



**QUARTERLY
REPORT FOR
THIRD QUARTER
OF 2019**

The Quarterly Report for third quarter of 2019 presents a factual overview of NIS Group's activities, development and performance in third quarter of 2019. The Report covers and presents data for NIS Group, comprising NIS j.s.c. Novi Sad and its subsidiaries. If the data pertain only to certain individual subsidiaries or only NIS j.s.c. Novi Sad, it is so noted in the Report. The terms: 'NIS j.s.c. Novi Sad' and 'the Company' denote the parent company NIS j.s.c. Novi Sad, whereas the terms 'NIS' and 'NIS Group' pertain to NIS j.s.c. Novi Sad with its subsidiaries.

The Quarterly Report for third quarter of 2019 is compiled in Serbian, English and Russian. In case of any discrepancy, the Serbian version shall be given precedence.

The Quarterly Report for third quarter of 2019 is also available online on the corporate website. For any additional information on NIS Group, visit the corporate website www.nis.eu.

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Foreword

In the period from January to September, NIS Group implemented a comprehensive investment programme, totalling to RSD 29 billion, which is 6% more than in the first nine months of 2018. In this way, NIS continued to work on further development and the second phase of modernization in all business segments. In addition, the long-standing practice of paying dividends to shareholders in the amount of 25 percent of last year's net income continued. RSD 6.5 billion was paid in dividends this year.

In the third quarter of the current year, NIS Group continued to significantly improve its financial results compared to the previous two reporting periods. Thus, the net profit, which amounted to RSD 3.2 billion in the first six months, amounted to RSD 7.5 billion in the third quarter, which made a total net profit of RSD 10.7 billion in the period from January to September. In the same period, the EBITDA stood at RSD 31.2 billion. NIS Group's liabilities based on public revenues in the first nine months of 2019 amounted to RSD 136.6 billion.

Although NIS recorded a strong growth in financial indicators in the third quarter, overall results are still below last year's level. This outcome is a consequence of macroeconomic developments and NIS' planned activities. First of all, the average price of oil on the world market in the first nine months of 2019 was USD 64.7 per barrel, which is 10 percent less than the average price in the same period last year. On the other hand, in March and April, a planned capital workover was carried out in Pančevo Oil Refinery, which reflected on the total volume of oil refining and financial results.

As for the operational indicators, oil and gas production in the first nine months of 2019 amounted to 965 thousand tonnes of oil and gas equivalent. In the same period, the total output was 2.3 million tonnes of crude oil and semi-finished products, while the total volume of sales was 2.6 million tonnes. Later this year, NIS will continue its dedication to further improving its financial and operational results, and successful realization of capital projects, above all DCU and construction of CHHP Pančevo in cooperation with Gazprom Energoholding, will remain the priority.

Also, NIS continued its dedication to improving the conditions for quality training and professional development for employees in the oil industry. In early September, the most modern training centre in the region was officially opened in Elemir. This centre is for employee training in the field of oil and gas exploration and production, and can accommodate about 150 participants. NIS' plan for this centre is to provide training not only to employees, but also students of faculties and schools with which NIS collaborates, to ensure long-term professional development in this area. In addition, NIS was part of the international Blue Corridor Rally organized by GAZPROM and UNIPER to promote natural gas as a motor fuel. Modernization of NIS retail network also continued. The modern GAZPROM Stari Banovci petrol station, one of the most modern petrol stations within the GAZPROM network on the global market, has been put into operation on the Belgrade-Novı Sad highway.

Business Report

Highlights

January – September



- 32 development and 9 exploration wells drilled in Serbia;
- 30 (29 oil and 1 gas) development wells and 6 exploratory wells were put into production in Serbia;
- In Serbia, 700 km² of 3D seismic data were obtained in the Ada exploration area;
- In Romania, 170 km² of 3D seismic data were obtained in EX-2 block;
- Three capital overhauls were successfully completed in Romania (Teremia 1001, Jimbolia 6 and Teremia 1000); Jimbolia 6 and Teremia 1000 wells are prepared for production, while Teremia 1001 is undergoing a well test;
- Second Scientific and Technical Conference for young specialists and scientists in UPS Block was held on 5-7 June;
- Construction works on Stari Banovci petrol station were completed in August;
- Construction works on Krnješevci petrol station commenced in September;
- The Accreditation body of Serbia issued a Decision on Renewing Accreditation for the Upstream Laboratory, which confirmed the competency of this laboratory in testing rock formations, oil, natural gas and water;
- Following the completion of the works on its total reconstruction, one of the most modern petrol stations in network GAZPROM - Stari Banovci PS was commissioned;
- The works on the total reconstruction of Barajevo PS (NIS brand), Krnješevci PS (GAZPROM brand) and Ivanjica PS (NIS brand) have commenced;
- The construction of Otopeni PS in Romania has begun (GAZPROM brand);
- In July, NIS sold record volumes of bitumen – 55,912 tonnes, which is the best figure the company so far;
- In September, NIS marketed bitumen in Malta for the first time;
- A new payment service, “purchase with cash back”, was introduced on petrol stations.





- Start-up of €kon\$ system. Definition of the system management process in terms of operation, maintenance and change management;
- Performance of 2019 capital overhaul;
- Start up of C-4460 sulphur granulation unit;
- Development of continuous improvement process using Lean Six Sigma tools;
- Development of the digitalisation strategy as part of Industry 4.0. Drawing up the list of potential digital projects;
- Continuous employee training on the DCU complex and construction site and OTS;
- Application of the OMS etalon tools on the DCU;
- NIS opened the most modern training center in Elemir, where the employees are trained in the field of oil and gas exploration and production;
- NIS hosted a round table titled "Use of Natural Gas as Motor Fuel" which was organised as part of Blue Corridor 2019 international manifestation;
- In cooperation with Mastercard, NIS introduced a unique service of cash withdrawal from bank accounts in all NIS Petrol and GAZPROM petrol stations;
- A state-of-the-art aviation fuel quality control laboratory, located in the Aeroservice, Belgrade airport, was put into operation as part of NIS Scientific and Technology Center;
- For the seventh consecutive year, NIS paid out dividends to its shareholders equaling 25 per cent of the last year's net profit, and 6.5 billion RSD was allocated for that purpose.
- In Kikinda, a modern children's playground was built with NIS' support, for which 17 million RSD was allocated within Together for the Community Programme;
- With NIS' support, Belgrade got four electric vehicles which will transport citizens in the pedestrian zone downtown, as part of Vrabac Servis;
- Over 300 NIS' employees from the cities and towns across Serbia supported "Let's Walk" campaign of the National Association of Parents of Children with Cancer (NURDOR) and walked from the company's seat in New Belgrade to the University Children's Hospital in Tiršova street, to help raise the funds for construction of the third parents' house in Belgrade.



NIS Group

NIS Group is one of largest vertically integrated energy systems, with approximately 11,000 employees. The main activities of NIS are: exploration, production and refining of oil and natural gas, the sales and distribution of a wide range of petroleum and gas products as well as the implementation of petrochemicals and energy projects.

Main production capacities of NIS are located in Republic of Serbia, with subsidiaries and representative offices across several other countries of the world.

The goal of NIS is to become the biggest, fastest growing energy system of the region, and an example to the others by business efficiency and sustainable development dynamics, as well as to provide its shareholders, employees and the community with new values in challenging macroeconomic environment.

Business activities

Business activities of NIS Group are organized within the parent company, NIS j.s.c. Novi Sad, under Exploration and Production Block¹ and *DOWNSTREAM*² division.

Exploration and Production Block

Exploration and production

NIS is the only company in Serbia engaged in the exploration and production of oil and gas. NIS activities in this field also include operative support to production, management of oil and gas reserves, management the development of oil and gas reservoirs, and major exploration and production projects. Most of NIS oilfields are located in Serbia, while the exploration works are also conducted in Romania and Bosnia and Herzegovina. NIS' oldest foreign concession is in Angola, where oil exploitation started as far back as 1985.

This business segment operates an Elemir-based plant for the preparation of natural gas, production of LPG and natural gasoline and CO₂ capture, which has a design capacity of 65,000 tonnes of LPG and natural gasoline per year. An amine natural gas processing plant, which uses HiPACT technology (High Pressure Acidgas Capture Technology) is also located in Elemir. The Elemir-based plant is the first HiPACT plant in Europe, and the gas processing method completely prevents carbon dioxide emission into the atmosphere. Our production unit Energy operates heat and power generation assets and the production of compressed gas.

NIS is determined to constantly develop its technologies and implement business innovations in every segment of its operations. In the field of research and production, scientific and technological support is provided by the Scientific and Technological Centre STC NIS Naftagas Ltd. Novi Sad.

Services

NIS has its own servicing capacities, which fully meet the Group's demands and allow NIS to provide services to third parties. Services provide oil and gas exploration and production services through geophysical surveying, well construction, outfitting and workover, as well as special operations and measurements on wells.

¹ Exploration and production and subsidiary companies – NTC Naftagas d.o.o. Novi Sad, Naftagas-Naftni servisi d.o.o. Novi Sad and Naftagas Transport d.o.o. Novi Sad.

² Refining Block, Block Sales, Energy Department and subsidiary company Naftagas – Technical Services

Other services include: maintenance of oil and gas installations and equipment, construction, reconstruction and maintenance of oil and gas systems and facilities, freight and passenger transportation and heavy-duty vehicle services.

The goal of this business segment is to strengthen its presence in the region as well as international market, which is why its priorities are modernization of equipment, ensuring the high quality level of services, increasing technical and technological efficiency and boosting the workload in NIS and other companies.

DOWNSTREAM division

Refining

NIS manages the Pančevo Oil Refinery with maximum projected annual capacity of 4.8 million tonnes. After the MHC/DHT Complex became operational in 2012, Pančevo Oil Refinery produces: motor fuel in accordance with Euro-5 standard³, aviation fuel, liquid petroleum gas, petrochemical raw materials, fuel oil, bitumen and other petroleum products. Owing to constant modernization of refining facilities, NIS locally produces fuels which meet European standards, while NIS Group holds a strategically important leading position on the regional market of petroleum products.

The construction of a bottom of the barrel plant with delayed coking technology is currently underway at the Pančevo Oil Refinery, being a key project of the second stage of the Refinery modernization. After the completion of this project, the Pančevo Oil Refinery will produce larger quantities of the finest petroleum products, primarily diesel, and will also start producing coke, a product which is currently imported into Serbia.

Sales and Distribution

NIS Sales and Distribution includes export and local wholesale of crude oil, gas and petroleum products, as well as retail of petroleum end products, liquid petroleum gas and other supplementary products. All fuel types are subject to regular, rigorous laboratory testing and comply with national and international standards.

NIS operates the largest retail network in Serbia and its gas stations are active in the countries of the region as well - in Bosnia and Herzegovina, Bulgaria and Romania. In Serbia and in the region, NIS manages a network of over 400 retail sites and has two brands in the market: NIS Petrol and premium gas station brand - GAZPROM. As separate businesses, NIS develops aviation fuel supply, bunkering, lubricants and bitumen sales and distribution.

Lubricants represent one of the key areas of the company's 'non-fuel' business and they are of great importance in increasing brand recognition and customers' loyalty. The lubricant business includes production, sale, development and marketing of lubricants and technical fluids.

³After the completion of the mild hydrocracking and hydrotreatment plant (MHC/DHT) in 2012, NIS has completely switched to the production of motor fuel that meets the European quality standards

Energy

NIS is engaged in purchase, sale and management portfolio of natural gas, trade of CNG, trade of electrical energy, development and implementation of strategically important energy projects, as well as the projects for improving energy efficiency.

Starting from 2013 NIS has put into operation small power plants at oil and gas fields at 8 locations in Serbia with a maximum power of 14.5 MWe. The ecological advantage of using these small power plants is the production of electrical and thermal energy from gas, which has not been used previously due to its high content of carbon dioxide and nitrogen, or because it could not be valorized due to the lack of gas infrastructure in the vicinity. NIS is also actively developing in the field of electricity trade, and, apart from the Serbian market, it is present in the markets of Bosnia and Herzegovina, Montenegro, Romania, Slovenia and Hungary, and trades also at the border with the Republic of North Macedonia.

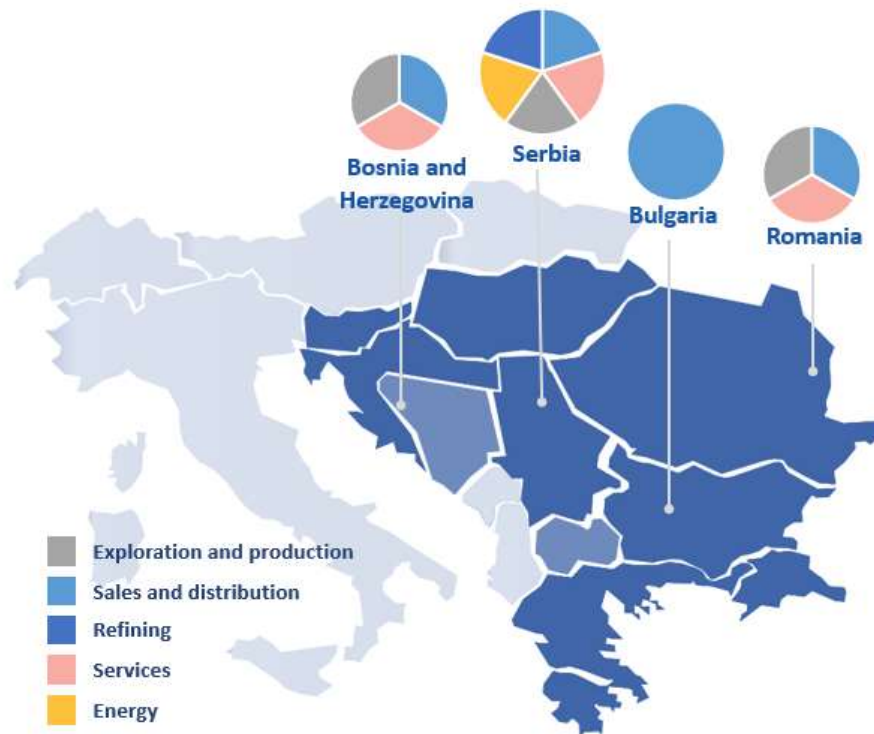
The key task of this business segment in the future will be the construction of additional facilities for the production of electrical energy. In cooperation with the company 'Gazprom Energoholding', NIS is implementing a project for the construction of a thermal power plant - heating plant (CCPP) Pančevo in the vicinity of the Oil Refinery (of power up to 196 MW), at the same time developing a wind turbine project together with its partners (of power up to 102 MW).

Nine Functions within the parent company NIS j.s.c. Novi Sad provide support to core activities. Five of these Functions are partially decentralized and have functionally subordinate departments within Blocks. These are: Finance, Economics, Planning and Accounting Function; Strategy and Investments Function; Procurement Function; Organizational Affairs Function; HSE Function. The other four functions are centralized - Legal and Corporate Affairs Function; Corporate Security Function; Function for government relations and corporate communications; Internal Audit Function (this Function is directly subordinated to the General Director), while the Internal Control Responsible reports to the Board of Directors Audit Commission⁴. One of the CEO's Deputies is in charge of petrochemicals operations.

⁴ This Function is directly subordinated to the General Director, while the Internal Control Responsible reports to the Board of Directors Audit Commission.

NIS Worldwide

NIS headquarters and main production facilities are located in the Republic of Serbia: oil and gas fields, the Oil Refinery Pančevo, network of storage facilities, as well as retail network. Following its long term development strategy, in 2010 and 2011 NIS starts expanding its business activities across the border of Serbia, while regional business development becomes one of the strategic goals of NIS. Regional expansion is developed in two main directions - in the field of oil and gas exploration and production (in Romania and Bosnia and Herzegovina) and through the development of a retail network (in Bulgaria, Bosnia and Herzegovina and Romania). Additionally, NIS is active in the field of electricity trade, and, apart from the Serbian market, is present in the markets of Bosnia and Herzegovina, Montenegro, Romania, Slovenia and Hungary.



NIS Group Business Structure



⁵ Under the Law on Tourism of the Republic of Serbia, if a company does not operate in hospitality as its core activity, the company is obliged to form a branch, i.e. premises outside its registered seat, and register it accordingly or otherwise establish an organisational unit that is registered in the Tourism Registry. To this end, the Company registered all petrol stations where it provides hospitality services as separate branches. The list of petrol stations which are registered as branches is available at <http://ir.nis.eu/en/corporate-governance/group-structure/>.

⁶ The process of liquidation has been initiated.

Risk Management

Integrated Risk Management System

Risk is a likely future event that can exert a negative or positive influence on the achievement of the Company's objectives at all management levels. Risk management is a continuous and systematic business process which serves to support management decision-making and the achievement of organisation's objectives in a risk exposure environment.

The Company's operations involve certain risks which may significantly affect the fulfilment of set objectives, if realised. The Company acknowledges risks and invests sustained efforts to manage them systematically. An effective and efficient risk management is central to ensuring the Company's business continuity and a well-established risk management framework facilitates the Company's risk management procedures and lays the groundwork for business decision-making.

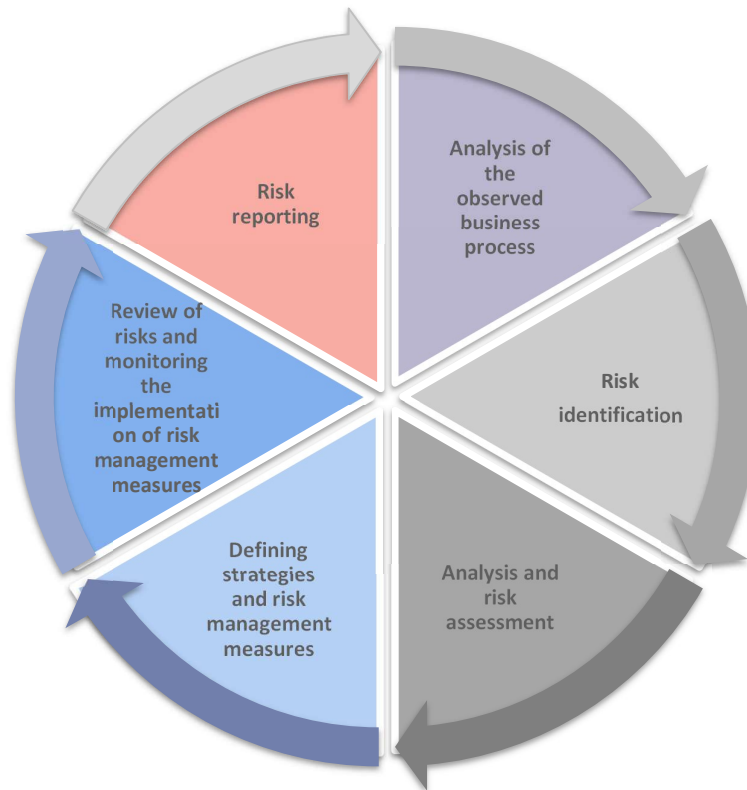
NIS has defined its risk management objectives and has an integrated risk management system (IRMS) in place. The Company's objective in the field of risk management is to increase the effectiveness and efficiency of managerial decisions through identification, analysis and assessment of associated risks,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

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

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

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

IRMS Business Process Flow at NIS



The basic principle underpinning this system entails that the responsibility for managing risks is assigned to risk owners, namely owners of business processes in the Company. Such approach allows for in all processes of the Company, identifying the areas of responsibility for risk management and monitoring, as well as ensuring that suitable strategies and action plans are prepared in order to manage risks at the level of business processes or NIS as a whole.

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

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

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

IRMS in business planning process

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

Through its operations, the Group is exposed to the following risk categories and groups:

- Non-financial risks:
 - o Operational risks,
 - o Political risks,
 - o Strategic risks,
 - o Compliance risks,
 - o Reputational risks,
- Financial risks:
 - o Credit risks,
 - o Liquidity risk,
 - o Price risks,
 - o Foreign exchange risks,
 - o Interest rate risks.

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

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

commercial banks from some of the EU- and US-based bank groups. financing NIS' long-term development despite the limitations of the sanctions regime.

Financial Risks	
RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Credit Risks	
Accounts receivable risk	
Arises in relation to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans given to third parties, and exposure to wholesale and retail risks, including unrecoverable debt and assumed liabilities.	<p>Credit risk management is established at the level of NIS Group. With respect to credit limits, banks are ranked according to adopted methodologies applicable to major and other banks, in order to determine the maximum extent of bank exposure of NIS j.s.c. Novi Sad at any given time (through deposits, documentary instruments: bank guarantees, Letters of Credit, etc. issued for the benefit of NIS j.s.c. Novi Sad).</p> <p>Regarding accounts receivable, there is a credit limit methodology in place which serves to define the level of exposure in relation to individual customers, depending on their financial indicators.</p>
Liquidity risk	
Liquidity risk denotes a risk of NIS Group encountering difficulty in meeting its liabilities. It is the risk of not having suitable sources to finance NIS Group's business operations.	<p>NIS Group continually monitors liquidity in order to provide sufficient cash to meet its operational, investment and financial performance requirements. To this end, it is continually contracting for and securing sufficient credit and documentary lines, while complying with maximum allowed level of the loan debt (parent company sets the limits) and meeting the commitments under commercial bank arrangements (covenants).</p> <p>Since mid-September 2014, NIS j.s.c. Novi Sad has been exposed to the risk of limited external financing capacities due to the imposition of sectoral sanctions by the EU and the US on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU. The sanctions prevent NIS j.s.c. Novi Sad from borrowing from the EU or US banks for a period longer than 30 and 60 days respectively. Exemption from the EU sanctions is related to the possibility of borrowing for a period longer than 30 days from EU banks exclusively if the loan is intended for the payment of non-sanctioned goods and services imported from the EU.</p> <p>In order to acquire necessary funds for future transactions, NIS negotiated/contracted over 700 mln EUR new credit lines with Serbian, Russian and Arabian banks for general purpose funding and with Serbia-based European banks for funding imports from the EU (financing for a period longer than 30 days is allowed if the subject of financing is import of goods or services from the EU), thus ensuring necessary funds for regular repayment of loans in 2018 and 2019, as well as for early repayment of loans in order to improve the loan portfolio (reduction of average financing price along with maintaining optimum average portfolio maturity). In addition to improved qualities of the portfolio, restructuring of credit portfolio, carried out in 2018, has enabled us to free cash flow for the implementation of planned investments and normal operation of the company in the following 4 years.</p>

Furthermore, in order to further improve the characteristics of the loan portfolio and provide additional funding limits in 2019 and 2020, during the first nine months, NIS ensured an improvement of the conditions (interest rate reduction) for three loans which are in the total amount of EUR 185 million, as well as new limits under favourable terms in the amount of about EUR 90 million for loans and EUR 70 mn for documentary business. The use of these sources of funding will facilitate early repayment of unfavourable loans and decrease of the average price of portfolio by the end of the year, maintaining of the average portfolio maturity between 3 and 4 years at the end of 2019, as well as the sufficient number of documentary limits for operative business.

Market Risks

Due to its core activity, NIS Group is exposed to risks associated with price volatility, specifically the price of crude oil and petroleum products affecting the value of inventories and refining margins, which in turn affects future cash flows.

These risks are partly offset by adjusting petroleum product selling prices against the changes in oil and petroleum product prices. The need to use some of commodity hedging instruments in the Group's subsidiaries, including NIS j.s.c. Novi Sad as a subsidiary, is at the discretion of Gazprom Neft Group.

In addition, the following actions are undertaken to reduce a potentially negative impact of the risk:

- Annual planning based on multiple scenarios, plan follow-up and timely adjustment of operating plans for crude oil procurement;
- Regular sessions of NIS j.s.c. Novi Sad Committee in charge of crude oil purchase/sale to discuss all major subjects related to both crude oil purchase and sale (sale of oil from Angola-Palanca crude oil);
- Tendency to enter into long-term crude oil purchase contracts at most favourable commercial terms and with longer payment terms on an open account basis, and sales contracts which would exempt NIS j.s.c. Novi Sad, in line with current intergovernmental agreements, from paying customs duties at import, based on preferential status;
- Expansion of the supplier portfolio, successful cooperation with EU-based companies, growing competitiveness in import tenders and more prominent progress regarding purchase prices;
- Expansion/diversification of the crude oil basket for prospective import, provision of samples of the crude oil types that have not been used for processing at the Pančevo Oil Refinery;
- Constant effort to optimise processes and achieve the most optimum economic effects and indicators;
- Occasional benchmarking to survey the market and price trends and to analyse the commercial capacities of major prospective suppliers of crude oil, reputable companies which are dominant and reliable in crude oil trading.

