



Naftna industrija Srbije A.D.

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

30 June 2019

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

Contents

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Notes to the Interim Condensed Consolidated Financial Statements

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

Contact Information	25
---------------------	----

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

Assets	Note	30 June 2019	31 December 2018
		<i>(unaudited)</i>	
Current assets			
Cash and cash equivalents	6	10,594,232	15,480,830
Short-term financial assets	7	1,270,346	2,188,488
Trade and other receivables	8	29,410,392	26,933,563
Inventories	9	48,941,628	47,856,312
Current income tax prepayments		697,586	-
Other current assets	10	5,706,546	6,283,241
Non-current assets held for sale		114,547	-
Total current assets		96,735,277	98,742,434
Non-current assets			
Property, plant and equipment	11	294,700,996	286,454,546
Right-of-use assets	3	1,676,177	-
Investment property		1,578,273	1,615,391
Goodwill and other intangible assets		4,082,809	4,653,550
Investments in associates and joint ventures	12	1,909,332	1,980,388
Trade and other non-current receivables		2,830	73,858
Long-term financial assets		290,244	129,345
Deferred tax assets		25,843	545,497
Other non-current assets	13	1,581,140	1,781,202
Total non-current assets		305,847,644	297,233,777
Total assets		402,582,921	395,976,211
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	14	6,971,332	6,614,417
Current lease liabilities	19	292,535	-
Trade and other payables	15	40,497,192	30,357,413
Other current liabilities	16	5,770,954	5,956,257
Current income tax payable		-	625,985
Other taxes payable	17	10,247,036	9,575,333
Provisions for liabilities and charges		1,846,583	1,941,795
Total current liabilities		65,625,632	55,071,200
Non-current liabilities			
Long-term debt	18	85,545,277	87,819,202
Non-current lease liabilities	19	1,200,871	-
Provisions for liabilities and charges		10,510,083	10,210,005
Total non-current liabilities		97,256,231	98,029,207
Equity			
Share capital		81,530,200	81,530,200
Reserves		200,476	77,130
Retained earnings		158,225,628	161,516,302
Equity attributable to the Company's owners		239,956,304	243,123,632
Non-controlling interest		(255,246)	(247,828)
Total equity		239,701,058	242,875,804
Total liabilities and shareholder's equity		402,582,921	395,976,211

Kirill Tyurdenov
Chief Executive Officer
25 July 2019



Anton Cherepanov
Chief Financial Officer

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

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

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

	Note	Three month period ended 30 June		Six month period ended 30 June	
		2019 <i>(unaudited)</i>	2018 <i>(unaudited)</i>	2019 <i>(unaudited)</i>	2018 <i>(unaudited)</i>
Sales of petroleum products, oil and gas		60,905,430	63,474,673	111,741,928	112,500,281
Other revenues		3,030,953	4,476,738	5,705,647	7,935,301
Total revenue from sales	5	63,936,383	67,951,411	117,447,575	120,435,582
Purchases of oil, gas and petroleum products		(39,860,481)	(38,546,998)	(74,369,160)	(69,126,986)
Production and manufacturing expenses	20	(6,785,079)	(7,076,987)	(12,293,211)	(12,939,018)
Selling, general and administrative expenses	21	(6,088,671)	(5,798,999)	(11,738,659)	(11,323,977)
Transportation expenses		(199,245)	(302,447)	(447,352)	(564,465)
Depreciation, depletion and amortization		(5,095,881)	(4,938,694)	(10,190,853)	(9,350,689)
Taxes other than income tax		(1,336,125)	(1,305,507)	(2,599,480)	(2,538,187)
Exploration expenses		-	-	(11,474)	(15,771)
Total operating expenses		(59,365,482)	(57,969,632)	(111,650,189)	(105,859,093)
Other income (expenses), net		(182,637)	103,469	(250,293)	22,761
Operating profit		4,388,264	10,085,248	5,547,093	14,599,250
Share of loss of associates and joint ventures		(51,850)	-	(71,056)	-
Net foreign exchange gain (loss)	22	98,355	(441,430)	(106,005)	2,926
Finance income	23	67,607	144,382	175,413	387,936
Finance expenses	24	(497,233)	(571,423)	(991,633)	(1,162,000)
Total other expense		(383,121)	(868,471)	(993,281)	(771,138)
Profit before income tax		4,005,143	9,216,777	4,553,812	13,828,112
Current income tax expense		(620,990)	(1,103,416)	(807,131)	(1,703,950)
Deferred tax expense		(315,325)	(343,157)	(519,726)	(629,518)
Total income tax expense		(936,315)	(1,446,573)	(1,326,857)	(2,333,468)
Profit for the period		3,068,828	7,770,204	3,226,955	11,494,644
Other comprehensive income:					
Items that will not be reclassified to profit					
Gains (loss) from investments in equity instruments		1,465	573	7,875	(586)
Items that may be subsequently reclassified to profit					
Currency translation differences		(18,685)	33,804	107,948	42,430
Other comprehensive income for the period		(17,220)	34,377	115,823	41,844
Total comprehensive income for the period		3,051,608	7,804,581	3,342,778	11,536,488
Profit attributable to:					
- Shareholders of Naftna Industrija Srbije		3,072,700	7,774,559	3,235,008	11,503,089
- Non-controlling interest		(3,872)	(4,355)	(8,053)	(8,445)
Profit for the period		3,068,828	7,770,204	3,226,955	11,494,644
Total comprehensive income (loss) attributable to:					
- Shareholders of Naftna Industrija Srbije		3,055,344	7,808,264	3,350,196	11,544,079
- Non-controlling interest		(3,736)	(3,683)	(7,418)	(7,591)
Total comprehensive income for the period		3,051,608	7,804,581	3,342,778	11,536,488
Earnings per share attributable to shareholders of Naftna Industrija Srbije					
Basic earnings (RSD per share)		18.84	47.68	19.84	70.54
Weighted average number of ordinary shares in issue (in millions)		163	163	163	163

