



**NIS A.D. – Naftna industrija Srbije
Novi Sad**

**Financial Statements and
Independent Auditor's Report**

31 December 2019

Novi Sad, 26 February 2020

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

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PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING OF THE REPUBLIC OF SERBIA

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Independent auditor's report

To the Shareholders and Board of Directors of Naftna Industrija Srbije a.d., Novi Sad

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Naftna Industrija Srbije a.d., Novi Sad (the "Company") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting in the Republic of Serbia.

What we have audited

The Company's financial statements comprise:

- the balance sheet as at 31 December 2019;
- the income statement for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Law on Auditing in the Republic of Serbia. Our responsibilities under this regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on Auditing that are relevant to our audit of the financial statements in the Republic of Serbia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Auditing in the Republic of Serbia.

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



Our audit approach

Overview

Materiality	<ul style="list-style-type: none">Overall Company materiality: 1,477 million Serbian dinars (hereafter "RSD"), which represents 5% of an average profit before tax for the past three years.
Key audit matters	<ul style="list-style-type: none">Estimation of decommissioning and environmental protection provision

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	RSD 1,477 million
How we determined it	5% of three-year average profit before taxation
Rationale for the materiality benchmark applied	Given that current year profit before taxation has been materially impacted by the new investment cycle in refinery, we determined that our materiality should be based on three-year average profit before taxation, which is more representative of sustained business performance compared to profit before taxation that was used as a benchmark in prior year. We have chosen 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RSD 57 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Estimation of decommissioning and environmental protection provisions</p> <p>Provisions associated with decommissioning, environmental protection and restoration are disclosed in Note 23 to the financial statements; a description of the accounting policy and key judgements and estimates is included in Note 2 and Note 3.</p> <p>The calculation of decommissioning and environmental protection provisions requires significant management judgement because of the inherent complexity in estimating future costs, discount rates and maturity of liabilities.</p> <p>The decommissioning of oil and gas infrastructure is an evolving activity and consequently there is limited historical precedent against which to benchmark estimates of future costs. These factors increase the complexity involved in determining accurate accounting provisions that are material to the Company's balance sheet.</p> <p>Management reviews decommissioning and environmental protection provisions on an annual basis for upstream and refining assets. This review incorporates the effects of any changes in local regulations, management's expected approach to decommissioning, cost estimates, discount rates, maturity of liabilities and the effects of changes in exchange rates.</p>	<p>We critically assessed management's annual review of provisions recorded as at 31 December 2019. In particular, we focused on those assets where changes to the cost estimate directly impacted the income statement and statement of other comprehensive income rather than being recognised as an asset.</p> <p>Testing involved understanding of the legal or constructive obligations with respect to the environmental protection and decommissioning of each asset based on the estimated useful life of assets and relevant cost to complete restoration.</p> <p>Of particular note, we performed the following procedures:</p> <ul style="list-style-type: none"> - Identified and tested the cost assumptions which have the most significant impact on provisions by reviewing the actual costs incurred during the year and comparing them to the prior years; - Considered the competence and objectivity of the experts who produced the cost estimates by using valuation experts to evaluate reasonableness of the discount rate applied to the cost assumptions and compared it to the Serbian treasury notes for the similar periods; - Verified the mathematical accuracy of the underlying models; - Verified the completeness of data by cross referencing with other non-financial data and other work performed on property, plant & equipment; - Verified the change in oil well status compared to the prior year through physical examination as the change in oil well status has a material impact on decommissioning provision calculation; - Tested the sensitivity analysis prepared by management for the change in key assumptions (discount rate and cost estimates). We tested mathematical accuracy of calculations and concluded that the results were not materially different and were within a tolerable range.

Other information

Management is responsible for the other information. The other information comprises the Annual report (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Law on Accounting in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law on Auditing in the Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law on Auditing in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Emmanuel Koenig.

The licensed certified auditor engaged as partner on the audit resulting in this independent auditor's report is Sonja Ralenac.



Sonja Ralenac
Licensed certified Auditor





PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 26 February 2020

NIS A.D. – Naftna industrija Srbije, Novi Sad
Financial Statements for the year ended 31 December 2019

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET

	AOP	Note	31 December 2019	31 December 2018
A. SUBSCRIBED CAPITAL UNPAID	0001		-	-
B. NON-CURRENT ASSETS (0003 + 0010 + 0019+ 0024 + 0034)	0002		320,839,098	302,062,697
I. INTANGIBLE ASSETS (0004+0005+0006+0007+0008+0009)	0003	8	17,158,823	16,539,426
1. Development investments	0004		11,439,830	9,306,366
2. Concessions, licenses, software and other rights	0005		1,789,031	1,478,440
3. Goodwill	0006		-	-
4. Other intangible assets	0007		828,521	848,909
5. Intangible assets under development	0008		3,101,441	4,905,711
6. Advances for intangible assets	0009		-	-
II. PROPERTY, PLANT AND EQUIPMENT (0011+0012+0013+0014+0015+0016+0017+0018)	0010	9	264,872,407	246,779,004
1. Land	0011		10,340,860	10,361,685
2. Buildings	0012		141,926,803	135,240,544
3. Machinery and equipment	0013		57,184,859	59,129,900
4. Investment property	0014		1,694,307	1,730,100
5. Other property, plant and equipment	0015		77,617	76,536
6. Construction in progress	0016		53,175,055	39,282,267
7. Investments in leased PP&E	0017		135,718	199,804
8. Advances for PP&E	0018		337,188	758,168
III. BIOLOGICAL ASSETS (0020+0021+0022+0023)	0019		-	-
1. Forest farming	0020		-	-
2. Livestock	0021		-	-
3. Biological assets in production	0022		-	-
4. Advances for biological assets	0023		-	-
IV. LONG-TERM FINANCIAL INVESTMENTS (0025+0026+0027+0028+0029+0030+0031+0032+0033)	0024		38,573,684	38,735,288
1. Investments in subsidiary	0025	10	13,425,586	13,425,586
2. Investments in joint ventures	0026	11	1,038,800	1,038,800
3. Investments in other legal entities and other available for sales financial assets	0027		95,662	114,162
4. Long term investments in parent and subsidiaries	0028	12	23,205,187	23,279,079
5. Long-term investments in other related parties	0029		-	-
6. Long-term investments - domestic	0030		-	-
7. Long-term investments - foreign	0031		-	-
8. Securities held to maturity	0032		-	-
9. Other long-term financial investments	0033	13	808,449	877,661
V. LONG-TERM RECEIVABLES (0035+0036+0037+0038+0039+0040+0041)	0034		234,184	8,979
1. Receivables from parent company and subsidiaries	0035		-	-
2. Receivables from other related parties	0036		-	-
3. Receivables from sale of goods on credit	0037		-	-
4. Receivables arising out of finance lease contracts	0038		9,515	8,979
5. Claims arising from guarantees	0039		-	-
6. Bad and doubtful receivables	0040		-	-
7. Other long-term receivables	0041		224,669	-
C. DEFERRED TAX ASSETS	0042	14	962,195	2,405,175

(continued)

NIS A.D. – Naftna industrija Srbije, Novi Sad
Financial Statements for the year ended 31 December 2019

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET (CONTINUED)

	AOP	Note	31 December 2019	31 December 2018
D. CURRENT ASSETS				
(0044+0051+0059+0060+0061+0062+0068+0069+0070)	0043		98,006,123	97,006,290
I. INVENTORY (0045+0046+0047+0048+0049+0050)	0044	15	44,495,986	44,951,884
1. Materials, spare parts and tools	0045		27,586,180	23,257,263
2. Work in progress	0046		4,859,254	4,923,492
3. Finished goods	0047		9,636,535	13,042,863
4. Merchandise	0048		2,010,350	3,220,159
5. Assets held for sale	0049		91,901	9,271
6. Advances for inventory and services	0050		311,766	498,836
II. TRADE RECEIVABLES (0052+0053+0054+0055+0056+0057+0058)	0051	16	28,372,063	27,501,759
1. Domestic trade receivables - parents and subsidiaries	0052		378,770	358,735
2. Foreign trade receivables - parents and subsidiaries	0053		4,092,863	2,652,875
3. Domestic trade receivables - other related parties	0054		1,184,469	1,226,862
4. Foreign trade receivables - other related parties	0055		96,193	629,519
5. Trade receivables - domestic	0056		21,663,394	21,859,900
6. Trade receivables - foreign	0057		956,374	773,868
7. Other trade receivables	0058		-	-
III. RECEIVABLES FROM SPECIFIC OPERATIONS	0059		266,456	248,374
IV. OTHER RECEIVABLES	0060	17	1,934,027	1,290,500
V. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	0061		-	-
VI. SHORT TERM FINANCIAL INVESTMENTS				
(0063+0064+0065+0066+0067)	0062	18	5,433,722	5,628,600
1. Short-term loans and investments - parent companies and subsidiaries	0063		48,185	-
2. Short-term loans and investments - other related parties	0064		-	-
3. Short-term loans and investments - domestic	0065		-	23,639
4. Short-term loans and investments - foreign	0066		-	-
5. Other short-term loans and investments	0067		5,385,537	5,604,961
VII. CASH AND CASH EQUIVALENTS	0068	19	13,501,827	12,222,578
VIII. VALUE ADDED TAX	0069		-	-
IX. PREPAYMENTS AND ACCRUED INCOME	0070	20	4,002,042	5,162,595
E. TOTAL ASSETS (0001+0002+0042+0043)	0071		419,807,416	401,474,162
F. OFF-BALANCE SHEET ASSETS	0072	21	114,298,524	113,012,309
A. EQUITY (0402+0411-0412+0413+0414+0415-0416+0417+0420-0421)	0401		260,463,602	249,303,631
I. EQUITY (0403+0404+0405+0406+0407+0408+0409+0410)	0402		81,530,200	81,530,200
1. Share capital	0403	22	81,530,200	81,530,200
2. Stakes of limited liability companies	0404		-	-
3. Stakes	0405		-	-
4. State owned capital	0406		-	-
5. Socially owned capital	0407		-	-
6. Stakes in cooperatives	0408		-	-
7. Share premium	0409		-	-
8. Other capital	0410		-	-
II. SUBSCRIBED CAPITAL UNPAID	0411		-	-
III. OWN SHARES	0412		-	-
IV. RESERVES	0413		-	-
V. REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT	0414		152,143	152,143
VI. UNREALISED GAINS FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	0415		117,174	147,011
VII. UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	0416		58,183	60,082
VIII. RETAINED EARNINGS (0418+0419)	0417		178,722,268	167,534,359
1. Retained earnings from previous years	0418		161,022,203	141,466,870
2. Retained earnings from current year	0419		17,700,065	26,067,489
IX. NON-CONTROLLING INTEREST	0420		-	-
X. LOSS (0422+0423)	0421		-	-
1. Loss from previous years	0422		-	-
2. Loss from current year	0423		-	-

(continued)

NIS A.D. – Naftna industrija Srbije, Novi Sad
Financial Statements for the year ended 31 December 2019

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET (continued)

	AOP	Note	31 December 2019	31 December 2018
B. LONG-TERM PROVISIONS AND LIABILITIES				
(0425+0432)	0424		94,487,675	97,447,273
I. LONG-TERM PROVISIONS (0426+0427+0428+0429+0430+0431)	0425	23	11,251,613	10,079,405
1. Provisions for warranty claims	0426		-	-
2. Provision for environmental rehabilitation	0427		9,862,043	9,148,887
3. Provisions for restructuring costs	0428		-	-
4. Provisions for employee benefits	0429		1,135,761	701,478
5. Provisions for litigations	0430		253,809	229,040
6. Other long term provisions	0431		-	-
II. LONG-TERM LIABILITIES (0433+0434+0435+0436+0437+0438+0439+0440)	0432	24	83,236,062	87,367,868
1. Liabilities convertible to equity	0433		-	-
2. Liabilities to parent and subsidiaries	0434		13,673,582	19,240,982
3. Liabilities to other related parties	0435		-	-
4. Liabilities for issued long-term securities	0436		-	-
5. Long term borrowings - domestic	0437		46,581,100	50,326,327
6. Long-term borrowings - foreign	0438		22,329,288	17,227,014
7. Finance lease liabilities	0439		652,092	573,545
8. Other long-term liabilities	0440		-	-
C. DEFERRED TAX LIABILITIES	0441	14	-	-
D. SHORT-TERM LIABILITIES (0443+0450+0451+0459+0460+0461+0462)	0442		64,856,139	54,723,258
I. SHORT-TERM FINANCIAL LIABILITIES				
(0444+0445+0446+0447+0448+0449)	0443	25	7,519,940	8,141,968
1. Short term borrowings from parent and subsidiaries	0444		1,594,071	2,218,378
2. Short term borrowings from other related parties	0445		-	-
3. Short-term loans and borrowings - domestic	0446		-	-
4. Short-term loans and borrowings - foreign	0447		-	-
5. Liabilities relating to current assets and held-for-sale assets attributable to discounted operations	0448		-	-
6. Other short term liabilities	0449		5,925,869	5,923,590
II. ADVANCES RECEIVED	0450		2,040,024	1,322,558
III. TRADE PAYABLES (0452+0453+0454+0455+0456+0458)	0451	26	36,720,956	25,887,149
1. Trade payables - parent and subsidiaries - domestic	0452		4,389,956	3,063,798
2. Trade payables - parent and subsidiaries - foreign	0453		10,596,754	10,254,323
3. Trade payables - other related parties - domestic	0454		1,208,375	1,250,402
4. Trade payables - other related parties - foreign	0455		503,451	661,182
5. Trade payables - domestic	0456		6,496,104	5,811,834
6. Trade payables - foreign	0457		13,449,126	4,843,290
7. Other operating liabilities	0458		77,190	2,320
IV. OTHER SHORT-TERM LIABILITIES	0459	27	7,589,108	7,999,458
V. LIABILITIES FOR VAT	0460		935,984	1,146,310
VI. LIABILITIES FOR OTHER TAXES	0461	28	6,979,573	6,987,963
VII. ACCRUED EXPENSES	0462	29	3,070,554	3,237,852
E. LOSS EXCEEDING EQUITY (0412+0416+0421-0420-0417-0415-0414-0413-0411-0402)>=0=(0441+0424+0442-0071)>=0	0463		-	-
F. TOTAL EQUITY AND LIABILITIES				
(0424+0442+0441+0401-0463)>=0	0464		419,807,416	401,474,162
G. OFF-BALANCE SHEET LIABILITIES	0465	21	114,298,524	113,012,309

The accompanying notes on pages 10 to 61 are an integral part of these financial statements.

