NIS
GAZPROM NEFT
FUTURE AT WORK

QUARTERLY REPORT
for third 2018 quarter

The Quarterly Report for 2018 Third Quarter presents a factual overview of NIS Group's activities, development and performance in the third quarter of 2018. The Report presents data for NIS Group, which comprises NIS j.s.c. Novi Sad and its subsidiaries. If specific reference is made to individual subsidiaries or to NIS j.s.c. Novi Sad only, it is so noted in the Report. The terms "NIS j.s.c. Novi Sad" and "the Company" denote NIS j.s.c. Novi Sad the parent company, whereas the terms "NIS" and "NIS Group" denote NIS j.s.c. Novi Sad together with all subsidiaries.

The Quarterly Report for 2018 Third Quarter is compiled in Serbian, English and Russian. In the event of any discrepancy, the Serbian version shall prevail.

The Quarterly Report for 2018 Third Quarter is also available for download from the corporate website. For more information on NIS Group, visit the corporate website www.nis.eu.

Contents

Introduction

During the past nine months of 2018, NIS Group continued to improve financial and operational indicators and at the same time invest generous funds in strategic projects which will further build NIS. This reporting period has been marked by better financial results when compared to the same period in 2017. The net profit amounted to 21.7 billion dinars, which is 8% more than last year. Also, the EBITDA indicator is 42 billion dinars, which is 23 percent better than in the same period of the previous year. On the one hand, these results have been realized under the influence of external factors, primarily due to the rise in oil prices on the world market (the average price of Urals oil in this reporting period is $ 70.7 per barrel, which is 39 percent more than in the same period last year). On the other hand, the improvement in the financial results of the NIS Group has been influenced by the growth of turnover, as well as the increase in the efficiency of operations, in which NIS will continue to insist at all levels and in all segments of the business in the future. Measures for increasing operational efficiency in the nine months of the current year resulted in an effect of 3.7 billion dinars on the EBITDA indicator.

Investments in development projects are particularly important for the NIS Group, so in the nine months of 2018, 27.3 billion dinars were allocated for capital investments, which is 64 percent more than the amount allocated for investments in the nine months of 2017. Most of the funds were invested in research and production of oil and gas, while the emphasis in individual projects was on the realization of the construction of a deep processing facility with delayed coking technology. Since it is a capital project of the second phase of modernization of the Oil Refinery in Pancevo, the public has been fully aware of this project due to a visit of the leading domestic media sites to the Refinery. NIS has also continued to digitalize its operation in all business directions, and realization of this goal will be one of the priorities in the years to come so that NIS would successfully respond to the challenges of the Fourth Industrial Realization and provide its customers with quality servicing and services along with increased efficiency.

It is important to note that, at the same time, the liabilities of the NIS Group increased on the basis of public revenues and that they amounted to 142.26 billion dinars, which is 16 percent more than in the previous year. Also, NIS j.s.c. Novi Sad, continued with the practice of paying dividends to shareholders for the sixth consecutive year, in the amount of 25 percent from last year's net profit of the Company, thus 6.95 billion dinars were paid to shareholders for this purpose.

When it comes to operational indicators, again, there has been a growth in processing and sales and distribution. The total volume of oil and semi-finished products is 2.769 thousand tons, which is 6 percent more than in the nine months of 2017. The growth of petroleum products turnover was recorded at the same time and it amounted 2.741 thousand tons (without internal traffic), which is 10 percent more than last year. It is important to note that during this reporting period NIS exports increased by as much as 20 percent, while better results were recorded in both wholesale and retail in Serbia. The production of oil and gas amounted to 999 thousand conditional tons.

By the end of this year, NIS continues to focus on the implementation of capital projects, improving financial and operating results, increasing operational efficiency and digitalizing business, so that it could continue to create additional value for its shareholders, employees and the community in which it operates, in line with the Development Strategy of 2025 and in challenging macroeconomic conditions.

Business Report

Highlights

January - September

- Start of a new 3D seismic project in Romania, Block EX-3
- During the first 9 months, 42 development and 7 exploratory wells were drilled in Serbia (39 development and 8 exploratory wells were put into operation). In third quarter 14 development wells and one exploratory were drilled in Serbia.
- The drilling of two exploratory wells was initiated in Romania (Beba Veche Sud-1000 and Teremia-1001)
- The Energy Plant was formed by transformations within the Exploration and Production Block
- The competition for the best technologist in 2018 in the Exploration and Production Block was held on 31 August
- Twenty-two students from the Faculty of Technical Sciences "Mihajlo Pupin" in Zrenjanin and students from several prestigious faculties for oil and gas in Russia completed the summer internship through the program Energy of Knowledge
- 3D seismic project "South Banat 2" was completed
- New 3D seismic project in Serbia, "Turija IV", was initiated
- Final construction works on 3 PS "Bagrdan", "Subotica" and "Lazarevac"

- Bitumen unit revamped.
- New gas ejector GB-2202 put into operation.
- Test refining of new „Iran Heavy" crude completed
- 90% of 3D model designs under Work Package 2 of the Delayed Coker Unit project completed. Concrete structure of the coking reactor finished and the reactor structure erected under the Delayer Coker Unit Project. The main compressor unit was installed and the concrete foundation laid for the coke silos.
- Development of a digital transformation plan for Refining under the OMS Project
- Revamp of Klaus unit (S-2450) completed
- Merox unit (S-2550) handed over for reconstruction as part of activities under the DCU Project
- In September, a maximum monthly refining and reprocessing output recorded (374 thou. t) for the last 10 years
- In August, a record production and transport of bitumen (51 thousand tonnes)
- Regular maintenance of Visbreaking (S-200) and Diesel Dewaxing (S-2400) units completed
- Works on horizontal and vertical signalling in front of Pančevo Oil Refinery completed
- Definition of technological requirements for connection of CCPP Pančevo to the existing lines in Pančevo Oil Refinery
- In September, extension of the certification scope to include new road bitumen „EB 35/50", which NIS intends to place in the European market, was completed

- Rebranding completed at 2 petrol stations – 12. februar (NIS brand) and Vojvode Mišica (GAZPROM brand). After rebranding, Bagrdan petrol station was put into operation on 14 March 2018, and the reconstruction of the PS Subotica 1 and Lazarevac-city was completed.
- Development of the loyalty program: On the Road with Us and introduction of the new payment function on this card.
- Installation of additization system on vehicles and beginning of supply and sale of OPTI fuels on Gazprom PSs
- Twenty three new G-Drive trademarked products introduced
- Rebranding of ''Jazak" brand and introduction of new packaging of 0.5l and 1.5l
- Aviation fuel resale expansion
- Over 146 marketing campaigns were carried out at our PSs in Serbia and the region during the period of 9 months of 2018
- Heavy fuel oil flow control system installed in the Pančevo Energy Plant, enabling significant energy savings.
- The celebration of the 10th anniversary of the "Together for the Community" programme continued and the jubilee of this programme was celebrated during the third quarter in Novi Sad, Nis, Kikinda, Zitiste and Novi Becej
- Within the "Together for the Community" programme, in cooperation with the "Novi Sad" Table Tennis Club and the city administration, NIS supported the project of placing concrete table tennis tables on 10 public areas in Novi Sad
- The sixth Festival of Russian Music "Bolshoy", a joint project by Emir Kusturica and Gazprom Neft, the majority shareholder of NIS, was held in the ethno village of Mecavnik
- For the sixth year in a row, NIS paid a dividend to its shareholders; a total of RSD 6.95 billion was allocated for this purpose, which is 25% of the last year's net profit of the Company
- Within the "Together for the Community" programme, the City of Belgrade and NIS signed the Cooperation Agreement continuing the joint realization of capital projects which contribute to improving the quality of life of the citizens of Belgrade. The Agreement was signed by Kirill Tyurdenev, the CEO of NIS, and Zoran Radojicic, the mayor of Belgrade
- Within the "We are all one team" project, the NIS company rewarded its consumers with kart racing with Dusan Borkovic in Belgrade
- The assembling of oversized equipment within the construction of the deep processing plant with delayed coking technology project realization in Pancevo Oil Refinery was successfully completed. On that occasion, the Department of External Communications organized a visit of the leading domestic media to the construction site in the Refinery
- Technical School "23. maj" in Pancevo got a modern ecological laboratory, designed and equipped with the support of NIS within the "Together for the Community" programme
- NIS supported the reconstruction of kindergarten in Kikinda within the "Together for the Community" programme
- In Belgrade, with the support of NIS, the 57th October Salon opened
- With the support of the Basketball Association of Serbia, NIS organized a mini 3x3 tournament on the platform in front of Belgrade BC

- NIS and Serbian Ministry of Education, Science and Technological Development signed a Memorandum of Cooperation for joining forces on promoting science and education
- NIS representatives presented a donation to the Children and Youth Healthcare Institute of Vojvodina in Novi Sad for purchasing new medical equipment.
- In a Best Employer 2018 survey of Poslovi.infostud.com, NIS was declared one of Serbia’s most attractive employers

- Sberbank Serbia and NIS received the Banking Technology Award – Most Innovative Card Product 2018 for the On the Road With Us Card
- NIS received the prestigious Captain Miša Anastasijević Award for best company in Serbia in an official ceremony at Matica Srpska in Novi Sad

- NIS continued to improve the quality of life in local communities in Serbia so Zrenjanin got a modern Volleyball Training Centre, while Čačak got a children’s playground and an outdoor gym
- GAZPROM petrol station opened in Niš, marking the 20th station under this premium brand in Serbia
- NIS j.s.c. Novi Sad 10th Annual General Meeting adopted a Decision on 2017 profit distribution, dividend payment and determination of the Company’s total retained earnings

- NIS received its second successive award for best corporate brand in the Production Goods and Business Services category at the Best of Serbia Awards. NIS also received the Winner No. 1 Award in the Energy category at the Corporate Superbrands Serbia 2017/2018 Awards
- NIS supported the renovation of the Petrovaradin Fortress Observatory in Novi Sad.

NIS Group

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

The main production capacities are located in the Republic of Serbia, but the Group also operates in several countries around the world[1] and employs an international team of experts.

NIS' goal is to become the fastest-growing energy system in the Balkans and to set an example in business efficiency and sustainable development.

Business Activities

NIS Group's business activities are organised within NIS j.s.c. Novi Sad as the parent company and delivered through five Blocks[2] and nine Functions supporting the core business. The Blocks are: Exploration and Production, Services, Refining, Sales and Distribution and Energy[3].

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

The majority of NIS' oilfields are located in Serbia, but NIS also carries out exploration operations in Bosnia and Herzegovina, Hungary and Romania. NIS' oldest foreign concession is in Angola, where NIS has been undertaking oil exploitation operations ever since 1985.

This Block operates an Elemir-based plant for natural gas conditioning, LPG and natural gasoline production and CO_2 capture, with a design capacity of 65,000 tonnes of LPG and natural gasoline per year. This plant also operates the Amine Plant for the purification of natural gas applying HiPACT technology. The Elemir plant is the first HiPACT plant in Europe, and the gas processing method employed completely prevents any carbon dioxide emissions into the atmosphere.

The Group's subsidiary STC NIS Naftagas d.o.o. Novi Sad provides scientific and technical support to the Block's main activities, while being the development and innovation hub of the entire NIS.

Services provides oil and gas exploration and production services through geophysical survey, well construction, completion and workover, and specialist wellbore operations and measurements. The Block also delivers equipment maintenance services and constructs and maintains oil and gas systems and facilities. Apart from rendering freight transport and equipment operation services, Services as also engage in passenger transport and vehicle rental services. NIS has its own servicing capacities, which fully meet the Group's requirements and are able to provide services to third parties. These services are provided through 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 has expanded the business into foreign markets also: Bosnia and Herzegovina, Romania and Russia.

Refining is engaged in the processing of crude oil and other feedstock and the production of petroleum products. It produces a broad range of petroleum products: from motor and high-octane fuels to feedstock for the petrochemical industry and other products derived from oil. The Block's refining complex comprises

[1] Look at the NIS Worldwide on the page no. 9 and NIS Group Business Structure on the page no. 11

[2] The reorganisation and creation of a new Division resulted in abolishment of Energy. The Energy Department is kept in the structure, but is subordinated to the Division. Other organisational units are decentralised to Exploration and Production, Refining and Sales and Distribution.

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a production plant in Pančevo[4]. The refining plants in Pančevo are designed for a maximum capacity of 4.8 million tonnes per year. Following the construction of the Mild Hydrocracker and Distillate Hydrotreater (MHC/DHT) in 2012, NIS started to produce motor fuels that meet EU quality standards. At the Pančevo Oil Refinery, a delayed coker unit is under construction, a capital investment in the second stage of modernisation which will allow the Pančevo Refinery to boost production of light petroleum products and to launch the production of a new product - coke, a product Serbia currently imports.

Sales and Distribution covers the foreign and domestic trading, wholesale and retail of petroleum and non-fuel products. As separate businesses, NIS develops aviation and bunker fuel supply and 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 - Bosnia and Herzegovina, Bulgaria and Romania. In Serbia and the region, NIS manages a network of over 400 retail facilities and operates two brands: a mass market brand *NIS Petrol* and a premium brand *GAZPROM*.

All fuel types are subject to regular and 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 has produced 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, as well as energy efficiency improvement projects.

As part of the "Transformation" Project, as of 1 July 2018, the electricity and thermal energy generation units, as well as the CNG unit of the "Energy" Block, have been transferred to other Blocks, while the compressed natural gas and natural gas sales business, and also electricity trading, development and introduction of strategic energy projects, development and implementation of energy efficiency improvement projects have remained within the competence of the Energy Department, which operates under the Downstream Division. The cooperation with TE-TO Pančevo[5] regarding the CCPP Pančevo Project, which is underway, also falls within the competence of the Energy Department.At eight of its oil and gas fields, NIS put small-sized power plants into operation with a total installed capacity of 13.8 MW[6]. Some of the small-sized power plants also generate thermal energy, meeting the consumption requirements of the process plants. The electricity output is mostly marketed. In addition to the small-sized power plants, NIS also produces electrical and thermal energy at the Pančevo Energy Plant, which has a generator capacity of 10.7 MW. The entire electrical and thermal output from the Energy Plant is supplied to the Pančevo Oil Refinery.

The core business is supported by nine Functions within the parent company – NIS j.s.c. Novi Sad. Five of the ten supporting Functions are partially de-centralised and have functionally subordinate units within the Blocks[7], while the other Functions are centralised[8]. One of the CEO's Deputies is in charge of petrochemical operations.

[4] Novi Sad Oil Refinery is closed and its design capacity of 2.5 million tonnes per year is currently not in use. By virtue of a CEO decision of 1 March 2016, this facility was placed under the management and responsibility of Sales and Distribution.

[5] NIS's share at TE-TO Pančevo d.o.o. Pančevo is 49%, achieved through the company Serbskaya Generaciya d.o.o. Novi Sad.

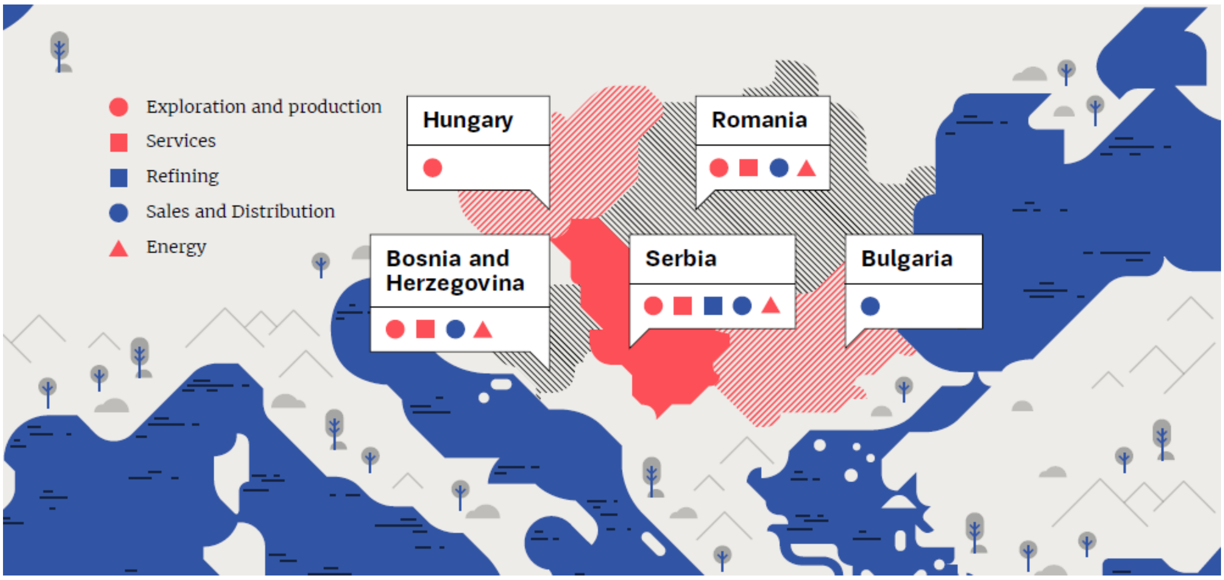
[6] Maximum capacity of small power plants is 14.5 MW.

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

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

NIS Worldwide

Business expansion into the region is one of NIS' strategic goals. NIS began expanding the business to regional countries in 2011. The regional expansion pursued two main courses - oil and gas exploration and production (in Bosnia and Herzegovina, Hungary and Romania) and retail network development (in Bulgaria, Bosnia and Herzegovina and Romania). In addition, NIS is also active in electricity trading and, apart from Serbia, has a market presence in Bosnia and Herzegovina, Romania, Slovenia and Hungary.



NIS Group Business Structure

- Turkmenistan Branch Office
- Branch Offices in Serbia[9]
- Angola Representative Office
- Bulgaria Representative Office
- Croatia Representative Office
- Bosnia and Herzegovina Representative Office
- Romania Representative Office
- Russian Federation Representative Office

- 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

[9] 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 a negative or positive influence on the achievement of the Company's objectives at all management levels. Risk management is a continuous and systematic business process that serves to support management decision-making in a risk exposure environment.

The Company's operations are exposed to various risks that carry a potential to essentially impede the fulfilment of set objectives, if realised. The Company acknowledges risks and invests sustained efforts to manage them systematically. Efficient risk management is central to ensuring the Company's business continuity and a well-established risk management framework constitutes the basis for business decision-making.

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

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

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

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

IRMS Business Process Flow at NIS

The basic principle underpinning this system entails that the responsibility for managing risks is assigned to different management levels relative to a risk's estimated level of impact on the Company's operations (financial, reputational HSE impact and legal impact). Such approach allows for identifying the areas of responsibility for risk management and oversight at all management levels and ensuring that suitable action plans are prepared in order to manage risks at the level of organisational units or NIS as a whole.

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

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

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

IRMS in Business Planning Process

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

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

Operational Risks

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

Market Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Price risk	
In view of its core activity, NIS Group is exposed to risks associated with price volatility, specifically the price of crude oil and petroleum products affecting the value of inventories and refining margins, which in turn affects future cash flows.	These risks are partly offset by adjusting petroleum product selling prices against the changes in oil and petroleum product prices. The need to use some of commodity hedging instruments in the Group's subsidiaries, including NIS j.s.c. Novi Sad as a subsidiary, is at the discretion of Gazprom Neft Group. 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 to both crude oil purchase and sale (sale of Angola-Palanca crude oil); • Tendency to enter into long-term crude oil purchase contracts at most favourable commercial terms and with longer payment terms on an open account basis, and sales contracts which would exempt NIS j.s.c. Novi Sad, in line with current intergovernmental agreements, from paying customs duties at import, based on preferential status;

	• Expansion of the supplier portfolio, successful cooperation with EU-based companies, growing competitiveness in import tenders and more prominent progress regarding purchase prices; • Expansion/diversification of the crude oil basket for prospective import, provision of samples of the crude oil types that have not been used for processing at the Pančevo Oil Refinery; • Constant effort to optimise processes and achieve the most optimum economic effects and indicators; • Occasional benchmarking to survey the market and price trends and to analyse the commercial capacities of major prospective suppliers of crude oil, renowned companies which are dominant and reliable in crude oil trading.

Political Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Risk of EU and US Economic Restrictions on Gazprom Neft Group	
Economic restrictions imposed by the EU and the US on Gazprom Neft Group have brought about risks to the prospects for long-term development because of constraints regarding loan arrangements with commercial banks from some of the EU- and US-based bank groups.	NIS regularly follows international developments and assesses potential consequences for the company's business. Moreover, in line with allowed exemption from the sanctions (long-term loans are possible only if intended for funding the import of goods and services from the EU), NIS' operations are continuously being adjusted to this option by increasing the volume of imported goods and services from EU suppliers. In this way, funds are provided for financing NIS' long-term development despite sanctions constraints.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Currency Risks	
NIS Group operates in an international setting and is thus exposed to the risk of fluctuating foreign exchange rates arising from business transactions being made in different currencies, primarily USD and EUR. The risk involves future trade transactions and recognised assets and liabilities.	The risks relating to fluctuations in the national currency against the US dollar is partly neutralised through natural hedging of petroleum product selling prices, which are adjusted to these fluctuations. Risk management instruments are also used, such as forward transactions on the foreign exchange market, which help reduce the impact of foreign currency losses in the event of depreciation of the national currency against the US dollar or euro. Other actions include the balancing of the foreign exchange equilibrium in terms of adjusting the currencies in which export transactions are denominated to the currencies of foreign liabilities; managing the currency structure of the loan portfolio etc.
Interest Rate Risks	
NIS Group is exposed to the risk of interest rate volatility, both in terms of its bank loans and deposits.	NIS j.s.c. Novi Sad takes out loans with commercial banks at floating or fixed interest rates depending on projections of changes of base interest rates in the monetary market. Consequently, funds in the form of intercompany loans to third parties are placed at floating or fixed interest rates, whereas funds deposited as term or demand deposits are placed at flat interest rates. Deposits are aligned with the credit limit methodologies of commercial banks (funds are reciprocally placed only with major commercial banks from which NIS j.s.c. Novi Sad takes out loans and/or credit/documentary lines). In this respect, revenues and cash flows from bank deposits are substantially independent of any changes in base interest rates, whereas for

	loans/credits granted exposure to the risk of base interest rate volatility (*EURIBOR, LIBOR*, etc.) is higher.

Financials risks

RISK DESCRPTION	RISK MANAGEMENT ACTIONS
Accounts receivable risk	
Arises in relation to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans given to third parties, and exposure to wholesale and retail risks, including unrecoverable debt and assumed liabilities.	Credit risk management is established at the level of NIS Group. With respect to credit limits, banks are ranked according to adopted methodologies applicable to major and other banks, in order to determine the maximum extent of bank exposure of NIS j.s.c. Novi Sad at any given time (through deposits, documentary instruments: bank guarantees, Letters of Credit, etc. issued for the benefit of NIS j.s.c. Novi Sad). 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	
Liquidity risk denotes a risk of NIS Group encountering difficulty in meeting its liabilities. It is the risk of not having suitable sources to finance NIS Group's business operations.	NIS Group continually monitors liquidity in order to provide sufficient cash to meet its operational, investment and financial performance requirements. To this end, it is continually contracting for and securing sufficient credit and documentary lines while maintaining the maximum allowable level of credit exposure and meeting the commitments under commercial bank arrangements (covenants). Liquidity projections take into account the Group's debt repayment schedules, compliance with contractual terms and internally set goals and are 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 Gazprom Neft PJSC. 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[10]. Since mid-September 2014, NIS j.s.c. Novi Sad has been exposed to the risk of limited external financing capacities due to the imposition of sectoral sanctions by the EU and the US on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU. The sanctions prevent NIS j.s.c. Novi Sad from borrowing from the EU or US banks for a period longer than 30 and 60 days respectively. Exemption from the EU sanctions is related to the possibility of borrowing for a period longer than 30 days from EU banks exclusively if the loan is intended for the

[10] 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

	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 necessary funds for regular repayment of loans in 2018 and 2019, as well as for early repayment of loans in order to improve the loan portfolio (lowering the average cost of financing and extending the average portfolio maturity). During 2017, the first stage of the loan portfolio restructuring process was carried out (first such restructuring since the introduction of sanctions in 2014). Loans granted under favourable terms were used to repay loans with shorter maturities and high interest rates (mainly USD loans the cost of which increased significantly due to the USD LIBOR trends), which helped to reduce the average cost of loan portfolio and extend the average maturity of the portfolio. The process of restructuring the loan portfolio continued during the first nine month 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 are 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 less favourable loans from its portfolio before their maturity and thereby practically restructure the maturity of its loan portfolio (increase the share of long-term loans in the portfolio or extent the average loan portfolio term), along with reduced borrowing costs. Also with a smaller share of dollar-denominated loans which carry a risk of increased base rate (USD LIBOR), are being withdrawn new euro-denominated loans will be raised at more favourable interest rates (as opposed to the EU sanctions, USD loans are not possible due to the US sanctions that provide for no exemption), all within the allowed loan limits, which will unburden the company's cash flow for investments in the next three years and provide financial assets for the completion of projects (especially the Delayed Coker Unit Project).

