



Naftna industrija Srbije A.D.

Interim Condensed Financial Statements (Unaudited)

31 March 2019

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

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Interim Condensed Statement of Financial Position
(All amounts are in 000 RSD, unless otherwise stated)

Assets	Note	31 March 2019	31 December 2018
		<i>(unaudited)</i>	
Current assets			
Cash and cash equivalents	6	13,229,597	12,222,578
Short-term financial assets	7	7,609,736	6,686,363
Trade and other receivables	8	27,382,268	28,076,947
Inventories	9	36,377,546	44,443,778
Current income tax prepayments		248,244	-
Other current assets	10	4,936,465	5,416,286
Non-current assets held for sale		40,523	9,271
Total current assets		89,824,379	96,855,223
Non-current assets			
Property, plant and equipment	11	261,572,070	258,254,117
Right-of-use assets	3	886,484	-
Investment property		1,730,100	1,730,100
Intangible assets		2,462,878	2,576,046
Investments in joint venture		1,038,800	1,038,800
Investments in subsidiaries		13,425,586	13,425,586
Trade and other non-current receivables		2,831	2,837
Long-term financial assets	12	22,763,989	23,408,424
Deferred tax assets		2,200,078	2,405,175
Other non-current assets	13	1,734,593	1,777,859
Total non-current assets		307,817,409	304,618,944
Total assets		397,641,788	401,474,167
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	14	7,792,608	8,242,122
Current lease liabilities	19	105,546	-
Trade and other payables	15	27,469,852	30,365,339
Other current liabilities	16	5,191,585	5,087,681
Current income tax payable		-	539,811
Other taxes payable	17	9,176,861	8,560,193
Provisions for liabilities and charges		1,868,623	1,928,116
Total current liabilities		51,605,075	54,723,262
Non-current liabilities			
Long-term debt	18	85,076,143	87,367,868
Non-current lease liabilities	19	624,185	-
Provisions for liabilities and charges		10,266,622	10,079,405
Total non-current liabilities		95,966,950	97,447,273
Equity			
Share capital		81,530,200	81,530,200
Reserves		98,470	92,060
Retained earnings		168,441,093	167,681,372
Total equity		250,069,763	249,303,632
Total liabilities and shareholder's equity		397,641,788	401,474,167

Kirill Tyurdenev
Chief Executive Officer
24 April 2019

Anton Cherepanov
Chief Financial Officer

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

NIS a.d.**Interim Condensed Statement of Profit and Loss and Other Comprehensive Income***(All amounts are in 000 RSD, unless otherwise stated)*

	Note	Three month period ended	
		31 March	
		2019	2018
		<i>(unaudited)</i>	<i>(unaudited)</i>
Sales of petroleum products, oil and gas		46,306,335	45,608,337
Other revenues		1,989,293	2,853,817
Total revenue from sales	5	48,295,628	48,462,154
Purchases of oil, gas and petroleum products		(30,727,433)	(27,708,451)
Production and manufacturing expenses	20	(5,373,377)	(5,751,620)
Selling, general and administrative expenses	21	(5,055,750)	(5,020,861)
Transportation expenses		(221,398)	(258,703)
Depreciation, depletion and amortization		(4,573,839)	(3,866,951)
Taxes other than income tax		(1,060,399)	(1,050,482)
Exploration expenses		(11,474)	(15,771)
Total operating expenses		(47,023,670)	(43,672,839)
Other expenses, net		(75,443)	(72,469)
Operating profit		1,196,515	4,716,846
Net foreign exchange gain	22	115,101	437,341
Finance income	23	265,818	458,002
Finance expenses	24	(477,788)	(570,592)
Total other income (expense)		(96,869)	324,751
Profit before income tax		1,099,646	5,041,597
Current income tax expense		(134,828)	(574,238)
Deferred tax expense		(205,097)	(286,368)
Total income tax expense		(339,925)	(860,606)
Profit for the period		759,721	4,180,991
Other comprehensive income:			
Items that will not be reclassified to profit			
Gains from investments in equity instruments		6,410	(1,159)
Other comprehensive income for the period		6,410	(1,159)
Total comprehensive income for the period		766,131	4,179,832
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
Basic earnings (RSD per share)		4.66	25.63
Weighted average number of ordinary shares in issue (in millions)		163	163