Novi Sad, 26 February 2020

The person responsible for the
preparation of financial statements



Legal representative

NIS A.D. – Naftna industrija Srbije, Novi Sad
Financial Statements for the year ended 31 December 2019

(All amounts are in RSD 000 unless otherwise stated)

INCOME STATEMENT

	AOP	Note	Year ended 31 December	
			2019	2018
INCOME FROM REGULAR OPERATING ACTIVITIES				
A. OPERATING INCOME (1002+1009+1016+1017)	1001	7	245,288,826	258,523,448
I. INCOME FROM THE SALE OF GOODS (1003+1004+1005+1006+1007+1008)	1002		29,317,171	9,562,486
1. Income from sales of goods to parent and subsidiaries on domestic market	1003		227,251	58,413
2. Income from sales of goods to parent and subsidiaries on foreign market	1004		142,551	216,831
3. Income from the sale of goods to other related parties on domestic market	1005		1,283	102
4. Income from the sale of goods to other related parties on foreign market	1006		187,210	135,052
5. Income from sale of goods on domestic market	1007		27,314,442	8,424,284
6. Income from sale of goods on foreign market	1008		1,444,434	727,804
II. INCOME FROM SALES OF PRODUCTS AND SERVICES (1010+1011+1012+1013+1014+1015)	1009		215,587,750	248,477,040
1. Income from sales of products and services to parent and subsidiaries on domestic market	1010		838,470	1,146,373
2. Income from sales of products and services to parent and subsidiaries on foreign market	1011		18,431,398	15,826,450
3. Income from sales of products and services to other related parties on domestic market	1012		19,071,606	26,702,899
4. Income from sales of products and services to other related parties on foreign market	1013		385,054	536,311
5. Income from sales of products and services – domestic	1014		150,161,146	170,938,052
6. Income from sales of products and services – foreign	1015		26,700,076	33,326,955
III. INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS	1016		-	2,257
IV. OTHER OPERATING INCOME	1017		383,905	481,665
EXPENSES FROM REGULAR OPERATING ACTIVITIES				
B. OPERATING EXPENSES (1019-1020-1021+1022+1023+1024+1025+1026+1027+1028+1029)>=0	1018		222,587,880	226,386,000
I. COST OF GOODS SOLD	1019		25,965,473	8,077,143
II. WORK PERFORMED BY THE ENTITY AND CAPITALIZED	1020		2,343,286	1,613,042
III. INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1021		-	6,006,557
IV. DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1022		3,470,567	-
V. COST OF MATERIAL	1023		130,509,980	162,591,024
VI. COST OF FUEL AND ENERGY	1024		3,139,822	3,336,459
VII. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	1025		15,593,065	15,245,145
VIII. COST OF PRODUCTION SERVICES	1026	30	15,108,734	14,323,354
IX. DEPRECIATION, DEPLETION AND AMORTIZATION	1027	8,9	19,005,884	18,301,276
X. COST OF LONG-TERM PROVISIONING	1028		604,750	618,876
XI. NON-PRODUCTION COSTS	1029	31	11,532,891	11,512,322
C. OPERATING GAIN (1001-1018)>=0	1030		22,700,946	32,137,448
D. OPERATING LOSS (1018-1001)>=0	1031		-	-

(continued)

NIS A.D. – Naftna industrija Srbije, Novi Sad
Financial Statements for the year ended 31 December 2019

(All amounts are in RSD 000 unless otherwise stated)

INCOME STATEMENT (CONTINUED)

	AOP	Note	Year ended 31 December	
			2019	2018
E. FINANCE INCOME (1033+1038+1039)	1032	32	3,083,292	4,578,389
I. FINANCIAL INCOME FROM RELATED PARTIES AND OTHER				
FINANCIAL INCOME (1034+1035+1036+1037)	1033		1,774,064	2,077,184
1. Finance income - parent company and subsidiaries	1034		1,756,956	2,026,867
2. Finance income - other related parties	1035		5,522	22,490
3. Share of profit of associates and joint ventures	1036		-	-
4. Other financial income	1037		11,586	27,827
II. INTEREST INCOME (from third parties)	1038		478,114	765,027
III. FOREIGN EXCHANGE GAINS (third parties)	1039		831,114	1,736,178
F. FINANCE EXPENSES (1041+1046+1047)	1040	33	3,527,458	5,427,179
I. FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER				
FINANCIAL EXPENSES (1042+1043+1044+1045)	1041		1,636,926	1,694,814
1. Finance expense - parent company and subsidiaries	1042		1,610,891	1,674,668
2. Finance expense - other related parties	1043		4,728	12,735
3. Share of loss of associates and joint ventures	1044		-	-
4. Other financial expense	1045		21,307	7,411
II. INTEREST EXPENSE (from third parties)	1046		1,446,602	1,940,679
III. FOREIGN EXCHANGE LOSSES (third parties)	1047		443,930	1,791,686
G. PROFIT FROM FINANCING OPERATIONS (1032-1040)	1048		-	-
H. LOSS FROM FINANCING OPERATIONS (1040-1032)	1049		444,166	848,790
I. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	1050	34	293,218	1,016,559
J. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	1051		224,925	205,707
K. OTHER INCOME	1052	35	1,141,058	969,970
L. OTHER EXPENSES	1053	36	1,452,124	1,426,519
M. OPERATING PROFIT BEFORE TAX (1030-1031+1048-1049+1050-1051+1052-1053)	1054		22,014,007	31,642,961
N. OPERATING LOSS BEFORE TAX (1031-1030+1049-1048+1051-1050+1053-1052)	1055		-	-
O. NET INCOME ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS	1056		-	-
P. NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS	1057		-	-
Q. PROFIT BEFORE TAX (1054-1055+1056-1057)	1058		22,014,007	31,642,961
R. LOSS BEFORE TAX (1055-1054+1057-1056)	1059		-	-
II. INCOME TAX				
I. CURRENT INCOME TAX	1060	37	2,870,963	3,922,034
II. DEFERRED TAX EXPENSE FOR THE PERIOD	1061	37	1,442,979	1,653,438
III. DEFERRED TAX INCOME FOR THE PERIOD	1062	37	-	-
S. PERSONAL INCOME PAID TO EMPLOYER	1063		-	-
T. NET PROFIT (1058-1059-1060-1061+1062)	1064		17,700,065	26,067,489
V. NET LOSS (1059-1058+1060+1061-1062)	1065		-	-
I. NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1066		-	-
II. NET INCOME ATTRIBUTABLE TO THE OWNER	1067		17,700,065	26,067,489
III. NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1068		-	-
IV. NET LOSS ATTRIBUTABLE TO THE OWNER	1069		-	-
V. EARNINGS PER SHARE				
1. Basic earnings per share	1070		0.109	0.160
2. Diluted earnings per share	1071		-	-

The accompanying notes on pages 10 to 61 are an integral part of these financial statements.

NIS A.D. – Naftna industrija Srbije, Novi Sad
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(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF OTHER COMPREHENSIVE INCOME

	AOP	Note	Year ended 31 December	
			2019	2018
A. NET PROFIT/(LOSS)				
I. PROFIT, NET (AOP 1064)	2001		17,700,065	26,067,489
II. LOSS, NET (AOP 1065)	2002		-	-
B. OTHER COMPREHENSIVE PROFIT OR LOSS				
<i>a) Items that will not be reclassified to profit or loss</i>				
1. Changes in the revaluation of intangible assets, property, plant and equipment				
a) increase in revaluation reserves	2003		-	72,748
b) decrease in revaluation reserves	2004		-	-
2. Actuarial gains (losses) of post employment benefit obligations				
a) gains	2005		-	4,531
b) losses	2006		29,837	-
3. Gains and losses arising from equity investments				
a) gains	2007		-	-
b) losses	2008		-	-
4. Gains or losses arising from a share in the associate's other comprehensive profit or loss				
a) gains	2009		-	-
b) losses	2010		-	-
<i>b) Items that may be subsequently reclassified to profit or loss</i>				
1. Gains (losses) from currency translation differences				
a) gains	2011		-	-
b) losses	2012		-	-
2. Gains (losses) on investment hedging instruments in foreign business				
a) gains	2013		-	-
b) losses	2014		-	-
3. Gains and losses on cash flow hedges				
a) gains	2015		-	-
b) losses	2016		-	-
4. Gains (losses) from change in value of available-for-sale financial assets				
a) gains	2017		7,267	477
b) losses	2018		-	-
I. OTHER COMPREHENSIVE PROFIT BEFORE TAX (2003+2005+2007+2009+2011+2013+2015+2017)- (2004+2006+2008+2010+2012+2014+2016+2018)>=0		2019	-	77,756
II. OTHER COMPREHENSIVE LOSS BEFORE TAX (2004+2006+2008+2010+2012+2014+2016+2018)- (2003+2005+2007+2009+2009+2011+2013+2015+2017)>=0		2020	22,570	-
III. TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD		2021	-	-
IV. TOTAL NET COMPREHENSIVE PROFIT (2019-2020-2021)>=0		2022	-	77,756
V. TOTAL NET COMPREHENSIVE LOSS (2020-2019+2021)>=0		2023	22,570	-
C. TOTAL NET COMPREHENSIVE PROFIT				
I. TOTAL COMPREHENSIVE PROFIT, NET (2001-2002+2022-2023)>=0		2024	17,677,495	26,145,245
II. TOTAL COMPREHENSIVE LOSS, NET (2002-2001+2023-2022)>=0		2025	-	-
D. TOTAL NET COMPREHENSIVE PROFIT / (LOSS) (2027+2028)=AOP 2024>=0 или AOP 2025>0		2026	17,677,495	26,145,245
1. Attributable to shareholders		2027	17,677,495	26,145,245
2. Attributable to non-controlling interest		2028	-	-

The accompanying notes on pages 10 to 61 are an integral part of these financial statements.

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Financial Statements for the year ended 31 December 2019

(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF CASH FLOWS

	AOP	Note	Year ended 31 December 2019	2018
A. CASH FLOWS FROM OPERATING ACTIVITIES				
I. Cash inflow from operating activities (1 to 3)	3001		458,104,310	476,318,584
1. Sales and advances received	3002		456,750,061	474,854,352
2. Interest from operating activities	3003		970,344	982,567
3. Other inflow from operating activities	3004		383,905	481,665
II. Cash outflow from operating activities (1 to 5)	3005		404,562,970	441,057,925
1. Payments and prepayments to suppliers	3006		195,327,034	222,503,666
2. Salaries, benefits and other personal expenses	3007		14,281,098	15,357,756
3. Interest paid	3008		1,748,635	2,115,651
4. Income tax paid	3009		4,060,442	5,306,655
5. Payments for other public revenues	3010		189,145,761	195,774,197
III. Net cash inflow from operating activities (I - II)	3011		53,541,340	35,260,659
IV. Net cash outflow from operating activities (II - I)	3012		-	-
B. CASH FLOWS FROM INVESTING ACTIVITIES				
I. Cash flows from investing activities (1 to 5)	3013		9,266,231	10,495,139
1. Sale of shares (net inflow)	3014		26,968	-
2. Proceeds from sale of intangible assets, property, plant and equipment	3015		391,938	368,430
3. Other financial investments (net inflow)	3016		8,838,868	10,101,578
4. Interest from investing activities	3017		-	-
5. Dividend received	3018		8,457	25,131
II. Cash outflow from investing activities (1 to 3)	3019		50,600,146	47,164,889
1. Acquisition of subsidiaries or other business (net outflow)	3020		-	-
2. Purchase of intangible assets, property, plant and equipment	3021		41,820,136	43,100,975
3. Other financial investments (net outflow)	3022		8,780,010	4,063,914
III. Net cash inflow from investing activities (I - II)	3023		-	-
IV. Net cash outflow from investing activities (II - I)	3024		41,333,915	36,669,750
C. CASH FLOWS FROM FINANCING ACTIVITIES				
I. Cash inflow from financing activities (1 to 5)	3025		27,624,508	50,372,081
1. Increase in share capital	3026		-	-
2. Proceeds from long-term borrowings (net inflow)	3027	24	15,060,454	37,213,097
3. Proceeds from short-term borrowings (net inflow)	3028	24	12,564,054	13,158,984
4. Other long-term liabilities	3029		-	-
5. Other short-term liabilities	3030		-	-
II. Cash outflow from financing activities (1 to 6)	3031		38,593,492	60,221,960
1. Purchase of own shares	3032		-	-
2. Repayment of long-term borrowings (net outflow)	3033	24	18,760,584	39,952,348
3. Repayment of short-term borrowings (net outflow)	3034	24	13,188,360	13,239,092
4. Repayment of other liabilities (net outflow)	3035		-	-
5. Financial lease	3036	24	127,024	82,516
6. Dividend distribution	3037	22	6,517,524	6,948,004
III. Net cash inflow from financing activities (I - II)	3038		-	-
IV. Net cash outflow from financing activities (II - I)	3039		10,968,984	9,849,879
D. TOTAL CASH INFLOW (3001+3013+3025)	3040		494,995,049	537,185,804
E. TOTAL CASH OUTFLOW (3005+3019+3031)	3041		493,756,608	548,444,774
F. NET CASH INFLOW (340-341)	3042		1,238,441	-
G. NET CASH OUTFLOW (341-340)	3043		-	11,258,970
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3044		12,222,578	23,410,724
I. CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS	3045		256,962	370,178
J. CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS	3046		216,154	299,354
K. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (3042-3043+3044+3045-3046)	3047		13,501,827	12,222,578

The accompanying notes on pages 10 to 61 are an integral part of these financial statements.