Business Environment

Worldwide

Oil

The price of oil on the stock exchanges in New York and London has risen to the highest level since November 2014 because the market fears that US sanctions against Iran will lead to a drop in supply on the world market.

Even though the US sanctions against Tehran will theoretically come into force only in November, Iran's oil export has been decreasing since April, immediately before the US president Donald Trump announced the withdrawal of the United States from the Iranian Nuclear Weapons Agreement.

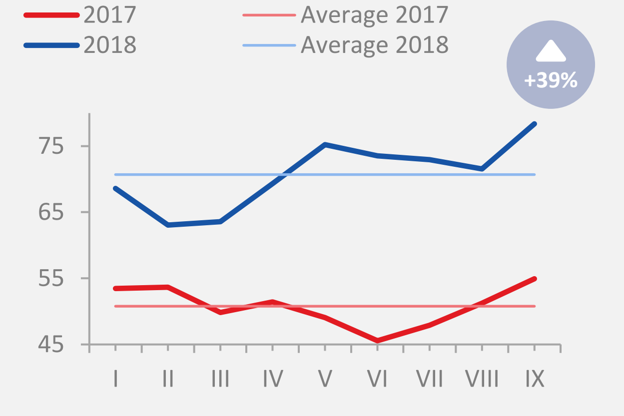


Chart No. 1: *Urals RCMB price trends[11], $/bbl*

The number of oil resources in the US has declined, which indicates to a potential decrease in production.

The international energy agency urged the OPEC and other leading petroleum nations to raise crude oil production "because we are all facing a clearly risky situation with the entry of oil markets into the red zone".

At the end of September, Bloomberg transmitted the words of the first man of IEA and his message that all producers should contribute to the market because the fourth quarter of this year could be "very, very critical". He said that the rise in oil prices is happening at the time of increasing number of red flags of warning in the world economy, which will eventually shake the oil industry if it causes the end of oil demand, and he urged major producers to take action to prevent possible problems.

OPEC also expects an increase in oil demand. In its annual report, he stated that the world consumption of oil will increase in the next 5 years due to increasing consumption of the air and land transport and of chemicals, and the announced increase in demand will exceed the decrease in production resulting from of the expansion of electric vehicles.

OPEC expects the demand to reach 112 million barrels a day until 2040, owing primarily to the air and land traffic and the chemical industry. It is expected that only aviation companies will increase oil consumption by 2,2% per year, on average.

According the the announcements from OPEC, the number of vehicles on roads will increase from the current 1.1 billion to 2.4 billion whereas, according to the words of this organization, the number of electric vehicles should increase to "only" 320 million in 22 years. Even if the number of electric vehicles on roads would increase to 720 million (in case of faster technological progress) by the year 2040, oil production by 2040 would not be too much affected by this change in the scenario - that is, the drop in production, caused by an increase in the number of electric vehicles - it would be less than 3 million barrels a day.

OPEC also suspects that renewable energy sources, although growing, will meet only 20% of the needs for energy in the next 22 years. By 2040, oil consumption will be reduced by one third in the OECD countries (the most developed countries of the world), but will increase by 20% in developing countries. The increase

[11] Source: Platts.

in oil production comes mainly from the deposits of shale in the USA, whereas China and India will be the main promoters of demand.

Regarding other energy sources, the question is: “whether renewable energy can outperform natural gas?

In terms of climate goals, natural gas encounters different opinions. One party claims that it reduces the share of carbon, thus drastically reducing gas emissions which increase the heat of the atmosphere, whereas the other notes that the increase in the use of natural gas suppresses the promising renewable options such as the energy of wind and sun.

Changes in the energy dynamics have led to the carbon dioxide emissions being the lowest since the early 1999s. Therefore, a key question has become the following one: should the policy creators continue to operate on the natural gas market or address the more frequent, renewable options. The fact is that both types of energy products are in the focus of the world trade.

“The idea of natural gas as a transitory fuel to renewable sources is uncommon”, said the executive director of the company Total SA at the World Gas Conference in Washington, to which the directors of Conoco Phillips, BP, Equinor ASA and Qatar Petroleum agreed. The economic forces will encourage the natural gas industry, which will also open job positions and increase wealth; in addition, this will help to reduce the gas emissions with greenhouse effect. However, this progress must not be more important than the new and cleaner technologies within renewable sources which also have support in political circles. In the foreseeable future, energy products will share space and increase its importance.

Macroeconomic Trends

The International Monetary Fund continues to warn that the trade war between the US and China will make the world “poorer and more dangerous”. It has decreased the estimates of the global economy growth for the years 2018 and 2019, because the trade tensions and introduction of import tariffs are damaging trade whereas, on the other hand, developing countries are facing capital outflowing.

According to the most recent report of the IMF, the global economy will grow at a rate of 3.7% in 2018 and 2019, which is lower in comparison to the previous estimate of growth of 3.9% for both years.

The latest estimates show that strong economic growth, partly encouraged by tax reduction in the USA and a growing demand for import, begins to diminish.

The decline in projection is the consequence of a series of factors, such as: introduction of import tariffs between the USA and China, poorer performance of the Eurozone economy, Japan and Great Britain, as well as growing interest rates that exert pressure on some developing countries, thus causing the capital outflow, especially in Argentina, Brazil, Turkey and South African Republic.

“Previous estimates now look ‘too optimistic’, bearing in mind that the risks resulting from “further disruptions in trade policy” are becoming increasingly noticeable”, said the head economist of the IMF..

According to the Fund’s estimate, since the consequences of the American-Chinese tariff war will be felt the next year, that international financial institution has reduced the estimate of the US economy’s growth for 2019 to 2.5% from the previous 2.7%, while it cut the projection of China’s growth from 6.4% down to 6.2%.

Serbia

The positive trend in the economic activities in Serbia continued in the first nine months of 2018. Serbia is characterized by growing economy with low inflation rate, elimination of fiscal deficit, decline in public debt, decrease in external imbalance and recovery of labor market. An improved structural competitiveness has contributed to better overall macroeconomic results.

GDP has significantly exceeded expectations in the first half of the year, by a 4.9% increase (the highest growth in the last decade) which is driven by high growth of private and state investment, and also encouraged by consumption and double-digit export growth.

As a result of strong investment activity and recovery of labor market, the projection of GDP growth for this year has been revised upwards from 3.5% to 4.0%. Despite the slowdown of the Euro zone, Serbia's GDP has accelerated the growth in the first half of 2018, as a result of domestic factors. From the aspect of production, the growth is still diversified with a positive contribution of all sectors and contribution of construction which is higher than expected. In addition to construction activities, the continuation of the investment cycle is confirmed by other key indicators, such as import of equipment, inflow of foreign direct investment (FDI) and trends in domestic sources of financing. High private and government investments, double-digit growth of export and increased consumption will be the main promoters of GDP growth in the following years. At this moment, the risks are asymmetrical upwards. 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 22% in 2018. Preserved macroeconomic stability, improvement of the total business environment, rising profitability, the process of EU accession and external factors will act favorably on private investments in the following years. Economic growth, with better tax collection efficiency, responsible public expenditure policy and reduction of public debt will allow the Government to increase investments and additionally improve the country's infrastructure.

Inflation recovered from the April minimum of 1.1% to 2.6% in August. It is driven by prices of food and energy, and is expected to be on a similar level within a short time, with gradual nearing of the target by 2020. Inflation expectations are anchored around the central target value of 3.0%. Projection risks concern trends in the international commodity and financial market and, to a certain degree, the growth of regulated prices.

State budget in 2017 went into surplus (1.2% GDP) and this trend continued in the first half of 2018. (1.5% GDP). Following a sharp decline in public debt in 2017, by more than 10% GDP, the decrease continued from the beginning of 2018, so in the first half the public debt was below 60% GDP.

Macroeconomic stability with structural reforms created a more favorable environment for FDI which are well diversified and contribute to export potential of the country. In the seven months of 2018, the net FDI further increased (+0.3%) in comparison to the high level from 2017. The outflows are directed towards export-oriented sectors. Within the processing industry, the highest outflows of FDI have been recorded in automotive industry, production of basic metals, rubber and plastics, pharmaceutical and chemical products. These have led to positive trends in the field of employment, production and export of the processing industry. Coverage of the current deficit with FDI is 120.7%. Correction of the business environment is confirmed on the Doing Business List. From 91st position, (2015), Serbia moved to 47th (2017), and then to 43rd position (2018).

From April to September of the current year, the NBS[12] 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 the monetary policy. Due to the uncertainty on international commodity and financial market, the expected continuation of restrictions of the FED policy, the completion of the quantitative program of the ECB, and the existing geopolitical and trade tensions, caution is advised in the conduct of monetary policy. The resistance of our economy to possible negative effects from international environment is increased thanks to better macroeconomic indicators and more favorable outlooks for the upcoming period.

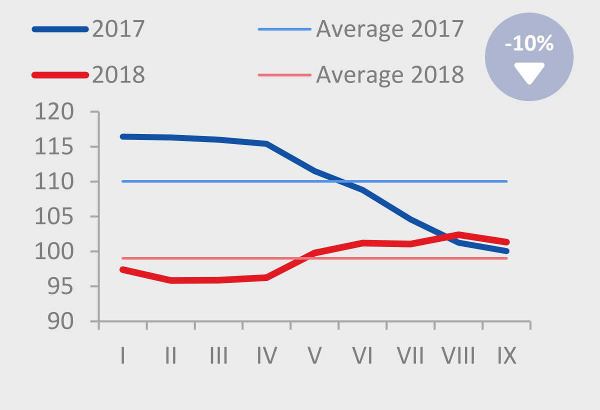


***Chart No. 2:** USD to RSD currency chart*[13]

- Average USD/RSD exchange rate in the first nine months of 2018 was down RSD 11.01, a decrease of 10% on the average exchange rate in the same period of 2017.
- In the first nine months of 2018, the USD/RSD exchange rate rose by 2.57 RSD (3%).
- During the first nine months of 2017, the USD/RSD exchange rate fell by RSD 15.81 (13%).

[12] NBS – National Bank of Serbia

[13] Source: NBS

Performance Analysis

Market Share[14]

Consumption of motor fuels shows growth that is primarily generated by the growth of diesel fuel.

The following had a positive impact on diesel consumption: significantly more successful agricultural season, infrastructure and construction works.

LPG consumption is decreasing due to high prices and changing the structure of the vehicle fleet. The rise in gasoline is lower than expected due to high prices..

Serbian Market Share

Total consumption of petroleum products has a positive growth trend. The following contributed to the aforementioned:

- growth in consumption of bitumen and coke
- construction and road industry as the main driver of diesel consumption
- good agricultural season

The share of NIS on the total market for petroleum products was increased due to the rise in the share of primary gasoline, diesel, liquid gas and bitumen sales.

NIS's participation in the retail market is stable. Numerous marketing projects, the expansion of fuel portfolios and the improvement of the concept of loyalty have contributed to the preservation of high participation.

The retail market has grown slightly.

Consumption of diesel is on the rise, while the reduction in LPG and gasoline consumption is related to price growth and the change in the structure of the fleet of the Republic of Serbia.

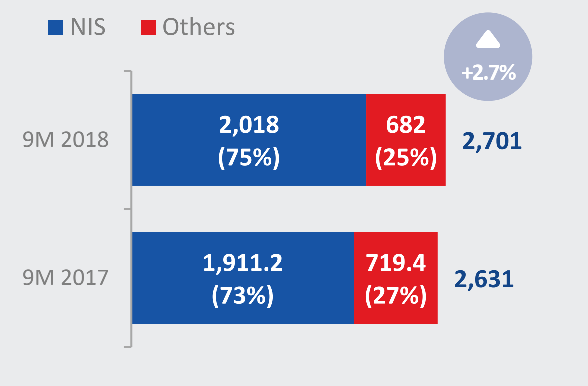


Chart No. 3: *Serbian petroleum product market volume[15], in thousand tonnes*

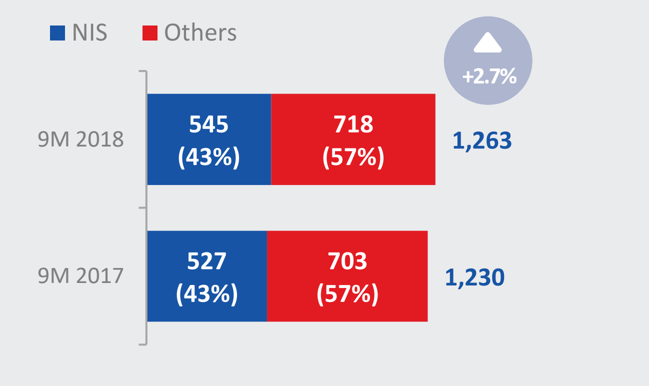


Chart No. 4*: Serbian motor fuel market volume[16], in thousand tonnes*

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

[15] Data for 2018 is based on estimates.

[16] The sales of NIS and other competitors include motor fuels (gas, motor fuels, diesel and EL fuel oil used as motor fuel). LPG cylinders are not included. Data for 2018 is based on estimates.

Market Share in Bosnia and Herzegovina, Bulgaria and Romania

Bosnia and Herzegovina

The damage in the port of Ploce, which happened after the STI Poplar tank ("Petrol terminals" in Ploce belongs to the FB&H) had a strong impact on the supply of the B&H market. We are currently searching for an urgent solution to put the oil terminal into operation.

"Hifa Petrol" opened a gas station in Banja Luka, which makes this network, as well as certain networks from Republic of Srpska, improve the level of national coverage of B&H.

Fuel prices in BiH, albeit being the lowest in the region, have grown partly due to the introduction of additional excise duties, and partly because of the rise in oil prices on the world market.

NIS has 37 petrol stations in Bosnia and Herzegovina.

NIS’s market share in the total motor fuel market is 14.4%, with a retail market share of 10.0%.

Bulgaria

Bulgaria adopted the Law on Administrative Regulation of Economic Activities Related to Oil and Petroleum Products, introducing a collateral of BGN 500,000 for the wholesale of oil and oil products. The same amount of collateral is also valid for storing fuel outside the tax warehouses.

The Competition Protection Committee (CPC) has penalized the BS "Tradenet Varna" chain for unfairly attracting clients. The sanction is 0.1% of the total turnover in 2017, i.e. about BGN 175,000, was imposed due to the sale of fuel in retail and wholesale at prices lower than the cost of production.

NIS has 35 petrol stations in Bulgaria.

NIS’s market share in the total motor fuel market is 6.0%, with a retail market share of 4.6%.

Romania

Romania adopted the draft of "Offshore" law with amendments. One of the most important amendments shows that current fees will be charged for the production of oil in the Black Sea during the entire duration of the oil agreements.

Austrian "OMV" invests EUR 1 billion to start production of oil and gas in the Neptune block in the Black Sea.

"OMV Petrom" started production on the new Black Sea platform from the "Lebăda Vest" site, with a daily production of 1,000 barrel oil equivalents. The investment is worth about 30 million.

The Swiss Clariant Group officially started the construction of a large plant for the production of cellulosic ethanol produced from agricultural residues in Craiova. The investment is worth more than EUR 100 million. It's the first sunliquid facility of this company.

The Competition Council in Romania will launch a tender for the development of Price Monitor price comparison, which will include data on motor fuels. The online platform will show prices of all types of fuel (gasoline and diesel) in the networks of OMV, Petrom, Rompetrol, Mol, Lukoil, Socar and Gazprom across the country.

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 1.2%.

Key Performance Indicators

Q3 2018	Q3 2017	Δ[17]	Indicator	Unit	9M 2018	9M 2017	Δ[18]
74.3	51.4	+45%	Urals RCMB	$/bbl	**70.7**	50.8	+39%
86.3	60.4	+43%	Sales revenue[19]	RSD billion	**206.8**	167.8	+23%
10.2	7.7	+33%	Net profit	RSD billion	**21.7**	20.1	+8%
18.1	11.7	+54%	EBITDA[20]	RSD billion	**42.0**	34.3	+23%
23.3	20.0	+16%	OCF	RSD billion	**32.7**	38.9	-16%
10.1	6.7	+51%	CAPEX[21]	RSD billion	**27.3**	16.6	+64%
51.31	44,45	+15%	Accrued liabilities for taxes and other public revenue[22]	RSD billion	**142.26**	122.38[23]	+16%
657.7	671	-2%	Total debt to banks[24]	USD million	**657.7**	671	-2%
2.10	1.65	+27%	LTIF[25]	number	**2.10**	1.65	+27%

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

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

[19] Consolidated operating income.

[20] 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.

[21] CAPEX amounts are exclusive of VAT.

[22] 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.

[23] This data has been corrected in accordance with Note No. 70 on the page 41

[24] Total debt to banks =Total debt to banks + Letters of Credit. As at 30 September 2018, this was $654.5million of total debt to banks +3.2 million USD under Letter of credit.

[25] Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The indicator shown refers to NIS j.s.c. Novi Sad with its subsidiaries: Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 30,Septembaer, hence there is no difference between 9M and Q3

Operating Indicators

Exploration and Production

Q3 2018	Q3 2017	Δ[26]	Indicator	Unit	9M 2018	9M 2017	Δ[27]
338	352	-4%	**Oil and gas output[28]**	Thousand t.o.e.	**999**	1,044	-4%
225	229	-2%	**Domestic oil output[29]**	Thousand tonnes	**663**	675	-2%
0.73	1.49	-51%	***LTIF[30]***	number	**0.73**	1.49	-51%
10.6	6.4	+66%	***EBITDA***	RSD billion	**27.7**	20.8	+33%
5.0	4.4	+14%	***CAPEX[31]***	RSD billion	**13.2**	11.4	+16%

The main task of the Exploration and Production Block in the third quarter of 2018s was to meet its hydrocarbon production plan, implement projects and improve the efficiency of geological research and increase production and technological efficiency by implementing operational efficiency increase measures.

For 2018, Exploration and Production plans to increase hydrocarbon reserves by 0.6%. The efficiency of exploration and development drilling remained at the highest level in the last three years.

In geology and reservoir engineering, the focus was placed on improving the effectiveness of all geological and technological activities, reducing the cost of operations and testing lower-cost techniques aimed at increasing oil output, 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 was tested and hydrodynamic well testing is currently under way. Two wells Is-X-7 and Is-X-2 were drilled at the Idjos structure, the wells are in the testing phase. The drilling of wells Kiz-X-3 and Lo-X-2 was finished in May, the wells are being tested in production. The drilling of well Čes-1X was finished in June, the well is operational. The drilling of Km-X-2 and Pć-1X and testing of Itj-1X is under way. By realizing the drilling project and testing the well Km-X-2, commercial amounts of highly-viscose oil are expected. Due to the specific characteristics of the project, the realization is planned in two phases. The second phase includes the drilling of a horizontal canal and the implementation of multi-frac aimed at increasing the utilization coefficient. Until the end of the year, the drilling of Ve-1X, Sir-24X and the initiation of drilling Majd-X-3 and Bra-Malj-1X are planned.

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

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

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

[29] With natural gasoline.

[30] 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 September, hence there is no difference between 9M and Q3

[31] Financing, exclusive of VAT.

3D Seismic Surveys

The acquisition for the South Banat II project was finished in May, 707 km2 were recorded. The acquisition of 3D seismic data in the area of Turija IV was initiated in June, 435km2, or 60.13% of the total project scope, were done by 01/10/2018, a total of 723 km2 is planned to be realized by the end of the year in this area.

The processing of 3D seismic data collected in the research area of South Banat II (707 km2) is under way. The seismologic interpretation of 3D data collected in the research areas of South Banat I (755 km2) and Turija III (505 km2) was finalized and defended in GPN Block Exploration and Production while the interpretation of data from the research area Morovic (301 km2) is in its final stage.

Foreign Projects

The liquidation of three wells was finished in Hungary, in the research block Kiskunhalas, the re-cultivation of land was initiated, and the return of the research license is planned.

In Romania, the drilling of well BVS-1000 in under way in block EX-7. The drilling of well Teremia-1001 was initiated. The process of obtaining permits for exploratory drilling at two locations in two blocks.. The work on obtaining permits for seismic exploratory works is continued. In addition, the design and manufacture works for mobile complexes for oil and gas preparation are under way, within projects for oil and gas test production in the Teremia and Jimbolia fields.

In Bosnia and Herzegovina, Block 2 in Eastern Herzegovina, the preparation for geological-exploratory works for the period 2019-2020 is currently ongoing.

Operating Indicators

A total of 999 thousand tonnes of oil and gas equivalent was produced in the first nine months of 2018, which is 4% less than the first 9M last year.

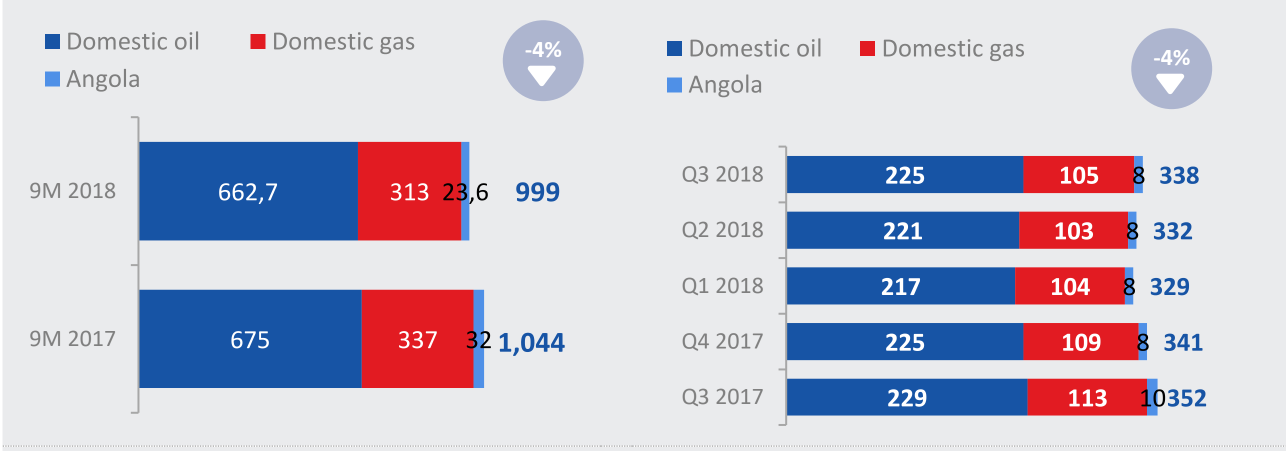

Chart No. 5: *Oil and gas output, thousand t.o.e.*

Services

Q3 2018	Q3 2017	Δ[32]	Indicator	Unit	9M 2018	9M 2017	Δ[33]
15	17	*-12%*	Completed wells	Number of wells	**49**	48	+2%
3.65	3.26	+12%	*LTIF*[34]	%	**3.65**	3.26	+12%
0.3	0.6	-38%	*EBITDA*	RSD billion	**1.0**	1.9	-45%
0.2	0.1	*+144%*	*CAPEX*[35]	RSD billion	**0.4**	0.3	+46%

In the first nine months of 2018, Services drilled 42 development wells and 7 exploratory wells. The South Banat II 3D seismic project was successfully completed and works started on the Turija IV project in Serbia. 2018 saw a continued presence in the EU market,,the production of the 3D seismic survey and the drilling of two exploratory wells were initiated over nine months in Romania. In the first nine months, Services successfully continued with delivering services to Sales and Distribution, finishing the reconstruction project for Bagrdan-Jagodina, Subotica 1 and Lazarevac filling stations.