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

NIS a.d.
Interim Condensed Statement of Changes in Shareholders' Equity
Three month period ended 31 March 2019 and 2018

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

(unaudited)

Balance as at 1 January 2018

Adoption of IFRS 9:

- remeasurement of expected credit losses, net of tax

Restated total equity at 1 January 2018

Profit for the period

Other comprehensive income (loss)

Loss from investments in equity instruments

Total comprehensive income (loss) for the period

Balance as at 31 March 2018

	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2018	81,530,200	17,782	157,419,313	238,967,295
Adoption of IFRS 9:				
- remeasurement of expected credit losses, net of tax	-	-	(8,860,905)	(8,860,905)
Restated total equity at 1 January 2018	81,530,200	17,782	148,558,408	230,106,390
Profit for the period	-	-	4,180,991	4,180,991
Other comprehensive income (loss)				
Loss from investments in equity instruments	-	(1,159)	-	(1,159)
Total comprehensive income (loss) for the period	-	(1,159)	4,180,991	4,179,832
Balance as at 31 March 2018	81,530,200	16,623	152,739,399	234,286,222

(unaudited)

Balance as at 1 January 2019

Profit for the period

Other comprehensive income (loss)

Gains from investments in equity instruments

Total comprehensive income (loss) for the period

Balance as at 31 March 2019

	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2019	81,530,200	92,060	167,681,372	249,303,632
Profit for the period	-	-	759,721	759,721
Other comprehensive income (loss)				
Gains from investments in equity instruments	-	6,410	-	6,410
Total comprehensive income (loss) for the period	-	6,410	759,721	766,131
Balance as at 31 March 2019	81,530,200	98,470	168,441,093	250,069,763

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

NIS a.d.
Interim Condensed Statement of Cash Flows¹

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

	Note	Three month period ended	
		31 March	
		2019	2018
		(unaudited)	(unaudited)
Cash flows from operating activities			
Profit before income tax		1,099,646	5,041,597
Adjustments for:			
Finance expenses	24	477,788	570,592
Finance income	23	(265,818)	(458,002)
Net unrealised foreign exchange gain		(146,157)	(93,072)
Depreciation, depletion and amortization		4,573,839	3,866,951
Other non-cash items		101,426	181,483
Operating cash flow before changes in working capital		5,840,724	9,109,549
Changes in working capital:			
Accounts receivables		649,956	(824,335)
Inventories		8,101,884	3,096,384
Other assets		551,043	(709,650)
Accounts payables and other current liabilities		(3,098,747)	(4,633,354)
Taxes payable		620,123	94,992
Total effect on working capital changes		6,824,259	(2,975,963)
Income taxes paid		(925,404)	(495,752)
Interest paid		(396,259)	(553,638)
Interest received		154,095	215,149
Net cash generated from operating activities		11,497,415	5,299,345
Cash flows from investing activities			
Loans issued		(1,609,341)	(615,079)
Loan proceeds received		1,362,078	546,833
Capital expenditures ²		(8,284,828)	(8,984,885)
Proceeds from sale of property, plant and equipment		37,672	24,736
Bank deposits placements, net		-	3,600,000
Net cash used in investing activities		(8,494,419)	(5,428,395)
Cash flows from financing activities			
Proceeds from borrowings	14,18	8,297,900	5,696,131
Repayment of borrowings	14,18	(10,291,551)	(11,890,427)
Repayments of lease liabilities	19	(22,953)	(12,254)
Net cash used in financing activities		(2,016,604)	(6,206,550)
Net increase (decrease) in cash and cash equivalents		986,392	(6,335,600)
Effect of foreign exchange on cash and cash equivalents		20,627	(60,721)
Cash and cash equivalents as of the beginning of the period		12,222,578	23,410,724
Cash and cash equivalents as of the end of the period		13,229,597	17,014,403

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

² CF from investing activities includes VAT in the amount of 1,0 bln RSD (2018: 1,5 bln RSD)

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

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije, Novi Sad (the “Company”) is a vertically integrated oil company operating predominantly in the Republic of Serbia. The Company’s principal activities include:

- Exploration, production and development of crude oil and gas,
- Production of refined petroleum products,
- Petroleum products and gas trading and
- Electricity generation and trading.