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Financial Statements for the year ended 31 December 2019

(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

	Equity components							Retained earnings
	AOP	Share capital	AOP	Reserves	AOP	Loss	AOP	
Balance as at 1 January 2018								
a) debit	4001	-	4037	-	4055	-	4091	-
b) credit	4002	81,530,200	4038	-	4056	-	4092	157,276,833
Adjustments of material errors and changes in accounting policies								
a) debit	4003	-	4039	-	4057	-	4093	8,860,905
b) credit	4004	-	4040	-	4058	-	4094	-
Restated opening balance as at 1 January 2018								
a) debit (1a+2a-26)>=0	4005	-	4041	-	4059	-	4095	-
b) credit (1b-2a+26)>=0	4006	81,530,200	4042	-	4060	-	4096	148,415,928
Changes in period								
a) debit	4007	-	4043	-	4061	-	4097	6,949,058
b) credit	4008	-	4044	-	4062	-	4098	26,067,489
Balance as at 31 December 2018								
a) debit (3a+4a-46)>=0	4009	-	4045	-	4063	-	4099	-
b) credit (3b-4a+46)>=0	4010	81,530,200	4046	-	4064	-	4100	167,534,359
Adjustments of material errors and changes in accounting policies								
a) debit	4011	-	4047	-	4065	-	4101	-
b) credit	4012	-	4048	-	4066	-	4102	-
Restated opening balance as at 1 January 2019								
a) debit (5a+6a-66)>=0	4013	-	4049	-	4067	-	4103	-
b) credit (5b-6a+66)>=0	4014	81,530,200	4050	-	4068	-	4104	167,534,359
Changes in period								
a) debit	4015	-	4051	-	4069	-	4105	6,512,156
b) credit	4016	-	4052	-	4070	-	4106	17,700,065
Balance as at 31 December 2019								
a) debit (7a+8a-86)>=0	4017	-	4053	-	4071	-	4107	-
b) credit (7b-8a+86)>=0	4018	81,530,200	4054	-	4072	-	4108	178,722,268

(continued)

NIS A.D. – Naftna industrija Srbije, Novi Sad
 Financial Statements for the year ended 31 December 2019
 (All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Other comprehensive income components

	AOP	Revaluation reserves	AOP	Actuarial gain/(loss)	AOP	Gains (losses) from change in value of available-for-sale financial assets	AOP	Total Equity
Balance as at 1 January 2018								
a) debit	4109	-	4127	-	4217	64,014	-	
b) credit	4110	81,796	4128	142,480	4218	-	4235	238,967,295
Adjustments of material errors and changes in accounting policies								
a) debit	4111	-	4129	-	4219	-	-	
b) credit	4112	-	4130	-	4220	-	4236	(8,860,905)
Restated opening balance as at 1 January 2018								
a) debit (1a+2a-26)>=0	4113	-	4131	-	4221	64,014	-	
b) credit (16-2a+26)>=0	4114	81,796	4132	142,480	4222	-	4237	230,106,390
Changes in period								
a) debit	4115	2,401	4133	-	4223	-	-	
b) credit	4116	72,748	4134	4,531	4224	3,932	4238	19,197,241
Balance as at 31 December 2018								
a) debit (3a+4a-46)>=0	4117	-	4135	-	4225	60,082	-	
b) credit (35-4a+46)>=0	4118	152,143	4136	147,011	4226	-	4239	249,303,631
Adjustments of material errors and changes in accounting policies								
a) debit	4119	-	4137	-	4227	-	-	
b) credit	4120	-	4138	-	4228	-	4240	-
Restated opening balance as at 1 January 2019								
a) debit (5a+6a-66)>=0	4121	-	4139	-	4229	60,082	-	
b) credit (55-6a+66)>=0	4122	152,143	4140	147,011	4230	-	4241	249,303,631
Changes in period								
a) debit	4123	-	4141	29,837	4231	-	-	
b) credit	4124	-	4142	-	4232	1,899	4242	11,159,971
Balance as at 31 December 2019								
a) debit (7a+8a-86)>=0	4125	-	4143	-	4233	58,183	-	
b) credit (75-8a+86)>=0	4126	152,143	4144	117,174	4234	-	4243	260,463,602

The accompanying notes on pages 10 to 61 are an integral part of these financial statements.

NIS A.D. – Naftna industrija Srbije, Novi Sad
Notes to financial statements for the year ended 31 December 2019

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

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") is a vertically integrated oil company operating predominantly in 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
- Electric generation and trading.

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

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005. On 2 February 2009, PJSC Gazprom Neft ("Gazprom Neft") acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired 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 Belgrade Stock Exchange.

These 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

These financial statements for the year ended 31 December 2019 were prepared in accordance with the applicable Law on Accounting of the Republic of Serbia, which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

- The financial statements are prepared in the format prescribed by the Ministry of Finance of the Republic of Serbia,
- "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.

As a result, the accompanying financial statements cannot be considered as financial statements prepared in full compliance with IFRS.

The preparation of financial statements in conformity with the Law on Accounting of the Republic of Serbia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

At the date of signing Financial Statements, crude oil price declined since 31 December 2019 from 66.765 \$/barrel to 56.170 \$/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any major fluctuation of crude oil prices.

Subsequent events occurring after 31 December 2019 were evaluated through 26 February 2020, the date these Financial Statements were authorised for issue.

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Notes to financial statements for the year ended 31 December 2019

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

2.2. Basis of measurement

These Financial Statements are prepared on the historical cost basis, except certain financial assets and liabilities and investment properties measured at fair value.

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors and the General Manager Advisory Board. The main indicator for assessing performance of operating segments is EBITDA, which is regularly reported to the chief operating decision-maker. The information on segment assets and liabilities are not regularly provided to the chief operating decision-maker.

2.4. Seasonality of Operations

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

2.5. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Serbian dinars ("RSD"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents and other monetary assets and liabilities are presented in the income statement within 'finance income or cost'.

2.6. Intangible assets

(a) Licenses and rights (concessions)

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

Licenses and rights include Oil and Gas Upstream Exploration Rights, which are amortised in accordance with the terms and conditions of the rights.

(b) Software

These include primarily the costs of implementation the (SAP) computer software program. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised over their estimated useful lives (not to exceed 8 years).

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

2.7. Oil and Gas properties

(a) Exploration and evaluation expenditure

The Company follows the successful efforts method of accounting for its exploration and evaluation assets.

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, that may include drilling of further wells, are likely to be developed commercially; then the costs continue to be carried as Oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

(b) Development costs of fixed and intangible assets

Development costs are incurred to obtain access to proven reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proven reserves as well as costs of production facilities.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within construction in progress according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortisation are charged during development.

(c) Oil and gas production assets

Oil and gas production assets comprise exploration and evaluation assets as well as development costs associated with the production of proved reserves.

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

(d) *Depreciation/amortization*

Oil and gas properties/intangible assets are depleted using the unit-of-production method. The unit-of production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

(e) *Impairment – exploration and evaluation assets*

Exploration property leasehold acquisition costs are assessed for impairment when there are indications of impairment. For the purpose of impairment testing, exploration property leasehold acquisition costs subject to impairment testing are grouped with existing cash-generating units (CGUs) of related production fields located in the same geographical region.

(f) *Impairment – proved oil and gas properties and intangible assets*

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.8. Property, plant and equipment

As of the date of establishment, the Company's property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and works of art are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Description	Useful lives
Buildings	10 - 50
Machinery and Equipment:	
- Production equipment	2 - 35
- Furniture	3 - 10
- Vehicles	5 - 25
- Computers	3 - 10
Other PP&E	3 - 20

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/(expenses)" in the income statement (notes 35 and 36).

2.9. Leases

Accounting policies applied in 2019, from the date of initial application of IFRS 16 "Leases"

The Company leases various offices, warehouses, retail stores, equipment and cars. Rental contracts are typically made for fixed periods 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. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

	<u>Useful lives in years</u>
Buildings	2 - 22
Machinery	3 - 15
Motor vehicles	2 - 10

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.

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Accounting policies applied until 31 December 2018

Leases under the terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Company's Statement of Financial Position. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

2.10. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11. Investment property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property principally comprises of petrol stations and business facilities rented out for a period exceeding one year.

Investment property is carried at fair value. Changes in fair values are recorded in the income statement as part of Other income/(expenses) (notes 35 and 36).

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.12. Financial instruments

(a) Key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

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Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Amortized cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("*ECL*").

(b) Classification and measurement

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

At initial recognition, the Company measures a financial asset as its fair value plus, in case of a financial assets not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at FVTPL are expensed in profit and loss. After the initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Factors considered by the Company in determining the business model include the purpose and composition of portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

There are three measurement categories into which the Company classifies its debt instruments:

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- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented separately.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest ("SPPI"), are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented separately.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Trade and other receivables. Trade and other receivables are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method, less provision for impairment. Trade receivables are amounts due from customers for products and merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortized cost using the effective interest method.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognized initially at fair value and subsequently carried at amortized cost using the effective interest method. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

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(c) Write-off

Financial assets are written-off, in whole or in part, when the Company has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(d) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

(e) Modification

The Company sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Company assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Company derecognises the original financial asset and recognises a new asset at its fair value. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

(f) Financial assets impairment

The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and recognises Net impairment losses at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available

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without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the balance sheet net of the allowance for ECL. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

- General model of impairment of financial assets – three stage model

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL").

If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

When defining default for the purposes of determining the risk of a default occurring, Company applies a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate.

For the purposes of measuring expected credit losses, the estimate of expected cash shortfalls reflects the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately.

Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

- Simplified approach for impairment of receivables and lease receivables

Company applies simplified approach for trade receivables and lease receivables and measure the loss allowance at an amount equal to lifetime expected credit losses ("Lifetime ECL").

Company uses a provision matrix in the calculation of the expected credit losses on trade receivables. Company use historical credit loss experience (adjusted as appropriate on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions) for trade receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling, general and administrative expenses.

Impairment losses are reversed through profit or loss if the amount of the impairment loss decreases and the decrease can be attributed to an event occurring after the impairment was recognized.

2.13. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as Other expense (note 36).

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2.14. Off-balance sheet assets and liabilities

Off-balance sheet assets/liabilities include: material received from third parties for further processing and other assets not owned by the Company, as well as receivables/payables relating to collaterals received/given such as guarantees and other warrants.

2.15. Share capital

The Company is registered as open joint stock company. Ordinary shares are classified as share capital.

2.16. Earnings per share

The Company calculates and discloses the basic earnings per share. Basic earnings per share is calculated by dividing the net income that belongs to shareholders, the owners of ordinary shares of the Company, by the weighted average number of ordinary shares issued during the period.

2.17. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as cost of provision and charged to income statement.

2.18. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case deferred tax liability is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in Serbia, where the Company operates and generates taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.19. Employee benefits

(a) Pension obligations

The Company operates a defined contribution pension plan. The Company pays contributions to publicly administered pension insurance plans on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Employee benefits provided by the Collective Agreement

The Company provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Serbian Treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

(c) Bonus plans

The Company recognises a liability and an expense for bonuses and profit-sharing based on an Individual performance assessment. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

In 2017, the Company has made decision to introduce new three-year (2018-2020) program for Company's managers which will be based on the Key Performance Indicators ("KPI") reached during the program (note 23).

2.20. Revenue recognition from contracts with customers

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

Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts.

(a) Sales - wholesale

The Company manufactures and sells oil, petrochemical products, liquefied natural gas and energy in the wholesale market. Sales of goods are recognised when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no

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unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales with discounts is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognised for expected volume discounts entitled to customers in relation to sales made until the end of the reporting period.

No element of financing is deemed present as the sales are made with a credit term of less than one year and is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Sales – retail

The Company operates a chain of Petrol Stations. Sales of goods are recognised when the Company sells a product to the customer. Retail sales are usually in cash or by credit card. Company offers customer incentives mostly in the form of loyalty programs described under section d).