Oilfield Services

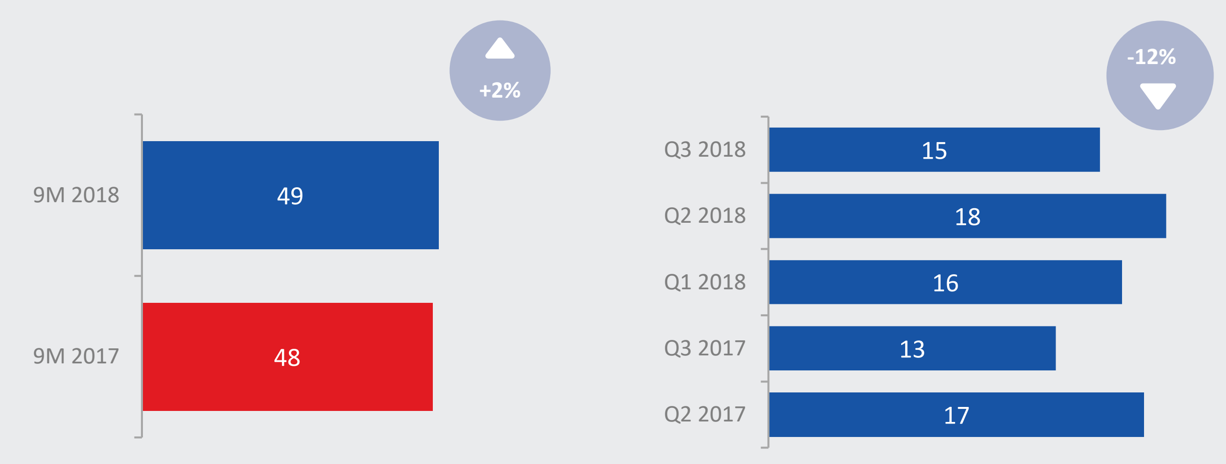

Chart No.6: *Number of completed wells*

In the first nine months in 2018, Naftagas - Naftni Servisi d.o.o. performed with six drilling rigs on average. The drilling of 49 wells was completed for Exploration and Production. With respect to technologically challenging wells, Majd-x-2, Lo-x-2, Kiz-x-3, Itj-1x.were successfully completed. Two drilling units (units K-1 and H-3) were engaged in drilling exploration wells in Romania. The implementation of the Technical Limits Strategy continued with the aim of increasing the drilling rate and efficiency of the process.

Workover Unit performed with an average of 14 workover rigs, completing workover services at 364 wells in the first nine months this year. In the given third quarter, the workover and exploitation of eight newly

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

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

[34] Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The indicator shown refers to NIS j.s.c. Novi Sad with its subsidiaries: Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 30 Septembaer, hence there is no difference between 9M and Q3.

[35] Financing, exclusive of VAT.

drilled wells were performed. The project for procuring HRH (hydraulic rotary head) is in the final stage of realization.

Well Services Unit performed 5,254 operations, while Cementing performed 1,201 operations. The JE116 well were washed by means of coiled tubing and SpinCat tool.

During the first nine months of 2018, 828.86 km2 of 3D seismic surveys were recorded in Serbia for projects "South Banat 2" and "Turija 4" Over the same period, the 102.15 km 2D seismic survey project "Valcani" was finished and a 3D seismic survey project is under way in block "EX-3", where 199.35 km2 were covered.

Technical Services

In the first nine months of 2018, Naftagas – Tehnički servisi d.o.o. Zrenjanin completed the reconstruction of Bagrdan-Jagodina, Subotica 1 and Lazarevac stations. Equipment repair services were provided to Naftagas-Naftni servisi d.o.o. Novi Sad and Exploration and Production purposes, and the operations of overhaul and rebranding for 25 sucker rods, including preventive maintenance of electrical installations and devices.

During August and September, the overhaul was done at Oil Refinery Pancevo, the overhaul of units S-200 (Visbreaking) and S-2400 (HDS) was completed.

Transport

In support to the activities of all Blocks, Naftagas - Transport d.o.o. Novi Sad provided passenger, freight, special-purpose, and bus transportation services. The distance travelled in the first nine months of 2018 totalled 20.71 million kilometres.

In early 2018, Naftagas-Transport d.o.o. Novi Sad was certified for public and international transportation against amended legislation of the Republic of Serbia. So far, 33 transport rounds for the equipment and tools of the NFS Drilling Department to the construction site in Romania were realized, which amounts to 13,874 kilometers in international transport.

Refining

Q3 2018	Q3 2017	Δ[36]	Indicator	Unit of measure	9M 2018	9M 2017	Δ[37]
1,073	968	+11%	Volume of refining of crude oil and semi-finished products	Thousand tonnes	**2,769**	2,613	+6%
0,00	0,83	-	*LTIF*[38]	%	**0,00**	0,83	-100%
4.4	4.5	-2%	*EBITDA*[39]	RSD billion	**11.02**	9.5	+16%
4.4	1.5	x2	*CAPEX*[40]	RSD billion	**10.9**	3.6	x2

For the first nine months of 2018, Refining's EBITDA amounted to RSD 11.02 billion. Effects from the efficiency increase programme on EBITDA were RSD 0.7 billion.

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

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

[38] 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,Septembaer, hence there is no difference between 9M and Q3

[39] 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.

[40] Financing, exclusive of VAT.

In the first quarter of 2018, a revamp was carried out in February by applying the latest equipment cleaning methods.

A new type of crude oil, Iranian Heavy, began to be used testing in the refining process in May 2018. A structure bearing two reactors was erected at the delayed coker unit construction site. It is the equipment in which the coking processes will take place, which marks the fulfilment of one of the milestones in this investment project. A contractor was selected for furnace installation and for the installation of electrical equipment and instrumentation.

The concrete foundation for the coke silos has been installed. The schedule of the DCU Project is getting busier, especially regarding construction, concrete and mechanical works, implying an increased number of employees at the construction site.

Refining Activities and Volume

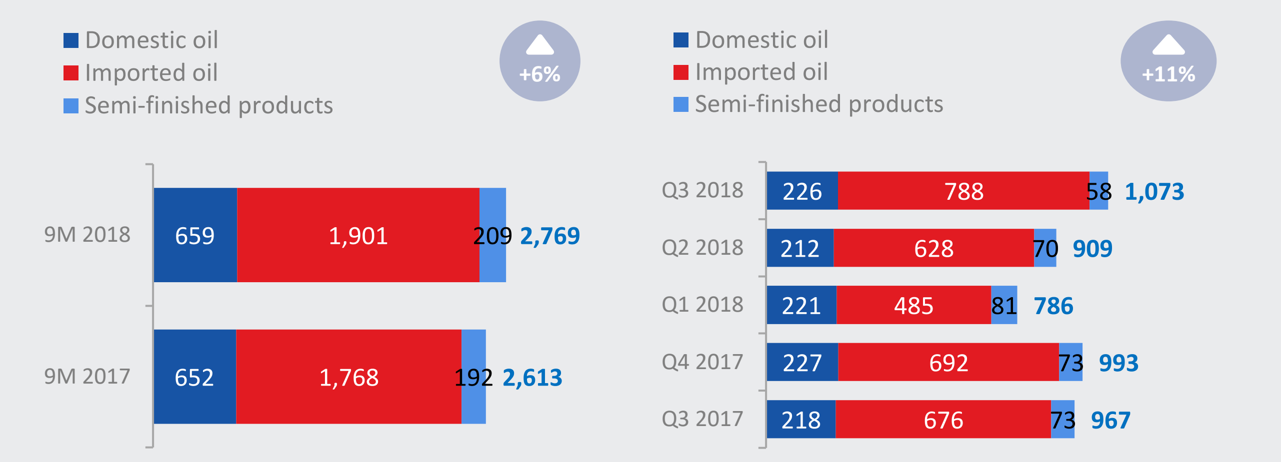

Chart No.7: *Refining volume, thousand tonnes*

For the nine months of 2018, the production of petroleum products increased by 6% compared to the same period of the previous year as a result of market demands (diesel, jet fuel, virgin naphtha, bitumen).

A new gas ejector was put into operation at the vacuum distillation plant. The APC system (Advanced Process Control) was implemented at the hydrocracking unit.

A burner at the vacuum distillation plant was replaced.

The procedure for extension of the certification scope to include new road bitumen „EB 35/50“, which NIS intends to place in the European market, has been completed.

Bottom of the Barrel Project

P&ID documents prepared for S-2550, S4300 and S4450. The status “for the execution of works” marked the end of the installation of the S-9150 cooling tower. The construction of foundations for spherical tanks in Block 16 completed and their installation started. A steel-concrete structure constructed for coke silos. The construction of the foundations for Transfer Towers 2 and 4 of the coke transfer system completed and installation of the steel structure for Transfer Tower 3 started.

The final acceptance of the construction works for MEROX S-2550 and S-4300 (MHC/DHT) units finished and pile driving started. The installation of the main steel structure of the top platform of the pipe bridge JA-5301 and the main structure of the compressor station completed. The installation of the steel structure for the cable bridge 23012A completed. The installation of the steel structure for the cable bridge JA-23013A started as well as the installation of the steel structure for the purpose of reinforcing the pipe bridge JA-23012. The mechanical works for the BA-5301 furnace completed as well as mechanical and installation works for the FB-5301 and FB-5901 tanks. The internal elements of the columns installed. The installation of the pipelines started at the pipe bridge JA-5301 and "B", "C", "D" and "E" structures as well as the integration of the mounted equipment with the pipelines.

The installation of control panels, electrical and instrumental equipment started in the substation. 90% of the electrical equipment installed.

Turnaround

January marked a revamp of the bitumen production plant and the reconstruction of the bitumen loading system, without plant shutdown.

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

The scheduled turnaround was completed one day ahead of schedule in spite of adverse weather conditions and all refinery units were back on-stream, with stable operation of all production plants.

The catalyst was replaced on the pyrolysis gasoline hydrodesulphurisation unit.

Revamp activities were also conducted at the secondary atmospheric distillation unit.

Revamp of Klaus (S-2450) and Visbreaking (S-200) units completed.

Regular maintenance of Diesel Dewaxing (S-2400) has started.

Supplier selection for procurement of 2019 turnaround services is in progress.

Other Projects

Implementation of the LOTO system (lock out tag out), to improve occupational safety.

The following investment projects were launched: Installation of On-Line Analysers for Measurement from API Separator and Settling Pool Lines at RNP; Modernisation of Bitumen Loading/Unloading Installations for Rail and Road Tanker Terminals at RNP; Application of Antireflective Coating on *S*-300 Furnace; Installation of On-Line Analysers for Simulated Distillation and Cloud Point for Diesel Line from MHC/DHT; and Modernization of Radio System at RNP.

The implementation of Digital Transformation was launched at Refining through projects for Operator Training Simulators (OTS) and a machine learning project and operator support project (€kon$)

Feasibility study „Automated Fire Suppression and Cooling Systems for Old Units in Pančevo Oil Refinery“ developed.

The implementation phase under project „Reconstruction of Corrosion Protection System at the Atmospheric Distillation Unit (S-2100) in Pančevo Oil Refinery“ approved at NIS Investment Committee meeting.

Reconstruction of the dispatch building in Pančevo Oil Refinery finished.

As part of project traffic safety improvement at the road section at the entrance of Pančevo Oil Refinery, works on horizontal and vertical signalling in front of Pančevo Oil Refinery completed in Spoljnostarčevačka Street.

A career path project was implemented at Refining.

As part of the OMS program, management of Refining trained in regular management practices.

Sales and Distribution

Q3 2018	Q3 2017	Δ[41]	Indicator	Unit of measure	9M 2018	9M 2017	Δ[42]
1,076	958	*+12%*	Total volume of petroleum product sales[43]	Thousand tonnes	**2,741**	2,503	+10%
104	88	+18%	Sales volume–foreign assets[44]	Thousand tonnes	**266**	233	+14%
787	709	+11%	Volume of domestic petroleum product sales[45]	Thousand tonnes	**2,045**	1,911	+7%
697	599	*+16%*	Motor fuels[46]	Thousand tonnes	**1,766**	1,557	+13%
259	248	*+5%*	Retail[47]	Thousand tonnes	**699**	680	+3%
3.88	3.91	*-1%*	Internal Sales	Thousand tonnes	**12.22**	11.39	+7%
1.93	1,20	+61%	LTIF[48]	%	**1.93**	1,20	+61%
4.1	3.2	+29%	EBITDA	RSD billion	**8.6**	8.4	+3%
0.4	0.6	-21%	CAPEX[49]	RSD billion	**2,4**	0.8	x2

Points of Sale[50] and Logistics

NIS Group has over 400 active retail facilities. They are predominantly located in the Republic of Serbia (332 retail facilities). In addition to 10 internal petrol stations, NIS owns 322 public petrol stations (20 of which are *GAZPROM* branded). In the countries of the region, NIS owns 37 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 *GAZPROM* brand).

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

[42] 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.

[43] Excluding the internal sales volume (9M 2018: thousand tonnes; 9M 2017: .thousand tonnes).

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

[45] 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.

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

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

[48] 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,Septembaer, hence there is no difference between 9M and Q3

[49] Financing, exclusive of VAT.

[50] As at 30 September 2018.

In Serbia, three petrol stations were put into operation in the first nine months after rebranding: 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).In addition, after completion of works on total reconstruction, two more petrol stations were opened in Serbia: ‘Subotica 1’ and ‘Lazarevac Grad’ (both in NIS brand).

Loyalty Programmes and Marketing

In the first nine months of 2018, over 85 marketing activities were carried out in Serbia with the aim of developing consumer brands and loyalty programmes and improving fuel non-fuel sales. Additional promotions to boost sales were run at the three new petrol stations.

The marketing campaign called ‘Instant Win’, with the biggest prize fund so far started this September. It involves the use of the loyalty card: On the Road with Us, at all NIS Petrol and GAZPROM petrol stations that have premium G-Drive fuels in their range of products. It has been estimated that 18,000 new users of the loyalty card ‘On the Road with Us’ will be attracted.

Twenty three new products have been launched within our private label: G-Drive energy chewing gums - Spearmint and Peppermint, G-Drive energy cherry, Drive Café oatmeal (4 flavors), G-Drive isotonic by Aqua Viva (4 brands) and Drive Café bamboo jars (3 types), G-Drive energy candies (Spearmint and Peppermint), 6 types of Drive Café salads and 1 type of new Drive Café sandwich (with tuna and corn).

The loyalty programme called On the Road with Us was introduced in late 2015, with over 652 thousand cards issued as at 30 September 2018 and a share of 56% in total sales to individuals in the third quarter of 2018.

A new payment function of the On the Road with Us card was introduced, allowing users to purchase fuel and non-fuel products with 45 days deferred payment terms at all NIS Petrol- and GAZPROM-branded petrol stations. Since the introduction of the new functionality, over 29,000 applications have been submitted and over 23,000 approved.

2018 saw the continuation of the loyalty programme partnership with Tehnomanija, whereby holders of the On the Road with Us card earn bonus points for each purchase. Bonus points can be redeemed exclusively at NIS Petrol and GAZPROM petrol stations. In the third quarter, we started new promotional activity in ‘Gigatron’ retail facilities, where holders of “On the Road with Us’ cards are given bonus points for each purchasing transaction. Bonus points may be used only on NIS Petrol and GAZPROM petrol stations.

As at 30 September 2018, close to 75,731 cards were issued under the loyalty programme run in Bosnia and Herzegovina, with the share of users of this programme in total sales to individuals reaching 46% in the second quarter of 2018. As at 30 September 2018, over 116,338 cards were issued under the On the Road with Us programme in Bulgaria. The share of users of this programme in total sales to individuals reached 60% in the third quarter of 2018.

The Agro Card programme, designed for farmers, was introduced in late 2013. As at 30 September 2018, a total of 128,912 cards were issued. Efforts continued to retain the 2017 sales volume and to achieve the level projected for 2018, and to reactivate the client base. A new product, Adblue, with pouring spout was launched. A motivation programme was run for distributors in Serbia and the region. Another, now already traditional, marketing campaign for promoting the NISOTEC brand called “My Car Loves NISOTEC” was also implemented.

Operating Indicators[51]

The first nine months of 2018 saw an increase of 10% in sales volume compared to the first nine months of 2017, with total sales volume of 2,741 thousand tonnes.

- Retail in Serbia – retail volume growth of 3% is a result of increased sales of diesel.
- Wholesale in Serbia – growth of 8%, largely due to motor fuels.
- Exports – growth of 20% due to growth in motor fuel exports.
- Foreign assets – growth of 14% in sales volume (wholesale channel - 41%).

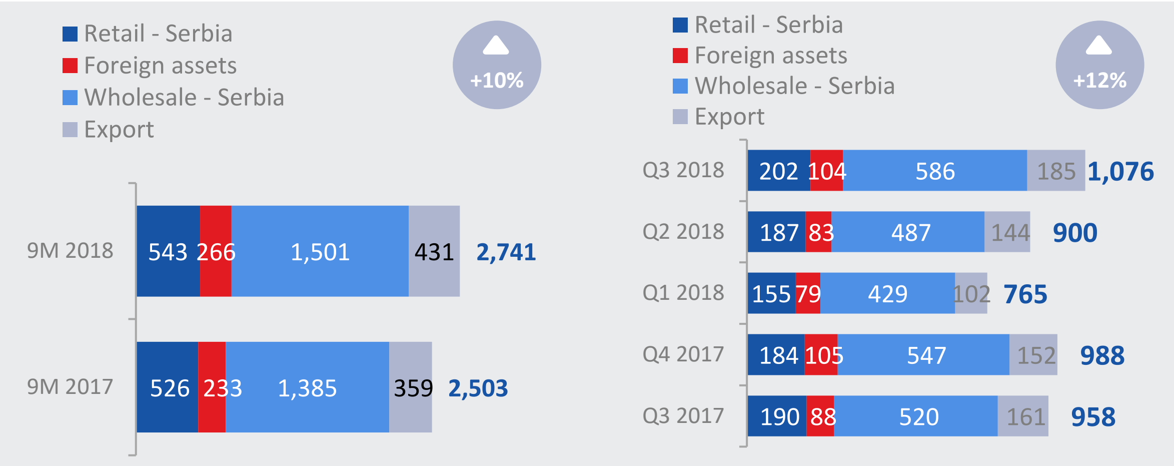

***Chart No. 8:** Volume of sales* [52]*,*
thousand tonnes

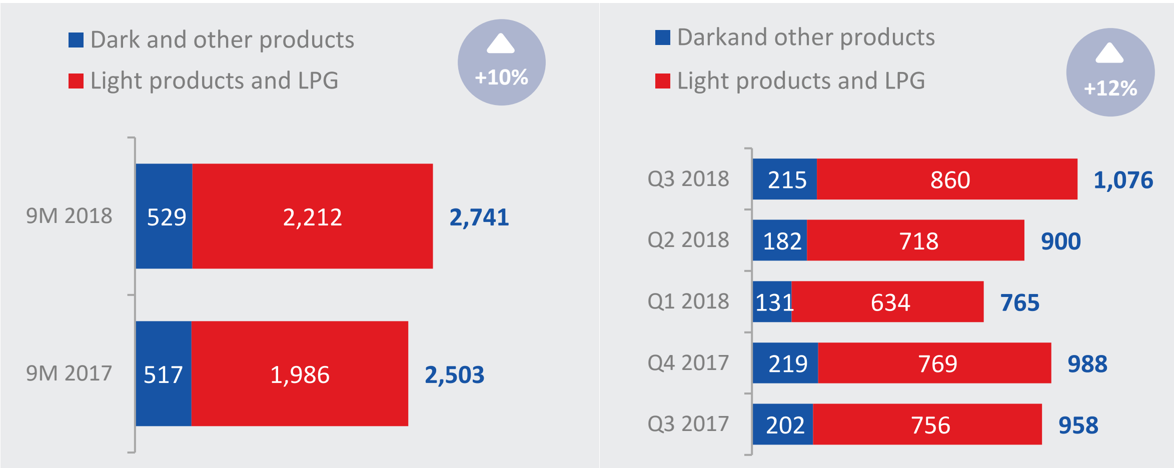

***Chart No. 9:** Structure of sales* [53]*,*
thousand tonnes

[51] Excluding internal sales volume (9M 2018: 12.22 thousand tonnes; 9M 2017: 11.39 thousand tonnes).

[52] Excluding internal sales volume (9M 2018:12.22 thousand tonnes; 9M 2017: 11.39 thousand tonnes; Q3 2018: 3.88 thousand tonnes; Q3 2017:3.91 thousand tonnes).

[53] Excluding internal sales volume (9M 2018: 12.22 thousand tonnes;9M 2017: 11.39 thousand tonnes; Q3 2018:3.88 thousand tonnes; Q3 2017: 3.91 thousand tonnes).

Energy

Q3 2018	Q3 2017	Δ[54]	Indicator	Unit	9M 2018	9M 2017	Δ[55]
32,913	34,191	-4%	Electricity output[56]	MWh	111,335	117,967	-6%
4.45	0.00	-	LTIF[57]	%	4.45	0.00	-
0.04	0.2	-82%	EBITDA[58]	RSD billion	0.4	0.8	-49%
0.1	0.1	-42%	CAPEX[59]	RSD billion	0.3	0.2	+21%

EBITDA of Block Energy from regular operations in the first nine months of 2018 amounted to 0.4 RSD billion. In the third quarter, EBITDA of the Energy Department was 0.04 billion dinars. The electricity trading volume contracted for 2018 amounts to 1.19 TWh. Efforts aimed at developing this business segment and improving energy efficiency will continue.

The implementation of the CCPP Pančevo Project continues. The project funding agreement has been signed. The Location Requirements have been obtained and the preliminary design submitted to the Review Commission of the Provincial Secretariat. The first construction permit for the power plant is expected to be issued in January 2019. Manufacturing of the key equipment and a part of ancillary equipment has started.

Gas Monetisation

The official approval procedure of the Terms of Reference for the small power plant at Kikinda polje Dispatch Station has been completed and the documentation to be presented to the Investment Committee of Exploration and Production prepared, upon which the decision on continuation of the project will be made.

As part of Velebit 3 small power plant reconstruction, for the purpose of being granted the subsidized electricity price, the installation of the buffer tank, expansion tank, heating substation, and ancillary equipment has been completed. The tender for the co-generation unit reconstruction service has been completed and the supplier selected.

With a view of reducing the heating costs generated by the consumers within the perimeter of the former Novi Sad Refinery (thermal source decentralisation project), the works on the installation of the cenral steam boiler and the steam boiler for the wastewater treatment plant are in progress. The tender for procurement and installation of four small hot water boilers has been completed, the supplier selected, and the works have started.

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[54] 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.

[55] 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.

[56] For six months data is from Block Energy, while data for the third quarter is from the Block of Exploration and Research (small power plants) and Block Refining (Power plant Pančevo). The reorganisation and creation of a new Division resulted in abolishment of Energy. The Energy Department is kept in the structure, but is subordinated to the Division. Other organisational units are decentralised to Exploration and Production, Refining and Sales and Distribution.

[57] 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,Septembaer, hence there is no difference between 9M and Q3. The reorganisation and creation of a new Division resulted in abolishment of Energy, so the value of this indicator is for 6M 2018.

[58] 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.

[59] Financing, exclusive of VAT.

As part of investment maintenance of the equipment of the energy power plant and electric power system in Pančevo Oil Refinery, the following have been prepared: engineering documents for the planned projects, design documents for investment realisation from the point where the PIP stage ended, technical assignments for procurement, and the procurement procedures were conducted for the projects approved for implementation.

CNG Projects

For the CNG unit construction at Žarkovo 2 Filling Station (Belgrade), the construction permit has been obtained, the works have been reported and commenced. The facility foundations have been laid, the compressor station container installed, and the dispenser with a canopy installed; the finishing construction works have started.

The equipment supplier for the construction of CNG unit at "Blok 45" filling station, Novi Beograd, has been selected; the fabrication of equipment, with the lead time 11/2018, and drafting of engineering documents have started. The registration for participation in the auction for use of cross-border transfer capacities on the Bulgaria-Serbia border has been completed.

The project charters for the construction of the CNG unit at Ledena Stena Niš FS, Vrbas 3 FS, Niš LPG loading terminal and Novi Sad LPG loading terminal are under preparation. The property and legal issues for Novi Sad LPG loading terminal are currently being addressed. Furthermore, in order to implement the project, an analysis of other potential sites that can be used for this purpose has been performed.

The supplier has been selected for the CNG Unit Reconstruction Project at Palić field. The technical documents have been prepared and the tender procedure for the reconstruction of the unit implemented.

Electricity Trading

In electricity trading, NIS has a market presence in Serbia, Bosnia and Herzegovina, Romania, Slovenia and Hungary. In addition to these markets, NIS also carried out cross-border trade in electricity with the Former Yugoslav Republic of Macedonia. NIS started trading in Serbia's power exchange (SEEPEX). The same period also saw the completion of registration and launch of activities with auction house JAO (Joint Auction Office), which allocates cross-border electricity transmission capacities in Central and Southeast Europe. The registration for participation in the auction for use of cross-border transfer capacities on the Bulgaria-Serbia border has been completed.

