)**	**153,831**
Income taxes paid		(3,282,339)	(715,385)
Interest paid		(1,117,534)	(1,536,447)
Interest received		453,503	477,066
Net cash generated from operating activities		**9,799,470**	**19,558,608**
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans issued		(1,643,721)	(2,483,056)
Loan proceeds received		1,147,109	1,769,695
Capital expenditures[82]		(19,310,109)	(10,623,061)
Proceeds from sale of property, plant and equipment		126,325	80,017
Bank deposits placements, net		5,586,458	-
Other inflow		6,990	-
Net cash used in investing activities		**(14,086,948)**	**(11,256,405)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	18	17,768,513	14,034,354
Repayment of borrowings	18	(23,089,062)	(23,404,395)
Repayments of finance lease liabilities	18	(24,488)	(28,262)
Net cash used in financing activities		**(5,345,037)**	**(9,398,303)**
Net decrease in cash and cash equivalents		(9,632,515)	(1,096,100)
Effect of foreign exchange on cash and cash equivalents		25,040	(282,635)
Cash and cash equivalents as of the beginning of the period		**23,410,724**	**20,053,651**
Cash and cash equivalents as of the end of the period		**13,803,249**	**18,674,916**

All amounts are in 000 RSD, unless otherwise stated

[81] Group policy is to present cash flow inclusive of related VAT.

[82] CF from investing activities includes VAT in the amount of 3.2 bln RSD (2017: 1.4 bln RSD)

Notes to Stand-Alone Financial Statements[83]

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 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 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 2017.

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

[83] All amounts are in 000 RSD, unless otherwise stated

The results for the six month period ended 30 June 2018 are not necessarily indicative of the results expected for the full year.

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

2.2. Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Financial Statements are consistent with those applied during the preparation of Financial Statements as of and for the year ended 31 December 2017, except for those described in the Application of new IFRS paragraph.

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 Company 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 Company 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 Company recognizes revenue from sales of crude oil, petroleum products, gas and other products and services when it satisfies a performance obligation and control over goods and services is passed. For the most contracts control over goods or services passes to a customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due.

- The transaction price excludes amounts collected on behalf of third parties such as value added tax and sales related tax.**IFRS 9 Financial Instruments, and**
- **IFRS 15 Revenue from Contracts with Customers.**

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 Company 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 Company 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 Company's Interim Condensed Consolidated Financial Statements.

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

- IFRS 17 – Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- 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 Company'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 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 2018 and 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Six month period ended 30 June 2018				
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	(45,079)	47,618	-	2,539
Finance income (expenses), net	32,811	(333,433)	-	(300,622)
Income tax	-	(2,270,791)	-	(2,270,791)
Segment profit/(loss)	**13,264,038**	**(1,128,242)**	**-**	**12,135,796**
Six month period ended 30 June 2017				
Segment revenue	21,187,795	98,073,203	(21,314,897)	97,946,101
Intersegment	20,169,241	1,145,656	(21,314,897)	-
External	1,018,554	96,927,547	-	97,946,101
EBITDA (Segment results)	**14,488,307**	**6,240,413**	**-**	**20,728,720**
Depreciation, depletion and amortization	(2,664,671)	(4,317,831)	-	(6,982,502)
Reversal surpluses, net	-	3,782	-	3,782
Net foreign exchange gain	201,269	3,910,357	-	4,111,626
Finance income (expenses), net	(57,189)	(693,574)	-	(750,763)
Income tax	(1,906,477)	(2,701,381)	-	(4,607,858)
Segment profit/(loss)	**9,876,627**	**2,488,500**	**-**	**12,365,127**

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	7,954,805	6,592,825	12,135,796	12,365,127
Income tax expenses	1,410,185	3,477,311	2,270,791	4,607,858
Finance expenses	549,914	641,970	1,120,506	1,375,436
Finance income	(361,882)	(309,903)	(819,884)	(624,673)
Depreciation, depletion and amortization	4,406,054	3,408,260	8,273,005	6,982,502
Net foreign exchange gain	434,802	(3,865,004)	(2,539)	(4,111,626)
Other expense, net	(105,148)	49,102	(32,679)	234,803
Other non-operating income, net	89,502	92,464	6,909	(100,707)
EBITDA	**14,378,232**	**10,087,025**	**22,951,905**	**20,728,720**