(c) Sales of electricity

The Company sells electricity on a short and long term basis with a contract terms generally accepted in the energy industry (via bilateral forward standardized general EFET agreements). Majority of sales are made on a wholesale market without structured trades.

In accordance with contract terms if Company expects to physically deliver factual agreed quantity of electricity revenue is recognized at gross basis at the point of time of delivery in financial statements. All performance obligations are satisfied at point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation.

(d) Customer loyalty program

The Company operates a loyalty program where customers accumulate award points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire after the initial transaction. The transaction price is allocated to the goods sold and the award points on the basis of their relative stand-alone selling prices. A contract liability for the award points is recognized at the time of the sale. Contract liabilities arising from customer loyalty program are presented in the note 29.

(e) Interest income

Interest income is recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income, all fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums or discounts.

Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within 'finance income' line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the Company relating to the creation or acquisition of a financial asset, for example fees for evaluating creditworthiness, evaluating

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and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the amortized cost.

2.21. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

2.22. Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. All other borrowing costs are expensed in the period in which they are incurred.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Preparing financial statements required Management to make estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and other facts that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimates is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, management also makes other judgments in the process of applying the accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these financial statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

3.1. Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Company estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved and probable reserves. Accounting measures such as depreciation, depletion and amortization charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties

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and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the financial statements, most notably depreciation, depletion and amortization as well as impairment expenses.

Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Detailed disclosure about Oil and gas reserves was not given as these data prescribed by the law of the Republic of Serbia are classified as a state secret.

3.2. Useful Lives of Property, Plant and Equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located.

Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the year.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2019 would be to increase/decrease it by RSD 1,735,354 (2018: RSD 1,668,418).

3.3. Employee benefits

The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to calculate the present value of estimated future cash outflows which are expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Company takes into consideration the interest rates of Serbian Treasury bonds which are denominated in the currency in which pension liabilities will be settled and whose maturity dates approximate the maturity date of the related pension liability.

If the discount rate used to calculate the present value of employee benefit obligations had been 5.40% (rather than 4.40%) per year, the past service liability (DBO) for the Company would decrease by about 9.4% for retirement indemnity and 7.2% for jubilee benefit. If pay increased by 1% higher than assumed on an annual basis, than the past service liability (DBO) for the Company would increase by amount 10.7% for the retirement indemnity and 7.7% for the jubilee benefit.

3.4. Decommissioning and environmental protection provision

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Company's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

If the discount rate used to calculate the present value of decommissioning obligations had been 5.40% (rather than 4.40%) per year, the present liability would have decreased by approx. RSD 419,182.

3.5. Contingencies

Certain conditions may exist as of the date of these financial statements are issued that may result in a loss to the Company, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 38).

3.6. Recoverability of carrying amount of Property, Plant and Equipment

In the line with changes in the crude oil price on the world market, management of the Company performed stress sensitivity analysis of its impact on recoverability of the Company PPE and overall business performance. Based on the currently available information and crude oil price forecast obtained from a reputable firm management believe that at reporting date recoverable amount of Company's PPE exceed its carrying value.

The Company assessed crude oil price volatility as main impairment indicator. If the actual crude oil price would decrease for 10\$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Company's PPE 46.5 bln RSD.

Management will continue to monitor the crude oil price fluctuation and its influence on business performance in order to adequately take measure to mitigate impact if the negative trends on the market continue.

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4. 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. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 20%.

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

Operating lease commitments disclosed as at 31 December 2018	265,067
(Less): short-term leases recognised on a straight-line basis as expense	(31,155)
(Less): low-value leases recognised on a straight-line basis as expense	<u>(108,527)</u>
Undiscounted leases recognized under IFRS 16	125,385

Discounted using the lessee's incremental borrowing rate at the date of initial application	100,027
Add: finance lease liabilities recognised as at 31 December 2018	<u>644,611</u>
Lease liability recognised as at 1 January 2019	744,638

Of which are:	
Current lease liabilities	96,572
Non-current lease liabilities	<u>648,066</u>
	744,638

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, 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 some adjustments to the right-of-use assets at the date of initial application.

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

	31 December 2019	1 January 2019
Property (land and buildings)	489,299	540,388
Plant and equipment	274,626	324,713
Motor vehicles	179,910	54,331
Total right-of-use assets	<u>943,835</u>	<u>919,432</u>

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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 (note 8 and 9)	(819,405)
Right-of-use assets – increase (note 9)	919,432
Lease liabilities – increase	(100,027)

In applying IFRS 16 for the first time, the Company has used the following practical expedients and exemptions 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.

5. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2020 or later, and that the Company has not early adopted.

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). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Company is currently assessing the impact of the amendments on its financial statements.

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

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

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all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Company will apply them and assess their impact from 1 January 2020.

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

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).*

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's Financial Statements.

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk, liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the finance and finance control department within the Company's Function for Economics, Finance and Accounting (further "FEPA") which under the policies approved by the Company identifies and evaluates financial risks in close co-operation with the Company's operating units.

In the normal course of its operations the Company has exposure to the following financial risks:

- (a) market risk (including currency risk and interest rate risk);
- (b) credit risk and
- (c) liquidity risk.

Market risk

The Company takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates, all of which are exposed to general and specific market movements. Management analyse and monitoring risk that may be accepted, however, the use of this approach does not prevent losses in the event of more significant market movements.

Currency risk

The Company operates internationally and is exposed to currency risk arising from various currency exposures, primarily with respect to USD and EUR. Currency risk arises from future commercial transactions and recognised assets and liabilities.

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Management has set up a policy to manage its currency risk against its functional currency. In order to manage its currency risk arising from future transactions and recognised assets and liabilities, responsible persons in the finance department within the FEPA negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day the purchase is made. Currency risks arise when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company functional currency.

The Company has borrowings denominated in foreign currency mainly in EUR which predominantly expose Company to the currency translation risk. Currency exposure arising from the borrowings is managed through the participation of the borrowing denominated in functional currency of the Company in the total credit portfolio.

The carrying values (net of allowance) of the Company's financial instruments by currencies they are denominated are as follows:

As of 31 December 2019	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Financial instrument at FVTOCI	95,662	-	-	-	95,662
Long-term investments in subsidiaries	-	23,205,187	-	-	23,205,187
Other long-term investments	73,592	729,893	4,964	-	808,449
Long term receivables	6,825	227,359	-	-	234,184
Current					
Trade receivables	23,075,088	5,168,855	128,120	-	28,372,063
Receivables from specific operations	59,001	42,976	164,460	19	266,456
Other receivables	837,217	1,093,045	3,215	550	1,934,027
Short term financial investments	49,444	5,384,278	-	-	5,433,722
Cash and cash equivalents	6,084,928	5,267,369	2,141,426	8,104	13,501,827
Financial liabilities					
Non-current					
Long-term liabilities	(12,490)	(82,824,750)	(173,130)	(225,692)	(83,236,062)
Current					
Short-term financial liabilities	(1,609,631)	(5,810,904)	(36,162)	(63,243)	(7,519,940)
Trade payables	(12,588,893)	(7,832,250)	(16,266,990)	(32,823)	(36,720,956)
Other short-term liabilities	(7,319,417)	(87,658)	(167,593)	(14,441)	(7,589,109)
Net exposure	8,751,326	(55,436,600)	(14,201,690)	(327,526)	(61,214,490)

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As of 31 December 2018

	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Financial instrument at FVTOCI	111,475	-	-	2,687	114,162
Long-term investments in subsidiaries	754,936	22,524,143	-	-	23,279,079
Other long-term investments	103,995	767,463	6,203	-	877,661
Long term receivables	8,979	-	-	-	8,979
Current					
Trade receivables	23,442,989	3,527,685	530,978	107	27,501,759
Receivables from specific operations	43,498	42,813	162,063	-	248,374
Other receivables	118,407	1,170,075	1,131	887	1,290,500
Short term financial investments	2,124,193	3,504,407	-	-	5,628,600
Cash and cash equivalents	5,121,101	3,014,093	4,074,046	13,338	12,222,578
Financial liabilities					
Non-current					
Long-term liabilities	(491)	(86,801,180)	(309,068)	(257,129)	(87,367,868)
Current					
Short-term financial liabilities	(2,218,536)	(5,831,968)	(52,628)	(38,836)	(8,141,968)
Trade payables	(10,441,916)	(14,599,210)	(802,124)	(43,899)	(25,887,149)
Other short-term liabilities	(7,730,040)	(96,009)	(166,120)	(7,289)	(7,999,458)
Net exposure	11,438,590	(72,777,688)	3,444,481	(330,134)	(58,224,751)

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2019	31 December 2018
EUR	117.5928	118.1946
USD	104.9186	103.3893

Sensitivity analysis

The Company has chosen to provide information about market and potential exposure to hypothetical gain/(loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis below reflects the hypothetical effect on the Company's financial instruments and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

As at 31 December 2019, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit for the year and equity would have been RSD 2,771,830 (2018: RSD 3,638,884) higher/lower, mainly as a result of foreign exchange gains/(losses) on translation of EUR – denominated borrowings.

As at 31 December 2019, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit and equity for the year would have been RSD 1,420,169 (2018: RSD 344,448) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated accounting payables.

Interest rate risk

Borrowings withdrawn at variable interest rates expose the Company to cash flow interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR) has a proportionate impact on the Company's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit and equity for 2019 would have been RSD 718,111 (2018: RSD 862,976) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

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Credit risk

The Company exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Company's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position is as follows:

	31 December	
	2019	2018
Financial instrument at FVTOCI	95,662	114,162
Long term investments in subsidiaries	23,205,187	23,279,079
Other long-term investments	808,449	877,661
Long term receivables	234,184	8,979
Trade receivables	28,372,063	27,501,759
Receivables from specific operations	266,456	248,374
Other receivables	1,934,027	1,290,500
Short term financial investments	5,433,722	5,628,600
Cash and cash equivalents	13,501,827	12,222,578
Total maximum exposure to credit risk	73,851,577	71,171,692

Credit risk management. Credit risk is the single largest risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Limits. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- scoring Serbian Business Register Agency, NIS and/or D&B reports;
- amount of registered pledges;
- data on customer's account blockade;
- history of relationships with the Company;
- planned sales volume;
- duration of relationship with the Company, including ageing profile, maturity and existence of any financial difficulties.

Trade, Specific and Other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which use a lifetime expected loss allowance.

To measure the expected credit losses, trade, specific and other receivables have been grouped based on shared credit risk characteristics and the days past due.

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The expected loss rates are based on the payment profiles of sales over a period of 48 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates were not adjusted with forward-looking information on macroeconomic factors as no correlation were identified that significantly affect ability of the customers to settle the receivables.

The credit loss allowance for trade, specific and other receivables is determined according to provision matrix presented in the table below.

At 31 December 2019 the provision matrix is based on the number of days that an asset is past due:

	Loss rate	Gross carrying amount	Lifetime ECL	Total trade, specific and other receivables
Trade, specific and other receivables				
- current	0.05%	28,101,985	(13,606)	28,088,379
- less than 30 days overdue	0.18%	1,207,976	(2,179)	1,205,797
- 31 to 90 days overdue	1.10%	117,107	(1,292)	115,815
- 91 to 270 days overdue	2.58%	173,681	(4,479)	169,202
- over 270 days overdue	94.64%	18,540,231	(17,546,878)	993,353
Total trade, specific and other receivables		48,140,980	(17,568,434)	30,572,546

At 31 December 2018 the provision matrix is based on the number of days that an asset is past due:

	Loss rate	Gross carrying amount	Lifetime ECL	Total trade, specific and other receivables
Trade, specific and other receivables				
- current	0.09%	26,492,782	(23,315)	26,469,467
- less than 30 days overdue	0.32%	1,100,903	(3,549)	1,097,354
- 31 to 90 days overdue	1.13%	339,340	(3,833)	335,507
- 91 to 270 days overdue	4.22%	345,983	(14,602)	331,381
- over 270 days overdue	95.74%	18,715,317	(17,908,393)	806,924
Total trade, specific and other receivables		46,994,325	(17,953,692)	29,040,633

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, advance payment or other security.

The Management of the Company regularly assesses the credit quality of trade, specific 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.

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Movements on the Company's provision for impairment of trade receivables and lease receivables are as follows:

	Trade receivables		Lease receivables	Total
	Individually impaired	Collectively impaired		
As at 1 January 2018	2,539,550	5,330,295	-	7,869,845
Reclassification of lease receivables as of 1 January 2018	-	(72,630)	72,630	-
Provision for receivables impairment	-	67,404	3,236	70,640
Unused amounts reversed (note 34)	(96,696)	(591,739)	(15,724)	(704,159)
Unwinding of discount (note 32)	-	(44,661)	-	(44,661)
Receivables written off during the year as uncollectible	-	(1,150,262)	(533)	(1,150,795)
Exchange differences	-	1,676	-	1,676
Other	-	(637)	-	(637)
As at 31 December 2018	2,442,854	3,539,446	59,609	6,041,909
Provision for receivables impairment	-	74,646	2,321	76,967
Unused amounts reversed (note 34)	-	(73,383)	(7,867)	(81,250)
Receivables written off during the year as uncollectible	-	(262,377)	(1,232)	(263,609)
Other	-	(1,806)	-	(1,806)
As at 31 December 2019	2,442,854	3,276,526	52,831	5,772,211

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement. Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The other classes within trade, specific and other receivables do not contain impaired assets.