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

NIS Group
Interim Condensed Consolidated Statement of Changes in Shareholders' Equity
Six month period ended 30 June 2019 and 2018

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

Equity attributable to the Company's owners						
	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2018	81,530,200	40,453	143,713,351	225,284,004	(232,496)	225,051,508
Adoption of IFRS 9:						
- remeasurement of expected credit losses, net of tax	-	-	(401,527)	(401,527)	-	(401,527)
Restated total equity at 1 January 2018	81,530,200	40,453	143,311,824	224,882,477	(232,496)	224,649,981
Profit (loss) for the period	-	-	11,503,089	11,503,089	(8,445)	11,494,644
Other comprehensive income (loss)						
Loss from investments in equity instruments	-	(586)	-	(586)	-	(586)
Sale of investments in equity instruments	-	3,455	(3,455)	-	-	-
Currency translation differences	-	41,576	-	41,576	854	42,430
Total comprehensive income (loss) for the period	-	44,445	11,499,634	11,544,079	(7,591)	11,536,488
Dividend distribution	-	-	(6,948,004)	(6,948,004)	-	(6,948,004)
Balance as at 30 June 2018	81,530,200	84,898	147,863,454	229,478,552	(240,087)	229,238,465

Equity attributable to the Company's owners						
	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2019	81,530,200	77,130	161,516,302	243,123,632	(247,828)	242,875,804
Profit (loss) for the period	-	-	3,235,008	3,235,008	(8,053)	3,226,955
Other comprehensive income (loss)						
Gains from investments in equity instruments	-	7,875	-	7,875	-	7,875
Sale of investments in equity instruments	-	8,158	(8,158)	-	-	-
Currency translation differences	-	107,313	-	107,313	635	107,948
Total comprehensive income (loss) for the period	-	123,346	3,226,850	3,350,196	(7,418)	3,342,778
Dividend distribution	-	-	(6,517,524)	(6,517,524)	-	(6,517,524)
Balance as at 30 June 2019	81,530,200	200,476	158,225,628	239,956,304	(255,246)	239,701,058

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

NIS Group
Interim Condensed Consolidated Statement of Cash Flows¹
(All amounts are in 000 RSD, unless otherwise stated)

	Note	Six month period ended 30 June	
		2019 <i>(unaudited)</i>	2018 <i>(unaudited)</i>
Cash flows from operating activities			
Profit before income tax		4,553,812	13,828,112
Adjustments for:			
Share of loss of associates and joint ventures		71,056	-
Finance expenses	24	991,633	1,162,000
Finance income	23	(175,413)	(387,936)
Net unrealised foreign exchange loss, net		63,243	122,520
Depreciation, depletion and amortization		10,190,857	9,350,689
Other non-cash items		300,541	144,802
Operating cash flow before changes in working capital		15,995,729	24,220,187
Changes in working capital:			
Accounts receivable		(2,504,328)	(61,514)
Inventories		(1,048,050)	1,087,091
Other assets		452,653	(685,321)
Accounts payables and other current liabilities		5,069,740	(12,134,374)
Taxes payable		672,401	1,212,876
Total effect on working capital changes		2,642,416	(10,581,242)
Income taxes paid		(2,131,049)	(3,408,030)
Interest paid		(826,675)	(1,094,299)
Interest received		294,562	257,069
Net cash generated from operating activities		15,974,983	9,393,685
Cash flows from investing activities			
Loans issued		-	(47,250)
Loan proceeds received		23,596	-
Capital expenditures ²		(20,446,998)	(20,429,537)
Proceeds from sale of property, plant and equipment		103,913	133,456
Bank deposits repayment (placements), net		598,196	5,597,114
Other outflow		(18,591)	(28,171)
Net cash used in investing activities		(19,739,884)	(14,774,388)
Cash flows from financing activities			
Proceeds from borrowings	18	9,866,658	11,525,534
Repayment of borrowings	18	(10,816,006)	(16,009,123)
Repayment of lease liabilities	19	(166,279)	(48,832)
Net cash used in financing activities		(1,115,627)	(4,532,421)
Net decrease in cash and cash equivalents		(4,880,528)	(9,913,124)
Effect of foreign exchange on cash and cash equivalents		(6,070)	17,163
Cash and cash equivalents as of the beginning of the period		15,480,830	27,075,370
Cash and cash equivalents as of the end of the period		10,594,232	17,179,409