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	984,682	-	984,682
Through a retail network	-	-	-
Wholesale activities	984,682	-	984,682
Sale of petroleum products	83,563,688	19,618,794	103,182,482
Through a retail network	28,073,614	-	28,073,614
Wholesale activities	55,490,074	19,618,794	75,108,868
Sale of electricity	227,133	2,710,274	2,937,407
Other sales	3,514,798	111,999	3,626,797
Total sales	**88,290,301**	**22,441,067**	**110,731,368**

			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	1,395,030	-	1,395,030
Through a retail network	-	-	-
Wholesale activities	1,395,030	-	1,395,030
Sale of petroleum products	73,681,768	14,208,105	87,889,873
Through a retail network	26,361,408	-	26,361,408
Wholesale activities	47,320,360	14,208,105	61,528,465
Sale of electricity	282,426	4,194,374	4,476,800
Other sales	3,192,146	100,157	3,292,303
Total sales	**78,551,370**	**19,394,731**	**97,946,101**

Out of the amount of 75,108,868 RSD (2017: 61,528,465 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 2,605,251 RSD (2017: 2,438,315 RSD).

The Company is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 88,290,301 RSD (2017: 78,551,370 RSD), and the total revenue from external customer from other countries is 22,441,067 RSD (2017: 19,394,731 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	4,751,990	3,199,034
Bosnia and Herzegovina	4,021,740	2,717,062
Romania	2,880,238	1,678,890
All other markets	7,755,981	6,613,119
	19,618,794	14,208,105
Sale of electricity	2,710,274	4,194,374
Other sales	111,999	100,157
	22,441,067	**19,394,731**

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

6. CASH AND CASH EQUIVALENTS

	30 June 2018	31 December 2017
Cash in bank and in hand	4,424,338	14,432,605
Deposits with original maturity of less than three months	9,110,000	8,670,000
Cash held on escrow account	42,206	68,765
Cash equivalents	226,705	239,354
	13,803,249	**23,410,724**

7. SHORT-TERM FINANCIAL ASSETS

	30 June 2018	31 December 2017
Short-term loans	178,141	247,524
Deposits with original maturity more than 3 months less than 1 year	4,141,896	7,645,642
Current portion of long-term investments (note 12)	8,240,455	3,838,872
Less impairment loss provision	(226,121)	(224,648)
	12,334,371	**11,507,390**

As at 30 June 2018 deposits with original maturity more than 3 months less than 1 year amounting to 4,141,896 RSD (31 December 2017: 7,645,642 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	3,566,934	5,261,268
- third parties	29,229,575	25,991,656
- state and state owned companies	7,803,541	10,233,306
	40,600,050	**41,486,230**
Accrued assets	304,987	185,641
	40,905,037	**41,671,871**
Less impairment provision for trade and other receivables:		
- third parties	(9,509,393)	(9,594,055)
- state and state owned companies	(1,789,372)	(1,864,445)
	(11,298,765)	**(11,458,500)**
Total trade and other receivables	**29,606,272**	**30,213,371**

The ageing of trade and other receivables is as follows:

	30 June 2018	31 December 2017
Neither impaired nor past due	27,215,873	27,691,406
Past due but not impaired:		
within 30 days	1,625,940	1,992,337
1 to 3 months	328,182	197,904
3 months to 1 year	222,860	121,577
over 1 year	213,417	210,147
Total	**29,606,272**	**30,213,371**

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

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

	30 June 2018	31 December 2017
RSD	25,346,312	21,791,608
EUR	3,463,081	7,438,322
USD	796,879	982,442
Other	-	999
	29,606,272	**30,213,371**

