NIS FUTURE AT WORK

Annual Report 2019

ANNUAL REPORT 2019

NIS
GAZPROM NEFT
FUTURE AT WORK

Contents

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

The Annual Report provides a concise and integrated overview of the financial and non-financial achievements of NIS Group in 2019 and shows how the Group's strategic goals, corporate governance, achieved results and realised potential, in conjunction with the external environment, lead to generating the value in the short, medium and long term.

The Annual Report is compiled in Serbian, English and Russian language. In case of any discrepancy, the Serbian version shall prevail.

The Annual Report for 2019 is also available online on the corporate website. For any additional information on NIS Group, you may visit the corporate website www.nis.eu.

The Annual Report contains information explained in more detail in other sections of this Report, other reports or on the corporate web pages. There is also a glossary at the end of the Report with explanations of the abbreviations and acronyms used.

Referral to another part of this Report or to other reports of NIS Group.

Referral to the corporate website www.nis.eu/en/

NIS Group in 2019

Realized EBITDA of RSD

44.5

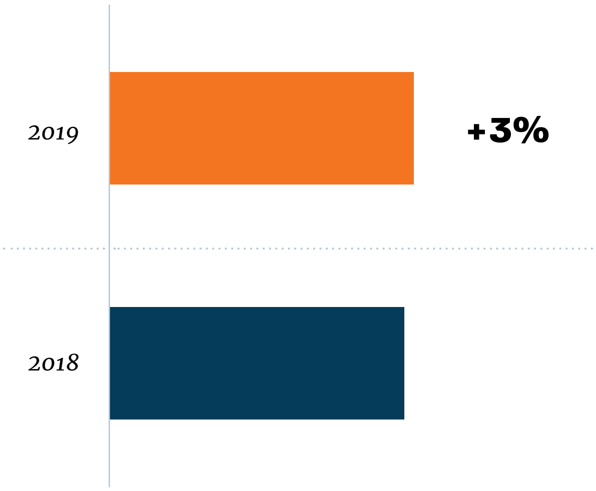
billion

Net profit realized in 2019 is RSD

16.6

billion

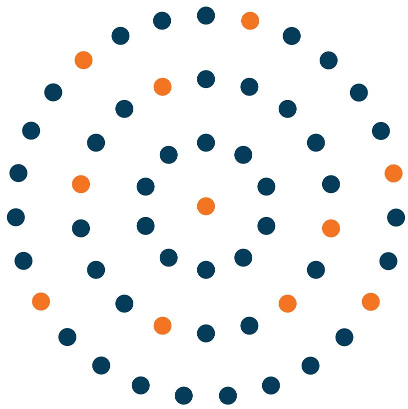
Investment growth in 2019



42.2

billion RSD invested in 2019

Wells drilled in Serbia in 2019



45

development wells

11

exploration wells

A total of

1,286

thousand t.o.e. of oil and gas were produced

A total of

3,373

thousand tonnes of crude oil and semi-finished products were processed

In 2019 sales volume of

3,702

thousand tonnes

Retail network development – we completed reconstruction of 5 petrol stations

Awards, Recognitions and Anniversaries

Gazprom neft celebrated the 10th anniversary of its operation in Serbia in the House of the Army in Belgrade. In addition to NIS management, representatives of the Serbian Government and numerous other public figures attended the celebration.

NIS won the prestigious Grand Prix of the 54th International Auto Show in Belgrade.

NIS' NISOTEC brand won the grand champion cup and 11 gold medals at the International Agricultural Fair in Novi Sad.

NIS received a national award in the field of occupational health and safety – the 28th April Recognition Award presented by the Ministry of Labour, Employment, Veteran and Social Affairs.

This year as well NIS received the Golden Plaque for best Investor Relations from the Belgrade Stock Exchange.

NIS was once again named one of the leading domestic corporate brands in the category of Manufactured Goods and Services, within the 2019 Best of Serbia campaign, organised by the Serbian Chamber of Commerce in cooperation with the Ministry of Trade, Tourism, and Telecommunications of the Republic of Serbia.

NIS won the National Volunteering Award in the *Achievement of the Year* category, which is traditionally awarded by the Responsible Business Forum and Smart Collective.

Decades of Successfull Partnership

The decade-long strategic partnership of the Republic of Serbia and the “Gazprom Neft” Company transformed the NIS Company into a leading energy system in this part of Europe. We have introduced novel technologies; we use modern equipment, implement innovative solutions.

Since 2009, more than

3 billion

euros have been invested in the development of the NIS Company.

We pursue our

“Future at Work”.


МЛСП «ПРИРАЗЛОМНАЯ»

10 years of Gazprom Neft in Serbia

In 2019, we marked the 10th anniversary since Gazprom Neft became the majority shareholder in NIS and thoroughly modernized the company in collaboration with the Republic of Serbia.

In the last decade, over EUR 3 billion has been invested in NIS' expansion. In this challenging period, through the joint efforts of its top managers, NIS was transformed into one of the largest energy systems in Southeastern Europe which can serve as a successful model for operating efficiency and sustainable development dynamics. The collaboration between its shareholders and dedication to success are the foundations of the further development of NIS and the community in which it operates. Today, NIS is a business system of considerable importance for the Republic of Serbia – it is one of the most profitable companies, one of the largest domestic investors and exporters as well as one of the most desirable employers whose aim is to prevent emigration of skilled labour force, and to encourage Serbian nationals – experts who work abroad – to return to Serbia.

Since 2009, NIS has improved its financial and operating indicators many times over. In this period, we have significantly increased our oil and gas output, and recorded a steady growth of hydrocarbon reserves. Besides Serbia and Angola, NIS also carries out exploration and production operations in the region – in Romania and Bosnia and Herzegovina. We have implemented cutting-edge technologies and improved our environmental protection systems.

Owing to its continuous modernisation, the Oil Refinery in Pančevo is now one of the most modern refining facilities in the region. Over EUR 500 million was invested in the first modernization phase alone, and the key project was the construction of an MHC/DHT unit. The Pančevo Refinery is currently undergoing the second phase of modernization which will end with the construction of a delayed coking unit with the bottom-

of-the-barrel technology. After the commissioning of the new EUR 300-million unit, the Pančevo Refinery will produce larger quantities of highest quality oil products. It will also start the domestic production of petroleum coke, which will enable NIS to contribute to the security of energy supply in Serbia. It is worth noting that the modernization of the units in Pančevo has also brought numerous environmental benefits – the Refinery became the first energy facility in our country with the IPPC permit, which confirms that the production is in full compliance with the most stringent standards in the field of environmental protection.

NIS operates a network of 400 petrol stations in Serbia and three other countries in the region (Bosnia and Herzegovina, Bulgaria and Romania), while over 20% of the network is located outside the home country. NIS is a dominant player on the Serbian market of petroleum products, and we plan to expand further in the region. The results of the modernization of our retail network are visible to all – NIS' petrol stations are the most modern petrol stations both in Serbia and the region. Additionally, their offer now includes electric vehicle (EV) charging points.

In the last decade, we have diversified our business operations – NIS has started producing electricity and gas on its oil and gas fields. In addition to the Serbian market, NIS trades in electricity in the markets in Bosnia and Herzegovina, Romania, Slovenia and Hungary and also trades at the border with North Macedonia. We have commenced the production, wholesale and retail sale of compressed natural gas (CNG), which is considered the fuel of the future owing to its environmental and financial benefits. The construction of new power plants will be one of NIS' priorities in the future period – at the moment, the construction of a combined cycle power plant (TE-TO Pančevo) is underway, which is a project NIS carries out in collaboration with Gazprom Energoholding.

From 2009 over EUR
3
billion has been invested in NIS' development

Bottom of the barrel – investment worthwile EUR
300
million

NIS operates a network of
400
petrol stations

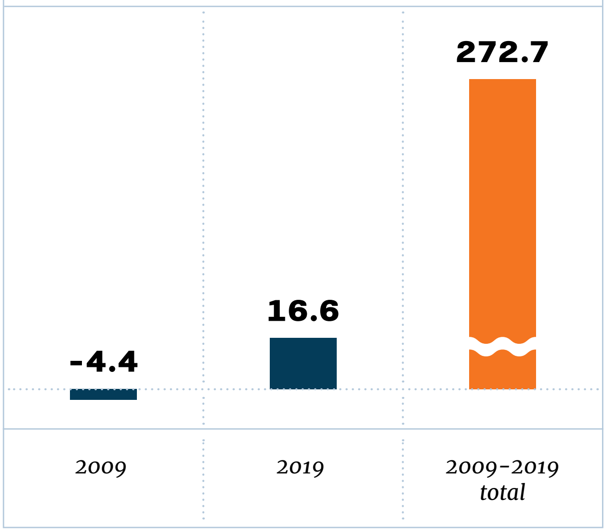
NIS' investments in social responsibility projects have exceeded EUR
30
million, while Gazprom Neft has invested over EUR 45 million

It is worth noting that NIS' future development is based on its corporate Development Strategy 2025, adopted and approved by the major shareholders. In accordance with this document, NIS has launched a large new investment cycle, during which approximately EUR 2 billion will be invested in the further expansion of the NIS Group between 2017 and 2025.

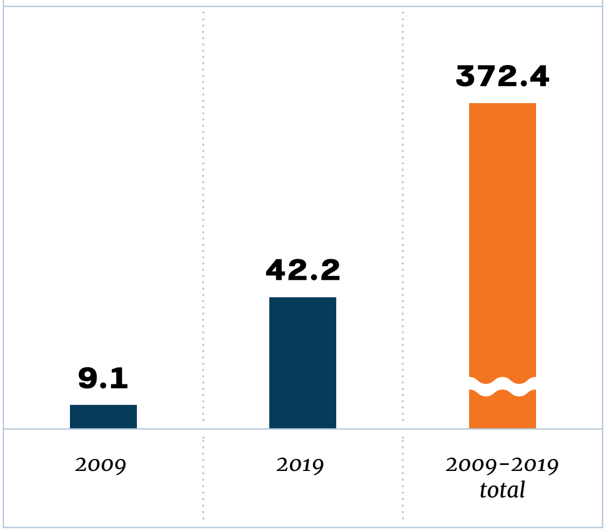
In addition to its business successes, NIS has greatly contributed to the improvement of the business culture in our country in the last decade. Since 2013, when we began to pay out dividends, our shareholders have been receiving 25% of the last year's net profits of the Company. Moreover, owing to its transparent business practices and good communication with investors, NIS has won several Gold Plaques of the Belgrade Stock Exchange for best investor relations.

As socially responsible companies, NIS and Gazprom Neft have substantially contributed to the development of the social community in Serbia since 2009. In this period, NIS' investments in social responsibility projects have exceeded EUR 30 million, while Gazprom Neft has invested over EUR 45 million. The key social responsibility projects of Gazprom Neft in this period include the sponsorship of the Red Star Football Club, Kustendorf Classic Festival of Russian Music, mosaic decoration of the Church of Saint Sava and the reconstruction of the Russian Necropolis at the New Cemetery in Belgrade.

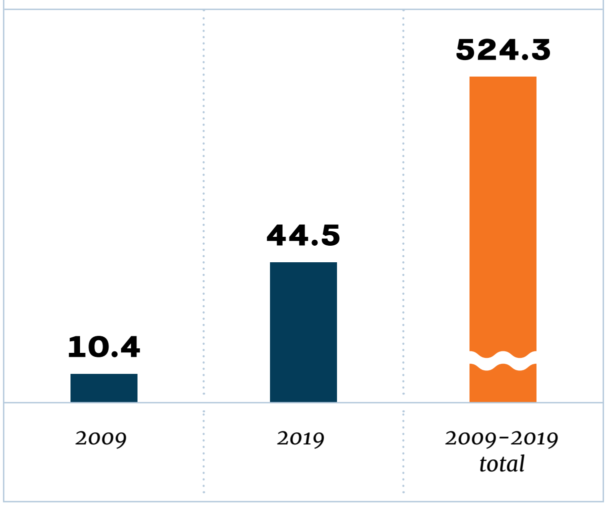
Net profit, bln RSD



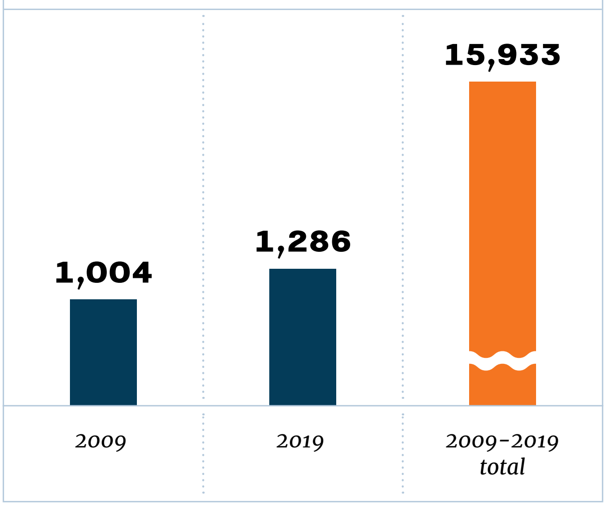
CAPEX, bln RSD



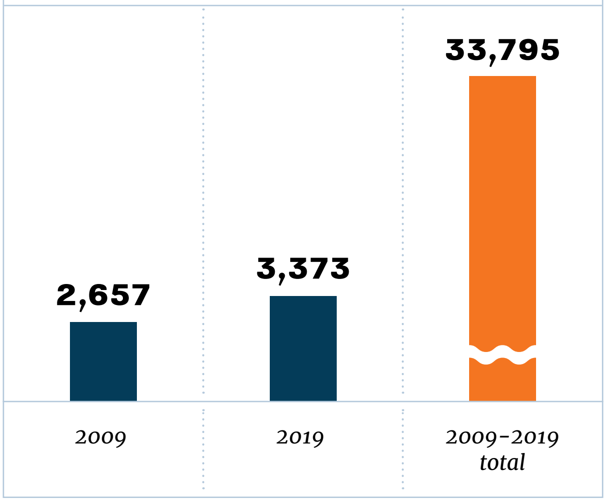
EBITDA, bln RSD



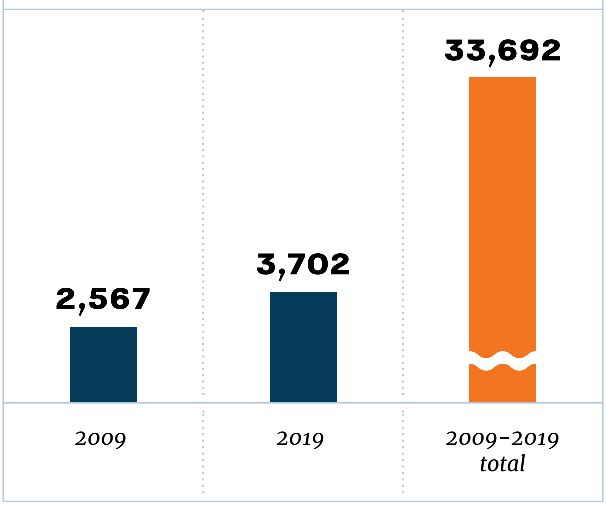
Oil and gas output, t.o.e.



Volume of refining of crude oil and semi-finished products, thousand tonnes



Volume sales, thousand tonnes



Since 2009, NIS has improved its financial and operating indicators many times over.

Key Projects

Between 2009 and 2019, more than €

3 billion

was invested in the development of NIS.

The NIS development strategy plans to invest around

2 billion

euros in 2017-2025.

Since the start of dividend payment in 2013, more than RSD

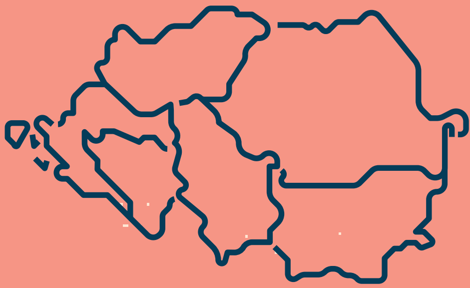
54.6 billion

has been paid to shareholders.

From 2009 to 2019, NIS paid almost €

12 billion

into the budget of the Republic of Serbia for taxes and other public revenues.



Since the time, when Gasprom Neft became the majority shareholder, NIS has made a leap

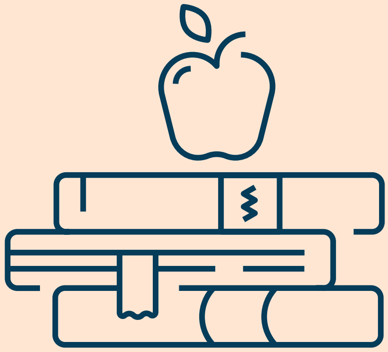
into the region

and is developing business in Bosnia-Herzegovina, Romania and Bulgaria.

NIS is the first company in Serbia to publish a verified Sustainable Development

Report

and continues to set standards in this area in Serbia.



Over the past 10 years, RSD

3,8 billion

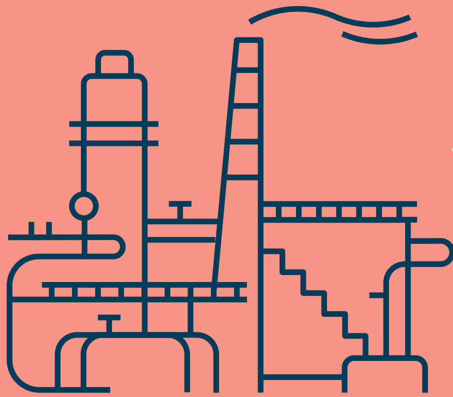
were invested in local community development

We supported the construction, renovation and equipping of 37 children's hospitals and health centers, 77 playgrounds and parks, 12 laboratories, 4 museums, 4 theaters and 14 maternity hospitals.

In 2012, the first phase of the RNP modernization was completed, worth over EUR

500 million

and a key project was the construction of the MHC/DHT complex.



Commissioning of the Bottom of the Barrel Plant at the Pancevo Oil Refinery will

reduce the emission

of sulfur oxides into the air at the level of the Republic of Serbia.

More than EUR

20 million

has been invested since 2013 in the construction of 14 small cogeneration plants in the oil and gas fields in Serbia.

More than €

320 million

has been invested in the modernization of the retail network.

In cooperation with Gazprom energoholding, NIS is carrying out the combined-power plant (TE-TO) construction project at Pančevo Oil Refinery, with the installed power of up to

200 MWe,

worth around 180 million euro.

When drilling all its wells, NIS uses a

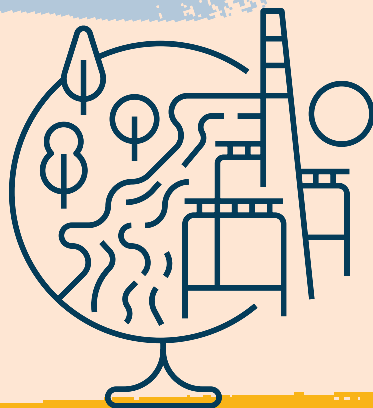
"pitless drilling"

system one of the most advanced technologies that meets the most stringent environmental standards.

Since 2009, more than RSD

13 billion

has been invested in environmental projects in all business areas.



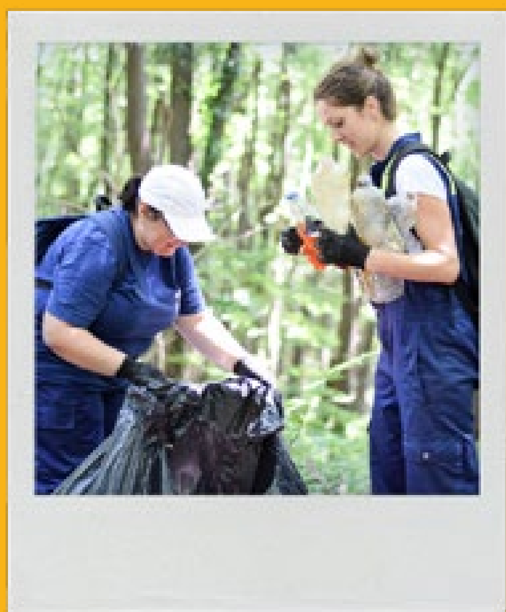
Since 2013, a condensate return polishing plant has been operational, reducing water abstraction from the Danube into the Oil Refinery in Pancevo by about

40%.

In 2018, the Volunteer Club was establis-hed, with more than 500 members and having reached over

1,700 volunteer hours

in 2019 alone.



Realization of key projects in 2019

BOTTOM-OF-THE-BARREL PROJECT

The Bottom-of-the-Barrel Project with the delayed coking technology is a capital investment of the second phase of the Pančevo Oil Refinery modernization, with a planned investment over EUR 300 million.

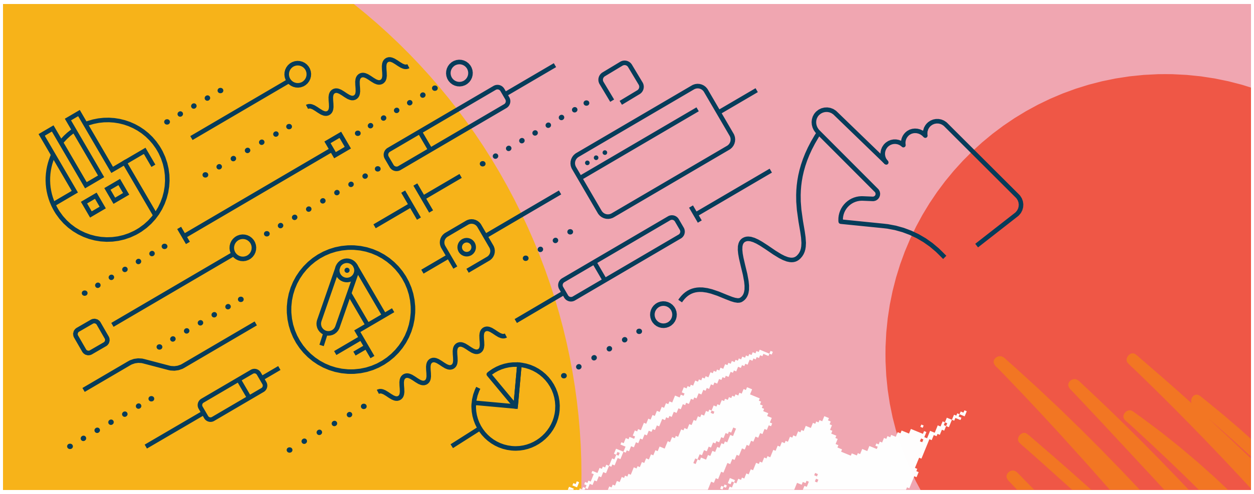
The construction and comissioning of the new unit (scheduled in 2020) are expected to optimise the use of RNP's refining capacity and increase NIS' oil refining efficiency from the present 86% to 99.2%. The new unit will increase production of high-quality gasoline and diesel, and begin the production of coke, that is currently imported. The implementation of this project will solve the problem of high-sulphur fuel oil, since additional volumes of light products and coke will be produced instead of this type of oil. It is also important to note that the implementation of the Bottom-of-the-Barrel Project with will help Serbia fulfil its international obligations with regard to reducing sulphur content in certain liquid fuels.

TE-TO PANČEVO

TE-TO Pančevo (hereinafter Pančevo Combined-Cycle Power Plant) is a gas-steam combined cycle power plant with an average power of up to 200 MW. Projected annual output is roughly 1,400 GWh. Construction of TE-TO Pančevo is part of the joint project by NIS j.s.c. and Gazprom Energoholding via Gazprom Energoholding Serbia LLC, where NIS j.s.c. holds a 49% share, while Gazprom Energoholding holds a 51% share. During 2019, engineering works were completed and building permits for all stages of the TE-TO Pančevo construction were obtained. Main and auxiliary equipment were manufactured and delivered to the construction site. The works currently underway involve equipment installation and connection to the RNP infrastructure.

Further steps within the project include the completion of construction works, installation of equipment and connecting communications, synchronization of the main equipment and TE-TO Pančevo commissioning.

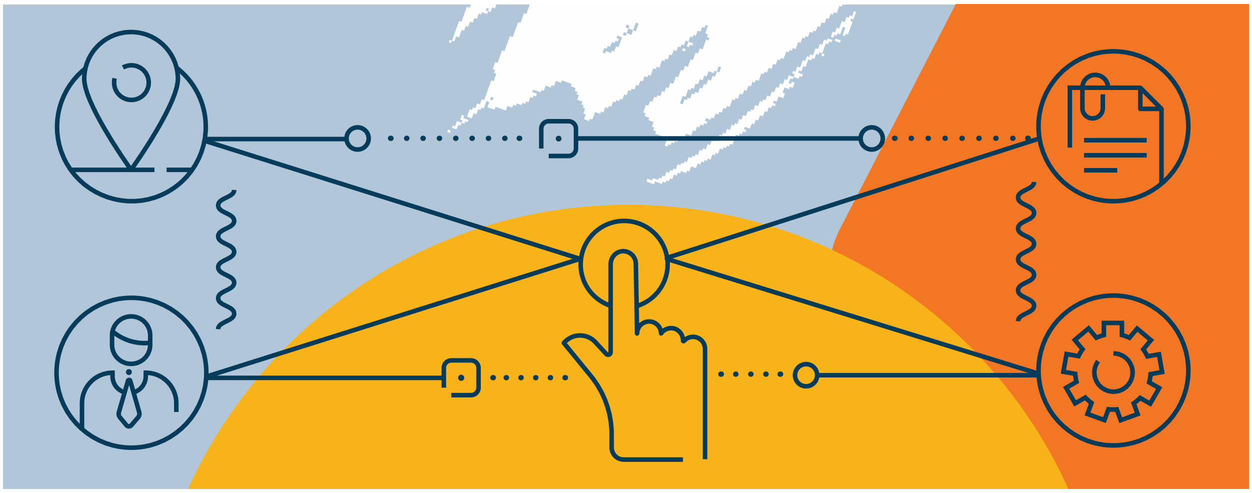
The total estimated value of the project is approximately EUR 180 million.