Other activities primarily include sales of other goods, works and services.

The Company was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005. On 2 February 2009 PJSC Gazprom Neft (“Gazprom Neft”) acquired a 51% of the share capital of Naftna Industrija Srbije which became a subsidiary of Gazprom Neft. In March 2011, under the Company’s Share Sale and Purchase Agreement, Gazprom Neft acquired an additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%. PJSC Gazprom, Russian Federation is the ultimate owner of the Company.

The Company is an open joint stock company, listed on the prime market on the Belgrade Stock Exchange.

These Interim Condensed Financial Statements have been approved and authorized for issue by Chief Executive Officer and will be presented to Board of Directors for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by Serbian legislation. The accompanying Interim Condensed Financial Statements were primarily derived from the Company’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (IFRS).

The Interim Condensed Financial Statements have been prepared in accordance with International Accounting Standard **IAS 34 Interim Financial Reporting**. IAS 34 for interim financial reporting does not require all disclosures that would be necessarily required by IFRS.

The Company does not disclose information which would substantially duplicate the disclosures contained in its audited Financial Statements for 2018, such as significant accounting policies, significant estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Company believes that the disclosures in these Interim Condensed Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Financial Statements are read in conjunction with the Company’s Financial Statements for 2018.

Subsequent events occurring after 31 March 2019 were evaluated through 24 April 2019, the date these Interim Condensed Financial Statements were authorised for issue.

The results for the three month period ended 31 March 2019 are not necessarily indicative of the results expected for the full year.

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

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

2.2. Changes in significant accounting policies

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

3. APPLICATION OF NEW IFRS

Accounting policies applied from 1 January 2019

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

Adjustments recognised on adoption of IFRS 16

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

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

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

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

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

	31 March 2019	1 January 2019
Property	527,516	540,388
Plant and equipment	307,394	324,713
Motor vehicles	51,574	54,331
Total right-of-use assets	<u>886,484</u>	<u>919,432</u>

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

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

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

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

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

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

Accounting policy

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

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

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

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

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

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

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

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

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

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

4. NEW ACCOUNTING STANDARDS

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

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

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

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

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

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

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

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

5. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the three month periods ended 31 March 2019 and 2018. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Company manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Company operations: exploration, development and production of crude oil and natural gas and oil field services. Downstream segment (refining and marketing) processes crude oil into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre and Energy business activities are presented within the Downstream segment.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and products, and other adjustments. Intersegment revenues are based upon estimated market prices.

EBITDA represents the Company's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Company's ongoing operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the three month period ended 31 March 2019 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	11,275,869	48,608,803	(11,589,044)	48,295,628
Intersegment	11,262,768	326,276	(11,589,044)	-
External	13,101	48,282,527	-	48,295,628
EBITDA (Segment results)	8,413,708	(2,607,187)	-	5,806,521
Depreciation, depletion and amortization	(2,855,936)	(1,717,903)	-	(4,573,839)
Impairment of non-financial assets	-	(18,472)	-	(18,472)
Net foreign exchange gain (loss)	(160,397)	275,498	-	115,101
Finance expenses, net	(55,405)	(156,565)	-	(211,970)
Income tax	(43,095)	(296,830)	-	(339,925)
Segment profit /(loss)	5,301,788	(4,542,067)	-	759,721

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019***(All amounts are in 000 RSD, unless otherwise stated)*

Reportable segment results for the three month period ended 31 March 2018 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	10,848,435	48,638,270	(11,024,551)	48,462,154
Intersegment	10,778,981	245,570	(11,024,551)	-
External	69,454	48,392,700	-	48,462,154
EBITDA (Segment results)	7,694,306	879,367	-	8,573,673
Depreciation, depletion and amortization	(1,688,769)	(2,178,182)	-	(3,866,951)
Impairment of non-financial assets	(1,041)	(8,256)	-	(9,297)
Net foreign exchange gain	44,865	392,476	-	437,341
Finance income (expenses), net	53,322	(165,912)	-	(112,590)
Income tax	-	(860,606)	-	(860,606)
Segment profit /(loss)	6,150,779	(1,969,788)	-	4,180,991