Foreign Exchange Risks

NIS Group operates in an international setting and is thus exposed to the risk of fluctuating foreign exchange rates arising from business transactions being made in

The risks relating to fluctuations in the national currency against the US dollar is partly neutralised through natural hedging of petroleum product selling prices, which are adjusted to these fluctuations. Risk management instruments are also used, such as forward transactions on the foreign exchange market, which help reduce the impact of foreign currency losses in the event of depreciation of the

different currencies, primarily USD and EUR. The risk involves future trade transactions and recognised assets and liabilities.

national currency against the EUR (*following the sanction constraints imposition NIS pays the majority of its foreign currency liabilities in this currency*). Other actions include the balancing of the foreign exchange equilibrium in terms of adjusting the currencies in which export transactions are denominated to the currencies of foreign liabilities; managing the currency structure of the loan portfolio etc.

Interest Rate Risks

NIS Group is exposed to the risk of interest rate volatility, both in terms of its bank loans and deposits.

NIS j.s.c. Novi Sad takes out loans with commercial banks at floating or fixed interest rates depending on projections of changes of base interest rates in the monetary market and the business banks' capability to offer fixed interest rates for loans. Consequently, funds in the form of intercompany loans to third parties are placed at floating or fixed interest rates, whereas funds deposited as term or demand deposits are placed at flat interest rates. Deposits are aligned with the credit limit methodologies of commercial banks (funds are reciprocally placed only with major commercial banks from which NIS j.s.c. Novi Sad takes out loans and/or credit/documentary lines). In this respect, revenues and cash flows from bank deposits are predominantly independent of any changes in base interest rates, whereas for loans/credits granted exposure to the risk of base interest rate volatility (EURIBOR, LIBOR, etc.) is higher for loans/credits granted.

Business Environment

World

Undoubtedly, the most significant global event that marked the third quarter was the drone attack on oil fields in Saudi Arabia in mid-September, which halved the total crude oil production of that country. In consequence of the attack, the price of crude oil on the international market increased by 15-20% depending on the type of oil. In the first texts relating to the Saudi Arabia incident, The Wall Street Journal called this attack ‘the Big One’, and the USA President immediately announced a sort of military response.

Two days after the attack, The Saudi Minister of Energy stated that they had already managed to recover half of the lost production in order to return the supply of oil to the international market to the level which it had been on prior to the attack, as well as that Saudi Arabia will retain its role of safe supplier of the global oil markets.

The IMF regards the attack on Saudi oil facilities and the ensuing sharp rise in the oil price as dangerous instabilities which threaten the world and asked the governments to increase public investments or to make structural changes in order to boost growth before the economic conditions deteriorate even further.

Oil export from Iran and Venezuela is still under sanctions and it is not expected that the oil from these countries will appear freely on the global market. Potential shortage of oil will have to be compensated from the mandatory reserves of oil and petroleum products created by most importing countries.

In a report published in September, the IHS consulting services house said that the conventional oil and gas discovery during the past 3 years has been on the lowest level in the past 7 decades, and that they do not expect any significant recovery. The drop in conventional discovery is not just a consequence of low oil price, but also of competition with short-term unconventional projects and financial investors which bring the long-term, expensive borderline projects into question, the report says.

In the northern Europe there is a ‘quiet war’ because of the construction of the ‘Nord stream 2’ pipeline. American authorities are considering a draft of the Law on sanctions against this pipeline. Analysts believe that the sanctions will not stop the pipeline construction: they may just slow down the business and thus decrease the income for the pipeline users. According to some estimations, European gas deficit might reach 300 billion cubic metres per year.

Oil price

After the initial jump caused by the attack on Saudi Aramco, crude oil prices have stabilised, and the merchants are analysing potential long-term implications. Due to oil production recovery in Saudi Arabia, which was faster than expected, oil prices are decreasing, so that in the last week of September, Brent crude oil price was lowered to 61.80 US\$/bbl, whereas the American WTI crude oil price dropped to 55.80 US\$/bbl. Another thing that had impact on the drop in prices of these two types of oil was the writing in ‘The Wall Street Journal’, which reported that Saudi Arabia had arranged the partial ceasefire in Yemen.

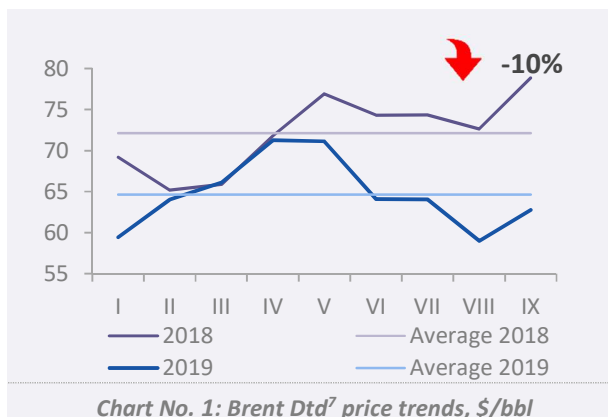


Chart No. 1: Brent Dtd⁷ price trends, \$/bbl

⁷ Source: Platts.

Macroparameters

The World Bank has reduced the forecast for Global Economic Prospects for the year 2019 from 2.6 down to 2.5 per cent due to a slowdown in global investment trade. Economic growth has continued to lag behind in conditions of independent economic policies and investment drop and trade flows on the global level.

Annual inflation rate in the Euro zone in September was 0.8 per cent, *Eurostat* reported. It is a reduction by 0.2 per cent compared to the previous month. On the other hand, energy prices dropped by 1.8 per cent in September compared to August.

Escalation of the trade war between the USA and China shook up certain world financial markets, after the biggest drop in the stock exchange indexes in the American Wall Street in August 2019.

Serbia

Positive economic trends in Serbia continued in the third quarter of 2019.

The real growth of Gross Domestic Product in the second quarter of 2019 was 2.9 per cent compared to the same period last year. This growth is smaller than projected, but the NBS estimates that the growth in the third quarter will be faster by 3.7 per cent, following the industrial production recovery and further expansion of construction industry and fixed investments. Risks projections of GDP growth are concerned with the global growth slowdown and the monetary policies of the leading central banks and price movements of primary products.

At the same time, NBS expects that domestic factors will continue to give strong support to economic growth of around 4 per cent, with the emphasis on high private and state investments, which were projected to exceed 4 per cent of GDP in 2019.

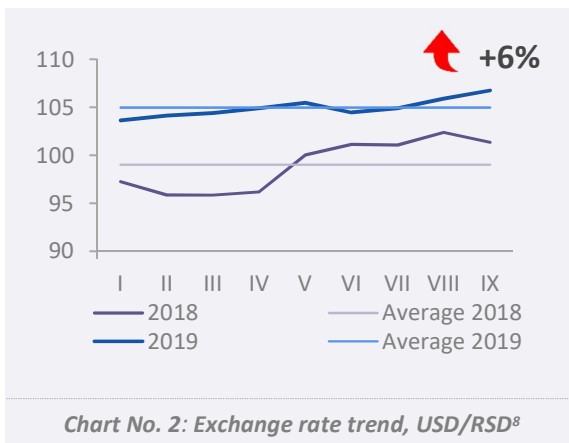
On the other hand, in a report for 2019, The World Bank estimated that economic activity in the Western Balkans is slowing down because investments and export continue to decrease in all the countries of the region, and projections of overall growth in the region were reduced from 3.9 to 3.5 per cent in 2019. It is expected that positive outlook for growth will be dictated mostly by consumption, whereas the investment contribution to GDP will gradually disappear.

Despite economic slowdown, unemployment in the region continues to decrease in all the countries, and the lowest unemployment rate in the second quarter of just 10.3 per cent was registered in Serbia in 2019.

Inflation profile in Serbia is similar to that of developed economies. Inflation is firmly stabilised, and it is around 2 per cent.

The declining trend in public debt continued at the beginning in 2019. (51.9 per cent of GDP in July). The reference interest rate, after decrease in July and August, was kept at 2.5 per cent in September. Interest rates for loans in RSD are still the lowest.

Industrial production in the Republic of Serbia in August 2019 increased by 0.5 per cent compared to August 2018. Viewed by sectors, in August 2019, compared to August 2018, in the Mining Sector there was growth of 17.5 per cent; in the Electricity, Gas and Steam supply and Air-conditioning Sector there was growth of 4.5 per cent, and in the Processing Industry Sector there was a drop of 1.8 per cent.



- Average USD/RSD exchange rate in first nine months of 2019 was higher by RSD 5.96, i.e. 6% compared to the average exchange rate in the same period of 2018.
- During first nine months of 2019, USD/RSD exchange rate increased by RSD 4.04 or 3.9%.
- During first nine months of 2018, USD/RSD exchange rate rose by RSD 2.5 or 3%.

Chart No. 2: Exchange rate trend, USD/RSD⁸

⁸ Source: NBS

Performance Analysis

Market Share⁹

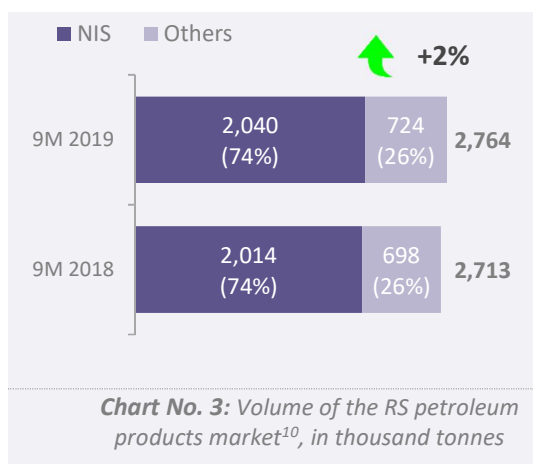
The consumption of motor fuels is rising in the entire region, in line with the positive macroeconomic indicators.

The largest contributors to the increase in consumption are transport, agriculture, construction and processing industries.

The increase in the consumption of motor fuels is primarily due to the increase in consumption of diesel.

The main growth factors are the construction and road industries, increase of transit traffic, increase in exports of agricultural products and products of the processing industry.

Market Share in the Serbian Market



The total consumption of petroleum products shows a positive growth trend. This was a result of the following factors:

- growth in consumption of diesel, bitumen and coke;
- construction and road industries are the main drivers of diesel consumption;
- good agricultural season;

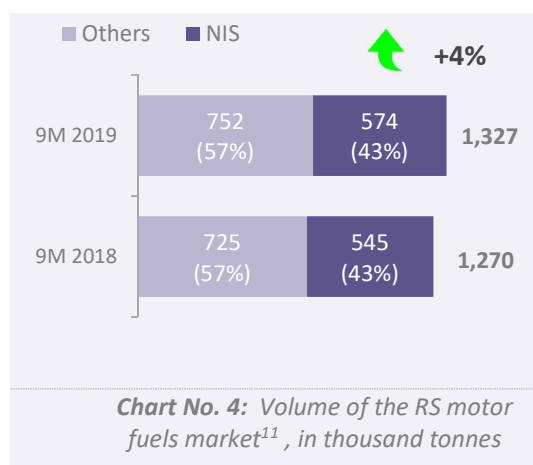
Primary gasoline (turnaround of Petrohemija) and heavy fuel oil show a downward consumption trend.

NIS has preserved its market share, which traditionally quite substantial. The largest market share jumps were in the petrol, diesel and heavy fuel oil segments, respectively.

NIS' sales are following the market trends and are rising in the diesel and petrol segments, whereas LPG sales are falling. Its modernised petrol stations, range of additive-enriched fuels and carefully designed loyalty programmes ensure that the high market share is preserved.

In the first nine months of the year, our retail market was up 4% compared with the same period last year.

The main growth factors are an increase in purchasing power, increase in the number of vehicles, increase of transit traffic, and the fact that a number of transport



⁹ Data sources for projections: for Serbia – Sales and Distribution internal analyses and estimates; for Bulgaria and Romania consumption estimates – PFC and Eurostat; For Bosnia-Herzegovina – PFC and internal estimates.

¹⁰ Data for 2019 are given on the basis of estimates.

¹¹ The sales of NIS and other competitors include motor fuels (auto-gas, CNG, gasoline and diesel). LPG cylinders are not included. Data for 2019 are given on the basis of estimates.

and distribution companies have started supplying at petrol stations.

Market Share in Bosnia-Herzegovina, Bulgaria and Romania

Bosnia and Herzegovina

Brod Oil Refinery is out of order and according to official announcements from Optima Group, the workover is scheduled to last until January 2020. In the third quarter of this year, more than 70 employees of Brod Oil Refinery were declared redundant and the company's trade union says that another 88 employment termination notices are planned to be served by the end of 2020 resulting in uncertainty about continuation of production.

Bosnia and Herzegovina is the only European country which so far has not implemented even a single obligation imposed by the Energy Community in the area of oil and oil products. The country has no minimum reserves of petroleum products on the state level and there is no national strategy in place for fulfilling obligations under Directive 2009/119/EC EU, says the Energy Community.

The number of petrol stations, operating on retail market, is increasing dramatically. Distributors which had retail chains within their entities until a few years ago are now adding to their networks to ensure national coverage.

In Bosnia and Herzegovina NIS has 35 petrol stations (and 2 petrol stations operating in DODO regime).

In the overall motor fuel market, NIS has a market share of 21.8%, while its share in retail market is 10.2%.

Bulgaria

Bulgarian oil refinery Lukoil Neftochim Burgas, owned by Russian Lukoil, issued a statement that it had signed a 30 million Lev contract (15.3 million EUR) with local suppliers for the reconstruction of the terminal on the pier in Rosenets Port located on the southern shore of the Burgas Bay, on the Black Sea, which is a part of Burgas Port.

OMV Bulgaria announced that it would open 2 new petrol stations in Bulgaria by the end of 2019. One is to be located near Plovdiv while the other is to be on the road connecting Sophia and Pernik. In 2018 OMV Bulgaria also opened two petrol stations. OMV entered the Bulgarian market in 1998 and it ended the year 2018 with 93 petrol stations across the country, 91 under OMV brand and two under the Avanti brand.

Legislative changes in Bulgaria envisage inclusion of bitumen into the list of fuels which are subject to mandatory reserves. Currently, about 50% of bitumen consumption (200 thousand tonnes a year) are imported while in 2017, imported accounted for 100% of bitumen in the country. According to the words of a market representative, if the amendments to the Law on Supplies of Oil and Petroleum Products are adopted, both import and warehousing will be aggravated, giving rise to increase in expenses and thereby resulting in the road and infrastructure construction becoming more expensive. Calculations of both trading and construction companies show that the storing of mandatory reserves of bitumen would give rise to an increase in the price of this raw material by approx. 5%.

Bulgarian Ministry for Regional Development issued a statement that the draft law has been prepared for the construction of hydrogen filling stations by the end of 2020. In the best case scenario based on this law, there could be as many as 10 stations by 2025 and 50 by 2030, said the Ministry.

In Bulgaria, NIS has 35 petrol stations and petroleum product warehouses in Kostin Brod.

In the overall motor fuel market, NIS has a market share of 4.9%, while its share in the retail market is 4.4%.

Romania

Romanian Competition Council has launched an Fuel Prices Monitoring App which shows the prices for standard and premium fuels offered by OMV Petrol, MOL, Rompetrol, Lukoil, Socar and Gazprom companies. Fuel Prices Monitoring App is available as a web application and a mobile app (for iOS and Android) which can be downloaded from the App Store and Google Play. Competition Council is also in charge of analysis of the fuel market which was initiated after the petroleum and diesel prices in Romania, exclusive of taxes, exceeded European average.

OMV Petrom, the largest Romanian energy company, announced that it had launched a new offshore drilling campaign on the Black Sea's shore of Istria - an investment worth more than 30 million EUR. Two probes will be drilled at the depth of more than 2,000m below the sea bed, in about 50m deep waters.

OMV Petrol has invested nearly 19 million EUR in revamping its Arad fuel warehouse, second largest in the country, with a storage capacity of more than 32,000 cubic meters. The revamping of the fuel warehouse in Arad marked a successfully completed program for optimisation of fuel warehousing infrastructure.

OMV Petrol has also commissioned, in its oil refinery in Petrobrazi, a polycarbonate unit converting LPG and poor quality petroleum into petroleum products of high added value i.e. petroleum and diesel. This is a third unit of its kind in the world.

Romanian oil company Rompetrol is to revamp the heat energy plant of the Vega Refinery in Ploiesti in order to increase its energy efficiency. The investment into this program is valued at over 1.9 million USD and its aim is to improve refinery's energy efficiency by boosting its yield from 91% to 96% and by reducing its production emissions.

Rompetrol Rafinare has announced the completion of the three million dollar investment as part of the digital transformation program for the Petromidia Navodari Refinery.

Romanian Competition Council appealed for an urgent adoption of the law which would regulate the status of the land granted for use to the companies in the course of the privatisation process for which they obtained no certificates of ownership as is the case with OMV Petrom (it does not own the land under its petrol stations). As a result, the companies used the land while the country in return received neither shares nor lease fees.

KMGI (KazMunaiGas International) wishes to double the production capacity of the Petromidia Refinery and the decision regarding this matter could be reached in the next 3 to 4 months after the Feasibility Study. The aim is to reach the capacity of 10 million tonnes a year, which almost doubles the current figure

KMGI (KazMunayGaz International) invests into network of petrol stations of Rompetrol in Romania and plans to open 70 petrol station over the next four years, with 25 petrol stations planned for 2019-2020. Retail sale is to be developed through Kazakhstan-Romanian Investment Fund created at the beginning of 2019. In addition to petrol stations whose construction is to be financed by the Fund, the company will continue its cooperation with its franchise partners, in respect of which about 10 new petrol stations are expected to be opened in the upcoming years. Fund has two shareholders: Ministry of Energy (20%) and KMGI (80%). New petrol stations will operate in accordance with standards and under Rompetrol brand.

NIS has 18 petrol stations in Romania.

In the overall motor fuel market, NIS has a market share of 0.9%, while its share in the retail market is 1.3%.

Key Performance Indicators

Q3 2019	Q3 2018	Δ^{12}	Indicator	Unit of measure	9M 2019	9M 2018	Δ^{13}
61.9	75.3	-18%	Brent Dtd	\$/bbl	64.7	72.1	-10%
78.7	86.3	-9%	Sales revenue ¹⁴	RSD billion	196.2	206.8	-5%
7.5	10.2	-27%	Net profit	RSD billion	10.7	21.7	-51%
15.3	18.1	-16%	EBITDA ¹⁵	RSD billion	31.2	42.0	-26%
25.9	23.3	+11%	OCF	RSD billion	41.9	32.7	+28%
10.6	10.1	+5%	CAPEX ¹⁶	RSD billion	29.0	27.3	+6%
56.8	51.3	+10%	Accrued liabilities for taxes and other public revenue ¹⁷	RSD billion	136.6	140.3	-3%
574	565	+2%	Total bank indebtedness ¹⁸	EUR million	574	565	+2%
1.7	2.1	-18%	LTIF ¹⁹	number	1.7	2.1	-18%

¹² Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.

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

¹⁴ Consolidated operating income.

¹⁵ EBITDA = Sales revenues (exclusive of excise duties) – costs of inventories (oil, petroleum products and other products) – Operating Expenses (OPEX) – other costs that may be controlled by the management.

¹⁶ CAPEX amounts are exclusive of VAT.

¹⁷ Taxes, fees, charges and other public revenue calculated for the reporting period. The overview is inclusive of the liabilities of NIS for taxes and other public revenue in Serbia and other countries of operation.

¹⁸ Total bank indebtedness = Total debt to banks + Letters of Credit. As at 30 September 2019, this was € 574 million of total debt to banks from loans.

¹⁹ Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The indicator shown refers to NIS j.s.c. Novi Sad with its subsidiaries: Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 30 June, hence there is no difference between 9M and Q3.

Operating Indicators

Exploration and Production

Q3 2019	Q3 2018	Δ^{20}	Indicator	Unit of measure	9M 2019	9M 2018	Δ^{21}
324	338	-4%	Oil and gas output ²²	Thousand t.o.e.	965	999	-3%
216	225	-4%	Domestic oil output ²³	Thousand tonnes	646	663	-3%
2.9	3.0	-3%	LTIF ²⁴	number	2.9	3.0	-3%
8.5	10.6	-20%	EBITDA	RSD billion	26.6	27.7	-4%
5.7	5.0	+14%	CAPEX ²⁵	RSD billion	15.1	13.2	+14%

In the Exploration and Production Block, with the implementation operational efficiency improvement measures and with maximum engagement of "Services", the total production of oil and gas was 965 thousand t.o.e.

30 development wells (29 oil and 1 gas) have been commissioned in Serbian reservoirs. In addition, over the past nine months of 2019, 19 wells were brought in at the oil fields after conducting activities, and 107 more wells underwent geologic and technological activities.

In the field of geology and development of reservoirs, the emphasis is on preserving the high quality of the performed geological and technical activities and on testing the new technologies aimed at increasing the production of oil and gas.

Geological and exploratory works and reservoir development

As part of development drilling, additional exploration and determination of oil saturation of active reservoirs and expansion of the well network were actively performed.

The programme of activating the wells within the well stock which has been inactive in the previous years has been successfully continued. Additionally, workover and isolation operations, as well as other GTA, have been carried on.

Exploratory drilling and well testing

During the geological and exploration operations carried out by the Exploration and Production Block in first nine months 2019, 9 exploratory wells were drilled: 5 were put into production, 1 was killed, and 3 are undergoing testing.

3D seismics

3D seismic surveying of the Ada exploration area was completed in July, where 700 km² was surveyed in total.

²⁰ Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.

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

²² Domestic oil output includes natural gasoline, whereas gas output takes into account commercial gas output and light condensate.

²³ With natural gasoline.

²⁴ Lost Time Injury Frequency Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. *The data refers to the Exploration and Production Block (including Services)*. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 30 September 2019, hence there is no difference between 9M and Q3.

²⁵ Financing, exclusive of VAT.

The processing of 3D seismic data acquired in the Ada exploration area is underway, as is the complex seismic and geological interpretation of 3D seismic data acquired in the Turija IV exploration area.

In order to secure a new approval for continuing exploration in the exploration area in the part of Serbia south of the Sava and Danube, the company is currently preparing the legally required project and technical documentation, so that it could apply at the Ministry of Mining and Energy for the renewal of the approval for exploration in this exploration area for another 3 years (2020-2022). All legal and technical conditions for the renewal of the Approval for Exploration were fulfilled.

Projects abroad

The Romanian Company runs its upstream business using the resources of NIS Petrol s.r.l. Romania (a subsidiary solely owned by NIS j.s.c. Novi Sad) on six concession blocks. NIS Petrol s.r.l. is the operator on these blocks.