NIS DIGITAL TRANSFORMATION

Within the digital transformation of NIS j.s.c. Novi Sad, approximately 50 projects were identified in all NIS' blocks and functions in the last year. Our goal is to increase business efficiency and the efficiency in oil and gas exploration and production using innovative technologies, to raise the competency level of our employees, to improve the safety and reliability of our plants' operation, as well as to improve communication with customers.

We have also launched joint projects with the world's leading companies in the field of information technology and the oil and gas industry (BCG, Schlumberger, AspenTech and others), which resulted in increasing the competencies of employees in the field of digital transformation and implementation of the latest technologies using the best world practices. We would like to emphasize the application of artificial intelligence and machine learning in the fields of digital modelling of oil and gas deposits and predictive maintenance of well and refinery equipment. We are implementing new approaches to efficiency management in refinery units based on digital products and technologies. Moreover, our petrol stations are installing digital solutions aimed at changing the way our employees communicate with customers, as well at the provision of additional services. Considering that we started the process in the previous year, we expect that NIS will use the full potential of these new technologies and digitally transform its operations in the coming period.



MULTIFUNCTIONAL SHARED SERVICES CENTRE

The formation of the Multifunctional Shared Services Centre (MSSC) is one of the projects aimed at the organizational transformation of NIS. It places the majority of administrative services in one centralized location, which in turn improves the quality of services for the business. As the driving force behind the change of our workplace culture, it ensures a new approach to providing services to internal clients and digitalization of processes by focusing on efficiency.

The pilot project (accounting and financial reporting services, HR services, and Infrastructure: Front Office, Call Centre) was completed and then launched on 1 November 2019.

In addition to accounting and HR services, the Multifunctional Shared Services Centre provides all employees, NIS' organizational units and subsidiaries with new services, including: bulk recruitment and selection, passenger transport (such as car rental and coach transport services), documentation support services, business process standardization and mapping services, inventory support services, translation, employee support services concerning benefits and social package.

The basic operating principles of the MSSC will be the maximum level of standardization and automation of processes and tools, simpler procedures, matrix-based decision-making, single communication channel, and clear request prioritizing – in other words, better quality and faster performance of tasks.

Letter to Shareholders

Dear friends,

2019 was a special year for NIS: it was marked by the tenth anniversary of the strategic partnership of Gazprom Neft and the Republic of Serbia. We have invested over three billion euros in the development of the company in this period by implementing one of the largest investment programs in the country. Ambitious strategy underpinned by the resources required for its implementation paved the way for NIS to become one of the most profitable companies in Serbia and one of the major players of the energy market in South-East Europe.

We have been able to achieve steady growth of hydrocarbon reserves, extend the perimeter of the exploration program and launch exploration projects beyond Serbia – primarily in Romania. Upgrade of the Pančevo Refinery turned it into one of the most up-to-date refineries in the region, and NIS has become one of the leading exporters of Serbia. Refinery's output – modern and environmentally friendly motor fuel – is successfully sold through company's network of petrol stations both in Serbia and in other Balkan countries. Currently, there are over 400 of them. As a part of diversification program, we have expanded company's activities and entered power generation and sale business.

The company has become a stable source of revenue for shareholders: since 2013, over RSD 54.6 billion has been paid out in dividends. Today NIS is one of the top

Vadim Yakovlev
Chairman of the Board of Directors
NIS j.s.c. Novi Sad

employers in the region enabling us to attract the best talent from within and beyond Serbia, as well as to repatriate top quality experts from abroad.

In 2019, we took another stride forward: new projects received the investment of RSD 42.2 billion laying the foundation for further growth and business stability under volatile conditions of the global market. The value of 2019 financial results of the company – net profit of NIS Group in 2019 amounted to RSD 16.6 billion, EBITDA – RSD 44.5 billion– is even more prominent given the complexity of tasks facing us.

Thanks to the transformation of Upstream and Downstream Blocks aimed at boosting the quality and operational responsiveness, NIS has stepped up the business scope and performance despite challenging conditions of 2019 and an almost 10% drop in crude prices.

The company has started pilot oil production in Romania. 3D seismic surveying in Serbia and Romania was completed covering a total of over 1,000 km2. In September, a new Training Centre opened its doors in Elemir to become the hub of effective training of Serbia's oil and gas professionals.

The most complex and large-scale turnaround in the history of the Pančevo Refinery was carried out last year totaling the investment of RSD 2 billion. The overhaul comprised reconstruction of existing refining facilities and connection of the brand new Delayed Coking Unit, now in its final construction phase - completion of the 300-million-euro investment project is scheduled for 2020.

Regardless of the demanding year for the refining industry, the company produced the record 59,000 tons of bitumen in October, an all-time high monthly indicator for the last 10 years.

Our sales of petroleum products in the Serbian retail market increased by 5% versus 2018, foreign sales grew by 21%. We continued active development and upgrade of our network: three modern petrol stations were opened in Serbia, NIS network became the largest coffee shop chain in the country, with over 300 points of sale and 6 million cups of coffee sold a year.

In collaboration with Gazprom Energoholding, we started the construction of CHPP Pančevo. Successful commissioning of this gas-powered station will drive the stable performance of the Pančevo Refinery and considerably contribute to reinforcement of the position of NIS and its partners in the power market.

In 2019, we launched several crucial digitization projects that will deliver long-term positive impact on financial performance of the company. The new HR

Kirill Tyurdenev
CEO
NIS j.s.c. Novi Sad

strategy of the company, future-oriented as well, will provide new career and development opportunities for employees and help attract young talent.

NIS has been and remains a reliable partner for the people of Serbia. In 2019, we invested more than RSD 371 million in community development, of which 116.5 million was channeled in 20 projects supporting medical establishments of the country, procurement of modern vehicles, devices and equipment for their needs.

Just as the whole decade, 2019 was a challenging and yet successful year for NIS. As any other year, 2019 became the launchpad for new ambitious projects sustaining company's further development and cementing its competitiveness. In terms of our long-term strategy, we plan to invest over 1 billion euros in our development by 2025. The crucial operational tasks include commissioning of the DCU and CHPP Pančevo, further development of production assets, upgrade of the retail network. Implementation of social projects is of equal importance: taking care of well-being of our personnel and community at large is our top priority.

Solid partnership of principal NIS shareholders is a guarantee that all large-scale and ambitious plans of the company will be accomplished, and another successful decade is ahead of the company.

1

Business Report

1.01

Independent Auditor's Report on the Compliance of the Business Report with Financial Statements

pwc

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT

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

We have audited the standalone financial statements of Naftna Industrija Srbije a.d. Novi Sad (hereinafter – the Company) for the year ended 31 December 2019 disclosed in the Annual Report on pages 208 to 304, and issued the Auditor's opinion on 26 February 2020, which has been disclosed on pages 203 to 207. We have also audited the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2019 disclosed in the Annual Report on pages 316 to 417, and issued the Auditor's opinion on 26 February 2020, which has been disclosed in the Annual Report on pages 309 to 314 (together referred to as the financial statements).

Report on Company's Annual Report

We have verified that other information included in the Company's Annual Report for the year ended 31 December 2019 is consistent with the abovementioned financial statements. The Board of Directors is responsible for the accuracy of the information contained in the Company's Annual Report. Our responsibility is to express, based on our verification procedures, an opinion on the consistency of the Annual Report with the financial statements.

Auditor's responsibility

We conducted our verification procedures in accordance with the Law on Auditing and auditing regulation effective in the Republic of Serbia. This regulation requires that we plan and perform the verification procedures to obtain reasonable assurance about whether other information included in the Annual Report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, other information included in the Annual Report of Naftna Industrija Srbije a.d., Novi Sad for the year ended 31 December 2019 is consistent, in all material respects, with the information contained in the financial statements.

Sonja Ralenac
Licensed auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 3 April 2020

PricewaterhouseCoopers d.o.o., Omladinskih brigada 88a, 11070 Belgrade, Republic of Serbia
T: +381 11 3302 100, F:+381 11 3302 101, www.pwc.rs

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.

1.02

Highlights

NIS and the Ministry of Health signed the Memorandum on Cooperation

January – March

- Beginning of 3D seismic surveys at the Ada Exploration Area;
- The permit for the exploitation of oil and dissolved gas was obtained for the Iđoš exploitation field;
- The permit to expand the Itebej field for the exploitation of oil, dissolved gas and free gas was obtained;
- We held a ceremony in Pančevo to mark the start of the construction of the TE-TO Pančevo, a project jointly implemented by NIS and Gazprom Energoholding;
- The €kon$ system was commissioned. The system management process was defined in the segment of use, maintenance and management of changes;
- Capital turnaround 2019 was carried out;
- MET Renewables and NIS have started their joint work on a wind farm project in Serbia, after MET purchased a 50% share in that project from third parties;
- G-Drive Winter Campaign, consisting of 4 stages on social media;
- G-DRIVE RACING platform and image campaign were launched;
- Master Card Champions League instant win game;
- For the fifth year in a row, NIS held the E-Being@Work international conference on human resource management;
- NIS and the Ministry of Health of the Republic of Serbia signed the Memorandum on Cooperation within Common Cause Community, our social responsibility program.

GAZPROM brand petrol station modernization

April – June

- Concession in Bosnia and Herzegovina extended;
- Experimental oil production began in Romania;
- We held the 2nd Scientific and Technical Conference for young specialists and scientists in UPS Block;
- A digitalization strategy (corporate project) was developed within *Industry 4.0 Defining a List of Potential Digital Projects*;
- Continuous employee training in the DCU, both at the construction site and in the OTS;
- After its complete reconstruction, Velika Plana PS was commissioned as the first petrol station in Serbia in M motorway format (GAZPROM brand);
- Mobile application modules were created for corporate clients;
- NIS' Shareholders' Assembly held its 11th regular meeting and adopted, among other things, a decision on the distribution of 2018's earnings, dividend payout and calculation of the total amount of retained earnings;
- As part of Common Cause Community 2019, our social responsibility program, NIS donated a total of RSD 116.5 million to 20 select healthcare providers;
- To help students gain their first work experience in a leading domestic company, NIS launched a new student internship program, NIS Calling;
- In the University of Belgrade Rectorate, NIS presented the 2018 Sustainable Development Report, in the presence of ministers in the Government of the Republic of Serbia.

The most modern training centre in the region opened in Elemir

July – September

- Decision for the Kikinda Istok oil and dissolved gas exploitation field obtained;
- Capital turnaround and stimulation of Ob-02 well completed;
- The most modern training centre for exploration and production employees in the region opened in Elemir;
- The Accreditation Body of Serbia issued a Decision on Renewal of Accreditation of the Upstream Laboratory;
- C-4460 Sulphur Granulation Unit was comissioned;
- After its complete reconstruction, Stari Banovci PS was commissioned as the first petrol station in L motorway format in Serbia (GAZPROM brand);
- G-DRIVE and DRIVE CAFE image campaigns, campaign on the occasion of launching of the Purchase with Cash Back service, and On the Road with Us digital campaign;
- Our modern aviation fuel QA laboratory, located at the Belgrade Airport Aeroservice, began operations within NIS' Scientific and Technological Centre;
- For the seventh consecutive year, NIS distributed 25 percent of the last year's net profit as dividends to its shareholders – over RSD 6.5 billion were allocated for this purpose;
- NIS hosted a roundtable called Natural Gas as a Motor Fuel, which was held in cooperation with GAZPROM and UNIPER as part of the Blue Corridor 2019 international event;
- More than 300 NIS' employees from cities across Serbia supported the Take a Step initiative of the National Association of Parents of Children with Cancer (NURDOR).

Largest coffee shop chain in Serbia

October – December

- Decision on extending the period for oil and gas geological surveys in the territory of the Republic of Serbia to the south of the Sava and Danube obtained;
- Decision to extend the oil and dissolved gas exploitation field Boka obtained;
- NIS PETROL starts production of electricity in the Jimbolia block;
- We signed a protocol on cooperation with Sonangol P&P that will ensure the expansion of NIS in the global market as well as professional development if its employees;
- Power equipment testing – pre-commissioning of the DCU;
- Operator training for the DCU, provided by the licensor (Chevron Lummus Global);
- After their complete reconstruction, we commissioned Krnješevci PS in L highway format (GAZPROM brand), Barajevo PS in XS format (NIS PETROL brand), Ivanjica PS in S format (NIS PETROL brand) and Otopeni PS in M format (GAZPROM brand) in Romania; a new digital GAZPROM petrol station has been opened on the Belgrade-Šid highway.
- Also, construction and opening preparations for M-sized Otopeni PS (GAZPROM brand) in Romania completed;
- Two mobile Drive Cafes were opened in Serbia;
- 31 new products were introduced under our private brand in the Drive Cafes;
- On the Road with Us mobile application was upgraded;
- We launched the Drive Cafe Augmented Reality mobile application and held an award contest;
- We completed the works on the implementation of Drive Cafe corners at all petrol stations in Romania;

FCC modernization project

- NIS' Board of Directors adopted the Business Plan for 2020, which will ensure the implementation of ambitious investment programs will continue;
- NIS has signed a contract for the acquisition of modern INDMAX technology and a basic project for the modernization of the fluid catalytic cracking (FCC) unit in the Pančevo Oil Refinery with the renowned international company Lummus Technology;
- Reporters from the leading media in Serbia organized a visit to the assets of NIS Petrol, a subsidiary of NIS in Romania;
- In 2019, a number of NIS sport business events took place in Serbia and Russia, with more than 250 employees taking part.

Investment in increasing children safety and curriculum digitalistion

Highlights after the Reporting Date

- NIS awarded top prizes, FIAT 500 cars to lucky winners of prize games which the company organized for its customers during November and December 2019;
- NIS signed a Practical Training Agreement with the Zrenjanin Secondary School of Technical Sciences and launched practical training lessons in the Training Centre in Elemir;
- An independent external estimator assessed the NIS Internal Audit conformant with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Global Institute of Internal Auditors.
- Within "Common Cause Community" program NIS signed Cooperation Memorandum with Serbia's Ministries of Interior and Science, Education and Technology Development, through which it will invest RSD 114.5 million in increasing safety and curriculum digitalistion in primary and secondary schools in 12 cities and municipalities in Serbia.

1.03

NIS Group

NIS Group is one of largest vertically integrated energy systems in Southeast Europe. It employs approximately 11,000 employees in Serbia and the region. NIS' core activities include exploration, production and refining of oil and natural gas, sale and distribution of a wide range of petroleum and gas products, as well as the implementation of energy- and petrochemistry-related projects.

Countries of operation are shown on the picture on page 44

The headquarters and main assets of the NIS Group are located in the Republic of Serbia, but the Group also has subsidiaries and representative offices in several other countries. NIS aims to create new value for its shareholders, employees and the community in which it operates, despite the challenging macroeconomic environment.

Business Activities

Business activities of NIS Group are organized within the parent company, NIS j.s.c. Novi Sad, under Exploration and Production Block[1] and *DOWNSTREAM*[2] Division.

1 *Exploration and production and subsidiary companies – STC NIS – Naftagas LLC Novi Sad, Naftagas – Oil Services LLC Novi Sad, Naftagas – Transport LLC Novi Sad.*

2 *Refining Block, Block Sales and Distribution, Energy Department and subsidary company Naftagas – Technical Services LLC Zrenjanin.*

Exploration and Production Block

Exploration and Production

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

Within Exploration and Production business segment operates an Elemir-based plant for the preparation of natural gas, production of LPG and natural gasoline and CO_2 capture, which has the design capacity of 65,000 tonnes of LPG and natural gasoline per year. An amine plant for natural gas processing, that uses HiPACT technology (High Pressure Acidgas Capture Technology) is also located in Elemir. This plant in Elemir is the first HiPACT plant in Europe, and the gas processing method completely prevents the emission of carbon dioxide into the atmosphere. The "Exploration and Production" Units are involved in generating power and heat, as well as compressed gas output.

Since 2013, in oil and gas fields located in eight different areas throughout Serbia, NIS has launched small-scale power plants, their maximum power totalling 14 MWe. In terms of environment, the operation of these small-scale power plants brings the advantage of generating power and heat out of the gas, which had not been used, due to great concentrations of carbon-dioxide and nitrogen, or because it was impossible to valorise it, due to the lack of gas infrastructure.

During the course of 2019, NIS started to generate power in Romania's Jimbolia gas-field. The current production power is 4.5 MW. The power generated in Jimbolia is being sold in Romania's internal market.

NIS is determined to constantly develop its technologies and implement business innovations in every segment of its operations, so modernization is one of the priorities in the exploration and production segment. In the field of exploration and production, scientific and technological support is provided by the Scientific and Technological Centre – STC NIS – Naftagas LLC Novi Sad.

NIS has its own service capacities, which fully meet the Group's demands in the area of oil and gas exploration and production and allow NIS to provide services to third parties. Services provide oil and gas exploration and production services such as geophysical surveying, well drilling, outfitting and workover, as well as specialized operations and measurements on wells.

Additionally, they provide maintenance services for the equipment required for work, build, repair and maintain oil and gas systems and facilities, transport goods and passengers and provide heavy machinery.

Owing to its experienced personnel, cutting-edge equipment and continued investment in its modernization, the Services had the opportunity to work in other countries (Egypt, Turkmenistan, UAE, Russia and many others). Currently, Services are engaged in Bosnia and Herzegovina and Romania.

The goal of this business unit is to strengthen its presence in the region and the international market, which is why its priorities include equipment modernization, improving service quality level, and increasing technical and technological efficiency and increase in capacity utilization in NIS and other companies.

DOWNSTREAM Division

The DOWNSTREAM division consists of the Refining Block, Sales and distribution Block and the Energy Area.

Refining

NIS manages the Pančevo Oil Refinery with maximum projected capacity of 4.8 million tonnes of crude oil per year. After the MHC/DHT Complex became operational in 2012, the Pančevo Oil Refinery produces: motor fuel in accordance with the Euro-5 standard[3], jet fuel, gas oil, liquid petroleum gas, petrochemical raw materials, fuel oil, bitumen and other petroleum products. The continuos modernization of its refining facilities enabled NIS to locally produce fuels that meet European quality standards. It has also secured the strategically important leading position of the NIS group on the regional market of petroleum products.

The Pančevo Oil Refinery is close to completing the construction of the DCU with the delayed coking technology, which is the key project of the second phase of the Refinery's modernization. After the completion

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

of this project, the Pančevo Oil Refinery will produce larger quantities of the finest petroleum products (primarily diesel), and will also start producing coke, a product which is currently imported into Serbia.

Sales and Distribution

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

Since 2019, electric vehicle charging service is available at new digital petrol stations.

NIS operates the largest retail network in Serbia but its petrol stations are present in the countries of the region as well – in Bosnia and Herzegovina, Bulgaria and Romania. In Serbia and in the region, NIS manages a network of over 400 retail outlets and has two brands in the market: NIS PETROL and GAZPROM, a premium gas station brand. NIS' separate business operations include aviation fuel supply, bunkering services and sale and distribution of lubricants and bitumen.

The lubricants segment is one of the NIS's key "non-fuel" business operations and is crucial for increasing brand recognition and customer loyalty. The lubricant segment business includes production, sale, development and marketing of lubricants and technical fluids.

Energy

NIS produces electricity and thermal energy from both traditional and renewable resources. Other than that, it sells electricity, procures, markets and manages the natural gas portfolio, and sells compressed natural gas, develops and introduces strategically important energy projects. It develops and completes projects aimed at energy efficiency boost.

NIS also trades electricity trade outside Serbia – it is an active market player in Bosnia and Herzegovina, Montenegro, Romania, Slovenia and Hungary, as well as in the Republic of North Macedonia.

The key future project in this business segment will be the construction of additional facilities for the production of electrical energy. Together with the company Gazprom Energoholding, NIS building a Combined-Cycle Power Plant (TE-TO Pančevo) in the vicinity of the Pančevo Oil Refinery (with the maximum capacity up to 200 MW).

On the Serbian natural gas market, NIS is simultaneously a producer, large consumer and supplier. The management of its natural gas portfolio is an ever-developing process that aims to ensure security of natural gas supply for NIS.

Nine Functions provide support to the core activities of NIS j.s.c. Novi Sad, parent company. These are: Finance, Economics, Planning and Accounting Function; Strategy and Investments Function; Procurement Function; Organizational Affairs Function; HSE Function, Legal and Corporate Affairs Function; Corporate Security Function, Government Relations and Corporate Communications Function and Internal Audit Function[4]. One of the Deputy CEO's is in charge of petrochemicals operations.

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4 *This Function is directly subordinated to the CEO, while the person responsible for internal supervision submits reports to the Audit Commission of the Board of Directors.*

NIS is determined to constantly develop its technologies and implement business innovations in every segment of its operations.

History

1945

The Oil and Petroleum Product Trading Company was founded.

1949

The Naftagas Oil Exploration and Production Company was founded.

The first natural gas reservoirs were discovered.

1952

The first oil field was discovered in the north of the country – near Jermenovci in Banat.

1953

The construction of the first petrol stations began in Serbia's major cities.

1963

The construction of the first main gas pipeline was completed, connecting all of oil fields with Pančevo, where the first refinery was to be constructed.

1968

Oil refineries were put into operation in Novi Sad and Pančevo. The Velebit oil field was discovered.

1985

Oil production commenced in Angola, and this was the first time NIS entered into a concession agreement in a foreign country.

1991

The Public Enterprise Naftna Industrija Srbije was established.

1999

During the NATO bombing, NIS suffered human casualties and material losses. After the bombing, it begun quickly rebuilding its damaged facilities.

2005

NIS became a joint stock company.

2008

NISOTEC, and oil and lubricants brand was launched on the Serbian market.

2009

PJSC Gazprom Neft, a Russian company, became the majority shareholder in NIS.

The modernization of the refining complex began.

2010

NIS became an open joint stock company listed on the Belgrade Stock Exchange.

2011

NIS began its regional expansion.

It established subsidiary companies in Bosnia and Herzegovina, Bulgaria and Romania.

2012

The first phase of modernization of the Pančevo Oil Refinery was completed.

It began the production of fuel in line with Euro 5 quality standard.

Grand opening of the first premium brand gas station GAZPROM in Belgrade.

2013

The first dividends were paid out to the shareholders from the previous year's earnings.

NIS began its transformation into an energy company.

The first cogeneration plant for the production of electricity and heat from gas was commissioned in Sirakovo.

2014

The first sale of electrical energy in the market.

2015

The sales of G-Drive 100 petrol started at GAZPROM petrol stations.

2016

An amine plant for natural gas processing was commissioned in Elemir.

GAZPROM petrol stations began selling premium G-Drive diesel in Serbia.

2017

The Pančevo Oil Refinery held a ceremony to mark the start of the works on the delayed coking unit with the bottom-of-the-barrel technology.

The agreement on the construction of the TE-TO Pančevo (English: Combined-Cycle Power Plant Pančevo) was signed with the Chinese company Shanghai Electric Group.

The Corporate Development Strategy 2025 was adopted.

2018

Activities on the Bottom-of-the-Barrel Project and TE-TO Pančevo continued.

We marked the 10th anniversary of Common Cause Community, our program of cooperation between NIS and local communities in Serbia.

2019

Activities on the implementation of the Bottom-of-the-Barrel Project continued and TE-TO Pančevo construction has been initiated.

Gazprom Neft marked the 10th anniversary of operation of Serbia.

Experimental oil production began in Romania.

NIS Worldwide

NIS Group's organisational structure is shown on page 49

Expanding the business and becoming more competitive on the regional market are NIS' strategic goals. Our regional expansion has two main directions – the field of oil and gas exploration and production (in Bosnia and Herzegovina and Romania) and the development of our retail network (in Bulgaria, Bosnia and Herzegovina and Romania). Moreover, NIS is an active trader on the electricity market.


Region
02
01
03
04
01 Serbia
02 Bosnia and Herzegovina
03 Romania
04 Bulgaria

Intersegment Pricing

The concept of the intersegment pricing methodology is based on the market principle and the "one product, one transfer price" principle.

The "one product, one transfer price" principle means that the "movement" of a product between different profit centres within NIS is valued at a single price, regardless of between which profit centers the movement involves.