EBITDA for the three month period ended 31 March 2019 and 2018 is reconciled below:

	Three month period ended 31 March	
	2019	2018
Profit for the period	759,721	4,180,991
Income tax expenses	339,925	860,606
Finance expenses	477,788	570,592
Finance income	(265,818)	(458,002)
Depreciation, depletion and amortization	4,573,839	3,866,951
Net foreign exchange gain	(115,101)	(437,341)
Other expense, net	75,443	72,469
Other non-operating income, net	(39,276)	(82,593)
EBITDA	5,806,521	8,573,673

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

	Three month period ended 31 March 2019		
	Domestic market	Export and International sales	Total
Sale of crude oil	-	-	-
Sale of gas	828,086	-	828,086
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	828,086	-	828,086
Sale of petroleum products	38,236,996	7,241,253	45,478,249
<i>Through a retail network</i>	13,774,276	-	13,774,276
<i>Wholesale activities</i>	24,462,720	7,241,253	31,703,973
Sale of electricity	218,307	38,800	257,107
Lease revenue	110,987	-	110,987
Other sales	1,576,228	44,971	1,621,199
Total sales	40,970,604	7,325,024	48,295,628

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

	Three month period ended 31 March 2018		
	Domestic market	Export and International sales	Total
Sale of crude oil	-	-	-
Sale of gas	419,278	-	419,278
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	419,278	-	419,278
Sale of petroleum products	36,576,272	8,612,787	45,189,059
<i>Through a retail network</i>	12,267,996	-	12,267,996
<i>Wholesale activities</i>	24,308,276	8,612,787	32,921,063
Sale of electricity	82,246	1,053,778	1,136,024
Other sales	1,667,797	49,996	1,717,793
Total sales	38,745,593	9,716,561	48,462,154

Out of the amount of 31,703,973 RSD (2018: 32,921,063 RSD) revenue from sale of petroleum products (wholesale), the amount of 3,827,301 RSD (2018: 5,742,138 RSD) are derived from a single domestic customer HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 1,278,144 RSD (2018: 1,229,535 RSD).

The Company is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 40,970,604 RSD (2018: 38,745,593 RSD), and the total revenue from external customer from other countries is 7,325,024 RSD (2018: 9,716,561 RSD).

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

	Three month period ended 31 March	
	2019	2018
Sale of crude oil	-	-
Sale of petroleum products (retail and wholesale)		
Bulgaria	1,704,833	2,221,072
Bosnia and Herzegovina	2,469,001	2,129,747
Romania	476,917	725,771
Switzerland	493,165	949,777
Croatia	222,866	580,082
Macedonia	91,020	421,147
Hungary	364,029	329,204
Great Britain	344,711	289,478
All other markets	1,074,711	966,509
	7,241,253	8,612,787
Sale of electricity	38,800	1,053,778
Other sales	44,971	49,996
	7,325,024	9,716,561

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

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

6. CASH AND CASH EQUIVALENTS

	31 March 2019	31 December 2018
Cash in bank and in hand	3,449,026	5,621,605
Deposits with original maturity of less than three months	9,530,080	6,367,102
Cash held on escrow account	15,871	17,364
Cash equivalents	234,620	216,507
	13,229,597	12,222,578

7. SHORT-TERM FINANCIAL ASSETS

	31 March 2019	31 December 2018
Short-term loans	27,411	27,633
Deposits with original maturity more than 3 months less than 1 year	2,146,053	2,122,961
Current portion of long-term investments (note 12)	12,387,493	10,654,662
Less impairment loss provision	(6,951,221)	(6,118,893)
	7,609,736	6,686,363

As at 31 March 2019 deposits with original maturity more than 3 months less than 1 year amounting to 2,146,053 RSD (31 December 2018: 2,122,961 RSD) relates to bank deposits placements with interest rates 4,65% p.a. denominated in RSD.