Movements on the Company'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	**9,841,314**	**11,563,533**	**21,404,847**
Provision for receivables impairment	141,229	21,878	163,107
Release of provision	(131,214)	(18,160)	(149,374)
Receivables written off during the year as uncollectible	(922)	-	(922)
Unwinding of discount	-	(36,303)	(36,303)
Transfer from non-current part	-	208,808	208,808
Exchange differences	1,751	(206,680)	(204,929)
Other	(2,207)	-	(2,207)
As at 30 June 2017	**9,849,951**	**11,533,076**	**21,383,027**
As at 1 January 2018	**9,594,055**	**1,864,445**	**11,458,500**
Provision for receivables impairment	63,148	6,467	69,615
Release of provision	(113,573)	(58,162)	(171,735)
Receivables written off during the year as uncollectible	(14,082)	-	(14,082)
Unwinding of discount (note 23)	-	(44,661)	(44,661)
Exchange differences	4,661	(3,533)	1,128
Other	(24,816)	24,816	-
As at 30 June 2018	**9,509,393**	**1,789,372**	**11,298,765**

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the 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	12,714,327	11,116,609
Materials and supplies	4,100,176	4,288,895
Other	687,192	680,609
Less impairment provision	(4,893,757)	(4,947,683)
	32,205,992	**33,451,244**

10. OTHER CURRENT ASSETS

	30 June 2018	31 December 2017
Advances paid	627,033	566,382
Deferred VAT	1,919,284	1,099,407
Prepaid expenses	365,511	193,927
Prepaid custom duties	31,713	31,995
Prepaid excise	2,203,425	1,820,845
Other current assets	12,337,919	13,085,751
Less impairment provision	(11,937,321)	(11,929,746)
	5,547,564	**4,868,561**

Deferred VAT as at 30 June 2018 amounting to 1,919,284 RSD (31 December 2017: 1,099,407 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 2,203,425 RSD (31 December 2017: 1,820,845 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 Company's impairment provision for other current assets are as follows:

	Advances paid	Other current assets	Total
As at 1 January 2017	**257,940**	**11,719,291**	**11,977,231**
Increase of provision during the year	5,432	71,274	76,706
Release of provision	(338)	(36,156)	(36,494)
Receivables written off during the year as uncollectible	-	(25,711)	(25,711)
Other	2	(1)	1
As at 30 June 2017	**263,036**	**11,728,697**	**11,991,733**
As at 1 January 2018	**259,236**	**11,670,510**	**11,929,746**
Increase of provision during the year	1,962	17,421	19,383
Release of provision	(732)	(8,619)	(9,351)
Receivables written off during the year as uncollectible	-	(2,457)	(2,457)
As at 30 June 2018	**260,466**	**11,676,855**	**11,937,321**

The ageing of other current assets is as follows:

	30 June 2018	31 December 2017
Neither impaired nor past due	492,078	1,214,442
Not impaired and past due in the following periods:		
Less than 1 month	8,500	14,972
1 - 3 months	5,239	25,707
3 month - 1 year	24,273	30,192
Over 1 year	-	14,658
Total	**530,090**	**1,299,971**