Intersegment prices are used to generate internal revenue between NIS business segments, and are determined to reflect the market position of each business segment.

- The intersegment price for domestic oil is determined using "export parity pricing".
- The intersegment price of natural gas corresponds to the selling price of natural gas at which NIS sells natural gas to PE Srbijagas.
- Intersegment prices of petroleum and natural gas products are defined according to the following principles:
  - combined import-export parity is a principle used for transfer pricing of products with free import to the local market and with a significant share in exports;
  - import parity is a principle used to calculate intersegment prices of products, with free import and with majority of sales in the domestic market;
  - export parity is used for products that are predominantly exported;
  - other petroleum products, i.e. products which due to their characteristics do not belong to any of the previous three groups (combined export-import parity, import parity, export parity), are typically sold to a small number of known buyers, and their selling prices are defined by annual or long-term contracts. They are an alternative to the production of other products or redundancies in production units.


NIS

Nis j.s.c. Novi Sad Organisational Structure

Representative Offices and Branches

Division Downstream

Group for Administrative and Documentation Support

Department for MT and SS

Directorate of Energy

Department for Metrology

Block Refinery

- *Production Directorate*
- *Technical Directorate*
- *Department for PEC*
- *Department for Development and Investments*
- *HSE Sector*
- *HR Sector*
- *Refinery OMS Project Office*
- *Group for Administrative and Documentation Support*

Sales and Distribution Block

- *Commercial Activities*
- *Retail*
- *Logistics Directorate*
- *Development*
- *Department for Coordination of Sales*
- *Department for PEC*
- *Department for Organizational Issues*
- *Metrology and Quality Control Department*
- *Representative Office NIS j.s.c. in Bulgaria*
- *HSE Sector*
- *Jazak Plant*
- *Digital Transformation Department*

Department for Planning, Optimisation and Analysis of Production and Sales

Crude Oil Sector

NIS Group Business Structure

NIS GAZPROM NEFT

Exploration and Production Block

- Oil and Gas Exploration Directorate
- Department for Planning, Economics and Control
- Department for Perspective Development and Projects
- Department for Geological Research and Reservoir Engineering
- HSE Sector
- HR Sector
- Procurement Sector
- Group for Administrative and Documentation Support

Corporate Centre

- Organisational Affairs Function
- Procurement Function
- Corporate Security Function
- Legal and Corporate Affairs Function
- Finance, Economics, Planning and Accounting
- HSE Function
- Strategy and Investments Function
- Department for Petrochemical Affairs
- Governmental Relations and Corporate Communication Function

Multifunctional Shared Services Centre

- Accounting and Financial Services Group
- HR Services Office
- Front Office
- Other Services

Representative Offices and Branch Offices

- *Branch Offices in Serbia **
- *Angola Representative Office*
- *Bulgaria Representative Office*
- *Romania Representative Office*
- *Russian Federation Representative Office*
- *Turkmenistan Branch Office ***

Subsidiaries

- *Naftagas – Technical services LLC Zrenjanin*
- *Naftagas – Oil Services LLC Novi Sad*
- *Naftagas – Transport LLC Novi Sad*
- *STC NIS – Naftagas LLC Novi Sad*
- *O Zone j.s.c. Beograd ****
  - *NIS MET Energowind LLC Beograd*
- *NIS Overseas o.o.o. Saint Petersburg*
- *NIS Petrol e.o.o.d. Sofia*
- *NIS Petrol s.r.l. Bucharest*
- *NIS Petrol LLC Banja Luka*
  - *G-Petrol LLC Sarajevo*
- *Pannon Naftagas kft Budapest *****
- *Jadran Naftagas LLC Banja Luka*
- *NIS-Svetlost LLC Bujanovac*

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

** The process of liquidation has been initiated.

*** On 12th February 2020, O Zone a.d. Belgrade changed its name into NIS PETROL a.d. Belgrade.

**** Pannon Naftagas k.f.t. Budapest from March 1st 2020 is in the process of liquidation.

Mission

By responsible use of natural resources and the state-of-the-art technology, supply the people of the Balkan region with the energy for making progress.

Vision

NIS j.s.c. Novi Sad will be a recognizable leader of the Balkan region in its field of business activity, owing to the dynamics of sustainable development and efficiency increase, by showing a high level of social and environmental responsibility as well as contemporary standards of providing services to the clients.

Values

Responsibility

A responsible company and employees who use resources effectively for the common good.

Transparency

Only through open and fair communication, can we create a transparent working environment.

Innovativeness

We find and support new and consistently better solutions to continually improve ourselves and remain the industry leaders.

Expertise

Everything we create is based on our expertise that inspires change throughout the community.

1.04

Strategy

Strategy 2025

In 2017, a new Integrated Corporate Strategy 2025 was adopted, which will ensure further growth, and profitability for shareholders, employees and the wider community.

The main strategic goals of NIS are:

- To preserve production and resource base growth indicators,
- To increase the depth and efficiency of refining,
- To boost the sales of petroleum products through own sales channels and modernise the retail network,
- To diversify the business by building new electricity generation capacities,
- To optimise operating performance.

Exploration and Production

Most of the investments planned by NIS by 2025 will be allocated for the exploration and production segment. In the upcoming period, NIS expects a slight decline in base oil and gas production compared to previous year, but it will be compensated by the development of the existing reservoirs, geological exploration in Serbia, further development of the most profitable foreign concessions (primarily in Romania), as well as a steady operational efficiency increase.

Refining

Information on the status of the Bottom-of-the-Barrel Project is shown on page 83

The development of NIS refining through the modernisation of the Oil Refinery in Pančevo and the increase in energy and operational efficiency in this segment is one of the main tasks of NIS by 2025. The Pančevo Oil Refinery has already started the construction of the Bottom-of-the-Barrel facility with the delayed coking technology, a project worth more than EUR 300 million. The operation of new facilities will contribute to increasing the depth of refining, while the product structure will be diversified and changed in favour of light products and larger quantity of products that meet European quality standards.

Operational efficiency programs in all parts of NIS will continue to be a key source of raising the level of business success in the coming period and will remain one of the main strategic goals, considering the complexity of the business environment.

Sales and Distribution

The strategy lays the foundations for the modernization of the retail network and an increase in its profitability by growing of branded fuel sales and developing additional businesses, as well as an increase in the efficiency and volume of wholesale and development in foreign sales markets. In the following period, NIS will devote itself to the development and improvement in operating the specialized product business lines – aviation fuels, lubricants and bunker fuels – by raising the level of specialized logistics and improving the quality of products and related services.

Energy

The growth of electricity production and the increase in the efficiency of the Energy Block are the main goals of NIS in the energy segment. Key projects in this business segment will be the construction of a new Combined-Cycle Power Plant in Pančevo, further increase in electricity production from small power plants, development of wind turbine generation, with plans to significant increase in electricity trade.

1.05

Risk Management

Integrated Risk Management System

Risk is a likely future event that can affect, either positively or aversely, the achievement of the Company's objectives at all management levels. Risk management is a continuous and systematic business process which serves to support management decision-making and the achievement of an organisation's objectives in a risk exposure environment.

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

NIS has defined its risk management objectives and has an integrated risk management system (IRMS) in place. The Company's objective in the field of risk management is to increase the effectiveness and efficiency of managerial decisions by identifying, analysing and assessing related risks, outlining risk management strategies and ensuring the maximum effectiveness and efficiency of risk management during the implementation of decisions.

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

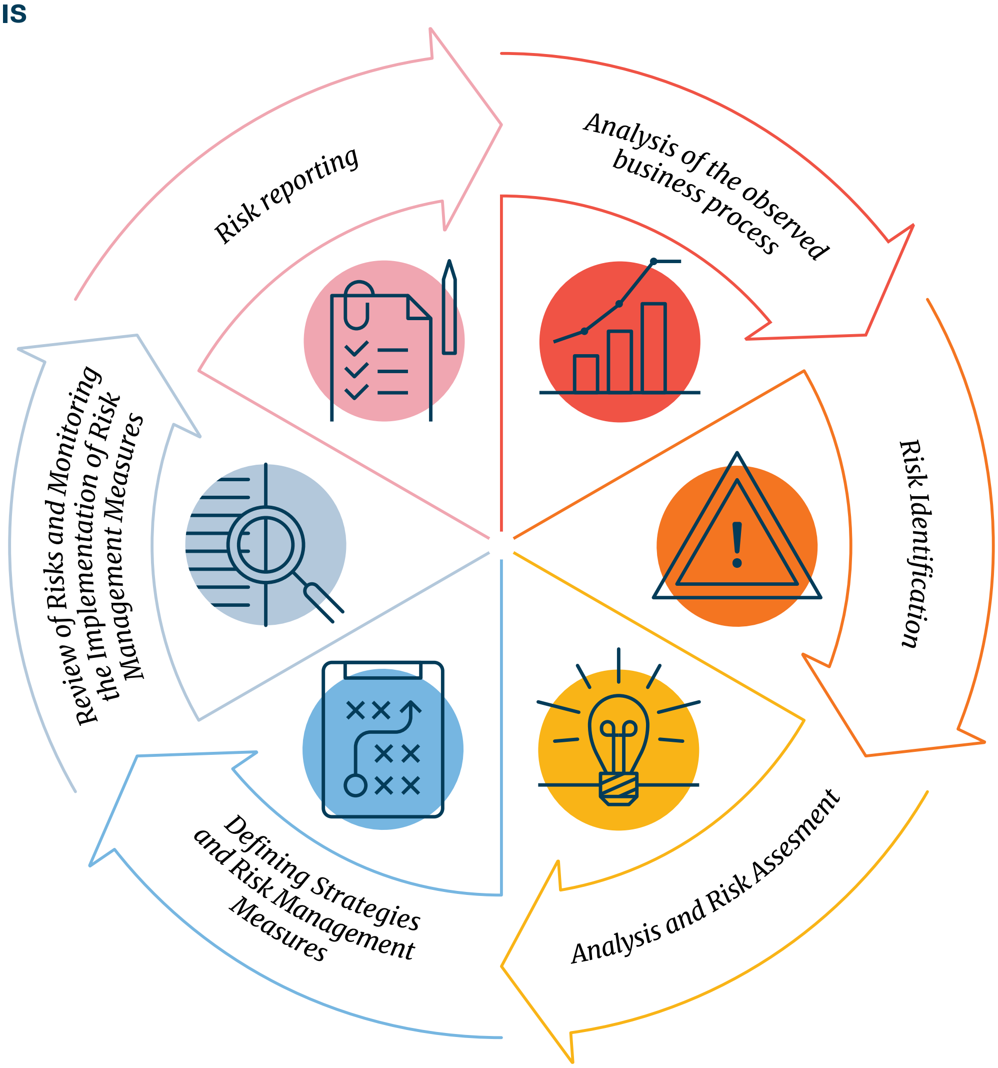
The Company's risk management objectives are achieved through the following tasks:

- establishing a risk management culture in the Company in order to ensure that both the management and employees have a full understanding of the basic risk management principles and approaches;
- defining and establishing a systemic approach to identifying and assessing the risks inherent to the Company's operations, both in general and specific business areas;
- encouraging the exchange of risk information between the corporate organizational units, and the collaboration in the identification that risk management measures and
- providing structured information on risks to the corporate governance bodies.

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

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

IRMS Business Process Flow at NIS



Furthermore, the integrated management system (IMS), organizational structure, normative-methodology documents and other internal regulations, the Corporate Governance Code and Business Ethics Code all form an internal control system that provides NIS with guidance on how to run the business and effectively manage related risks.

At NIS, risks are identified and assessed by analysing data sources (internal and external databases, key risk indicators), through interviews, risk sessions, etc. They are ranked in line the Risk Matrix, defined based on risk propensity (Key Company Risk, Key Division/Block/Function Risk, Division/Block/Function Risk). Assessment can be carried out using either the quantitative or the qualitative method.

IRMS in business planning process

The key risks associated with corporate goals are acknowledged by the Board of Directors through the adoption of business plans. Risk assessment is an integral part of the business planning process, while information on key risks – estimated financial effect of the risks, risk management strategies and measures, financial resources needed to implement the measures – are incorporated in the adopted business plans.

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

Non-financial risks:
- Operational risks,
- Political risks,
- Strategic risks,
- Compliance risks,
- Reputational risks,

Financial risks:
- Credit risks,
- Liquidity risks,
- Price risks,
- Foreign exchange risks,
- Interest rate risks.

Non-financial risks

Risk Description	Risk Management Measures
Operational Risks	
Project Risks	
In the area of geological exploration, the NIS Group aims to increase reserves as well as NIS' production. This largely depends on the outcome of geological exploration activities, which aim to increase active well stock in the country and abroad. The main risk in oil and gas exploration and production is a potential failure to prove estimated reserves and, consequently, failure on the part of NIS to achieve its planned reserves growth.	Risk mitigation measures include the implementation of new 3D seismic surveys using the latest wireless technology; selection of candidates for exploratory drilling based on complex seismic and geological data interpretation; using the largest shareholder's expertise in geological exploration programs and selecting the most prospective wells using of state-of-the-art exploration methods. To mitigate risks, special attention is paid to a robust preparation of projects for implementation and advanced monitoring during geological exploration operations. In order to reduce licensing risks, exploration research is carried out in line with schedules, defined by geological research programs and provisions of the Law on Mining and Geological Exploration that, among other things, regulates the field of exploration and production of oil and gas.

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

Financial Risks

Risk Description	Risk Management Measures
Credit Risks	
Accounts receivable risks	
Arise in relation to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans given to third parties, and due to exposure to wholesale and retail risks, including unrecoverable debts and assumed liabilities.	Credit risk management is established at the level of the NIS Group. With respect to credit limits, banks are ranked according to adopted methodologies applicable to major and other banks, in order to determine the maximum extent of bank exposure of NIS j.s.c. Novi Sad at any given time (through deposits, documentary instruments: bank guarantees, Letters of Credit, etc. issued for the benefit of NIS j.s.c. Novi Sad). With regard to accounts receivable, there is a credit limit methodology in place which serves to define the level of exposure in relation to individual customers, depending on their financial indicators.

Liquidity risk

Liquidity risk denotes a risk of NIS Group encountering difficulty in meeting its liabilities. It is the risk of not having suitable funds to finance the NIS Group's business operations.

NIS Group continually monitors liquidity in order to provide sufficient cash to meet its operational, investment and financial performance requirements. To this end, the Group continually contracts and secures sufficient lines of credit and security instruments, ensuring that the maximum loan debt level is not exceeded (the parent company sets the limit) and that all its obligations under commercial bank arrangements (covenants) are met.

Since mid-September 2014, NIS j.s.c. Novi Sad has been exposed to the risk of limited external funding due to the sectoral sanctions imposed by the EU and the US on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU. The sanctions prevent NIS j.s.c. Novi Sad from borrowing from EU or US banks for a period longer than 30 and 60 days respectively. The exemption from the EU sanctions includes g for a period longer than 30 days from EU banks exclusively if the loan is intended for the payment of non-sanctioned goods and services imported from the EU.

In order to secure the necessary funds for future transactions, NIS negotiated/contracted over EUR 700 million in new lines of credit with Serbian, Russian and Arabian banks for general purpose funding and with Serbia-based European banks for funding imports from the EU (financing for a period longer than 30 days is allowed if the funds are used to import goods or services from the EU). Thus, in order to improve its loan portfolio, NIS secured the necessary funds for timely repayment of loans in 2018 and 2019, as well as for early repayment of expensive loans (reducing the average financing cost and maintaining optimum average portfolio maturity). By improving its portfolio and restructuring the loan portfolio (in 2018/2019), NIS has reduced the mandatory loan repayments for the next four years, and redirected the cash flow towards the implementation of planned investments and regular operation of the Company.

Moreover, in order to further improve its loan portfolio and secure additional lines of funding in 2019 and 2020, NIS held a call for proposals in 2019 and improved the conditions (interest rate reduction) for three loans in the total amount of EUR 185 million, and secured new lines of credit under favourable terms in the amount of about EUR 90 million for loans and EUR 176.5 million for security instruments. The use of these sources of funding has ensured early repayment of unfavourable loans and decreased the average portfolio cost by 9% in comparison to the end of 2018. In addition, this ensured that the average portfolio maturity stayed between 3 and 4 years at the end of 2019, and provided a sufficient number of security instruments from the banks that do not apply sanctions for operating expenses.

Price Risks	
Due to its core activity, NIS Group is exposed to risks associated with price volatility, specifically the price of crude oil and petroleum products that affects the value of inventories and the oil refining margin, which in turn affects future cash flows.	These risks are partly offset by adjusting petroleum product selling prices to the changes in oil and petroleum product prices. The need to use some of commodity hedging instruments in the Group's subsidiaries, including NIS j.s.c. Novi Sad as a subsidiary, is at the discretion of Gazprom Neft Group. In addition, the following actions are undertaken to reduce a potentially negative effects of this risk: • annual planning based on multiple scenarios, plan follow-up and timely adjustment of operating plans for crude oil procurement; • regular sessions of NIS j.s.c. Novi Sad Committee in charge of crude oil purchase/sale to discuss all major topics related to crude oil purchase and sale (sale of oil from Angola-Palanca crude oil); • tendency to enter into long-term crude oil purchase contracts at most favourable commercial terms and with longer payment terms on an open account basis, and sales contracts which would exempt NIS j.s.c. Novi Sad, in line with current intergovernmental agreements, from paying customs duties for imports, based on preferential status; • expansion of the supplier portfolio, successful cooperation with EU-based companies, stronger competitive advantage in import tenders and more prominent progress regarding purchase prices; • expansion/diversification of the crude oil basket for prospective import, provision of samples of the crude oil types that have not been used for processing at the Pančevo Oil Refinery; • constant efforts to optimize processes and achieve the optimum economic effects and indicators; • occasional benchmarking to survey the market and price trends and to analyze the commercial capacities of major prospective suppliers of crude oil, reputable companies which are dominant and reliable in crude oil trading.
Foreign Exchange Risks	
NIS Group operates in an international setting and is thus exposed to the risk of fluctuating foreign exchange rates arising from business transactions being made in different currencies, primarily USD and EUR. The risk involves future trade transactions and recognised assets and liabilities.	The risks relating to fluctuations in the national currency against the US dollar is partly neutralised through natural hedging of petroleum product selling prices, which are adjusted to these fluctuations. Risk management instruments are also used, such as forward transactions on the foreign exchange market, which help reduce the impact of foreign currency losses in the event of depreciation of the national currency against the EUR (*following the sanction constraints imposition NIS pays the majority of its foreign currency liabilities in this currency*). Other measures include the balancing of the foreign exchange equilibrium in terms of adjusting the currencies in which export transactions are denominated to the currencies of foreign exchange liabilities; managing the currency structure of the loan portfolio, etc.

Interest Rate Risks	
NIS Group is exposed to the risk of interest rate volatility, both in terms of its bank loans and deposits.	NIS j.s.c. Novi Sad takes out loans with commercial banks at either floating or fixed interest rates, depending on the forecasts of base interest rates in the monetary market and the business banks' capability to offer fixed interest rates for loans. Funds in the form of intercompany loans to third parties are taken out at floating or fixed interest rates, whereas funds deposited as term or demand deposits mostly are placed at flat interest rates. Deposits are aligned with the credit limit methodologies of commercial banks (funds are reciprocally placed only with major commercial banks from which NIS j.s.c. Novi Sad takes out loans and/or lines of credit/security instruments). In this respect, revenues and cash flows from bank deposits and a section of intercompany loans are predominantly independent of any changes in base interest rates.


NIS

Our future is development

We have invested most in oil and gas exploration and production, the construction of the Bottom-of-the-Barrel at the Pancevo Oil Refinery and the modernization of the retail network, and started extracting crude oil in Romania.

In 2019, NIS invested more than €

350 million

in further development.

The NIS Development Strategy plans investments of over one billion euros by

2025.


БЛОК
ПРЕРАДА

1.06

Business Environment

The World

The global oil market was shaken by several terrorist attacks in 2019: Norwegian tankers were attacked in the Arabian Sea in June while transporting crude oil from Abu Dhabi; in September, drones caused a temporary suspension of production in the Aramco Refinery that processes oil for the market; and Iranian tankers were hit by missiles in the Red Sea in October. Each of these events made oil prices skyrocket temporarily, which in turn shook up global stock markets, but there was no cause for real concern. The Aramco Refinery attack did not cause problems in global oil supply despite the cut of 5.7 million barrels per day.

The 2019 China–United States trade war had a direct and indirect impact on the oil and petroleum product prices. Despite the phased implementation of the deal between these countries, tariffs on oil and propane caused a drop in US exports of these goods to China.

Stricter sanctions against Iran and the imposition of sanctions against Venezuela led to a diminished oil supply from these countries (Venezuela reduced export by 32%, i.e. by 500 million barrels per day). In December, the OPEC+ countries agreed on deepening the oil output cuts. This agreement between Saudi Arabia, the UAE and Russia can be seen as a compromise.

The long-awaited Saudi Aramco's (SA) debut on the stock exchange took place in November 2019, but with a significantly lower volume of shares (1.5%) and locally. *The Financial Times* cited evaluation of this company as the reason for this change. For now, the shares are almost exclusively sold to Saudi Arabian citizens and investment funds in Saudi Arabia and the Middle East, and buyers from Russia and China are also expected.

Saudi Arabia is the main advocate for the agreement on additional output cuts due to its own interest to raise the SA share prices. SA is in a difficult position: it can force other producers to adhere to the goals by threatening them with increasing its production, but this would affect the oil price, and thus the prices of SA shares, Bloomberg concluded.

The International Energy Agency (IEA) believes that the oil market will stay well supplied in the near term in 2020, since stocks will rise in the first half of the year, despite the output cuts by OPEC+ members and a sharp slowdown in growth of the US consumption.

Rystad Energy forecasts a reduction of overall global investments in oil and gas production in 2020 by roughly 4%, with the shale oil investments suffering the greatest reduction by almost 12%.

Major oil and gas companies are facing additional pressure as a result of the decarbonisation obligation whose significance is growing. The studies have shown that the shutdown of five majors' plants, which were already insufficiently profitable, would reduce the CO_2 emission by 20% on average.

One of the biggest challenges for the oil industry and the companies engaging in overseas transport of oil and petroleum products in the upcoming period is the entry into force of new motor fuel specifications applicable to the tankers passing through the areas that are subject to the International Maritime Organisation (IMO) rules: vessels in most parts of the world may use fuels containing not more than 0.5% sulphur (as opposed to the previous 3.5% limit) or install scrubbers to prevent sulphur oxides leakage from ship engines. This modification was arranged in 2016, it entered into force on 1 January 2020 and its global application started at this same time (95 signatory states). The IMO's (a UN body) intention is to reduce the sulphur oxides emissions through these new regulations.

On 11 December, the European Commission adopted the Green Deal, a major strategy to fight against climate changes for the next 30 years. The Deal is supposed to make the EU climate-neutral by 2050. This is actually an introduction to a three-decade-long effort to reform almost every policy sector in the EU. This pragmatic and ambitious plan to move towards net-zero greenhouse gas emissions (emissions reduced to almost a zero, while the remaining emissions would be compensated for by planting trees which would absorb carbon in the atmosphere or by other similar measures) and energy transition of Europe entails making annual investments, amounting to 5% of the GDP, in the infrastructure, agriculture, and industry, creating millions of new jobs and ending the savings era, and all this without an increase in taxes.

Reuters believes that this is a great financial challenge for Europe, since the European Commission estimates that halving the emissions by 2030 would require making annual investments of EUR 260 billion in energy, transport, and construction.

An intensive transition to electric vehicles is one of the factors for the Green Deal implementation. The new report of the Transport&Environment environmental group states that around 3 million public charging points will have to be made available by 2030 to respond to a growing number of EVs required for long-term climate objectives in Europe.

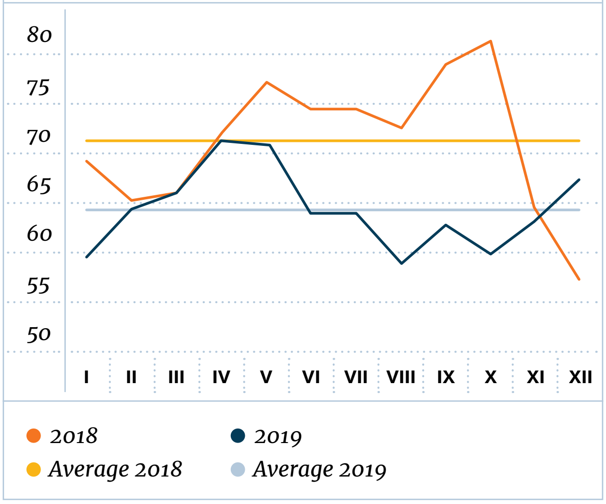
Political obligations under the Paris Agreement, legal obligations under the Energy Community Treaty, and the EU accession process oblige the Energy Community to start the emission reduction activities. At the ministerial meeting held in December, it was concluded that a series of actions should be prepared to enable an efficient and socially acceptable implementation of very expensive energy system decarbonisation, while at the same time ensuring the adequacy of the electric power system and continuously reliable energy supply.