8. TRADE AND OTHER RECEIVABLES

	31 March 2019	31 December 2018
Trade receivables	37,351,176	37,762,042
Other receivables	127,671	122,807
Accrued assets	25,692	314,496
<i>Less credit loss allowance for trade receivables</i>	(10,064,695)	(10,062,788)
<i>Less credit loss allowance for other receivables</i>	(57,576)	(59,610)
Total trade and other receivables	27,382,268	28,076,947

The Management of the Company regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Company.

Management believes that not impaired trade, specific and other receivables are fully recoverable.

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

	31 March 2019	31 December 2018
RSD	24,054,972	23,649,335
EUR	3,139,493	3,734,398
USD	187,803	693,041
Other	-	173
	27,382,268	28,076,947

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

9. INVENTORIES

	31 March 2019	31 December 2018
Crude oil	20,231,662	24,596,883
Petroleum products	14,770,981	18,794,803
Materials and supplies	5,503,845	5,148,165
Other	650,036	734,454
Less impairment provision	(4,778,978)	(4,830,527)
	36,377,546	44,443,778

10. OTHER CURRENT ASSETS

	31 March 2019	31 December 2018
Advances paid	733,535	716,164
Deferred VAT	1,583,014	1,567,844
Prepaid expenses	482,457	220,882
Prepaid custom duties	6,199	4,625
Prepaid excise	2,069,821	2,743,083
Other current assets	7,680,574	7,781,630
Less impairment provision	(7,619,135)	(7,617,942)
	4,936,465	5,416,286

Deferred VAT as at 31 March 2019 amounting to 1,583,014 RSD (31 December 2018: 1,567,844 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 31 March 2019 amounting to 2,069,821 RSD (31 December 2018: 2,743,083 RSD) relates to the excise paid for finished products stored in non-excise warehouse.

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

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
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 31 March 2018						
Additions	-	-	-	-	8,422,232	8,422,232
Acquisitions through business combinations	-	-	-	-	217,660	217,660
Changes in decommissioning obligations	38,197	-	-	-	-	38,197
Transfer from assets under construction	4,039,585	349,144	2,042,613	66,873	(6,498,215)	-
Transfer to investment property	-	-	(38,530)	-	-	(38,530)
Transfer to non-current assets held for sale	-	-	-	(5,260)	-	(5,260)
Impairment	-	-	-	-	(1,043)	(1,043)
Depreciation	(1,674,960)	(1,412,209)	(401,281)	(132,624)	-	(3,621,074)
Disposals and write-off	(4,369)	(27,487)	(3,489)	(987)	(53,906)	(90,238)
Other transfers	(23,320)	26	323,905	(300,547)	-	64
	105,018,665	72,329,940	23,519,232	8,480,811	32,681,799	242,030,447
As at 31 March 2018						
Cost	139,346,139	114,511,325	49,781,206	17,044,424	34,679,587	355,362,681
Depreciation and impairment	(34,327,474)	(42,181,385)	(26,261,974)	(8,563,613)	(1,997,788)	(113,332,234)
Net book value	105,018,665	72,329,940	23,519,232	8,480,811	32,681,799	242,030,447
As at 1 January 2019						
Cost	156,367,336	115,028,154	51,380,912	16,193,480	45,864,855	384,834,737
Depreciation and impairment	(42,496,555)	(46,153,659)	(27,626,321)	(8,300,778)	(2,003,304)	(126,580,617)
Net book value	113,870,781	68,874,495	23,754,591	7,892,702	43,861,551	258,254,120
Period ended 31 March 2019						
Additions	-	-	-	-	8,622,629	8,622,629
Changes in decommissioning obligations	26,481	-	-	-	-	26,481
Transfer from assets under construction	5,099,651	88,979	292,519	294,962	(5,776,111)	-
Transfer to non-current assets held for sale	-	-	-	(31,293)	-	(31,293)
Impairment	-	-	(14,249)	-	(13,039)	(27,288)
Depreciation	(2,516,132)	(1,349,519)	(420,487)	(136,909)	-	(4,423,047)
Disposals and write-off	9,699	(614)	(5,898)	(1,965)	(66,736)	(65,514)
Transfer to right of use assets (note 3)	(54,331)	-	(765,074)	-	-	(819,405)
Other transfers	(29,417)	757	1,212	27,448	35,387	35,387
	116,406,732	67,614,098	22,842,614	8,044,945	46,663,681	261,572,070
As at 31 March 2019						
Cost	161,297,562	115,109,144	50,580,516	16,484,453	48,680,024	392,151,699
Depreciation and impairment	(44,890,830)	(47,495,046)	(27,737,902)	(8,439,508)	(2,016,343)	(130,579,629)
Net book value	116,406,732	67,614,098	22,842,614	8,044,945	46,663,681	261,572,070