Operating Indicators

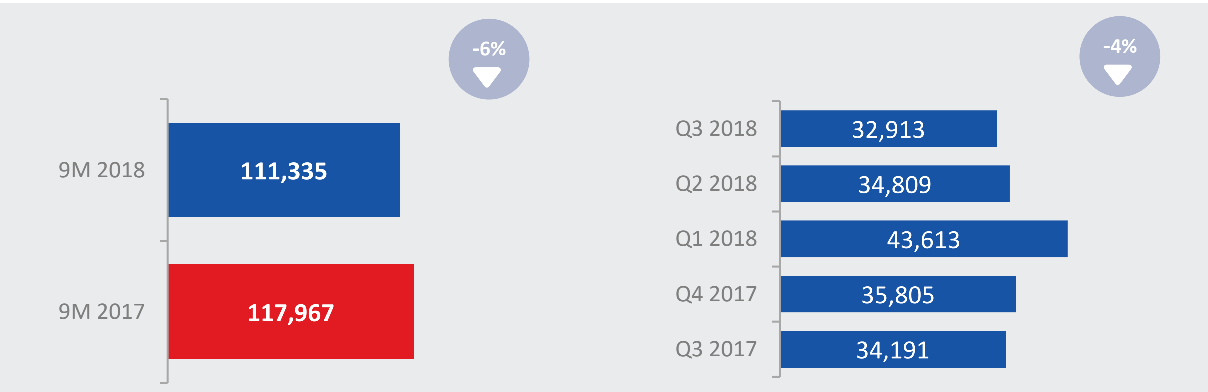


Chart No. 10: *Electricity output, MWh*

In the first nine months of 2018, total electricity output[60] was 111,335 MWh. Production in the small-sized power plants recorded a drop of 6% on the previous year due to reduced availability of gas from the Sirakovo and Majdan fields. The production of electricity in the Pančevo Energy Plant is dependent on the scope and structure of Refining's steam demand. A total of 26.5 million m^3 of non-commercial gas was used to produce electricity at cogeneration units in the first nine months of 2018.

60 As of July 2018, power generation is within the competence of Exploration and Production (small power plants) and Refining (Pančevo Energy Power Plant).

Financial Indicators

Sales Revenues

During the first nine months of 2018, NIS recorded a year-over-year increase of 23% in sales revenue[61]. This increase was achieved due to a greater sales volume, but also an increase in the retail prices of petrol and diesel fuels prompted by a rise in crude oil prices globally.

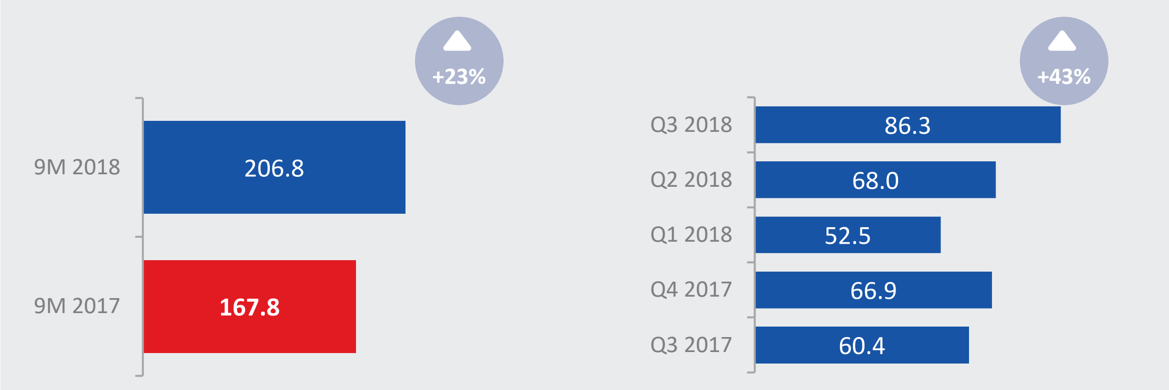


Chart No. 11: *Sales revenues[62], RSD billion*

EBITDA

EBITDA for first nine months of 2018 saw an increase of 23% on the previous year, totalling RSD 42 billion.

The main reasons include:

- Impact of oil prices,
- Sales volume increase

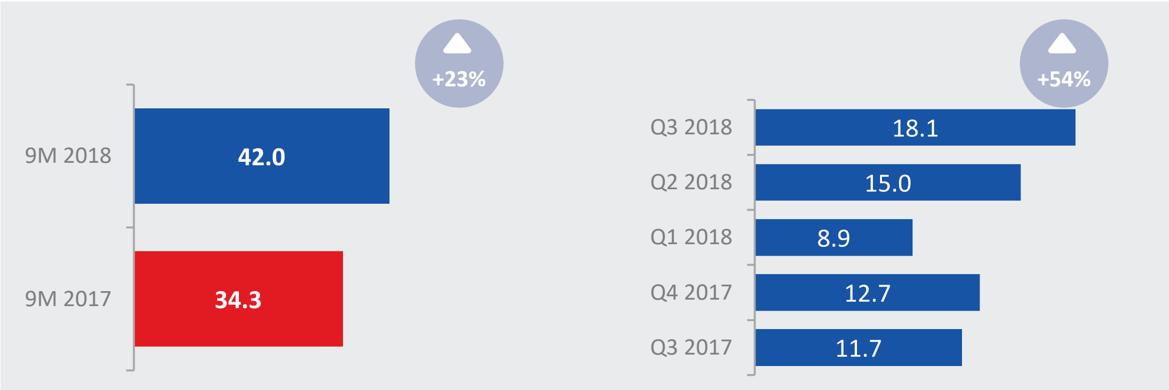


Chart No 12: *EBITDA, RSD billion*

[61] Consolidated operating revenue.
[62] Consolidated operating revenue.

Net Profit

Net profit for the first nine months of 2018 was 21.7 RSD billion, a increase of 8% on the same period in 2017.

- Higher EBITDA
- Higher depreciation costs
- Lower financial expenses
- Lower positive exchange rate differences
- Lower income tax

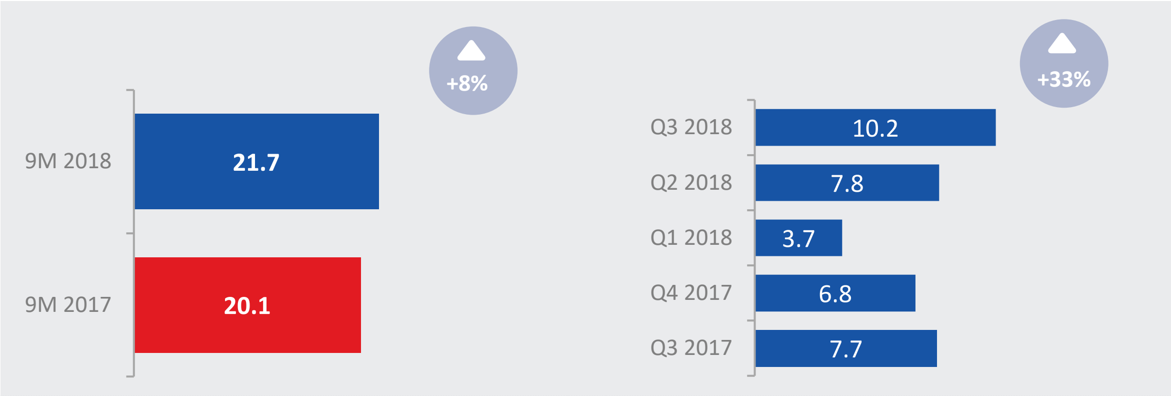


Chart No 13: *Net profit, RSD billion*

OCF

In the first nine months of 2018, operating cash flow amounted to 32.7 RSD billion, a drop of 16% on the same period in 2017:

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

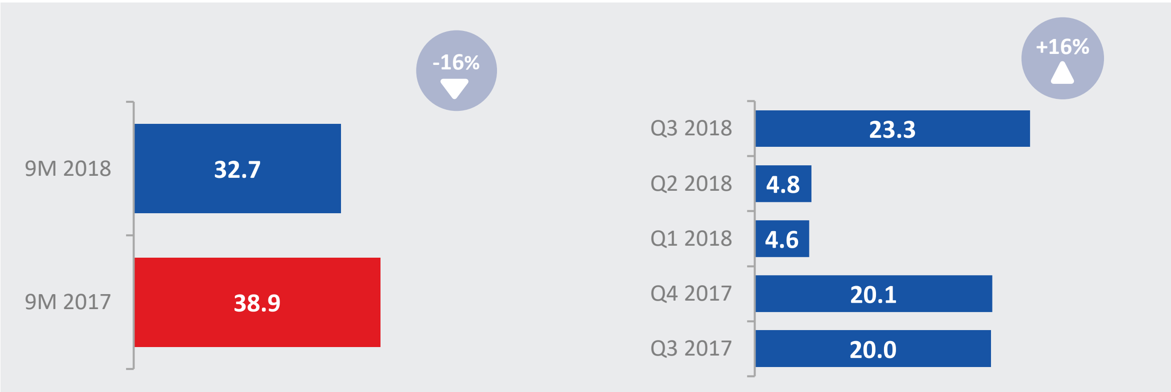


Chart No 14: *OCF, RSD billion*

CAPEX

In 2018, investments were mainly centred on the modernisation of refining processes. The largest investments in Exploration and Production traditionally went to oil and gas production projects. A substantial part of the investments was earmarked for retail network development projects in Sales and Distribution. In addition, NIS invested into service projects modernization and a number of projects in the corporate centre in the first nine months of 2018.

To fund the investments in the first nine months of 2018, a total of 27.3 RSD billion was allocated, 64% more than in the same period in 2017. The increase in allocated funds on the previous year stemmed directly from the launch of the refinery modernisation project (to increase the refining depth indicator).

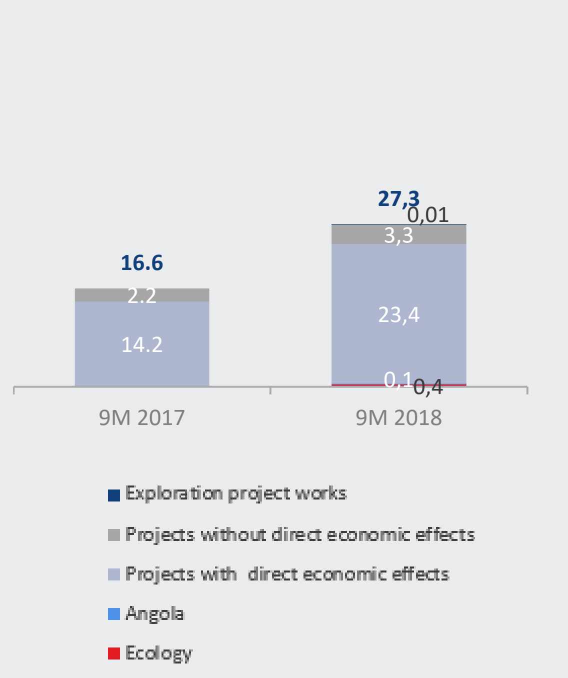


Chart No. 15: *CAPEX by type of project[63], RSD billion*

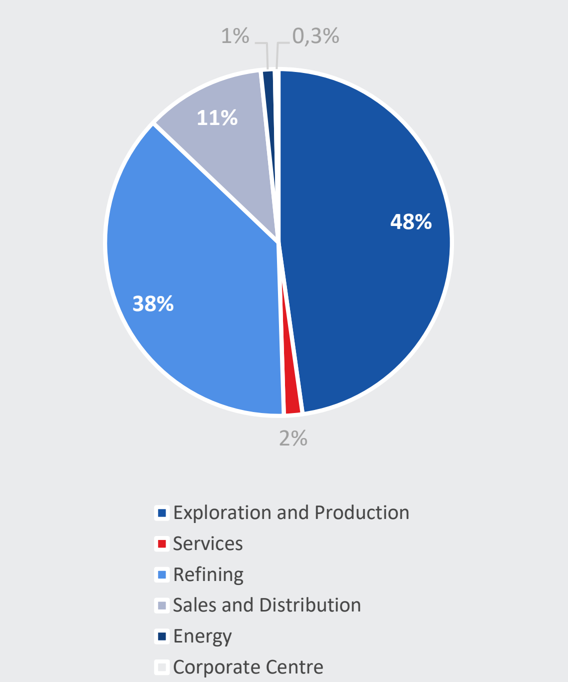


Chart No. 16*: Investments by segment*

Organisational unit	Major projects
Exploration and Production	• Drilling of development wells • Investments in geological and technical activities • Investments in basic, development and gas infrastructure • Programme for 3D seismic surveys and drilling of exploration wells in the Republic of Serbia • Investments in concession rights
Services	• Projects for the Drilling Unit needs (procurement of BOP equipment) • Projects of the Workover Unit (improvement of real-time well servicing and workover monitoring system, procurement of protective equipment to increase workplace safety and HSE culture) • Implementation of projects for Cementing and Stimulation • Technical services and transport projects
Refining	• Refinery modernisation • Investment maintenance at Refining • Investments in environmental projects

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

	• Efficiency increase projects
Sales and Distribution	• Retail network development in Serbia • Logistics projects (purchase of tank trucks, replacement of fuel dispensers) • Other retail projects (introduction of the *Drive Cafe* concept at filling stations)
Energy	• Construction of Ostrovo gas gathering station • Investment maintenance programme for Energy • Reliability improvement projects (adaptation of low voltage units in the substations)
Corporate Centre	• Projects with IT component (purchase of software licenses) • Implementation of cSRM user environment for services (Material and Technical and Service Support and Capital Construction) • Across-the-board Digital Transformation programme

Indebtedness

Over the course of the first nine months of 2018, the debt to banks is approximately at the level of the debt as of December 31st 2017, totalling USD 654.5 million, along with increased share of loans in EUR currency. Additionally, debt to parent company Gazprom Neft PJSC also dropped and currently amounts to 220.9 EUR million.

Despite sanction constraints, NIS successfully continued the second phase of its loan portfolio restructuring in the first nine months of 2018. This is the first such restructuring under sanctions. Expected outcomes include longer average portfolio maturity followed by a concurrent reduction in average borrowing costs. In addition, owing to a tender conducted in December 2017 and in the first half of 2018, NIS selected its key partner banks to provide over EUR 500 million in long-term financing sources for the implementation of the second phase of restructuring with further optimisation of financing cost, all within the allowable debt to EBITDA ratio band.

In this way, NIS will virtually release the free cash flow for due financing of major investment projects (especially the strategically important Delayed Coker Unit Project and other planned investments) in the period from 2018 to 2020.

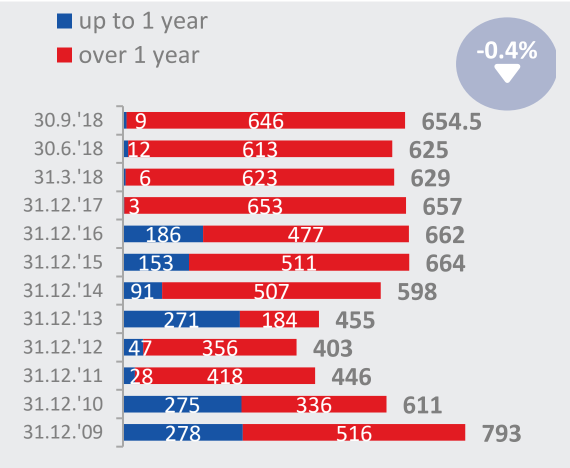


Chart No. 17: *Total bank debt trends with maturity structure, USD mn*

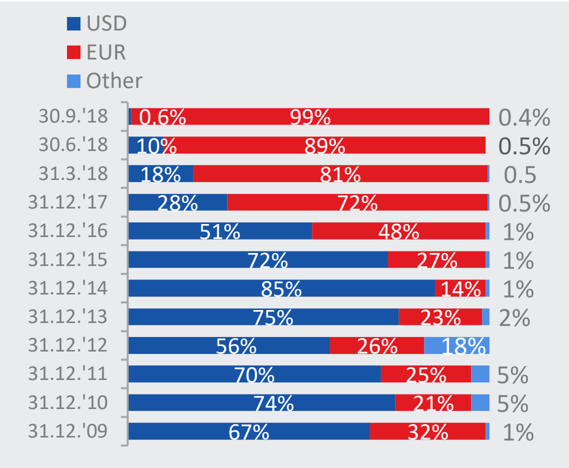


Chart No. 18*: Total bank debt structure, by currency, in %*

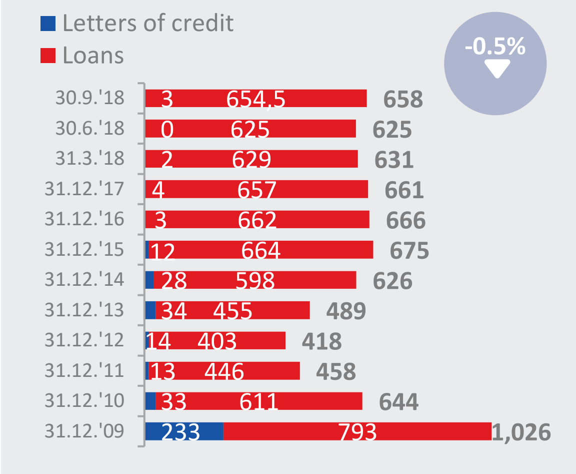


Chart No. 19: *Total bank indebtedness[64], USD mn*

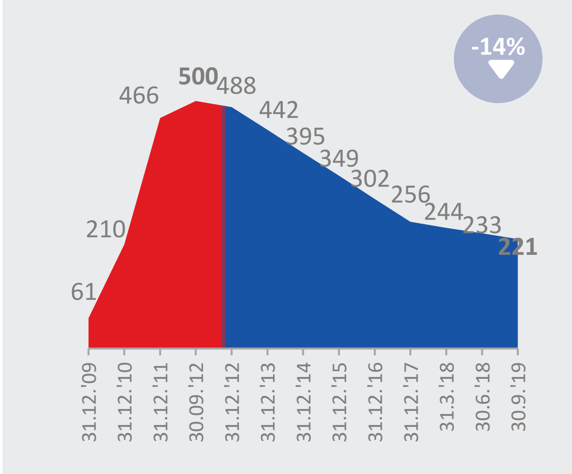


Chart No. 20*: GPN loan, EUR mn*

[64] In addition to debt to banks from loans and Letters of Credit, NIS Group also holds issued bank guarantees in the amount of $32.0million, corporate guarantees in the amount of $39.8million and Letters of Intent signed with banks in the amount of $0.2million and financial leasing in the amount of $8.6million as at 30 September 2018.

Taxes and Other Public Revenue[65]

Accrued liabilities for public revenue payable by NIS j.s.c. Novi Sad along with its subsidiaries deriving from its organisational structure[66] in Serbia totalled 126.79 RSD billion for the first nine months of 2018, an increase of 18% on the same period in 2017.

The amount of accrued liabilities for public revenue payable by NIS Group for the first nine months of 2018 totalled 142.26 RSD billion, an increase of 16% on the same period in 2017.

NIS j.s.c. Novi Sad	9M 2018	9M 2017	Δ[67]
Social insurance contributions paid by employer	1.17	1.13	+3%
Corporate tax	3.03	2.85	+6%
Value-added tax	17.81	16.27	+9%
Excise duties[68]	96.18	78.32	+23%
Commodity reserves fee	4.63	4.37	+6%
Customs duties	0,56	0.55	+3%
Royalty	1.08	0.88	+24%
Other taxes	1.07	0.99	+8%
Total	**125.54**	**105.37**	+19%
NIS subsidiaries in Serbia [69]			
Social insurance contributions paid by employer	0.38	0.37	+5%
Corporate tax	0.09	0.21	-55%
Value-added tax	0.66	1.00	-33%
Excise duties	0.00	0.00	-
Customs duties	0.04	0.02	+92%
Royalty	0.00	0.00	-
Other taxes	0.06	0.06	+10%
Total	**1.25**	**1.65**	-24%
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	**126.79**	**107.2**	+18%
NIS regional subsidiaries and Angola			
Social insurance contributions paid by employer	0.03	0.05	-41%
Corporate tax	0.13	1.94	-93%
Value-added tax	1.24	1.16	+7%
Excise duties	9.89	9.26	+7%
Customs duties	3.02	1.64[70]	+84%
Royalty	0.00	0.00	-
Other taxes	0.08	0.08	0%
Total	**14.38**	**14.14**	+1%
Deferred taxes (total for Group)	1.10	1.22	-10%
Total NIS Group [71]	**142.26**	122..38	+16%

[65] In RSD billion.

[66] 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.

[67] 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.

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

[69] 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.

[70]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.

[71] 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 for the first nine months of 2018 totalled 3.7 RSD billion.

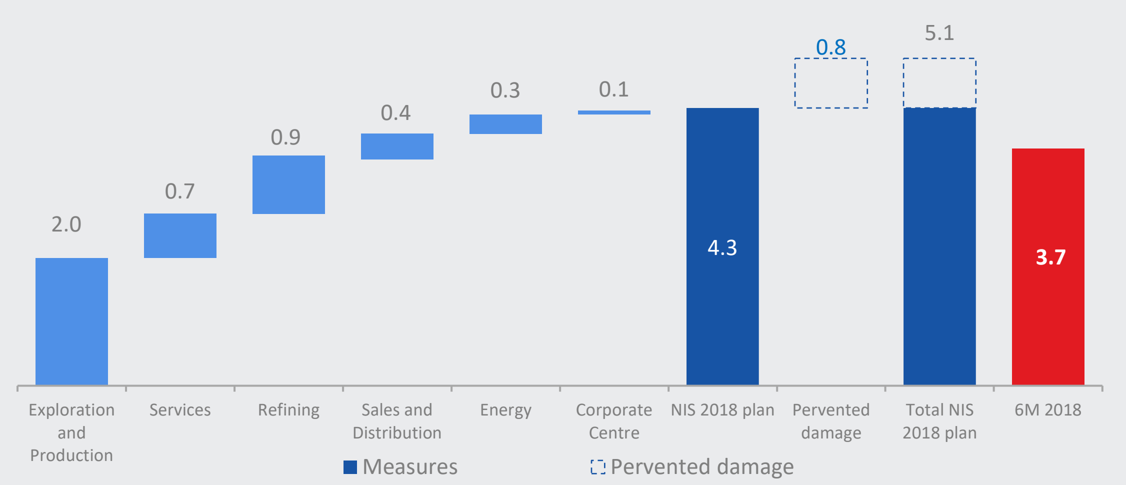


***Chart No. 21**: Effect of operational efficiency improvement measures on EBITDA, RSD bn*

Securities

Share Capital Structure

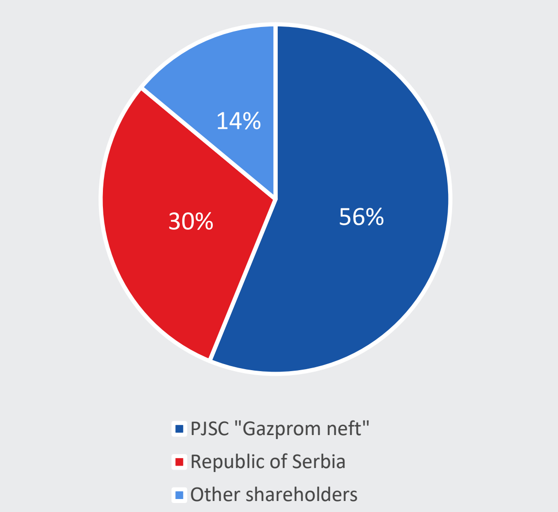


Chart No. 22: *Share Capital structure based on % in Share Capital*

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

- Right to participate and vote at shareholders' meetings, according to one-share-one vote rule;
- Right to dividend in compliance with applicable regulations;
- Right to participate in the distribution of liquidation remainder or bankrupt 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 following table presents a list of top 10 shareholders with the largest stake in share capital:

Shareholder	Number of shares	% in share capital
Gazprom Neft PJSC	91,565,887	56.15%
Republic of Serbia	48,712,094	29.87%
Societe Generale **banka Srbija a.d. – custody account - fund**	1,564,531	0.96%
Societe Generale **banka Srbija a.d. – custody account - fund**	597,407	0.37%
Global Macro Capital Opportunities	342,465	0.21%
Dunav Osiguranje a.d.o. Beograd	247,486	0.15%
Aktiv-fond d.o.o. Beograd	236,330	0.14%
Convest а.д. Нови Сад – збирни рачун	231,391	0.14%
AWLL Communications **d.o.o. Beograd**	227,352	0.14%
Keramika Jovanović d.o.o. Zrenjanin	203,824	0.12%
Other shareholders	19,131,633	11.73%
	Total number of shareholders as at 30 September 2018:	**2,093,697**

Share Trading and Indicators per Share

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

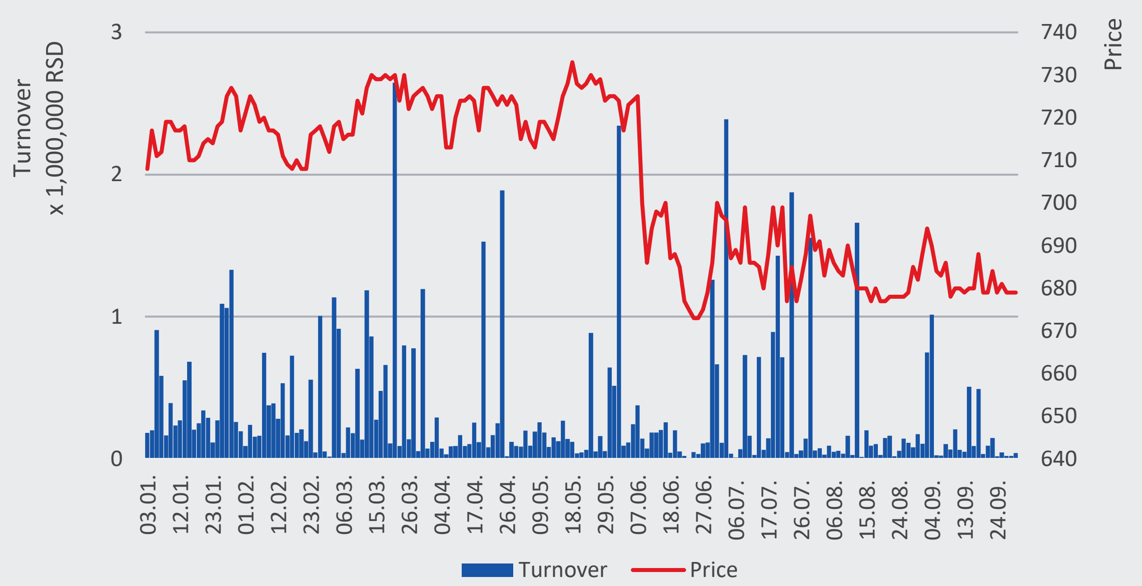


Chart No. 23: *Price and turnover trends*

Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in first nine months of 2018	
Last price (28 September 2018)	*679 RSD*
High (29 January 2018)	*750 RSD*
Low (18 June 2018)	*662 RSD*
Total turnover	*636,888,772 RSD*
Total volume (number of shares)	896,826 shares
Total number of transactions	18,512 transactions
Market capitalization as at 30 September 2018	*110,718,011,600 RSD*
EPS	*137.18 RSD*
Consolidated EPS	*133.24 RSD*
P/E ratio	4.95
Consolidated P/E ratio	5.10
Book value as at 30 September 2018	*1,560.1 RSD*
Consolidated book value as at 30 September 2018	*1,470.8 RSD*
P/B ratio	0.43
Consolidated P/B ratio	0.46

In the first nine 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 account a number of factors including financial standing, investment plans, loan repayment obligations, macroeconomic environment and legislation. Each of these factors, either individually or combined, may affect the proposed dividend payment if carrying sufficient weight.