Oil

The global oil and gas industry has the output of 80.6 million barrels per day. According to Rystad Energy estimates, the world's leading oil and gas explorers discovered 12.2 billion barrels of oil equivalent (boe) in 2019, which is a record high since 2015. Twenty-six discoveries had more than 100 million boe, with offshore regions dominating the list of new oil and gas deposits. However, many of the important sources remained insufficiently clear in terms of results, so analysts believe that although the discovered oil and gas surpassed the preceding year, 2019 was a disappointing year for high-profile wells as many resources estimated as important failed to deliver. Over 10 billion barrels of estimated pre-drill volumes were in wells that failed to deliver hydrocarbons.

The price of Brent crude oil averaged $64.3 per barrel, which is almost 10% less than in 2018, although in the January-December 2019, it rose by almost 13% (from $59.5 to $67.0). Terrorist attacks on tankers and refineries in the Middle East caused occasional sharp rises, so the price ranged between $53.2 and $74.7.

Brent Dtd* price trends **-9%**
$/bbl



* *Source: Platts.*

Macroeconomic Trends

The global growth in 2019 had the lowest pace since the global financial crisis ten years ago, which is the result of combined impacts on countries and on country-specific factors. Rising trade barriers and the resulting uncertainty reflected on global trends and activities.

Weaknesses typical for countries with great market economies (Brazil, India, Mexico, and Russia), harsh financial conditions (Argentina), geopolitical tensions (Iran), and social unrest (Venezuela, Libya, Yemen) placed additional pressure on the global economy.

The uncertain economic climate made the global trade (durable goods and components used for manufacturing them) slow down almost to the point of stagnation. Household demand for durable goods has also weakened. This was especially obvious in cars, where the regulatory changes, new standards concerning emissions, and the carpool option caused a drop in sales in some countries.

Positive trends were marked in production of renewable energy, where the plunge of wind turbine and solar panel prices led to growing investments in this type of production.

In its Global Economic Prospects (January 2020) report, the World Bank predicts that the global economic growth in 2020 will be up to 2.5% as investments and trade will gradually recover from last year's significant weakness, but there are still risks. The World Bank expects that the growth of advanced economies (regarded as a group) will reach 1.4% due to continuing lower production. The growth of developing economies is expected to speed up and reach 4.1%. This sharp increase is not based on a general trend; instead, the Bank expects better results for a small group of major economies, some of which are recovering from the period of intense weaknesses. About a third of new markets and developing economies are expected to experience a slowdown this year due to exports and investments that failed to meet expectations.

Serbia

The macroeconomic stability, which has remained steady over the course of past few years, is a result of both fiscal consolidation and greater fiscal discipline, but also a positive external environment: favourable trends at the international capital market, low inflation, and a decrease of the general unemployment rate. A stable macroeconomic framework is expected to persist in the next period as well. The IMF commended the preservation of the achieved results, while in late September, Fitch Ratings raised Serbia's credit rating from BB to BB+, with a stable outlook for staying at this level in the upcoming period. Another two important agencies, namely Standard and Poors and Moody's, upgraded the outlook from stable to positive, creating space for Serbia to be a step away from the investment grade soon, in accordance with the opinion of these agencies.

The GDP growth stems from the rise in investments and exports, and the recovered labour market. Despite the euro area slowdown, according to the estimates of the Statistical Office of the Republic of Serbia, the 2019 GDP grew by 4.0% compared to 2018, owing to the construction sector and fixed investments, which surpassed the expectations. The recovery of processing industry in the second semester also contributed to the GDP growth.

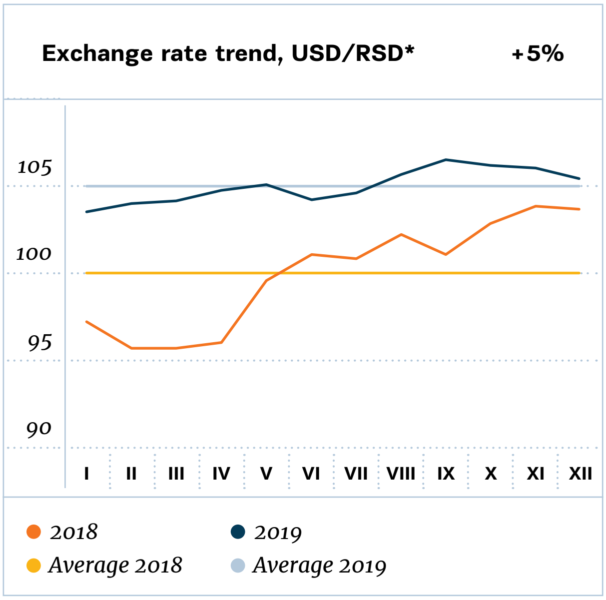
The inflation profile in Serbia is similar to that of developed economies. Inflation is under strict control and it averages around 2% for the past six years. Inflation trends in 2019 were impacted by prices of unprocessed food and energy products. After reaching the central target value in April, inflation was in decline until October due to lower prices of vegetables and petroleum products, so annual inflation is 1.9%.

When it comes to labour market, 2019 saw an increase in employment, i.e. decline in unemployment. Although the Government has almost reached its initial goal to lower the unemployment rate to 10.0%, the positive trend is expected to continue in 2020. The unemployment decrease is a result of substantial investments in labour-intensive production, growth of economic activities in real terms, but also a demographic trend. The manpower shortage for the existing and new investments is often cited as the main problem in the economy, which will demand solution in the medium term through simplifying the procedures for acquiring certain professional qualifications, increase in the cost of labour, and attracting foreign labour force.

There are indications that economic activities will continue growing in 2020 through investments, expansion of production capacities and ranges, and an increase in export.

The NBS estimates that, in 2020, in a medium-term, Serbia will maintain a strong, sustainable, and diversified GDP growth, which should remain at 4%, which will be achieved through a preserved macroeconomic stability, better business environment, high private and state investments, and the effects of the prior mitigation of monetary policy.

A significant factor for a promising business environment is continuation of European integrations, which slowed down during 2019 due to unresolved political issues in the region and inert reforms within the EU itself.



* *Source: NBS.*

- Average USD/RSD exchange rate in 2019 was higher by RSD 5.1, i.e. 5% compared to the average exchange rate in the same period of 2018.
- In 2019, USD/RSD exchange rate increased by RSD 1.53 or 1%.
- During 2018, USD/RSD exchange rate rose by RSD 4.27 or 4%.

Legislative Changes

In 2019, the legislative activity of the government authorities was aimed at improving the fiscal regulations, the legal framework for education, as well as the business environment by adopting a series of new laws governing labor and employment, the area of trade relations and the economy. In the observed period, the National Assembly adopted the following laws that have an impact on the operations of our company: Law on Health Insurance, Law on Trade, Law on Amendments to the Law on Electronic Commerce, Law on Commodity Exchange, Law on Agency Employment, etc.

What is particularly significant is the adoption of the Law on Agency Employment, which, for the first time in the Republic of Serbia, regulates the issue of employment through temporary employment agencies, the so-called labour leasing. The law defines temporary employment agencies and specifies the conditions for their work, prescribes the rights and obligations of persons who conclude an employment contract with a temporary employment agency and are assigned to a temporary employer/agency client, as well as other mutual rights and obligations of employees, agency and employer/agency client. The aim of the law is to ensure equal treatment of assigned employees with other employees with regard to certain rights arising from employment and on the basis of work. Also, this law ensures compliance with ILO Convention No. 181, Recommendation 188 and Directive 2008/104.

In 2019, a number of by-laws significant for the business were adopted, such as: Regulation on the criteria for classifying activities that affect the environment according to the degree of their negative impact on the environment, the amounts of fees, conditions for their reduction, as well as on the criteria relevant to the environmental impact of individuals; Regulation on the market share of biofuels; Rulebook on technical and other requirements for biofuels and bioliquids; Rulebook on conditions, criteria and content of projects for all types of geological exploration; Rulebook on conditions and manner of performing technical control of geological exploration projects; Rulebook on technical standards for fire and explosion safety of retail facilities of LPG bottles, etc.

NIS analyzed the aforementioned regulations in the adoption stage via its working body - the Regulations Committee, and gave its contribution in order to align these regulations with the needs and requirements of the energy entities doing business in the market of the Republic of Serbia.

In addition to the adopted regulations, in 2019, several draft laws and by-laws were also prepared and discussed, such as the Draft Law on Amendments to the Waste Management Law, the Draft Law on Amendments to the Planning and Construction Law, the Draft Law on Amendments to the Railway Safety Law, and the Customs Law by-laws.

NIS shall continue to significantly contribute to creating a positive business environment in Serbia, and to emphasize the necessity of harmonizing the regulations and strategies in order to make their application unhindered and complete.

1.07

Performance Analysis

Market Share[1]

Consumption of motor fuels in the region is on the rise. The key growth factors are:

- positive macroeconomic trend;
- growth of the transport, processing and construction industries.

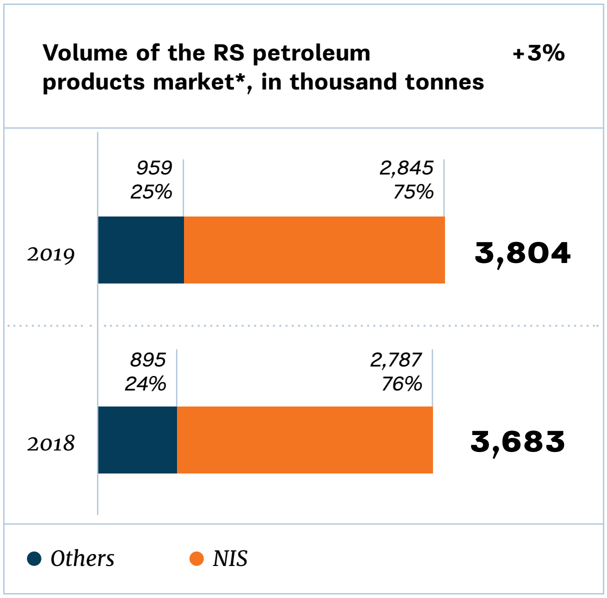
Infrastructure works and very good agricultural and construction seasons had a positive impact on the consumption of diesel.

Part of the diesel fuel consumption is returning from the grey zone to legal trade flows.

The decrease in the consumption of LPG is the result of a drop in the number of vehicles using this fuel and high prices.

1 *Data sources for the projections: for Serbia – Sales and Distribution Block's internal analyzes and estimates; for consumption estimates for Bulgaria and Romania– PFC and Eurostat; for Bosnia-Herzegovina – PFC and internal estimates.*

Market Share in the Serbian Market



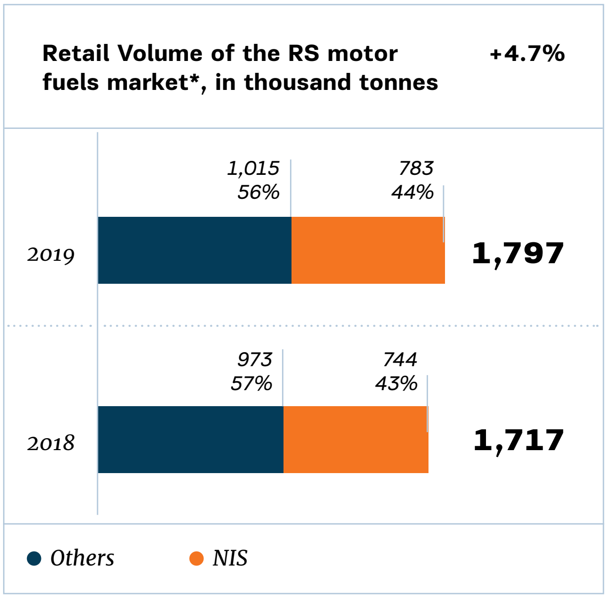
* *Data for 2019 are given on the basis of estimates.*

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

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

Petroleum naphtha and heavy fuel oil experienced a downward trend in consumption (turnaround of Petrohemija).

NIS' market share is traditionally quite substantial.



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

NIS' sales are following the market trends and are rising in the diesel and petrol segments, whereas LPG sales are falling. Modernized petrol stations, range of additive-enriched fuels and attractive loyalty programs maintain our already substantial market share.

Growth of retail market by 4.7%.

The key growth factors include an increase in purchasing power and the number of vehicles, heavier transit traffic and the fact that a number of transport and distribution companies have begun supplying at our petrol stations (corporate cards).

Market Share in Bosnia and Herzegovina, Bulgaria and Romania

Bosnia and Herzegovina

According to the Optima Group, the Brod Oil Refinery has been out of operation since 9 January 2019 due to a turnaround. Republika Srpska's officials have announced that the Brod Refinery will be recommissioned mid-2020, and that the turnaround is underway.

The market is currently supplied by imports, mainly from the neighbouring countries (Croatia, Serbia, etc.). Due to the poor road infrastructure and the lack of functional railroad tracks and pipelines, the imported goods are mainly transported by road.

In 2019, Bosnia and Herzegovina did not improve its legal regulations in line with the obligations it has towards the Energy Community in the sector of oil and oil products. Therefore, this country still does not have the mandatory emergency stocks of petroleum products at the national level, nor does it have a national strategy for fulfilling its obligations under Directive 2009/119/EC.

The number of petrol stations on the retail market is rapidly increasing. The distributors that a few years ago had retail chains only in Republika Srpska are now slowly expanding their networks onto the entire country.

In Bosnia and Herzegovina, NIS has 35 petrol stations (and 2 petrol stations in the DODO mode).

NIS' share in the overall motor fuel market is 23.7%, while its retail market share stands at 10.1%.

Bulgaria

The Bulgarian oil refinery Lukoil Neftochim Burgas, owned by the Russia-based Lukoil, has signed a 15.3 million euro contract with local suppliers for the reconstruction of the terminals at Rosenets Port, part of the Burgas Port on the south bank of the Burgas Bay on the Black Sea.

The changes to legislation in Bulgaria mean that bitumen will be added to the list of fuels with mandatory emergency stocks. Currently, approximately 50% consumption of bitumen (200 thousand tonnes per year) is supplied by imports, while in 2017 this percentage was nearly 100%. These changes in the Law on Emergency Stocks of Crude Oil and Petroleum Products may hinder or raise the cost of import and storage, and increase the price of bitumen by around 5%.

The Bulgarian Ministry of Regional Development has announced that it completed the draft law on the construction on hydrogen fuelling stations by the end 2020. According to the plan of this development project, there may be 10 of these stations by 2025, and as many as 50 by 2030.

In Bulgaria, NIS owns 35 petrol stations and a petroleum products warehouse in Kostinbrod.

NIS' share in the overall motor fuel market is 5.0%, while its retail market share stands at 4.4%.

Romania

The Romanian Competition Council has launched the application "Oil Price Monitoring" that displays the prices of standard and premium fuels offered by OMV Petrom, Mol, Rompetrol, Lukoil, Socar and Gazprom. The application is available in both web and mobile versions (for iOS and Android) and can be downloaded from the AppStore or Google Play.

OMV Petrom has invested nearly EUR 19 million in the modernization of its Arad fuel warehouse, second largest in the country, whose capacities exceed 32,000 cubic metres. The modernization of the fuel warehouse in Arad marked a successful ending of the program of optimization of the fuel storage infrastructure. In the refinery in Petrobrazi, OVM Petrom commissioned a polycarbonate unit that converts LPG and low-quality petrol to petroleum products with high "added value", i.e. petrol and diesel. This is the third such unit in the world.

The Romanian oil company Rompetrol intends to upgrade the heating plant in the Vega refinery in Ploiesti, in order to increase energy efficiency. Over 1.9 million dollars will be invested in this project, whose goal is to make the refinery more energy efficient, increase its yield from 91% to about 96% and reduce emissions from the production process.

KazMunayGaz International is investing in the network of Rompetrol's petrol stations in Romania, and plans to open 70 petrol stations in the next 4 years. Retail sales are to be expanded within the Romanian-Kazakh Investment Fund which was established at the beginning of 2019. In addition to petrol stations whose construction will be financed by the Fund, the company will continue its cooperation with its franchise partners which should enable it to open about 10 new petrol stations in the upcoming years. The two shareholders in the Fund are the Ministry of Energy (20%) and KMGI (80%). The new petrol station will operate under the Rompetrol brand, in line with its standards.

NIS has 18 petrol stations in Romania, while construction and opening preparations for M-sized

Otopeni petrol station (GAZPROM brand) were completed in 2019.

NIS' share in the overall motor fuel market is 0.9%, while its retail market share stands at 1.2%.

Key Performance Indicators

Q4 2019	Q4 2018	Δ[1]	Indicator	Unit of measure	2019	2018	Δ[2]
63.3	67.8	-7%	*Brent Dtd*	$/bbl	**64.3**	71.0	-9%
75.9	74.2	+2%	Sales revenue[3]	RSD billion	**272.1**	281.0	-3%
5.9	3.4	+72%	Net profit	RSD billion	**16.6**	25.1	-34%
13.3	11.7	+14%	*EBITDA*[4]	RSD billion	**44.5**	53.7	-17%
15.0	4.7	+218%	*OCF*	RSD billion	**56.9**	37.4	+52%
13.2	13.7	-4%	*CAPEX*[5]	RSD billion	**42.2**	41.0	+3%
53.1	50.5	+5%	Accrued liabilities for taxes and other types of public revenue[6]	RSD billion	**189.8**	192.7	-2%
590	577	+2%	Total bank indebtedness[7]	EUR million	**590**	577	+2%
1.7	2.2	-25%	*LTIF*[8]	%	**1.7**	2.2	-25%

1 *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*
2 *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*
3 *Consolidated operating income.*
4 *EBITDA = Sales revenues (exclusive of excise duties) – costs of inventories (oil, petroleum products and other products) – Operating Expenses (OPEX) – other costs that may be controlled by the management.*
5 *CAPEX amounts are exclusive of VAT.*
6 *Taxes, fees, charges and other types of public revenue calculated for the reporting period. The overview is inclusive of the liabilities of NIS for taxes and other public revenue in Serbia and other countries of operation.*
7 *Total bank indebtedness = Total debts+Letters of Credit. As at 31 December 2019, the total debt stood at EUR 590 million. There were no debts under letters of credit.*
8 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The indicator shown refers to NIS j.s.c. Novi Sad with its subsidaries; Naftagas - Oil Services LLC Novi Sad, Naftagas - Technical Services LLC Zrenjanin, Naftagas - Transport LLC Novi Sad and STC NIS - Naftagas LLC Novi Sad. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 31 December 2019. Therefore, there is no difference between year 2019 and Q4.*

Operating Indicators

Exploration and Production

The main goal of the Exploration and Production in 2019 was to reach hydrocarbon output, implement the projects concerning geological and exploration operations, increase the GTA efficiency, discover, through laboratory testing, new technologies for well completion and methods of stepping up the production.

The total production output reached 1,248 thousand tonnes of oil equivalent in reservoirs in Serbia, and 1,286 thousand tonnes of oil equivalent with concessions included.

The 2019 hydrocarbon resource base was by 0.6% greater in relation to the end of 2018.

In the area of geology and reservoir development, the emphasis is on maintaining the high quality of geological and technical activities and testing of new technologies', aimed towards an increase in oil and gas production.

Q4 2019	Q4 2018	Δ[1]	Key Indicator	Unit of measure	2019	2018	Δ[2]
322	332	-3%	Oil and gas output[3]	Thousand t.o.e.	**1,286**	1,332	-3%
214	223	-4%	Domestic oil output[4]	Thousand tonnes	**859**	886	-3%
3.0	3.3	-9%	*LTIF*[5]	%	**3.0**	3.3	-9%
7.6	10.0	-24%	*EBITDA*	RSD billion	**34.2**	38.8	-12%
6.2	7.1	-12%	*CAPEX*[6]	RSD billion	**21.3**	20.7	+3%

1 *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*
2 *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*
3 *Domestic oil output includes natural gasoline and light condensate, whereas output takes into account commercial gas output and and liquid hydrocarbons (light condensates).*
4 *With natural gasoline from the field.*
5 *Lost Time Injury Frequency- Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 31 December 2019. Therefore, there is no difference between year 2019 and Q4.*
6 *Financing, exclusive of VAT. CAPEX data for 2019 and 2018 (including quartals) refer to Upstream (Exploration and Production Block and Services).*

Geological Exploration and Well Engineering

The success rate of development drilling in 2019 was 95%. In the field of development drilling, additional exploration operations, determination of oil saturation limits in active reservoirs and optimization of well spacing were actively conducted. Based on a detailed analysis of geology and reservoir development, highly productive wells were drilled and put into operation on deeper, previously unperforated sections of the reservoir in Kikinda.

When it comes to workover and insulation works, operations at the Kelebija and Velebit fields were successfully completed.

As regards design documentation, 10 studies have been defended, while 8 feasibility studies, 7 main mining designs, and 7 deep-dive analyses. Using these analyses and the updated data as a base, we drilled a total of 45 development wells at 9 fields, and prepared the 2020 drilling.

Last year we carried out complex laboratory tests, which included filtration tests whose purpose was to define the resistance coefficient, residual resistance coefficient, retention, and to assess the utilisation coefficient growth. Additional laboratory analyses determined the impact of a polymeric solution on the oil preparation process. In addition, the infrastructural concept was defined in 2019. In this regard, a water well was tested to ensure that enough water was available for injection of the polymeric solution.

Exploratory Drilling and Well Testing

As part of the implementation of geological and exploration works by the Exploration and Production, 11 exploration wells were drilled in 2019. A total of 8 exploration wells have been commissioned (one is from 2018), 1 well was abandoned, and 3 wells are being tested.

2/3D Seismic Surveys

The 3D seismic data acquisition in the Ada exploration area was completed in July, and a total of 700 km^2 were surveyed.

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

At the end of 2019, the Ministry of Mining and Energy granted its Authorisation for continuing the surveys in the exploration area in Serbia to the south of the Sava and Danube for a three-year period.

International Projects

The Company’s upstream operations in Romania are carried out using the resources of Romanian NIS Petrol s.r.l. (a subsidiary, whose sole owner is NIS j.s.c. Novi Sad) in six concession blocks. NIS Petrol s.r.l. is the operator in these block.

Key Events in Romania:

- EX-7 and EX-8 blocks: In 2019:
    - 2 wells, namely Beba Veche Sud 1000 and Teremia 1001, were drilled in the EX-7 block;
    - extended well testing of Teremia 1001 was completed;
    - Pesac Sud 1000 well was drilled in the EX-8 block;
    - test production began in the Teremia 1001 well;
    - drilling of the Teremia 1002 well commenced in the EX-8 block and put into operation on 31st December;
    - the production system for the preparation and shipment of oil in the Teremia field was put into operation.
- EX-2 block. In Q3 this year, field 3D surveying operations were completed on 170 km² in the EX-2 block;
- EX-12 block. In Q4 this year, field 3D surveying operations were completed on 155 km² in the EX-12 block;
- Jimbolia Block. In 2019:
    - capital workover of the Jimbolia 6 well was completed, the testing equipment was manufactured and delivered, and the construction and erection works were completed;
    - a gas preparation complex was commissioned for commercial use.

Company's Upstream operations in Republika Srpska (Bosnia and Herzegovina) are conducted using resources of the Jadran Naftagas company from Banja Luka (a subsidiary, majority-owned (66%) by NIS j.s.c. Novi Sad, and minority-owned (34%) by NeftegasInCor, a Russian state-owned company) on three concession blocks. Jadran Naftagas is the operator on all blocks.