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

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	115,864,815	110,525,127	46,383,755	17,548,942	31,776,922	322,099,561
Depreciation and impairment	(27,422,504)	(35,174,792)	(24,349,626)	(8,489,733)	(2,103,957)	(97,540,612)
Net book value	**88,442,311**	**75,350,335**	**22,034,129**	**9,059,209**	**29,672,965**	**224,558,949**
Period ended 30 June 2017						
Additions	-	-	-	-	10,388,665	10,388,665
Changes in decommissioning obligations	84,292					84,292
Transfer from assets under construction	8,425,105	1,407,219	1,020,711	190,549	(11,043,584)	-
Transfer to intangible assets	-	-	-	-	(31,613)	(31,613)
Transfer to investment property	-	-	(17,195)	(2,314)	-	(19,509)
Impairment	-	-	-	-	(1,645)	(1,645)
Depreciation	(2,636,920)	(2,826,057)	(739,565)	(274,787)	-	(6,477,329)
Disposals and write-off	(36,557)	(6,444)	(124,031)	(4,283)	(54,785)	(226,100)
Other transfers	1,544	93	(37,349)	38,026	2,917	5,231
	94,279,775	**73,925,146**	**22,136,700**	**9,006,400**	**28,932,920**	**228,280,941**
As at 30 June 2017						
Cost	124,237,055	111,900,825	47,028,484	17,626,364	31,014,108	331,806,836
Depreciation and impairment	(29,957,280)	(37,975,679)	(24,891,784)	(8,619,964)	(2,081,188)	(103,525,895)
Net book value	**94,279,775**	**73,925,146**	**22,136,700**	**9,006,400**	**28,932,920**	**228,280,941**
As at 1 January 2018						
Cost	135,319,517	114,239,048	47,083,673	17,694,721	32,591,816	346,928,775
Depreciation and impairment	(32,675,985)	(40,818,582)	(25,487,659)	(8,841,365)	(1,996,745)	(109,820,336)
Net book value	**102,643,532**	**73,420,466**	**21,596,014**	**8,853,356**	**30,595,071**	**237,108,439**
Period ended 30 June 2018						
Additions	-	-	-	-	18,058,766	18,058,766
Acquisitions through business 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
	106,771,994	**71,260,646**	**23,653,678**	**8,475,525**	**37,276,135**	**247,437,978**
As at 30 June 2018						
Cost	143,226,836	114,811,751	50,346,813	17,070,922	39,273,923	364,730,245
Depreciation and impairment	(36,454,842)	(43,551,105)	(26,693,135)	(8,595,397)	(1,997,788)	(117,292,267)
Net book value	**106,771,994**	**71,260,646**	**23,653,678**	**8,475,525**	**37,276,135**	**247,437,978**

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	12,345,350	7,915,400	20,260,750	115,864,815	22,129	136,147,694
Depreciation and impairment	-	(876)	(876)	(27,422,504)	(20,309)	(27,443,689)
Net book amount	**12,345,350**	**7,914,524**	**20,259,874**	**88,442,311**	**1,820**	**108,704,005**
Period ended 30 June 2017						
Additions	1,580,178	6,588,238	8,168,416	-	-	8,168,416
Changes in decommissioning obligations	-	-	-	84,292		84,292
Transfer from asset under construction	(2,999,387)	(5,425,718)	(8,425,105)	8,425,105	-	-
Depreciation and depletion	-		-	(2,636,920)	-	(2,636,920)
Disposals and write-off	(49,780)	(3,019)	(52,799)	(36,557)	-	(89,356)
Other transfers	(28,341)	42,550	14,209	1,544	-	15,753
	10,848,020	**9,116,575**	**19,964,595**	**94,279,775**	**1,820**	**114,246,190**
As at 30 June 2017						
Cost	10,848,020	9,117,451	19,965,471	124,237,055	22,129	144,224,655
Depreciation and impairment	-	(876)	(876)	(29,957,280)	(20,309)	(29,978,465)
Net book amount	**10,848,020**	**9,116,575**	**19,964,595**	**94,279,775**	**1,820**	**114,246,190**
As at 1 January 2018						
Cost	10,805,015	6,481,469	17,286,484	135,319,517	22,129	152,628,130
Depreciation and impairment	-	(2,087)	(2,087)	(32,675,985)	(20,309)	(32,698,381)
Net book amount	**10,805,015**	**6,479,382**	**17,284,397**	**102,643,532**	**1,820**	**119,929,749**
Period ended 30 June 2018						
Additions	2,029,407	5,846,654	7,876,061	-	-	7,876,061
Changes in decommissioning obligations	-	-	-	115,108	-	115,108
Transfer from asset under construction	(856,049)	(7,078,484)	(7,934,533)	7,934,533	-	-
Impairment	-	(1,041)	(1,041)	-	-	(1,041)
Depreciation and depletion	-	-	-	(3,858,258)	-	(3,858,258)
Disposals and write-off	(91,455)	(24,660)	(116,115)	(36,276)	-	(152,391)
Other transfers	451,039	(469,011)	(17,972)	(26,645)	-	(44,617)
	12,337,957	**4,752,840**	**17,090,797**	**106,771,994**	**1,820**	**123,864,611**
As at 30 June 2018						
Cost	12,337,957	4,755,968	17,093,925	143,226,836	22,129	160,342,890
Depreciation and impairment	-	(3,128)	(3,128)	(36,454,842)	(20,309)	(36,478,279)
Net book amount	**12,337,957**	**4,752,840**	**17,090,797**	**106,771,994**	**1,820**	**123,864,611**