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net profit (loss), RSD bn[72]	(4.4)	16.5[73]	40.6[74]	49.5	52.3	30.6	16.1	16.1	27.8
Total amount of dividend, RSD bn	0.00	0.00	0.00	12.4	13.1	7.6	4.0	4.0	6.9
Payment ratio	-	-	-	25%	25%	25%	25%	25%	25%
Earnings per share, RSD	-	101.1	249.0	303.3	320.9	187.4	98.8	98.6	170.43
Dividend per share, gross, RSD	0.00	0.00	0.00	75.83	80.22	46.85	24.69	24.66	42.61
Share price as at 31 December, RSD	-	475	605	736	927	775	600	740	724
Shareholders' dividend yield, in %[75]	-	-	-	10.3	8.7	6.0	4.1	3.3	5.9

Overview of Financial Instruments Used by the Group

Due to its exposure to currency 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, Gazprom Neft PJSC manages commodity-hedging instruments at the level of Gazprom Neft Group and decides if it is necessary to use specific commodity hedging instruments.

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

[73] Net profit used to cover accumulated losses.

[74] Net profit used to cover accumulated losses.

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

Corporate Governance

Company's Governance System

The central role in corporate governance is performed by the Board of Directors, who are collectively responsible for a long-term success of the Company and the area of responsibility of whom covers the setting of main business goals and courses for further growth of the Company and the determination and monitoring of the implementation of the Company's business strategy.

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.

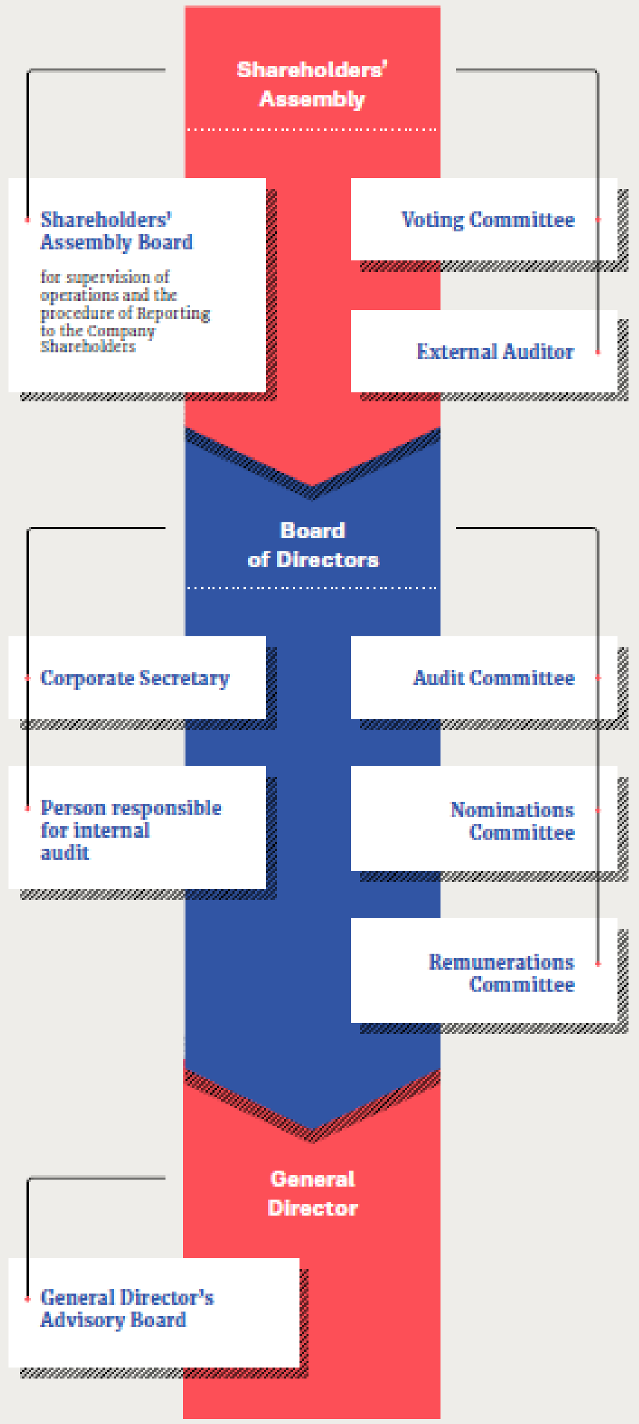
Shareholders' Assembly and Shareholders' Rights

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

The Board of Directors is appointed and dismissed by the Shareholders' Assembly.

NIS' 10th Annual General Meeting of 21 June 2018 appointed the following members of NIS Board of Directors: Vadim Yakovlev, Kirill Tyurdenev, Danica Drašković, Alexey Yankevich, Sergei Papenko, Alexander Krylov, Nikola Martinović, Wolfgang Ruttenstorfer, Anatoly Cherner and Olga Vysotskaia.

The Board of Directors consists of executive and non-executive directors. The Board of Directors has one executive member while all the other members are non-executive, whereby two of the non-executive directors are also independent members of the Board of Directors.

Members of the Board of Directors as of 30 September 2018

Vadim Yakovlev

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

Deputy Chairman of the Executive Board of Gazprom Neft PJSC, First Deputy CEO 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 Moscow International University 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 Deputy CEO in charge of economics and finance at SIBUR-Russian Tyres.

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

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

Kirill Tyurdenev

Chief Executive Officer 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 the degree of Master of Laws

(LLM) from the University of Manchester. Completed the executive education programme at the international business school INSEAD and London Business School. From 2000 to 2004, he worked for A.T. Kearney and Unilever. In 2004, he joined McKinsey & Co. From 2007 to 2012, he worked as Deputy CEO for Strategy and Corporate Development with SIBUR – Fertilisers. In 2012, he joined JSFC Sistema as Executive Vice-President and Executive Board Member. Before joining NIS, Mr Tyurdenev held the position of President and Chairman of the Executive Board of United Petrochemical Company undergoing acquisition by JSFC Sistema at the time, and Chairman of the Board of Directors of Ufaorgsintez. In April 2016, he joined NIS for the position of First Deputy CEO for Refining and Sales and Distribution. Mr Tyurdenev was appointed CEO of NIS j.s.c. Novi Sad on 22 March 2017.

Mr Tyurdenev was elected member of 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.

Graduated from the Faculty of Law, University of Belgrade, in 1968. From 1968 to 1990, she worked in finance in the banking sector, in law and commerce within the economic sector, and as Belgrade City Magistrate. Ms Drašković is the owner of 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 NIS j.s.c. Novi Sad Board of Directors from 1 April 2009 to 18 June 2013 and was re-elected on 30 June 2014.

Alexey Yankevich

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

Deputy CEO for Economics and Finance at Gazprom Neft PJSC

Born in 1973.

Graduated from Saint-Petersburg State Electrical Engineering University (LETI) in 1997, majoring in Optical Instruments and Systems. Graduated from the LETI-Lovanium International School of Management in Saint-Petersburg. From 1998 to 2001, he was employed with consultancy firm CARANA. From 2001 to 2005, he served as Deputy Head of Planning, Budgeting and Controlling Department at YUKOS RM o.j.s.c. (business unit responsible for logistics and downstream operations). In 2004, he became a Certified Management Accountant (CMA). From 2005 to 2007, he served as Deputy CFO at LLK-International (production and sale of oils 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 of Head of Economics and Corporate Planning Department at Gazprom Neft PJSC. Since August 2011, he has served as the acting Deputy CEO for Economics and Finance at Gazprom Neft PJSC. Since March 2012, he has served as a member of the Management Board of Gazprom Neft PJSC and Deputy CEO of Gazprom Neft PJSC for Economics and Finance.

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

Sergei Papenko

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

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

Born in 1973.

Graduated from the Kharkov State University in 1996 (in economic cybernetics) and obtained the MBA degree from Hofstra University (Hempstead, New York, USA) in 1999 in Finance&Banking.

From 1994 to 1996, he held the post of Kharkov Branch Manager with First Ukrainian International Bank. From 1996 to 1998, he worked as a consultant with TACIS Project and during 1998 as an auditor with PricewaterhouseCoopers. From 2000 to 2007, he worked with the Moscow branch of McKinsey and Company Inc. Russia, first as a consultant and then as a junior partner. Since 2007, he has held the post of Head of Business Efficiency and Management of Joint Ventures Department of Gazprom Neft PJSC.

He was elected member of NIS j.s.c. Novi Sad Board of Directors on 21 June 2018.

Alexander Krylov

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

Director of Regional Sales Department at Gazprom Neft PJSC

Born in 1971.

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

He was elected member of 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.

Received his primary education in Feketić and secondary education in Srbobran. He graduated from the Faculty of Economics in Subotica, where he completed his master's thesis titled Transformation of Tax System in Serbia by Implementing VAT. From 1985 to 1990, he was at the helm of Subotica-based company Solid and in the next two years, until 1992, he served as Assistant

Minister of the Interior of the Republic of Serbia. From 1992 to 2000, he held the position of Assistant CEO of Naftna industrija Srbije in charge of finance and of CEO of Naftagas Promet from 1996 to 2000. From 2005 to 31 August 2013, he worked as Special Advisor at NIS j.s.c. Novi Sad. From 1 September to 15 December 2013, he served as Special Advisor to CEO of O Zone a.d. Beograd, and from 15 December 2013 until retirement on 17 November 2014, he performed the duties of Advisor to 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.

He was a member of the Board of Directors of Naftna industrija Srbije/NIS j.s.c. Novi Sad from 2004 to 2008 and was re-elected on 10 February 2009.

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

Born in 1950.

Graduated from the Vienna University of Economics and Business in Economics and Business Administration in 1976. Holds a PhD degree. In 1976, he started his career in Austria-based OMV, where he joined Planning and Control Department in 1985 and then took over responsibility for OMV Group's strategic development in 1989. After 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 kept serving on OMV's Executive Board until early 1997, when he became Deputy Minister of Finance. On 1 January 2000, he was re-appointed member of OMV's Executive Board in charge of finance until April 2002 and gas operations until December 2006. From 1 January 2002 to 31 March 2011, he was Chairman of the Executive Board of OMV Group. Mr. Ruttenstorfer was or still is member of the Board of Directors of companies including VIG, Roche, , Flughafen Wien AG, RHI MAGNESITA NV,and Telekom Austria, CollPLant Holdings LLC and Erne Fittings GmbH.

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

Anatoly Cherner

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

Deputy Chairman of the Executive Board, Deputy CEO for logistics, refining and sales at Gazprom Neft PJSC

Born in 1954.

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 climbing to the post of refinery director. In 1996, he joined SlavNeft as Head of 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 JSC as of June 2006). In December 2007, he was appointed Deputy CEO for logistics, refining and sales at Gazprom Neft PJSC.

Mr Cherner was elected member of 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 Leningrad State University's Department of Economic Cybernetics in 1984, with specialisation in economic mathematics. Finished 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 positions of Chair of the Board of Directors (BoD), CEO and Director of various privately-owned companies from 1988 to 1995. From 1995 to 2003, she held various partner positions with KPMG in St Petersburg, New York and Moscow. From 2003 to 2005, she was managing Internal Audit Directorate of Yukos and then served as executive partner of Deloitte&Touche from 2005 to 2008. From 2006 to 2013, she held the 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, and independent member of the Audit Commission of Baltika PJSC. From 2012 to 2013, she was a partner in PricewaterhouseCoopers (PwC) and from 2013 to 2014 independent member of the BoD and Chair of the Audit Commission and Remuneration Commission of NefteTransService CJSC.

She was elected member of NIS j.s.c. Novi Sad Board of Directors on 21 June 2018.

Total amount paid to Board of Directors members in the first nine months of 2018, net RSD	
BoD Members	161,840,947

Membership in Other Companies' Boards of Directors or Supervisory Boards

Vadim Yakovlev	• Slavneft Open Joint Stock Company (Chairman of the BD)JSC SN-MNG • LTD GPN Development (Chairman of BoD) • JSC Gazprom Neft-NNG (Chairman of BoD) • LTD Gazprom Neft-Hantos (Chairman of BoD) • LTD Gazprom Neft-NTC (Chairman of BoD) • LTD Gazprom Neft-Orenburg (Chairman of BoD) • LTD Gazprom Neft-Sahalin • Salim Petroleum Development N.V. (Supervisory Board member) • LTD Gazprom Neft Shelf • Bazen Technological Center LLC • GPN-GEO LLC
Kirill Tyurdenev	-
Alexey Yankevich	• Slavneft Open Joint Stock Company JSC Gazprom Neft – Aero • LTD Gazprom Neft – SM • LTD Gazprom Neft Business-Service (Chairman of BoD) • Gazprom Neft Lubricants Italy SPA (Chairman of BoD) • LTD Gazprom Neft Marine Bunker • LTD Gazprom Neft Shelf
Sergey Papenko	• Slavneft Open Joint Stock Company JSC Artikgaz • JSC Evrotech-Yugra • CJSC Nortgas (Chairman of the BD) • LTD Slavneft-Krasnoyarskneftegaz • LTD Gazprom neft – Vostok • LTD Gazprom neft - Angara • Salym Petroleum Development N.V. (member of the SB) • LTD Gazprom Resource Nortgaz (CEO) • CJSC Messoyakhaneftegaz • JSC Tomskneft VNK (Chairman of the BD)

Alexander Krylov	• JSC Gazprom Neft-Novosibirsk (Chairman of the BoD) • PJSC Gazprom Neft-Tumen (Chairman of the BoD) [76] • 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) • JSC Gazprom Neft-Novosibirsk (AZS) (Chairman of the BoD) • JSC Gazprom Neft-Novosibirsk (NB) (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 , NV Vienna (Member of BoD) • LTD CollPLant Holdings (Member of BoD) • “Erne Fittings“ GmbH (Member of the Supervisory Board)
Anatoly Cherner	• Slavneft Open Joint Stock Company • 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 Vysotskaia	• Serebryanoe vremya non-profit organisation (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%

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

Board of Directors Committees

With a view to ensuring efficient performance of duties, the Board of Directors have established three standing committees (Audit Committee, Remuneration Committee and Nomination Committee) as its advisory and expert bodies providing assistance in work, especially in considering issues within its area of responsibility, in preparing and monitoring the enforcement of decisions and documents adopted, and in providing expertise for the needs of the Board of Directors.

The mandate of the Audit Committee and the Compensation Committee in the previous term of office ran until the date of the X Annual General Meeting NIS j.s.c Novi Sad, untill 21 June 2018and the Committees had the following composition:

- Audit Committee:
    - Wolfgang Ruttenstorfer, Chairman,
    - Alexey Yankevich, member and
    - Nenad Mijailović, member.
- Remuneration Committee:
    - Stanislav Shekshnia, Chairman,
    - Anatoly Cherner, member and
    - Zoran Grujičić, member.

The Board of Directors shall appoint members of the Board of Directors Committees for the next mandate and form other standing or *ad hoc* committees as needed to address issues relevant to the activities of the Board of Directors.

Shareholders' Assembly Board

The Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to Shareholders (hereinafter the Shareholders' Assembly Board) is a body of advisors and experts of the Company's Shareholders' Assembly, providing assistance in its activities and consideration of issues within its area of responsibility. 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 September 2018

Nenad Mijailović

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

Born in 1980.

Graduated from the Faculty of Economics, University of Belgrade in 2003. Obtained a Master's Degree from the University of Lausanne, Switzerland in 2007. In 2010, he started his PhD studies at the Faculty of Economics, University of Belgrade. In 2011, he obtained an international CFA licence in 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, he served as Advisor to the Minister of Economy and Regional Development, Department of Economy and Privatisation. In August 2012, he was appointed Advisor to the Minister of Finance of the Republic of Serbia; since August 2014 untill September 2018, he has served as the State Secretary in the Ministry of Finance of the Republic of Serbia. From September 2018, holds the position of Finance Director in Galenika j.s.c. Belgrade. He served as a member of NIS j.s.c. Novi Sad Board of Directors from 18 June 2013 to 30 June 2014.

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

Zoran Grujičić

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

Born in 1955.

Graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994, he served as General Manager, Technical Manager, Production Manager and Design Engineer in Heat Transfer Appliances Plant Cer Čačak. From May 1994 to February 1998, he served as Advisor to General Manager of Interkomerc, Belgrade. From February 1998 to June 2004, he managed MNG Group d.o.o. Čačak. From June 2004 to February 2007, he managed trading company Agrostroj j.s.c. Čačak, then limited partnership company Leonardo from Čačak, and Centar za puteve Vojvodine. Since February 2007, he has been employed with NIS j.s.c. Novi Sad at the positions of Deputy Director of Logistics Department of Jugopetrol; Head of Čačak RC at Retail Department – Čačak Region; Retail Network Development Manager at Development Department, Sales and Distribution. From 1 October 2012 to January 2016, he served as Advisor to Sales and Distribution Director and in February 2016 he became Advisor to Director of External and Governmental Relations. Since October 2017, he has served as Advisor to CEO.

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

Alexey Urusov

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

Director of Economics and Corporate Planning Department at Gazprom Neft PJSC

Born in 1974.

Graduated from the Tyumen State University (specialist in finance) and the University of Wolverhampton in the United Kingdom (BA (Hons) Business Administration). He holds a Master's Degree in Sociology. From 2006 to 2008, he served 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, he 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, he was employed with NIS j.s.c. Novi Sad as Chief Financial Officer. Since 2012, he has served as Director of Economics and Corporate Planning Department at Gazprom Neft PJSC.

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

Total amount of fees paid to SAB members in the first nine months of 2018, net, in RSD	
Members of SAB	12,551,536

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%

Chief Executive Officer

The Board of Directors appoints one of its executive members to serve as Chief Executive Officer. The Chief Executive Officer coordinates the activities of executive members of the Board of Directors and organises the Company's operations. In addition, the Chief Executive Officer is responsible for day-to-day management and is authorised to decide on matters outside the area of responsibility of the Shareholders' Assembly and the Board of Directors. The Chief Executive Officer represents NIS in legal matters.

CEO Advisory Board

The CEO Advisory Board is an expert body assisting the Company CEO in his activities and in the consideration of matters within his competence, stipulated by the Law, Articles of Association, and other internal documents, for the purpose of making timely and efficient decisions on managing the Company's business operations. The composition of the Advisory Board is determined by the CEO's Decision, and it consists of the First Deputy CEO for Exploration and Production, First Deputy CEO – Director of Downstream Division, Director of Refining, Director of Sales and Distribution, and Function Directors. In addition to the issues relating to the Company's operations (reports on operating and financial indicators; reports on monthly business performance results and monthly financial analysis; status of the key open issues in the Functions; reports on quarterly business performance results), the Advisory Board deals with the issues covered by the strategy and development policy, the bases of which are laid down by the Shareholders' Assembly and the Board of Directors of the Company.

Related-Party Transactions

In the nine month period ended 30 September 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. An outline of related-party transactions is provided in the Notes to the Financial Statements.

Human Resources

NIS' mission is to provide people with energy to move towards progress, while considering its employees to be the energy that drives NIS forward and holds the key to its success. To achieve this synergy, NIS builds up a business environment in which every employee is able to realise their full potential and employee rights are fully respected. It is essential for NIS to ensure such conditions in which the principle of no discrimination allowed on any grounds is strictly followed. To this end, the Equality Policy has been adopted with the aim of ensuring such an environment, but also providing employees with mechanisms to use in the event that the Policy principles are violated.

Employee Number and Structure

	30/09/2018			30/09/2017		
Organizational unit	Direct	Leasing	Total	Direct	Leasing	Total
NIS j.s.c. Novi Sad	**4,133**	**3,665**	**7,798**	**4,080**	**3,530**	**7,610**
Exploration and Production Block	852	216	1.068	800	218	1.018
Services Block	86	23	109	87	22	109
"Downstream" Division[77]	2,053	2,982	5,035			
Refining Block[78]	955	31	986	865	35	900
Sales and Distribution Block[79]	990	2,932	3,922	964	2,770	3,734
Energy Head Office[80]	48	7	55	247	25	272
the rest of the "Downstream" Division[81]	60	12	72			
Corporate Centre	1,093	444	1,537	1,055	460	1,515
Representative Offices and Branches	49	0	49	62	0	62
Subsidiaries in Serbia	**1,478**	**1,694**	**3,172**	**1,387**	**1,611**	**2,998**
Naftagas - Oil Sevices Ltd. Novi Sad[82]	679	830	1,509	588	840	1,428
Naftagas – Tehnički servisi Ltd. Zrenjanin	396	499	895	395	468	863
Naftagas – Transport Ltd. Novi Sad	80	330	410	97	275	372
NTC NIS – Naftagas Ltd. Novi Sad	323	35	358	307	28	335
Subsidiaries abroad	**70**	**1**	**71**	**85**	**1**	**86**
NIS Petrol e.o.o.d Sofia (Bulgaria)	33	0	33	36	0	36
NIS Petrol s.r.l. Bucharest (Romania)	28	0	28	25	0	25
NIS Petrol Ltd. Banja Luka (Bosnia and Herzegovina)	6	0	6	19	0	19
Jadran Naftagas Ltd. Banja Luka (Bosnia and Herzegovina)	3	0	3	5	0	5
Pannon Naftagas k.f.t. Budapest (Hungary)	0	1	1	0	1	1
Other subsidiaries included in consolidation	**574**	**114**	**688**	**565**	**103**	**668**
O Zone j.s.c. Belgrade	5	114	119	5	103	108
NIS Overseas o.o.o. Moscow (Russian Federation)	113		113	117		117
NIS-Svetlost Ltd. Bujanovac			0			0
G Petrol Ltd. Sarajevo (Bosnia and Herzegovina)	456		456	443	0	443
TOTAL:	**6,255**	**5,474**	**11,729**	**6,117**	**5,245**	**11,362**

[77] The transfer of employees to the new structures of the Downstream Division begins as of July 2018 and ends in September.