Key events in Romania:

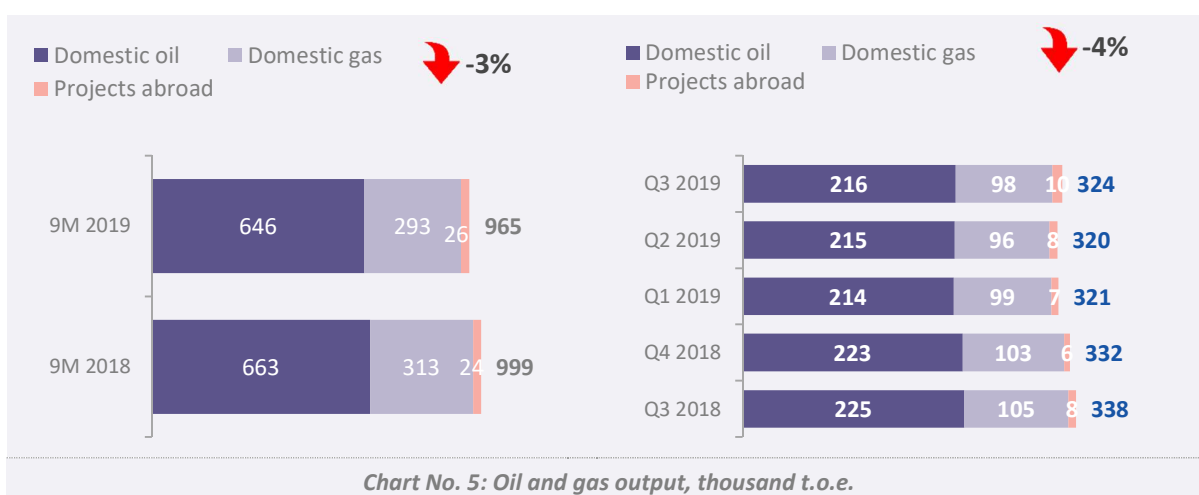
- EX-7 and EX-8 blocks. The following operations were completed during the first 9 months of 2019:
 - 2 wells (Beba Veche Sud 1000 and Teremia 1001) were drilled in EX-7 block;
 - Extended well testing of Teremia 1001 was completed;
 - Pesak Sud 1000 well was drilled in EX-8 block
 - Teremia 1001 well testing is underway;
 - Drilling of Teremia 1002 well commenced in EX-8 block;
- EX-2 and EX-3 blocks. In Q3 this year, field 3D surveying operations were completed on 170 km² in EX-2 block.
- EX-12 block. The acquisition of the permit for land access for seismic surveying is underway.
- Jimbolia Block. The following operations were completed during the first 9 months of 2019:
 - capital workover was carried out on Jimbolia 6 well, the testing equipment was manufactured and delivered, and the construction and erection works completed;
 - preparatory work for the commissioning of the gas preparation complex was completed, and the relevant documentation was submitted to the government bodies in charge of commercial use.

Key events in Bosnia and Herzegovina:

- During Q2 in Bosnia and Herzegovina, Republic of Srpska, Annex 3 to the Concession Agreement was signed with the Ministry of Mining and Energy of Republic of Srpska, and therefore renewed the exploration right until the end of 2023.
- In June 2019, the Ministry of Mining and Energy of RS issued an Approval for Detailed Petroleum and Geological Exploration in the Republic of Srpska for 2019-2023.
- Workover of Ob-02 well was completed, the stimulation of the well with positive results.
- IC NIS was held, and presented works in East Herzegovina for the period between 2019 and March 2020.

Operating Indicators

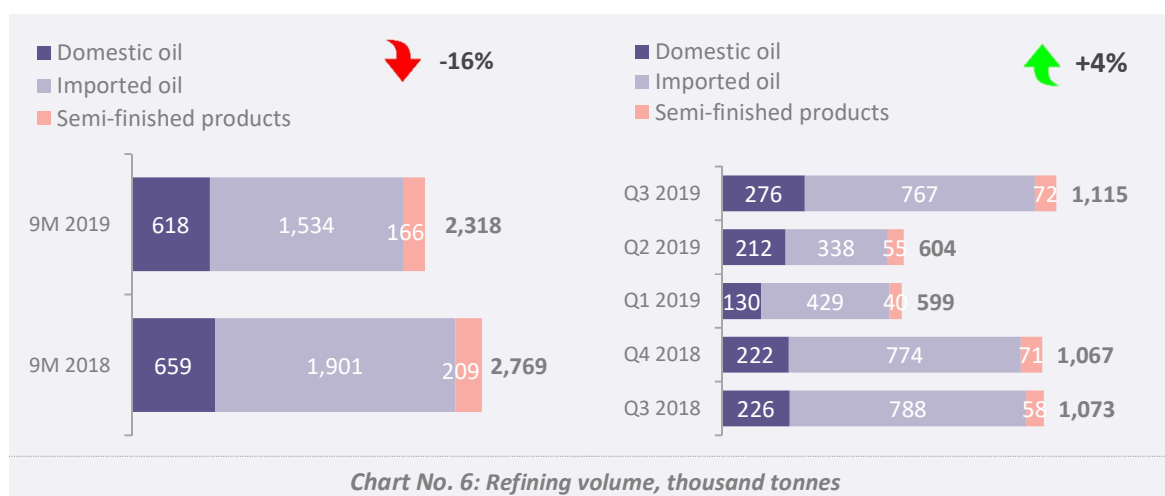
In the first nine months of 2019, the total production of oil and gas was 965 thousand tonnes of oil equivalent of oil and gas.



Refining

Q3 2019	Q3 2018	Δ^{26}	Indicator	Unit of measure	9M 2019	9M 2018	Δ^{27}
1,115	1,073	+4%	Volume of refining of crude oil and semi-finished products	Thousand tonnes	2,318	2,769	-16%
1.44	0.00	100%	LTIF ²⁸	%	1.44	0.00	100%
1.0	4.4	-76%	EBITDA ²⁹	RSD billion	-0.6	11.0	-105%
3.8	4.4	-14%	CAPEX ³⁰	RSD billion	11.7	10.9	+7%

Refining Activities and Volume



²⁶ Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.

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

²⁸ Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 30 September 2019, hence there is no difference between 9M and Q3.

²⁹ EBITDA of the "Refining" Block includes the power plant in POR.

³⁰ Financing, exclusive of VAT.

In the first nine months of 2019, the production of petroleum products decreased, compared to the same period of the previous year by -16% as a result of capital overhaul and moving the unit's start-up after prolonged reconstruction of MHC/DHT.

The implementation of capital overhaul of the plant was in the focus of the Refining Block activities in the first half of 2019.

At the end of February 2019, at the Pančevo Oil Refinery, a capital overhaul was started with the aim of more reliable work and further modernization of refining. Within the capital overhaul, the necessary technical and technological connection of the "old" refinery units with the DCU production complex units were carried out, which makes this year's overhaul the most complex one so far. Upon completion of capital workover, the performance of the project of investment maintenance was tested on Atmospheric Distillation unit.

In July, maximum bitumen output (56,435 tons) for the last 10 years was recorded, refining of romanian oil began.

C-4460 sulphur granulation unit was started up.

In the third quarter, the preparations of the units for operation in winter conditions were intensified.

As part of the digital transformation, the implementation of "€kon\$" project was given a special focus. At the beginning of the year, a test run of the first project phase was performed at the primary refining units (atmospheric and vacuum distillation). After starting up the units, upon completion of the turnaround, "€kon\$" model was configured at all units and the system was put into operation. The management process for the operation, maintenance and change management system was defined.

'Bottom of the Barrel' Project

- 260 mn EUR invested in the project
- The Detailed Design completed and all permits obtained
- 99.9% of equipment and material delivered
- Completed installation of foundations, basic steel structure of the complex, oversized equipment, coke oven, silos and coke crusher conveying system. Pre-startup activities in the complex initiated.
- Construction and installation works related to construction of the complex completed 91.41%.
- 5,160,657 man/hours to date, 13 contractor companies in the field, 1,200 field workers per day on average.

Overhaul

Within the capital overhaul of the Refinery works are being carried out on the "gasoline and diesel pool" of refinery units: Platforming, HDS Gasoline FCC complex, Alkylation, Sulfolane, Atmospheric and Vacuum distillation, Mild Hydrocracking and Hydrotreating Complex, control works, equipment and piping cleaning and restoration and replacement of catalysts, as well as works in the Manipulation Sector and on the realization of investment projects for reliability and efficiency increase of refinery production.

Nearly three thousand workers participated in the works within this overhaul. In addition to the employees from our company, 1,400 workers from the country and abroad participated at the peak of the overhaul.

The planned halt of the Refinery was used for the execution of all legal obligations when it comes to pressure vessels and pipelines, where the overhaul of the equipment was performed, elimination of the observed problems during the exploitation period, replacement of catalysts and other. All these works were performed on the group of primary and secondary refinery units.

As part of turnaround, technical and technological connection of "old" refining units to the DCU production complex units and reconstruction of the MHC/DHT complex for the purposes of the DCU were performed.

Other Projects

In 2019, the activities aimed at digital transformation were intensified in the Refining Block, projects for operator training using simulators (OTS), implementation of an e-learning platform for on-line employee training, installation of an alarm management system, projects for assisting operators in their work: (€con\$) and Mobile Operator, predicting equipment failures (Machine Learning). Additionally, a study (non-core strategy development) is in preparation, and it defines a list of potential projects aimed at the digitalization of the Refining Block.

A new organisational structure in the digitalisation segment was set up at the company and business Block level, and the team activity was intensified for the purpose of creating optimum procedures for system functioning and implementation of the digitalisation strategy.

As part of digitalisation of operator touring of the Refining Block facilities, a top-quality device was selected and purchased - an industrial tablet having the capabilities that enable complete abolishment of paper forms and operators' records at the facilities, process efficiency improvement, photo-taking and direct communication between process participants.

Along with the realization of the "Bottom of the Barrel" project with delayed coking technology (DCU), professional training will be held for a team of employees, who will start the newly built production complex and work on it. Continuous employee training on the DCU complex and construction site and OTS was carried on.

The OMS team (Project Office for Implementation of the Operating Management System) has been involved in the planning of and application of new tools in the DCU handover procedure and provision of preconditions for safe and efficient start-up after the construction.

Work on the implementation of the LSS (Lean Six Sigma) process of continuous improvement in the Refining Block was continued and the first improvement projects were launched as a result of the work of working groups in the entire DWS.

Activities on cooperation projects with schools and universities continue in 2019. The Memorandum on Cooperation with the Secondary School of Electrical Engineering in Pančevo was realized through the procurement of modern equipment for automatics classrooms and providing conditions for adapting the school program and personnel training for the business needs of the Oil Refinery in Pančevo.

Sales and Distribution

Q3 2019	Q3 2018	Δ ³¹	Indicator	Unit of measure	9M 2019	9M 2018	Δ ³²
1,102	1,076	+2%	Total sales volume of petroleum products ³³	Thousand tonnes	2,621	2,741	-4%
134	104	+29%	Sales volume – foreign assets ³⁴	Thousand tonnes	311	266	+17%
785	787	-0.3%	Sales volume of petroleum products in the domestic market ³⁵	Thousand tonnes	1,965	2,045	-4%
710	697	+2%	Motor fuels ³⁶	Thousand tonnes	1,781	1,766	+0.8%
273	259	+5%	Retail ³⁷	Thousand tonnes	732	699	+5%
4.16	3.88	+7%	Internal Sales	Thousand tonnes	11.71	12.22	-4%
1.13	1.93	-41%	LTIF ³⁸	number	1.13	1.93	-41%
5.4	4.1	+31%	EBITDA	RSD billion	12.5	8.6	+45%
0.8	0.4	+94%	CAPEX ³⁹	RSD billion	1.7	2.4	-26%

Points of Sale⁴⁰ and Logistics

NIS Groups owns more than 400 active retail facilities. The majority of them, more precisely 325 retail facilities, are located in the Republic of Serbia. In addition to 10 internal petrol stations, NIS owns 315 public petrol stations (22 of them are GAZPROM - branded). In the regional countries, NIS owns 37 petrol stations in Bosnia and Herzegovina (27 GAZPROM - branded), 35 petrol stations in Bulgaria (all GAZPROM - branded) and 18 petrol stations in Romania (all GAZPROM - branded).

In the first 9 months of 2019, after the total reconstruction, petrol stations Velika Plana motorway, right-hand side, the first petrol station in the M-motorway format in Serbia (GAZPROM brand), and Stari Banovci, the first petrol station in the L-motorway format in Serbia (GAZPROM brand) started operating. The total reconstruction of petrol stations Barajevo (NIS brand), Krnješevci (GAZPROM brand), and Ivanjica (NIS brand) has started and they are due to start operating by the end of 2019. The construction of Otopeni petrol station in Romania has started (Gazprom brand) and it is due to start operating in December 2019. An aircraft refueller for small aircraft was put into operation in Belgrade.

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³² Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.

³³ Excluding the internal sales volume (9M 2019: 11.71 thousand tonnes; 9M 2018: 12.22 thousand tonnes).

³⁴ The sales volume of foreign assets includes sales generated by the subsidiaries of NIS abroad (retail and wholesale).

³⁵ Domestic market sales includes sales volumes invoiced in local currency (RSD) and does not include sales volumes sold to foreign customers and invoiced in foreign currency.

³⁶ Total sales of motor fuels in Serbia and in foreign assets.

³⁷ Total retail in Serbia and in foreign assets.

³⁸ Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.

³⁹ Financing, exclusive of VAT.

⁴⁰ As at 30 September 2019.

Loyalty and Marketing Activities Programmes

In the first half of 2019 in Serbia, over 90 marketing activities were carried out with the aim of developing consumer brands and loyalty programs and improving sales of fuel and non-fuel products.

Twenty marketing “sales boost” actions and campaigns were conducted.

With the aim of boosting sales of G-Drive products and increasing the number of transactions/sales with the SNNP card, as well as increasing recognizability and improving the image of G-Drive fuel, tactical action will be carried out in several stages in different cities around the country with the following mechanism: - 10 RSD/l and -5RSD/l with the SNNP loyalty card.

Five new reconstructed petrol stations were opened: Novi Sad 11, Kovin, Kotež, and the first digital petrol stations Velika Plana Right-Hand Side and Stari Banovci. The start of operation was marked with on-the-site promotions, including campaigns providing special benefits for the customers – the same price of premium and standard petroleum products and gifts with purchase.

With an aim to increase brand visibility and promote the G-Drive as a premium brand, the G-Drive RACING platform was launched in the first quarter. With strong PR support, over 70 press releases with high-quality content and announcements were published on the arrival of the Le Mans endurance race champion, the G-Drive team racing car was displayed at the Motor Show, a press conference was held, and rewards were awarded for pre-Motor Show activations on the social networks.

The communication of the premium fuel benefits continued and, in the third quarter of 2019, the G-Drive image campaign was launched, aimed at creating the emotional benefits of continuous use of premium petroleum products, taking into account rational benefits as well, on the national RTS and cable TV channels during the FIBA world championship, on digital channels, supported by a radio campaign.

A new service was launched at PSs - “Purchase with cash back”, i.e. payment of a bill with cash withdrawal, which enables Mastercard users to withdraw cash from their bank account when paying by card at NIS Petrol and GAZPROM petrol stations.

Over 30 new private label products (scu) were launched: G-Drive energy chewing gum – strawberry (1 scu), Drive Cafe energy bar (4 scu), G-Drive energy candies – peach and strawberry (2 scu), Drive Cafe sandwiches (11 scu), Drive Cafe Coldpres (3 scu), paper and wet tissues (4 scu), Drive Café cookies (2 scu), G-Drive energy drink blackberry and mango, 250 ml (2 scu), G Drive regular 500 ml (1 scu).

A comprehensive integrated marketing campaign on quality, origin and special preparation of Drive Cafe coffee was launched with an aim of improving the brand perception.

Several campaigns were organised to support B2B business segment. Rewards were provided to clients from the corporate segment (during the 2018 event in “Promenada”) – a trip to Barcelona for the Championship League quarterfinals. The launch of the mobile application for GAZPROM fuel card users was supported by the communication and marketing campaign. An event was organised on the NAVAK tracks, in the form of truck driver training for the purpose of fuel consumption optimisation and organisation of activities for corporate clients. The Wholesale Department organised a conference for large accounts on the topic “Petroleum Product Market Supply from NIS Depots”, including expert presentations, panoramic boat tour, and a formal lunch for 130 participants.

An image campaign was launched on all digital channels to communicate all the benefits of On the Road with Us loyalty programme: deferred payment, non-fuel programme and discounts.

On the Road with Us loyalty programme has been running since late 2015 and, by the end of the third quarter of 2019, over 876 thousand cards were issued with the ratio of the programme users in the total sales to retail customers of 60.78%.

In early 2018, a new payment function of On the Road with Us card was introduced, enabling the card holders to purchase fuel and non-fuel products with a deferred payment of up to 45 days, on all NIS Petrol and Gazprom petrol stations. Since the new functionality was introduced, over 42 thousand applications have been filed and over 32 thousand approved.

In 2019, the loyalty programme partnership continues with Tehnomanija and Gigatron, where On the Road with Us card holders receive bonus points with every purchase. The bonus points can be redeemed on NIS Petrol and Gazprom petrol stations exclusively. Intersport also accessed the programme, as a new partner.

In the three quarters of 2019, in the regional countries in which the company operates, over 53 marketing campaigns were organised aimed at development of consumer brands, loyalty programmes and improvement of fuel and non-fuel sales. Until the end of September 2019, within On the Road with Us programme in Bosnia and Herzegovina, over 91 thousand of cards were issued with the ratio of the programme users in the total sales to retail customers was 45.65%. Until the end of September 2019, within On the Road with Us programme in Bulgaria, over 178 thousand of cards were issued. The ratio of the programme users in the total sales to retail customers was 70.56%.

Agro Card programme for farmers has been run since end 2013. The campaigns to maintain the sales volumes continued: the basic Agro Card discount programme (5 RSD for Eurodiesel, G-Drive Diesel; 3 RSD for normal Diesel fuel, 15% for NISOTEC). As of 6 May 2018, the Agro Card enables the farmers to buy LPG cylinders for household purposes with a 10 RSD/kg discount. On 14 May, a formal ceremony was held for the largest Agro Card customers, with an aim to strengthen the relationship and continue the cooperation.

The company exhibited at the International Agricultural Fair in order to promote the benefits of the Agro Programme for farmers. NISOTEC brand was the winner of the Grand Champion Trophy of the International Agricultural Fair in Novi Sad and also 11 golden medals.

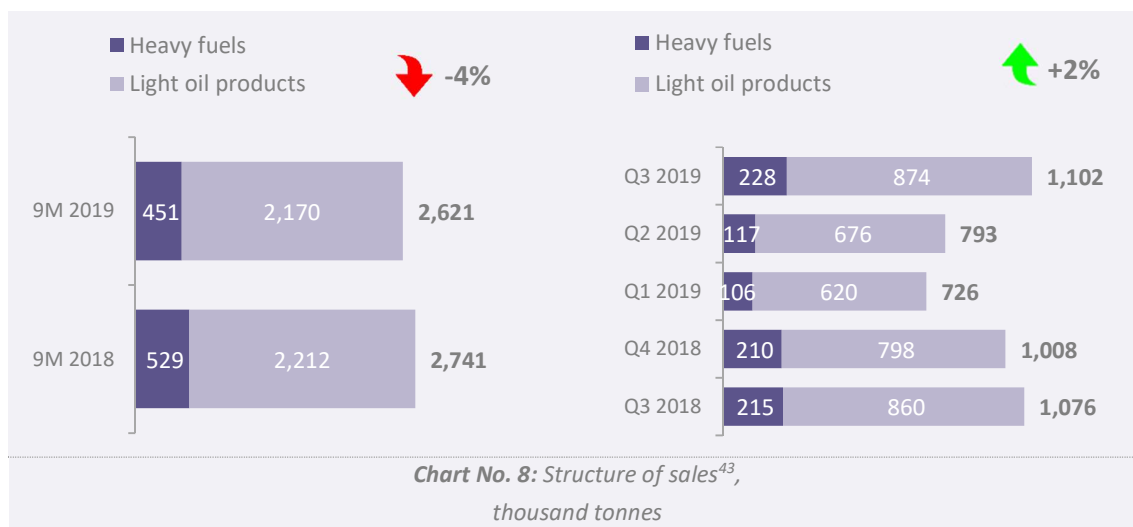
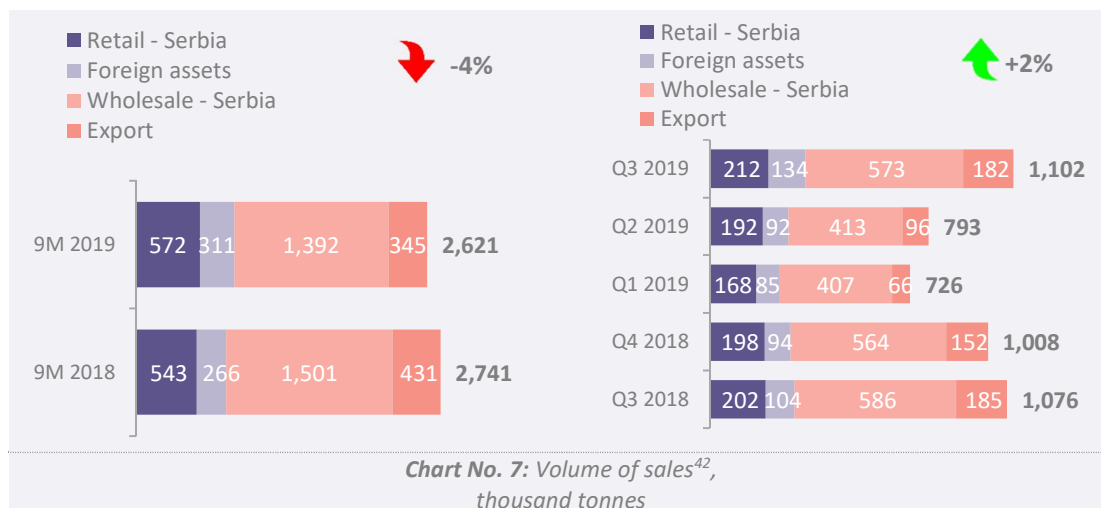
On 14 May, a formal ceremony was held for the largest Agro Card customers, with an aim to strengthen the relationship and continue the cooperation.

In the oil and lubricants sales channel, sets of promotional campaigns were organised aimed at increasing the margin and the sales volumes (discounts on part of NISOTEC agricultural portfolio using an Agro Card and on part of motor oil portfolio using On the road with us card, etc.). In July, NISOTEC team went to BATROG 2019 conference in Slovenia, which was attended by 50 key lubricants subdistributors.

Operating indicators⁴¹

The first nine months of 2019 saw a sales drop of 4% on 2018, with the total sales of 2,621 thousand tonnes.

- Retail in Serbia – a retail growth by 5% stemming from diesel fuel sales growth.
- Wholesale in Serbia – a decrease of 7% mostly due to energy and non-energy fuels.
- Exports – a decrease of 20% as a result of declining energy and non-energy fuel exports.
- Foreign assets – an increase of 17% in sales volume (3% through retail channel and 37% through wholesale channel).



⁴¹ Excluding internal sales volume (9M 2019: 11.71 thous. tonnes, 9M 2018: 12.22 thousand tonnes).

⁴² Excluding internal sales volume (9M 2019: 11.71 thousand tonnes; 9M 2018: 12.22 thousand tonnes).

⁴³ Excluding internal sales volume (9M 2019: 11.71 thousand tonnes; 9M 2018: 12.22 thousand tonnes;).

Energy

Implementation of big projects of NIS, CCPP Pančevo and 'Plandište' wind farm, is underway, together with the partners.

CCPP Pančevo

For the CCPP Pančevo project the building permit for the 220 kV switchgear and the location conditions for the construction of the 220 kV power line were obtained. Gas turbines and gas turbine generators have been supplied and installed. Foundations and modules of utilizer boiler were put in place. A contractor has been selected for the construction of the 220 kV transmission line. The contract on monitoring the construction of the connection with the Electric Power Network of Serbia has been signed.

Project windpark Plandište

- MET Renewables and NIS commenced joint operations on their wind farm project in Serbia;
- Negotiations with EPC contractors are close to conclusion;
- As a precondition for the implementation of this project, it is necessary to renew the status of a temporary privileged electricity supplier. The request was submitted in August, and we are waiting for a response of the Ministry of Mining and Energy.

Natural gas

Contracts were signed to create a natural gas portfolio for NIS j.s.c. Novi Sad for the Gas Year 2019/2020, specifically: Contract on natural gas transportation with the Transmission System Operator and Contracts on sale of natural gas with external customers and subsidiaries of NIS j.s.c. Novi Sad (except Technical Services).