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

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

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

NIS Group

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

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

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") and its subsidiaries (together refer to as the "Group") is a vertically integrated oil company operating predominantly in Serbia. The Group's principal activities include:

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

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

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

The Group does not disclose information which would substantially duplicate the disclosures contained in its audited Consolidated Financial Statements for 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 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 2018.

Subsequent events occurring after 30 June 2019 were evaluated through 25 July 2019, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the six month period ended 30 June 2019 are not necessarily indicative of the results expected for the full year.

The 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 2018, except for those described in the Application of new IFRS paragraph.

NIS Group

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

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

3. APPLICATION OF NEW IFRS

Accounting policies applied from 1 January 2019

The Group 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 group 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. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

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	1,548,081
(Less): short-term leases recognised on a straight-line basis as expense	(54,306)
(Less): contracts with commencement date after 1.1.2019	(385,001)
(Less): low-value leases recognised on a straight-line basis as expense	(206,937)
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	2,954
(Less): advances paid as of date of initial application of IFRS 16	(71,944)
Other	(11,255)
Undiscounted leases recognized under IFRS 16	821,592
Discounted using the lessee's incremental borrowing rate at the date of initial application	790,946
Add: finance lease liabilities recognised as at 31 December 2018	828,104
Lease liability recognised as at 1 January 2019	1,619,050
Of which are:	
Current lease liabilities	298,269
Non-current lease liabilities	1,320,781
	1,619,050

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. 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:

	<u>30 June 2019</u>	<u>1 January 2019</u>
Property (land and buildings)	1,290,117	1,414,558
Plant and equipment	312,640	335,712
Motor vehicles	73,420	85,151
Total right-of-use assets	1,676,177	1,835,421

NIS Group

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

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

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

Property, plant and equipment and intangible assets – decrease	(972,531)
Right-of-use assets – increase	1,835,421
Prepayments – decrease	(71,944)
Borrowings – decrease	828,104
Lease liabilities – increase	(1,619,050)

In applying IFRS 16 for the first time, the group 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 Group 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 Group leases various offices, warehouses, retail stores, equipment and cars. Rental contracts are typically made for fixed periods of 2 to 10 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 Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

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

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

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

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

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

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2019 or later, and that the Group 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 Group 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 Group is currently assessing the impact of the amendments on its 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).
- 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 Group's Interim Condensed Consolidated Financial Statements.

NIS Group

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

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

5. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the six month periods ended 30 June 2019 and 2018. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The 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 on-going operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the six month period ended 30 June 2019 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	24,731,275	117,313,447	(24,597,147)	117,447,575
Intersegment	24,006,171	590,976	(24,597,147)	-
External	725,104	116,722,471	-	117,447,575
EBITDA (Segment results)	18,115,357	(2,214,178)	-	15,901,179
Depreciation, depletion and amortization	(5,590,063)	(4,600,790)	-	(10,190,853)
Impairment of non-financial assets	(382)	(70,600)	-	(70,982)
Share of loss of associates and joint ventures	-	(71,056)	-	(71,056)
Net foreign exchange loss	(103,827)	(2,178)	-	(106,005)
Finance expenses, net	(62,515)	(753,705)	-	(816,220)
Income tax	(156,248)	(1,170,609)	-	(1,326,857)
Segment profit (loss)	11,978,963	(8,752,008)	-	3,226,955

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	23,932,059	121,519,938	(25,016,415)	120,435,582
Intersegment	23,867,151	1,149,264	(25,016,415)	-
External	64,908	120,370,674	-	120,435,582
EBITDA (Segment results)	17,827,864	6,128,259	-	23,956,123
Depreciation, depletion and amortization	(4,541,653)	(4,809,036)	-	(9,350,689)
Net of impairment of non-financial assets	(1,047)	(2,783)	-	(3,830)
Net foreign exchange gain (loss)	(49,326)	52,252	-	2,926
Finance income (expenses), net	22,345	(796,409)	-	(774,064)
Income tax	(2,328,418)	(5,050)	-	(2,333,468)
Segment profit (loss)	13,139,027	(1,644,383)	-	11,494,644