Capitalized borrowing costs for the three months ended 31 March 2019 include interest expense in the amount of 38,888 RSD (31 March 2018: 23,685 RSD).

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

12. LONG-TERM FINANCIAL ASSETS

	31 March 2019	31 December 2018
LT loans issued	38,217,676	37,976,787
Financial assets at FVTOCI	184,176	177,767
Other LT placements	26,081	25,984
<i>Less Current portion of LT loans issued (note 7)</i>	<i>(12,387,493)</i>	<i>(10,654,662)</i>
<i>Less provision of other LT placements</i>	<i>(3,276,451)</i>	<i>(4,117,452)</i>
	22,763,989	23,408,424

13. OTHER NON-CURRENT ASSETS

	31 March 2019	31 December 2018
Advances paid for PPE	765,945	790,744
Prepaid expenses	144,072	151,070
Other assets	857,152	868,621
<i>Less impairment provision</i>	<i>(32,576)</i>	<i>(32,576)</i>
	1,734,593	1,777,859

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

	31 March 2019	31 December 2018
Short-term loans	1,782,112	2,218,378
Interest liabilities	160,535	100,154
Current portion of long-term loans (note 18)	5,849,961	5,852,524
Current portion of finance lease liabilities (note 19)	-	71,066
	7,792,608	8,242,122

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

	Three month period ended 31 March	
	2019	2018
Short-term loans at 1 January	2,218,378	2,298,487
Proceeds	6,087,653	3,339,596
Repayment	<i>(6,523,919)</i>	<i>(3,977,725)</i>
Short-term loans at 31 March	1,782,112	1,660,358

15. TRADE AND OTHER PAYABLES

	31 March 2019	31 December 2018
Trade payables:		
- related parties	9,459,577	13,986,519
- third parties	14,230,119	12,598,078
Dividends payable	3,772,308	3,772,308
Other accounts payable	7,848	8,434
	27,469,852	30,365,339

As at 31 March 2019 payables to related parties amounting to 9,459,577 RSD (31 December 2018: 13,986,519 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 5,885,757 RSD mostly based on purchase of crude oil (31 December 2018: 10,243,742 RSD).

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

16. OTHER CURRENT LIABILITIES

	31 March 2019	31 December 2018
Contract liabilities arising from contracts with customers:		
- Advances received	1,077,007	1,322,558
- Customer loyalty	513,381	502,254
Payables to employees	3,590,154	3,199,959
Other current non-financial liabilities	11,043	62,910
	5,191,585	5,087,681

Revenue in the amount of 1,016,662 RSD was recognized in the current reporting period related to the contract liabilities as at 1 January 2019, of which 904,073 RSD related to advances and 112,589 RSD to customer loyalty programme.

17. OTHER TAXES PAYABLE

	31 March 2019	31 December 2018
Mineral extraction tax	336,303	378,481
VAT	3,286,647	1,187,246
Excise tax	2,825,917	4,680,755
Contribution for buffer stocks	307,263	260,905
Custom duties	660,498	291,534
Other taxes	1,760,233	1,761,272
	9,176,861	8,560,193

18. LONG-TERM DEBT

	31 March 2019	31 December 2018
Long-term loan - Gazprom Neft	23,320,047	24,738,405
Bank loans	67,606,057	67,908,442
Finance lease liabilities (note 19)	-	644,611
Less Current portion (note 14)	(5,849,961)	(5,923,590)
	85,076,143	87,367,868

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

	Three month period ended 31 March	
	2019	2018
Long-term loans at 1 January	92,646,847	95,404,544
Proceeds	2,210,247	2,356,535
Repayment	(3,767,632)	(7,912,702)
Foreign exchange difference (note 22)	(163,358)	(539,308)
Long-term loans at 31 March	90,926,104	89,309,069