[78]The Refining Block becomes subordinate to the new Division.

[79] The Sales and Distribution Block becomes subordinate to the new Division.

[80] By reorganizing and creating a new Division, the Energy Block ceases to exist; only the Energy Head Office subordinate to the Division remains, while the other parts are decentralized into the Research and Production Block, Processing Block and Sales and Distribution Block

[81] The rest of the "Downstream" Division consists of: Director of Division's Office, Department for Crude Oil, Department of Planning, Optimization and Analysis of Production and Commercial and Department of Metrology

[82] Including the employees in subsidiaries.

Causes of Employment Termination

In the first nine months of 2018, a total of 220 employees left NIS[83]: 26 employees retired, 36 employees left NIS after termination of employment by mutual agreement, while the employment of 158 people was terminated on other grounds (involuntary termination, voluntary termination, redundancy, death etc.).

Cause of employment termination	NIS j.s.c. Novi Sad[84]	Subsidiaries[85]
Retirement	15	11
Termination by mutual agreement	32	4
Other	111	47
Total	**158**	**62**

[83] 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.

[84] Including Representative Offices and Branches.

[85] 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 state-of-the-art technologies are prerequisite to progress, competitiveness and regional leadership. NIS constantly modernises its oil and gas business, introduces and upgrades new oil and gas exploitation techniques, builds new process plants, introduces automation into operations and develops and modernises its retail network.

In research and development, NIS has in place the Policy on Planning, Execution and Control of Innovation, Science, Research and Development and Technology Programmes at NIS j.s.c. Novi Sad. The Science and Technology Council, which meets at a quarterly level, has been set up as part of the CEO's Office, whereas the Research and Development Section has been established within the Science and Technology Centre to coordinate and deliver research and development projects.

In NIS Group, the research and development activity is centred around its subsidiary NIS Naftagas d.o.o. Novi Sad STC, which uses the resources and technologies of its parent company in synergy with Gazprom Neft PJSC and has a dual role:

- To coordinate science and research activities, and
- To execute science and research activities.

Financial Statements

Stand-Alone Financial Statements

Statement of Financial Position

	Notes	30 September 2018 *(unaudited)*	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	6	19,080,154	23,410,724
Short-term financial assets	7	15,082,173	11,507,390
Trade and other receivables	8	35,237,488	30,213,371
Inventories	9	36,756,207	33,451,244
Other current assets	10	4,923,229	4,868,561
Non-current assets held for sale		16,715	163
Total current assets		**111,095,966**	**103,451,453**
Non-current assets			
Property, plant and equipment	11	252,918,304	237,108,439
Investment property		1,603,370	1,530,356
Intangible assets		2,475,492	3,082,914
Investments in associates and joint ventures		1,038,800	1,038,800
Investments in subsidiaries		13,425,586	13,425,586
Trade and other non-current receivables		2,842	2,222
Long-term financial assets	12	26,469,748	34,188,042
Deferred tax assets		1,392,350	2,487,491
Other non-current assets	13	3,086,912	3,835,469
Total non-current assets		**302,413,404**	**296,699,319**
Total assets		**413,509,370**	**400,150,772**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	14	8,414,075	8,305,932
Trade and other payables	15	35,553,391	34,596,516
Other current liabilities	16	4,508,718	4,880,705
Current income tax payable		743,373	1,915,676
Other taxes payable	17	11,053,819	9,235,139
Provisions for liabilities and charges		2,048,704	2,837,875
Total current liabilities		**62,322,080**	**61,771,843**
Non-current liabilities			
Long-term debt	18	86,919,097	89,751,052
Long-term trade and other payables		17,936	-
Provisions for liabilities and charges		9,862,096	9,660,582
Total non-current liabilities		**96,799,129**	**99,411,634**
Equity			
Share capital		81,530,200	81,530,200
Reserves		20,287	17,782
Retained earnings		172,837,674	157,419,313
Total equity		**254,388,161**	**238,967,295**
Total liabilities and shareholder's equity		**413,509,370**	**400,150,772**

All amounts are in 000 RSD, unless otherwise stated

Statement of Profit and Loss and Other Comprehensive Income

	Note	Three-month period ended 30 September 2018 (unaudited)	Three-month period ended 30 September 2017 (unaudited)	Nine-month period ended 30 September 2018 (unaudited)	Nine-month period ended 30 September 2017 (unaudited)
Sales of petroleum products, oil and gas		75,475,148	50,159,865	179,642,312	140,336,863
Other revenues		4,245,053	5,301,472	10,809,257	13,070,575
Total revenue from sales	5	**79,720,201**	**55,461,337**	**190,451,569**	**153,407,438**
Purchases of oil, gas and petroleum products		(48,191,688)	(29,160,161)	(110,205,399)	(80,408,250)
Production and manufacturing expenses	19	(7,378,956)	(8,253,648)	(20,100,156)	(21,776,759)
Selling, general and administrative expenses	20	(5,235,925)	(5,359,192)	(15,541,374)	(15,193,947)
Transportation expenses		(345,568)	(295,863)	(908,910)	(791,895)
Depreciation, depletion and amortization		(4,596,912)	(3,543,463)	(12,869,917)	(10,525,965)
Taxes other than income tax		(1,160,573)	(998,780)	(3,327,472)	(3,006,015)
Exploration expenses		(41,169)	(3,338)	(56,940)	(10,790)
Total operating expenses		**(66,950,791)**	**(47,614,445)**	**(163,010,168)**	**(131,713,621)**
Other (expenses) income, net		(170,973)	(348,476)	(138,294)	(583,279)
Operating profit		**12,598,437**	**7,498,416**	**27,303,107**	**21,110,538**
Net foreign exchange gain	21	(237,240)	2,058,339	(234,701)	6,169,965
Finance income	22	389,941	435,027	1,209,825	1,059,700
Finance expenses	23	(542,979)	(683,085)	(1,663,485)	(2,058,521)
Total other income (expense)		**(390,278)**	**1,810,281**	**(688,361)**	**5,171,144**
Profit before income tax		**12,208,159**	**9,308,697**	**26,614,746**	**26,281,682**
Current income tax expense		(1,508,875)	(919,199)	(3,149,785)	(4,777,638)
Deferred tax expense		(465,260)	(471,385)	(1,095,141)	(1,220,804)
Total income tax expense		**(1,974,135)**	**(1,390,584)**	**(4,244,926)**	**(5,998,442)**
Profit for the period		**10,234,024**	**7,918,113**	**22,369,820**	**20,283,240**
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		(364)	1,326	(950)	3,049
		(364)	1,326	(950)	
Other comprehensive profit (loss) for the period		**(364)**	**1,326**	**(950)**	**4,448**
Total comprehensive income for the period		**10,233,660**	**7,919,439**	**22,368,870**	**20,287,688**
Earnings per share attributable to shareholders of Naftna Industrija Srbije					**124.42**
Basic earnings (RSD per share)		62.76	48.57	137.18	124.42
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

Nine-month period ended 30 September 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	-	-	20,283,240	20,283,240
Other comprehensive income (loss)				
Change in value of available-for-sale financial assets	-	3,049	-	3,049
Revaluation of intangible assets, property, plant and equipment transferred to investment property	-	1,399	-	1,399
Total comprehensive income (loss) for the period	**-**	**4,448**	**20,283,240**	**20,287,688**
Dividend distribution	-	-	(4,021,069)	(4,021,069)
Balance as at 30 September 2017	**81,530,200**	**18,536**	**149,892,525**	**231,441,261**
Balance as at 1 January 2018	**81,530,200**	**17,782**	**157,419,313**	**238,967,295**
Profit for the period	-	-	22,369,820	22,369,820
Other comprehensive income (loss)				
Change in value of available-for-sale financial assets	-	(950)	-	(950)
Sale of available for sale financial assets	-	3,455	(3,455)	-
Total comprehensive income (loss) for the period	**-**	**2,505**	**22,366,365**	**22,368,870**
Dividend distribution	-	-	(6,948,004)	(6,948,004)
Balance as at 30 September 2018	**81,530,200**	**20,287**	**172,837,674**	**254,388,161**

All amounts are in 000 RSD, unless otherwise stated

Statement of Cash Flows[86]

	Note	Nine-month period ended 30 September 2018 (unaudited)	2017 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**26,614,746**	**26,281,682**
Adjustments for:			
Finance expenses	23	1,663,485	2,058,521
Finance income	22	(1,209,825)	(1,059,700)
Net unrealised foreign exchange (gain) losses		565,384	(5,324,247)
Depreciation, depletion and amortization		12,869,917	10,525,965
Adjustments for other provisions		345,118	478,381
Allowance for doubtful accounts		(255,814)	217,828
Write off of dry holes		56,940	10,790
Payables write-off		-	(2,867)
Other non-cash items		115,166	200,526
Operating cash flow before changes in working capital		**40,765,117**	**33,386,879**
Changes in working capital:			
Trade and other receivables		(4,797,963)	15,900,505
Inventories		(3,367,640)	(3,417,644)
Other current assets		74,005	(1,239,968)
Trade payables and other current liabilities		1,704,643	(4.106.475)
Other taxes payable		1,818,680	(35,181)
Total effect on working capital changes		**(4,568,275)**	**7,101,237**
Income taxes paid		(4,328,368)	(1,197,351)
Interest paid		(1,625,204)	(2,181,767)
Interest received		652,870	923,883
Net cash generated from operating activities		**30,896,140**	**38,032,881**
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans issued		(2,621,606)	(3,662,119)
Loan proceeds received		1,606,005	2,802,327
Capital expenditures[87]		(29,787,703)	(17,895,126)
Proceeds from sale of property, plant and equipment		179,938	102,341
Repayment (placements) of bank deposits		5,586,458	(7,945,830)
Other inflow		32,122	156
Net cash used in investing activities		**(25,004,786)**	**(26,598,251)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	18	29,941,738	35,915,950
Repayment of borrowings	18	(33,253,718)	(43,223,916)
Repayments of finance lease liabilities	18	(39,388)	(38,189)
Dividends paid		(6,948,004)	(4.021.069)
Net cash used in financing activities		**(10,299,372)**	**(11,367,224)**
Net increase (decrease) in cash and cash equivalents		(4,408,018)	(67,406)
Effect of foreign exchange on cash and cash equivalents		77,448	(282,000)
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		**19,080,154**	**19,839,057**

All amounts are in 000 RSD, unless otherwise stated

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

[87] CF from investing activities includes VAT in the amount of RSD 4.3 bn (2017: 2.1 bln RSD)

Notes to Stand-Alone Financial Statements[88]

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 September 2018 were evaluated through 29 October 2018, the date these Interim Condensed Financial Statements were authorised for issue.

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

The results for the nine month period ended 30 September 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.

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 financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to have significant impact on the Company's Interim Condensed 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).IFRS 17 – Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

5. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the nine month periods ended 30 September 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 nine month period ended 30 September 2018 and 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Nine month period ended 30 September 2018				
Segment revenue	25,550,616	190,985,157	(26,084,204)	190,451,569
Intersegment	24,276,020	1,808,184	(26,084,204)	-
External	1,274,596	189,176,973	-	190,451,569
EBITDA (Segment results)	**27,739,616**	**12,444,127**	**-**	**40,183,743**
Depreciation, depletion and amortization	(6,311,286)	(6,558,631)	-	(12,869,917)
Impairment of non-financial assets	(3,471)	(21,164)	-	(24,635)
Net foreign exchange gain	(42,776)	(191,925)	-	(234,701)
Finance income (expenses), net	10,006	(463,666)	-	(453,660)
Income tax	(122,158)	(4,122,768)	-	(4,244,926)
Segment profit/(loss)	**21,082,559**	**1,287,261**	-	**22,369,820**
Nine month period ended 30 September 2017				
Segment revenue	30,884,922	153,982,555	(31,460,039)	153,407,438
Intersegment	29,797,225	1,662,814	(31,460,039)	-
External	1,087,697	152,319,741	-	153,407,438
EBITDA (Segment results)	**20,727,183**	**10,958,011**	**-**	**31,685,194**
Depreciation, depletion and amortization	(4,050,306)	(6,475,659)	-	(10,525,965)
Net of impairment of non-financial assets	-	(23,506)	-	(23,506)
Net foreign exchange gain	375,228	5,794,737	-	6,169,965
Finance income (expenses), net	(74,853)	(923,968)	-	(998,821)
Income tax	(1,925,216)	(4,073,226)	-	(5,998,442)
Segment profit/(loss)	**15,075,861**	**5,207,379**	**-**	**20,283,240**

EBITDA for the nine and three month period ended 30 September 2018 and 2017 is reconciled below:

	Three-month period ended 30 September		Nine month period ended 30 September	
	2018	2017	2018	2017
Profit for the period	10,234,024	7,918,113	22,369,820	20,283,240
Income tax expenses	1,974,135	1,390,584	4,244,926	5,998,442
Finance expenses	542,979	683,085	1,663,485	2,058,521
Finance income	(389,941)	(435,027)	(1,209,825)	(1,059,700)
Depreciation, depletion and amortization	4,596,912	3,543,463	12,869,917	10,525,965
Net foreign exchange gain	237,240	(2,058,339)	234,701	(6,169,965)
Other expense, net	170,973	348,476	138,294	583,279
Other non-operating income, net	(134,484)	(433,881)	(127,575)	(534,588)
EBITDA	**17,231,838**	**10,956,474**	**40,183,743**	**31,685,194**

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

		Nine-month period ended 30 September 2018	
	Domestic market	**Export and International sales**	**Total**
Sale of crude oil	-	1,056,256	1,056,256
Sale of gas	1,415,084	-	1,415,084
Through a retail network	-	-	-
Wholesale activities	1,415,084	-	1,415,084
Sale of petroleum products	141,952,328	35,218,645	177,170,973
Through a retail network	46,145,292	-	46,145,292
Wholesale activities	95,807,036	35,218,645	131,025,681
Sale of electricity	478,885	4,466,746	4,945,631
Other sales	5,663,123	200,502	5,863,625
Total sales	**149,509,420**	**40,942,149**	**190,451,569**

		Nine-month period ended 30 September 2017	
	Domestic market	**Export and International sales**	**Total**
Sale of crude oil	-	891,183	891,183
Sale of gas	1,911,439	-	1,911,439
Through a retail network	-	-	-
Wholesale activities	1,911,439	-	
Sale of petroleum products	113,816,619	23,717,622	137,534.241
Through a retail network	40,667,665	-	40,667,665
Wholesale activities	73,148,954	23,717,622	96,866,576
Sale of electricity	343,791	7,462,832	7,806,623
Other sales	5,093,097	170,855	5,263,952
Total sales	**121,164,946**	**32,242,492**	**153,407,438**

Out of the amount of 131.025,681 RSD (2017: 96,866,576 RSD) revenue from sale of petroleum products (wholesale), the amount of 19,494,776 RSD (2017: 15,198,024 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 3,988,435 RSD (2017: 7,022,733 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 4,223,980 RSD (2017: 3,912,733 RSD).

The Company is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 149,509,420 RSD (2017: 121,164,947 RSD), and the total revenue from external customer from other countries is 40,942,149 RSD (2017: 32,242,492 RSD).

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

	Nine-month period ended 30 September 2018	2017
Sale of crude oil	1,056,256	891,183
Sale of petroleum products (retail and wholesale)		
Bulgaria	8,269,231	5,331,605
Bosnia and Herzegovina	8,507,290	4,634,272
Romania	6,169,304	3,387,235
All other markets	12,272,820	10,364,510
	35,218,645	23,717,622
Sale of electricity	4,466,746	7,462,832
Other sales	200,502	170,855
	40,942,149	**32,242,492**

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

6. CASH AND CASH EQUIVALENTS

	30 September 2018	31 December 2017
Cash in bank and in hand	10,838,633	14,432,605
Deposits with original maturity of less than three months	7,980,000	8,670,000
Cash held on escrow account	41,966	68,765
Cash equivalents	219,555	239,354
	19,080,154	**23,410,724**

7. SHORT-TERM FINANCIAL ASSETS

	30 September 2018	31 December 2017
Short-term loans	195,774	247,524
Deposits with original maturity more than 3 months less than 1 year	4,186,570	7,645,642
Current portion of long-term investments (note 12)	10,927,755	3,838,872
Less impairment loss provision	(227,926)	(224,648)
	15,082,173	**11,507,390**

As at 30 September 2018 deposits with original maturity more than three months less than 1 year amounting to 4,186,570 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 September 2018	31 December 2017
Trade receivables:		
- related parties	5,056,015	5,261,268
- third parties	32,373,986	25,991,656
- state and state owned companies	8,753,703	10,233,306
	46,183,704	**41,486,230**
Accrued assets	187,054	185,641
	46,370,758	**41,671,871**
Less impairment provision for trade and other receivables:		
- third parties	(9,372,171)	(9,594,055)
- state and state owned companies	(1,761,099)	(1,864,445)
	(11,133,270)	**(11,458,500)**
Total trade and other receivables	**35,237,488**	**30,213,371**

The ageing of trade and other receivables is as follows:

	30 September 2018	31 December 2017
Neither impaired nor past due	31,379,596	27,691,406
Past due but not impaired:		
within 30 days	2,386,875	1,992,337
1 to 3 months	1,044,230	197,904
3 months to 1 year	212,700	121,577
over 1 year	214,087	210,147
Total	**35,237,488**	**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 September 2018	31 December 2017
RSD	29,247,513	21,791,608
EUR	4,711,721	7,438,322
USD	1,278,254	982,442
Other	-	999
	35,237,488	**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	258,534	19,907	278,441
Release of provision	(145,969)	(19,983)	(165,952)
Receivables written off during the year as uncollectible	(24,074)		(24,074)
Unwiding of discount	-	(100,225)	(100,225)
Transfer from non-current part Курсне разлике	-	208,808	208,808
Exchange differences	(449)	(323,771)	(324,220)
Other	(49,616)	(1)	(49,617)
As at 30 September 2017	**9,879,740**	**11,348,268**	**21,228,008**
As at 1 January 2018	**9,594,055**	**1,864,445**	**11,458,500**
Provision for receivables impairment	71,446	4,133	75,579
Release of provision	(258,259)	(85,258)	(343,517)
Receivables written off during the year as uncollectible	(10,772)	(3,534)	(14,306)
Unwinding of discount (note 23)	-	(44,661)	(44,661)
Exchange differences	517	1,158	1,675
Other	(24,816)	24,816	-
As at 30 September 2018	**9,372,171**	**1,761,099**	**11,133,270**

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 September 2018	**31 December 2017**
Crude oil	23,001,364	22,312,814
Petroleum products	12,938,875	11,116,609
Materials and supplies	4,989,529	4,288,895
Other	656,984	680,609
Less impairment provision	(4,830,545)	(4,947,683)
	36,756,207	**33,451,244**

10. OTHER CURRENT ASSETS

	30 September2018	**31 December 2017**
Advances paid	800,510	566,382
Deferred VAT	1,814,675	1,099,407
Prepaid expenses	346,606	193,927
Prepaid custom duties	31,832	31,995
Prepaid excise	1,776,563	1,820,845
Other current assets	12,086,475	13,085,751
Less impairment provision	(11,933,432)	(11,929,746)
	4,923,229	**4,868,561**

Deferred VAT as at 30 September 2018 amounting to 1,814,675 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 September 2018 amounting to 1,776,563 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	5,253	136,987	142,240
Release of provision	(338)	(55,247)	(55,585)
Receivables written off during the year as uncollectible	-	(36,341)	(36,341)
Other	1	49,620	49,621
As at 30 September 2017	**262,856**	**11,814,310**	**12,077,166**
As at 1 January 2018	**259,236**	**11,670,510**	**11,929,746**
Increase of provision during the year	1,962	20,092	22,054
Release of provision	(821)	(13,611)	(14,432)
Receivables written off during the year as uncollectible	-	(3,936)	(3,936)
As at 30 September 2018	**260,377**	**11,673,055**	**11,933,432**

The ageing of other current assets is as follows:

	30 September 2018	31 December 2017
Neither impaired nor past due	214,103	1,214,442
Not impaired and past due in the following periods:		
Less than 1 month	5,790	14,972
1 - 3 months	4,031	25,707
3 month - 1 year	57,590	30,192
Over 1 year	21,978	14,658
Total	**303,492**	**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 September 2017						
Additions	-	-	-	-	16,595,854	16,595,854
Changes in decommissioning obligations	134,606	-	-	-	-	134,606
Transfer from assets under construction	13,801,597	2,106,526	1,097,520	267,610	(17,273,253)	-
Transfer to intangible assets	-	-	(22,698)	(2,314)	-	(25,012)
Transfer to investment property	-	(14,361)	-	(101,798)	-	(116,159)
Impairment	-	-	(20,874)	-	(8,059)	(28,933)
Depreciation	(4,006,861)	(4,255,052)	(1,109,465)	(415,854)	-	(9,787,232)
Disposals and write-off	(39,783)	(7,610)	(137,877)	(4,408)	(84,716)	(274,394)
Other transfers	1,314	(141,282)	(37,372)	179,654	6,351	8,665
	98,333,184	**73,038,556**	**21,803,363**	**8,982,099**	**28,909,142**	**231,066,344**
As at 30 June 2017						
Cost	129,652,194	112,400,576	47,012,151	17,734,196	31,000,232	337,799,349
Depreciation and impairment	(31,319,010)	(39,362,020)	(25,208,788)	(8,752,097)	(2,091,090)	(106,733,005)
Net book value	**98,333,184**	**73,038,556**	**21,803,363**	**8,982,099**	**28,909,142**	**231,066,344**
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 September 2018						
Additions	-	-	-	-	28,635,113	28,635,113
Acquisitions through business combinations	-	-	-	-	217,660	217,660
Changes in decommissioning obligations	158,576	-	-	-	-	158,576
Transfer from assets under construction	11,549,461	1,386,171	3,560,627	140,528	(16,636,787)	-
Transfer to investment property	-	-	(81,328)	-	-	(81,328)
Impairment	-	-	(23,931)	-	(13,412)	(37,343)
Depreciation	(6,269,861)	(4,182,159)	(1,291,547)	(392,613)	-	(12,136,180)
Disposals and write-off	(52,007)	(72,933)	(17,725)	(17,646)	(794,563)	(954,874)
Other transfers	1,980,026	(1,400,947)	20,705	(599,720)	8,177	8,241
	110,009,727	**69,150,598**	**23,762,815**	**7,983,905**	**42,011,259**	**252,918,304**
As at 30 September 2018						
Cost	149,474,499	113,765,057	51,043,367	16,217,905	44,021,415	374,522,243
Depreciation and impairment	(39,464,772)	(44,614,459)	(27,280,552)	(8,234,000)	(2,010,156)	(121,603,939)
Net book value	**110,009,727**	**69,150,598**	**23,762,815**	**7,983,905**	**42,011,259**	**252,918,304**

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 September 2017						
Additions	2,372,057	9,882,806	12,254,863	-	-	12,254,863
Changes in decommissioning obligations	-	-	-	134,606	-	134,606
Transfer from asset under construction	(3,089,976)	(10,701,547)	(13,791,523)	13,801,597	-	10,074
Depreciation and depletion	-	-	-	(4,006,861)	-	(4,006,861)
Disposals and write-off	(63,297)	(19,281)	(82,578)	(39,783)	-	(122,361)
Other transfers	(33,756)	33,717	(39)	1,314	-	1,275
	11,530,378	**7,110,219**	**18,640,597**	**98,333,184**	**1,820**	**116,975,601**
As at 30 September 2017						
Cost	11,530,378	7,111,095	18,641,473	129,652,194	22,129	148,315,796
Depreciation and impairment	-	(876)	(876)	(31,319,010)	(20,309)	(31,340,195)
Net book amount	**11,530,378**	**7,110,219**	**18,640,597**	**98,333,184**	**1,820**	**116,975,601**
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 September 2018						
Additions	3,388,986	9,426,940	12,815,926	-	-	12,815,926
Changes in decommissioning obligations	-	-	-	158,576	-	158,576
Transfer from asset under construction	(1,940,070)	(9,609,391)	(11,549,461)	11,549,461	-	-
Impairment	-	(3,471)	(3,471)	-	-	(3,471)
Depreciation and depletion	-	-	-	(6,269,861)	-	(6,269,861)
Disposals and write-off	(753,455)	(24,651)	(778,106)	(52,007)	-	(830,113)
Other transfers	445,236	(446,609)	(1,373)	1,980,026	168	1,978,821
	11,945,712	**5,822,200**	**17,767,912**	**110,009,727**	**1,988**	**127,779,627**
As at 30 September 2018						
Cost	11,945,712	5,827,758	17,773,470	149,474,499	22,300	167,270,269
Depreciation and impairment	-	(5,558)	(5,558)	(39,464,772)	(20,312)	(39,490,642)
Net book amount	**11,945,712**	**5,822,200**	**17,767,912**	**110,009,727**	**1,988**	**127,779,627**

12. LONG-TERM FINANCIAL ASSETS

	30 September 2018	31 December 2017
Deposits with original maturity more than 1 year	-	2,029,483
LT loans issued	37,272,139	35,863,153
Available for sale financial assets	173,890	187,311
Other LT placements	25,882	26,567
Less Current portion of LT loans issued (note 7)	(10,927,755)	(3,838,872)
Less provision of other LT placements	(74,408)	(79,600)
	26,469,748	**34,188,042**

13. OTHER NON-CURRENT ASSETS

	30 September 2018	31 December 2017
Advances paid for PPE	1,447,168	2,148,358
Prepaid expenses	645,073	689,450
Other assets	1,031,617	1,034,607
Less impairment provision	(36,946)	(36,946)

	3,086,912	**3,835,469**

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

	30 September 2018	31 December 2017
Short-term loans	1,816,128	2,298,487
Interest liabilities	115,060	106,743
Current portion of long-term loans (note 18)	6,387,147	5,849,547
Current portion of finance lease liabilities (note 18)	95,740	51,155
	8,414,075	**8,305,932**

15. TRADE AND OTHER PAYABLES

	30 September2018	31 December 2017
Trade payables:		
- related parties	10,312,649	15,429,094
- third parties	21,444,286	15,371,836
Dividends payable	3,772,308	3,772,308
Other accounts payable	24,148	23,278
	35,553,391	**34,596,516**

As at 30 September 2018 payables to related parties amounting to 10,312,649 RSD (31 December 2017: 15,429,094 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 6,443,713 RSD mostly based on purchase of crude oil (31 December 2017: 11,727,340 RSD).