NIS Group

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

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

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

	Three month period ended 30 June		Six month period ended 30 June	
	2019	2018	2019	2018
Profit for the period	3,068,828	7,770,204	3,226,955	11,494,644
Income tax expenses	936,315	1,446,573	1,326,857	2,333,468
Finance expenses	497,233	571,423	991,633	1,162,000
Finance income	(67,607)	(144,382)	(175,413)	(387,936)
Depreciation, depletion and amortization	5,095,881	4,938,694	10,190,853	9,350,689
Share of loss of associates and joint ventures	51,850	-	71,056	-
Net foreign exchange (gain) loss	(98,355)	441,430	106,005	(2,926)
Other expense (income), net	182,637	(103,469)	250,293	(22,761)
Other non-operating expense (income), net	(55,182)	100,187	(87,060)	28,945
EBITDA	9,611,600	15,020,660	15,901,179	23,956,123

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

	Six month period ended 30 June 2019		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	663,496	663,496
Sale of gas	1,251,721	-	1,251,721
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,251,721	-	1,251,721
Sale of petroleum products	82,485,099	27,341,612	109,826,711
<i>Through a retail network</i>	30,491,602	8,166,556	38,658,158
<i>Wholesale activities</i>	51,993,497	19,175,056	71,168,553
Sale of electricity	396,677	68,802	465,479
Lease revenue	187,056	3,815	190,871
Other sales	3,426,342	1,622,955	5,049,297
Total sales	87,746,895	29,700,680	117,447,575

	Six month period ended 30 June 2018		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	-	-
Sale of gas	979,783	-	979,783
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	979,783	-	979,783
Sale of petroleum products	83,285,049	28,235,450	111,520,499
<i>Through a retail network</i>	28,073,614	7,789,821	35,863,435
<i>Wholesale activities</i>	55,211,435	20,445,629	75,657,064
Sale of electricity	227,132	2,696,579	2,923,711
Other sales	3,371,194	1,640,395	5,011,589
Total sales	87,863,158	32,572,424	120,435,582

Out of the amount of 71,168,553 RSD (2018: 75,657,064 RSD) revenue from sale of petroleum products (wholesale), the amount of 7,268,496 RSD (2018: 11,363,791 RSD) are derived from a single domestic customer HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

NIS Group

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

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

Sales of electricity mainly relates to trading with Network For Trading doo Beograd in the amount of 168,024 RSD (2018: Gazprom Marketing & Trading Co., Ltd. in the amount of 2,398,650 RSD).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 4,051,352 RSD (2018: 3,841,366 RSD).

All performance obligations related to customers are satisfied at point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation.

The Group is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 87,746,895 RSD (2018: 87,863,158 RSD), and the total revenue from external customer from other countries is 29,700,680 RSD (2018: 32,572,424 RSD).

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

	Six month period ended	
	2019	2018
Sale of crude oil	663,496	-
Sale of petroleum products (retail and wholesale)		
Bulgaria	6,298,910	7,935,655
Bosnia and Herzegovina	10,347,916	7,139,078
Romania	4,962,750	5,817,343
Croatia	802,683	1,104,376
Switzerland	719,690	1,626,586
Hungary	658,384	755,248
Great Britain	618,466	753,258
Northern Macedonia	375,199	821,437
All other markets	2,557,614	2,282,469
	27,341,612	28,235,450
Sale of electricity	68,802	2,696,579
Lease revenue	3,815	-
Other sales	1,622,955	1,640,395
	29,700,680	32,572,424

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

Non-current assets, other than financial instruments and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts), by country:

	30 June	31 December
	2019	2018
Serbia	277,285,417	269,381,825
Romania	10,061,589	9,103,409
Bosnia and Herzegovina	7,424,893	7,304,192
Bulgaria	7,266,356	6,934,061
	302,038,255	292,723,487

6. CASH AND CASH EQUIVALENTS

	30 June	31 December
	2019	2018
Cash in bank and in hand	10,209,802	6,930,192
Deposits with original maturity of less than three months	144,942	6,926,396
Cash held on escrow account	15,883	1,407,735
Cash equivalents	223,605	216,507
	10,594,232	15,480,830

NIS Group

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

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

7. SHORT-TERM FINANCIAL ASSETS

	30 June 2019	31 December 2018
Short-term loans	2,210	27,433
Deposits with original maturity more than 3 months less than 1 year	1,270,392	2,123,007
Other short-term financial assets	-	40,304
Less impairment loss provision	(2,256)	(2,256)
	1,270,346	2,188,488

As at 30 June 2019 deposits with original maturity more than 3 months less than 1 year amounting to 1,270,392 RSD (31 December 2018: 2,123,007 RSD) relates to bank deposits placements with interest rates to 3.5% p.a. denominated in RSD (2018: 4,65% p.a.).

8. TRADE AND OTHER RECEIVABLES

	30 June 2019	31 December 2018
Trade receivables	38,996,208	36,154,738
Other receivables	457,066	450,274
Accrued assets	7,851	370,858
<i>Less credit loss allowance for trade receivables</i>	(9,994,266)	(9,982,695)
<i>Less credit loss allowance for other receivables</i>	(56,467)	(59,612)
Total trade and other receivables	29,410,392	26,933,563

The Management of the Group 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 Group.