As of 31 December 2019 receivables from specific operations amounting RSD 2,213,511 (31 December 2018 : RSD 2,197,767) are mostly impaired in the amount of RSD 1,947,055 (31 December 2018: RSD 1,949,393). 98% these receivables are older than 5 years.

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Movements on the provision for other receivables:

	Interest on long – term placements (current part)	Other Interest receivables	Other receivables	Total
As at 1 January 2018	34,182	4,187,290	7,483,218	11,704,690
Remeasurement of expected credit losses	412,465	-	-	412,465
Restated balance at 1 January 2018	446,647	4,187,290	7,483,218	12,117,155
Provision for other receivables impairment	39,379	5,853	13,680	58,912
Unused amounts reversed (note 34)	(54,260)	(12,919)	(3,578)	(70,757)
Receivables written off during the year as uncollectible	-	(2,048,409)	(92,703)	(2,141,112)
Exchange differences	(1,051)	-	-	(1,051)
Other	-	(720)	-	(720)
As at 31 December 2018	430,715	2,131,095	7,400,617	9,962,427
Provision for other receivables impairment	-	4,802	9,342	14,144
Unused amounts reversed (note 34)	(5,951)	(12,914)	(1,088)	(19,953)
Reclassification from non-current to current part	(40,320)	-	-	(40,320)
Exchange differences	(2,226)	-	-	(2,226)
Receivables written off during the year as uncollectible and other	-	(57,932)	(6,971)	(64,903)
As at 31 December 2019	382,218	2,065,051	7,401,900	9,849,169

Other financial assets at amortised cost

Movements on the provision for long-term placements to subsidiaries:

	Total
As at 1 January 2018	-
Remeasurement of expected credit losses	7,542,125
Restated balance at 1 January 2018	7,542,125
Unused amounts reversed (note 34)	(96,974)
Reclassification from non-current to current part	(3,384,402)
Exchange differences	(17,703)
As at 31 December 2018	4,043,046
As at 1 January 2019	-
Remeasurement of expected credit losses	94,891
Reclassification from non-current to current part	(1,822,844)
Exchange differences	(14,939)
As at 31 December 2019	2,300,154

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Movements on the provision for short-term placements:

	Short-term financial loans - subsidiaries	Short-term financial loans - Domestic	Current portion of long-term placements	Total
As at 1 January 2018	188,447	2,019	-	190,466
Remeasurement of expected credit losses	-	-	2,118,728	2,118,728
Restated balance at 1 January 2018	188,447	2,019	2,118,728	2,309,194
Reclassification from non-current to current part	-	-	3,384,402	3,384,402
Exchange differences	(87)	-	(5,330)	(5,417)
Other	(188,360)	-	188,360	-
As at 31 December 2018	-	2,019	5,686,160	5,688,179
Remeasurement of expected credit losses	-	-	5,000	5,000
Unused amounts reversed	-	-	(172,425)	(172,425)
Reclassification from non-current to current part	-	-	1,863,164	1,863,164
Exchange differences	-	-	(34,393)	(34,393)
As at 31 December 2019	-	2,019	7,347,506	7,349,525

Liquidity risk

Cash flow forecasting is performed as aggregated at the Company's level. The Company's finance function monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all time so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the Company over and above the balance required for working capital management is invested as surplus cash in time deposits.

The table below analyses the Company's financial liabilities into relevant maturity groupings at the balance sheet.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
As at 31 December 2019					
Financial liabilities (debt+lease)	90,756,002	95,865,051	9,052,606	82,868,103	3,944,342
Trade payables and dividends payable	40,501,648	40,501,648	40,501,648	-	-
	131,257,650	136,366,699	49,554,254	82,868,103	3,944,342
As at 31 December 2018					
Financial liabilities (debt+lease)	95,509,836	101,961,239	9,889,471	86,631,229	5,440,539
Trade payables and dividends payable	29,659,457	29,659,457	29,659,457	-	-
	125,169,293	131,620,696	39,548,928	86,631,229	5,440,539

6.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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On the Company level capital is monitored on the basis of the net debt to EBITDA ratio. Net debt to EBITDA is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, other finance income (expenses) net, other non-operating income (expenses).

The Company's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	31 December 2019	31 December 2018
Total borrowings	90,756,002	95,509,836
Less: cash and cash equivalents (note 19)	(13,501,827)	(12,222,578)
Net debt	77,254,175	83,287,258
EBITDA	42,093,360	51,101,970
Net debt to EBITDA	1.84	1.63

The Company has committed (at the level of Gazprom Neft Group) to maintain debt cover ratio of total indebtedness and EBITDA not exceeding 3.0 during the terms of long-term borrowings agreements with certain commercial banks. Company constantly monitoring the established commitments to maintain the height of debt cover ration and there has been no breach of these obligation.

There were no changes in the Company's approach to capital management during the year.

6.3. Fair value estimation

The fair value of financial instruments traded in an active market (such as available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date.

The carrying amount of trade, specific and other receivables and trade and other payable due to their short-term nature is considered to be the same as their fair value. For the majority of the non-current financial assets and non-current financial liabilities the fair values are also not significantly different to their carrying amounts.

7. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the years ended 31 December 2019 and 2018. Operating segments are components are engaged in business activities which 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 two 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 expenses are presented within the Downstream segment.

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Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealized 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 on-going 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 year ended 31 December 2019 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	47,931,163	245,511,573	(48,153,910)	245,288,826
Intersegment	47,212,926	940,984	(48,153,910)	-
External	718,237	244,570,589	-	245,288,826
EBITDA (Segment results)	33,009,472	9,083,888	-	42,093,360
Depreciation, depletion and amortization	(10,446,800)	(8,559,084)	-	(19,005,884)
Impairment income (losses) (note 35 and 36)	(17,482)	339,903	-	322,421
Write-off of exploration works (note 9)	(377,207)	-	-	(377,207)
Finance expenses, net	(145,912)	(298,254)	-	(444,166)
Income tax	(74,711)	(4,239,231)	-	(4,313,942)
Segment profit (loss)	22,249,370	(4,549,305)	-	17,700,065

Reportable segment results for the year ended 31 December 2018 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	51,441,537	257,671,514	(50,589,603)	258,523,448
Intersegment	49,659,488	930,115	(50,589,603)	-
External	1,782,049	256,741,399	-	258,523,448
EBITDA (Segment results)	36,676,144	14,425,826	-	51,101,970
Depreciation, depletion and amortization	(9,604,050)	(8,697,226)	-	(18,301,276)
Impairment losses (note 35 and 36)	(3,471)	(65,200)	-	(68,671)
Write-off of exploration works (note 9)	(57,075)	-	-	(57,075)
Finance expenses, net	(164,035)	(684,755)	-	(848,790)
Income tax	(171,417)	(5,404,055)	-	(5,575,472)
Segment profit (loss)	26,773,827	(706,338)	-	26,067,489

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EBITDA for the year ended 31 December 2019 and 2018 is reconciled below:

	Year ended 31 December	
	2019	2018
Profit for the year	17,700,065	26,067,489
Income tax expenses	4,313,942	5,575,472
Other expenses	1,452,124	1,426,519
Other income	(1,141,058)	(969,970)
Loss from valuation of assets at fair value through profit and loss	224,925	205,707
Income from valuation of assets at fair value through profit and loss	(293,218)	(1,016,559)
Finance expense	3,527,458	5,427,179
Finance income	(3,083,292)	(4,578,389)
Depreciation, depletion and amortization	19,005,884	18,301,276
Other non operating expenses, net*	386,530	663,246
EBITDA	42,093,360	51,101,970

*Other non-operating expense, net mainly relate to reversal of impairment, decommissioning and site restoration cost, allowance of receivables and other.

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

	Year ended 31 December 2019		
	Domestic market	Export and international sales	Total
Sale of crude oil	824,056	665,186	1,489,242
Sale of gas	1,408,299	-	1,408,299
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,408,299	-	1,408,299
Sale of petroleum products	187,113,944	46,228,751	233,342,695
<i>Through a retail network</i>	66,171,840	-	66,171,840
<i>Wholesale activities</i>	120,942,104	46,228,751	167,170,855
Lease revenue	374,599	1,967	376,566
Sales of electricity	782,645	205,143	987,788
Other sales	7,494,560	189,676	7,684,236
Total sales	197,998,103	47,290,723	245,288,826

	Year ended 31 December 2018		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,528,011	1,528,011
Sale of gas	1,622,853	-	1,622,853
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,622,853	-	1,622,853
Sale of petroleum products	197,879,244	48,125,760	246,005,004
<i>Through a retail network</i>	63,956,088	-	63,956,088
<i>Wholesale activities</i>	133,923,156	48,125,760	182,048,916
Lease revenue	474,818	-	474,818
Sales of electricity	746,559	851,600	1,598,159
Other sales	7,030,571	264,032	7,294,603
Total sales	207,754,045	50,769,403	258,523,448

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Out of the amount of RSD 167,170,855 (2018: RSD 182,048,916) revenue from sale of petroleum products (wholesale), the amount of RSD 19,070,224 (2018: RSD 26,679,415) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Network for Trading in the amount of RSD 309,224 (2018: Energy Financing Team in the amount of RSD 518,173).

Other sales mainly relate to sales of non-fuel products at petrol stations.

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 197,998,103 (2018: RSD 207,754,045), and the total of revenue from external customer from other countries is RSD 47,290,723 (2018: RSD 50,769,403). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2019	2018
Sale of crude oil	665,186	1,528,011
Sale of petroleum products (retail and wholesale)		
Bosnia and Herzegovina	16,294,267	12,319,667
Bulgaria	7,793,206	11,069,476
Romania	6,018,001	8,531,671
Croatia	2,431,173	2,997,771
Switzerland	1,888,635	2,777,082
Hungary	1,610,845	1,810,152
Northern Macedonia	1,343,723	1,726,618
Great Britain	1,063,213	1,839,930
All other markets	7,785,688	5,053,393
	<u>46,228,751</u>	<u>48,125,760</u>
Lease revenue	1,967	-
Sales of electricity	205,143	851,600
Other sales	189,676	264,032
	<u>47,290,723</u>	<u>50,769,403</u>

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

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8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Other intangibles	Intangible assets under development	Total
At 1 January 2018					
Cost	9,330,701	8,165,992	960,875	5,515,048	23,972,616
Accumulated amortisation and impairment	(1,565,494)	(6,043,048)	(97,937)	(45,506)	(7,751,985)
Net book amount	7,765,207	2,122,944	862,938	5,469,542	16,220,631
Year ended 31 December 2018					
Additions	-	-	(370)	1,947,886	1,947,516
Transfer from assets under development	2,299,438	193,070	7,584	(2,500,092)	-
Amortization	(758,279)	(837,574)	(21,243)	-	(1,617,096)
Transfer to PP&E (note 9)	-	-	-	(11,625)	(11,625)
Closing net book amount	9,306,366	1,478,440	848,909	4,905,711	16,539,426
As at 31 December 2018					
Cost	11,630,139	8,301,639	968,089	4,951,217	25,851,084
Accumulated amortization and impairment	(2,323,773)	(6,823,199)	(119,180)	(45,506)	(9,311,658)
Net book amount	9,306,366	1,478,440	848,909	4,905,711	16,539,426
At 1 January 2019					
Cost	11,630,139	8,301,639	968,089	4,951,217	25,851,084
Accumulated amortization and impairment	(2,323,773)	(6,823,199)	(119,180)	(45,506)	(9,311,658)
Net book amount	9,306,366	1,478,440	848,909	4,905,711	16,539,426
Year ended 31 December 2019					
Additions	-	-	-	2,232,327	2,232,327
Transfer from assets under development	3,139,293	795,980	-	(3,935,273)	-
Amortization	(1,005,829)	(485,018)	(20,388)	-	(1,511,235)
Transfer to PP&E (note 9)	-	-	-	(47,459)	(47,459)
Disposals and write-off	-	(371)	-	(53,865)	(54,236)
Closing net book amount	11,439,830	1,789,031	828,521	3,101,441	17,158,823
As at 31 December 2019					
Cost	14,769,431	9,013,191	967,444	3,125,788	27,875,854
Accumulated amortization and impairment	(3,329,601)	(7,224,160)	(138,923)	(24,347)	(10,717,031)
Net book amount	11,439,830	1,789,031	828,521	3,101,441	17,158,823

Intangible assets under development as at 31 December 2019 amounting to RSD 3,101,441 (31 December 2018: RSD 4,905,711) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 2,841,508 (31 December 2018: RSD 4,579,282).