CNG – commercial aspect

As for the project of the CNG plant in the 'Palić' field, functional testing of loading and shipping of trailers with CNG has started, and based on the contract on sale of compressed natural gas from the Palić gas field with wholesale buyer Pan Ledi d.o.o.

CNG shipments from the Ostrovo gas field are carried out in an orderly and smooth manner.

Trade of electricity

In the area of electricity trade, NIS is present in the markets of Serbia, Bosnia and Herzegovina, Romania, Slovenia and Hungary. Apart from these markets, NIS trades on the borders with North Macedonia, Bulgaria and Croatia. NIS trades on electricity markets in Serbia (SEEPEx), Romania (OPCOM). The process of registration of NIS Petrol Eood for the electricity trade in Bulgaria has begun. The process of procurement of a specialized software for the trade of el. energy and gas is underway.

Realization of Energy Efficiency Measures Program in NIS j.s.c.

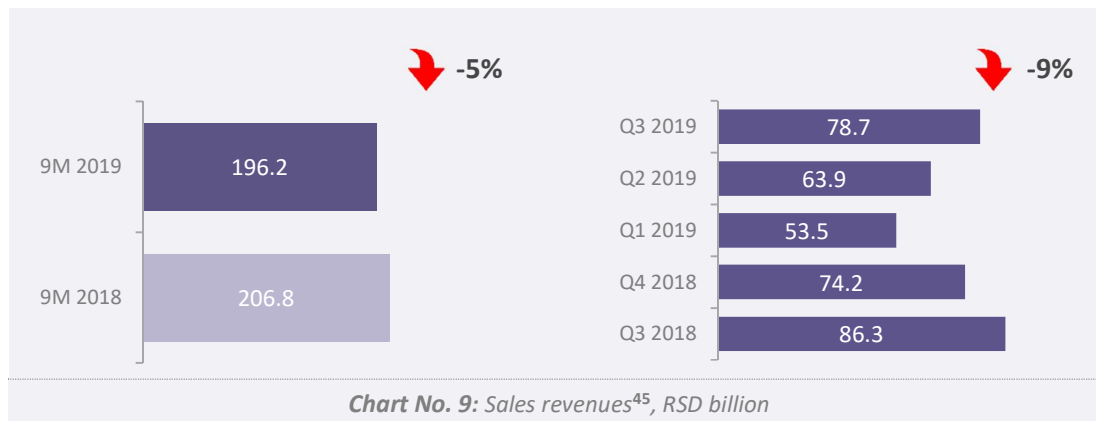
With the EE Measures Program for 9M 2019 energy savings of 4,645 toe.

The value of savings is RSD 213.4 million.

Financial indicators

Sales Revenues

Sales revenues⁴⁴ for the first nine months of 2019 was 5% lower than in the same period of 2018 and amounted to RSD 196.2 billion.

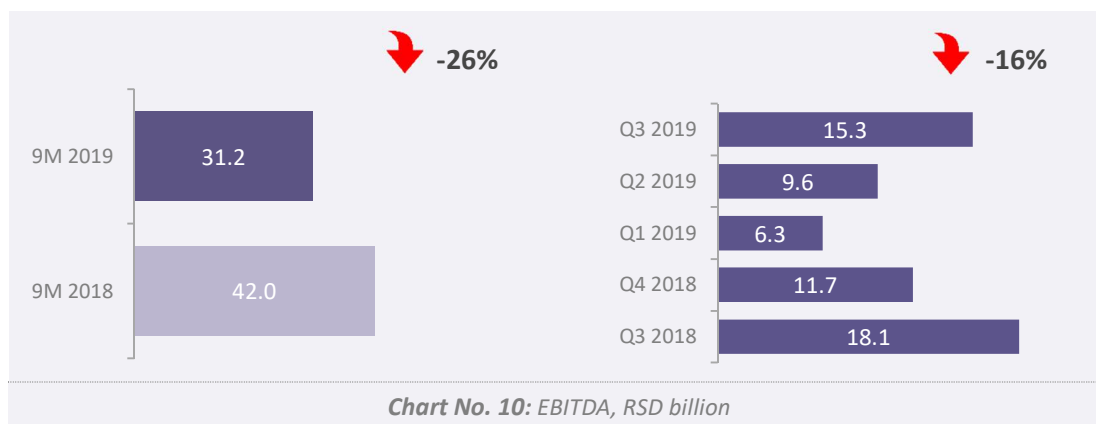


EBITDA

EBITDA for first nine months of 2019 was 26% lower than in the same period in previous year and amounted to RSD 31.2 billion.

The main reasons for the decrease include:

- The fall of oil prices on the world market
- Capital overhaul in Pančevo Oil Refinery and capital overhaul costs
- Lower volume of oil production.



⁴⁴ Consolidated operating revenue.

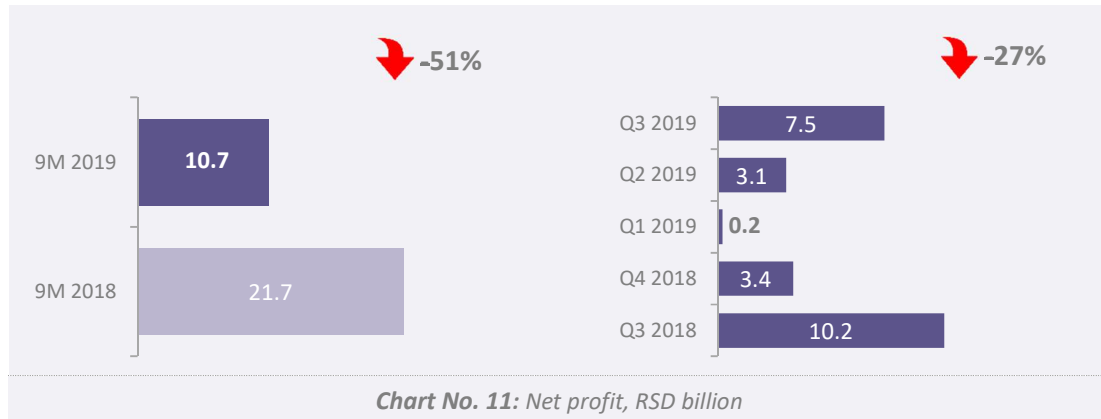
⁴⁵ Consolidated operating revenue.

Net Profit

Net profit achieved in the first nine months of 2019 is RSD 10.7 billion and was 51% lower than net profit in the same period in previous year.

The decrease in net profit was mostly influenced by:

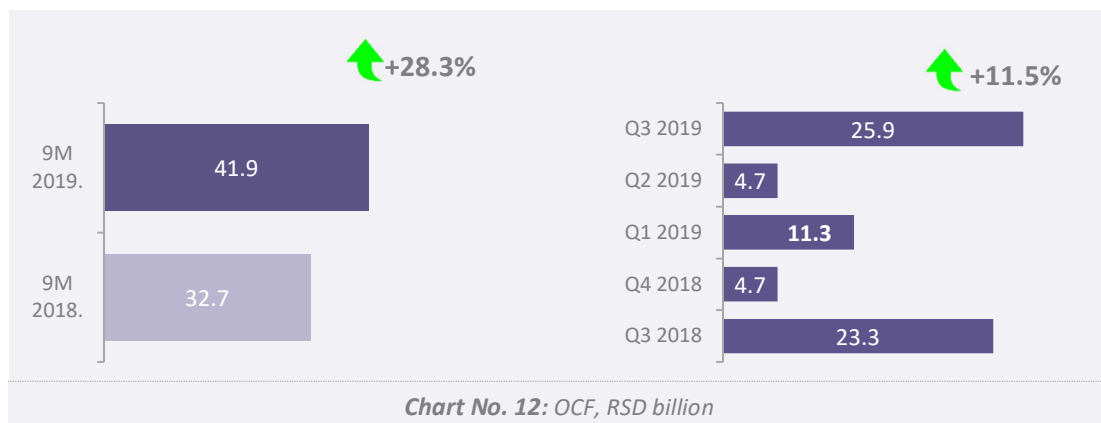
- Lower EBITDA
- Greater amortization



OCF

In the first nine months of 2019, the operating cash flow amounted to RSD 41.9 billion and was 28.3% higher than the OCF in the same period in 2018:

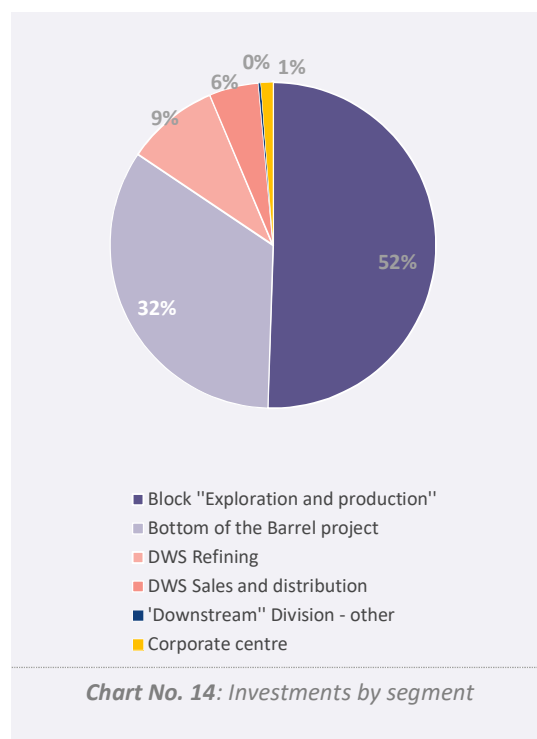
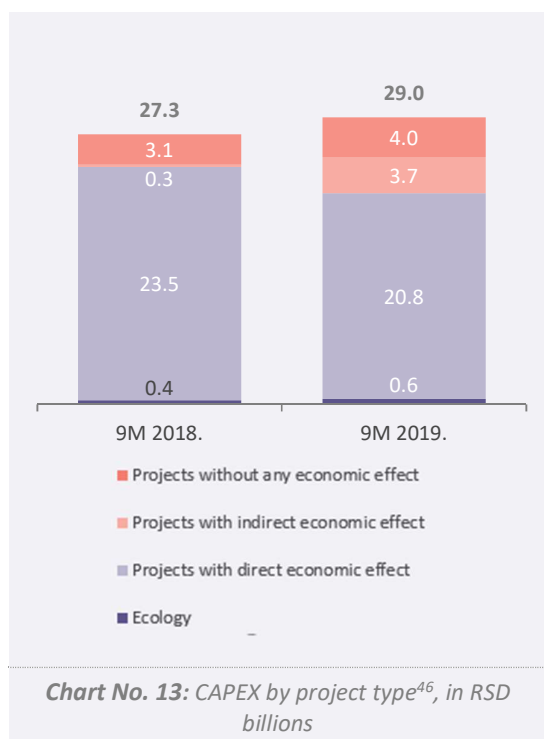
- Lower liabilities for the import of crude oil
- Lower liabilities towards the state
- Higher customs duties
- Higher derivatives duties.



CAPEX

In the first nine months of 2019, the main investment directions were oriented towards the implementation of projects in the production of oil and gas, as well as the project for improving the refining depth. In addition, during the first three quarters of 2019, NIS invested in sales and distribution, energy, and service projects, as well as a number of projects in the corporate center.

During the first nine months of 2019, RSD 29.0 billion was allocated to finance investments, which is 7% more than the amount that was allocated in the same period of 2018.



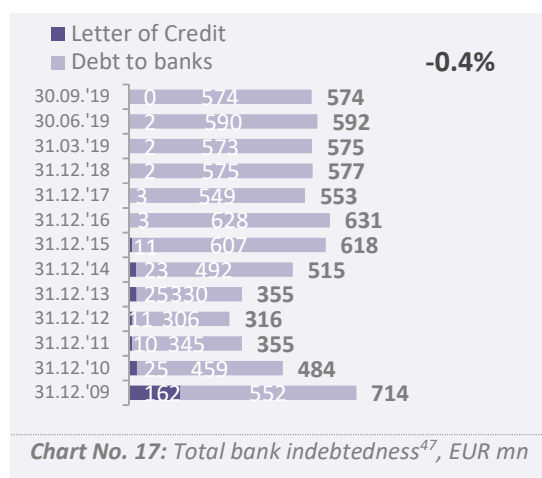
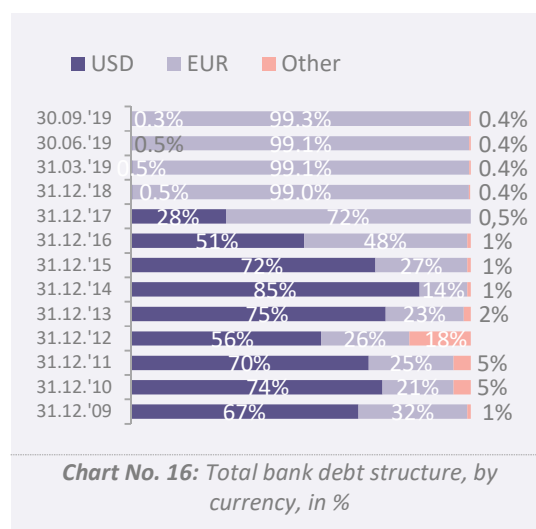
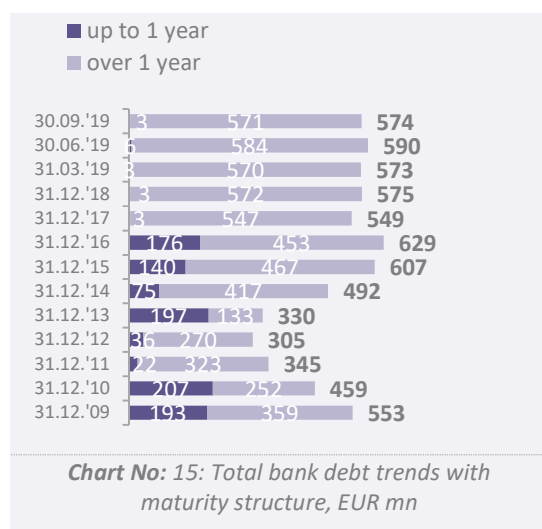
⁴⁶ The amounts are in RSD billions, and excluding VAT.

Organisational unit	Major projects
Exploration and Production Block	<ul style="list-style-type: none"> • Drilling of development wells • Investments in geological and technical activities • Program of 3D seismic surveys and drilling of exploration wells in the Republic of Serbia • Investments in concession rights • Investments in basic infrastructure
Oil Services and Transport	<ul style="list-style-type: none"> • Procurement of drilling tools and equipment; • Procurement of 4 new workover rigs of A50 type; • Procurement of 20 light terrain vehicles
Deep Refining	<ul style="list-style-type: none"> • Modernization of refining - continuation of implementation according to Bottom of the Barrel project
Refining	<ul style="list-style-type: none"> • Projects for harmonization of legal norms and regulations • Corporate projects for automation of production • Refining Block investment maintenance program • Projects for production efficiency increase • Capital investments related to environmental protection
Sales and Distribution Block	<ul style="list-style-type: none"> • Development of retail network in Serbia (construction and reconstruction of petrol stations) • Other retail projects in Serbia • HSE projects within Sales and Distribution Block • Procurement of a vessel – pontoon station for supplying boats with motor fuel in Veliko Gradiste • Reconstruction of petroleum products warehouses (Novi Sad, Smederevo, Niš) • Development of retail network in the region (PS Sarajevo - Lukavica, B&H)
Energy Directorate, Technical Services, Meterology Department	<ul style="list-style-type: none"> • Decentralization and modernization of heat sources in NSR (Energy)
Corporate Centre	<ul style="list-style-type: none"> • Projects with an IT component (replacement of EoL SBA/Hyperion system, improvement of radio link system)

Indebtedness

At the end of the third quarter of 2019, bank debt is somewhat lower than the debt on December 31st, 2018 and amounts to EUR 574 million.

Changes in the loan portfolio during the first nine months were related to the improvement of the characteristics thereof through the reduction of prices, which is the result of pre-term repayment of unfavourable loans and withdrawal of loans at more favourable terms. Total of about 104 million EUR was repaid during the first nine months, out of which 101.6 million EUR covered premature repayment of loans with unfavourable terms, and the total of 102.7 million EUR of more favourable loans was withdrawn. Additionally, debt to parent company PJSC "Gazprom Neft" has been reduced and currently amounts to EUR 174.4 million.



⁴⁷ In addition to debt to banks and Letters of Credit NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of €31.7 million, corporate guarantees in the amount of €42.8 million and Letters of Intent signed with banks in the amount of €0.5 million and financial leasing in the amount of € 12.1 million as at 30 September 2019.

Taxes and Other Public Revenue⁴⁸

NIS j.s.c. Novi Sad	9M 2019	9M 2018	Δ ⁴⁹
Social insurance contributions paid by employer	1.2	1.2	1%
Energy efficiency fee ⁵⁰	0.1	-	-
Corporate tax	1.8	3.0	-40%
Value-added tax	16.5	17.8	-8%
Excise duties	92.0	96.2	-4%
Commodity reserves fee	4.6	4.6	-1%
Customs duties	0.5	0.6	-15%
Royalty	1.1	1.1	-2%
Other taxes	1,1	1.1	1%
Total	118.8	125.6	-5%
NIS subsidiaries in Serbia ⁵¹			
Social insurance contributions paid by employer	0.5	0.4	15%
Corporate tax	0.1	0.1	31%
Value-added tax	0.9	0.6	47%
Excise duties	-	0.0	-
Customs duties	0.0	0.0	-19%
Royalty	-	0.0	-
Other taxes	0.0	0.1	-24%
Total	1.6	1.2	29%
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	120.4	126.8	-5%
NIS regional subsidiaries and Angola			
Social insurance contributions paid by employer	0.0	0.0	4%
Corporate tax	0.0	0.1	-6%
Value-added tax	1.1	1.2	-7%
Excise duties	10.1	9.0	12%
Customs duties	4.8	3.0	59%
Royalty	0.0	0.0	-
Other taxes	0.1	0.1	-13%
Total	16.2	13.5	20%
Deferred taxes (total for Group)		0.0	-
Total NIS Group⁵²	136.6	140.3	-3%

⁴⁸ In RSD billion.

⁴⁹ Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.

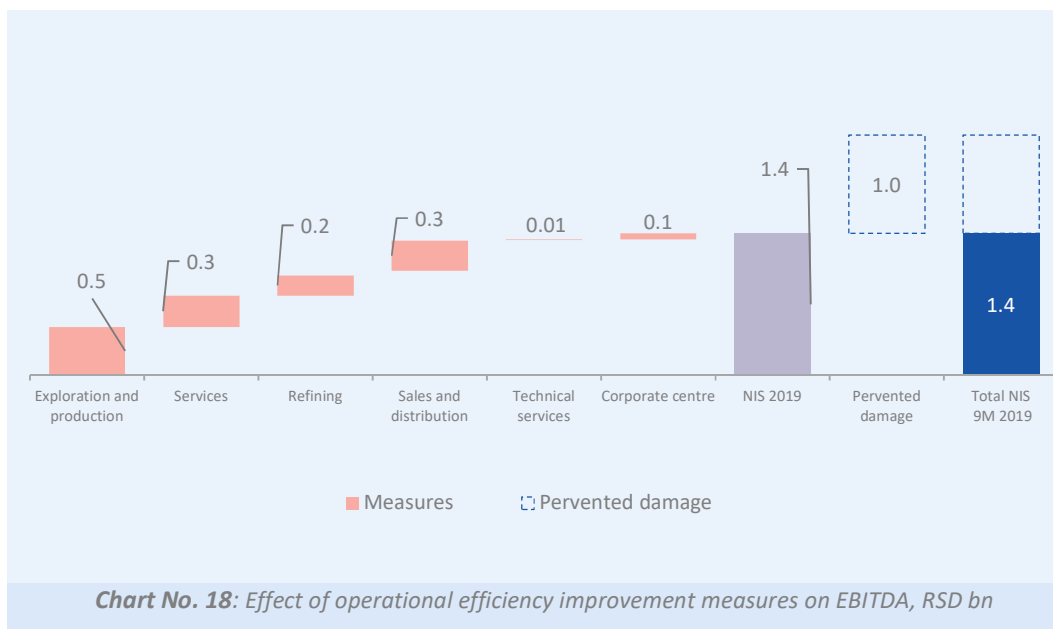
⁵⁰ Calculated from 01.07.2019.

⁵¹ Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Transport d.o.o. Novi Sad and NTC NIS Naftagas d.o.o. Novi Sad, O Zone a.d. Belgrade.

⁵² Including taxes and other liabilities for public revenues for subsidiaries in the region, corporate tax in Angola and deferred taxes.

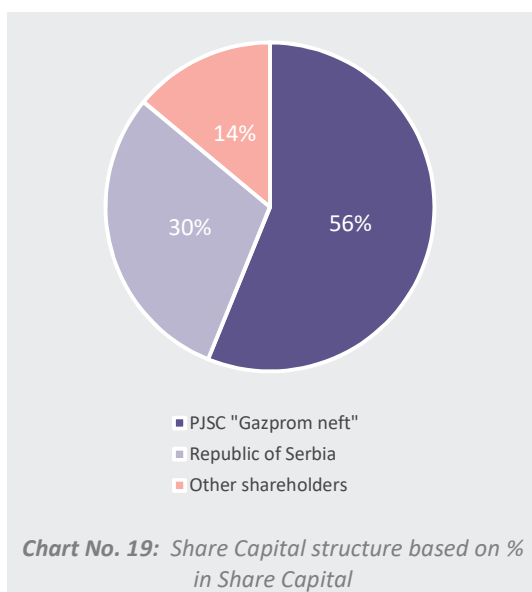
Operational Efficiency Improvement

The effect of operational efficiency improvement measures on EBITDA in first nine months of 2019 is RSD 1.4 billion.



Securities

Share Capital Structure



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

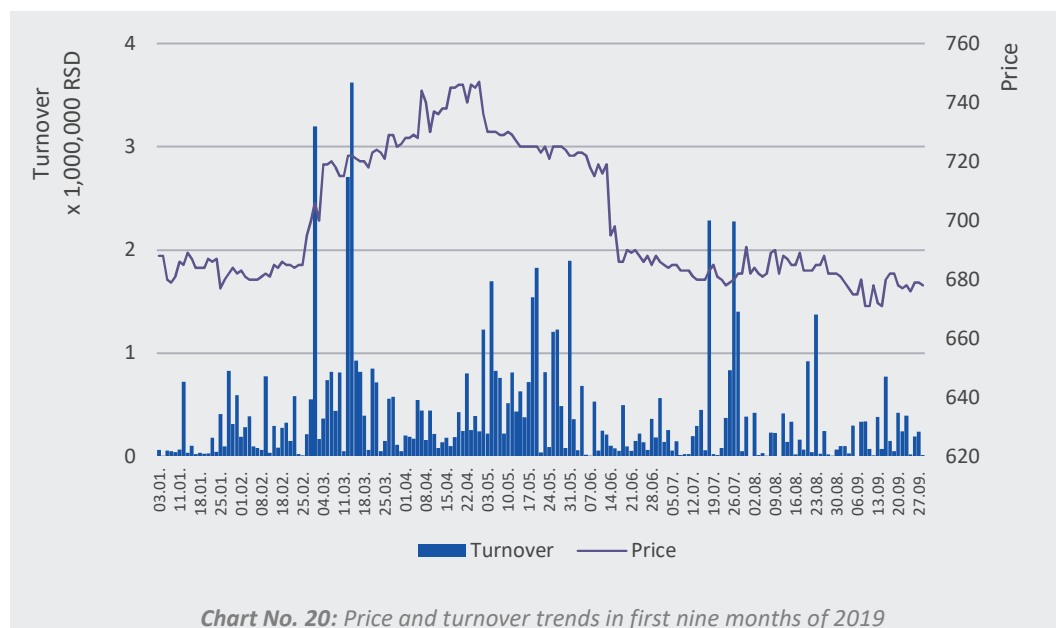
- Right to participate and vote at the shareholders' assembly meetings, according to one-share-one vote rule;
- Right to dividend in compliance with applicable legislation;
- Right to participate in the distribution of the liquidation remainder or bankruptcy estate in compliance with the bankruptcy law;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

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

Shareholder	Number of shares	% in share capital
PJSC 'Gazprom Neft'	91,565,887	56.15%
Republic of Serbia	48,712,104	29.87%
OTP banka Srbija a.d. – custody account - fund	2,010,812	1.23%
OTP banka Srbija a.d. – custody account - fund	718,610	0.44%
Global Macro Capital Opportunities	371,854	0.23%
Dunav Osiguranje a.d.o. Beograd	326,154	0.20%
Convest a.d. Novi Sad - collective account	228,634	0.14%
Aktiv-fond d.o.o. Beograd	205,228	0.13%
Unicredit bank Serbia a.d. - custody account - ks	172,819	0.11%
Raiffeisen bank Serbia a.d. – custody account - ks	171,828	0.11%
Other shareholders	18,576,470	11.39%
Total number of shareholders as at 30 September 2019:	2,077,670	

Share Trading and Indicators per Share

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



Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in first nine months of 2019	
Last price (30 September 2019)	678 RSD
High (17 April 2019)	750 RSD
Low (25 January 2019)	670 RSD
Total turnover	727,781,978 RSD
Total volume (number of shares)	1,029,203 shares
Total number of transactions	8,106 transactions
Market capitalization as at 30 September 2019	110,554,951,200 RSD
EPS	70.33 RSD
Consolidated EPS	65.78 RSD
P/E ratio	9.64
Consolidated P/E ratio	10.31
Book value as at 30 September 2019	1,559.32 RSD
Consolidated book value as at 30 September 2019	1,516.28 RSD
P/BV ratio	0.43
Consolidated P/BV ratio	0.45

In first nine months of 2019, there were no acquisitions of treasury shares by the Company.