Management believes that not impaired trade and other receivables and other current assets are fully recoverable.

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

	30 June 2019	31 December 2018
RSD	26,197,290	23,712,198
EUR	1,168,256	1,053,529
USD	474,544	698,248
Other	1,570,302	1,469,588
	29,410,392	26,933,563

9. INVENTORIES

	30 June 2019	31 December 2018
Crude oil	29,242,163	24,596,883
Petroleum products	15,970,201	20,155,760
Materials and supplies	7,453,071	6,959,371
Other	1,125,849	1,091,372
<i>Less impairment provision</i>	(4,849,656)	(4,947,074)
	48,941,628	47,856,312

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2019***(All amounts are in 000 RSD, unless otherwise stated)***10. OTHER CURRENT ASSETS**

	30 June 2019	31 December 2018
Advances paid	1,000,931	834,950
VAT receivables	613,577	295,900
Deferred VAT	2,062,888	1,774,863
Prepaid expenses	437,477	270,456
Prepaid custom duties	6,485	4,935
Prepaid excise	1,418,139	2,818,462
Other current assets	7,805,589	7,920,632
Less impairment provision	(7,638,540)	(7,636,957)
	5,706,546	6,283,241

Deferred VAT as at 30 June 2019 amounting to 2,062,888 RSD (31 December 2018: 1,774,863 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 30 June 2019 amounting to 1,418,139 RSD (31 December 2018: 2,818,462 RSD) relates to the excise paid for finished products stored in non-excise warehouse.

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

(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	147,452,224	114,239,048	65,305,683	20,338,124	36,549,810	383,884,889
Depreciation and impairment	(37,114,232)	(40,818,582)	(29,653,958)	(10,189,787)	(2,058,833)	(119,835,392)
Net book value	110,337,992	73,420,466	35,651,725	10,148,337	34,490,977	264,049,497
Period ended 30 June 2018						
Additions	-	-	-	-	18,748,476	18,748,476
Acquisitions through business combinations	-	-	-	-	217,660	217,660
Changes in decommissioning obligations	115,108	-	-	-	-	115,108
Transfer from assets under construction	8,209,354	780,203	2,648,178	274,949	(11,912,684)	-
Transfer from intangible assets	-	-	(38,530)	-	7,255	7,255
Transfer to investment property	-	-	-	-	-	(38,530)
Transfer to non-current assets held for sale	-	-	-	(5,260)	-	(5,260)
Impairment	-	-	(6,100)	-	(1,051)	(7,151)
Depreciation	(4,330,304)	(2,813,455)	(1,230,254)	(389,959)	(2,399)	(8,766,371)
Disposals and write-off	(36,907)	(72,037)	(4,511)	(10,522)	(113,675)	(237,652)
Other transfers	(26,645)	(54,530)	310,219	(228,547)	-	497
Translation differences	2	(1)	(47,954)	63	(19,842)	(67,732)
As at 30 June 2018	114,268,600	71,260,646	37,282,773	9,789,061	41,414,717	274,015,797
As at 1 January 2019						
Cost	155,632,042	114,811,750	68,521,409	19,850,973	43,476,800	402,292,974
Depreciation and impairment	(41,363,442)	(43,551,104)	(31,238,636)	(10,061,912)	(2,062,083)	(128,277,177)
Net book value	114,268,600	71,260,646	37,282,773	9,789,061	41,414,717	274,015,797
Period ended 30 June 2019						
Cost	166,462,451	115,028,154	69,909,749	19,153,698	54,204,141	424,758,193
Depreciation and impairment	(47,674,989)	(46,153,659)	(32,557,309)	(9,886,290)	(2,031,400)	(138,303,647)
Net book value	118,787,462	68,874,495	37,352,440	9,267,408	52,172,741	286,454,546
Additions	-	-	-	-	19,043,099	19,043,099
Changes in decommissioning obligations	58,729	-	-	-	-	58,729
Transfer from assets under construction	7,169,416	997,065	583,491	490,164	(9,240,136)	-
Impairment	-	-	(55,762)	-	(27,858)	(83,620)
Depreciation	(5,405,927)	(2,689,754)	(1,218,078)	(406,118)	(2,382)	(9,722,259)
Disposals and write-off	(12,993)	(1,539)	(9,645)	(7,994)	(77,779)	(109,950)
Transfer to right-of-use assets	(54,331)	-	(918,200)	-	-	(972,531)
Other transfers	(154,767)	(14,699)	154,439	(14,210)	245,239	216,002
Translation differences	(6)	(1)	(75,050)	194	(108,157)	(183,020)
As at 30 June 2019	120,387,583	67,165,567	35,813,635	9,329,444	62,004,767	294,700,996
Cost	173,408,030	115,990,014	69,263,977	19,562,905	64,069,928	442,294,854
Depreciation and impairment	(53,020,447)	(48,824,447)	(33,450,342)	(10,233,461)	(2,065,161)	(147,593,858)
Net book value	120,387,583	67,165,567	35,813,635	9,329,444	62,004,767	294,700,996

Capitalized borrowing costs for the six months ended 30 June 2019 include interest expense in the amount of 86,344 RSD (30 June 2018: 55,723 RSD).