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9. PROPERTY, PLANT AND EQUIPMENT

a) *Property, plant and equipment carried at cost*

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2018								
Cost	10,630,202	181,307,667	112,287,936	27,313,677	75,517	491,491	2,148,358	334,254,848
Accumulated depreciation and impairment	(301,324)	(54,006,843)	(51,596,561)	(2,001,642)	(1,117)	(228,280)	(36,946)	(108,172,713)
Net book amount	10,328,878	127,300,824	60,691,375	25,312,035	74,400	263,211	2,111,412	226,082,135
Year ended 31 December 2018								
Additions	141,441	17,840,046	5,519,739	14,623,749	2,234	4,773	4,743,073	42,875,055
Acquisitions through business combinations	-	-	-	217,660	-	-	-	217,660
Appraisal effects	-	85,161	-	-	-	-	-	85,161
Impairment charge (note 35 and 36)	-	(67,304)	(250)	(13,412)	-	-	-	(80,966)
Depreciation	-	(9,637,766)	(6,978,256)	-	-	(68,158)	-	(16,684,180)
Transfer from intangible assets (note 8)	-	-	-	11,625	-	-	-	11,625
Transfer to investment property	(38,530)	(157,507)	-	-	-	-	-	(196,037)
Transfer to assets held for sale	(15,765)	(26,992)	(21,995)	(9,108)	-	-	-	(73,860)
Disposals and write-off	(39,436)	(110,821)	(80,713)	(860,282)	(98)	(22)	(6,096,317)	(7,187,689)
Other transfers	(14,903)	14,903	-	-	-	-	-	-
Closing net book amount	10,361,685	135,240,544	59,129,900	39,282,267	76,536	199,804	758,168	245,048,904
At 31 December 2018								
Cost	10,660,018	198,580,407	117,308,009	41,282,441	77,653	496,173	790,744	369,195,445
Accumulated depreciation and impairment	(298,333)	(63,339,863)	(58,178,109)	(2,000,174)	(1,117)	(296,369)	(32,576)	(124,146,541)
Net book amount	10,361,685	135,240,544	59,129,900	39,282,267	76,536	199,804	758,168	245,048,904
Year ended 31 December 2019								
Additions	35,821	16,781,918	5,470,872	14,598,106	1,091	-	2,047,039	38,934,847
Impairment charge (note 35 and 36)	-	(98,929)	-	(141,530)	-	-	-	(240,459)
Depreciation	-	(9,949,991)	(7,339,460)	-	-	(64,086)	-	(17,353,537)
Transfer from intangible assets (note 8)	-	-	-	47,459	-	-	-	47,459
Transfer to assets held for sale	(56,573)	(18,619)	(30,607)	-	-	-	-	(105,799)
Disposals and write-off	(73)	(61,976)	(136,427)	(611,234)	(10)	-	(2,468,019)	(3,277,739)
Transfer to right-of-use assets	-	(456,413)	(362,992)	-	-	-	-	(819,405)
Other transfers	-	970	(963)	(13)	-	-	-	(6)
Closing net book amount	10,340,860	141,437,504	56,730,323	53,175,055	77,617	135,718	337,188	262,234,265
At 31 December 2019								
Cost	10,639,193	213,989,196	121,515,375	55,160,985	78,734	496,173	358,551	402,238,207
Accumulated depreciation and impairment	(298,333)	(72,551,692)	(64,785,052)	(1,985,930)	(1,117)	(360,455)	(21,363)	(140,003,942)
Net book amount	10,340,860	141,437,504	56,730,323	53,175,055	77,617	135,718	337,188	262,234,265

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The management of the Company assesses at each reporting date whether there is an indication that the recoverable amount of property, plant and equipment fell below its book value.

As at 31 December 2019, the Company assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.6 for details. In addition Company has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 240,459 (2018: RSD 80,966).

b) Right of use of assets

	Property	Plant and equipment	Vehicles	Total
As at 1 January 2019	-	-	-	-
Changes in opening balances	540,388	324,713	54,331	919,432
Additions	30	48,222	116,789	165,041
Depreciation	(51,593)	(78,398)	(11,121)	(141,112)
Transfers	-	(19,911)	19,911	-
Effect of contract modifications and changes in estimates	474	-	-	474
As at 31 December 2019	489,299	274,626	179,910	943,835

c) Investment property – carried at fair value

Investment properties are valued at the reporting date at fair value representing the investment property market value.

Movements on the account were as follows:

	2019	2018
As at 1 January	1,730,100	1,530,356
Fair value gains (note 35 and 36)	(8,290)	6,534
Transfer from PP&E carried at cost	-	196,037
Disposals	(37,319)	(1,405)
Other	9,816	(1,422)
As at 31 December	1,694,307	1,730,100

As at 31 December 2019, investment properties amounting to RSD 1,694,307 (31 December 2018: RSD 1,730,100) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

Fair value of investment properties

Valuation of the Company's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2019 and 2018. The revaluation gain was credited to other income (note 35).

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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Fair value measurements at 31 December 2019 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Recurring fair value measurements</i>			
<i>Land and buildings</i>			
- Shops and other facilities for rents	-	958,865	-
- Gas stations	-	-	735,442
Total	-	958,865	735,442

Fair value measurements at 31 December 2018 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Recurring fair value measurements</i>			
<i>Land and buildings</i>			
- Shops and other facilities for rents	-	986,418	-
- Gas stations	-	-	743,682
Total	-	986,418	743,682

Valuation techniques used to derive level 2 fair values

Level 2 fair values of shops, apartments and other properties for rent have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

Fair value measurements using significant unobservable inputs (Level 3)

Level 3 fair values of gas stations have been derived using value-in-use approach where fair value of gas station is determined as the present value of future net benefits which will belong to the Company based on long-term rental contracts. The most significant input into this valuation approach is rental price per gas station.

The key assumptions used for value-in-use calculations:

	2019	2018
Long term growth rate	0%	0%
Discount rate	12%	12%

Reconciliation of changes in fair value measurement, assets categorised within Level 3 of the fair value hierarchy:

	2019	2018
Assets as at 1 January	743,682	658,184
Changes in fair value measurement:		
Loss/Gains recognised in profit or loss, fair value measurement	(8,290)	6,534
Transfer from PPE	-	81,407
Other	50	(2,443)
Total (decrease) increase in fair value measurement, assets	(8,240)	85,498
Assets as at 31 December	735,442	743,682

d) *Oil and gas production assets*

Oil and gas production assets comprise of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.7).

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	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2018						
Cost	14,874,546	2,951,585	17,826,131	135,319,515	22,129	153,167,775
Depreciation and impairment	(4,897)	(2,087)	(6,984)	(32,675,985)	(20,309)	(32,703,278)
Net book amount	14,869,649	2,949,498	17,819,147	102,643,530	1,820	120,464,497
Year ended 31 December 2018						
Additions	4,541,289	13,003,379	17,544,668	117,748	-	17,662,416
Transfer from asset under construction	(4,892,273)	(14,136,238)	(19,028,511)	19,056,693	(15)	28,167
Other transfers	(43,248)	(675,033)	(718,281)	1,791,710	666	1,074,095
Appraisal effects	-	-	-	85,161	-	85,161
Impairment	-	(3,471)	(3,471)	-	-	(3,471)
Depreciation and depletion	-	-	-	(9,566,607)	-	(9,566,607)
Unsuccessful exploration expenditures derecognised (note 7)	(57,075)	-	(57,075)	-	-	(57,075)
Transfer to investment property	-	-	-	(114,709)	-	(114,709)
Disposals and write-off	(17,101)	(36,909)	(54,010)	(142,745)	(50)	(196,805)
	14,401,241	1,101,226	15,502,467	113,870,781	2,421	129,375,669
As at 31 December 2018						
Cost	14,401,241	1,103,654	15,504,895	156,367,336	22,742	171,894,973
Depreciation and impairment	-	(2,428)	(2,428)	(42,496,555)	(20,321)	(42,519,304)
Net book amount	14,401,241	1,101,226	15,502,467	113,870,781	2,421	129,375,669
Year ended 31 December 2019						
Additions	4,496,878	13,559,151	18,056,029	777,397	-	18,833,426
Transfer from asset under construction	(6,747,789)	(11,223,519)	(17,971,308)	17,971,308	-	-
Other transfers	120,288	102,175	222,463	(173,746)	1,620	50,337
Impairment	-	-	-	(17,482)	-	(17,482)
Depreciation and depletion	-	-	-	(10,376,256)	-	(10,376,256)
Unsuccessful exploration expenditures derecognised (note 7)	(377,207)	-	(377,207)	-	-	(377,207)
Disposals and write-off	(151,518)	(491)	(152,009)	(102,629)	(10)	(254,648)
	11,741,893	3,538,542	15,280,435	121,949,373	4,031	137,233,839
As at 31 December 2019						
Cost	11,741,893	3,538,542	15,280,435	174,428,161	24,376	189,732,972
Depreciation and impairment	-	-	-	(52,478,788)	(20,345)	(52,499,133)
Net book amount	11,741,893	3,538,542	15,280,435	121,949,373	4,031	137,233,839

Unsuccessful exploration expenditures derecognised in the amount of RSD 377,207 mainly relate to exploration assets located in Serbia due to uncertain viability of commercial production (2018: amount of RSD 57,075).

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10. INVESTMENTS IN SUBSIDIARY

	31 December 2019	31 December 2018
Investments in subsidiaries:		
- In shares	3,457,576	3,457,576
- In stakes	13,389,990	13,389,990
	<u>16,847,566</u>	<u>16,847,566</u>
Less: Provision	(3,421,980)	(3,421,980)
	<u>13,425,586</u>	<u>13,425,586</u>

Investments in subsidiaries as at 31 December 2019 relate to the following companies:

Company	Share %	Investment	Impairment	Net book value
NIS Petrol a.d., Belgrade, Serbia	100%	3,457,576	(1,172,263)	2,285,313
NIS Petrol e.o.o.d. Sofija, Bulgaria	100%	28,938	-	28,938
NIS Petrol SRL, Bucharest, Romania	100%	997	-	997
NIS Petrol doo, Banja Luka, BiH	100%	1,030	-	1,030
Pannon Naftagas Kft, Budapest, Hungary	100%	2,232,672	(2,232,672)	-
NTC NIS-Naftagas d.o.o. Novi Sad, Serbia	100%	905,000	-	905,000
Naftagas-Tehnicki servisi d.o.o. Zrenjanin, Serbia	100%	1,177,032	-	1,177,032
Naftagas-Naftni servisi d.o.o. Novi Sad, Serbia	100%	7,300,000	-	7,300,000
Naftagas-Transport d.o.o. Novi Sad, Serbia	100%	1,717,349	-	1,717,349
NIS Oversiz, Moscow, Russia	100%	9,856	-	9,856
Jadran-Naftagas d.o.o. Banja Luka, BiH	66%	71	-	71
Svetlost, Bujanovac, Serbia	51%	17,045	(17,045)	-
		<u>16,847,566</u>	<u>(3,421,980)</u>	<u>13,425,586</u>

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying value of the investments in associates and joint ventures as of 31 December 2019 and 2018 is presented below:

		Ownership percentage	31 December 2019	31 December 2018
Gazprom Energoholding Serbia d.o.o. Novi Sad	Joint venture	49%	1,038,800	1,038,800
HIP Petrohemija ad Pančevo	Associate	20.86%	11,572,197	11,572,197
Less: Provision			(11,572,197)	(11,572,197)
			<u>1,038,800</u>	<u>1,038,800</u>

The principal place of business of joint venture disclosed above is Republic of Serbia. There are no contingent liabilities relating to the Company's interest in the joint venture, and no contingent liabilities of the venture itself.

Gazprom Energoholding Serbia d.o.o. Novi Sad

In 2015, the Company and Centrenergoholding OAO Russian Federation established the holding company Serbskaya Generaciya, through which they will 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.

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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 Company increased its equity interest. After conversion, Company holds, directly more than 20,86% per cent of the voting power of the HIP Petrohemija. Also, Company has representatives on the BoD and Supervisory boards.

The summarised financial information for the joint ventures as of 31 December 2019 and 2018 and for the years ended 31 December 2019 and 2018 is presented in the table below:

	Gazprom Energoholding Serbia
31 December 2019	
Current assets	698,256
Non-current assets	12,154,427
Current liabilities	71,219
Non-current liabilities	10,963,037
Revenue	44,430
Loss for the year	<u>(146,948)</u>
31 December 2018	
Current assets	878,074
Non-current assets	7,318,155
Current liabilities	33,102
Non-current liabilities	1,957,752
Revenue	21,205
Loss for the year	<u>(126,332)</u>

12. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES

	31 December 2019	31 December 2018
LT loans - Subsidiaries - Domestic	79,077	96,995
LT loans - Subsidiaries - Foreign	25,426,264	27,225,130
	25,505,341	27,322,125
Less: Impairment	<u>(2,300,154)</u>	<u>(4,043,046)</u>
	<u>23,205,187</u>	<u>23,279,079</u>

Long-term loans to subsidiaries denominated in RSD relate to:

	Currency	31 December 2019	31 December 2018
<i>Domestic</i>			
O Zone a.d., Belgrade, Serbia	EUR	79,077	96,995
		79,077	96,995
<i>Foreign</i>			
NIS Petrol e.o.o.d. Sofija, Bulgaria	EUR	5,806,390	9,450,355
NIS Petrol SRL, Bucharest, Romania	EUR	16,798,944	13,705,024
NIS Petrol d.o.o. Banja Luka, BiH	EUR	2,703,332	3,632,903
Jadran - Naftagas d.o.o. Banja Luka, BiH	EUR	117,598	436,848
		25,426,264	27,225,130
		<u>25,505,341</u>	<u>27,322,125</u>

Long-term loans to subsidiaries are approved at the fixed rate (2,1% p.a.) and the variable interest rates (6M Euribor + 2.9%), for a period of 7 to 10 years from the date of payment of the last tranche. The carrying value of long-term loans is equal to their fair value.