Dividends

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

At the 11th Regular Shareholders Assembly, which was held on 27 June 2019, the decision to allocate 25% of net profit generated in 2018 for dividend payments was adopted. The decision stipulates the payment of 6.5 billion RSD to shareholders, or the gross amount of 39.97 RSD per share. The dividend for 2018 was paid to shareholders on 17 September 2019.

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

	Net profit (loss), RSD bn ⁵³	Total amount of dividend, RSD bn	Payment ratio	Earnings per share, RSD	Dividend per share, gross, RSD	Share price as at 31 December, RSD	Shareholders' dividend yield, in % ⁵⁴
2009	-4.4	0	-	-	0	-	-
2010	16.5 ⁵⁵	0	-	101.1	0	475	-
2011	40.6 ⁵⁶	0	-	249	0	605	-
2012	49.5	12.4	25%	303.3	75.83	736	10.3
2013	52.3	13.1	25%	320.9	80.22	927	8.7
2014	30.6	7.6	25%	187.4	46.85	775	6
2015	16.1	4	25%	98.8	24.69	600	4.1
2016	16.1	4	25%	98.6	24.66	740	3.3
2017	27.8	6.9	25%	170.43	42.61	724	5.9
2018	26.1	6.5	25%	159.86	39.97	690	5.8

Overview of Financial Instruments Used by the Group

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

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

⁵³ Net profit of NIS j.s.c. Novi Sad.

⁵⁴ Calculated as the ratio of gross dividend and year-end share price.

⁵⁵ Net profit used to cover accumulated losses.

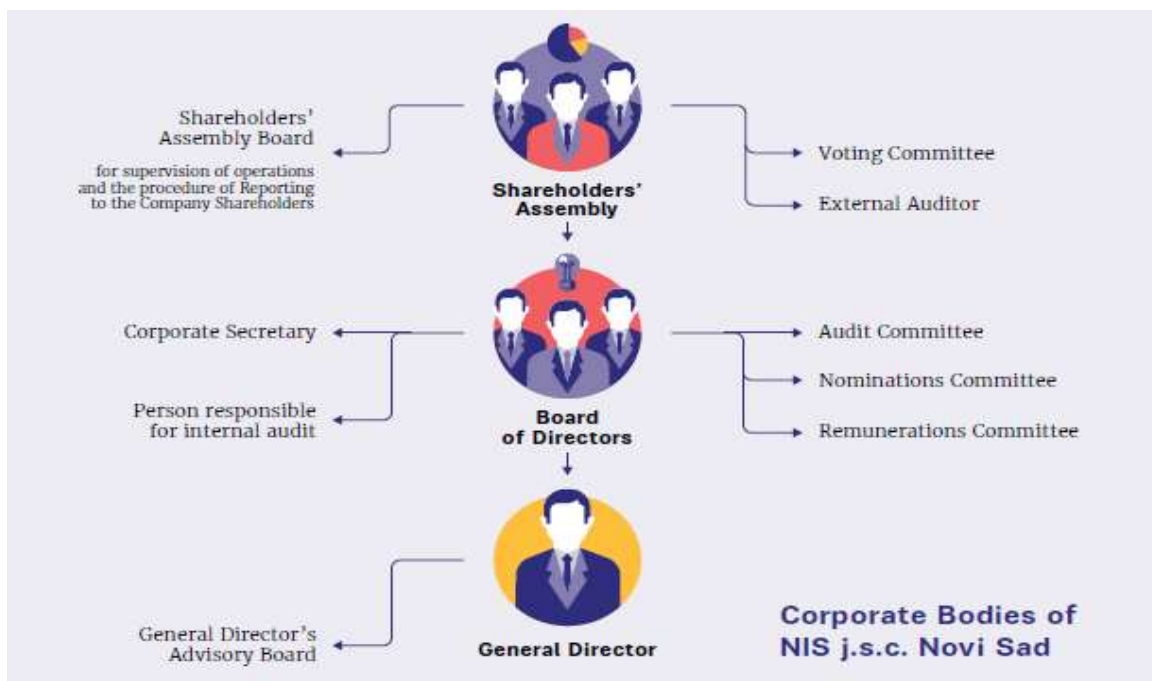
⁵⁶ Net profit used to cover accumulated losses.

Corporate Governance

Corporate Governance System

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

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



Shareholders' Assembly and Shareholders' Rights

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

Board of Directors

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

The Board of Directors consists of eleven members appointed by the Shareholders' Assembly. The members elect the Chairperson of the Board of Directors, while the functions of the Board of Directors' Chairperson and the General Director are clearly divided.

Members of the Board of Directors

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

At the 11th regular meeting of the Shareholders' Assembly of NIS, held on June 27, 2019, the following members of NIS Board of Directors were appointed: Vadim Yakovlev, Kirill Tyurdenev, Danica Draskovic, Aleksei Yankevich, Sergei Papenko, Alexander Krylov, Dejan Radenkovic, Alexander Chepurin, Anatoly Cherner and Olga Vysotskaya. At the 43rd Extraordinary General Meeting of the Shareholders' Assembly, held on 6 September 2019, Mr Dragutin Matanović was appointed a member of the NIS Board of Directors.

The Board of Directors consists of executive and non-executive directors. The Board of Directors has one executive member, while all the other members are not executive and two of them are the independent members of the Board of Directors at the same time.

Board of Directors' Members as of 30 September 2019



Vadim Yakovlev

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

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

Born in 1970.

In 1993, Mr. Yakovlev graduated from the Moscow Engineering Physics Institute, Department of Applied Nuclear Physics. Mr. Yakovlev graduated from the Faculty of Finance at the International University in Moscow in 1995. Since 1999, he has been a qualified member of the ACCA (Chartered Association of Certified Accountants). In 2009, he earned a degree from the British Institute of Directors (IoD).

During his employment with PricewaterhouseCoopers from 1995 to 2000, Mr. Yakovlev held various positions, starting from a Consultant to being promoted to Audit Manager. In the period from 2001 to 2002, he served as Deputy Head of Financial and Economics Department, YUKOS EP c.j.s.c. From 2003 to 2004, he was Financial Director of Yugansk Neftegaz, NK Yukos. From 2005 to 2006, Mr. Yakovlev held the position of Deputy General Director in charge of economy and finance at SIBUR-Russian Tyres. From 2007 to 2010 – „Gazprom neft“ PJSC Deputy CEO in charge for economics and finance. From 2007 – Deputy Chairman of the Executive Board of „Gazprom neft“ PJSC. From 2010 to 2011 – First Deputy CEO – „Gazprom neft“ PJSC Financial Director. Since 2011, he has been holding the post of the „Gazprom neft“ PJSC First Deputy CEO.

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



Kirill Tyurdenev
General Director of NIS j.s.c. Novi Sad
Member of NIS j.s.c. Novi Sad Board of Directors

Born in 1977.

He graduated with honors from Faculty of International Relations with a bachelor's degree and later with a master degree in International Law (with specialization) at the Moscow State Institute of International Relations (MGIMO). He also obtained a Master of Laws (LL.M) degree from the University of Manchester. Completed executive education programme at international business school INSEAD and London Business School.

From 2000 to 2004, worked for A.T. Kearney and Unilever. In 2004 he joined McKinsey & Co. From 2007 through 2012, he worked for Sibur Mineral Fertilizers as Deputy CEO for Strategy and Corporate Development. From 2012 he served as Executive Vice President and Board member in JSFC Sistema. Before joining NIS j.s.c. Novi Sad Kirill Tyurdenev occupied the position of the President and Board Chair in United Petrochemical Company which, at that moment, was part of the JSFC Sistema group, and as Chairman of the Board of Directors of Ufaorgsintez.

On April 2016 Kirill Tyurdenev joined NIS j.s.c. Novi Sad as First Deputy CEO for Refining and Sales.

On December 8, 2016, he was elected as member of the Board of Directors, and on March 22, 2017 he was appointed as CEO of NIS j.s.c. Novi Sad.



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

Born in 1945.

Ms. Drašković graduated from the Faculty of Law, University of Belgrade in 1968.

From 1968 to 1990, she worked in the field of finance in the banking sector, and in the field of law and commerce within the economy sector, and as a Belgrade City Magistrate. Ms. Drašković is the owner of the publishing house "Srpska reč", founded in 1990. She is the author of three books written in the opinion journalism style.

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



Alexey Yankevich
Member of NIS j.s.c. Novi Sad Board of Directors
Deputy CEO for Economics and Finance 'Gazprom Neft' PJSC

Born in 1973.

In 1997, Mr. Yankevich graduated from Saint-Petersburg State Electrical Engineering University ("LETI"), majoring in optical and electronic instruments

and systems. In 1998, he completed a course at LETI-Lovanium International School of Management in Saint-Petersburg.

Mr. Yankevich was employed with CARANA, a consulting company from 1998 to 2001. In the period from 2001 to 2005 he served as Deputy Head of Planning, Budgeting and Controlling Department at YUKOS RM o.j.s.c. (business unit responsible for logistics and downstream operations). In 2004, he became a Certified Management Accountant (CMA). From 2005 to 2007 he worked as deputy CFO at LLK-International (production and sale of lubricants and special petroleum products; part of the LUKOIL group). From 2007 to 2011 he held the post of Head of the Planning and Budgeting Department, and was Head of Economics and Corporate Planning Department at "Gazprom Neft" PJSC.

Since August 2011 he has served as acting Deputy CEO for Economics and Finance at "Gazprom Neft" PJSC. Mr. Yankevich has been a member of the Management Board of "Gazprom Neft" PJSC and Deputy CEO "Gazprom Neft" PJSC for Economics and Finance since March 2012.

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



Sergey Papenko

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

Head of Organizational Development and Joint Ventures Management Department of PJSC 'Gazprom Neft'

Born in 1973.

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

From 1994 to 1996 he was Department Manager of the First international Bank of Ukraine in the City of Kharkov. From 1996 to 1998 he worked at the position of the company TACIS Project and during 1998 he also worked with PricewaterhouseCoopers, as an Auditor. From 2000 to 2007 he worked in the Moscow Representative Office of "McKinsey and Company Inc. Russia", first at the position of Consultant and later as Junior Partner. Since 2007 to the present he has worked as Head of Organizational Development and Joint Ventures Management Department of PJSC Gazprom neft.

Mr. Papenko was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 21 June 2018.



Alexander Krylov

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

Director of the Division for Regional Sales in PJSC 'Gazprom Neft'

Born in 1971.

Born on March 17, 1971 in Leningrad, USSR.

In 1992, Mr. Krylov graduated from LMU (Leningrad) and graduated from the Faculty of Law of Saint Petersburg State University in 2004. In 2007, he earned MBA degree from Moscow International Business School MIRBIS, specializing in Strategic management and Entrepreneurship.

From 1994 to 2005 Mr. Krylov held managerial positions in the field of real estate sales (Chief Executive Officer, Chairman) in the following companies: Russian-Canadian SP "Petrobild"; c.j.s.c. "Alpol". From 2005 – 2007 he was deputy director in the Division for implementation in "Sibur" Ltd. In April 2007, Mr. Krylov was appointed Head of the Division for Petroleum Product Supply, head of the Regional Sales Division and Director of the Regional Sales Department at "Gazprom Neft" PJSC.

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



Dragutin Matanović

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

Born in 1954.

Batchelor of Electric Engineering (BEE).

He was employed at the position of electric engineer at the Company „Lola računari“ in Belgrade.

Director of the Company „Lola računari“ in Belgrade.

He is Advisor to the President of the Republic of Serbia at the present.

He was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 06.09.2019.



Dejan Radenković

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

Born in 1971.

Elementary and high education completed in Priština, graduated from the Economy faculty in Priština and awarded a Master degree in the field of Economy from the EDUCONS University.

Mr Radenković has started his professional experience with Company for trade and services „Balkan auto“ in Priština and CC PTT „Serbia“. As of 2005 he was at the post of Director of „Orbita“ j.s.c. and from 2010 he was with the „Ratko Mitrović“ j.s.c., at the post of General manager, Executive manager and member of the Board of Directors. He held the post of member of the Board of Directors of the Economy faculty in Priština, Deputy General manager of the First Global Brokers company from Belgrade. He was Chairman of the Board for supervision of operations and Member of the Board of Directors of Dunav Bank j.s.c. Zvečan, where he also held the post of the Chairman of the Board of Directors. From 2013 to 2017 he was a member of the Supervisory Board of the JV „Lasta“ j.s.c. Belgrade.

He is a member of the Board for supervision of operations of the „MTS bank“ j.s.c. Belgrade at the present.

He was elected member of the Parliament of Republic of Serbia in 2008, 2012, 2014 and 2016.

He was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 27.06.2019.



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

Born in 1952.

Graduated from the Moscow State Institute of International Relations (MGIMO University) in 1975.

A career diplomat, from 1975 onwards Mr. Chepurin worked at the Ministry of Foreign Affairs of the USSR and later, the Ministry of Foreign Affairs of the Russian Federation.

From 1986 to 1992, he headed the Economy group of the Embassy of the USSR (Russia) in Italy. From 1994 to 1996, he was Director of one of the leading Departments in the Ministry, the Human Resources Department. From 1994 to 1997 he was also a member of the United Nations International Civil Service Commission in New York (ICSC). As from 1996 to 2000 he was Ambassador Extraordinary and Plenipotentiary of the Russian Federation in Denmark.

From 2005 to 2012, Mr. Chepurin was Director of the Russian Federation Ministry of Foreign Affairs Department for Relations with Compatriots Abroad.

From 2012 to June 2019, he served as Ambassador of the Russian Federation to Serbia. He has the rank of Ambassador Extraordinary and Plenipotentiary and several Russian and Serbian state orders and medals.

In 2009, he was awarded a PhD Degree in Political Science.

From 2012 to 2019 Mr. Chepurin closely dealt with issues of cooperation development between Russian energy companies and the Republic of Serbia, focusing on strengthening cooperation between Russian and Serbian energy companies.

Mr. Chepurin was elected independent member of the NIS j.s.c. Novi Sad Board of Directors as of 27.06.2019.



Anatoly Cherner
Member of NIS j.s.c. Novi Sad Board of Directors
Deputy Chairman of the PJSC "Gazprom Neft" Executive Board,
Deputy CEO for logistics, refining and sales at PJSC 'Gazprom Neft'

Born in 1954.

Mr. Cherner graduated from Grozny Oil Institute in 1976 with a degree in chemical oil and gas engineering.

In the same year he was employed at the Sheripov Grozny Refinery, starting as an operator to become refinery director in 1993. In 1996, he joined SlavNeft as Head of the Oil and Oil Products Trading Department and was later appointed Vice-Chairman of the company. He joined SibNeft (from June 2006 – "Gazprom Neft" PJSC) as Vice-Chairman for refining and marketing in April

2006. In December 2007 he was appointed Deputy CEO for logistics, refining and sales in "Gazprom Neft" PJSC.

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



Olga Vysotskaia

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

Born in 1961.

Graduated cum laude from the Leningrad State University in 1984, from the Department of Economy Cybernetics, with specialisation in economic mathematics. Post-graduate studies in mathematical cybernetics at the Institute of social and economic studies of the USSR Academy of science, Leningrad division, in 1987. Completed the MBA at Bristol University in 1998. Earned the Professional independent director diploma from the London Institute of Directors in 2009.

She held the position of Chair of the Board of Directors (BoD), CEO, Chair of science and production companies from 1988 to 1995, and she was Director of many private companies. From 1995 to 2003 she held various partner positions with KPMG in New York and Moscow. From 2003 to 2005 she was person in charge of Internal audit Directorate of "Yukos", Moscow. From 2005 to 2008 she was Consulting services Executive partner of Deloitte&Touche, From 2006 to 2013 she held positions of independent member of the BoD, Chair of the Audit Commission, member of the Strategy Commission, member of the Remuneration Commission of "EM - alliance" and "KIT Finance", as well as independent member of the Audit Commission of OJSC "Baltika". From 2012 to 2013 she was a partner in PricewaterhouseCoopers (PwC) and from 2013 to 2014 - independent member of the CJSC "NefteTransService" Board of Directors, Chair of the Audit Commission, member of Remuneration Commission. As of 2013 she is holding position of independent member of LTD "ĪNK" BoD and from 2015 to 2018 she held position of independent member of BoD of JSC "SUEK".

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

Total amount paid to Board of Directors members in first nine months of 2019, net RSD

BoD Members	166,660,682
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Membership in Other Companies' Boards of Directors or Supervisory Boards

Vadim Yakovlev	<ul style="list-style-type: none"> • PJSC NGK "Slavneft" • LTD "GPN Development"(Chairman of BoD) • JSC "Gazprom Neft-NNG" (Chairman of BoD) • LTD "Gazprom Neft-Hantos" (Chairman of BoD) • LTD "Gazprom Neft-NTC" (Chairman of BoD) • LTD "Gazprom Neft-Orenburg" (Chairman of BoD) • LTD "Gazprom Neft-Sahalin" • Salym Petroleum Development N.V. (Chairman of Supervisory Board) • LLC "Gazprom neft Shelf" • LTD "Bazhen Technology Centre" (Chairman of BoD) • LTD „GPN-GEO“(Chairman of BoD) • LTD „GPN- Oil service“ (Chairman of BoD) • FGAOU „Tyumen State University (member of the Supervisory board)
Kirill Tyurdenev	-
Danica Drašković	-
Alexey Yankevich	<ul style="list-style-type: none"> • PJSC "NGK Slavneft" • JSC Gazpromneft – Aero • LTD "Gazprom Neft – SM" • LTD "Gazprom Neft Biznis-Servis" (Chairman of the BoD) • "Gazprom Neft Lubricants s.p.a." Italy (Chairman of the BoD) • Gazpromneft Marine Bunker LLC • LLC "Gazprom Neft Shelf"
Sergey Papenko	<ul style="list-style-type: none"> • PJSC NGC „Slavneft“ • JSC „Artikgaz“ • JSC „Evrotech-Yugra“ • CJSC „Nortgas“ • LTD "Slavneft-Krasnoyarskneftegaz" • LTD "Gazprom neft – Vostok" • LTD „Gazrpm neft - Angara“ • Salym Petroleum Development N.V. (member of the SB) • LTD „Gazprom Resource Nortgaz“ (CEO) • Messoyakhaneftegaz (JSC JV) • Tomskneft VNK • LTD „ASB GEO“ • LTD „Noyabrskneftegazavtomatika“ • OJSC „SN-MNG“ • LTD "GPN Development"

Alexander Krylov	<ul style="list-style-type: none"> • JSC "Gazprom Neft-Novosibirsk" (Chairman of the BoD) • JSC "Gazprom Neft-Ural" (Chairman of the BoD) • JSC "Gazprom Neft-Yaroslavl" (Chairman of the BoD) • JSC "Gazprom Neft-Northwest" (Chairman of the BoD) • LTD "Gazprom Neft Asia" (Chairman of the BoD) • LTD "Gazprom Neft - Tajikistan" (Chairman of the BoD) • LTD "Gazprom Neft - Kazakhstan" (Chairman of the BoD) • LTD "Gazprom Neft - Centr" (Chairman of the BoD) • JSC "Gazprom Neft - Terminal" (Chairman of the BoD) • LTD "Gazprom Neft – Regional sales"(Chairman of the BoD) • JSC "Gazprom Neft – Transport" (Chairman of the BoD) • LTD "Gazprom Neft – Krasnoyarsk" (Chairman of the BoD) • LTD "Gazprom Neft – Corporate Sales" (Chairman of the BoD) • LLC "Gazprom Neft – Belnefteprodukt" (Chairman of the BoD) • JSC "Gazprom Neft – Alternative Fuels" (Chairman of the BoD) • LTD "ITSK" • LTD "Gazprom Neft – Laboratory"(Chairman of the BoD) • Association Hockey Club „Avangard“ (Chairman of the BoD)
Dragutin Matanović	-
Dejan Radenković	-
Alexander Chepurin	-
Anatoly Cherner	<ul style="list-style-type: none"> • PJSC NGK Slavneft • JSC Gazprom Neft – ONPZ (Chairman of BoD) • PJSC Slavneft – JANOS (Chairman of the BoD) • JSC Gazprom Neft – MNPZ (Chairman of BoD) • JSC Gazprom Neft – Aero (Chairman of BoD) • JSC Saint-Petersburg International Mercantile Exchange • LTD Gazprom Neft – SM (Chairman of BoD) • LTD Gazprom Neft Marine Bunker (Chairman of BoD) • LTD Gazprom Neft – Logistics (Chairman of BoD) • JSC Mozirski NPZ • Gazprom Neft Lubricants Italy SPA • LLC Gazprom Neft - Catalytic Systems (Chairman of BoD) • LLC Automatica-Service (Chairman of BoD)
Olga Vysotskaia	<ul style="list-style-type: none"> • Nonprofit organization «Serebryanoe vremya» (Chair of the Supervisory Board, Director) • LTD INK (independent member of the BoD, Chair of the Audit Commission)

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

Name and surname	Number of shares	% in total number of shares
-	-	-

Board of Directors' Committees

In order to complete its obligations more efficiently, the Board of Directors founded 3 permanent (Audit Committee, Remuneration Committee and Nominations Committee) committees as advisory and professional bodies, which support its work, especially in terms of consideration of the questions under its jurisdiction, preparation and supervision of implementation of the decisions and acts adopted by BoD, as well as conduction of certain expert activities necessary for the Board of Directors.

The previous term of office of Audit Committee and Remuneration Committee members lasted until the date of the 11th Annual Shareholders' Meeting (27 June 2019) and these Committees consisted of the following members:

- Audit Committee
 - Wolfgang Rutenstorfer, chairman
 - Aleksei Yankevich, member and
 - Nenad Mijailovic, member.

- Remuneration Committee
 - Olga Vysotskaya, chairman,
 - Anatoly Cherner, member and
 - Zoran Grujicic, member.

In the forthcoming period, Board of Directors will appoint members of the commissions of the Board of Director for the following term of office, while it may, as necessary; form other standing or ad hoc commissions that will deal with issues of relevance for the Board of Directors work.

Shareholders' Assembly Board

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

At the XI regular session of the Shareholders Assembly of NIS, held on 27 June 2019, the following members of the Shareholders Assembly Board of NIS were appointed: Zoran Grujicic, Dragan Bracika and Aleksey Urusov.