(a) Long-term loan - Gazprom Neft

As at 31 March 2019 long-term loan - Gazprom Neft amounting to 23,320,047 RSD (31 December 2018: 24,738,405 RSD), with current portion of 5,487,070 RSD (2018: 5,497,423 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019***(All amounts are in 000 RSD, unless otherwise stated)***(b) Bank loans**

	31 March 2019	31 December 2018
Domestic	48,398,326	50,621,113
Foreign	19,207,731	17,287,329
	<u>67,606,057</u>	<u>67,908,442</u>
Current portion of long-term loans	(362,891)	(355,101)
	<u>67,243,166</u>	<u>67,553,341</u>

The maturity of bank loans was as follows:

	31 March 2019	31 December 2018
Between 1 and 2 years	1,853,008	1,403,463
Between 2 and 5 years	60,628,959	61,219,659
Over 5 years	4,761,199	4,930,219
	<u>67,243,166</u>	<u>67,553,341</u>

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

	31 March 2019	31 December 2018
USD	341,516	361,696
EUR	66,983,187	67,250,132
RSD	609	649
JPY	280,745	295,965
	<u>67,606,057</u>	<u>67,908,442</u>

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 31 March 2019 and 31 December 2018, respectively.

19. LEASE LIABILITIES

	31 March 2019	31 December 2018
Non-current lease liabilities	624,185	-
Current lease liabilities	105,546	-
	<u>729,731</u>	<u>-</u>

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

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

	Three month period ended 31 March	
	2019	2018
As at 1 January	644,611	247,210
Changes in opening balance	100,027	-
Repayment	(22,953)	(12,254)
Non-cash transactions	5,617	325,625
Foreign exchange difference (note 22)	2,429	7
As at 31 March	<u>729,731</u>	<u>560,588</u>

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

20. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 31 March	
	2019	2018
Employee costs	849,677	811,683
Materials and supplies (other than purchased oil, petroleum products and gas)	284,277	226,601
Repair and maintenance services	1,286,054	887,795
Electricity for resale	103,077	983,843
Electricity and utilities	449,498	449,675
Safety and security expense	154,339	82,743
Insurance services	62,241	70,416
Transportation services for production	413,750	483,574
Other	1,770,464	1,755,290
	5,373,377	5,751,620

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended 31 March	
	2019	2018
Employee costs	2,410,437	2,405,007
Legal, audit and consulting services	286,457	283,876
Rent expense	50,495	32,238
Business trips expense	49,636	66,461
Safety and security expense	113,143	108,417
Insurance expense	29,350	22,853
Transportation and storage	73,005	81,699
Allowance for doubtful accounts	(5,137)	15,947
Other	2,048,364	2,004,363
	5,055,750	5,020,861

22. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three month period ended 31 March	
	2019	2018
Foreign exchange gain (loss) on financing activities including:		
- foreign exchange gain	352,489	735,475
- foreign exchange loss	(191,560)	(196,174)
Net foreign exchange gain (loss) on operating activities	(45,828)	(101,960)
	115,101	437,341

23. FINANCE INCOME

	Three month period ended 31 March	
	2019	2018
Interest on bank deposits	100,934	240,681
Interest income on loans issued	164,884	217,321
	265,818	458,002

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

24. FINANCE EXPENSES

	Three month period ended 31 March	
	2019	2018
Interest expense	485,760	599,345
Decommissioning provision: unwinding of the present value	36,134	21,730
Trade receivables: unwinding of discount	(5,217)	(26,797)
Less: interest expense capitalised on qualifying assets	(38,889)	(23,686)
	477,788	570,592

25. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Financial Statements: investment properties and financial investments classified as available for sale. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Financial Statements as of 31 December 2018. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 31 March 2019 the carrying value of financial assets approximates their fair value.

26. CONTINGENCIES AND COMMITMENTS

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Company's management recognised an environmental provision in the amount of 623,182 RSD (31 December 2018: 637,414 RSD).

The Company's Management believes that cash outflows related to provision will not be significantly higher than the ones already provided for. However, it is possible that these costs will increase significantly in the future, should the legislation become more restrictive.