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13. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2019	31 December 2018
Other LT investments	9,176	9,099
LT loans given to employees	1,153,957	1,240,438
Less: Impairment	(354,684)	(371,876)
	808,449	877,661

Loans to employees as at 31 December 2019 amounting to RSD 1,153,957 (31 December 2018: RSD 1,240,438) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes, and are repaid through monthly instalments. These loans are impaired in amount of RSD 354,625.

14. DEFERRED TAX ASSETS AND LIABILITIES

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	31 December 2019	31 December 2018
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	2,783,455	3,527,324
- Deferred tax assets to be recovered within 12 months	-	1,016,432
	2,783,455	4,543,756
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(1,821,259)	(2,138,581)
	(1,821,259)	(2,138,581)
Deferred tax assets (net)	962,196	2,405,175

The gross movement on the deferred income tax account is as follows:

	2019	2018
At 1 January	2,405,175	2,487,491
Charged to the income statement (note 37)	(1,442,979)	(1,653,438)
Charged to other comprehensive income	-	1,571,122
31 December	962,196	2,405,175

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	Carrying value of PP&E vs Tax base	Revaluation reserve	Total
<i>Deferred tax liabilities</i>			
As at 1 January 2018	(2,464,046)	(14,434)	(2,478,480)
Charged to the income statement (note 37)	352,313	-	352,313
Charged to other comprehensive income	-	(12,414)	(12,414)
As at 31 December 2018	(2,111,733)	(26,848)	(2,138,581)
Charged to the income statement (note 37)	317,322	-	317,322
As at 31 December 2019	(1,794,411)	(26,848)	(1,821,259)

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	Provisions	Impairment loss	Investment credit	Fair value loss	Total
<i>Deferred tax assets</i>					
As at 1 January 2018	1,019,695	949,128	2,985,851	11,297	4,965,971
Temporary deductible differences on ECL remeasurement	-	1,584,231	-	-	1,584,231
Restated balance at 1 January 2018	1,019,695	2,533,359	2,985,851	11,297	6,550,202
Charged to the income statement (note 37)	(98,219)	(18,142)	(1,889,390)	-	(2,005,751)
Charged to other comprehensive income	-	-	-	(695)	(695)
As at 31 December 2018	921,476	2,515,217	1,096,461	10,602	4,543,756
Charged to the income statement (note 37)	(6,637)	(657,203)	(1,096,461)	-	(1,760,301)
As at 31 December 2019	914,839	1,858,014	-	10,602	2,783,455

The recognition of deferred tax assets was based on a five-year business plan of the Company and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

Investment credits represent 20% qualifying of capital investments made up to 31 December 2013 in accordance with tax legislation of the Republic of Serbia, which can be utilized in 10 years period.

15. INVENTORY

	31 December 2019	31 December 2018
Materials, spare parts and tools	32,249,441	28,080,706
Work in progress	4,859,254	4,923,492
Finished goods	9,636,535	13,042,863
Goods for sale	2,017,721	3,227,243
Advances	461,016	716,163
<i>Less: impairment of inventory</i>	(4,670,632)	(4,830,527)
<i>Less: impairment of advances</i>	(149,250)	(217,327)
	44,404,085	44,942,613
Non-current assets held for sale	135,670	15,094
<i>Less: impairment of assets held for sale</i>	(43,769)	(5,823)
	44,495,986	44,951,884

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of Advances	Impairment of Assets held for sale	Total
Balance as of 1 January 2018	4,947,683	259,237	5,823	5,212,743
Provision for inventories and advances (note 36)	10,274	1,962	-	12,236
Unused amounts reversed (note 35)	(1,170)	(1,687)	-	(2,857)
Other	(126,260)	(42,185)	-	(168,445)
Balance as of 31 December 2018	4,830,527	217,327	5,823	5,053,677
Provision for inventories and advances (note 36)	287	543	-	830
Unused amounts reversed (note 35)	(117,575)	(51)	-	(117,626)
Write-off and other	(42,607)	(68,569)	37,946	(73,230)
Balance as of 31 December 2019	4,670,632	149,250	43,769	4,863,651

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16. TRADE RECEIVABLES

	31 December 2019	31 December 2018
Parents and subsidiaries - domestic	382,280	362,245
Parents and subsidiaries - foreign	4,092,863	2,652,897
Other related parties - domestic	1,215,292	1,257,685
Other related parties - foreign	96,193	629,519
Trade receivables domestic – third parties	27,383,247	27,828,605
Trade receivables foreign – third parties	974,399	812,717
	34,144,274	33,543,668
<i>Less: Impairment</i>	<i>(5,772,211)</i>	<i>(6,041,909)</i>
	28,372,063	27,501,759

17. OTHER RECEIVABLES

	31 December 2019	31 December 2018
Interest receivables	3,547,652	3,708,417
Receivables from employees	78,384	82,747
Income tax prepayment	647,660	-
Other receivables	7,509,500	7,461,763
<i>Less: Impairment</i>	<i>(9,849,169)</i>	<i>(9,962,427)</i>
	1,934,027	1,290,500

18. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2019	31 December 2018
ST loans and placements - Parent and subsidiaries	48,185	-
ST loans and placements - Domestic	2,019	25,658
Current portion of LT placements - Parent and subsidiaries	12,656,088	9,091,634
Other ST financial placements	76,955	2,199,487
<i>Less: Impairment</i>	<i>(7,349,525)</i>	<i>(5,688,179)</i>
	5,433,722	5,628,600

19. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash in bank and in hand	9,730,067	5,621,606
Deposits with original maturity of less than three months	3,493,536	6,367,102
Cash with restriction	13,716	17,363
Cash equivalents	264,508	216,507
	13,501,827	12,222,578

20. PREPAYMENTS AND ACCRUED INCOME

	31 December 2019	31 December 2018
Deferred input VAT	1,713,617	1,567,844
Prepaid expenses	222,038	185,804
Accrued revenue	37,062	314,496
Prepaid excise duty	1,701,028	2,743,082
Housing loans and other prepayments	328,297	351,369
	4,002,042	5,162,595

Deferred input VAT as at 31 December 2019 amounting to RSD 1,713,617 (31 December 2018: RSD 1,567,844) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

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Prepaid excise duty as at 31 December 2019 amounting to RSD 1,701,028 (31 December 2018: RSD 2,743,082) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

21. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2019	31 December 2018
Issued warranties and bills of exchange	74,704,889	74,654,952
Received warranties and bills of exchange	15,078,163	13,845,865
Properties in ex-Republics of Yugoslavia	5,357,689	5,357,688
Receivables from companies from ex-Yugoslavia	6,441,861	6,347,969
Third party merchandise in NIS warehouses	9,749,090	9,504,956
Assets for oil fields liquidation in Angola	1,361,966	1,361,966
Mortgages and pledges received	1,398,288	1,745,073
Other off-balance sheet assets and liabilities	206,578	193,840
	114,298,524	113,012,309

22. SHARE CAPITAL

Share capital represents share capital of the Company, which is listed on Belgrade Stock Exchange. Par value per share is RSD 500.

Share capital as of 31 December 2019 and 31 December 2018 comprise of 163,060,400 ordinary shares.

Dividend declared for the year ended 31 December 2018, amounted to 6,517,524 RSD or 39.97 RSD per share (31 December 2017: 6,948,004 RSD or 42.61 RSD per share) were approved on the General Assembly Meeting held on 27 June 2019 and paid on 17 September 2019.

23. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommissioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2018	9,844,121	681,920	360,718	1,026,864	584,834	12,498,457
Charged to the income statement	213,094	100,000	27,619	331,180	36,177	708,070
New obligation incurred and change in estimates	117,748	-	-	-	-	117,748
Release of provision (note 35)	-	(24,528)	-	-	-	(24,528)
Actuarial gain charged to other comprehensive income	-	-	(4,531)	-	-	(4,531)
Settlement	(133,445)	(119,978)	(48,871)	(864,023)	(121,378)	(1,287,695)
As at 31 December 2018	10,041,518	637,414	334,935	494,021	499,633	12,007,521
As at 1 January 2019	10,041,518	637,414	334,935	494,021	499,633	12,007,521
Charged to the income statement	147,500	197,704	80,118	294,414	32,514	752,250
New obligation incurred and change in estimates	777,397	-	-	-	-	777,397
Actuarial loss charged to other comprehensive income	-	-	29,837	-	-	29,837
Settlement and other	(294,701)	(346,260)	(47,957)	-	(53,931)	(742,849)
As at 31 December 2019	10,671,714	488,858	396,933	788,435	478,216	12,824,156

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Analysis of total provisions:

	31 December 2019	31 December 2018
Non-current	11,251,613	10,079,405
Current	1,572,543	1,928,116
	12,824,156	12,007,521

(a) *Decommissioning*

The Company's Management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells based on previous experience in similar projects.

(b) *Environmental protection*

The Company has to comply with environmental protection regulations. At the reporting date Company recorded provision for environmental protection of RSD 488,858 (31 December 2018: RSD 637,414) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) *Long-term incentive program*

In 2011, the Company started setting-up a long-term incentive program for Company managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2019 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in amount of RSD 788,435 (2018: RSD 494,021).

(d) *Legal claims provisions*

As at 31 December 2019, the Company assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Company charged provision for litigation amounting to RSD 32,514 (charged provision in 2018: RSD 36,177) for proceedings which were assessed to have negative outcome. The Company estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2019.

(e) *Provision for employee benefits*

Employee benefits:

	31 December 2019	31 December 2018
Retirement allowances	123,679	96,176
Jubilee awards	273,254	238,759
	396,933	334,935

The principal actuarial assumptions used were as follows:

	31 December 2019	31 December 2018
Discount rate	4.4%	5.7%
Future salary increases	2.0%	2.0%
Future average years of service	15	15.2

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	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2018	95,668	265,050	360,718
Benefits paid directly	(10,138)	(38,733)	(48,871)
Actuarial gain charged to other comprehensive income	(4,531)	-	(4,531)
Debited to the income statement	15,177	12,442	27,619
Balances as at 31 December 2018	96,176	238,759	334,935
Benefits paid directly	(14,304)	(33,653)	(47,957)
Actuarial loss charged to other comprehensive income	29,837	-	29,837
Debited to the income statement	11,970	68,148	80,118
Balances as at 31 December 2019	123,679	273,254	396,933

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December	
	2019	2018
Current service cost	24,673	26,200
Interest cost	18,678	16,247
Curtailment loss	840	4,901
Actuarial (gain)/loss (jubilee awards)	35,927	(19,729)
	80,118	27,619

24. LONG-TERM LIABILITIES

	31 December 2019	31 December 2018
Long-term loan - Gazprom Neft	19,143,014	24,738,405
Bank loans	69,207,492	67,908,442
Lease liabilities	811,424	644,611
Less Current portion (note 25)	(5,925,868)	(5,923,590)
	83,236,062	87,367,868

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

	Long-term loans	Short-term loans (note 25)	Lease	Total
As at 1 January 2018	95,404,543	2,298,488	247,210	97,950,241
Proceeds	37,213,097	13,158,984	-	50,372,081
Repayment	(39,952,348)	(13,239,092)	(82,516)	(53,273,956)
Non-cash transactions	-	-	478,315	478,315
Foreign exchange difference	(18,445)	(2)	1,602	(16,845)
As at 31 December 2018	92,646,847	2,218,378	644,611	95,509,836
As at 1 January 2019	92,646,847	2,218,378	644,611	95,509,836
Change in opening balance	-	-	100,027	100,027
Proceeds	15,060,454	12,564,054	-	27,624,508
Repayment	(18,760,584)	(13,188,360)	(127,024)	(32,075,968)
Non-cash transactions	-	-	192,294	192,294
Foreign exchange difference	(596,211)	-	1,516	(594,695)
As at 31 December 2019	88,350,506	1,594,072	811,424	90,756,002

a) *Long-term loan - Gazprom Neft*

As at 31 December 2019 long-term loan - Gazprom Neft amounting to RSD 19,143,014 (31 December 2018: RSD 24,738,405), with current portion of RSD 5,469,432 (31 December 2018: RSD 5,497,424), 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.

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b) Bank loans

	31 December 2019	31 December 2018
Domestic	46,832,414	50,621,113
Foreign	22,375,078	17,287,329
	69,207,492	67,908,442
Current portion of long-term loans (note 25)	(297,104)	(355,101)
	68,910,388	67,553,341

The maturity of non-current loans was as follows:

	31 December 2019	31 December 2018
Between 1 and 2 years	10,845,263	1,403,463
Between 2 and 5 years	54,737,906	61,219,659
Over 5 years	3,327,219	4,930,219
	68,910,388	67,553,341

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

	31 December 2019	31 December 2018
USD	209,292	361,696
EUR	68,732,685	67,250,132
RSD	498	649
JPY	265,017	295,965
	69,207,492	67,908,442

The Company repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Company has floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor.

Management expects that the Company will be able to fulfil its obligations within agreed timeframe.

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

c) Lease liabilities

Amounts recognized in profit and loss:

	2019
Interest expense (included in finance cost) (note 33)	20,604
Expense relating to short-term leases (note 30)	289,710
Expense relating to leases of low value assets that are not shown above as short-term leases (note 30)	87,343
Expense relating to variable lease payments not included in lease liabilities (note 30)	1,348,818

25. SHORT-TERM FINANCE LIABILITIES

	31 December 2019	31 December 2018
Short-term loans from subsidiaries (note 24)	1,594,072	2,218,378
Current portion of long-term loans (note 24)	5,925,868	5,923,590
	7,519,940	8,141,968

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26. TRADE PAYABLES

As at 31 December 2019 payables in a amount of RSD 36,720,956 (31 December 2018: RSD 25,887,149) include payables to parents and subsidiaries in amount of RSD 14,986,710 (31 December 2018: RSD 13,318,121), mainly relate to payables to the supplier Gazprom Neft, St Petersburg in amount of RSD 10,498,354 (31 December 2018: RSD 10,243,742), for the purchase of crude oil.