Members of the Shareholders' Assembly Board as at 30 September 2019



Zoran Grujić

Chairman of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad

Born in 1955.

Mr Grujić graduated from the Faculty of Mechanical Engineering of the University of Belgrade.

From 1980 to 1994, he was employed by the "Cer" heat transfer appliances plant in Čačak, where he held a variety of positions, including General Manager, Technical Manager, Production Manager and Design Engineer. From May 1994 to February 1998, he served as Advisor to the General Manager of Interkomerc, Belgrade. From February 1998 to June 2004, he was Managing Director of MNG Group d.o.o., Čačak. From June 2004 to February 2007, he was Director of the trading company Agrostroj j.s.c. Čačak, Director of the limited partnership company Leonardo from Čačak and Director of the Vojvodina Highway Centre. Since February 2007, Mr. Grujić has been employed with NIS j.s.c. Novi Sad and has held the following positions: Deputy Director of the Logistics Department in Jugopetrol, Head of RC Čačak at the Retail Department – Čačak Region, Manager of Retail Network Development in the Development Department, Sales and Distribution. From October 2012

to January 2016, he had served as Advisor to the Sales and Distribution Director and since February 2016 has been an Advisor to the Function for External Affairs and Government Relations Director. He has served as Advisor to the General Director since October 2017.

From 30.06.2014 to 27.06.2019, Mr Grujičić was a member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders. As of 27 June 2019 he was appointed as a Chairman of the the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders.



Dragan Bračika

Member of the Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad

Born in 1982.

Mr Bračika graduated from the Faculty for business and industrial management of the Union University in Belgrade, Department for industrial and economy management and holds a BSc degree in management.

From 2013 to 2015, he was Advisor to General manager of the Novi Sad Fair. From 2016 to the present he serves as Director of Ceptor Andrevlje.

Mr Bračika was appointed as a member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 27.06.2019.



Alexey Urusov

Member of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad

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

Born in 1974.

Mr Urusov graduated from the Tyumen State University (specializing in finance) and the University of Wolverhampton in the United Kingdom (BA (Hons) Business Administration). He furthermore holds an MSc degree in Sociology.

From 2006 to 2008, he worked as Executive Vice-President for planning and performance management in the Integra Group. From 2002 to 2006, he was employed at TNK-BP, being a member of TNK BoD's Group for Monitoring and Control from 2002 to 2003, and CFO of TNK-BP Ukraine from 2004 to 2006. From 2009 to 2012, Mr Urusov was employed with NIS j.s.c. Novi Sad as Chief Finance Officer. From 2012, he has been employed as a Director for economics and corporate planning with PJSC "Gazprom Neft".

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

Total amount of fees paid to SAB members in first nine months of 2019, net, in RSD	
Members of SAB	15,684,788

Membership in Other Companies' Boards of Directors or Supervisory Boards

Zoran Grujić	-
Dragan Bračika	<ul style="list-style-type: none"> • Board of Directors member, Specialized hospital for prevention, treatment of lung diseases and rehabilitation Sokobanja • Director, Center for economy and technology development Ceptor Andrevlje
Alexey Urusov	<ul style="list-style-type: none"> • Board of Directors member, Gazpromneft Marine Bunker Balkan S.A. • Board of Directors member, AS Baltic Marine Bunker • Board of Directors member, Gazpromneft - Catalytic systems LLC • Board of Directors member Gazpromneft – Energoservice LLC • Board of Directors member, Gazpromneft Business-service LLC • Board of Directors member, ITSK LLC • Board of Directors member, Noyabrskneftegazsvyaz LLC.

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

Name and surname	Number of shares	% in total number of shares
Dragan Bračika	5	0.000003066%

CEO

CEO is appointed by the Board of Directors from the group of executive members of the Board of Directors. CEO coordinates the activities of the executive members of the Board of Directors and organises Company's business. Furthermore, CEO of the Company performs daily management-related activities and he is authorised to make decisions on the issues, which are not under the jurisdiction of the Shareholders' Assembly and the Board of Directors. CEO is the legal representative of NIS.

CEO Advisory Board

CEO Advisory Board is the professional body, which supports the work of CEO and the process of relevant question revision. Composition of the Advisory Board is validated by the CEO decision and it consists of a First Deputy CEO - Head of Downstream Division, First Deputy CEO - Head of Exploration and Production, Heads of Refining and Sales and Distribution, Heads of Company's Functions, as well as the director of Naftagas - Naftni Servisi d.o.o. Novi Sad. Apart from the issues related to the Company's business, the Advisory Board reviews the issues related to the development strategy and policy while their basics are determined by the Shareholders' Assembly and the Board of Directors.

Related-Party Transactions

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

Human Resources

NIS mission is to provide people with energy to move towards an improvement, and its employees are its driving force and the key to its success. In order to achieve this synergy, NIS creates a business environment in which every employee can realize his full potential with full respect for the rights of employees prescribed by the Labour Law, the Collective Agreement/Rules of Work, internal acts, as well as international acts such as the UN Declaration on Human Rights and the Declaration on Fundamental Principles and Rights at Work.

Employee Number and Structure

Organisational unit ⁵⁷	30.09.2019			30.09.2018		
	Direct	Leasing	Total	Direct	Leasing	Total
NIS j.s.c. Novi Sad	4,198	3,655	7,853	4,133	3,665	7,798
“Exploration and Production” Block	913	180	1,093	852	216	1,068
“Services” Block	0	0	0	86	23	109
“Downstream” Division ⁵⁸	2,103	3,099	5,202	2,053	2,982	5,035
“Refining” Block ⁵⁹	938	17	955	955	31	986
“Sales and Distribution” Block ⁶⁰	1,019	3,066	4,085	990	2,932	3,922
“Energy” Head Office ⁶¹	39	4	43	48	7	55
the rest of the “Downstream” Division ⁶²	107	12	119	60	12	72
Corporate Centre	1,142	376	1,518	1,093	444	1,537
Representative Offices and Branches	40	0	40	49	0	49
Subsidiaries in the country	1,718	1,534	3,252	1,478	1,694	3,172
“Naftagas - Oil Services” Ltd. Novi Sad ⁶³	1,108	1,062	2,170	679	830	1,509
“Naftagas - Technical Services” Ltd. Zrenjanin	184	127	311	396	499	895
“Naftagas – Transport” Ltd. Novi Sad	84	315	399	80	330	410
NTC “NIS Naftagas” Ltd. Novi Sad	342	30	372	323	35	358
Subsidiaries abroad	74	2	76	70	1	71
“NIS Petrol” EOOD Sofia (Bulgaria)	37	0	37	33	0	33
“NIS Petrol” SRL Bucharest (Romania)	29	0	29	28	0	28
“NIS Petrol” Ltd. Banja Luka (Bosnia and Herzegovina)	5	0	5	6	0	6
“Jadran Naftagas” Ltd. Banja Luka Banja Luka (Bosnia and Herzegovina)	3	0	3	3	0	3
“Pannon Naftagas” Kft. Budapest (Hungary)	0	2	2	0	1	1
Other subsidiaries included in consolidation	461	114	575	574	114	688
“O ZONE” j.s.c. Belgrade	4	114	118	5	114	119
“NIS Oversees” o.o.o. St. Petersburg	4		4	113		113
“NIS Svetlost” Ltd. Bujanovac			0			0
“G Petrol” Ltd. Sarajevo (Bosnia and Herzegovina)	453	0	453	456		456
TOTAL:	6,451	5,305	11,756	6,255	5,474	11,729

⁵⁷ Part-time employees are shown as whole units in the affiliated company.

⁵⁸ The transfer of employees to the new structures of the “Downstream” Division begins as of July 2018 and ends in September.

⁵⁹ The Sales and Distribution Block and Refining Block become subordinate to the new Division.

⁶⁰ The Sales and Distribution Block and Refining Block become subordinate to the new Division.

⁶¹ By reorganizing and creating a new Division, the Energy Block ceases to exist; only the “Energy” Directorate subordinate to the Division remains, while the other parts are decentralized into the “Exploration and Production” Block, “Refining” Block and “Sales and Distribution” Block

⁶² The rest of the “Downstream” Division consists of: Director of Division’s Office, Crude Oil Sector, Department for Planning, Optimization and Analysis of Production and Sales, Department for Metrology and Group for Administrative-Documentation Support and Department for Procurement “DWS”

⁶³ Including the employees in subsidiaries.

Causes of Employment Termination

In first nine months of 2019, a total of 276 employees left NIS⁶⁴: 38 employees retired, 49 employees left NIS after termination of employment by mutual agreement, while the employment of 189 people was terminated on other grounds (involuntary termination, voluntary termination, redundancy, death etc.).

Cause of employment termination	NIS j.s.c. Novi Sad ⁶⁵	Subsidiaries ⁶⁶
Retirement	21	17
Termination by mutual agreement	43	6
Other	86	103
Total	150	126

⁶⁴ NIS j.s.c. Novi Sad with the subsidiaries Naftagas – Oilfield services LLC Novi Sad, Naftagas – Technical services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and NTC NIS Naftagas LLC Novi Sad.

⁶⁵ Including Representative Offices and Branches.

⁶⁶ Naftagas – Oilfield services LLC Novi Sad, Naftagas – Technical services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and NTC NIS Naftagas LLC Novi Sad.

Research and Development

In all segments of its business, NIS is dedicated to continual technological development and introducing innovations into business.

STC NIS-Naftagas LLC Novi Sad, as a daughter company which is 100 per cent owned by NIS, provides its mother company with scientific, technical and innovational support in the field of oil and gas exploration and production. The research and development activities within STC NIS-Naftagas have a dual role - coordinating and performing scientific and research work.

Implementation and development of new technologies, scientific and research activities, as well as increasing the efficiency of exploration, production and refining of oil and gas remain in focus of attention for STC management and employees. It is organised in several directions. In the geological explorations field, a regional project is being executed, whose aim is the discovery of hydrocarbons in Paleozoic or intra-Paleozoic rocks, and, in case of discovery, their efficient production. These types of reservoirs are not common in the world, and therefore there is no experience in their discovery and production. Where the rock collector is sand in which there is oil or gas, work is being done to test either mechanical or chemical means, which would stop sand from moving and enable the production process. For preparing the produced crude oil for transport to the refinery, work is being done on optimisation of the demulsifier in order to separate the water produced together with oil as quickly as possible and to shorten the production process. The laboratory is introducing new methods of controlling petroleum products and having them accredited in accordance with the EU standards. It is also extensively preparing for application of completely new methods for testing DCU products.

Apart from the existing directions, STC has successfully worked on development and application of new technologies, as well as information and communication technologies in the main business activity. Within this direction, it makes great strides in the field of improving user software support, database maintenance, implementation and maintenance of virtual platform, provides support and maintains software for processing seismic data, coordinates and leads projects with IT elements, and also implements new infrastructural and software solutions in accordance with the main business activity of the company.

The realization of these company activities has been enabled by constant improvement of expert competence of the employees and by investment in information technologies, both of which represent key prerequisites for development of NIS j.s.c.

Financial Statements

Stand-Alone Financial Statements

Statement of Financial Position

	Note	30 September 2019	31 December 2018
Assets			
Current assets			
Cash and cash equivalents	6	12,699,218	12,222,578
Short-term financial assets	7	4,981,784	6,686,363
Trade and other receivables	8	31,472,560	28,076,947
Inventories	9	40,827,041	44,443,778
Current income tax prepayments		588,662	-
Other current assets	10	4,197,677	5,416,286
Non-current assets held for sale		131,740	9,271
Total current assets		94,898,682	96,855,223
Non-current assets			
Property, plant and equipment	11	270,225,005	258,254,117
Right-of-use assets	3	831,717	-
Investment property		1,697,964	1,730,100
Intangible assets		2,178,062	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		226,228	2,837
Long-term financial assets	12	24,333,798	23,408,424
Deferred tax assets		1,102,770	2,405,175
Other non-current assets	13	1,692,204	1,777,859
Total non-current assets		316,752,134	304,618,944
Total assets		411,650,816	401,474,167
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt			
	14	7,403,639	8,242,122
Current lease liabilities	19	98,901	-
Trade and other payables	15	38,053,523	30,365,339
Other current liabilities	16	5,097,934	5,087,681
Current income tax payable		-	539,811
Other taxes payable	17	11,707,652	8,560,193
Provisions for liabilities and charges		1,836,316	1,928,116
Total current liabilities		64,197,965	54,723,262
Non-current liabilities			
Long-term debt	18	82,147,474	87,367,868
Non-current lease liabilities	19	590,925	-
Provisions for liabilities and charges		10,451,064	10,079,405
Total non-current liabilities		93,189,463	97,447,273
Equity			
Share capital		81,530,200	81,530,200
Reserves		95,137	92,060
Retained earnings		172,638,051	167,681,372
Total equity		254,263,388	249,303,632
Total liabilities and shareholder's equity		411,650,816	401,474,167

Statement of Profit and Loss and Other Comprehensive Income

	Note	Three month period ended 30 September		Nine month period ended 30 September	
		2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Sales of petroleum products, oil and gas		67,710,470	75,475,148	167,980,814	179,642,312
Other revenues		2,541,323	4,245,053	6,724,431	10,809,257
Total revenue from sales	5	70,251,793	79,720,201	174,705,245	190,451,569
Purchases of oil, gas and petroleum products		(43,191,169)	(48,191,688)	(107,613,502)	(110,205,399)
Production and manufacturing expenses	20	(6,003,630)	(7,378,956)	(18,141,632)	(20,100,156)
Selling, general and administrative expenses	21	(5,391,132)	(5,235,925)	(15,894,930)	(15,541,374)
Transportation expenses		(303,812)	(345,568)	(698,391)	(908,910)
Depreciation, depletion and amortization		(4,645,471)	(4,596,912)	(13,818,039)	(12,869,917)
Taxes other than income tax		(1,132,835)	(1,160,573)	(3,312,297)	(3,327,472)
Exploration expenses		-	(41,169)	(11,474)	(56,940)
Total operating expenses		(60,668,049)	(66,950,791)	(159,490,265)	(163,010,168)
Other income (expenses), net		12,319	(170,973)	(172,674)	(138,294)
Operating profit		9,596,063	12,598,437	15,042,306	27,303,107
Net foreign exchange gain (loss)	22	181,363	(237,240)	310,696	(234,701)
Finance income	23	212,994	389,941	705,252	1,209,825
Finance expenses	24	(462,317)	(542,979)	(1,417,461)	(1,663,485)
Total other expense		(67,960)	(390,278)	(401,513)	(688,361)
Profit before income tax		9,528,103	12,208,159	14,640,793	26,614,746
Current income tax expense		(1,168,241)	(1,508,875)	(1,869,552)	(3,149,785)
Deferred tax expense		(783,339)	(465,260)	(1,302,405)	(1,095,141)
Total income tax expense		(1,951,580)	(1,974,135)	(3,171,957)	(4,244,926)
Profit for the period		7,576,523	10,234,024	11,468,836	22,369,820
Other comprehensive income:					
Items that will not be reclassified to profit (loss)					
Gains (losses) from investments in equity instruments		569	(364)	8,444	(950)
Other comprehensive income (loss) for the period		569	(364)	8,444	(950)
Total comprehensive income for the period		7,577,092	10,233,660	11,477,280	22,368,870
Earnings per share attributable to shareholders of Naftna Industrija Srbije					
Basic earnings (RSD per share)		46.46	62.76	70.33	137.18
Weighted average number of ordinary shares in issue (in millions)		163	163	163	163

in 000 RSD

Statement of Changes in Shareholders' Equity

Nine month period ended 30 September 2019 and 2018

(unaudited)

	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	-	-	22,369,820	22,369,820
Other comprehensive income (loss)				
Loss from investments in equity instruments	-	(950)	-	(950)
Sale of investments in equity instruments	-	3,455	(3,455)	-
Total comprehensive income (loss) for the period	-	2,505	22,366,365	22,368,870
Dividend distribution	-	-	(6,948,004)	(6,948,004)
Balance as at 30 September 2018	81,530,200	20,287	163,976,769	245,527,256
Balance as at 1 January 2019	81,530,200	92,060	167,681,372	249,303,632
Profit for the period	-	-	11,468,836	11,468,836
Other comprehensive income (loss)				
Gains from investments in equity instruments	-	8,444	-	8,444
Sale of investments in equity instruments	-	(5,367)	5,367	-
Total comprehensive income for the period	-	3,077	11,474,203	11,477,280
Dividend distribution	-	-	(6,517,524)	(6,517,524)
Balance as at 30 September 2019	81,530,200	95,137	172,638,051	254,263,388

Statement of Cash Flows⁶⁷

		Nine month period ended 30 September	
	Note	2019 (unaudited)	2018 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		14,640,793	26,614,746
Adjustments for:			
Finance expenses	24	1,417,461	1,663,485
Finance income	23	(705,252)	(1,209,825)
Net unrealised foreign exchange (gain) loss		(311,739)	565,384
Depreciation, depletion and amortization		13,818,039	12,869,917
Other non-cash items		(92,494)	261,410
Operating cash flow before changes in working capital		28,766,808	40,765,117
Changes in working capital:			
Accounts receivables		(3,738,435)	(4,797,963)
Inventories		3,675,879	(3,367,640)
Other assets		1,300,367	74,005
Accounts payables and other current liabilities		4,217,239	1,704,643
Taxes payable		9,678,466	1,818,680
Total effect on working capital changes		15,133,516	(4,568,275)
Income taxes paid		(3,003,913)	(4,328,368)
Interest paid		(1,334,931)	(1,625,204)
Interest received		610,194	652,870
Net cash generated from operating activities		40,171,674	30,896,140
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans issued		(5,533,105)	(2,621,606)
Loan proceeds received		4,307,707	1,606,005
Capital expenditures ⁶⁸		(29,329,489)	(29,787,703)
Proceeds from sale of property, plant and equipment		318,514	179,938
Bank deposits repayment, net		1,986,458	5,586,458
Other inflow		27,226	32,122
Net cash used in investing activities		(28,222,689)	(25,004,786)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	14,18	23,043,914	29,941,738
Repayment of borrowings	14,18	(27,980,202)	(33,253,718)
Repayment of lease liabilities	19	(86,684)	(39,388)
Dividends paid		(6,517,524)	(6,948,004)
Net cash used in financing activities		(11,540,496)	(10,299,372)
Net increase (decrease) in cash and cash equivalents		408,489	(4,408,018)
Effect of foreign exchange on cash and cash equivalents		68,151	77,448
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		12,699,218	19,080,154

In 000 RSD

⁶⁷ Company's policy is to present cash flow inclusive of related VAT.

⁶⁸ CF from investing activities includes VAT in the amount of 3,0 bln RSD (2018: 4,3 bln RSD)

Notes to Stand-Alone Financial Statements⁶⁹

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 30 September 2019 were evaluated through 28 October 2019, the date these Interim Condensed Financial Statements were authorised for issue.

⁶⁹ All amounts are in 000 RSD, unless otherwise stated

The results for the nine month period ended 30 September 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.

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	(108,527)
Undiscounted leases recognized under IFRS 16	125,385
Discounted using the lessee's incremental borrowing rate at the date of initial application	100,027
Add: finance lease liabilities recognised as at 31 December 2018	644,611
Lease liability recognised as at 1 January 2019	744,638
Of which are:	
Current lease liabilities	96,572
Non-current lease liabilities	648,066
	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:

	30 September 2019	1 January 2019
Property	501,877	540,388
Plant and equipment	283,778	324,713
Motor vehicles	46,062	54,331
Total right-of-use assets	831,717	919,432

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 Company 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.

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

The following other new standards and pronouncements which became effective did not have any material impact on the Company:

- IFRIC 23 – Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Annual improvements 2015-2017 Cycle (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Plan amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

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);
- Amendments to the Conceptual Framework for Financial Reporting (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of a Business – Amendments to IFRS 3 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of Material – Amendments to IAS 1 and IAS 8 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020).

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 nine month period ended 30 September 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 nine month period ended 30 September 2019 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	36,333,304	174,759,374	(36,387,433)	174,705,245
Intersegment	35,633,111	754,322	(36,387,433)	-
External	700,193	174,005,052	-	174,705,245
EBITDA (Segment results)	25,728,701	3,569,925	-	29,298,626
Depreciation, depletion and amortization	(7,660,592)	(6,157,447)	-	(13,818,039)
Reversal of non-financial assets impairment	-	389,321	-	389,321
Net foreign exchange gain (loss)	(45,511)	356,207	-	310,696
Finance expenses, net	(88,378)	(623,831)	-	(712,209)
Income tax	(74,444)	(3,097,513)	-	(3,171,957)
Segment profit /(loss)	17,783,034	(6,314,198)	-	11,468,836

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	25,550,616	190,985,157	(26,084,204)	190,451,569
Intersegment	24,276,020	1,808,184	(26,084,204)	-
External	1,274,596	189,176,973	-	190,451,569
EBITDA (Segment results)	27,739,616	12,444,127	-	40,183,743
Depreciation, depletion and amortization				(12,869,917)
	(6,311,286)	(6,558,631)	-	
Net of impairment of non-financial assets	(3,471)	(21,164)	-	(24,635)
Net foreign exchange gain (loss)	(42,776)	(191,925)	-	(234,701)
Finance income (expenses), net	10,006	(463,666)	-	(453,660)
Income tax	(122,158)	(4,122,768)	-	(4,244,926)
Segment profit /(loss)	21,082,559	1,287,261	-	22,369,820

EBITDA for the three and nine month period ended 30 September 2019 and 2018 is reconciled below:

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Profit for the period	7,576,523	10,234,024	11,468,836	22,369,820
Income tax expenses	1,951,580	1,974,135	3,171,957	4,244,926
Finance expenses	462,317	542,979	1,417,461	1,663,485
Finance income	(212,994)	(389,941)	(705,252)	(1,209,825)
Depreciation, depletion and amortization	4,645,471	4,596,912	13,818,039	12,869,917
Net foreign exchange (gain) loss	(181,363)	237,240	(310,696)	234,701
Other (income) expense, net	(12,319)	170,973	172,674	138,294
Other non-operating (income) expense, net	335,047	(134,484)	265,607	(127,575)
EBITDA	14,564,262	17,231,838	29,298,626	40,183,743

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

	Nine month period ended 30 September 2019		
	Domestic market	Export and International sales	Total
Sale of crude oil	-	663,496	663,496
Sale of gas	1,332,552	-	1,332,552
Through a retail network	-	-	1
Wholesale activities	1,332,552	-	1,332,552
Sale of petroleum products	134,826,612	31,158,154	165,984,766
Through a retail network	48,495,359	-	48,495,359
Wholesale activities	86,331,253	31,158,154	117,489,407
Sale of electricity	578,390	154,044	732,434
Lease revenue	284,055	799	284,854
Other sales	5,581,119	126,024	5,707,143
Total sales	142,602,728	32,102,517	174,705,245

	Nine month period ended 30 September 2018		
	Domestic market	Export and International sales	Total
Sale of crude oil	-	1,056,256	1,056,256
Sale of gas	1,415,084	-	1,415,084
Through a retail network	-	-	-
Wholesale activities	1,415,084	-	1,415,084
Sale of petroleum products	141,952,327	35,218,645	177,170,972
Through a retail network	46,145,291	-	46,145,291
Wholesale activities	95,807,036	35,218,645	131,025,681
Sale of electricity	478,885	4,466,746	4,945,631
Other sales	5,663,124	200,502	5,863,626
Total sales	149,509,420	40,942,149	190,451,569

Out of the amount of 117,489,407 RSD (2018: 131,025,681 RSD) revenue from sale of petroleum products (wholesale), the amount of 13,043,228 RSD (2018: 19,494,776 RSD) are derived from a single domestic customer HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Network For Trading doo Belgrade in the amount of 663,496 RSD (2018: Gazprom Marketing & Trading Co., Ltd. in the amount of 3,988,435 RSD).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 4,561,052 RSD (2018: 4,223,980 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 Company is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 142,602,728 RSD (2018: 149,509,420 RSD), and the total revenue from external customer from other countries is 32,102,517 RSD (2018: 40,942,149 RSD).