NIS Group

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

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

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying values of the investments in associates and joint ventures as of 30 June, 2019 and 31 December, 2018 are summarised below:

		Ownership percentage	30 June 2019	31 December 2018
NIS MET Energowind d.o.o. Beograd	Joint venture	50%	998,073	1,003,491
Gazprom Energoholding Serbia d.o.o. Novi Sad	Joint venture	49%	911,259	976,897
HIP Petrohemija a.d. Pančevo	Associate	20.86%	11,572,197	11,572,197
Less Impairment provision			(11,572,197)	(11,572,197)
Total investments			1,909,332	1,980,388

The principal place of business of joint ventures disclosed above is Republic of Serbia.

1

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

NIS MET Energowind d.o.o. Beograd

In 2013 the Group acquired 50% of interest in a joint venture Energowind d.o.o. which was intended to be used as a vehicle for operation of future wind farm "Plandiste" with total capacity of 102 MW. During March 2019, MET Renewables AG acquired from third parties 50% of share in the project and became a joint partner on the project that has been renamed to NIS MET Energowind d.o.o. Beograd. On the date of the issuance of these Consolidated Financial Statements there has been no significant business activity. NIS MET Energowind d.o.o. is a private company and there is no available quoted market price.

Gazprom Energoholding Serbia d.o.o. Novi Sad

In 2015, the Group and Centrenergoholding OAO Russian Federation established the holding company Serbskaya Generaciya, through which they would jointly operate with the Thermal and Heating Power Plant Gazprom Energoholding Serbia "TE-TO" Pancevo with a projected capacity of 208 MW. In October 2017 the contract with Shanghai Electric Group Co., Ltd. was signed on a "turnkey" basis and the design phase started. The project is mostly financed from the loan from Gazprombank (140 mln EUR) with the loan tenor of 12 years. Handing over CHP TE-TO Pancevo is expected to be completed by the 30th August 2020. During the March 2019, Serbskaya Generaciya changed company name to Gazprom Energoholding Serbia.

HIP Petrohemija

In accordance with the laws in force in the Republic of Serbia, at the beginning of October 2017 all the condition were met for the full implementation of the earlier prepared plan for restructuring of the company HIP Petrohemija a.d. Pancevo. In accordance with the adopted plan, the structure of the share capital of the company HIP Petrohemija has been changed, whereby NIS increased its equity interest. After conversion, NIS holds, directly more than 20,86% (12,72%) per cent of the voting power of the HIP Petrohemija. Also, NIS has representatives on the BoD and Supervisory board.

13. OTHER NON-CURRENT ASSETS

	30 June 2019	31 December 2018
Advances paid for PPE	630,439	799,493
Prepaid expenses	143,984	151,070
Other financial assets	1,214,064	1,240,438
Less allowance of other financial assets	(369,378)	(371,817)
Less allowance for advances paid	(37,969)	(37,982)
	1,581,140	1,781,202

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2019***(All amounts are in 000 RSD, unless otherwise stated)***14. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT**

	30 June 2019	31 December 2018
Interest liabilities	285,028	219,326
Current portion of long-term loans (note 18)	6,686,304	6,322,562
Current portion of finance lease liabilities (note 19)	-	72,529
	6,971,332	6,614,417

15. TRADE AND OTHER PAYABLES

	30 June 2019	31 December 2018
Trade payables	30,197,034	26,573,555
Dividends payable	10,289,832	3,772,308
Other accounts payable	10,326	11,550
	40,497,192	30,357,413

As at 30 June 2019 trade payables amounting to 30,197,034 RSD (31 December 2018: 26,573,555 RSD) mainly relate to payables for crude oil in the amount of 13,300,861 RSD (31 December 2018: 10,240,742 RSD), to the suppliers Glencore Energy, Great Britain in the amount of 7,301,907 RSD (31 December 2018: 0 RSD) and Gazprom Neft, St Petersburg in the amount of 5,998,954 RSD (31 December 2018: 10,240,742 RSD).

16. OTHER CURRENT LIABILITIES

	30 June 2019	31 December 2018
Contract liabilities arising from contracts with customers:		
- Advances received	1,750,076	1,456,981
- Customer loyalty	604,364	545,945
Payables to employees	3,338,475	3,888,062
Other current non-financial liabilities	78,039	65,269
	5,770,954	5,956,257

Revenue in the amount of 1,419,420 RSD was recognized in the current reporting period related to the contract liabilities as at 1 January 2019, of which 1,169,329 RSD related to advances and 250,091 RSD to customer loyalty programme.