12. LONG-TERM FINANCIAL ASSETS

	30 June 2018	31 December 2017
Deposits with original maturity more than 1 year	-	2,029,483
LT loans issued	36,542,268	35,863,153
Available for sale financial assets	179,699	187,311
Other LT placements	25,861	26,567
Less Current portion of LT loans issued (note 7)	(8,240,455)	(3,838,872)
Less provision of other LT placements	(79,870)	(79,600)
	28,427,503	**34,188,042**

13. OTHER NON-CURRENT ASSETS

	30 June 2018	31 December 2017
Advances paid for PPE	1,226,693	2,148,358
Prepaid expenses	659,386	689,450
Other assets	1,030,828	1,034,607
Less impairment provision	(36,946)	(36,946)
	2,879,961	**3,835,469**

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

	30 June 2018	31 December 2017
Short-term loans	1,461,527	2,298,487
Interest liabilities	99,759	106,743
Current portion of long-term loans (note 18)	6,674,386	5,849,547
Current portion of finance lease liabilities (note 18)	51,902	51,155
	8,287,574	**8,305,932**

15. TRADE AND OTHER PAYABLES

	30 June 2018	31 December 2017
Trade payables:		
- related parties	3,691,779	15,429,094
- third parties	14,155,657	15,371,836
Dividends payable	10,720,312	3,772,308
Other accounts payable	16,994	23,278
	28,584,742	**34,596,516**

As at 30 June 2018 payables to related parties amounting to 3,691,779 RSD (31 December 2017: 15,429,094 RSD mainly relate to payables to the supplier Naftagas-Naftni servisi d.o.o. Novi Sad, Serbia in the amount of 1,902,963 RSD mostly relate to drilling and overhaul services (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	2,039,795	1,374,398
Payables to employees	2,310,755	3,041,616
Accruals and deferred income	434,241	435,851
Other current non-financial liabilities	21,291	28,840
	4,806,082	**4,880,705**

17. OTHER TAXES PAYABLE

	30 June 2018	31 December 2017
Mineral extraction tax	373,045	280,971
VAT	1,921,755	1,668,014
Excise tax	5,596,620	4,777,490
Contribution for buffer stocks	514,578	527,858
Custom duties	138,493	126,946
Other taxes	1,865,173	1,853,860
	10,409,664	**9,235,139**

18. LONG-TERM DEBT

	30 June 2018	31 December 2017
Long-term loan - Gazprom Neft	27,457,582	30,306,970
Bank loans	63,287,116	65,097,574
Finance lease liabilities	549,036	247,210
Less Current portion (note 14)	(6,726,288)	(5,900,702)
	84,567,446	**89,751,052**

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

	Long-term loans	Short-term loans (note 14)	Finance lease	Total
As at 1 January 2017	**102,720,930**	**13,299,544**	**142,528**	**116,163,002**
Proceeds	9,748,116	4,286,238	-	14,034,354
Repayment	(11,975,534)	(11,428,861)	(28,262)	(23,432,657)
Non-cash transactions	-	-	74,751	74,751
Foreign exchange difference (note 21)	(5,025,583)	(134,868)	(4,572)	(5,165,023)
As at 30 June 2017	**95,467,929**	**6,022,053**	**184,445**	**101,674,427**
As at 1 January 2018	**95,404,544**	**2,298,487**	**247,210**	**97,950,241**
Proceeds	11,525,534	6,242,979	-	17,768,513
Repayment	(16,009,123)	(7,079,939)	(24,488)	(23,113,550)
Non-cash transactions	-	-	327,860	327,860
Foreign exchange difference (note 21)	(176,257)	-	(1,546)	(177,803)
As at 30 June 2018	**90,744,698**	**1,461,527**	**549,036**	**92,755,261**