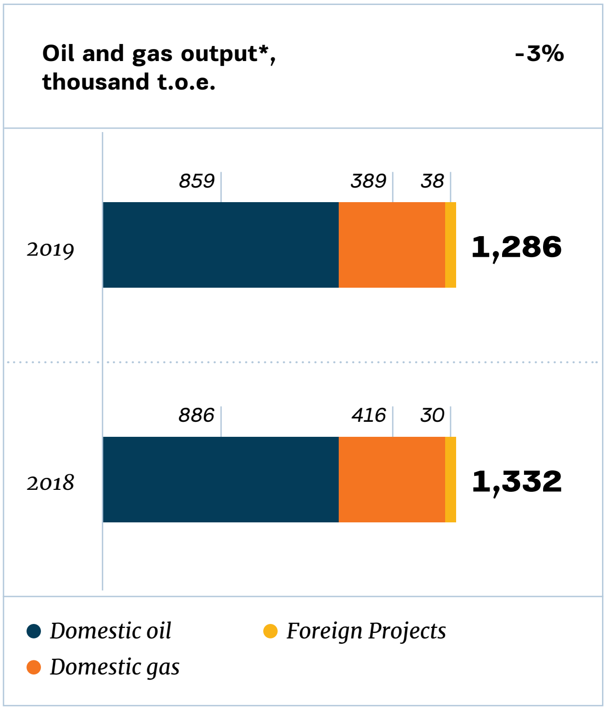
Key Events in Bosnia and Herzegovina:

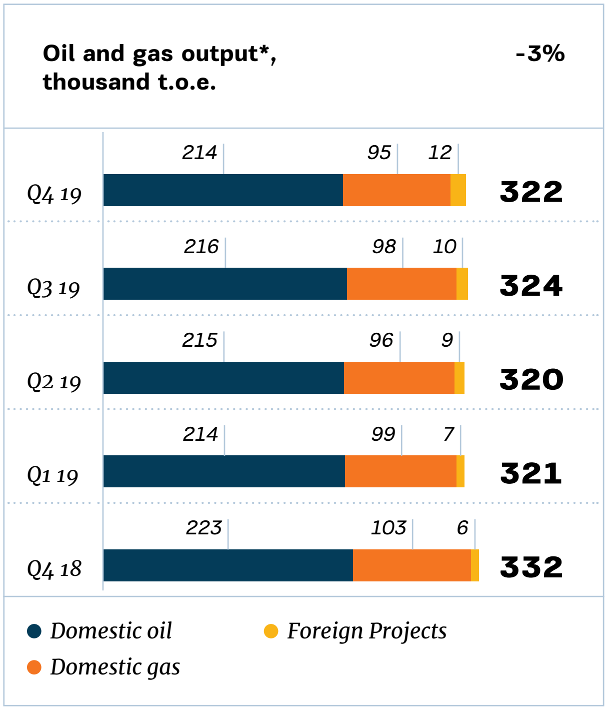
- during Q2 in Bosnia and Herzegovina (Republika Srpska), Annex 3 to the Concession Agreement was signed with the Ministry of Mining and Energy of Republika Srpska, thus renewing the exploration rights until the end of 2023;
- in June 2019, the Ministry of Mining and Energy of RS issued the Decision on Approval of Detailed Petroleum and Geological Exploration in the territory of Republika Srpska for 2019-2023;
- workover of the Ob-02 well (July-August 2019) was completed, while well stimulation yielded positive results;
- since August 2019, mineral resources on Ob-2 well are tested for quality and chemical and technological properties. Hydrodynamic measurements, analyses and calculations regarding the resource base, production potential and profile are performed for the purpose of outlining the oil potential in the Obudovac region.

In the area of geology and reservoir development, the emphasis is on maintaining the high quality of geological and technical activities and testing of new technologies', aimed towards an increase in oil and gas production.

Operating Indicators

A total of 1,286 thousand tonnes of oil and gas equivalent were produced in 2019.





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

The year 2019 was marked by the beginning of experimental oil production in Romania, which is an exploration area with great potential. We are now focused on further exploration operations and development of the discovered reservoirs in order to ensure new hydrocarbon reserves. Also, we started digital transformation and completed the second phase of transformation according to the new organization scheme for the Upstream. The underlying purpose of this transformation was to transform the Services and Exploration and Production so as to make the Upstream a typical, modern production company. The transformation was initiated with the idea to unlock potential for greater efficiency, quality, reduction of production time, and enhancement of the well quality, which would in turn lead to greater production and attainment of the set goals. Also, the level of risk management in drilling and workover was raised, which will help us increase efficiency and achieve better results. Finally, our investment of around RSD 21 billion in exploration and production is certainly a good foundation for successful continuation of our activities in 2020.

Refining

This year in the Refining Block has been marked by major activities and challenges such as the capital turnaround of its refining capacities, reconstruction of the MHC/DHT Unit and the commencement of the construction of the Combined-Cycle Power Plant (TE-TO).

This has definitely increased the responsibilities of all employees within the refining sector – in addition to these activities and their safe implementation, it was necessary to ensure reliable and safe operation of the refining units to supply the market with oil products.

At the beginning of 2019, the largest capital turnaround so far was carried out in the RNP (hereinafter: the Pančevo Oil Refinery), and it encompassed almost all of the refining units. The turnaround also included a complex reconstruction of the MHC/DHT Unit as part of the planned preparation for its integrated operation with the new units. Another objective of the turnaround was to install the necessary technical and technological connections between the existing refining units and the units of the Delayed Coking Unit which are currently in construction. There were no injuries nor any other HSE incidents during the activities within the capital turnaround.

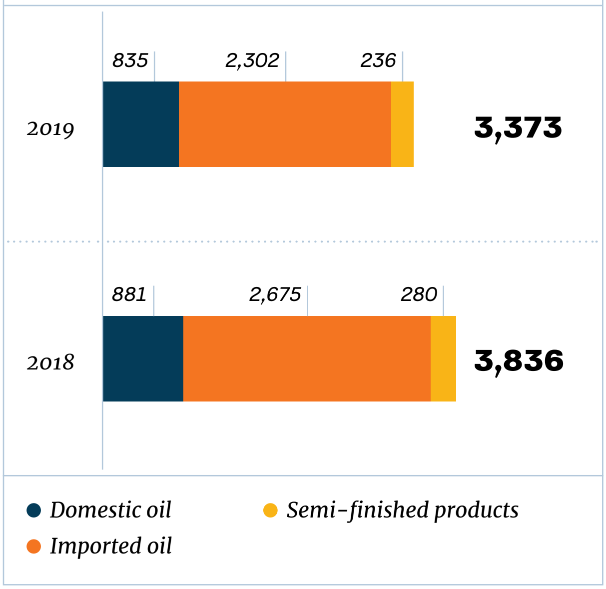
The period after the capital turnaround was marked by a high refining output, and bitumen output reached an all-time peak of 59 thousand tonnes in October. The trend of stable production continued by the end of 2019, and the units were prepared for operation in winter conditions and for the production and shipment of winter diesel.

Q4 2019	Q4 2018	Δ	Key indicator	Unit of measure	2019	2018	Δ
1,055	1,067	-1%	Volume of refining of crude oil and semi-finished products	Thousand tonnes	**3,373**	3,836	-12%
1.1	0	-	*LTIF*[1]	%	**1.1**	0	-
1.9	-2.7	+170%	*EBITDA*[2]	RSD billion	**1.3**	8.3	-84%
5.4	5.5	-2%	*CAPEX*[3]	RSD billion	**17.1**	16.4	+4%

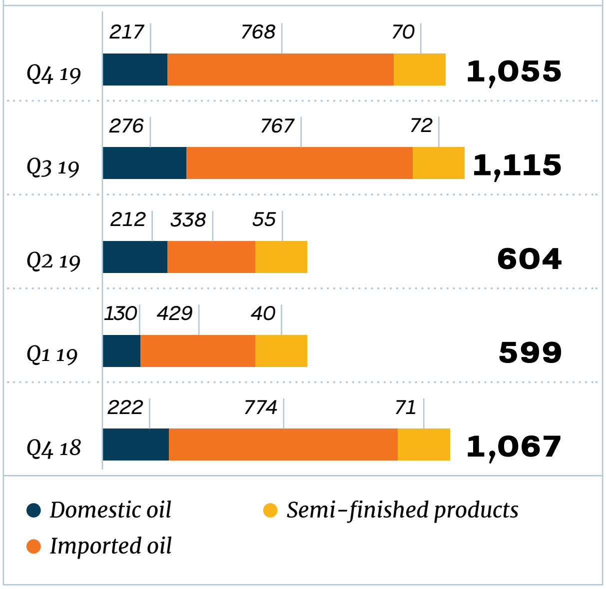
1 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 31 December 2019. Therefore, there is no difference between 2019Y and Q4.*
2 *EBITDA of the Refining Block includes the Energy Plant at the Pančevo Refinery.*
3 *Financing, exclusive of VAT.*

Refining Activities and Volume

Refining volume*, thousand tonnes **-12%**



Refining volume*, thousand tonnes **-1%**



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

In 2019, the output of petroleum products dropped by 12% compared to 2018 due to the capital turnaround and the postponement of the commissioning of the MHC/DHT Unit caused by its prolonged reconstruction.

The execution of the capital turnaround of the units was the main focus of the Refining Block in the first six months of 2019.

At the end of February 2019, the Pančevo Oil Refinery commenced a capital turnaround with the aim of modernizing and increasing the reliability of the refining process. Within the capital turnaround, the necessary technical and technological connections between the "old" refinery units and the units in the DCU complex were installed, which makes this year's turnaround the most complex one so far. The capital turnaround was followed by performance testing of investment maintenance projects at the Atmospheric Distillation Unit.

The sulphur granulation unit S-4460 was commissioned in July 2019.

During Q3, the trend of stable production continued, the production and shipment of winter diesel had a successful start, and the refinery units were adequately prepared for stable operation in the winter period.

The special focus of digital transformation was the execution of the €kon$ project which is expected to increase the efficiency of production processes. At the start of the year, the trial run of the first project phase was conducted on the primary processing units (Atmospheric and Vacuum Distillation). After the units were commissioned following completion of the capital turnaround, the €kon$ model was installed in all units, and the system was put into service. The system management process was defined for the segment of use, maintenance and management of changes.

The Bottom-of-the-Barrel Project

Progress of the Bottom-of-the-Barrel Project as at 31 December 2019 is as follows:

- approximately EUR 286.8 million was invested in the project;
- the detailed design was completed and all licences obtained;
- 100% of equipment and material were delivered;
- the foundations, steel structures, pipelines and equipment in the entire complex were completed/installed;
- the construction and installation works on the complex are at 96.5%;
- pre-start works on the complex have commenced;
- we recorded 6.2 million man hours, 14 contractors working on site, and, on average, over 1,000 workers on site per day.

Turnaround

The capital turnaround of the Refinery encompasses works on the "gasoline and diesel pool" of refinery units: Platforming, Gasoline HDS, FCC complex, Alkylation, Sulfolane, Atmospheric and Vacuum Distillation, Mild Hydrocracking and Hydrotreating Complex; works on the monitoring, cleaning and repair of equipment and piping and replacement of catalytic converters; as well as works in the Handling Sector, and the execution of investment projects aimed at increasing the reliability and efficiency of refining capacities.

Nearly three thousand workers took part in the works within this turnaround. In addition to the employees from our company, 1,400 workers from the country and abroad were engaged at the peak of the turnaround.

The planned shutdown of the Refinery was also used to ensure compliance with all legal obligations concerning pressure vessels and pipelines. Additionally, the equipment was overhauled, and the problems identified in the trial run eliminated, catalytic converters replaced, etc. All these works were carried out on the group of primary and secondary processing units.

The capital turnaround included the installation of the technical and technological connections between the "old" refinery units and the units in the DCU complex, as well as the works on the reconstruction of the MHC/DHT complex for the DCU's needs.

Other Projects

In 2019, we intensified the activities within the digital transformation of the Refining Block, projects for assisting operators in their work (кон$), operator training using simulators – (OTS), implementation of an e-learning platform for on-line employee training, installation of an alarm management system, "Digital Structured Rounds", prediction of equipment failures (machine learning). Additionally, a study (non-core strategy development) was prepared, providing a list of potential projects within the digitalization of the Refining Block.

Within the Industry 4.0 digitalisation, the Refining Block's management team held a meeting in order to identify the key operational issues and the possibilities for the implementation of available digital technologies; to define activities for detailed development of new projects; and to incorporate approved projects in our medium-term investment plan SIP 2020+ (as well as to prepare and execute them).

Simultaneously with the execution of the Bottom-of-the-Barrel Project with the delayed coking technology (DCU), professional training will be provided for the team of employees who will start the newly built production complex and work in it. The continuous employee training was continued in the DCU (on the construction site) and in the OTS – an operation simulator used to train external operators and control panel operators.

All these projects will be crucial for advancing the development and modernization of the refining process, as well as for increasing the operating efficiency and safety.

The activities within the projects for cooperation with schools and universities continued in 2019 as well. Within the Memorandum on Cooperation with the Secondary School of Electrical Engineering in Pančevo, we provided modern equipment for the automatics classroom and helped the adaptation of the school syllabus and training of prospective employees of the Pančevo Oil Refinery.

Sales and Distribution

Q4 2019	Q4 2018	Δ[1]	Key indicator	Unit of Measure	2019	2018	Δ[2]
1,081	1,008	+7%	Total sales volume of petroleum products[3]	Thousand tonnes	**3,702**	3,748	-1%
125	94	+33%	Sales volume – foreign assets[4]	Thousand tonnes	**436**	359	+21%
787	762	+3%	Sales volume of petroleum products in the domestic market[5]	Thousand tonnes	**2,751**	2,807	-2%
170	152	+12%	Export	Thousand tonnes	**515**	582	-12%
688	616	+12%	Motor fuels[6]	Thousand tonnes	**2,469**	2,383	+4%
263	250	+5%	Retail[7]	Thousand tonnes	**995**	949	+5%
1.1	2.0	-45%	*LTIF*[8]	%	**1.1**	2.0	-45%
5.8	5.2	+11%	*EBITDA*	RSD billion	**18.3**	13.9	+32%
1.3	0.8	+52%	*CAPEX*[9]	RSD billion	**3.0**	3.2	-6%

1 *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*
2 *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*
3 *Without the internal sales volume (12M 2019: 16.2 thousand tonnes; 12M 2018: 16.1 thousand tonnes).*
4 *The sales volume of foreign assets includes sales generated by NIS' the subsidiaries abroad (retail and wholesale).*
5 *Domestic market sales includes sales volumes invoiced in local currency (RSD) and does not include sales volumes sold to foreign customers and invoiced in foreign currency.*
6 *Total sales of motor fuels in Serbia and in foreign assets.*
7 *Total retail in Serbia and in foreign assets.*
8 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 31 December 2019. Therefore, there is no difference between year 2019 and Q4.*
9 *Financing, exclusive of VAT.*

Points of Sale[1] and Logistics

NIS Group owns over 400 active retail sites. Most of them, i.e. 325 retail sites are located in the Republic of Serbia. In addition to 10 petrol stations for NIS use only, NIS owns 315 public petrol stations (23 under GAZPROM brand). In the countries of the region, NIS owns 37 petrol stations in Bosnia and Herzegovina (27 under GAZPROM brand), 35 petrol stations in Bulgaria (all of them under GAZPROM brand) and 18 petrol stations in Romania (all of them under GAZPROM brand).

After full-scale reconstruction works were completed in Serbia, in 2019, 5 petrol stations were put into operation, while 1 petrol station in Romania (Otopeni PS) was constructed.

Two mobile Drive Cafes started operating in Serbia.

1 As at 31 December 2019.

Loyalty Program and Marketing Activities

In 2019, over 110 marketing activities were carried out in Serbia with the aim of developing consumer brands and loyalty programs and improving sales of fuel and non-fuel products.

The opening of new petroleum stations was accompanied with in-store promotions and special offers for consumers - premium and standard petroleum products at the same price and free gifts for buyers.

To increase awareness and improve image of the G-Drive premium brand, the G-Drive RACING platform was launched in the first quarter. A strong PR support backed the release of more than 70 announcements with high-quality content advertizing the visit by the champion of the Le Mans endurance race. The racing car of the G-Drive RACING team was presented at the car show, followed by a press conference and presentation of awards won through our pre-show activations on social media.

In order to boost sales of G-Drive petroleum products, increase the number of transactions/sales with the SNNP (hereinafter: On the road with us) card, increase brand awareness and improve the image of G-Drive fuel, a tactical special offer will be carried out in several stages in various cities and towns around the country with the following mechanism: -10 RSD/l and -5 RSD/l with the SNNP loyalty card.

Communication on benefits of premium fuel continues; Q3 of 2019 saw the launching of a G-Drive image campaign, whose goal is to present rational benefits and create emotional benefits of a continuous use of premium petroleum products, on the RTS channel with national coverage, cable TV channels during the basketball world cup, and on digital channels. This was accompanied with a radio campaign.

A new Purchase with Cash Back service became available at petrol stations. The service involves payment plus cash withdrawal, enabling Mastercard users to withdraw cash from their bank accounts when paying by cards at NIS PETROL and GAZPROM petrol stations.

Thirty one new products have been launched in the private brand domain: G-Drive strawberry energy chewing gums, Drive Cafe energy bar, G-Drive energy peach and strawberry hard candies, Drive Cafe sandwiches, Drive Cafe Coldpress, tissues and wet wipes, Drive Cafe cookies, G-Drive blackberry and mango energy drink, 250 ml, G Drive regular 500 ml.

A comprehensive and integrated marketing campaign on quality, origin, and special preparation of Drive Cafe coffee was launched for the purpose of improving the brand perception. In December 2019, Drive Cafe expanded its offer with the Augmented Reality (AR) mobile app, which took coffee pleasure to a new level. The application helps Drive Cafe build an image of a modern, fun, and unique brand, which consumers can relate to, by a tactical support to sale through giveaways on social media.

We held two On the Road with Us to a New Car prize draws, so far the biggest national draws (an 80% participation rate), which boosted petroleum product sales with more than 1.9 million transactions and increased the number of On the Road with Us program users.

Several events aimed at supporting the B2B business segment took place. We presented our corporate clients with awards (during the event in Promenada in 2018) – a trip to Barcelona to the Champions League quarter-final. Communication and marketing support was provided when the mobile app for GAZPROM fuel card users was released. We organized an event on the

NAVAK track which included training lorry drivers on how to optimize fuel consumption and activities for corporate clients. In November, corporate clients who attended the activities (training courses/seminars) at the NAVAK (National Driving Academy) track were given awards: a trip to Valencia for the motorcycle racing world championship on 17 November. The trip lasted from 15-18 November 2019.

Cooperation with top corporate entities in the country is an important segment of the Company's operations, which is why special attention is given to developing and fostering long-term business relations with them.

An image campaign for all benefits of the On the Road with Us loyalty program was launched on digital communication channels. These include: deferred payment, programs and discounts on non-fuel products.

In 2019, the loyalty program with Tehnomanija and Gigatron continued, and owners of the On the Road with Us card were able to earn bonus points for every purchase in these shops. Bonus points can be used only at NIS PETROL and GAZPROM petrol stations. A new partner to the program is Intersport.

Several two-way marketing activities were organized in cooperation with partners Tempo, Aroma, and SportVision, while within the consumer retention channel, we launched the Umbro redeem program and Philips spend & get program.

In 2019, in the countries of the region in which the Company operates, over 60 marketing activities were carried out with the aim of developing consumer brands and loyalty programs and improving sales of fuel and non-fuel products.

The Agro Card program, aimed at farmers, has been expanding since late 2013. The activities aimed at maintaining the sales volume have continued, including: the basic discount program for Agro cards. Since 6 May 2018, farmers have had the opportunity to buy LPG bottles for household use at a discount of 10 RSD/kg with an Agro card. For the biggest NIS Agro buyers, a ceremony was held on 14 May, 2019 with the aim of strengthening mutual relations and continuing cooperation.

The Company took part in the International Agricultural Fair promoting the benefits of Agro program for farmers. Our NISOTEC brand won the grand champion cup, as well as 11 gold medals, at the International Agricultural Fair in Novi Sad.

In November, an Agro instant special offer was launched at 214 petrol stations.

A series of promotional activities were carried out in the oils and lubricants sales channel in order to increase the margin and boost sales. In July, NISOTEC gave a presentation at the BARTOG 2019 conference in Slovenia which was attended by 50 key sub-distributors of lubricants.

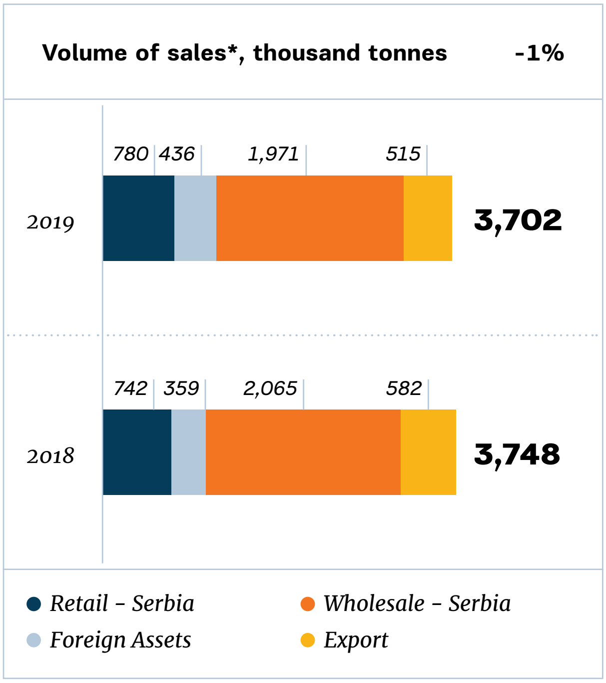
Sports Activities

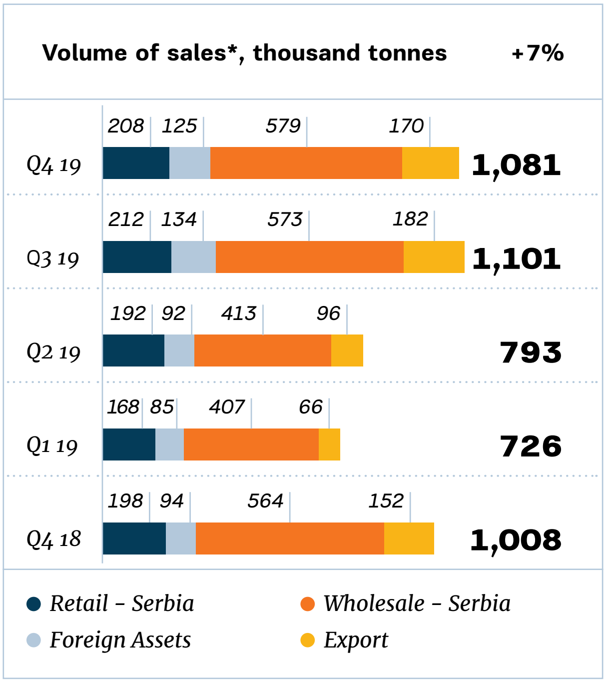
In order to help employees improve health and teamwork, additional activities were provided. In 14 cities (so far), the number of participants in recreational activities increased by 12% compared to the previous year, and their engagement increased by the same percentage. Therefore, currently every 3rd employee is improving their health through physical activity. NIS' employees participated in 35 sports and business competitions in Serbia and Russia, where they demonstrated a high level of teamwork and corporate culture by winning over 22 trophies.

Operating Indicators[1]

In 2019, the sales volume dropped by 1% on 2018, so the total sales volume stood at 3,702 thousand tonnes.

- Retail in Serbia – retail volume growth of 5% resulted from the growth in diesel fuel sales.
- Wholesale in Serbia – a 5% drop mainly came from non-energy fuels.
- Export – drop of 12% as a result of drop in motor and non-energy fuel exports.
- Foreign assets – growth of sales volume of 21% (retail channel - 3% and wholesale channel - 46%).



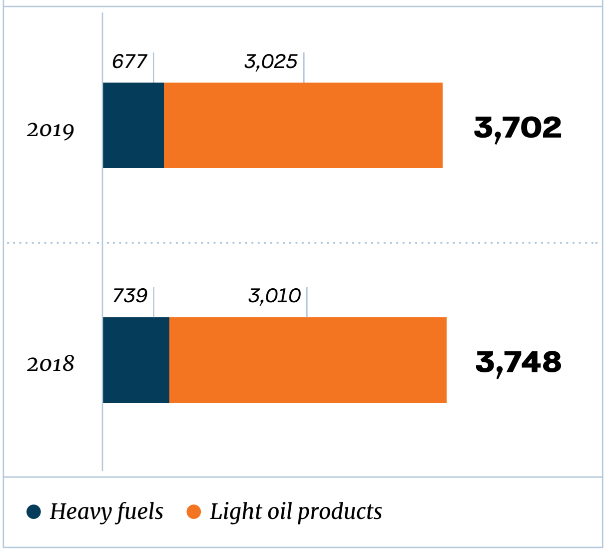


** Without internal sales volume (12M 2019:16.2 thousand tonnes; 12M 2018: 16.1 thousand tonnes; Q4 2019: 4.5 thousand tonnes; Q4 2018: 3.8 thousand tonnes).*

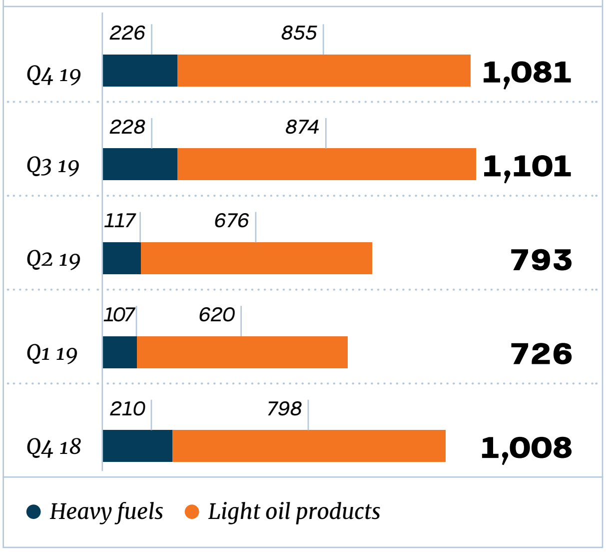
1 *Without internal sales volume (12M 2019:16.2 thousand tonnes; 12M 2018: 16.1 thousand tonnes; Q4 2019: 4.5 thousand tonnes; Q4 2018: 3.8 thousand tonnes). Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*

In 2019, over 110 marketing activities were carried out in Serbia with the aim of developing consumer brands and loyalty programs and improving sales of fuel and non-fuel products.