27. OTHER SHORT-TERM LIABILITIES

	31 December 2019	31 December 2018
Specific liabilities	175,275	167,528
Liabilities for unpaid wages and salaries, gross	928,258	938,147
Interest liabilities	588,170	600,609
Dividends payable	3,780,692	3,772,308
Other payables to employees	518,686	603,737
Decommissioning and site restoration costs	1,170,430	1,369,683
Environmental provision	128,099	160,362
Litigation and claims	224,407	270,593
Other current liabilities	75,091	116,491
	7,589,108	7,999,458

28. LIABILITIES FOR OTHER TAXES

	31 December 2019	31 December 2018
Excise tax	5,301,814	4,680,755
Contribution for buffer stocks	280,070	260,905
Energy efficiency fee	32,299	-
Income tax	-	539,811
Other taxes payables	1,365,390	1,506,492
	6,979,573	6,987,963

29. ACCRUED EXPENSES

Accrued expenses as at 31 December 2019 amounting to RSD 3,070,554 (31 December 2018: RSD 3,237,852) mainly relate to accrued employee bonuses of RSD 1,827,611 (31 December 2018: RSD 1,715,646), and contract liabilities arising from contracts with customers related to customer loyalty programme in amount RSD 635,355 (31 December 2018: RSD 502,254).

Revenue in the amount of RSD 1,532,389 (31 December 2018: RSD 1,632,949) was recognized in the current reporting period related to the contract liabilities as at 1 January 2019, of which RSD 1,170,838 (31 December 2018: RSD 1,250,040) related to advances and RSD 361,552 (31 December 2018: RSD 382,909) to customer loyalty programme.

30. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2019	2018
Cost of production services	2,495,924	2,352,003
Transportation services	3,225,168	3,626,498
Maintenance	4,814,010	4,607,624
Rental costs	1,725,871	1,324,118
Fairs	10,091	7,410
Advertising costs	887,139	761,250
Exploration expenses	436,927	241,054
Cost of other services	1,513,604	1,403,397
	15,108,734	14,323,354

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31. NON-PRODUCTION COSTS

	Year ended 31 December	
	2019	2018
Costs of non-production services	6,983,488	6,857,109
Representation costs	152,954	134,409
Insurance premium	510,600	507,102
Bank charges	333,400	353,921
Cost of taxes	1,133,800	1,176,233
Mineral extraction tax	1,402,477	1,460,595
Other non-production expenses	1,016,172	1,022,953
	11,532,891	11,512,322

Cost of non-production services for the year ended 31 December 2019 amounting to RSD 6,983,488(2018: RSD 6,857,109) mainly relate to costs of service organizations of RSD 4,467,605 project management costs of RSD 1,166,221 and consulting service costs of RSD 325,438.

32. FINANCE INCOME

	Year ended 31 December	
	2019	2018
Finance income - related parties		
- foreign exchange differences	1,085,351	1,170,587
- other finance income	677,127	878,771
Interest income	328,287	720,366
Modification gain	149,827	-
Income from discounting of receivables (note 6)	-	44,661
Foreign exchange gains	831,114	1,736,178
Other finance income	11,586	27,826
	3,083,292	4,578,389

33. FINANCE EXPENSE

	Year ended 31 December	
	2019	2018
Finance expenses – related parties		
- foreign exchange differences	1,076,794	1,147,319
- modification loss	99,107	-
- other finance expense	439,718	540,083
Interest expenses	1,279,841	1,589,753
Decommissioning provision: unwinding of the present value discount	147,500	89,194
Amortization of non-current financial instruments	19,261	261,732
Foreign exchange losses	443,930	1,791,685
Other finance expense	21,307	7,413
	3,527,458	5,427,179

34. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 December	
	2019	2018
Reversal of impairment of LT financial investments	16,522	99,280
Income from valuation:		
- trade and specific receivables (note 6)	84,318	846,522
- short-term investments	178,376	-
- other receivables (note 6)	14,002	70,757
	293,218	1,016,559

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35. OTHER INCOME

	Year ended 31 December	
	2019	2018
Gains on disposal – PPE	21,681	191,769
Gains on disposal – materials	43,845	59,353
Surpluses from stock count	282,887	306,215
Payables written off	77,508	168,056
Release of long-term provisions (note 23)	-	24,528
Gain on bargain purchase	-	11,937
<i>Release of impairment:</i>		
- Investment property	-	20,677
- Inventory (note 15)	117,575	1,170
- PPE and other property	454,425	12,450
Penalty interest	49,490	87,049
Other income	93,647	86,766
	1,141,058	969,970

36. OTHER EXPENSES

	Year ended 31 December	
	2019	2018
Loss on disposal - PPE	305,520	251,614
Shortages from stock count	552,845	681,573
Write-off receivables	6,694	13,616
Write-off inventories	41,221	91,284
<i>Impairment:</i>		
- PPE (note 9)	240,459	80,966
- Investment property and asset held for sale	8,290	2,728
- Inventory (note 15)	287	10,274
- Other property	543	9,000
Other expenses	296,265	285,464
	1,452,124	1,426,519

37. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2019	2018
Income tax for the year	2,870,963	3,922,034
Deferred income tax for the period		
Origination and reversal of temporary differences (note 14)	1,442,979	1,653,438
	4,313,942	5,575,472

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Company's profits as follows:

	Year ended 31 December	
	2019	2018
Profit before tax	22,014,007	31,642,961
Tax calculated at domestic tax rates – 15%	3,302,101	4,746,444
<i>Tax effect on:</i>		
Revenues exempt from taxation	(222)	(57,707)
Expenses not deductible for tax purposes		
- Tax paid in Angola	74,711	171,416
- Other expenses not deductible	1,306,972	754,538
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	(40,924)	15,245
Other tax effects for reconciliation between accounting profit and tax expense	(328,696)	(54,464)
	4,313,942	5,575,472
Effective income tax rate	19.60%	17.62%

(All amounts are in RSD 000 unless otherwise stated)

The weighted average applicable tax rate was 19.60% (2018: 17.62%). The increase is caused by a change in the profitability of the Company.

38. COMMITMENTS AND CONTINGENT LIABILITIES

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 RSD 488,858 (31 December 2018: RSD 637,414).

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

Taxes

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

Capital commitments

As of 31 December 2019 the Company has entered into contracts to purchase property, plant and equipment for RSD 2,818,801 (31 December 2018: RSD 15,944,407).

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

39. RELATED PARTIES TRANSACTIONS

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The total of 29.87% shares of the Company are owned by the Republic of Serbia, while 13.98% are owned by non-controlling shareholders and are quoted on the Belgrade Stock Exchange. Gazprom, Russian Federation is the ultimate owner of the Company.

During 2019 and 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 and petroleum products.

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

	Subsidiary	Parent	Entities under comon control and associates	Total
As at 31 December 2019				
Advances for PPE	52,049	-	-	52,049
Investments in subsidiaries	13,425,586	-	1,038,800	14,464,386
Long-term loans	23,205,187	-	-	23,205,187
Advances for inventory and services	15,998	-	34,371	50,369
Trade receivables	4,471,633	-	1,280,662	5,752,295
Receivables from specific operations	71,121	-	44	71,165
Other receivables	1,089,170	-	-	1,089,170
Short-term investments	5,356,767	-	-	5,356,767
Long-term liabilities	(48,010)	(13,673,582)	(128)	(13,721,720)
Short-term financial liabilities	(1,599,147)	(5,469,432)	(159)	(7,068,738)
Advances received	(3,148)	-	(3,080)	(6,228)
Trade payables	(4,488,356)	(10,498,354)	(1,711,826)	(16,698,536)
Other short-term liabilities	(2,283)	-	-	(2,283)
	41,546,567	(29,641,368)	638,684	12,543,883

	Subsidiary	Parent	Entities under comon control and associates	Total
As at 31 December 2018				
Advances for PPE	3,582	-	-	3,582
Investments in subsidiaries	13,425,586	-	1,038,800	14,464,386
Long-term loans	23,279,079	-	-	23,279,079
Advances for inventory and services	2,158	-	337,220	339,378
Trade receivables	3,011,511	99	1,856,381	4,867,991
Receivables from specific operations	62,109	-	-	62,109
Other receivables	1,134,183	-	-	1,134,183
Short-term investments	3,405,474	-	-	3,405,474
Long-term liabilities	-	(19,240,982)	-	(19,240,982)
Short-term financial liabilities	(2,218,378)	(5,497,423)	-	(7,715,801)
Advances received	(2,295)	-	(1,942)	(4,237)
Trade payables	(3,074,379)	(10,243,742)	(1,911,584)	(15,229,705)
Other short-term liabilities	(4,363)	-	-	(4,363)
	39,024,267	(34,982,048)	1,318,875	5,361,094

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For the year ended 31 December 2019 and 2018 the following transaction occurred with related parties:

	Subsidiary	Parent	Entities under comon control and associates	Total
Year ended 31 December 2019				
Sales revenue	19,639,670	-	19,645,153	39,284,823
Other operating income	45,790	-	144	45,934
Cost of goods sold	(311,040)	-	(384,815)	(695,855)
Cost of material	(302,423)	(51,345,851)	(333,140)	(51,981,414)
Fuel and energy expenses	(313)	-	-	(313)
Employee benefits expenses	(114,348)	-	-	(114,348)
Production services	(4,601,967)	-	(200,399)	(4,802,366)
Depreciation	(9,143)	-	-	(9,143)
Non-material expense	(905,958)	-	(35,435)	(941,393)
Finance income	677,127	-	-	677,127
Finance expense	(144,935)	(393,887)	(3)	(538,825)
Income from valuation of assets at fair value through profit and loss	178,375	-	-	178,375
Loss from valuation of assets at fair value through profit and loss	(99,891)	-	-	(99,891)
Other income	435	40,230	-	40,665
Other expenses	(2,423)	(111,235)	(593)	(114,251)
	14,048,956	(51,810,743)	18,690,912	(19,070,875)

	Subsidiary	Parent	Entities under comon control and associates	Total
Year ended 31 December 2018				
Sales revenue	17,247,107	960	27,374,364	44,622,431
Other operating income	36,793	-	348	37,141
Cost of goods sold	(196,218)	-	(333,240)	(529,458)
Cost of material	(15,797)	(68,928,066)	-	(68,943,863)
Fuel and energy expenses	(1,972)	-	-	(1,972)
Employee benefits expenses	(104,450)	-	-	(104,450)
Production services	(3,883,424)	-	(213,106)	(4,096,530)
Non-material expense	(946,979)	(3,000)	(31,034)	(981,013)
Finance income	878,771	-	-	878,771
Finance expense	(43,309)	(496,774)	-	(540,083)
Income from valuation of assets at fair value through profit and loss	151,234	-	-	151,234
Loss from valuation of assets at fair value through profit and loss	(39,379)	-	-	(39,379)
Other income	-	59,847	-	59,847
Other expenses	-	(198,412)	(1,291)	(199,703)
	13,082,377	(69,565,445)	26,796,041	(29,687,027)

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Main balances and transactions with state and mayor state owned companies:

	Entities under comon control and associates	Other
As at 31 December 2019		
Trade and other receivables (gross)		
• <i>HIP Petrohemija</i>	1,183,648	-
• <i>Srbijagas</i>	-	418,784
• <i>Other state owned companies</i>	-	371,395
Trade and other payables		
• <i>HIP Petrohemija</i>	(1,208,375)	-
• <i>Srbijagas</i>	-	(361,934)
Other current liabilities		
• <i>HIP Petrohemija</i>	(3,064)	-
	(27,791)	428,245
As at 31 December 2018		
Trade and other receivables (gross)		
• <i>HIP Petrohemija</i>	1,222,764	-
• <i>Srbijagas</i>	-	17,547
Trade and other payables		
• <i>HIP Petrohemija</i>	(1,250,402)	-
• <i>Srbijagas</i>	-	(126,092)
Other current liabilities		
• <i>HIP Petrohemija</i>	(1,852)	-
	(29,490)	(108,545)
	Entities under comon control and associates	Other
As at 31 December 2019		
Operating income		
• <i>HIP Petrohemija</i>	19,070,224	-
• <i>Srbijagas</i>	-	1,419,220
• <i>AIR Serbia</i>	-	5,124,131
Operating expenses		
• <i>HIP Petrohemija</i>	(198,691)	-
• <i>Srbijagas</i>	-	(912,530)
	18,871,533	5,630,821
As at 31 December 2018		
Operating income		
• <i>HIP Petrohemija</i>	26,679,415	-
• <i>Srbijagas</i>	-	755,157
Operating expenses		
• <i>HIP Petrohemija</i>	(213,106)	-
• <i>Srbijagas</i>	-	(963,917)
	26,466,309	(208,760)

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

Transactions with Key Management Personnel

In the year ended 31 December 2019 and 2018 the Company recognized RSD 943,715 and RSD 1,018,152 respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

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NIS a.d. – Naftna industrija Srbije, Novi Sad
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