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Company has paid all tax liabilities as of 31 March 2019.

Capital commitments

As of 31 March 2019 the Company has entered into contracts to purchase property, plant and equipment for 11,959,941 RSD (31 December 2018: 15,944,407 RSD).

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

27. RELATED PARTY TRANSACTIONS

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

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The second largest shareholder with 29.87% interest is Republic of Serbia, while remaining 13.98% of interest owned by various minority shareholders are traded on the Belgrade Stock Exchange and are owned by various shareholders. PJSC Gazprom, Russian Federation is the ultimate owner of the Company.

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019***(All amounts are in 000 RSD, unless otherwise stated)*

In the three month period ended 31 March 2019 and in the same period in 2018, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

As at 31 March 2019 and 31 December 2018 the outstanding balances with related parties were as follows:

As at 31 March 2019	Subsidiaries	Parent company	Parent's subsidiaries and associates
Short-term financial assets	5,438,331	-	-
Trade and other receivables	2,950,113	-	86,817
Other current assets	3,196	-	39,259
Right to use assets	58,794	-	-
Investments in subsidiaries, associates and joint ventures	13,425,586	-	1,038,800
Long-term financial assets	22,627,915	-	-
Other non-current assets	3,582	-	-
Trade and other payables	(3,479,742)	(5,885,757)	(94,078)
Other current liabilities	(2,984)	-	(242)
Short-term debt and current portion of long-term debt	(1,786,876)	(5,487,070)	-
Current lease liabilities	(8,743)	-	-
Long-term debt	-	(17,832,977)	-
Non-current lease liabilities	(51,435)	-	-
	39,177,737	(29,205,804)	1,070,556

As at 31 December 2018	Subsidiaries	Parent company	Parent's subsidiaries and associates
Short-term financial assets	10,224,339	-	-
Trade and other receivables	3,318,542	99	634,017
Other current assets	30,338	-	337,220
Investments in subsidiaries, associates and joint ventures	13,425,586	-	1,038,800
Long-term financial assets	23,279,079	-	-
Other non-current assets	3,582	-	-
Trade and other payables	(3,074,680)	(10,243,742)	(668,097)
Other current liabilities	(2,097)	-	(289)
Short-term debt and current portion of long-term debt	(2,222,441)	(5,497,423)	-
Long-term debt	-	(19,240,982)	-
	44,982,248	(34,982,048)	1,038,153

For the three month period ended 31 March 2019 and 2018 the following transaction occurred with related parties:

Three month period ended 31 March 2019	Subsidiaries	Parent company	Parent's subsidiaries and associates
Petroleum products and oil and gas sales	3,684,151	-	121,647
Other revenues	101,963	-	19,508
Purchases of oil, gas and petroleum products	(3,709,417)	(16,170,749)	(122,928)
Production and manufacturing expenses	(967,862)	-	(49,012)
Selling, general and administrative expenses	(141,668)	-	(6,408)
Transportation expenses	(264)	-	-
Depreciation	(2,268)	-	-
Other income (expenses), net	-	13,320	(94)
Finance income	162,171	-	-
Finance expense	(15,230)	(110,753)	-
	(888,424)	(16,268,182)	37,287

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2019

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

	Subsidiaries	Parent company	Parent's subsidiaries and associates
Three month period ended 31 March 2018			
Petroleum products and oil and gas sales	3,414,986	-	259,502
Other revenues	200,444	462	929,121
Purchases of oil, gas and petroleum products	(3,428,599)	(17,564,237)	(260,310)
Production and manufacturing expenses	(968,317)	-	(909,956)
Selling, general and administrative expenses	(112,431)	-	(1,035)
Transportation expenses	(23,024)	-	-
Other expenses, net	-	(14,904)	(217)
Finance income	214,666	-	-
Finance expense	(11,413)	(131,075)	-
	(713,688)	(17,709,754)	17,105

Transactions with Key Management Personnel

For the three month period ended on 31 March 2019 and 2018 the Company recognized 225,797 RSD and 246,309 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.

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Notes to the Interim Condensed Financial Statements for the three month period ended
31 March 2019

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