(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 loans

	30 June 2018	31 December 2017
Domestic	47,581,869	43,338,385
Foreign	15,705,247	21,759,189
	63,287,116	65,097,574
Current portion of long-term loans	(1,182,870)	(339,189)
	62,104,246	**64,758,385**

The maturity of bank loans was as follows:

	30 June 2018	31 December 2017
Between 1 and 2 years	15,279,497	23,252,660
Between 2 and 5 years	44,351,346	38,991,710
Over 5 years	2,473,403	2,514,015
	62,104,246	**64,758,385**

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

	30 June 2018	31 December 2017
USD	6,458,012	17,934,250
EUR	56,521,879	43,891,080
RSD	730	2,962,633
JPY	306,495	309,611
	63,287,116	**65,097,574**

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 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	866,020	737,783	1,677,703	1,533,129
Materials and supplies (other than purchased oil, petroleum products and gas)	146,643	229,208	373,244	443,215
Repair and maintenance services	1,159,390	937,500	2,047,185	1,769,622
Electricity for resale	1,635,613	2,764,018	2,619,456	4,194,052
Electricity and utilities	508,039	379,132	957,714	741,006
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	475,301	428,339	958,875	840,637
Other	1,965,015	1,925,147	3,720,305	3,716,255
	6,969,580	**7,558,660**	**12,721,200**	**13,523,111**

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three-month period ended 30 June		Six-month period ended 30 June	
	2018	**2017**	**2018**	**2017**
Employee costs	2,534,939	2,446,959	4,939,946	4,646,592
Legal, audit and consulting services	346,742	380,799	630,618	686,757
Rent expense	33,983	32,242	66,221	64,922
Business trips expense	79,350	84,382	145,811	141,152
Safety and security expense	123,175	115,630	231,592	231,218
Insurance expense	29,535	26,907	52,388	49,375
Transportation and storage	86,777	87,982	168,476	170,607
Allowance for doubtful accounts	(149,426)	7,414	(133,479)	(46,558)
Other	2,199,513	1,972,923	4,203,876	3,890,690
	5,284,588	**5,155,238**	**10,305,449**	**9,834,755**

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	(80,951)	4,849,439	654,524	5,612,771
- foreign exchange loss	(280,547)	287,812	(476,721)	447,748
Net foreign exchange gain (loss) on operating activities	(73,304)	(1,272,247)	(175,264)	(1,053,397)
	(434,802)	**3,865,004**	**2,539**	**4,111,626**

22. FINANCE INCOME

	Three-month period ended 30 June		Six month period ended 30 June	
	2018	2017	2018	2017
Interest on bank deposits	141,138	78,921	381,819	165,885
Interest income on loans issued	220,744	230,982	438,065	458,788
	361,882	**309,903**	**819,884**	**624,673**

23. FINANCE EXPENSES

	Three-month period ended 30 June		Six-month period ended 30 June	
	2018	2017	2018	2017
Interest expense	573,526	756,448	1,172,871	1,588,930
Decommissioning provision: unwinding	21,955	33,988	43,685	67,487
Trade receivables: unwinding of discount	(17,864)	(134,681)	(44,661)	(251,367)
Less: interest expense capitalised on	(27,703)	(13,785)	(51,389)	(29,614)
	549,914	**641,970**	**1,120,506**	**1,375,436**

24. 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 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 Company 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 agreements 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 Company's management recognised an environmental provision in the amount of 559,473 RSD (31 December 2017: 681,162 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 2018.

Capital commitments

As of 30 June 2018 the Company has entered into contracts to purchase property, plant and equipment for 12,176,939 RSD (31 December 2017: 11,347,097 RSD).