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

	Nine month period ended 30 September	
	2019	2018
Sale of crude oil	663,496	1,056,256
Sale of petroleum products (retail and wholesale)		
Bosnia and Herzegovina	11,024,572	8,507,290
Bulgaria	5,149,623	8,269,231
Romania	3,693,011	6,169,304
Croatia	1,815,734	2,366,149
Switzerland	1,253,379	1,755,558
Hungary	1,158,455	1,210,430
Great Britain	857,339	1,292,002
Northern Macedonia	819,890	1,371,827
All other markets	5,386,151	4,276,854
	31,158,154	35,218,645
Sale of electricity	154,044	4,466,746
Lease revenue	799	-
Other sales	126,024	200,502
	32,102,517	40,942,149

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

6. CASH AND CASH EQUIVALENTS

	30 September 2019	31 December 2018
Cash in bank and in hand	10,104,668	5,621,605
Deposits with original maturity of less than three months	2,326,226	6,367,102
Cash held on escrow account	14,541	17,364
Cash equivalents	253,783	216,507
	12,699,218	12,222,578

7. SHORT-TERM FINANCIAL ASSETS

	30 September 2019	31 December 2018
Short-term loans	23,678	27,633
Deposits with original maturity more than 3 months less than 1 year	-	2,122,961
Current portion of long-term investments (note 12)	12,741,847	10,654,662
Less impairment loss provision	(7,783,741)	(6,118,893)
	4,981,784	6,686,363

8. TRADE AND OTHER RECEIVABLES

	30 September 2019	31 December 2018
Trade receivables	41,435,566	37,762,042
Other receivables	109,161	122,807
Accrued assets	-	314,496
Less credit loss allowance for trade receivables	(10,016,029)	(10,062,788)
Less credit loss allowance for other receivables	(56,138)	(59,610)
Total trade and other receivables	31,472,560	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:

	30 September 2019	31 December 2018
RSD	26,956,125	23,649,335
EUR	4,161,300	3,734,398
USD	355,135	693,041
Other	-	173
	31,472,560	28,076,947

9. INVENTORIES

	30 September 2019	31 December 2018
Crude oil	24,155,210	24,596,883
Petroleum products	15,704,665	18,794,803
Materials and supplies	4,916,029	5,148,165
Other	754,944	734,454
Less impairment provision	(4,703,807)	(4,830,527)
	40,827,041	44,443,778

10. OTHER CURRENT ASSETS

	30 September 2019	31 December 2018
Advances paid	620,112	716,164
Deferred VAT	1,712,294	1,567,844
Prepaid expenses	382,873	220,882
Prepaid custom duties	6,189	4,625
Prepaid excise	1,447,332	2,743,083
Other current assets	7,655,227	7,781,630
Less impairment provision	(7,626,350)	(7,617,942)
	4,197,677	5,416,286

Deferred VAT as at 30 September 2019 amounting to 1,712,294 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 30 September 2019 amounting to 1,447,332 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 claims in dispute which are impaired.

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 30 September 2018						
Additions	-	-	-	-	28,635,113	28,635,113
Acquisitions through business combinations	-	-	-	-	217,660	217,660
Changes in decommissioning obligations	158,576	-	-	-	-	158,576
Transfer from assets under construction	11,549,461	1,386,171	3,560,627	140,528	(16,636,787)	-
Transfer to investment property	-	-	(81,328)	-	-	(81,328)
Impairment	-	-	(23,931)	-	(13,412)	(37,343)
Depreciation	(6,269,861)	(4,182,159)	(1,291,547)	(392,613)	-	(12,136,180)
Disposals and write-off	(52,007)	(72,933)	(17,725)	(17,646)	(794,563)	(954,874)
Other transfers	1,980,026	(1,400,947)	20,705	(599,720)	8,177	8,241
	110,009,727	69,150,598	23,762,815	7,983,905	42,011,259	252,918,304
As at 30 September 2018						
Cost	149,474,499	113,765,057	51,043,367	16,217,905	44,021,415	374,522,243
Depreciation and impairment	(39,464,772)	(44,614,459)	(27,280,552)	(8,234,000)	(2,010,156)	(121,603,939)
Net book value	110,009,727	69,150,598	23,762,815	7,983,905	42,011,259	252,918,304
As at 1 January 2019						
Cost	156,367,336	115,028,154	51,380,912	16,193,480	45,864,852	384,834,734
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	43,861,548	258,254,117
Period ended 30 September 2019						
Additions	-	-	-	-	26,332,523	26,332,523
Changes in decommissioning obligations	104,542	-	-	-	-	104,542
Transfer from assets under construction	9,873,390	1,862,125	1,003,196	440,433	(13,179,144)	-
Transfer to non-current assets held for sale	(19,663)	(11,959)	(26)	(74,151)	-	(105,799)
Impairment	-	(3,488)	(55,783)	-	(16,405)	(75,676)
Depreciation	(7,621,144)	(4,051,541)	(1,259,938)	(418,193)	-	(13,350,816)
Disposals and write-off	(122,080)	(16,927)	(29,359)	(5,972)	(110,305)	(284,643)
Transfer to right of use assets (note 3)	(54,331)	-	(765,074)	-	-	(819,405)
Other transfers	(28,832)	(3,167)	1,541	30,469	170,151	170,162
	116,002,663	66,649,538	22,649,148	7,865,288	57,058,368	270,225,005
As at 30 September 2019						
Cost	165,905,912	116,797,043	51,074,751	16,228,154	59,078,077	409,083,937
Depreciation and impairment	(49,903,249)	(50,147,505)	(28,425,603)	(8,362,866)	(2,019,709)	(138,858,932)
Net book value	116,002,663	66,649,538	22,649,148	7,865,288	57,058,368	270,225,005

Capitalized borrowing costs for the nine months ended 30 September 2019 include interest expense in the amount of 104,898 RSD (30 September 2018: 83,833 RSD).

12. LONG-TERM FINANCIAL ASSETS

	30 September 2019	31 December 2018
LT loans issued	39,190,504	37,976,787
Financial assets at FVTOCI	26,540	177,767
Other LT placements	165,499	25,984
<i>Less Current portion of LT loans issued (note 7)</i>	<i>(12,741,847)</i>	<i>(10,654,662)</i>
<i>Less provision of other LT placements</i>	<i>(2,306,898)</i>	<i>(4,117,452)</i>
	24,333,798	23,408,424

13. OTHER NON-CURRENT ASSETS

	30 September 2019	31 December 2018
Advances paid for PPE	752,329	790,744
Prepaid expenses	143,630	151,070
Other financial assets	1,192,384	1,240,438
<i>Less allowance for Other financial assets</i>	<i>(363,563)</i>	<i>(371,817)</i>
<i>Less allowance for advances paid</i>	<i>(32,576)</i>	<i>(32,576)</i>
	1,692,204	1,777,859

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

	30 September 2019	31 December 2018
Short-term loans	1,486,753	2,218,378
Interest liabilities	102,952	100,154
Current portion of long-term loans (note 18)	5,813,934	5,852,524
Current portion of finance lease liabilities (note 18)	-	71,066
	7,403,639	8,242,122

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

	Nine month period ended 30 September	
	2019	2018
Short-term loans at 1 January	2,218,378	2,298,487
Proceeds	10,922,793	9,208,996
Repayment	<i>(11,654,418)</i>	<i>(9,691,224)</i>
Foreign exchange difference (note 22)	-	<i>(131)</i>
Short-term loans at 30 September	1,486,753	1,816,128

15. TRADE AND OTHER PAYABLES

	30 September 2019	31 December 2018
Trade payables	34,247,355	26,584,597
Dividends payable	3,772,308	3,772,308
Other accounts payable	33,860	8,434
	38,053,523	30,365,339

As at 30 September 2019 trade payables amounting to 34,247,355 RSD (31 December 2018: 26,584,597 RSD) mainly relate to payables for crude oil in the amount of 19,456,621 RSD (31 December 2018: 10,240,742 RSD), to the suppliers Glencore Energy, Great Britain in the amount of 5,705,905 RSD (31 December 2018: 0 RSD) and Gazprom Neft, St Petersburg in the amount of 10,706,518 RSD (31 December 2018: 10,240,742 RSD).

16. OTHER CURRENT LIABILITIES

	30 September 2019	31 December 2018
Contract liabilities arising from contracts with customers:		
- Advances received	1,684,691	1,322,558
- Customer loyalty	568,956	502,254
Payables to employees	2,678,699	3,199,959
Other current non-financial liabilities	165,588	62,910
	5,097,934	5,087,681

Revenue in the amount of 1,451,120 RSD was recognized in the current reporting period related to the contract liabilities as at 1 January 2019, of which 1,129,191 RSD related to advances and 321,929 RSD to customer loyalty programme.

17. OTHER TAXES PAYABLE

	30 September 2019	31 December 2018
Mineral extraction tax	344,941	378,481
VAT	3,348,644	1,187,246
Excise tax	5,617,037	4,680,755
Contribution for buffer stocks	274,548	260,905
Custom duties	217,233	291,534
Energy efficiency fee	32,727	-
Other taxes	1,872,522	1,761,272
	11,707,652	8,560,193

18. LONG-TERM DEBT

	30 September 2019	31 December 2018
Long-term loan - Gazprom Neft	20,499,122	24,738,405
Bank loans	67,462,286	67,908,442
Finance lease liabilities (note 19)	-	644,611
Less Current portion (note 14)	(5,813,934)	(5,923,590)
	82,147,474	87,367,868

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

	Nine month period ended 30 September 2019	2018
Long-term loans at 1 January	92,646,847	95,404,544
Proceeds	12,121,121	20,732,742
Repayment	(16,325,784)	(23,562,494)
Foreign exchange difference (note 22)	(480,776)	141,228
Long-term loans at 30 September	87,961,408	92,716,020

(a) *Long-term loan - Gazprom Neft*

As at 30 September 2019 long-term loan - Gazprom Neft amounting to 20,499,122 RSD (31 December 2018: 24,738,405 RSD), with current portion of 5,466,432 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 loans

	30 September 2019	31 December 2018
Domestic	45,678,548	50,621,113
Foreign	21,783,738	17,287,329
	67,462,286	67,908,442
Current portion of long-term loans	(347,502)	(355,101)
	67,114,784	67,553,341

The maturity of bank loans was as follows:

	30 September 2019	31 December 2018
Between 1 and 2 years	1,248,984	1,403,463
Between 2 and 5 years	62,608,034	61,219,659
Over 5 years	3,257,766	4,930,219
	67,114,784	67,553,341

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

	30 September 2019	31 December 2018
USD	214,301	361,696
EUR	66,974,007	67,250,132
RSD	531	649
JPY	273,447	295,965
	67,462,286	67,908,442

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

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

19. LEASE LIABILITIES

	30 September 2019	31 December 2018
Non-current lease liabilities	590,925	-
Current lease liabilities	98,901	-
	689,826	-

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:

	Nine month period ended 30 September	
	2019	2018
As at 1 January	644,611	247,210
Changes in opening balance	100,027	-
Repayment	(86,684)	(39,388)
Non-cash transactions	31,276	478,384
Foreign exchange difference (note 22)	596	(242)
As at 30 September	689,826	685,964

20. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Employee costs	877,507	847,637	2,570,868	2,525,340
Materials and supplies (other than purchased oil, petroleum products and gas)	239,480	185,225	728,841	558,469
Repair and maintenance services	1,057,433	968,013	4,854,568	3,015,198
Electricity for resale	119,436	1,876,257	302,388	4,495,713
Electricity and utilities	645,174	581,066	1,576,007	1,538,780
Safety and security expense	135,125	133,364	398,796	361,828
Insurance services	75,750	68,018	213,740	206,272
Transportation services for production	446,265	490,428	1,273,512	1,449,303
Other	2,407,460	2,228,948	6,222,912	5,949,253
	6,003,630	7,378,956	18,141,632	20,100,156

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Employee costs	2,435,124	2,460,715	7,352,575	7,400,661
Commission and agency fees	81,015	102,209	220,776	282,420
Legal, audit and consulting services	407,588	399,579	1,132,771	1,030,197
Current repair cost	221,029	193,822	599,665	549,072
Costs on advertising and marketing	98,306	74,210	222,735	219,140
Rent expense	59,635	30,545	186,203	96,766
Business trips expense	89,469	75,308	199,014	221,119
Safety and security expense	133,782	111,560	365,195	343,152
Insurance expense	29,174	29,473	86,314	81,861
Transportation and storage	78,428	87,366	238,849	255,842
Allowance for doubtful accounts	(179,843)	(183,557)	(248,078)	(317,036)
Other	1,937,425	1,854,695	5,538,911	5,378,180
	5,391,132	5,235,925	15,894,930	15,541,374

22. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Foreign exchange gain (loss) on financing activities including:				
- foreign exchange gain	452,341	825,425	1,058,351	1,479,949
- foreign exchange loss	(180,133)	(1,144,083)	(578,171)	(1,620,804)
Net foreign exchange gain (loss) on operating activities	(90,845)	81,418	(169,484)	(93,846)
	181,363	(237,240)	310,696	(234,701)

23. FINANCE INCOME

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Interest on bank deposits	37,772	138,616	194,198	520,435
Interest income on loans issued	174,964	226,194	510,796	664,259
Dividend income	258	25,131	258	25,131
	212,994	389,941	705,252	1,209,825

24. FINANCE EXPENSES

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Interest expense	438,147	552,269	1,409,156	1,725,140
Decommissioning provision: unwinding of the present value discount	38,005	23,154	110,436	66,839
Financial assets: unwinding of discount	9,117	-	2,767	(44,661)
Less: interest expense capitalised on qualifying assets	(22,952)	(32,444)	(104,898)	(83,833)
	462,317	542,979	1,417,461	1,663,485

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 30 September 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 540,399 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 30 September 2019.

Capital commitments

As of 30 September 2019 the Company has entered into contracts to purchase property, plant and equipment for 5,329,414 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.

In the nine month period ended 30 September 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 30 September 2019 and 31 December 2018 the outstanding balances with related parties were as follows:

As at 30 September 2019	Subsidiaries	Parent company	Joint ventures, associates and parent's subsidiaries and associates
Short-term financial assets	12,763,506	-	-
Trade and other receivables	3,413,389	-	1,533,295
Other current assets	8,595	-	18,315
Right to use assets	61,192	-	-
Investments in subsidiaries, associates and joint ventures	16,847,566	-	1,038,800
Long-term financial assets	26,448,656	-	-
Other non-current assets	64,984	-	-
Trade and other payables	(4,345,307)	(10,706,518)	(1,303,562)
Other current liabilities	(2,728)	-	(7,527)
Short-term debt and current portion of long-term debt	(1,489,420)	(5,466,432)	-
Current lease liabilities	(6,706)	-	-
Long-term debt	-	(15,032,690)	-
Non-current lease liabilities	(48,571)	-	-
	53,715,156	(31,205,640)	1,279,321

As at 31 December 2018	Subsidiaries	Parent company	Joint ventures, associates and parent's subsidiaries and associates
Short-term financial assets	10,224,339	-	-
Trade and other receivables	3,318,542	99	1,856,781
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)	(1,918,499)
Other current liabilities	(2,097)	-	(2,141)
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)	1,312,161

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

Nine month period ended 30 September 2019	Subsidiaries	Parent company	Joint ventures, associates and parent's subsidiaries and associates
Petroleum products and oil and gas sales	12,812,825	-	13,422,530
Other revenues	320,013	-	45,586
Purchases of oil, gas and petroleum products	(175,768)	(35,443,305)	(3,205)
Production and manufacturing expenses	(3,154,844)	-	(324,319)
Selling, general and administrative expenses	(806,712)	-	(6,543)
Transportation expenses	(1,956)	-	-
Depreciation	(6,857)	-	-
Other income (expenses), net	(86,751)	14,610	(463)
Finance income	502,870	-	-
Finance expense	(37,043)	(309,072)	-
	9,365,777	(35,737,767)	13,133,586

Nine month period ended 30 September 2018	Subsidiaries	Parent company	Joint ventures, associates and parent's subsidiaries and associates
Petroleum products and oil and gas sales	12,111,754	-	19,931,844
Other revenues	530,557	462	4,006,428
Purchases of oil, gas and petroleum products	(29,880)	(45,583,790)	(8,608)
Production and manufacturing expenses	(3,141,895)	-	(4,270,025)
Selling, general and administrative expenses	(365,591)	-	(6,198)
Transportation expenses	(69,229)	-	(1,555)
Other expenses, net	-	(4,985)	(809)
Finance income	655,249	-	-
Finance expense	(33,225)	(379,285)	-
	9,657,740	(45,967,598)	19,651,077

Transactions with Key Management Personnel

For the nine month period ended on 30 September 2019 and 2018 the Company recognized 679,623 RSD and 740,326 RSD, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

Consolidated Financial Statements

Consolidated Statement of Financial Position

	Note	30 September 2019 <i>(unaudited)</i>	31 December 2018
Assets			
Current assets			
Cash and cash equivalents	6	14,444,551	15,480,830
Short-term financial assets	7	1,767,441	2,188,488
Trade and other receivables	8	30,337,700	26,933,563
Inventories	9	44,144,042	47,856,312
Current income tax prepayments		562,203	-
Other current assets	10	5,496,540	6,283,241
Non-current assets held for sale		123,724	-
Total current assets		96,876,201	98,742,434
Non-current assets			
Property, plant and equipment	11	299,077,311	286,454,546
Right-of-use assets	3	1,589,154	-
Investment property		1,583,455	1,615,391
Goodwill and other intangible assets		4,009,704	4,653,550
Investments in associates and joint ventures	12	1,851,913	1,980,388
Trade and other non-current receivables		226,228	73,858
Long-term financial assets		270,880	129,345
Deferred tax assets		-	545,497
Other non-current assets	13	1,640,991	1,781,202
Total non-current assets		310,249,636	297,233,777
Total assets		407,125,837	395,976,211
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	14	6,591,970	6,614,417
Current lease liabilities	19	289,400	-
Trade and other payables	15	37,137,307	30,357,413
Other current liabilities	16	6,507,619	5,956,257
Current income tax payable		-	625,985
Other taxes payable	17	12,668,746	9,575,333
Provisions for liabilities and charges		1,845,832	1,941,795
Total current liabilities		65,040,874	55,071,200
Non-current liabilities			
Long-term debt	18	82,350,743	87,819,202
Non-current lease liabilities	19	1,127,760	-
Deferred tax liabilities		762,210	-
Provisions for liabilities and charges		10,599,306	10,210,005
Total non-current liabilities		94,840,019	98,029,207
Equity			
Share capital		81,530,200	81,530,200
Reserves		244,895	77,130
Retained earnings		165,730,606	161,516,302
Equity attributable to the Company's owners		247,505,701	243,123,632
Non-controlling interest		(260,757)	(247,828)
Total equity		247,244,944	242,875,804
Total liabilities and shareholder's equity		407,125,837	395,976,211

in 000RSD

Consolidated Statement of Profit and Loss and Other Comprehensive Income

Note	Three month period ended 30 September		Nine month period ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Sales of petroleum products, oil and gas	75,140,493	81,179,259	186,882,421	193,679,540
Other revenues	3,580,492	5,156,921	9,286,139	13,092,222
Total revenue from sales	78,720,985	86,336,180	196,168,560	206,771,762
Purchases of oil, gas and petroleum products	(49,566,744)	(52,926,869)	(123,935,904)	(122,053,855)
Production and manufacturing expenses	(6,397,874)	(7,838,803)	(18,691,085)	(20,777,821)
Selling, general and administrative expenses	(6,158,222)	(5,648,019)	(17,896,881)	(16,971,996)
Transportation expenses	(333,298)	(347,183)	(780,650)	(911,648)
Depreciation, depletion and amortization	(5,132,036)	(5,131,646)	(15,322,889)	(14,482,335)
Taxes other than income tax	(1,346,361)	(1,349,403)	(3,945,841)	(3,887,590)
Exploration expenses	-	(41,169)	(11,474)	(56,940)
Total operating expenses	(68,934,535)	(73,283,092)	(180,584,724)	(179,142,185)
Other income (expenses), net	108,282	(162,377)	(142,011)	(139,616)
Operating profit	9,894,732	12,890,711	15,441,825	27,489,961
Share of loss of associates and joint ventures	(57,419)	-	(128,475)	-
Net foreign exchange gain (loss)	99,463	(256,160)	(6,542)	(253,234)
Finance income	51,037	167,301	226,450	555,237
Finance expenses	(485,520)	(563,828)	(1,477,153)	(1,725,828)
Total other expense	(392,439)	(652,687)	(1,385,720)	(1,423,825)
Profit before income tax	9,502,293	12,238,024	14,056,105	26,066,136
Current income tax expense	(1,229,083)	(1,549,845)	(2,036,214)	(3,253,795)
Deferred tax expense	(788,150)	(469,602)	(1,307,876)	(1,099,120)
Total income tax expense	(2,017,233)	(2,019,447)	(3,344,090)	(4,352,915)
Profit for the period	7,485,060	10,218,577	10,712,015	21,713,221
Other comprehensive income:				
Items that will not be reclassified to profit				
Gains (loss) from investments in equity instruments	570	(364)	8,445	(950)
Items that may be subsequently reclassified to profit				
Currency translation differences	58,256	(30,339)	166,204	12,091
Other comprehensive income for the period	58,826	(30,703)	174,649	11,141
Total comprehensive income for the period	7,543,886	10,187,874	10,886,664	21,724,362
Profit (loss) attributable to:				
- Shareholders of Naftna Industrija Srbije	7,491,452	10,222,821	10,726,460	21,725,910
- Non-controlling interest	(6,392)	(4,244)	(14,445)	(12,689)
Profit for the period	7,485,060	10,218,577	10,712,015	21,713,221
Total comprehensive income (loss) attributable to:				
- Shareholders of Naftna Industrija Srbije	7,549,397	10,192,877	10,899,593	21,736,956
- Non-controlling interest	(5,511)	(5,003)	(12,929)	(12,594)
Total comprehensive income for the period	7,543,886	10,187,874	10,886,664	21,724,362
Earnings per share attributable to shareholders of Naftna Industrija Srbije				
Basic earnings (RSD per share)	45.94	62.69	65.78	133.24
Weighted average number of ordinary shares in issue (in millions)	163	163	163	163

in 000 RSD

Consolidated Statement of Changes in Shareholders' Equity

Nine month period ended 30 September 2019 and 2018

(unaudited)

	Equity attributable to the Company's owners				Non-controlling interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
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	-	-	21,725,910	21,725,910	(12,689)	21,713,221
Other comprehensive income (loss)						
Loss from investments in equity instruments	-	(950)	-	(950)	-	(950)
Sale of investments in equity instruments	-	3,455	(3,455)	-	-	-
Currency translation differences	-	11,996	-	11,996	95	12,091
Total comprehensive income (loss) for the period	-	14,501	21,722,455	21,736,956	(12,594)	21,724,362
Dividend distribution	-	-	(6,948,004)	(6,948,004)	-	(6,948,004)
Total transaction with owners, recorded in equity	-	-	(6,948,004)	(6,948,004)	-	(6,948,004)
Balance as at 30 September 2018	81,530,200	54,954	158,086,275	239,671,429	(245,090)	239,426,339
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	-	-	10,726,460	10,726,460	(14,445)	10,712,015
Other comprehensive income (loss)						
Gains from investments in equity instruments	-	8,445	-	8,445	-	8,445
Sale of investments in equity instruments	-	(5,368)	5,368	-	-	-
Currency translation differences	-	164,688	-	164,688	1,516	166,204
Total comprehensive income (loss) for the period	-	167,765	10,731,828	10,899,593	(12,929)	10,886,664
Dividend distribution	-	-	(6,517,524)	(6,517,524)	-	(6,517,524)
Total transaction with owners, recorded in equity	-	-	(6,517,524)	(6,517,524)	-	(6,517,524)
Balance as at 30 September 2019	81,530,200	244,895	165,730,606	247,505,701	(260,757)	247,244,944

in 000 RSD

Consolidated Statement of Cash Flows⁷⁰

		Nine month period ended 30 September	
	Note	2019 (unaudited)	2018 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		14,056,105	26,066,136
<i>Adjustments for:</i>			
Share of loss of associates and joint ventures		128,475	-
Finance expenses	24	1,477,153	1,725,828
Finance income	23	(226,450)	(555,237)
Net unrealised foreign exchange loss, net		(217,481)	479,028
Depreciation, depletion and amortization		15,322,893	14,482,335
Other non-cash items		118,845	336,416
Operating cash flow before changes in working capital		30,659,540	42,534,506
<i>Changes in working capital:</i>			
Accounts receivable		(3,627,301)	(4,390,999)
Inventories		3,764,572	(3,461,446)
Other assets		672,898	(40,490)
Accounts payables and other current liabilities		11,531,586	1,704,200
Taxes payable		3,094,753	2,016,794
Total effect on working capital changes		15,436,508	(4,171,941)
Income taxes paid		(3,230,326)	(4,471,125)
Interest paid		(1,299,505)	(1,591,469)
Interest received		336,242	352,071
Net cash generated from operating activities		41,902,459	32,652,042
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans issued		-	(47,250)
Loan proceeds received		23,596	-
Capital expenditures ⁷¹		(32,285,734)	(31,875,783)
Proceeds from sale of property, plant and equipment		203,035	188,289
Bank deposits repayment (placements), net		94,563	5,602,430
Other outflow		(61,561)	(26,988)
Net cash used in investing activities		(32,026,101)	(26,159,302)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	18	12,121,120	20,732,743
Repayment of borrowings	18	(16,325,782)	(23,562,365)
Repayment of lease liabilities	19	(250,649)	(75,894)
Dividends paid		(6,517,524)	(6,948,004)
Net cash used in financing activities		(10,972,835)	(9,853,520)
Net decrease in cash and cash equivalents		(1,096,477)	(3,360,780)
Effect of foreign exchange on cash and cash equivalents		60,198	71,449
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		14,444,551	23,786,039

In 000 RSD

⁷⁰ Group policy is to present cash flow inclusive of related VAT.