16. OTHER CURRENT LIABILITIES

	30 September 2018	31 December 2017
Advances received	1,325,309	1,374,398
Payables to employees	2,716,850	3,041,616
Accruals and deferred income	456,142	435,851
Other current non-financial liabilities	10,417	28,840
	4,508,718	**4,880,705**

17. OTHER TAXES PAYABLE

	30 September 2018	31 December 2017
Mineral extraction tax	389,819	280,971
VAT	2,438,253	1,668,014
Excise tax	5,528,353	4,777,490
Contribution for buffer stocks	547,235	527,858
Custom duties	265,162	126,946
Other taxes	1,884,997	1,853,860
	11,053,819	**9,235,139**

18. LONG-TERM DEBT

	30 September2018	31 December 2017
Long-term loan - Gazprom Neft	26,162,094	30,306,970
Bank loans	66,553,926	65,097,574
Finance lease liabilities	685,964	247,210
Less Current portion (note 14)	(6,482,887)	(5,900,702)
	86,919,097	**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	28,733,261	7,182,689	-	35,915,950
Repayment	(24,459,383)	(18,764,533)	(38,189)	(43,262,105)
Non-cash transactions	-		115,272	115,272
Foreign exchange difference (note 21)	(7,289,698)	(157,480)	(7,288)	(7,454,466)
As at 30 September 2017	**99,705,110**	**1,560,220**	**212,323**	**101,477,653**
As at 1 January 2018	**95,404,544**	**2,298,487**	**247,210**	**97,950,241**
Proceeds	20,732,742	9,208,996	-	29,941,738
Repayment	(23,562,494)	(9,691,224)	(39,388)	(33,293,106)
Non-cash transactions	-	-	478,384	478,384
Foreign exchange difference (note 21)	141,228	(131)	(242)	140,855
As at 30 September 2018	92,716,020	1,816,128	685,964	95,218,112

(a) Long-term loan - Gazprom Neft

As at 30 September 2018 long-term loan - Gazprom Neft amounting to 26,162,094 RSD (31 December 2017: 30,306,970 RSD), with current portion of 5,507,809 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 September 2018	31 December 2017
Domestic	53,405,297	43,338,385
Foreign	13,148,629	21,759,189
	66,553,926	65,097,574
Current portion of long-term loans	(879,338)	(339,189)
	65,674,588	**64,758,385**

The maturity of bank loans was as follows:

	30 September 2018	31 December 2017
Between 1 and 2 years	11,898,077	23,252,660
Between 2 and 5 years	48,748,360	38,991,710
Over 5 years	5,028,151	2,514,015
	65,674,588	**64,758,385**

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

	30 September 2018	31 December 2017
USD	355,750	17,934,250
EUR	65,914,486	46,852,899
RSD	688	814
JPY	283,002	309,611
	66,553,926	**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 September 2018 and 31 December 2017, respectively

19. PRODUCTION AND MANUFACTURING EXPENSES

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018	**2017**	**2018**	**2017**
Employee costs	847,637	760,660	2,525,340	2,293,789
Materials and supplies (other than purchased oil, petroleum products and gas)	185,225	226,261	558,469	669,476
Repair and maintenance services	968,013	1,023,678	3,015,198	2,793,300
Electricity for resale	1,876,257	3,198,279	4,495,713	7,392,331
Electricity and utilities	581,066	414,463	1,538,780	1,155,469
Safety and security expense	133,364	91,209	361,828	235,259
Insurance services	68,018	70,755	206,272	211,900
Transportation services for production	490,428	440,506	1,449,303	1,281,143
Other	2,228,948	2,027,837	5,949,253	5,744,092
	7,378,956	**8,253,648**	**20,100,156**	**21,776,759**

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018	**2017**	**2018**	**2017**
Employee costs	2,460,715	2,363,255	7,400,661	7,009,847
Legal, audit and consulting services	399,579	455,083	1,030,197	1,141,840
Rent expense	30,545	28,629	96,766	93,551
Business trips expense	75,308	85,085	221,119	226,237
Safety and security expense	111,560	112,438	343,152	343,656
Insurance expense	29,473	23,804	81,861	73,179
Transportation and storage	87,366	85,513	255,842	256,120
Allowance for doubtful accounts	(183,557)	125,011	(317,036)	78,453
Other	2,224,936	2,080,374	6,428,812	5,971,064
	5,235,925	**5,359,192**	**15,541,374**	**15,193,947**

21. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018	**2017**	**2018**	**2017**
Foreign exchange gain (loss) on financing activities including:				
- foreign exchange gain (note 18)	825,425	2,425,796	1,479,949	8,038,567
- foreign exchange loss (note 18)	(1,144,083)	(136,353)	(1,620,804)	(584,101)
Net foreign exchange gain (loss) on operating activities	81,418	(231,104)	(93,846)	(1,284,501)
	(237,240)	**2,058,339**	**(234,701)**	**6,169,965**

22. FINANCE INCOME

	Three-month period ended 30 September		Nine month period ended 30 Septembeer	
	2018	2017	2018	2017
Interest on bank deposits	138,616	206,539	520,435	372,424
Interest income on loans issued	226,194	228,332	664,259	687,120
	25,131	156	25,131	156
	389,941	**435,027**	**1,209,825**	**1,059,700**

23. FINANCE EXPENSES

	Three-month period ended 30 September		Six-month period ended 30 September	
	2018	2017	2018	2017
Interest expense	552,269	727,263	1,725,140	2,316,193
Decommissioning provision: unwinding	23,154	35,942	66,839	103,429
Trade receivables: unwinding of discount	-	(63,922)	(44,661)	(315,289)
Less: interest expense capitalised on	(32,444)	(16,198)	(83,833)	(45,812)
	542,979	**683,085**	**1,663,485**	**2,058,521**

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 September 2018 the carrying value of financial assets approximates their fair value. In 2018, the Company acquired one petrol station in Serbia.

25. BUSINESS COMBINATIONS

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 649,277 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 September 2018.

Capital commitments

As of 30 September 2018 the Company has entered into contracts to purchase property, plant and equipment for 10,877,666 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 nine month period ended 30 September 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 September 2018 and 31 December 2017 the outstanding balances with related parties were as follows:

As at 30 September 2018	Subsidiaries	Parent company	Parent's subsidiaries and associates
Short-term financial assets	11,072,882	-	-
Trade and other receivables	4,195,727	-	614,966
Other current assets	16,590	-	76,020
Investments in subsidiaries, associates and joint ventures	13,425,586	-	1,038,800
Long-term financial assets	26,344,384	-	-
Other non-current assets	11,915	-	-
Trade and other payables	(3,226,205)	(6,443,713)	(642,731)
Other current liabilities	(1,057)	-	(120)
Short-term debt and current portion of long-term debt	(1,820,339)	(5,507,809)	-
Long-term debt	-	(20,654,285)	-
	50,019,483	**(32,605,807)**	**1,086,935**

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 nine month period ended 30 September 2018 and 2017 the following transaction occurred with related parties:

Nine month period ended 30 September 2018	Subsidiaries	Parent company	Parent's subsidiaries and associates
Petroleum products and oil and gas sales	12,111,754	-	437,068
Other revenues	530,557	462	4,006,428
Purchases of oil, gas and petroleum products	(29,880)	(45,583,790)	(8,608)
Production and manufacturing expenses	(3,141,895)	-	(4,111,756)
Selling, general and administrative expenses	(365,591)	-	(6,198)
Transportation expenses	(69,229)	-	-
Other expenses, net	-	(4,985)	(809)
Finance income	655,249	-	-
Finance expense	(33,225)	(379,285)	-
	9,657,740	**(45,967,598)**	**316,125**

Nine month period ended 30 September 2017	Subsidiaries	Parent company	Parent's subsidiaries and associates
Petroleum products and oil and gas sales	8,130,312	-	450,630
Other revenues	870,187	-	7,025,797
Purchases of oil, gas and petroleum products	(25,620)	(20,062,252)	(1,304)
Production and manufacturing expenses	(2,947,579)	-	(7,230,421)
Selling, general and administrative expenses	(372,554)	-	(4,776)
Transportation expenses	(68,633)	-	-
Other expenses, net	(21,455)	(5,002)	(175)
Finance income	675,469	-	-
Finance expense	(23,679)	(489,792)	-
	6,239,506	**(20,557,046)**	**239,751**

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

	Parent's subsidiaries and associates	Other
As at 30 September 2018		
Trade and other receivables (gross)		
• *HIP Petrohemija*	2,128,202	-
• *Srbijagas*	-	67,288
• *Other state owned companies*	-	6,558,213
Trade and other payables		
• *HIP Petrohemija*	(1,592,636)	-
• *Srbijagas*	-	(95,325)
Other current liabilities		
• *HIP Petrohemija*	(1,370)	-
	534,196	**6,530,176**
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
Nine month period ended 30 September 2018		
Operating income		
• *HIP Petrohemija*	19,494,776	-
• *Srbijagas*	-	632,949
Operating expenses		
• *HIP Petrohemija*	(159,824)	-
• *Srbijagas*	-	(655,684)
	19,334,952	**(22,735)**
Nine month period ended 30 September 2017		
Operating income		
• *HIP Petrohemija*	15,198,024	-
• *Srbijagas*	-	677,478
Operating expenses		
• *HIP Petrohemija*	(138,725)	-
• *Srbijagas*	-	(691,367)
	15,059,299	**(13,889)**

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 nine month period ended on 30 September 2018 and 2017 the Company recognized 740,326 RSD and 743,813 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 September 2018 *(unaudited)*	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	6	23,786,039	27,075,370
Short-term financial assets	7	4,246,448	7,666,968
Trade and other receivables	8	33,285,574	28,671,743
Inventories	9	40,290,065	36,916,942
Other current assets	10	6,008,499	5,806,515
Non-current assets held for sale		163	163
Total current assets		**107,616,788**	**106,137,701**
Non-current assets			
Property, plant and equipment	11	280,065,933	264,049,497
Investment property		1,603,370	1,530,356
Goodwill and other intangible assets		4,841,294	5,561,145
Investments in associates and joint ventures		2,047,021	2,047,021
Trade and other non-current receivables		73,998	73,411
Long-term financial assets	12	125,364	2,163,760
Deferred tax assets		1,098,808	2,197,910
Other non-current assets	13	3,093,291	3,792,519
Total non-current assets		**292,949,079**	**281,415,619**
Total assets		**400,565,867**	**387,553,320**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	14	7,062,792	6,279,124
Trade and other payables	15	35,595,470	35,300,763
Other current liabilities	16	5,430,897	5,589,872
Current income tax payable		810,339	1,952,025
Other taxes payable	17	12,276,416	10,270,700
Provisions for liabilities and charges		2,054,377	2,847,147
Total current liabilities		**63,230,291**	**62,239,631**
Non-current liabilities			
Long-term debt	18	87,490,723	90,495,878
Long-term trade and other payables		17,936	-
Provisions for liabilities and charges		9,999,051	9,766,303
Total non-current liabilities		**97,507,710**	**100,262,181**
Equity			
Share capital		81,530,200	81,530,200
Reserves		54,954	40,453
Retained earnings		158,487,802	143,713,351
Equity attributable to the Company's owners		**240,072,956**	**225,284,004**
Non-controlling interest		(245,090)	(232,496)
Total equity		**239,827,866**	**225,051,508**
Total liabilities and shareholder's equity		**400,565,867**	**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 September		Nine-month period ended 30 September	
	Note	2018 *(unaudited)*	2017 *(unaudited)*	2018 *(unaudited)*	2017 *(unaudited)*
Sales of petroleum products, oil and gas		81,179,259	54,256,212	193,679,540	152,482,858
Other revenues		5,156,921	6,153,370	13,092,222	15,295,658
Total revenue from sales	5	**86,336,180**	**60,409,582**	**206,771,762**	**167,778,516**
Purchases of oil, gas and petroleum products		(52,926,869)	(32,397,423)	(122,053,855)	(90,399,231)
Production and manufacturing expenses	19	(7,838,803)	(8,590,678)	(20,777,821)	(21,676,685)
Selling, general and administrative expenses	20	(5,648,019)	(5,770,744)	(16,971,996)	(16,527,886)
Transportation expenses		(347,183)	(299,511)	(911,648)	(796,620)
Depreciation, depletion and amortization		(5,131,646)	(4,102,384)	(14,482,335)	(12,209,378)
Taxes other than income tax		(1,349,403)	(1,184,600)	(3,887,590)	(3,560,012)
Exploration expenses		(41,169)	(3,338)	(56,940)	(10,790)
Total operating expenses		**(73,283,092)**	**(52,348,678)**	**(179,142,185)**	**(145,180,602)**
Other expenses, net		(162,377)	(362,263)	(139,616)	(590,994)
Operating profit		**12,890,711**	**7,698,641**	**27,489,961**	**22,006,920**
Net foreign exchange gain	21	(256,160)	1,967,723	(253,234)	6,081,472
Finance income	22	167,301	210,296	555,237	386,530
Finance expenses	23	(563,828)	(706,090)	(1,725,828)	(2,132,338)
Total other income (expense)		**(652,687)**	**1,471,929**	**(1,423,825)**	**4,335,664**
Profit before income tax		**12,238,024**	**9,170,570**	**26,066,136**	**26,342,584**
Current income tax expense		(1,549,845)	(992,805)	(3,253,795)	(5,005,146)
Deferred tax expense		(469,602)	(478,259)	(1,099,120)	(1,221,552)
Total income tax expense		**(2,019,447)**	**(1,471,064)**	**(4,352,915)**	**(6,226,698)**
Profit for the period		**10,218,577**	**7,699,506**	**21,713,221**	**20,115,886**
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		(364)	1,326	(950)	3,049
Currency translation differences		(30,339)	178,745	12,091	466,103
		(30,703)	180,071	11,141	469,152
Other comprehensive profit (loss) for the period			**(30,703)**	**180,071**	**11,141**
Total comprehensive income for the period		**10,187,874**	**7,879,577**	**21,724,362**	**20,586,437**
Profit attributable to:					
- Shareholders of Naftna Industrija Srbije		10,222,821	7,704,413	21,725,910	20,131,285
- Non-controlling interest		(4,244)	(4,907)	(12,689)	(15,399)
Profit for the period		**10,218,577**	**7,699,506**	**21,713,221**	**20,115,886**
Total comprehensive income (loss) attributable to:					
- Shareholders of Naftna Industrija Srbije		10,192,877	7,881,687	21,736,956	20,593,956
- Non-controlling interest		(5,003)	(2,110)	(12,594)	(7,519)
Total comprehensive income for the period		**10,187,874**	**7,879,577**	**21,724,362**	**20,586,437**

Earnings per share attributable to shareholders of Naftna Industrija Srbije				
Basic earnings (RSD per share)	62.69	47.25	133.24	123.46
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

Nine-month period ended 30 September 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	-	-	20,131,285	20,131,285	(15,399)	20,115,886
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	3,049	-	3,049	-	3,049
Revaluation of intangible assets, property, plant and equipment transferred to investment property	-	1,399	-	1,399	-	1,399
Currency translation differences	-	458,223	-	458,223	7,880	466,103
Total comprehensive income (loss) for the period	**-**	**462,671**	**20,131,285**	**20,593,956**	**(7,519)**	**20,586,437**
Dividend distribution	-	-	(4,021,069)	(4,021,069)	-	(4,021,069)
Total transaction with owners, recorded in equity	-	-	(4,021,069)	(4,021,069)	-	(4,021,069)
Balance as at 30 September 2017	**81,530,200**	**(104,412)**	**136,841,382**	**218,267,170**	**(221,292)**	**218,045,878**
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	-	-	21,725,910	21,725,910	(12,689)	21,713,221
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	(950)	-	(950)	-	(950)
Sale of available-for-sale financial assets	-	3,455	(3,455)	-	-	-
Currency translation differences	-	11,996	-	11,996	95	12,091
Total comprehensive income (loss) for the period	-	14,501	21,722,455	21,736,956	(12,594)	21,724,362
Dividend distribution	-	-	(6,948,004)	(6,948,004)	-	(6,948,004)
Total transaction with owners, recorded in equity	-	-	(6,948,004)	(6,948,004)	-	(6,948,004)
Balance as at 30 September 2018	**81,530,200**	**54,954**	**158,487,802**	**240,072,956**	**(245,090)**	**239,827,866**

All amounts are in 000 RSD, unless otherwise stated

Consolidated Statement of Cash Flows[89]

	Note	Nine-month period ended 30 September 2018 (unaudited)	2017 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**26,066,136**	**26,342,584**
Adjustments for:			
Finance expenses	23	1,725,828	2,132,338
Finance income	22	(555,237)	(386,530)
Net unrealised foreign exchange (gain) losses		479,028	(6,229,993)
Depreciation, depletion and amortization		14,482,335	12,209,378
Write-off dry holes		56,940	10,790
Adjustments for other provisions		382,849	335,027
Allowance for doubtful accounts		(239,281)	219,210
Payables write-offs		(3,266)	(3,040)
Other non-cash items		139,174	231,926
Operating cash flow before changes in working capital		**42,534,506**	**34,861,690**
Changes in working capital:			
Trade and other receivables		(4,390,999)	15,954,800
Inventories		(3,461,446)	(3,435,738)
Other current assets		(40,490)	(1,410,312)
Trade payables and other current liabilities		1,704,200	(4,204,264)
Other taxes payable		2,016,794	182,148
Total effect on working capital changes		**(4,171,941)**	**7,086,634**
Income taxes paid		(4,471,125)	(1,236,163)
Interest paid		(1,591,469)	(2,161,896)
Interest received		352,071	382,314
Net cash generated from operating activities		**32,652,042**	**38,932,579**
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans issued		(47,250)	-
Loan proceeds received		-	129,779
Capital expenditures[90]		(31,875,783)	(18,872,419)
Proceeds from sale of property, plant and equipment		188,289	116,766
Repayment (placements) of bank deposits		5,602,430	(7,982,453)
Other (outflow)/inflow		(26,988)	(49,321)
Net cash used in investing activities		**(26,159,302)**	**(26,657,648)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	18	20,732,743	28,733,261
Repayment of borrowings	18	(23,562,365)	(36,491,816)
Repayments of finance lease liabilities		(75,894)	(74,859)
Dividends paid	18	(6,948,004)	(4,021,069)
Net cash used in financing activities		**(9,853,520)**	**(11,854,483)**
Net increase (decrease) in cash and cash equivalents		(3,360,780)	420,448
Effect of foreign exchange on cash and cash equivalents		71,449	(335,495)
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		**23,786,039**	**22,984,295**

All amounts are in 000 RSD, unless otherwise stated

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

[90] CF from investments includes VAT in the amount of RSD 3.2 bn (2017: RSD 1.4 bn)

Notes to Consolidated Financial Statements[91]

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 September 2018 were evaluated through 29 October 2018, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

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

The results for the Nine month period ended 30 September 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 Nine month periods ended 30 September 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. 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 Nine month period ended 30 September 2018 and 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Nine month period ended 30 September 2018				
Segment revenue	38,739,966	207,302,660	(39,270,864)	206,771,762
Intersegment	37,576,442	1,694,422	(39,270,864)	-
External	1,163,524	205,608,238	-	206,771,762
EBITDA (Segment results)	**28,766,037**	**13,253,230**	**-**	**42,019,267**
Depreciation, depletion and amortization	(7,296,139)	(7,186,196)	-	(14,482,335)
Impairment of non-financial assets	(3,477)	(21,164)	-	(24,641)
Net foreign exchange gain (loss)	(53,776)	(199,458)	-	(253,234)
Finance income (expenses), net	(6,205)	(1,164,386)	-	(1,170,591)
Income tax	(216,557)	(4,136,358)	-	(4,352,915)
Segment profit/(loss)	**21,075,219**	**638,001**	**-**	**21,713,220**
Nine month period ended 30 September 2017				
Segment revenue	31,433,942	169,103,459	(32,758,885)	167,778,516
Intersegment	30,439,235	2,319,650	(32,758,885)	-
External	994,707	166,783,809	-	167,778,516
EBITDA (Segment results)	**22,709,283**	**11,549,299**	**-**	**34,258,582**
Depreciation, depletion and amortization	(5,035,652)	(7,173,726)	-	(12,209,378)
Impairment of non-financial assets	-	(23,506)	-	(23,506)
Net foreign exchange gain	315,538	5,765,934	-	6,081,472
Finance income (expenses), net	(89,487)	(1,656,321)	-	(1,745,808)
Income tax	(2,136,528)	(4,090,170)	-	(6,226,698)
Segment profit/(loss)	**15,639,263**	**4,476,623**	**-**	**20,115,886**

EBITDA for the nine month period ended 30 September 2018 and 2017 is reconciled below:

	Three-month period ended 30 September		Six month period ended 30 September	
	2018	2017	2018	2017
Profit for the period	10,218,577	7,699,506	21,713,221	20,115,886
Income tax expenses	2,019,447	1,471,064	4,352,915	6,226,698
Finance expenses	563,828	706,090	1,725,828	2,132,338
Finance income	(167,301)	(210,296)	(555,237)	(386,530)
Depreciation, depletion and amortization	5,131,646	4,102,384	14,482,335	12,209,378
Net foreign exchange gain	256,160	(1,967,723)	253,234	(6,081,472)
Other expense, net	162,377	362,263	139,616	590,994
Other non-operating income, net	(121,590)	(445,783)	(92,645)	(548,710)
EBITDA	**18,063,144**	**11,717,505**	**42,019,267**	**34,258,582**

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

		Nine month period ended 30 September 2018	
	Domestic market	**Export and International sales**	**Total**
Sale of crude oil	-	1,056,256	1,056,256
Sale of gas	1,410,169	-	1,410,169
Through a retail network	-	-	-
Wholesale activities	1,410,169	-	1,410,169
Sale of petroleum products	141,366,475	49,846,641	191,213,116
Through a retail network	46,145,292	12,847,141	58,992,433
Wholesale activities	95,221,183	36,999,500	132,220,683
Sale of electricity	478,885	4,453,682	4,932,567
Other sales	5,464,714	2,694,940	8,159,654
Total sales	**148,720,243**	**58,051,519**	**206,771,762**

		Nine-month period ended 30 September 2017	
	Domestic market	**Export and International sales**	**Total**
Sale of crude oil	-	891,183	891,183
Sale of gas	1,906,477	-	1,906,477
Through a retail network	-	-	-
Wholesale activities	1,906,477	-	1,906,477
Sale of petroleum products	113,816,619	35,868,579	149,685,198
Through a retail network	40,667,665	11,951,100	52,618,765
Wholesale activities	73,148,954	23,917,479	97,066,433
Sale of electricity	343,791	7,545,629	7,889,420
Other sales	4,869,878	2,536,360	7,406,238
Total sales	**120,936,765**	**46,841,751**	**167,778,516**

Out of the amount of 132,220,683 RSD (2017: 97,066,433 RSD) revenue from sale of petroleum products (wholesale), the amount of 19,494,776 RSD (2017: 15,198,024 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 3,988,435 RSD (2017: 7,022,733 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 6,256,032 RSD (2017: 5,799,782 RSD).