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

27. RELATED PARTY TRANSACTIONS

For the purpose of these Interim Condensed Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operational decision as defined by IAS 24 Related Party disclosure. 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 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 2018 and 31 December 2017 the outstanding balances with related parties were as follows:

As at 30 June 2018	Subsidiaries	Parent company	Parent's subsidiaries and associates
Short-term financial assets	8,368,644	-	-
Trade and other receivables	2,826,384	-	498,584
Other current assets	16,814	-	142,550
Investments in subsidiaries, associates and joint ventures	13,425,586	-	1,038,800
Long-term financial assets	28,301,813	-	-
Other non-current assets	81,109	-	-
Trade and other payables	(3,171,189)	-	(520,590)
Other current liabilities	(1,681)	-	(149)
Short-term debt and current portion of long-term debt	(1,464,747)	(5,491,516)	-
Long-term debt	-	(21,966,066)	-
	48,382,733	**(27,457,582)**	**1,159,195**

As at 31 December 2017	Subsidiaries	Parent company	Parent's subsidiaries and associates
Short-term financial assets	3,861,747	-	-
Trade and other receivables	3,992,812	-	1,023,525
Other current assets	16,763	-	2,754
Investments in subsidiaries, associates and joint ventures	13,425,586	-	1,038,800
Long-term financial assets	32,024,282	-	-
Other non-current assets	97,920	-	-
Trade and other payables	(2,687,690)	(11,727,340)	(1,014,064)
Other current liabilities	-	-	(60,730)
Short-term debt and current portion of long-term debt	(2,303,209)	(5,510,358)	-
Long-term debt	-	(24,796,612)	-
	48,428,211	**(42,034,310)**	**990,285**

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

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

Six month period ended 30 June 2017	Subsidiaries	Parent company	Parent's subsidiaries and associates
Petroleum products and oil and gas sales	4,914,211	-	243,300
Other revenues	536,025	-	3,955,576
Purchases of oil, gas and petroleum products	(162,067)	(13,976,780)	(243,302)
Production and manufacturing expenses	(1,541,805)	-	(4,088,792)
Selling, general and administrative expenses	(541,931)	-	(3,159)
Transportation expenses	(44,869)	-	-
Other expenses, net	(22,521)	(4,438)	(47)
Finance income	449,921	-	-
Finance expense	(14,492)	(337,565)	-
	3,572,472	**(14,318,783)**	**(136,424)**

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

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

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

Transactions with Key Management Personnel

For the six month period ended on 30 June 2018 and 2017 the Company 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..

Consolidated Financial Statements

Consolidated Statement of Financial Position

	Notes	30 June 2018 (unaudited)	31 December 2017
ASSETS			
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**

All amounts are in 000 RSD, unless otherwise stated

Consolidated Statement of Profit and Loss and Other Comprehensive Income

		Three-month period ended 30 June		Six-month period ended 30 June	
	Note	2018 *(unaudited)*	2017 *(unaudited)*	2018 *(unaudited)*	2017 *(unaudited)*
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 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	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					
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

All amounts are in 000 RSD, unless otherwise stated

Consolidated Statement of Changes in Shareholders' Equity

Six-month period ended 30 June 2018 and 2017

(unaudited)

	Equity attributable to Company's owners				Non-controlling interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
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**
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**

All amounts are in 000 RSD, unless otherwise stated

Consolidated Statement of Cash Flows[84]

	Note	Six-month period ended 30 June 2018 (unaudited)	2017 (unaudited)
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-offs		(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[85]		(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		(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 increase 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**

All amounts are in 000 RSD, unless otherwise stated

[84] Group policy is to present cash flow inclusive of related VAT

[85] CF from investing activities includes VAT in the amount of 3.2 bln RSD (2017: 1.4 bln RSD)

Notes to Consolidated Financial Statements[86]

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 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.

[86] All amounts are in 000 RSD, unless otherwise stated

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.

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.