Structure of sales*, thousand tonnes **-1%**



Structure of sales*, thousand tonnes **+7%**



* *Without internal sales volume (12M 2019:16.2 thousand tonnes; 12M 2018: 16.1 thousand tonnes; Q4 2019: 4.5 thousand tonnes; Q4 2018: 3.8 thousand tonnes).*

	PS name	*Project*
01	*Autoput Desna*	*Reconstruction to GAZPROM, M size*
02	*Stari Banovci*	*Reconstruction to GAZPROM, L size*
03	*Krnješevci*	*Reconstruction to GAZPROM, L size*
04	*Barajevo*	*Reconstruction to NIS PETROL, XS size*
05	*Ivanjica*	*Reconstruction to NIS PETROL, S size*

Map of Reconstructed Petrol Stations in Serbia in 2019

Energy

Natural Gas

We have signed the following contracts with the aim of ensuring security of supply and reorganizing the natural gas portfolio for NIS j.s.c. Novi Sad for Gas Year 2019/2020: Natural Gas Transport Agreement with a transport system operator, Natural Gas Transmission Agreement with a transmission system operator, Agreement on Total Supply of NIS j.s.c. Novi Sad with Natural Gas, as well as the Natural Gas Sale Agreements on the transmission system for balancing purposes and with NIS' subsidiary companies. Novi Sad. Additionally, we have signed a Natural Gas Sale Agreement on the transmission system with an external buyer.

CNG – Commercial Aspect

CNG shipments from the Ostrovo oil field were carried out properly and with no delays, and there is a mutual interest in renewing the CNG Sale Agreement in the next year as well. We have completed feasibility studies for new CNG projects.

Electricity Trade

NIS is present on the electricity markets of Serbia, Bosnia and Herzegovina, Romania and Hungary. Apart from these markets, NIS trades with North Macedonia, Bulgaria and Croatia as well. NIS trades on the electricity markets in Serbia (SEEPEX) and Romania (OPCOM). We have commenced the process of registration of NIS Petrol Eood for the electricity trade in Bulgaria. The procurement of a specialized software for the trade of electricity and gas is underway.

Implementation of the Energy Efficiency Measures Program in NIS j.s.c.

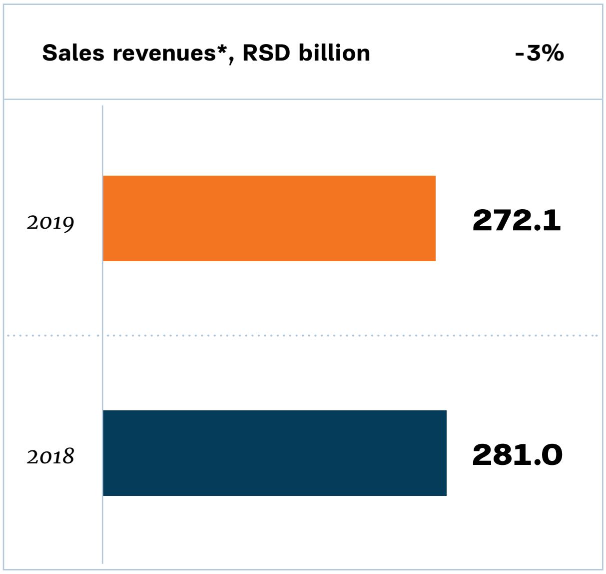
The program of measures for reducing energy consumption and improving energy efficiency in NIS j.s.c. for 12M in 2019 resulted in energy savings of 7,997 toe, which is a 9.9% more than the figure set out in BP 2019. The value of savings is RSD 336 million.

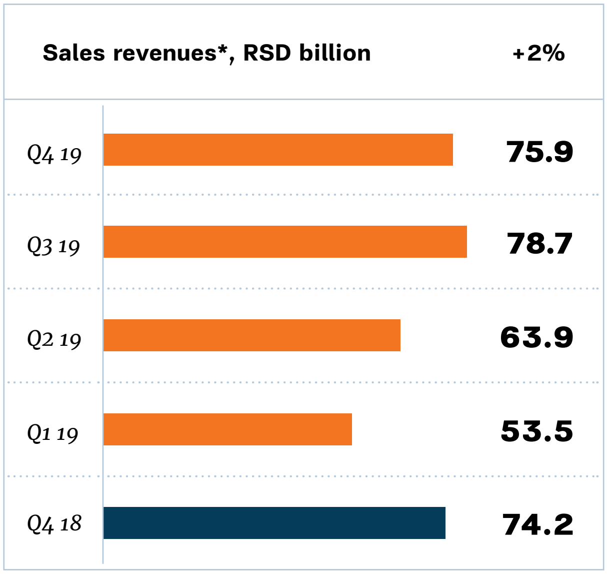
An internal team for energy audits was established, and a regulatory and methodological framework was formulated. Pilot inspections were carried out in the facilities of the Sales and Distribution Block and the Refining Block. NIS has developed measures aimed at improving energy efficiency and formulated the operating plan for 2020.

Financial Indicators

Sales revenues

During 2019, NIS' sales revenue[1] dropped by 3% on the previous year. This was a result of a decrease in the volume of sales in 2019 compared to 2018.





* *Consolidated operating revenue. Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*

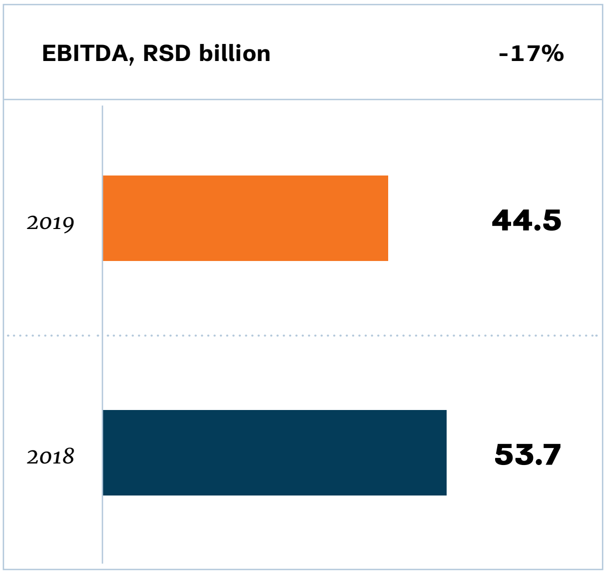
1 *Consolidated operating revenue.*

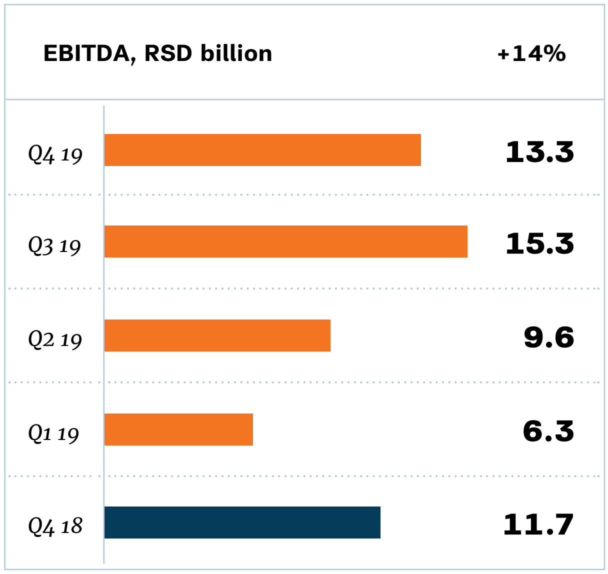
EBITDA

EBITDA for 2019 was 17% lower than in the previous year and amounted to RSD 44.5 billion.

The main reasons for the decrease include:

- decrease in oil prices on the global market;
- lower oil output;
- capital turnaround of the Pančevo Oil Refinery.



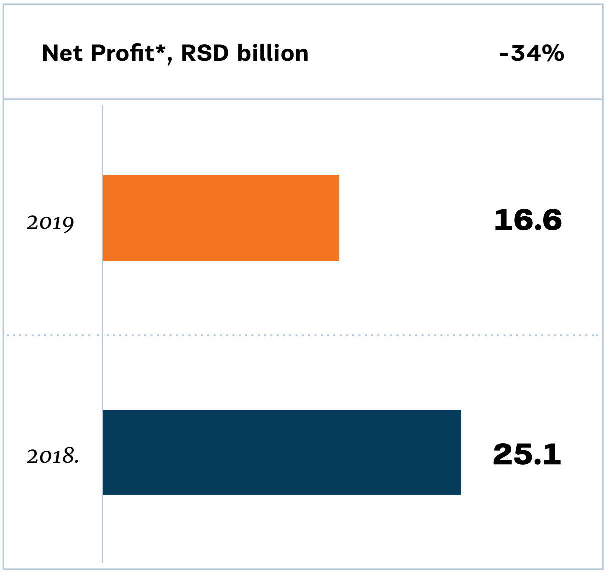


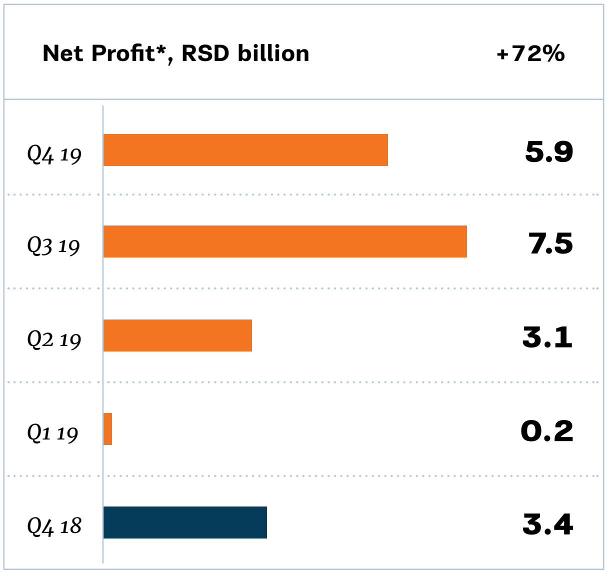
Net Profit

Net profit realised in 2019 is RSD 16.6 billion, a 34% decrease on 2018.

The main causes of the decrease in the net profit:

- lower EBITDA,
- higher depreciation.



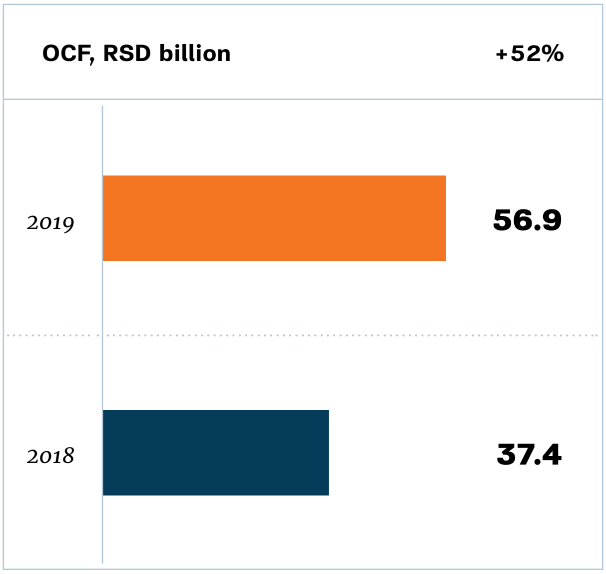


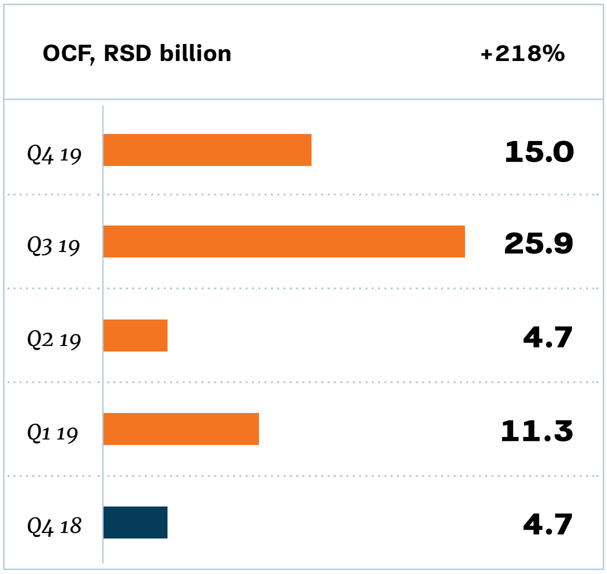
* *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*

OCF

In 2019, Operating Cash Flow amounted to RSD 56.9 billion, 52% increase on 2018:

- Decrease in liabilities for crude oil import
- Decrease in liabilities paid to the government.





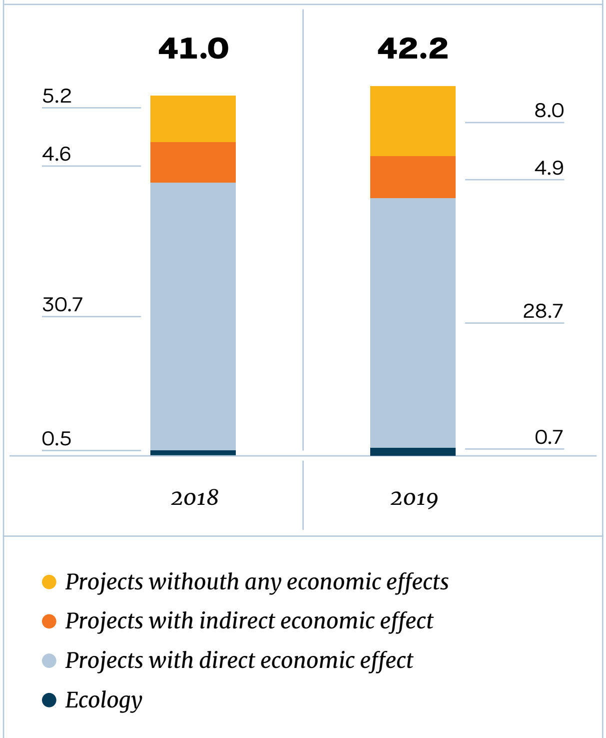
In 2019, we took another stride forward: new projects received the investment of RSD 42.2 billion laying the foundation for further growth and business stability under volatile conditions of the global market. The value of 2019 financial results of the company – net profit of NIS Group in 2019 amounted to RSD 16.6 billion, EBITDA – RSD 44.5 billion– is even more prominent given the complexity of tasks facing us.

CAPEX

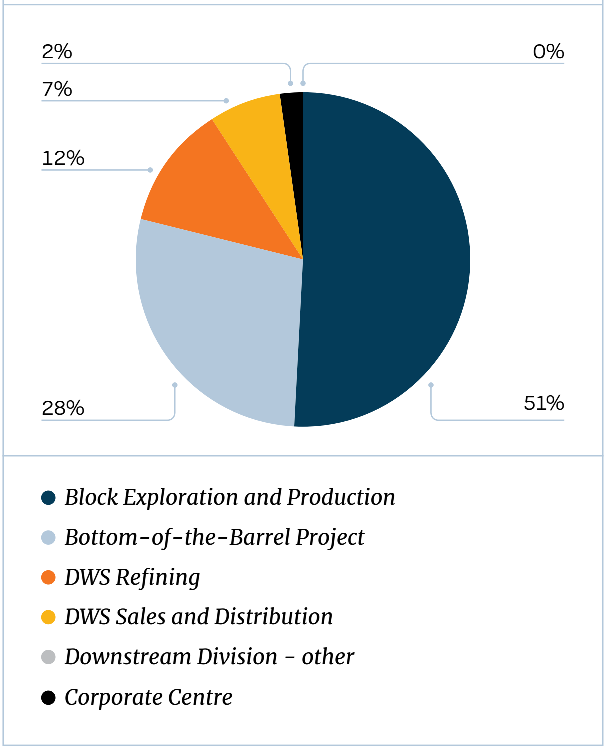
In 2019, the main investment directions were oriented towards the realization of projects in the production of oil and gas, as well as the project for improving the refining depth. In addition, during 2019, NIS invested in sales and distribution, energy, and service projects, as well as a number of projects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

During 2019, RSD 42.2 billion was allocated to finance investments, which is 3% more than allocated in 2018.

CAPEX by type of project*, RSD billion



Investments by segment



* *All amounts are expressed in RSD billion, excluding VAT. Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*

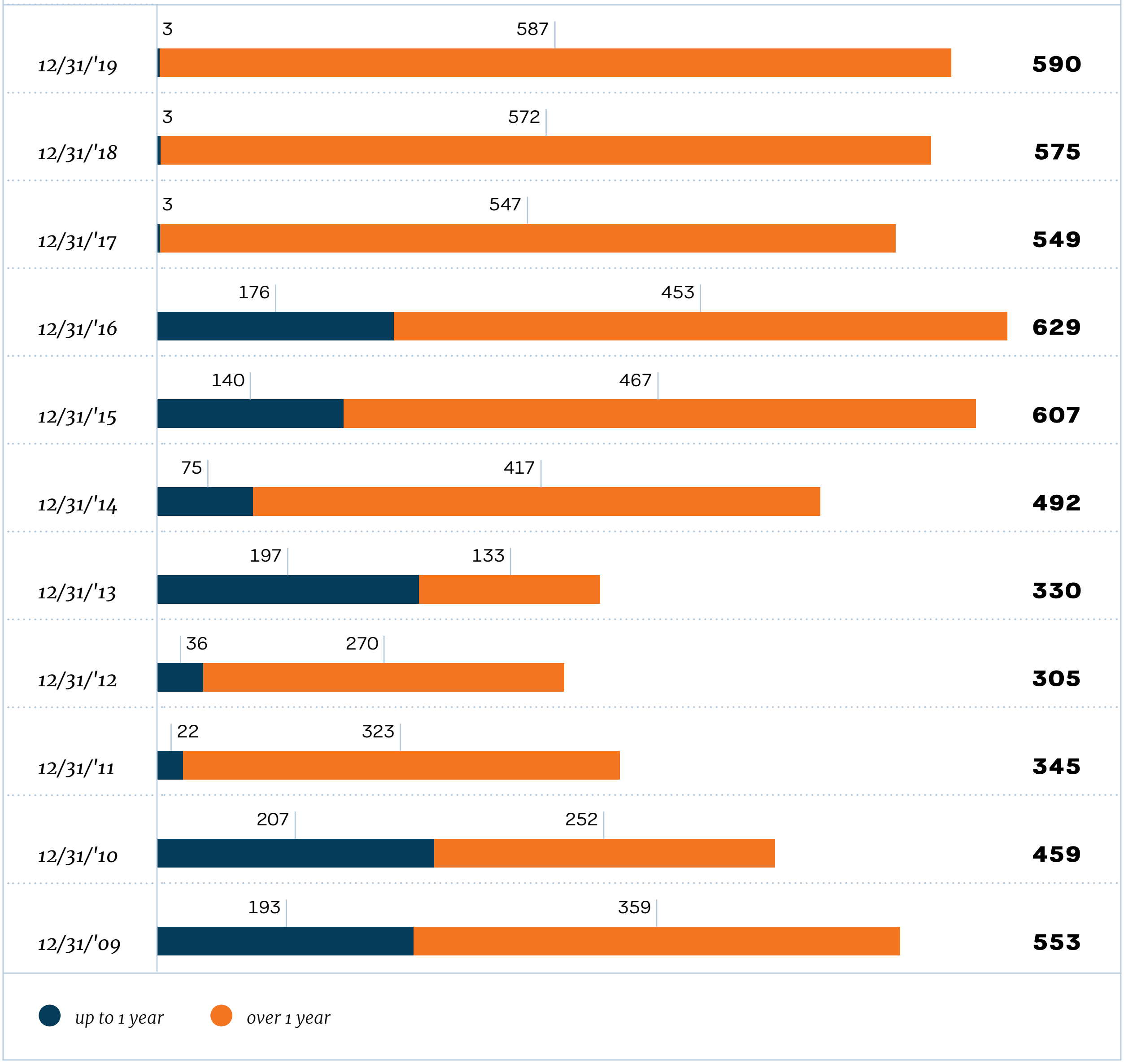
Organisational unit	Major projects
Exploration and Production	• drilling of development wells • investing in geological and technical activities • program of 3D seismic surveys and drilling of exploration wells in the Republic of Serbia • investing in concession rights • investing in basic infrastructure
Services	• procurement of 4 new workover rigs, type A50 • procurement of drilling tools and equipment • configuration of Nacional 3 drilling rig for drilling wells at over 3,500 m
Bottom-of-the-Barrel Project	• modernisation of the refining process – continuation of the implementation of the Bottom-of-the-Barrel Project
Refining	• projects aimed at ensuring compliance with legal norms and regulations • investment maintenance program at the Refining Block • projects aimed at production automation • projects aimed at increasing production efficiency • capital investments in environmental protection
Sales and Distribution	• retail network development in Serbia (petrol station construction and reconstruction) • other retail related projects • HSE projects within the Sales and Distribution Block • procurement of a vessel – pontoon dock station for ship refuelling/bunkering in Veliko Gradište; • reconstruction of petroleum products warehouses (Novi Sad, Smederevo, Niš); • expansion of the regional retail network (Otopeni PS, Romania)
Energy	• decentralization and modernization of the heating source in the Novi Sad Refinery
Corporate Centre	• projects with an IT component (replacement of the EoL SBA/Hyperion system, improvement of the radio communications system)

Indebtedness

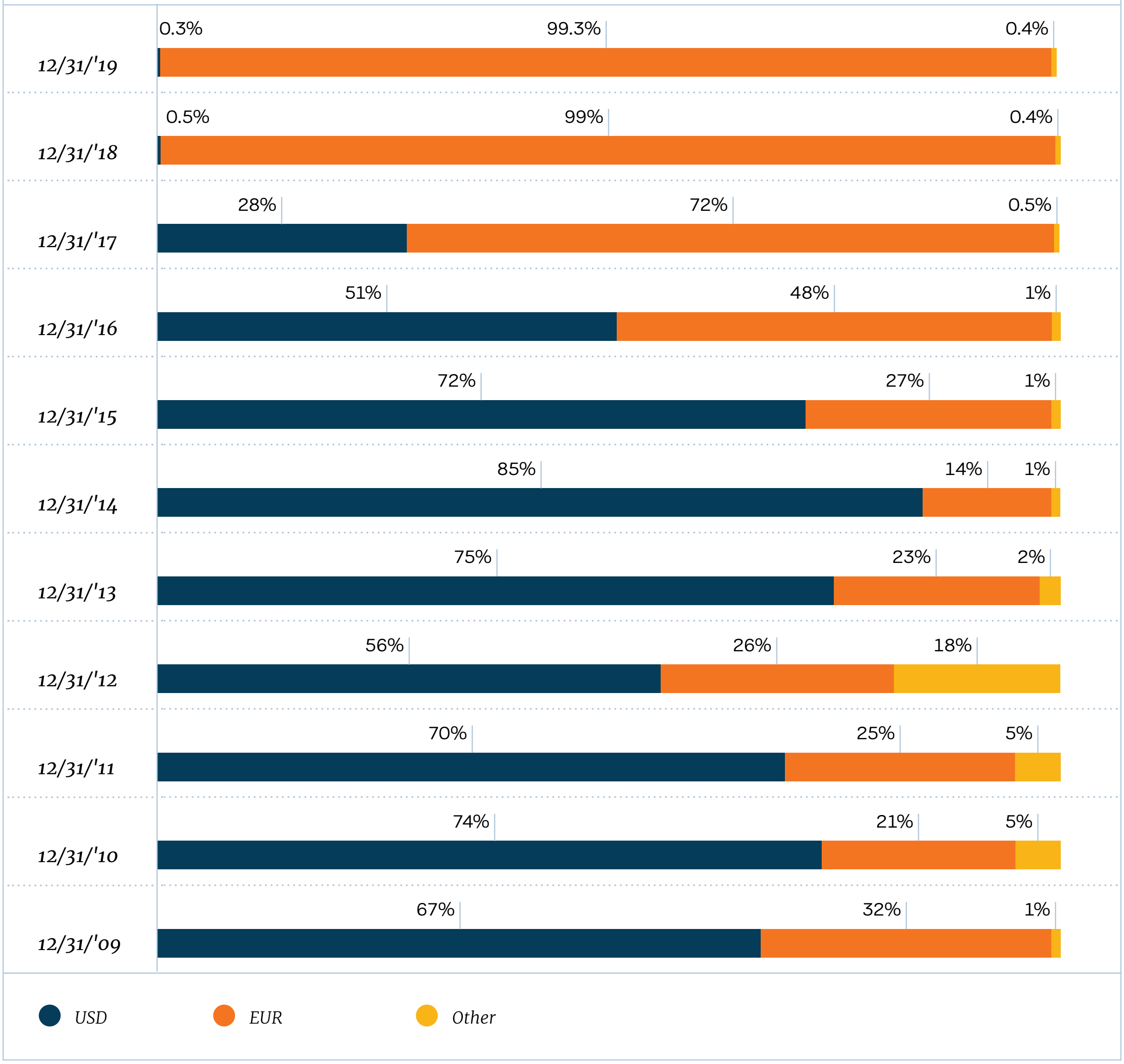
At the end of 2019, the bank debt rose slightly, reaching EUR 590 million. Additionally, the debt to the parent company, PJSC Gazprom Neft, has been reduced and currently stands at EUR 162.8 million.