⁷¹ CF from investing activities includes VAT in the amount of 3,4 bln RSD (2018: 4.6 bln RSD)

Notes to Consolidated Financial Statements ⁷²

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 September 2019 were evaluated through 28 October 2019, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

⁷² All amounts are in 000 RSD, unless otherwise stated

The results for the nine month period ended 30 September 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.

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:

	30 September 2019	1 January 2019
Property (land and buildings)	1,227,318	1,414,558
Plant and equipment	283,778	335,712
Motor vehicles	78,058	85,151
Total right-of-use assets	1,589,154	1,835,421

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.

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

The following other new standards and pronouncements which became effective did not have any material impact on the Group:

- IFRIC 23 – Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Annual improvements 2015-2017 Cycle (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Plan amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

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);
- Amendments to the Conceptual Framework for Financial Reporting (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of a Business – Amendments to IFRS 3 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020);

- Definition of Material – Amendments to IAS 1 and IAS 8 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020).

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.

5. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the nine month periods ended 30 September 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 nine month period ended 30 September 2019 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	36,534,742	196,199,278	(36,565,460)	196,168,560
Intersegment	35,782,025	783,435	(36,565,460)	-
External	752,717	195,415,843	-	196,168,560
EBITDA (Segment results)	26,610,736	4,550,921	-	31,161,657
Depreciation, depletion and amortization	(8,406,520)	(6,916,369)	-	(15,322,889)
Reversal (Impairment) of non-financial assets	(572)	378,249	-	377,677
Share of loss of associates and joint ventures	-	(128,475)	-	(128,475)
Net foreign exchange (loss) gain	(183,004)	176,462	-	(6,542)
Finance expenses, net	(107,300)	(1,143,403)	-	(1,250,703)
Income tax	(198,047)	(3,146,043)	-	(3,344,090)
Segment profit (loss)	17,342,759	(6,630,744)	-	10,712,015

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	38,739,966	207,302,660	(39,270,864)	206,771,762
Intersegment	37,576,442	1,694,422	(39,270,864)	-
External	1,163,524	205,608,238	-	206,771,762
EBITDA (Segment results)	28,766,037	13,253,230	-	42,019,267
Depreciation, depletion and amortization	(7,296,139)	(7,186,196)	-	(14,482,335)
Net of impairment of non-financial assets	(3,477)	(21,164)	-	(24,641)
Net foreign exchange loss	(53,776)	(199,458)	-	(253,234)
Finance expenses, net	(6,205)	(1,164,386)	-	(1,170,591)
Income tax	(216,557)	(4,136,358)	-	(4,352,915)
Segment profit /(loss)	21,075,219	638,002	-	21,713,221

EBITDA for the three and nine month period ended 30 September 2019 and 2018 is reconciled below:

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Profit for the period	7,485,060	10,218,577	10,712,015	21,713,221
Income tax expenses	2,017,233	2,019,447	3,344,090	4,352,915
Finance expenses	485,520	563,828	1,477,153	1,725,828
Finance income	(51,037)	(167,301)	(226,450)	(555,237)
Depreciation, depletion and amortization	5,132,036	5,131,646	15,322,889	14,482,335
Share of loss of associates and joint ventures	57,419	-	128,475	-
Net foreign exchange (gain) loss	(99,463)	256,160	6,542	253,234
Other expense (income), net	(108,282)	162,377	142,011	139,616
Other non-operating expense (income), net	341,992	(121,590)	254,932	(92,645)
EBITDA	15,260,478	18,063,144	31,161,657	42,019,267

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

	Nine month period ended 30 September 2019		
	Domestic market	Export and International sales	Total
Sale of crude oil	-	663,496	663,496
Sale of gas	1,319,477	-	1,319,477
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,319,477	-	1,319,477
Sale of petroleum products	134,437,949	50,461,499	184,899,448
<i>Through a retail network</i>	48,495,357	13,128,085	61,623,442
<i>Wholesale activities</i>	85,942,592	37,333,414	123,276,006
Sale of electricity	578,390	150,734	729,124
Lease revenue	485,659	10,146	495,805
Other sales	5,409,079	2,652,131	8,061,210
Total sales	142,230,554	53,938,006	196,168,560

	Nine month period ended 30 September 2018		
	Domestic market	Export and International sales	Total
Sale of crude oil	-	1,056,256	1,056,256
Sale of gas	1,410,169	-	1,410,169
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,410,169	-	1,410,169
Sale of petroleum products	141,366,475	49,846,640	191,213,115
<i>Through a retail network</i>	46,145,292	12,847,141	58,992,433
<i>Wholesale activities</i>	95,221,183	36,999,499	132,220,682
Sale of electricity	478,885	4,453,682	4,932,567
Other sales	5,464,714	2,694,941	8,159,655
Total sales	148,720,243	58,051,519	206,771,762

Out of the amount of 123,276,006 RSD (2018: 132,220,683 RSD) revenue from sale of petroleum products (wholesale), the amount of 13,043,228 RSD (2018: 19,494,776 RSD) are derived from a single domestic customer HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Network For Trading doo Beograd in the amount of 238,775 RSD (2018: Gazprom Marketing & Trading Co., Ltd. in the amount of 3,988,435 RSD).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 6,648,080 RSD (2018: 6,256,032 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 142,230,554 RSD (2018: 148,720,243 RSD), and the total revenue from external customer from other countries is 53,938,006 RSD (2018: 58,051,519 RSD).

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

	Nine month period ended 30 September	
	2019	2018
Sale of crude oil	663,496	1,056,256
Sale of petroleum products (retail and wholesale)		
Bulgaria	10,450,955	13,471,675
Bosnia and Herzegovina	20,392,093	13,059,904
Romania	9,284,533	10,827,763
Croatia	1,815,734	2,366,149
Switzerland	1,253,379	1,755,558
Hungary	1,158,455	1,210,430
Great Britain	857,339	1,292,002
Northern Macedonia	819,890	1,371,827
All other markets	4,429,121	4,491,333
	50,461,499	49,846,641
Sale of electricity	150,734	4,453,682
Lease revenue	10,146	-
Other sales	2,652,131	2,694,940
	53,938,006	58,051,519

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

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

	30 September 2019	31 December 2018
Serbia	281,046,967	269,381,825
Romania	10,685,384	9,103,409
Bosnia and Herzegovina	7,385,036	7,304,192
Bulgaria	7,142,237	6,934,061
	306,259,624	292,723,487

6. CASH AND CASH EQUIVALENTS

	30 September 2019	31 December 2018
Cash in bank and in hand	11,375,195	6,930,192
Deposits with original maturity of less than three months	2,785,349	6,926,396
Cash held on escrow account	30,224	1,407,735
Cash equivalents	253,783	216,507
	14,444,551	15,480,830

7. SHORT-TERM FINANCIAL ASSETS

	30 September 2019	31 December 2018
Short-term loans	2,210	27,433
Deposits with original maturity more than 3 months less than 1 year	1,767,442	2,123,007
Other short-term financial assets	45	40,304
Less impairment loss provision	(2,256)	(2,256)
	1,767,441	2,188,488

As at 30 September 2019 deposits with original maturity more than 3 months less than 1 year amounting to 1,767,442 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 September 2019	31 December 2018
Trade receivables	39,754,100	36,154,738
Other receivables	521,491	450,274
Accrued assets	54,620	370,858
<i>Less credit loss allowance for trade receivables</i>	(9,936,373)	(9,982,695)
<i>Less credit loss allowance for other receivables</i>	(56,138)	(59,612)
Total trade and other receivables	30,337,700	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 September 2019	31 December 2018
RSD	27,145,628	23,712,198
EUR	1,310,987	1,053,529
USD	355,135	698,248
Other	1,525,950	1,469,588
	30,337,700	26,933,563

9. INVENTORIES

	30 September 2019	31 December 2018
Crude oil	24,167,010	24,596,883
Petroleum products	17,066,666	20,155,760
Materials and supplies	6,603,330	6,959,371
Other	1,114,513	1,091,372
Less impairment provision	(4,807,477)	(4,947,074)
	44,144,042	47,856,312

10. OTHER CURRENT ASSETS

	30 September 2019	31 December 2018
Advances paid	767,108	834,950
VAT receivables	581,903	295,900
Deferred VAT	2,062,854	1,774,863
Prepaid expenses	411,743	270,456
Prepaid custom duties	6,553	4,935
Prepaid excise	1,500,177	2,818,462
Other current assets	7,811,498	7,920,632
Less impairment provision	(7,645,296)	(7,636,957)
	5,496,540	6,283,241

Deferred VAT as at 30 September 2019 amounting to 2,062,854 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 September 2019 amounting to 1,500,177 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.

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 September 2018						
Additions	-	-	1	996	30,321,808	30,322,805
Acquisitions through business combinations	-	-	-	-	217,660	217,660
Changes in decommissioning obligations	158,576	-	-	-	-	158,576
Transfer from assets under construction	12,017,033	1,386,171	3,610,329	286,764	(17,300,297)	-
Transfer to investment property	-	-	(81,328)	-	-	(81,328)
Impairment	-	-	(23,931)	-	(13,419)	(37,350)
Depreciation	(6,980,077)	(4,182,159)	(1,880,370)	(576,370)	(3,606)	(13,622,582)
Disposals and write-off	(36,445)	(72,932)	(17,725)	(11,919)	(780,408)	(919,429)
Other transfers	1,980,026	(1,400,947)	20,705	(610,504)	4,423	(6,297)
Translation differences	(3)	(1)	(9,519)	64	(6,160)	(15,619)
	117,477,102	69,150,598	37,269,887	9,237,368	46,930,978	280,065,933
As at 30 September 2018						
Cost	162,078,885	113,765,056	69,303,362	18,998,144	49,006,803	413,152,250
Depreciation and impairment	(44,601,783)	(44,614,458)	(32,033,475)	(9,760,776)	(2,075,825)	(133,086,317)
Net book value	117,477,102	69,150,598	37,269,887	9,237,368	46,930,978	280,065,933
As at 1 January 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
Period ended 30 September 2019						
Additions	-	-	-	153	28,461,280	28,461,433
Changes in decommissioning obligations	104,542	-	-	-	-	104,542
Transfer from assets under construction	9,855,632	1,862,125	1,041,824	558,334	(13,317,915)	-
Impairment	-	(3,488)	(55,783)	-	(28,048)	(87,319)
Depreciation	(8,137,059)	(4,051,541)	(1,821,915)	(606,636)	(3,565)	(14,620,716)
Disposals and write-off	(36,376)	(16,928)	(29,358)	(10,450)	(111,999)	(205,111)
Transfer to right of use assets	(54,331)	-	(918,200)	-	-	(972,531)
Other transfers	(154,484)	(3,167)	1,514	(44,040)	280,583	80,406
Translation differences	156	2	26,635	195	(164,927)	(137,939)
	120,365,542	66,661,498	35,597,157	9,164,964	67,288,150	299,077,311
As at 30 September 2019						
Cost	176,124,452	116,818,024	69,462,605	19,293,462	69,354,533	451,053,076
Depreciation and impairment	(55,758,910)	(50,156,526)	(33,865,448)	(10,128,498)	(2,066,383)	(151,975,765)
Net book value	120,365,542	66,661,498	35,597,157	9,164,964	67,288,150	299,077,311

Capitalized borrowing costs for the nine months ended 30 September 2019 include interest expense in the amount of 104,898 RSD (30 September 2018: 83,833 RSD).

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

		Ownership percentage	30 September 2019	31 December 2018
NIS MET Energowind d.o.o. Beograd	Joint venture	50%	978,031	1,003,491
Gazprom Energoholding Serbia d.o.o. Novi Sad	Joint venture	49%	873,882	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			1,851,913	1,980,388

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

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 September 2019	31 December 2018
Advances paid for PPE	706,491	799,493
Prepaid expenses	143,630	151,070
Other financial assets	1,192,384	1,240,438
<i>Less allowance of other financial assets</i>	(363,563)	(371,817)
<i>Less allowance for advances paid</i>	(37,951)	(37,982)
	1,640,991	1,781,202

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

	30 September 2019	31 December 2018
Interest liabilities	235,333	219,326
Current portion of long-term loans (note 18)	6,356,637	6,322,562
Current portion of finance lease liabilities (note 19)	-	72,529
	6,591,970	6,614,417

15. TRADE AND OTHER PAYABLES

	30 September 2019	31 December 2018
Trade payables	33,328,868	26,573,555
Dividends payable	3,772,308	3,772,308
Other accounts payable	36,131	11,550
	37,137,307	30,357,413

As at 30 September 2019 trade payables amounting to 33,328,868 RSD (31 December 2018: 26,573,555 RSD) mainly relate to payables for crude oil in the amount of 19,456,621 RSD (31 December 2018: 10,240,742 RSD), to the suppliers Glencore Energy, Great Britain in the amount of 5,705,905 RSD (31 December 2018: 0 RSD) and Gazprom Neft, St Petersburg in the amount of 10,706,518 RSD (31 December 2018: 10,240,742 RSD).

16. OTHER CURRENT LIABILITIES

	30 September 2019	31 December 2018
Contract liabilities arising from contracts with customers:		
- Advances received	2,250,086	1,456,981
- Customer loyalty	647,462	545,945
Payables to employees	3,443,451	3,888,062
Other current non-financial liabilities	166,620	65,269
	6,507,619	5,956,257

Revenue in the amount of 1,542,140 RSD was recognized in the current reporting period related to the contract liabilities as at 1 January 2019, of which 1,220,211 RSD related to advances and 321,929 RSD to customer loyalty programme.

17. OTHER TAXES PAYABLE

	30 September 2019	31 December 2018
Mineral extraction tax	347,075	378,481
VAT	3,550,315	1,424,142
Excise tax	6,082,111	5,173,979
Contribution for buffer stocks	274,548	260,905
Custom duties	218,318	323,623
Energy efficiency fee	32,727	-
Other taxes	2,163,652	2,014,203
	12,668,746	9,575,333

18. LONG-TERM DEBT

	30 September 2019	31 December 2018
Long-term loan - Gazprom Neft	20,499,122	24,738,405
Bank and other long term loans	68,155,634	68,605,682
Finance lease liabilities (note 19)	-	828,104
Other long-term borrowings	52,624	42,102
Less Current portion (note 14)	(6,356,637)	(6,395,091)
	82,350,743	87,819,202

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

	Nine month period ended 30 September	
	2019	2018
Long-term loans at 1 January	93,344,087	96,103,445
Proceeds	12,121,120	20,732,743
Repayment	(16,325,782)	(23,562,365)
Foreign exchange difference (note 22)	(484,669)	140,775
Long-term loans at 30 September	88,654,756	93,414,598

(a) Long-term loan - Gazprom Neft

As at 30 September 2019 long-term loan - Gazprom Neft amounting to 20,499,122 RSD (2018: 24,738,405 RSD), with current portion of 5,466,432 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 September 2019	31 December 2018
Domestic	45,678,564	50,621,092
Foreign	22,477,070	17,984,590
	68,155,634	68,605,682
Current portion of long-term loans	(890,205)	(825,139)
	67,265,429	67,780,543

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

	30 September 2019	31 December 2018
Between 1 and 2 years	1,249,144	1,479,321
Between 2 and 5 years	62,758,662	61,371,002
Over 5 years	3,257,623	4,930,220
	67,265,429	67,780,543

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

	30 September 2019	31 December 2018
USD	214,301	361,695
EUR	67,667,338	67,947,394
RSD	548	628
JPY	273,447	295,965
	68,155,634	68,605,682

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 September 2019 and 31 December 2018, respectively.

19. LEASE LIABILITIES

	30 September 2019	31 December 2018
Non-current lease liabilities	1,127,760	-
Current lease liabilities	289,400	-
	1,417,160	-

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:

	Nine month period ended 30 September	
	2019	2018
As at 1 January	828,104	432,562
Changes in opening balance	790,946	-
Repayment	(250,649)	(75,894)
Non-cash transactions	45,328	513,916
Foreign exchange difference (note 22)	3,431	(435)
As at 30 September	1,417,160	870,149

20. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Employee costs	1,702,819	1,583,507	4,933,727	4,739,464
Cost of service organization	620,948	628,523	1,980,048	1,840,960
Materials and supplies (other than oil and gas and petroleum products)	683,293	587,043	2,020,690	1,717,557
Repair and maintenance services	1,160,642	902,947	4,548,793	2,772,206
Electricity for resale	119,355	1,875,717	295,677	4,475,377
Electricity and utilities	965,556	1,089,313	2,597,981	2,595,651
Safety and security expense	135,173	133,364	398,844	361,828
Insurance services	75,750	68,018	213,740	206,272
Transportation services for production	445,764	478,944	1,212,105	1,382,711
Other	488,574	491,427	489,480	685,795
	6,397,874	7,838,803	18,691,085	20,777,821

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Employee costs	2,868,602	2,731,976	8,684,944	8,265,796
Cost of service organization	924,367	909,555	2,708,061	2,642,955
Commission and agency fees	272,164	295,852	757,350	822,672
Legal, audit and consulting services	265,467	203,343	651,258	574,768
Current repair cost	233,147	199,148	638,920	574,470
Costs on advertising and marketing	114,661	89,022	259,164	272,593
Rent expense	54,274	95,711	175,835	285,225
Business trips expense	95,003	75,446	207,125	222,987
Safety and security expense	153,651	126,773	421,929	385,695
Insurance expense	33,564	31,422	95,711	85,355
Transportation and storage	33,991	42,341	113,718	120,013
Allowance for doubtful accounts	(43,627)	(164,280)	(67,861)	(300,564)
Other	1,152,958	1,011,710	3,250,727	3,020,031
	6,158,222	5,648,019	17,896,881	16,971,996

22. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Foreign exchange gain (loss) on financing activities including:				
- foreign exchange gain (note 18 and 19)	471,616	860,120	1,200,696	1,579,410
- foreign exchange loss (note 18 and 19)	(201,196)	(1,181,303)	(719,458)	(1,719,750)
Net foreign exchange gain (loss) on operating activities	(170,957)	65,023	(487,780)	(112,894)
	99,463	(256,160)	(6,542)	(253,234)

23. FINANCE INCOME

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Interest on bank deposits	48,497	138,833	218,266	521,096
Interest income on loans issued	2,282	3,337	7,926	9,010
Dividend income	258	25,131	258	25,131
	51,037	167,301	226,450	555,237

24. FINANCE EXPENSES

	Three month period ended 30 September		Nine month period ended 30 September	
	2019	2018	2019	2018
Interest expense	463,520	575,288	1,475,416	1,793,988
Decommissioning provision: unwinding of the present value discount	38,005	23,155	110,436	66,839
Financial assets: unwinding of discount	9,117	-	2,767	(44,661)
Less: interest expense capitalised on qualifying assets	(25,122)	(34,615)	(111,466)	(90,338)
	485,520	563,828	1,477,153	1,725,828

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 September 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 560,671 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 September 2019.

Capital commitments

As of 30 September 2019 the Group has entered into contracts to purchase property, plant and equipment 5,311,607 RSD (31 December 2018: 15,944,407 RSD) and drilling and exploration works estimated to 60.27 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 nine month period ended 30 September 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.

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

As at 30 September 2019	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Trade and other receivables	-	272,828	1,677,422
Investments in joint venture and associates	-	-	1,851,913
Other current assets	-	18,315	-
Trade and other payables	(10,706,518)	(351,271)	(962,647)
Other current liabilities	-	(2)	(7,525)
Short-term debt and current portion of long-term debt	(5,466,432)	-	-
Long-term debt	(15,032,690)	-	-
	(31,205,640)	(60,130)	2,559,163

As at 31 December 2018	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Trade and other receivables	99	645,804	1,556,276
Investments in joint venture and associates	-	-	1,980,388
Other current assets	-	337,220	-
Trade and other payables	(10,243,742)	(684,856)	(1,251,648)
Other current liabilities	-	(90)	(2,051)
Short-term debt and current portion of long-term debt	(5,497,423)	-	-
Long-term debt	(19,240,982)	-	-
	(34,982,048)	298,078	2,282,965

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

Nine month period ended 30 September 2019	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Petroleum products and oil and gas sales	-	378,261	13,044,407
Other revenues	-	42,840	8,291
Purchases of oil, gas and petroleum products	(35,443,305)	(3,205)	-
Production and manufacturing expenses	-	(197,690)	(146,451)
Selling, general and administrative expenses	-	(27,679)	(1,484)
Other income (expenses), net	14,610	(463)	-
Finance expense	(309,072)	-	-
	(35,737,767)	192,064	12,904,763

Nine month period ended 30 September 2018	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Petroleum products and oil and gas sales	-	436,604	19,495,240
Other revenues	462	3,988,432	18,605
Purchases of oil, gas and petroleum products	(45,583,790)	(8,608)	-
Production and manufacturing expenses	-	(4,136,345)	(158,269)
Selling, general and administrative expenses	-	(6,198)	-
Transportation expenses	-	-	(1,555)
Other expenses, net	(4,985)	(809)	-
Finance expense	(379,285)	-	-
	(45,967,598)	273,076	19,354,021

Transactions with Key Management Personnel

For the nine month period ended on 30 September 2019 and 2018 the Group recognized 679,623 RSD and 740,326 RSD, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

Statement of Individuals Responsible for the Preparation of Financial Statements

We hereby state that, to our best knowledge, the interim financial reports have been prepared in compliance with the applicable international financial reporting standards, and also in compliance with the Law on Accounting ('Official Gazette of the Republic of Serbia' no. 62/2013 and 30/2018), which requires full scope of IFRS to be applied as well as the regulations issued by the Ministry of Finance of the Republic of Serbia⁷³ and that they show true and objective information on the assets, liabilities, profit and loss, financial position and operations of the Company, including subsidiaries encompassed by the consolidated statements.

Anton Cherepanov



Deputy General Director,
Head of Function for Finance, Economics,
Planning and Accounting
NIS j.s.c. Novi Sad



Branko Mitrović



Director of Accounting Department,
Function for Finance, Economics,
Planning and Accounting
NIS j.s.c. Novi Sad

⁷³ Due to the difference between these two regulations, these financial statements differ from IFRS in the following respects:

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

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