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)
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**
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)
Impairment of non-financial assets	-	3,782	-	3,782
Net foreign exchange gain	181,980	3,931,769	-	4,113,749
Finance income (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 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	441,430	(3,905,893)	(2,926)	(4,113,749)
Other expense, net	(103,469)	76,403	(22,761)	228,731
Other non-operating 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
Through a retail network	-	-	-
Wholesale activities	979,783	-	979,783
Sale of petroleum products	83,285,049	28,235,450	111,520,499
Through a retail network	28,073,614	7,789,821	35,863,435
Wholesale activities	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**

			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
Through a retail network	-	-	-
Wholesale activities	1,390,073	-	1,390,073
Sale of petroleum products	73,681,768	22,262,710	95,944,478
Through a retail network	26,361,408	9,923,041	36,284,449
Wholesale activities	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:

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
Bulgaria	7,181,288	7,334,652
Bosnia and Herzegovina	7,248,968	7,401,758
Romania	7,597,293	6,967,529
Hungary	3	28
	280,651,828	**271,140,998**

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**
Less impairment provision for trade and other receivables:		
- third parties	(9,398,195)	(9,483,852)
- state and state owned companies	(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**

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)
Exchange differences	-	(36,303)	(36,303)
Unwinding of discount (note 23)	-	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**

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 of 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.

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**

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**

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**

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)	(7,022,695)	(6,099,584)
	85,187,052	**90,495,878**

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	**96,180,847**	**5,282,682**	**379,674**	**101,843,203**
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	**91,441,202**	**-**	**733,092**	**92,174,294**

(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	(1,478,275)	(536,801)
	62,505,345	**65,259,674**

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
	62,505,345	**65,259,674**

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 fulfill 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**

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	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	(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).

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:

As at 30 June 2018	**Parent Company**	**Parent's subsidiaries and associates**	**Joint venture**
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**

As at 31 December 2017	Parent Company	Parent's subsidiaries and associates	Joint venture
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**

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

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

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

	Parent's subsidiaries and associates	Other
Three month period ended 30 June 2018		
Operating income		
• *HIP Petrohemija*	11,363,791	-
• *Srbijagas*	-	414,813
Operating expenses		
• *HIP Petrohemija*	(96,290)	-
• *Srbijagas*	-	(451,722)
	11,267,501	**(36,909)**
Three month period ended 30 June 2017		
Operating income		
• *HIP Petrohemija*	9,896,305	-
• *Srbijagas*	-	489,454
Operating expenses		
• *HIP Petrohemija*	(86,298)	-
• *Srbijagas*	-	(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.

Statement of Individuals Responsible for the Preparation of Financial Statements

We hereby state that, to our best knowledge, the interim financial reports have been prepared in compliance with the applicable international financial reporting standards, and also in compliance with the Law on Accounting ('Official Gazette of the Republic of Serbia' no. 62/2013), which requires full scope of IFRS to be applied as well as the regulations issued by the Ministry of Finance of the Republic of Serbia[87] and that they show true and objective information on the assets, liabilities, profit and loss, financial position and operations of the Company, including subsidiaries encompassed by the consolidated statements.

Anton Fyodorov		Branko Mitrović
	(Stamp)	
Deputy General Director, Head of Function for Finance, Economics, Planning and Accounting NIS j.s.c. Novi Sad		Director of Accounting Department, Function for Finance, Economics, Planning and Accounting NIS j.s.c. Novi Sad

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

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

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The Report contains statements on uncertain future events. Statements on uncertain future events involve statements which are not historical facts, statements with regard to the NIS Group's intentions, beliefs or current expectations related to, inter alia, the NIS Group's business results, financial standing and liquidity, prospects, growth, strategies and industrial sectors in which the NIS Group does business. For the reason that they relate to the events and depend on the circumstances which may or may not realize in the future, statements on uncertain future events by their nature involve risks and uncertainty, including, but without limitation to risks and uncertainties that the NIS Group has identified in other publicly available documents. NIS Group hereby warns that there are no guarantees that the statements on uncertain future events will be realized in the future and that actual business results, financial standing and liquidity, as well as the development of the industrial sector in which the NIS Group does business, may considerably differ from the ones represented or assumed by statements on uncertain future events. In addition, even if the NIS Group's business results, its financial standing and liquidity, and the development of the industrial sector in which the NIS Group does business happen to comply with the statements on uncertain future events contained herein, the results and development are not indicative of the results and development in upcoming periods. The information contained herein has been presented on the date of the Report and may be changed without prior announcement.