The Group is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 148,720,243 RSD (2017: 120,936,765 RSD), and the total revenue from external customer from other countries is 58,051,519 RSD (2017: 46,841,751 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:

	Nine-month period ended 30 September 2018	2017
Sale of crude oil	1,056,256	891,183
Sale of petroleum products (retail and wholesale)		
Bulgaria	13,471,675	9,761,132
Bosnia and Herzegovina	13,059,904	8,897,726
Romania	10,827,763	7,606,850
All other markets	12,487,298	9,602,871
	49,846,641	35,868,579
Sale of electricity	4,453,682	7,545,629
Other sales	2,694,940	2,536,360
	58,051,519	**46,841,751**

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 September 2018	31 December 2017
Serbia	263,952,692	249,437,031
Bulgaria	7,151,373	7,334,652
Bosnia and Herzegovina	7,194,839	7,401,758
Romania	8,211,693	6,967,529
Hungary	-	28
	286,510,597	**271,140,998**

6. CASH AND CASH EQUIVALENTS

	30 September 2018	31 December 2017
Cash in bank and in hand	13,219,134	15,897,022
Deposits with original maturity of less than three months	8,912,666	9,417,753
Cash held on escrow account	1,434,684	1,521,241
Cash equivalents	219,555	239,354
	23,786,039	**27,075,370**

Cash held on escrow accounts as of 30 September 2018 amounting to 1,434,684 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 September 2018	31 December 2017
Short-term loans	50,838	2,210
Deposits with original maturity more than 3 months less than 1 year	4,186,617	7,645,689
Other short-term financial assets	11,249	21,325
Less impairment loss provision	(2,256)	(2,256)
	4,246,448	**7,666,968**

As at 30 September 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 September 2018	31 December 2017
Trade receivables:		
- related parties	616,118	1,024,133
- third parties	34,383,911	28,265,729
- state and state owned companies	8,753,703	10,233,306
	43,753,732	**39,523,168**
Other receivables – related parties	328,358	269,242
Accrued assets	246,337	227,630
	44,328,427	**40,020,040**
Less impairment provision for trade and other receivables:		
- third parties	(9,281,754)	(9,483,852)
- state and state owned companies	(1,761,099)	(1,864,445)
	(11,042,853)	**(11,348,297)**
Total trade and other receivables	**33,285,574**	**28,671,743**

The ageing of trade and other receivables is as follows:

	30 September 2018	31 December 2017
Neither impaired nor past due	29,214,472	25,624,198
Past due but not impaired:		
within 30 days	2,264,275	2,156,358
1 to 3 months	1,021,392	237,143
3 months to 1 year	230,413	146,553
over 1 year	555,022	507,491
Total	**33,285,574**	**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 September 2018	31 December 2017
RSD	29,139,096	21,681,702
EUR	1,090,651	4,283,546
USD	1,264,235	982,442
Other	1,791,592	1,724,053
	33,285,574	**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	264,701	19,907	284,608
Release of provision	(147,255)	(19,983)	(167,238)
Receivables written off during the year as uncollectible	(24,074)	-	(24,074)
Unwinding of discount (note 23)	-	(100,225)	(100,225)
Transfer from non-curent part	-	208,808	208,808
Exchange differences	(449)	(323,771)	(324,220)
Other	(53,098)	(1)	(53,099)
As at 30 September 2017	**9,768,356**	**11,348,268**	**21,116,624**
As at 1 January 2018	**9,483,852**	**1,864,445**	**11,348,297**
Provision for receivables impairment	93,119	4,133	97,252
Release of provision	(260,024)	(85,258)	(345,282)
Receivables written off during the year as uncollectible	(10,772)	(3,534)	(14,306)
Unwinding of discount (note 23)	-	(44,661)	(44,661)
Exchange differences	1,676	-	1,676
Other	(26,097)	25,974	(123)
As at 30 September2018	**9,281,754**	**1,761,099**	**11,042,853**

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 September 2018	31 December 2017
Crude oil	23,001,364	22,312,814
Petroleum products	13,632,972	12,708,119
Materials and supplies	7,628,839	5,918,849
Other	999,012	1,085,655
Less impairment provision	(4,972,122)	(5,108,495)
	40,290,065	**36,916,942**

10. OTHER CURRENT ASSETS

	30 September 2018	31 December 2017
Advances paid	889,625	666,931
VAT receivables	458,142	286,562
Deferred VAT	2,103,930	1,419,963
Prepaid expenses	394,688	236,846
Prepaid custom duties	32,204	32,368
Prepaid excise	1,844,017	1,898,628
Other current assets	12,238,129	13,213,771
Less impairment provision	(11,952,236)	(11,948,554)
	6,008,499	**5,806,515**

Deferred VAT as at 30 September 2018 amounting to 2,103,930 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 September 2018 amounting to 1,844,017 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	5,253	135,855	141,108
Release of provision	(340)	(55,253)	(55,593)
Receivables written off during the year as uncollectible	-	(36,339)	(36,339)
Other	-	50,324	50,324
As at 30 September 2017	**266,896**	**11,831,367**	**12,098,263**
As at 1 January 2018	**261,100**	**11,687,454**	**11,948,554**
Increase of provision during the year	1,962	16,719	18,681
Release of provision	(822)	(13,612)	(14,434)
Receivables written off during the year as uncollectible	-	(3,936)	(3,936)
Other	-	3,371	3,371
As at 30 September 2018	**262,240**	**11,689,996**	**11,952,236**

The ageing of other current assets is as follows:

	30 September 2018	31 December 2017
Neither impaired nor past due	249,008	1,294,564
Not impaired and past due in the following periods:		
Less than 1 month	6,528	11,365
1 - 3 months	5,588	7,147
3 month - 1 year	64,281	36,055
Over 1 year	80,357	41,710
Total	**405,762**	**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 30September2017						
Additions	-	-	405	626	16,666,535	16,667,566
Changes in decommissioning obligations	134,606	-	-	-	-	134,606
Transfer from assets under construction	13,995,221	2,106,526	1,138,318	266,715	(17,506,780)	-
Transfer to investment property	-	-	(22,698)	(2,313)	-	(25,011)
Transfer to non-current assets held for sale	-	(14,361)	-	(101,798)	-	(116,159)
Impairment	-	-	(20,874)	-	(8,059)	(28,933)
Depreciation	(4,724,287)	(4,255,052)	(1,750,299)	(593,011)	(3,689)	(11,326,338)
Disposals and write-off	(19,258)	(7,610)	(139,870)	(4,561)	(93,706)	(265,005)
Other transfers	(41,023)	(141,282)	(37,370)	178,313	43,149	1,787
Translation differences	18	-	(539,176)	2,317	(231,818)	(768,659)
	106,215,140	**73,038,556**	**36,122,799**	**10,316,323**	**32,341,303**	**258,034,121**
As at 30 September 2017						
Cost	141,743,684	112,400,575	65,304,481	20,356,786	34,461,379	374,266,905
Depreciation and impairment	(35,528,544)	(39,362,019)	(29,181,682)	(10,040,463)	(2,120,076)	(116,232,784)
Net book value	**106,215,140**	**73,038,556**	**36,122,799**	**10,316,323**	**32,341,303**	**258,034,121**
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 September 2018						
Additions	-	-	1	996	30,321,808	30,322,805
Acquisitions through business combinations	-	-	-	-	217,660	217,660
Changes in decommissioning obligations	158,576	-	-	-	-	158,576
Transfer from assets under construction	12,017,033	1,386,171	3,610,329	286,764	(17,300,297)	-
Transfer to investment property	-	-	(81,328)	-	-	(81,328)
Impairment	-	-	(23,931)	-	(13,419)	(37,350)
Depreciation	(6,980,077)	(4,182,159)	(1,880,370)	(576,370)	(3,606)	(13,622,582)
Disposals and write-off	(36,445)	(72,932)	(17,725)	(11,919)	(780,408)	(919,429)
Other transfers	1,980,026	(1,400,947)	20,705	(610,504)	4,423	(6,297)
Translation differences	(3)	(1)	(9,519)	64	(6,160)	(15,619)
	117,477,102	**69,150,598**	**37,269,887**	**9,237,368**	**46,930,978**	**280,065,933**
As at 30 September 2018						
Cost	162,078,885	113,765,056	69,303,362	18,998,144	49,006,803	413,152,250
Depreciation and impairment	(44,601,783)	(44,614,458)	(32,033,475)	(9,760,776)	(2,075,825)	(133,086,317)
Net book value	**117,477,102**	**69,150,598**	**37,269,887**	**9,237,368**	**46,930,978**	**280,065,933**

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 September 2017						
Additions	3,701,099	9,228,980	12,930,079	-	-	12,930,079
Changes in decommissioning obligations	-	-	-	134,606	-	134,606
Transfer from asset under construction	(3,089,976)	(10,904,350)	(13,994,326)	13,995,221	(895)	-
Other transfers	(856,887)	831,107	(25,780)	(41,023)	975	(65,828)
Depreciation and depletion	(3,689)	-	(3,689)	(4,724,287)	(38)	(4,728,014)
Disposals and write-off	(71,897)	(18,913)	(90,810)	(19,258)	-	(110,068)
Translation differences	(222,796)	-	(222,796)	18	(4)	(222,782)
	19,569,265	**3,410,400**	**22,979,665**	**106,215,140**	**11,132**	**129,205,937**
As at 30 September 2017						
Cost	19,595,020	3,411,276	23,006,296	141,743,684	32,342	164,782,322
Depreciation and impairment	(25,755)	(876)	(26,631)	(35,528,544)	(21,210)	(35,576,385)
Net book amount	**19,569,265**	**3,410,400**	**22,979,665**	**106,215,140**	**11,132**	**129,205,937**
As at 1 January 2018						
Cost	19,004,026	2,929,684	21,933,710	147,452,224	32,323	169,418,257
Depreciation and impairment	(58,882)	(2,087)	(60,969)	(37,114,232)	(21,223)	(37,196,424)
Net book amount	**18,945,144**	**2,927,597**	**21,872,741**	**110,337,992**	**11,100**	**132,221,833**
Period ended 30 September 2018						
Additions	3,930,570	10,009,004	13,939,574	-	-	13,939,574
Changes in decommissioning obligations	-	-	-	158,576	-	158,576
Transfer from asset under construction	(1,942,257)	(10,074,776)	(12,017,033)	12,017,033	-	-
Other transfers	445,236	(448,796)	(3,560)	1,980,026	140	1,976,606
Impairment	-	(3,477)	(3,477)	-	-	(3,477)
Depreciation and depletion	(3,606)	-	(3,606)	(6,980,077)	-	(6,983,683)
Disposals and write-off	(748,521)	(15,507)	(764,028)	(36,445)	(2)	(800,475)
Translation differences	(7,001)	-	(7,001)	(3)	-	(7,004)
	20,619,565	**2,394,045**	**23,013,610**	**117,477,102**	**11,238**	**140,501,950**
As at 30 September 2018						
Cost	20,682,022	2,399,609	23,081,631	162,078,885	31,549	185,192,065
Depreciation and impairment	(62,457)	(5,564)	(68,021)	(44,601,783)	(20,311)	(44,690,115)
Net book amount	**20,619,565**	**2,394,045**	**23,013,610**	**117,477,102**	**11,238**	**140,501,950**
	20,619,565	**2,394,045**	**23,013,610**	**117,477,102**	**11,238**	**140,501,950**

12. LONG-TERM FINANCIAL ASSETS

	30 September 2018	31 December 2017
Deposits with original maturity more than 1 year	-	2,029,483
Available for sale financial assets	173,890	187,310
Other LT placements	25,882	26,567
Less provision of available for sale financial assets	(61,848)	(67,392)
Less provision of other LT placements	(12,560)	(12,208)
	125,364	**2,163,760**

13. OTHER NON-CURRENT ASSETS

	30 September 2018	31 December 2017
Advances paid for PPE	1,453,548	2,105,408
Prepaid expenses	645,073	689,450
Other assets	1,031,616	1,034,607
Less impairment provision	(36,946)	(36,946)
	3,093,291	**3,792,519**

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

	30 September 2018	31 December 2017
Interest liabilities	230,085	179,540
Current portion of long-term loans (note 18)	6,735,552	6,047,159
Current portion of finance lease liabilities (note 18)	97,155	52,425
	7,062,792	**6,279,124**

15. TRADE AND OTHER PAYABLES

	30 September 2018	31 December 2017
Trade payables:		
- related parties	7,109,920	12,774,912
- third parties	24,687,356	18,727,747
Dividends payable	3,772,308	3,772,308
Other accounts payable	25,886	25,796
	35,595,470	**35,300,763**

As at 30 September 2018 payables to related parties amounting to 7,109,920 RSD (31 December 2017: 12,774,912 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 6,443,713 RSD mostly based on purchase of crude oil (31 December 2017: 11,727,340 RSD).

16. OTHER CURRENT LIABILITIES

	30 Septembeer 2018	31 December 2017
Advances received	1,587,626	1,439,243
Payables to employees	3,326,379	3,664,823
Accruals and deferred income	504,061	455,538
Other current non-financial liabilities	12,831	30,268
	5,430,897	**5,589,872**

17. OTHER TAXES PAYABLE

	30 September2018	31 December 2017
Mineral extraction tax	389,819	280,971
VAT	2,723,316	1,913,685
Excise tax	6,098,675	5,258,815
Contribution for buffer stocks	547,235	527,858
Custom duties	381,361	209,018
Other taxes	2,136,010	2,080,353
	12,276,416	**10,270,700**

18. LONG-TERM DEBT

	30 September 2018	31 December 2017
Long-term loan - Gazprom Neft	26,162,094	30,306,970
Bank and other long term loans	67,252,504	65,796,475
Finance lease liabilities	870,149	432,562
Other long-term borrowings	38,683	59,455
Less Current portion (note 14)	(6,832,707)	(6,099,584)
	87,490,723	**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	28,733,261	-	-	28,733,261
Repayment	(24,459,383)	(12,032,433)	(74,859)	(36,566,675)
Non-cash transactions	-	-	141,992	141,992
Foreign exchange difference (note 21)	(7,313,924)	(157,512)	(7,272)	(7,478,708)
As at 30 September 2017	**100,409,280**	**-**	**402,941**	**100,812,221**
As at 1 January 2018	**96,103,445**	**-**	**432,562**	**96,536,007**
Proceeds	20,732,743	-	-	20,732,743
Repayment	(23,562,365)	-	(75,894)	(23,638,259)
Non-cash transactions	-	-	513,916	513,916
Foreign exchange difference (note 21)	140,775	-	(435)	140,340
As at 30 September 2018	**93,414,598**	**-**	**870,149**	**94,284,747**

(a) Long-term loan - Gazprom Neft

As at 30 September 2018 long-term loan - Gazprom Neft amounting to 26,162,094 RSD (31 December 2017: 30,306,970 RSD), with current portion of 5,507,809 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 September 2018	31 December 2017
Domestic	53,405,297	43,338,384
Foreign	13,847,207	22,458,091
	67,252,504	65,796,475
Current portion of long-term loans	(1,227,744)	(536,801)
	66,024,760	**65,259,674**

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

	30 September 2018	31 December 2017
Between 1 and 2 years	12,096,484	23,403,612
Between 2 and 5 years	48,900,441	39,342,047
Over 5 years	5,027,835	2,514,015
	66,024,760	**65,259,674**

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

	30 September 2018	31 December 2017
USD	355,750	17,934,250
EUR	66,613,062	47,551,800
RSD	690	814
JPY	283,002	309,611
	67,252,504	**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 September 2018 and 31 December 2017, respectively.

19. PRODUCTION AND MANUFACTURING EXPENSES

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018	**2017**	**2018**	**2017**
Employee costs	1,583,507	1,442,440	4,739,464	4,345,590
Materials and supplies (other than purchased oil, petroleum products and gas)	587,043	590,953	1,717,557	1,567,698
Repair and maintenance services	902,947	839,432	2,772,206	2,169,608
Electricity for resale	1,875,717	3,189,479	4,475,377	7,464,026
Electricity and utilities	1,089,313	652,371	2,595,651	1,882,701
Safety and security expense	133,364	91,209	361,828	235,259
Insurance services	68,018	70,755	206,272	211,900
Transportation services for production	478,944	573,554	1,382,711	1,505,553
Other	1,119,950	1,140,485	2,526,755	2,294,350
	7,838,803	**8,590,678**	**20,777,821**	**21,676,685**

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018	**2017**	**2018**	**2017**
Employee costs	2,731,976	2,629,621	8,265,796	7,703,353
Legal, audit and consulting services	203,343	267,786	574,768	731,858
Rent expense	95,711	90,336	285,225	286,491
Business trips expense	75,446	85,625	222,987	227,888
Safety and security expense	126,773	127,777	385,695	398,981
Insurance expense	31,422	24,353	85,355	76,029
Transportation and storage	42,341	28,596	120,013	132,042
Allowance for doubtful accounts	(164,280)	128,094	(300,564)	78,800
Other	2,505,287	2,388,556	7,332,721	6,892,444
	5,648,019	**5,770,744**	**16,971,996**	**16,527,886**

21. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018	2017	2018	2017
Foreign exchange gain (loss) on financing activities including:				
- foreign exchange gain	860,120	(4,713,661)	1,579,410	8,188,507
- foreign exchange loss	(1,181,303)	7,011,838	(1,719,750)	(709,799)
Net foreign exchange gain (loss) on operating activities	65,023	(330,454)	(112,894)	(1,397,236)
	(256,160)	**1,967,723**	**(253,234)**	**6,081,472**

22. FINANCE INCOME

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018	2017	2018	2017
Interest on bank deposits	138,833	207,357	521,096	374,723
Приходи од камата на дате кредите	3,337	2,783	9,010	11,651
Приходи од дивиденде	25,131	156	25,131	156
	167,301	**210,296**	**555,237**	**386,530**

23. FINANCE EXPENSES

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018	2017	2018	2017
Interest expense	575,288	752,472	1,793,988	2,396,781
Decommissioning provision: unwinding of the present value discount	23,155	35,941	66,839	103,429
Trade receivables: unwinding of discount	-	(63,922)	(44,661)	(315,289)
Less: interest expense capitalised on qualifying assets	(34,615)	(18,401)	(90,338)	(52,583)
	563,828	**706,090**	**1,725,828**	**2,132,338**

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 673,277 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 September 2018.

Capital commitments

As of 30 September 2018 the Group has entered into contracts to purchase property, plant and equipment for 10,877,666 RSD (31 December 2017: 11,347,097 RSD) and drilling and exploration works estimated to 76.50 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 nine month period ended 30 September 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 September 2018 and 31 December 2017 the outstanding balances with related parties were as follows:

As at 30 September 2018	Parent Company	Parent's subsidiaries and associates	Joint venture
Trade and other receivables	-	606,586	337,890
Investments in joint venture and associates	-	-	2,047,021
Trade and other payables	-	76,020	-
Other current liabilities	(6,443,713)	(664,058)	(2,149)
Short-term debt and current portion of long-term debt	-	(2)	(118)
Long-term debt	(5,507,809)	-	-
	(20,654,285)	-	-
	(32,605,807)	**(57,474)**	**2,382,644**

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 nine month period ended 30 September 2018 and 2017 the following transaction occurred with related parties:

Nine month period ended 30 September 2018	Parent Company	Parent's subsidiaries and associates	Joint venture
Petroleum products and oil and gas sales	-	436,604	464
Other revenues	462	3,988,432	18,605
Purchases of oil, gas and petroleum products	(45,583,790)	(8,608)	-
Production and manufacturing expenses	-	(4,136,345)	-
Selling, general and administrative expenses	-	(6,198)	-
Other expenses, net	(4,985)	(809)	-
Finance expense	(379,285)	-	-
	(45,967,598)	**273,076**	**19,069**

Six month period ended 30 September2017	Parent Company	Parent's subsidiaries and associates	Joint venture
Petroleum products and oil and gas sales	-	450,590	-
Other revenues	-	7,026,197	-
Purchases of oil, gas and petroleum products	(20,062,252)	(451,894)	-
Production and manufacturing expenses	-	(7,269,422)	-
Selling, general and administrative expenses	-	(4,776)	-
Other expenses, net	(5,002)	(175)	-
Finance expense	(489,792)	-	-
	(20,557,046)	**(249,480)**	**-**

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

	Parent's subsidiaries and associates	Other
As at 30 September 2018		
Trade and other receivables (gross)		
• *HIP Petrohemija*	2,128,202	-
• *Srbijagas*	-	67,288
• *Other state owned companies*	-	6,558,213
Trade and other payables		
• *HIP Petrohemija*	(1,592,636)	-
• *Srbijagas*	-	(95,325)
Other current liabilities		
• *HIP Petrohemija*	(1,370)	-
	534,196	**6,530,176**
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
Nine month period ended 30 September 2018		
Operating income		
• *HIP Petrohemija*	19,494,776	-
• *Srbijagas*	-	632,949
Operating expenses		
• *HIP Petrohemija*	(159,824)	-
• *Srbijagas*	-	(655,684)
	19,334,952	**(22,735)**
Nine month period ended 30 September 2017		
Operating income		
• *HIP Petrohemija*	15,198,024	-
• *Srbijagas*	-	677,478
Operating expenses		
• *HIP Petrohemija*	(138,725)	-
• *Srbijagas*	-	(691,367)
	15,059,299	**(13,889)**

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 nine month period ended on 30 September 2018 and 2017 the Group recognized 740,326 RSD and 743,813 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 and represent that, to the best of our knowledge, the interim Financial Statements are compiled against applicable International Financial Reporting Standards and in compliance with the Law on Accounting of the Republic of Serbia (Official Gazette of the Republic of Serbia no. 62/2013), which requires financial statements to be prepared in compliance with all IFRS and regulations issued by the Ministry of Finance of the Republic of Serbia[92] and to present accurate and objective information on the assets, liabilities, profit, losses, financial standing and performance of the Group, including the subsidiaries encompassed by the consolidated statements.

Anton Fyodorov		Branko Mitrović
	(L.S.)	
Deputy CEO, Director of Finance, Economics, Planning and Accounting NIS j.s.c. Novi Sad		Director of Accounting Department of Finance, Economics, Planning and Accounting NIS j.s.c. Novi Sad

[92] Due to the differences between the two regulations, these condensed interim financial statements depart from the IFRS in the following:

- The Company compiled the Financial Statements in the format prescribed by the Ministry of Finance of the Republic of Serbia, which deviates from the requirements of IAS 1 – Presentation of Financial Statements.
- Off-Balance Sheet Assets and Liabilities are presented on the Balance Sheet Template. As defined by the IFRS, these items are neither assets nor liabilities.

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The Report contains statements on uncertain future events. The statements on uncertain future events include statements which do not represent historical facts, statements with regard to NIS Group's intentions, beliefs or current expectations related to, inter alia, NIS Group's business performance, financial standing and liquidity, outlook, growth, strategies and industrial sectors in which NIS Group operates. Given the fact that they relate to events and depend on the circumstances which may or may not be present in the future, the statements on uncertain future events inherently involve risks and uncertainty, including, but without limitation to risks and uncertainties identified by NIS Group in other publicly available documents. NIS Group hereby warns that there are no guarantees that the statements on uncertain future events will be realised in the future and that actual business performance, financial standing and liquidity and the development of the industrial sector in which NIS Group operates may considerably differ from the ones presented or assumed in the statements on uncertain future events. Furthermore, even in the event that NIS Group's business performance, financial standing and liquidity and the development of the industrial sector in which NIS Group operates equal those in the statements on uncertain future events contained herein, such performance and development are not indicative of the performance and development going forward. The information contained herein is presented as at the date of the Report and may be subject to change without prior announcement.