Despite the sanctions, NIS successfully completed the second stage of loan portfolio restructuring in the previous years. In 2019, we further optimized the loan portfolio indicators by reducing the financing cost by around 9% in comparison to the end of 2018, and simultaneously maintaining the average maturity at the end of 2019 (between 3 and 4 years, i.e. 3.42 years). The company repaid EUR 109.6 million in expensive loans early and took out EUR 127.7 million in loans with better repayment conditions and due dates.

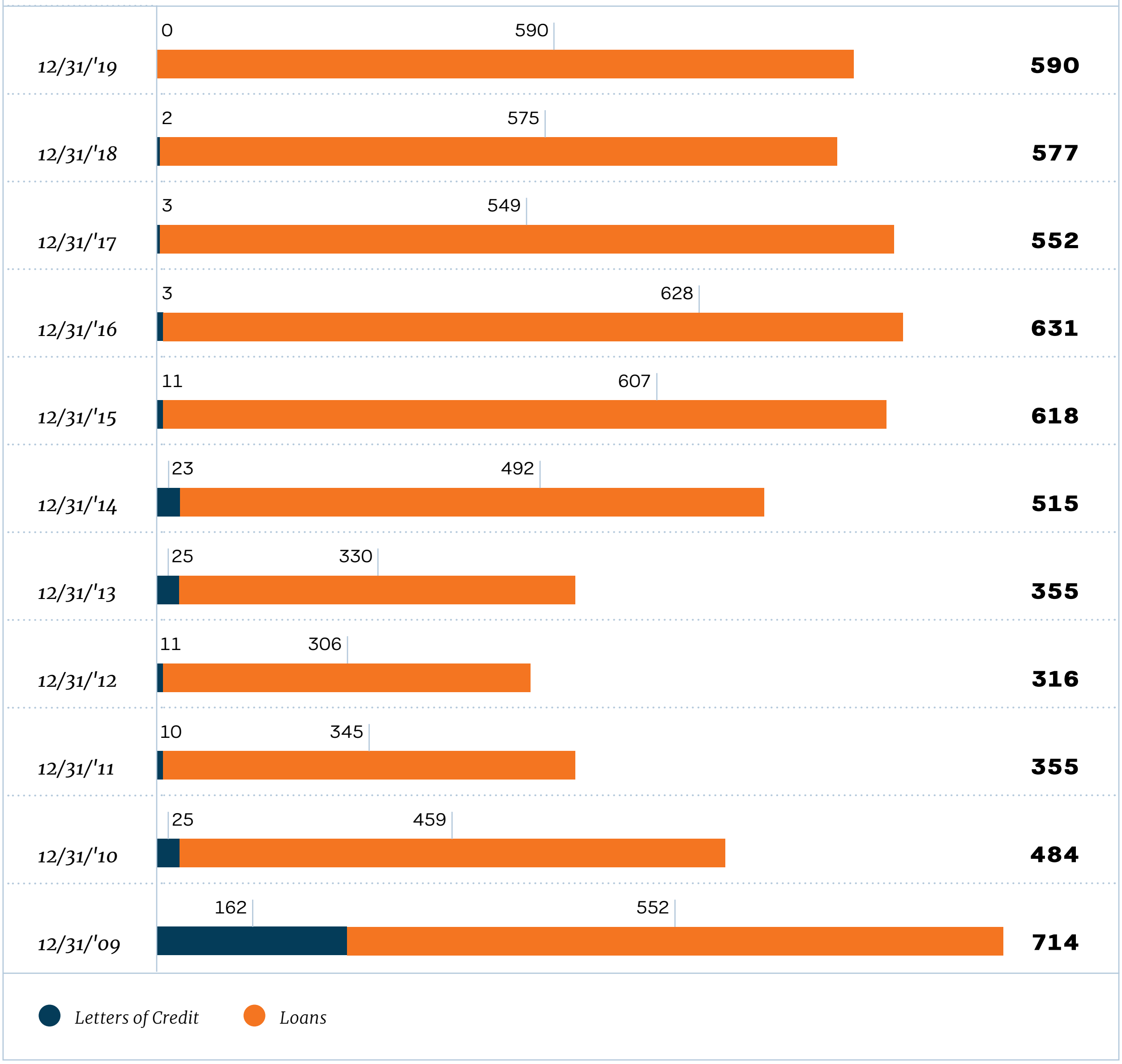
Total bank debt trends with maturity structure, EUR million



Total bank debt structure, by currency, in %



Total bank indebtedness*, EUR million



* *In addition to the bank debt and Letters of Credit NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of EUR 37.5 million, corporate guarantees in the amount of EUR 41.8 million and Letters of Intent signed with banks in the amount of EUR 0.2 million and financial leasing in the amount of EUR 14.5 million as at 31 December 2019.*

Taxes and Other Public Revenue[1]

NIS j.s.c. Novi Sad	2019	2018	%Δ[2]
Social insurance contributions paid by employer	1.64	1.57	+5%
Energy efficiency fee[3]	0.20	-	-
Corporate tax	2.80	3.75	-25%
Value-added tax	21.76	21.49	+1%
Excise duties	127.32	132.15	-4%
Commodity reserves fee	6.37	6.48	-2%
Customs duties	0.69	0.84	-18%
Royalty	1.40	1.46	-4%
Other taxes	1.37	1.46	-6%
Total	**163.56**	**169.21**	**-3%**
NIS subsidiaries in Serbia[4]			
Social insurance contributions paid by employer	0.60	0.53	+15%
Corporate tax	0.17	0.13	+32%
Value-added tax	1.11	0.94	+18%
Excise duties	-	-	-
Customs duties	0.06	0.06	-7%
Royalty	-	-	-
Other taxes	0.06	0.09	-33%
Total	**2.00**	**1.74**	**+15%**
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	**165.56**	**170.95**	**-3%**
NIS regional subsidiaries and Angola			
Social insurance contributions paid by employer	0.05	0.04	+23%
Corporate tax	0.13	0.18	-30%
Value-added tax	1.49	2.27	-34%
Excise duties	13.96	13.39	+4%
Customs duties	7.02	4.15	+69%
Royalty	0.01	0.00	-
Other taxes	0.12	0.10	+18%
Total	**22.79**	**20.14**	**+13%**
Deferred taxes (total for Group)	1.43	1.65	-13%
Total NIS Group[5]	**189.78**	**192.74**	**-2%**

1 *In RSD billion.*
2 *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*
3 *Calculated from 1 July 2019.*
4 *Naftagas – Oil Services LLC Novi Sad, Naftagas – Technical Services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and NTC NIS Naftagas LLC Novi Sad, O Zone a.d. Belgrade.*
5 *Including taxes and other liabilities for public revenues for subsidiaries in the region, corporate tax in Angola and deferred taxes.*

Ratio Indicators[1]

Profitability ratios	2019	2018
Gross profit margin (*EBITDA* margin)[2]	16%	19%
Net profit margin[3]	6%	9%
Return on assets (*ROA*)[4]	4%	6%
Return on equity (*ROE*)[5]	7%	11%
Liquidity ratios		
Current ratio[6]	149%	180%
Quick ratio[7]	76%	92%
Net working capital ratio[8]	8%	11%
Leverage ratios		
Leverage coefficient[9]	36%	36%
Net Debt/EBITDA[10]	1.70	1.47

1 *Ratio indicators are calculated using data from Consolidated Financial Statements prepared in the form prescribed by Ministry of Finance of Republic of Serbia which does not comply with IAS 1 – 'Presentation of Financial Statements'.*
2 *EBITDA/Operating Revenues.*
3 *Net profit/Operating Revenues.*
4 *Net profit/Average Total Assets.*
5 *Net profit/Average Equity.*
6 *Current Assets/Short-term Liabilities.*
7 *(Current Assets – Inventories)/ Short-term Liabilities.*
8 *(Current Assets – Short-term Liabilities)/Total Assets.*
9 *(Long-term Liabilities + Short-term Liabilities)/ Total Assets.*
10 *(Long-term Liabilities + Short-term Financial Liabilities – Cash and Cash Equivalents)/EBITDA.*

Employee safety and care of environment are priority

Employee safety and environmental protection remain topics of paramount importance to NIS.

During 2019, we invested

534 million

dinars in environmental projects.

At the same time, we have

significant improved

our results in the field of occupational safety, striving for our goal - work processes without injuries and negative environmental impacts.

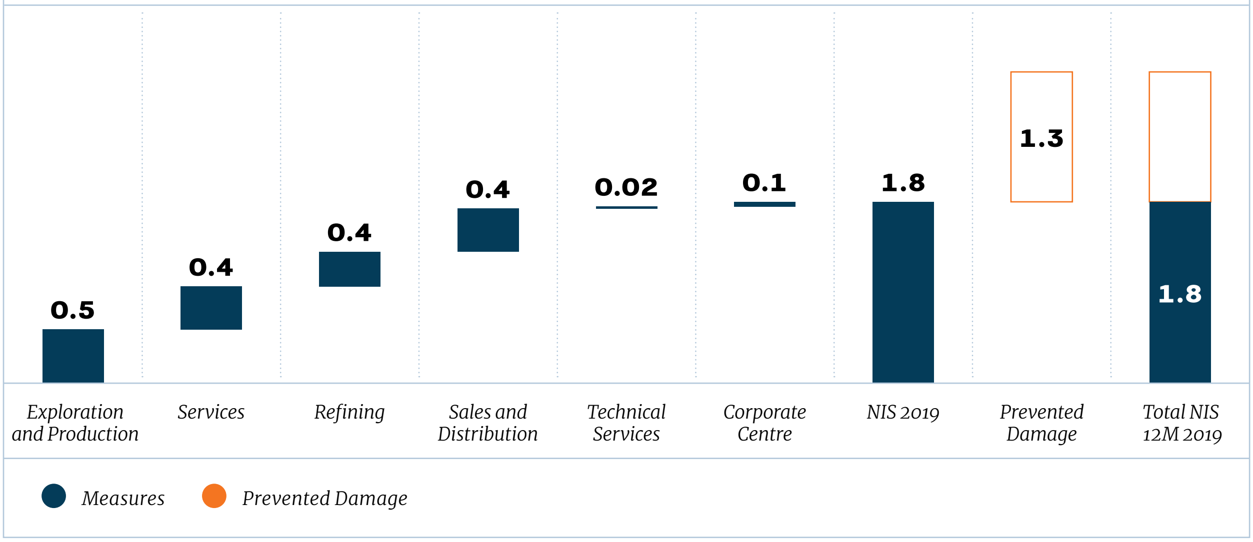

NIS

Operational Efficiency Improvement

In 2019, the effects of operational efficiency improvement measures also had a positive impact on the financial performance.

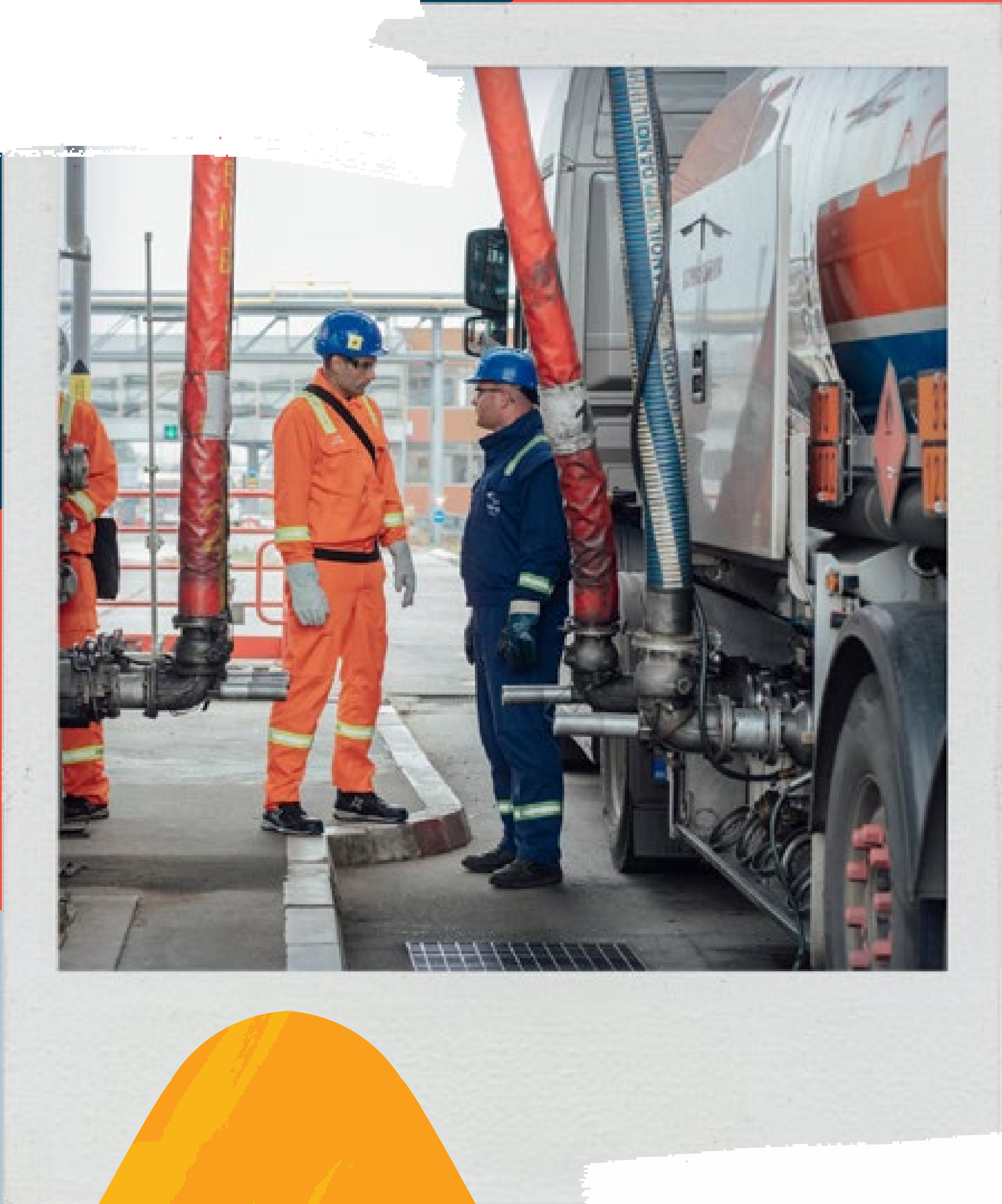
The effect of operational efficiency improvement measures on EBITDA in 2019 totalled RSD 1.8 billion.

Effect of operational efficiency improvement measures on EBITDA, RSD billion



The incentive program 'I HAVE AN IDEA!' encourages each staff member to come forward with ideas they think would improve the operation and directly boost efficiency. For approved ideas, we prepared both non-cash and cash rewards, which may reach up to RSD 1,000,000, gross.

468 ideas were put forward within 'I HAVE AN IDEA!' program in 2019, and their effect amounted to over RSD 200 million.



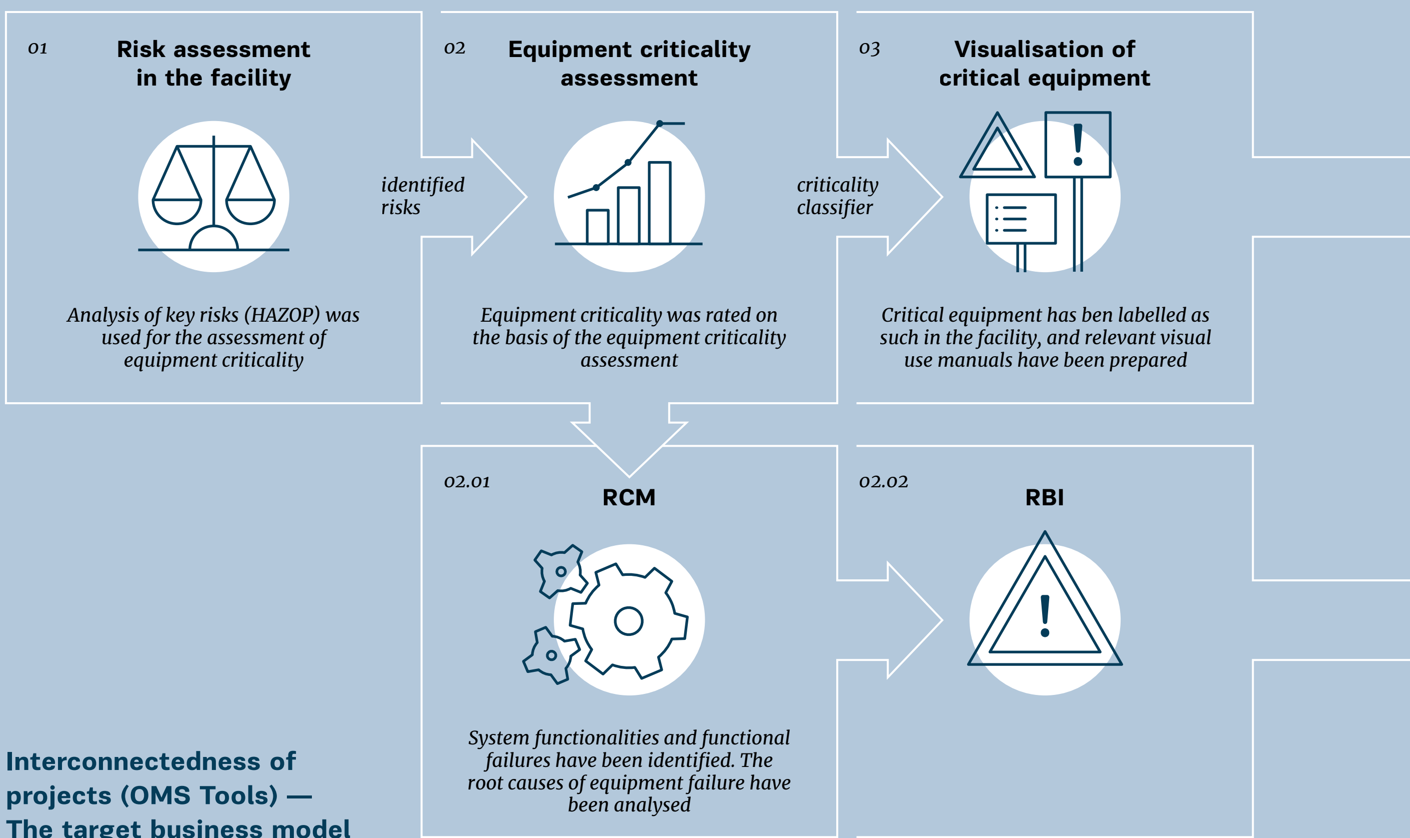
1.08

OMS Etalon

In 2019, we continued with the implementation of the OMS program, which NIS launched in 2017 with the aim of ensuring maximum operational efficiency through the reliability and safety of business processes and the engagement of all employees in the continuous improvement process.

The implementation of the OMS includes the introduction of new, top-of-the-line tools, as well as better organisation and optimisation of the existing processes. This task must be aligned with the development of strategic goals, business planning and the creation of measurable efficiency (performance) criteria based on the best industry practice.

The OMS is progressing in two main directions: (1) through the application of basic tools, whose aim is to ensure that all company facilities use only the best practices and approaches, and (2) through an integrated approach to the creation of Etalon facili-



Interconnectedness of projects (OMS Tools) — The target business model

ties, where all OMS tools are applied simultaneously in a facility in order to create an entirely new business model.

Key activities in 2019 were as follows:

- creation of Etalon facilities;
- development of equipment reliability and integrity systems and tools, and risk- and practice-based approaches aimed at the improvement of the production process culture;
- contractor and supplier management;
- evaluation of potentials and continuous optimisation of processes using KPIs and Lean Six Sigma tools.

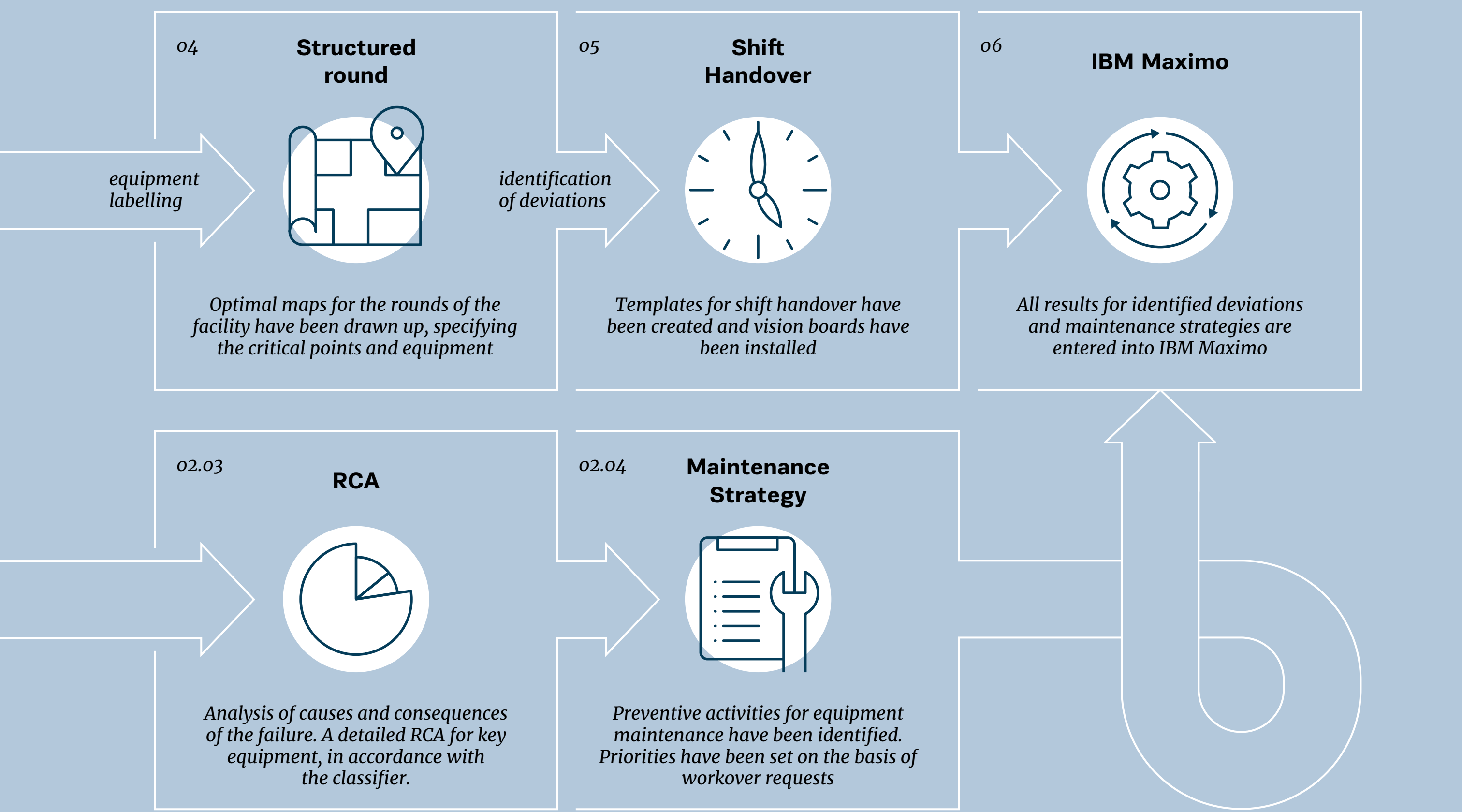
Positive general progress of the implementation of plans and activity maps – 95%

Completion of the first Etalon facilitu, access confirmation, existence of plans to cover other facilities

Definition of the architecture, model and business process of the production reliability system

Organisation of regular operation of working groups for the optimisation of critical processes using KPI and Lean tools

Evaluation of the company's potential and its application in the strategy and business plan, definition of processes for evaluation



Mokrin Jug, a facility in the Exploration and Production Block, was chosen as the first Etalon facility in which all OMS practices and tools would be integrated. Reliability tools have significantly reduced expenses and minimised technical losses; risk assessments mitigated potential negative effects, implemented measures prevented potential damage; while continuous improvement approaches have produced additional operational efficiency measures and improved employee engagement.

Another selected Etalon facility – the DCU – consists of two phases: in the pre-start phase, the OMS is used as an independent internal consultant for pre-commissioning and commissioning, whereas after the start, we plan to implement the standard set of reliability, risk, Lean, etc. tools.