17. OTHER TAXES PAYABLE

	30 June 2019	31 December 2018
Mineral extraction tax	381,195	378,481
VAT	2,138,982	1,424,142
Excise tax	4,595,329	5,173,979
Contribution for buffer stocks	357,910	260,905
Custom duties	664,378	323,623
Other taxes	2,109,242	2,014,203
	10,247,036	9,575,333

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2019***(All amounts are in 000 RSD, unless otherwise stated)***18. LONG-TERM DEBT**

	30 June 2019	31 December 2018
Long-term loan - Gazprom Neft	21,937,136	24,738,405
Bank and other long term loans	70,245,773	68,605,682
Finance lease liabilities (note 19)	-	828,104
Other long-term borrowings	48,672	42,102
Less Current portion (note 14)	<u>(6,686,304)</u>	<u>(6,395,091)</u>
	<u>85,545,277</u>	<u>87,819,202</u>

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

	Six month period ended 30 June	
	2019	2018
Long-term loans at 1 January	<u>93,344,087</u>	<u>96,103,445</u>
Proceeds	9,866,658	11,525,534
Repayment	(10,816,006)	(16,009,123)
Foreign exchange difference (note 22)	<u>(211,830)</u>	<u>(178,654)</u>
Long-term loans at 30 June	<u>92,182,909</u>	<u>91,441,202</u>

(a) Long-term loan - Gazprom Neft

As at 30 June 2019 long-term loan - Gazprom Neft amounting to 21,937,136 RSD (2018: 24,738,405 RSD), with current portion of 5,484,284 RSD (2018: 5,497,423 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) Bank and other long-term loans

	30 June 2019	31 December 2018
Domestic	47,570,016	50,621,092
Foreign	22,675,757	17,984,590
	70,245,773	68,605,682
Current portion of long-term loans	<u>(1,202,019)</u>	<u>(825,139)</u>
	<u>69,043,754</u>	<u>67,780,543</u>

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

	30 June 2019	31 December 2018
Between 1 and 2 years	2,385,892	1,479,321
Between 2 and 5 years	62,118,397	61,371,002
Over 5 years	4,539,465	4,930,220
	<u>69,043,754</u>	<u>67,780,543</u>

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

	30 June 2019	31 December 2018
USD	337,497	361,695
EUR	69,622,433	67,947,394
RSD	562	628
JPY	285,281	295,965
	<u>70,245,773</u>	<u>68,605,682</u>

NIS Group

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

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

The Group repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Group has both fixed and floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor. Management expects that the Group will be able to fulfil its obligations within agreed timeframe.

The loan agreements contain financial covenants that require the Group's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of 30 June 2019 and 31 December 2018, respectively.

19. LEASE LIABILITIES

	30 June 2019	31 December 2018
Non-current lease liabilities	1,200,871	-
Current lease liabilities	292,535	-
	1,493,406	-

At 31 December 2018 finance lease liabilities were recognised within balance sheet lines Long-term debt (note 18) and Current portion of long-term debt (note 14) in total amount of 828,104 RSD.

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

	Six month period ended 30 June	
	2019	2018
As at 1 January	828,104	432,562
Changes in opening balance	790,946	-
Repayment	(166,279)	(48,832)
Non-cash transactions	39,623	351,551
Foreign exchange difference (note 22)	1,012	(2,189)
As at 30 June	1,493,406	733,092

20. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 30 June		Six month period ended 30 June	
	2019	2018	2019	2018
Employee costs	1,654,915	1,660,128	3,230,908	3,155,957
Cost of service organization	704,102	636,563	1,359,100	1,212,437
Materials and supplies (other than oil and gas and petroleum products)	707,507	520,087	1,337,397	1,130,514
Repair and maintenance services	2,108,245	989,242	3,388,151	1,869,259
Electricity for resale	78,691	1,633,349	176,322	2,599,660
Electricity and utilities	856,919	764,074	1,632,425	1,506,338
Safety and security expense	109,332	145,721	263,671	228,464
Insurance services	75,749	67,838	137,990	138,254
Transportation services for production	408,099	430,827	766,341	903,767
Other	81,520	229,158	906	194,368
	6,785,079	7,076,987	12,293,211	12,939,018

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2019***(All amounts are in 000 RSD, unless otherwise stated)***21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	Three month period ended 30 June		Six month period ended 30 June	
	2019	2018	2019	2018
Employee costs	2,959,024	2,851,015	5,816,342	5,533,820
Cost of service organization	896,262	894,129	1,783,694	1,733,400
Commission and agency fees	244,055	273,531	485,186	526,820
Legal, audit and consulting services	255,544	199,993	385,791	371,425
Current repair cost	227,775	203,981	405,773	375,322
Costs on advertising and marketing	91,761	106,785	144,503	183,571
Rent expense	74,129	95,944	121,561	189,514
Business trips expense	62,322	80,930	112,122	147,541
Safety and security expense	138,280	134,987	268,278	258,922
Insurance expense	30,123	30,391	62,147	53,933
Transportation and storage	47,049	43,414	79,727	77,672
Allowance for doubtful accounts	(10,286)	(151,493)	(24,234)	(136,284)
Other	1,072,633	1,035,392	2,097,769	2,008,321
	6,088,671	5,798,999	11,738,659	11,323,977

22. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three month period ended 30 June		Six month period ended 30 June	
	2019	2018	2019	2018
Foreign exchange gain (loss) on financing activities including:				
- foreign exchange gain (note 18 and 19)	326,145	(60,740)	729,080	719,290
- foreign exchange loss (note 18 and 19)	(255,054)	(298,362)	(518,262)	(538,447)
Net foreign exchange gain (loss) on operating activities	27,264	(82,328)	(316,823)	(177,917)
	98,355	(441,430)	(106,005)	2,926

23. FINANCE INCOME

	Three month period ended 30 June		Six month period ended 30 June	
	2019	2018	2019	2018
Interest on bank deposits	64,676	141,364	169,769	382,263
Interest income on loans issued	2,931	3,018	5,644	5,673
	67,607	144,382	175,413	387,936

24. FINANCE EXPENSES

	Three month period ended 30 June		Six month period ended 30 June	
	2019	2018	2019	2018
Interest expense	507,332	597,202	1,011,896	1,218,700
Decommissioning provision: unwinding of the present value discount	36,297	21,955	72,431	43,684
Financial assets: unwinding of discount	(1,133)	(17,864)	(6,350)	(44,661)
Less: interest expense capitalised on qualifying assets	(45,263)	(29,870)	(86,344)	(55,723)
	497,233	571,423	991,633	1,162,000

NIS Group

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

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

25. 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 2018. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 30 June 2019 the carrying value of financial assets approximates their fair value.

26. CONTINGENCIES AND COMMITMENTS

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Group's management recognised an environmental provision in the amount of 620,979 RSD (31 December 2018: 657,686 RSD).

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

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Group has paid all tax liabilities as of 30 June 2019.

Capital commitments

As of 30 June 2019 the Group has entered into contracts to purchase property, plant and equipment for 8,542,587 RSD (31 December 2018: 15,944,407 RSD) and drilling and exploration works estimated to 65.97 USD million (31 December 2018: 69.01 USD million).

There were no other material commitments and contingent liabilities of the Group.

27. RELATED PARTY TRANSACTIONS

For the purpose of these 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.

The majority owner of the Group 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 Group.

In the six month period ended 30 June 2019 and in the same period in 2018, 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.

NIS Group

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

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

As at 30 June 2019 and 31 December 2018 the outstanding balances with related parties were as follows:

	Parent company	Parent's subsidiaries and associates	Joint venture
As at 30 June 2019			
Trade and other receivables	-	930,863	354,964
Investments in joint venture and associates	-	-	1,909,331
Other current assets	-	58,981	-
Trade and other payables	(5,998,954)	(1,358,350)	(36)
Other current liabilities	-	(1,591)	(780)
Short-term debt and current portion of long-term debt	(5,484,284)	-	-
Long-term debt	(16,452,852)	-	-
	(27,936,090)	(370,097)	2,263,479

	Parent company	Parent's subsidiaries and associates	Joint venture
As at 31 December 2018			
Trade and other receivables	99	645,804	333,512
Investments in joint venture and associates	-	-	1,980,388
Other current assets	-	337,220	-
Trade and other payables	(10,243,742)	(684,856)	(1,246)
Other current liabilities	-	(90)	(199)
Short-term debt and current portion of long-term debt	(5,497,423)	-	-
Long-term debt	(19,240,982)	-	-
	(34,982,048)	298,078	2,312,455

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

	Parent company	Parent's subsidiaries and associates	Joint venture
Six month period ended 30 June 2019			
Petroleum products and oil and gas sales	-	263,347	542
Other revenues	-	31,112	5,948
Purchases of oil, gas and petroleum products	(22,202,884)	(1,969)	-
Production and manufacturing expenses	-	(108,439)	-
Selling, general and administrative expenses	-	(20,323)	-
Other income (expenses), net	13,831	(349)	-
Finance expense	(215,592)	-	-
	(22,404,645)	163,379	6,490

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

NIS Group

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

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

Transactions with Key Management Personnel

For the six month period ended on 30 June 2019 and 2018 the Group recognized 465,698 RSD and 520,220 RSD, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

NIS Group

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

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

NIS Group Contact Information

The Group's office is:

Narodnog Fronta 12,
21000 Novi Sad,
Republic of Serbia

Telephone: (+ 381 21) 481 1111
e-mail: office@nis.eu

www.nis.eu

Investor relations
e-mail: investor.relations@nis.eu