The development of equipment reliability and integrity systems includes the application of tools in all relevant company facilities, for the purpose of improving reliability and reducing expenses. The key tools include equipment criticality classification and RCM (Reliability-Centred Maintenance), structured operator rounds, efficient shift handover process and studies aimed at risk identification and analysis – HAZID/HAZOP.

Exploration and Production

- Etalon Facility – Mokrin Jug project was completed, defining a further plan for the replication of methodologies and procedures in other Block facilities;
- RCM (equipment reliability and integrity management) project was launched, with equipment criticality assessments at 5 facilities;
- development of the KPI Block tree, with assessment of the potential for improvement in the next 3 years;
- continued implementation of a rational workplace organization system – 5S (system fully implemented at 8 facilities);
- development and implementation of the Standard Operating Procedures system (SOP, 20 standard operating procedures adopted). Training of the Block's middle management and line managers for implementation of regular management practices;
- HAZOP development for the production facilities of the Block;
- preparing to start a business process management project at the Block.

Refining

Within the digitalization of structured rounds made by operators in the Refining Block's units, the best quality device was selected and procured – an industrial tablet for process units and suitable software which will eliminate the use of paper and unit operators' manual records, and increase efficiency of operation, photographing and direct communication between the maintenance operators and equipment operators. This ensured the implementation of the test phase in the primary processing units in 2019.

In addition to planning and implementing new tools for the DCU's handover, the Project Office for the implementation of the Operating Management System is also tasked with ensuring the unit's safe and efficient commissioning following the construction. Eight tools are used in global practices for this purpose: RAM (Reliability, Availability and Maintainability) Study, Manufacturing Readiness, Pre-Start Safety Check, Precise Maintenance, CMMS Implementation, Advanced Inspection, Advanced Training and employee readiness assessment.

Analyses in line with the adopted methodology for the Reliability Based Maintenance of primary processing units and the FCC Unit were carried out in 2019. Risk assessment was completed in 8 units in line with the HAZID methodology. Work on the implementation of the LSS (Lean Six Sigma) process of continuous improvement in the Refining Block was continued and the first improvement projects were launched as a result of the joint efforts of working groups in the entire DWS. We implemented a modernized way to label equipment using colour codes; prepared the first Standard Operating Procedures and implemented them in the units in line with the new methodology; launched over 60 A3 tools for operative resolution of issues; and procured new equipment required for the implementation of 5S in units.

Sales and Distribution

During 2019, a series of OMS initiatives were implemented in the Sales and Distribution Block.

The Regular Management Practices training for all lower-level managers continued. These practices include: Effective Meetings, Visual Management, Feedback, and Effectiveness Talk. Furthermore, the practice of line walkarounds for the higher-level management has been implemented.

Within the Equipment Reliability and Integrity Management Element, equipment in all Sales and Distribution warehouses has been classified by criticality. We also plan to start applying the Methodology of Calculating the Life Cycle Cost of Equipment during the supply of the equipment for warehouse reconstruction.

The methodologies of shift handover and structured rounds have also been adopted. The plans for implementation of these methodologies have been adopted and realisation has already started in certain warehouses, in accordance with the plan.

A HAZID session at the VML1 petrol station has been completed, as has the PRA session at the Bunkering Station Novi Sad. Reports proposing mitigation and management measures for the identified risks have been prepared.

1.09

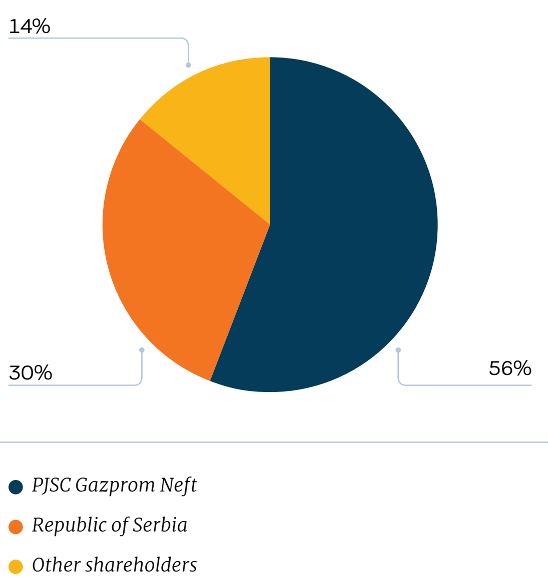
Securities

Share Capital Structure

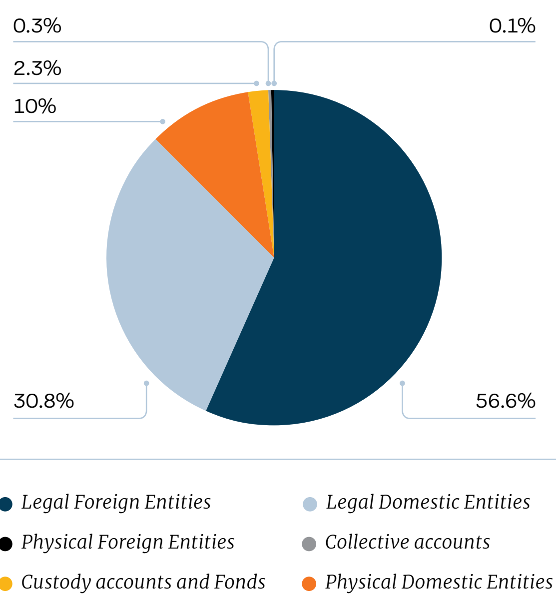
NIS share capital is RSD 81.53 billion and is divided into a total of 163,060,400 shares with a nominal value of RSD 500. All issued shares are ordinary shares, vesting their holders with the following rights:

- right to participate and vote at the assembly meetings, according to one-share-one-vote rule;
- right to receive dividends in compliance with applicable legislation;
- right to participate in the distribution of the company assets remaining after liquidation or of a bankrupt's estate in compliance with the bankruptcy law;
- preemptive right to buy ordinary shares of a new issue and other financial instruments tradable for ordinary shares, of a new issue and
- other rights in accordance with the Company Law and corporate documents.

Share capital structure based on % in share capital



Share capital structure based on entity type



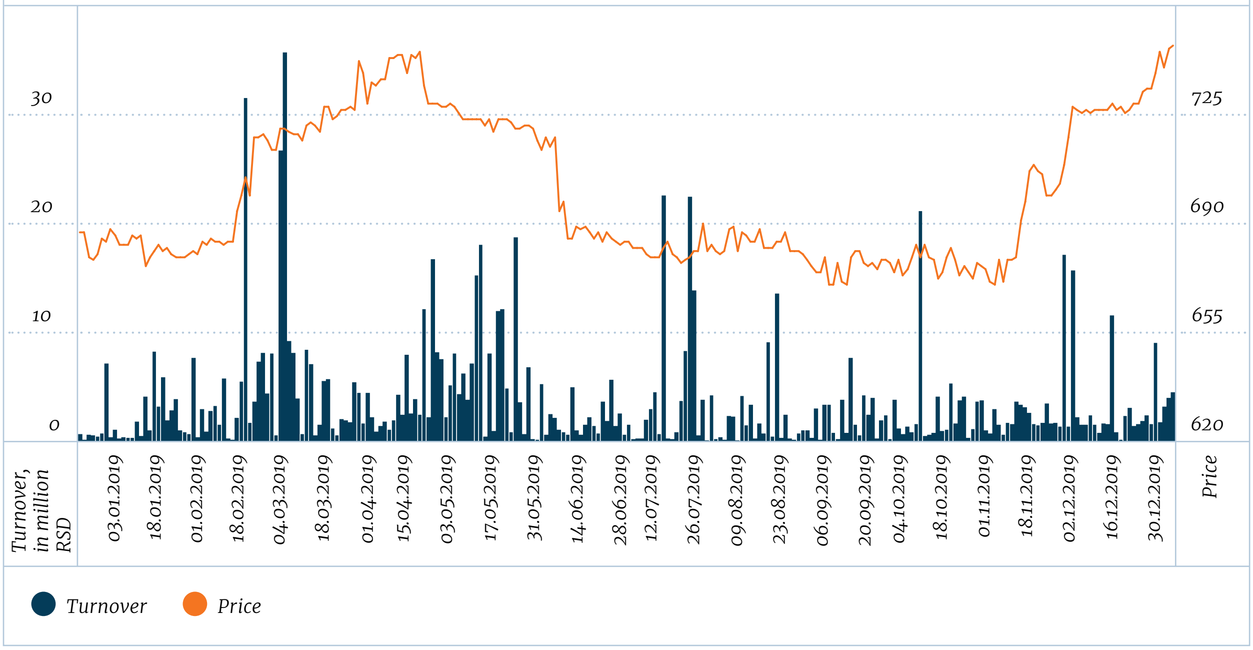
The structure of top 10 shareholders with the largest stake in equity capital is shown in the table below:

Shareholder	Number of shares	% in share capital
PJSC Gazprom Neft	91,565,887	56.15%
Republic of Serbia	48,712,129	29.87%
OTP banka Srbija a.d. – custody account – fund	2,112,814	1.30%
OTP banka Srbija a.d.– custody account – fund	804,153	0.49%
Global Macro Capital Opportunities	371,854	0.23%
Dunav osiguranje a.d.o.	365,881	0.22%
Convest a.d. Novi Sad – collective account	232,634	0.14%
Aktiv-fond d.o.o.	183,251	0.11%
Unicredit bank Srbija a.d. – custody account	172,819	0.11%
Raiffeisen banka a.d. – custody account	171,828	0.11%
Other shareholders	18,367,150	11.26%
Total number of shareholders as at 31 December 2019:		**2,074,605**

Share Trading and Indicators per Share

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

Price and turnover trends in 2019



Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in 2019

Last price (31 December 2019)	749 RSD
Highest price (30 December 2019)	750 RSD
Lowest price (25 January 2019)	670 RSD
Total turnover	922,652,426 RSD
Total volume (number of shares)	1,305,542 shares
Total number of transactions	10,489 transactions
Market capitalization as at 31 December 2019	122,132,239,600 RSD
EPS	108.55 RSD
Consolidated EPS	101.87 RSD
P/E ratio	6.90
Consolidated P/E ratio	7.35
Book value as at 31 December 2019	1,597.34 RSD
Consolidated book value as at 31 December 2019	1,561.97 RSD
P/BV ratio	0.47
Consolidated P/BV ratio	0.48

In 2019, the Company did not acquire any treasury shares.

Dividends

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

At the 11th Ordinary Meeting of the Shareholders' Assembly, held on 27 June 2019, the decision to allocate 25% of net profit generated in 2018 for dividend payments was adopted. In accordance with the decision, shareholders received 6.5 billion RSD, or the gross amount of 39.97 RSD per share. The dividends for 2018 were paid to shareholders on 17 September 2019.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net profit (loss), RSD bn[1]	(4.4)	16.5[2]	40.6[3]	49.5	52.3	30.6	16.1	16.1	27.8	26.1
Total amount of dividend, RSD bn	0.0	0.0	0.0	12.4	13.1	7.6	4.0	4.0	6.9	6.5
Payment Ratio	-	-	-	25%	25%	25%	25%	25%	25%	25%
Earnings per share, RSD	-	101.1	249.0	303.3	320.9	187.4	98.8	98.6	170.43	159.86
Dividend per share, gross, RSD	0.0	0.0	0.0	75.83	80.22	46.85	24.69	24.66	42.61	39.97
Share price as at 31 December, RSD	-	475	605	736	927	775	600	740	724	690
Shareholders' dividend yield, in %[4]	-	-	-	10.3	8.7	6.0	4.1	3.3	5.9	5.8

1 *Net profit of NIS j.s.c. Novi Sad.*
2 *Calculated as the ratio of gross dividend and year-end share price.*
3 *Net profit used to cover accumulated losses.*
4 *Net profit used to cover accumulated losses.*

Investor Relations

The basic objective of NIS j.s.c. Novi Sad in relations with its investors is to establish and develop a long-term relationship based on trust through transparent information disclosure and a two-way communication. The Company takes a number of steps to make this cooperation as good as possible.

At the end of each quarter, NIS j.s.c. Novi Sad regularly holds presentations of the results it achieved, where representatives of the top management analyze in detail its business operations and the performance in direct communication with representatives of the investors. Moreover, NIS j.s.c. Novi Sad takes part in investment conferences organized by Erste Group, Belgrade Stock Exchange and the investment company WOOD&Co. The Company is always willing to arrange one-on-one meetings for those who wish to obtain more information.

Every year, NIS j.s.c. Novi Sad organizes the Investor's Day in the Company's offices where it aleas presents its important projects. This year, the main topics of the 8th NIS Investor Day, held in the offices of the Pančevo Oil Refinery, included the NIS Group's performance in the first nine months of 2019 and the implementation of the Bottom-of-the-Barrel Project and TE-TO Pančevo Project. After the presentation of the business results and the progress of the key investment projects, the participants of the Investor Day had the opportunity to visit the Delayed Coking Unit (DCU) and the Info Centre of the TE-TO Pančevo.

http://ir.nis.eu/en/investors/

The special section of the corporate website dedicated to investors and shareholders is also an invaluable source of information for all stakeholders.

This section of the corporate website is regularly updated with the latest performance presentations, financial statements, audit reports, financial calendar, as well as various other presentations and material.

The quality of investor relations fostered by NIS j.s.c. Novi Sad is reaffirmed by award given to the Company received this year as well. NIS won the Gold Plaque Award of the Belgrade Stock Exchange for the best investor relations in 2019, competing with 15 domestic and regional companies for the coveted award. The decision was made by reputable financial analysts and a university professor, and on the basis of the assessment of 35 criteria of a company's openness towards its investors, the Company won this award for the seventh time.

Overview of Financial Instruments Used by the Group

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

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

Rating

Rating assigned by	Member of Group	Previous rating		Rating Score	
		Rating	Date	Rating	Date
Business Registers Agency – Republic of Serbia	-	BB Very good	7 February 2019	BB Very good	15 October 2019
Bisnode d.o.o. Belgrade, Serbia	Dun&Breadstreet	*5A1* *Strong* *Up*	8 January 2019	*5A1* *Strong* *EVEN*	8 January 2020
	Bisnode AB, Stockholm, Sweden	A1	8 January 2019	A1	8 January 2020

1.10

Corporate Governance

Statement on Application of Corporate Governance Code

http://ir.nis.eu/en/corporate-governance/code-of-corporate-governance/

In accordance with Article 368 of the Company Law ("The Law"), NIS j.s.c. Novi Sad hereby states that it applies the Code of Corporate Governance of NIS j.s.c. Novi Sad (hereinafter "The Code") which is available on the company website.

This Statement contains a detailed and comprehensive outline of corporate governance practices implemented by the Company.

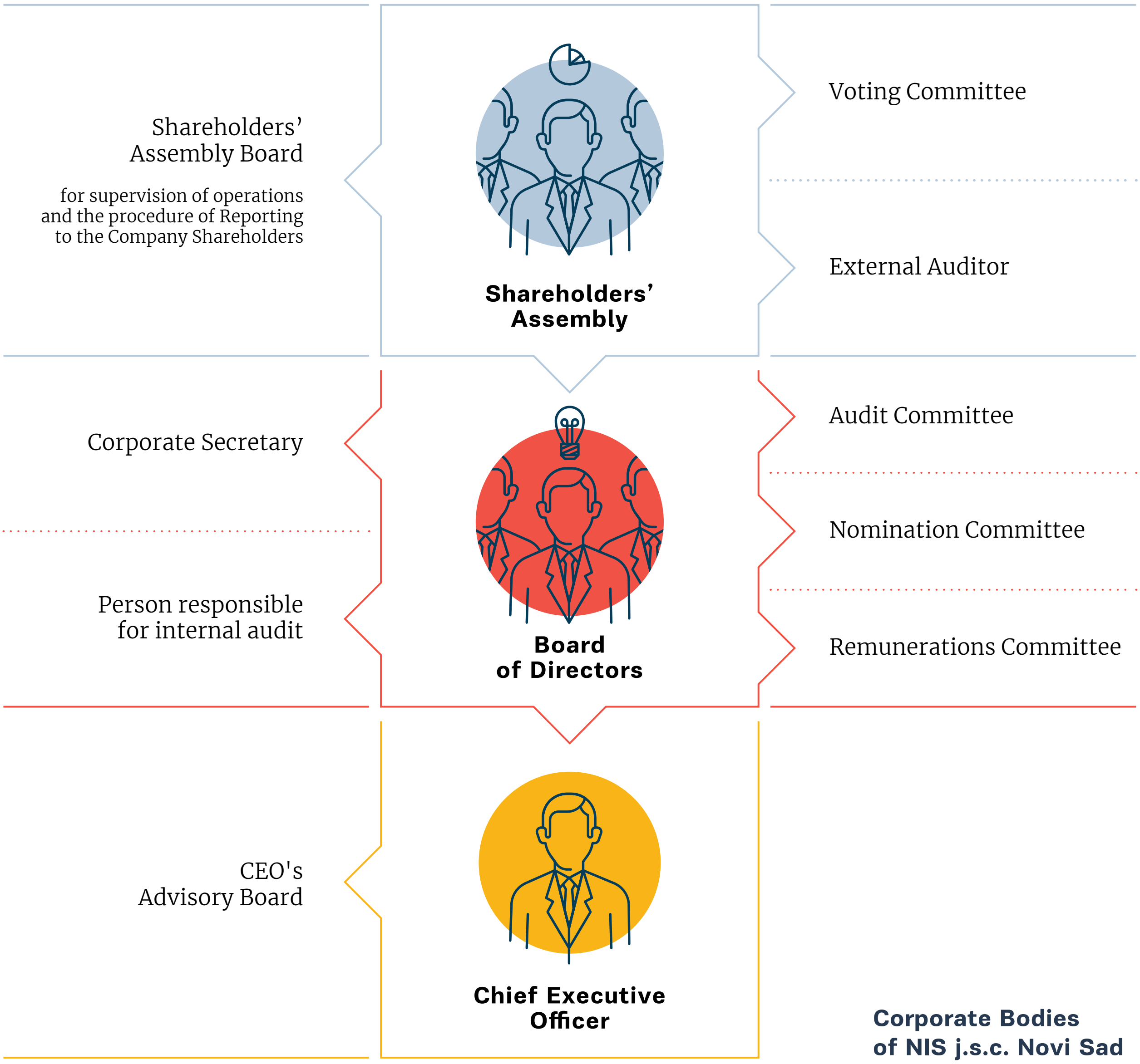
http://ir.nis.eu/en/corporate-governance/companys-regulations/

The Code supplements the rules contemplated by the Law and Articles of Association of NIS j.s.c. Novi Sad ("the Articles"), which are to be complied with by the persons responsible for the corporate governance of the Company. The corporate Board of Directors ensures the application of the principles established under the Code, monitors their implementation and the compliance of the Company's organisation and operations with the Code and the Law.

Corporate Governance System

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

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



Corporate Bodies of NIS j.s.c. Novi Sad

Shareholders' Assembly and Shareholders' Rights

As the highest authority of the Company, the Shareholders' Assembly is made up of all shareholders. All NIS j.s.c. Novi Sad shares are ordinary shares that give their owners the same rights, where one share carries one vote. The corporate documents do not impose restrictions regarding the number of shares or votes that a person may have at a Shareholders' Assembly meetings.

The Shareholders' Assembly meetings may be ordinary or extraordinary. Ordinary meetings are convened by the Board of Directors no later than six months after the end of a fiscal year. The Board of Directors convenes extraordinary meetings at its discretion or at the request of shareholders holding at least 5% of the Company shares.

The rules regarding the method of convening meetings, operation and decision-making process of the Shareholders' Assembly, and particularly the issues relating to how shareholders exercise their rights in connection with the Shareholders' Assembly, are laid down in advance and incorporated into the Rules of Procedure of the Shareholders' Assembly, which are made public and available to all shareholders.

http://ir.nis.eu/en/corporate-governance/shareholders-assembly/

Both the notice about the Board of Directors' decision to call a meeting of the Shareholders' Assembly and the draft agenda are published on the first business day following the adoption of the decision, on the Company's website and on the regulated market's website (*www.belex.rs*). A meeting of the Shareholders' Assembly may be called on the Company's website (*www.nis.eu*), on the company register's website (*www.apr.gov.rs*), on the website of the Central Securities Depository and Clearing House (*www.crhov.rs*) and the regulated market's website (*www.belex.rs*). The invitation is sent no later than 30 days prior to the day of an ordinary meeting, or 21 days prior to the extraordinary session. Simultaneously with the announcement of the invitation for the Shareholders Assembly meeting, the Company's website also publishes the materials for a meeting of the Shareholders' Assembley, which are also available for inspection at the Company's headquarters, to each shareholder who so requests, or to their proxy until the day of the meeting.

In addition to the information about the meeting time, venue and agenda, the call for a meeting of the Shareholders' Assembly also includes information on how the shareholders may access the materials for the meeting, explanations on the shareholders' rights, manner and deadlines for the exercise of rights, as well as information on the Shareholders' Day. Furthermore, proxy forms and absentee ballots (also available at the company headquarters) and electronic ballots are also published along with the call.

All decisions adopted by the Shareholders' Assembly are published on the corporate website together with the Voting Committee's report on the voting results, minutes of the Shareholders' Assembly meeting, the list of the attendees and invitees, and the list of the attending and represented shareholders of the Company.

Calls and materials for Shareholders' Assembly meetings, decisions adopted and other documents published following a Shareholders' Assembly meeting are available in Serbian, Russian and English.

Special Shareholders’ Rights

The Agreement for the Sale and Purchase of Shares of NIS j.s.c. Novi Sad, entered into on 24 December 2008 between PJSC Gazprom Neft and the Republic of Serbia, stipulates that, as long as the contracting parties are shareholders of NIS j.s.c. Novi Sad, neither party shall sell, transfer or otherwise dispose of ownership of the share package,in part or in its entirety, for the benefit of any third party, unless it previously offers to the other party the option of purchasing the share package under the same terms as offered by the third party.

In accordance with Article 4.4.1 of the Agreement, as long as the Republic of Serbia is the shareholder holding no less than a 10% equity interest, it shall be entitled to a number of members of the Board of Directors proportional to its equity interest.

Right to Participate in the Operation of the Shareholders’ Assembly

The right to participate in and vote at the Shareholders’ Assembly meeting is held by all shareholders who own NIS j.s.c. Novi Sad shares on the Shareholders’ Day (the tenth day prior to a Shareholders’ Assembly meeting), on the basis of the central registry of shareholders maintained by the Central Securities Depository and Clearing House.

The right to participate in the operation of the Shareholders’ Assembly includes the rights of shareholders to vote and participate in the discussion about the items on the agenda of the Shareholders’ Assembly meeting, including the right to put forward motions, ask agenda-related questions and receive answers in accordance with the Law, Articles of Association and Rules of Procedure of the Shareholders’ Assembly, which specifically establish the procedures for exercising such rights.

In accordance with the Articles of Association, the right to personally participate in the Shareholders' Assembly meeting is granted to a company shareholder with at least 0.1% shares of the total number of company shares, or to a proxy representing at least 0.1% of the total number of company shares. Company shareholders who individually hold less than 0.1% of the total number of company shares may participate in the Shareholders' Assembly meeting through a joint proxy, vote in absentia or vote electronically, regardless of the number of shares held, whereby all of the above voting methods have the same effect. The stipulation of a threshold for personal participation is due to the fact that the Company has a very large number of shareholders (about 2.1 million) and a threshold in these circumstances is necessary in order not to compromise the efficiency and rationality in terms of planning and holding Shareholders' Assembly meetings.

The Company makes it possible for all shareholders to grant an online proxy and vote online prior to the meeting, wherein the proxy, i.e. the ballot must be signed by a qualified electronic signature in accordance with the law governing electronic signatures.

Proposing Amendments to the Agenda

Pursuant to the Law, one or more shareholders of the Company with at least 5% of the voting shares may submit a proposal to the Board of Directors with: additional agenda items to be discussed on a Shareholders Assembly meeting, additional items to be decided on by the Assembly and other decisions on the existing items on the agenda, provided that such proposals are explained and that the text of the proposed decisions is attached (if a decision of the Shareholders' Assembly is proposed).

Right to Raise Questions, receive Answers and Put Forward Motions

A company shareholder who has the right to participate in the work of the Shareholders' Assembly may ask questions relating to the items on the agenda of the Shareholders Assembly meeting, as well as other issues related to the Company, to the extent that the answers to these questions are necessary for the adequate assessment of the issue regarding the items on the agenda of a Shareholders' Assembly meeting. The members of the Board of Directors provide the answers to the questions.

Voting Majority

Decisions of the Shareholders' Assembly are adopted, as a rule, by a simple majority of the votes of the present company shareholders who have the right to vote on the subject matter, unless the Law, the Articles of Association or other regulations for certain issues have not determined a higher number of votes.

Notwithstanding the above, as long as the Republic of Serbia has at least 10% share in the Company's share capital, it is necessary that the Republic of Serbia confirms the decisions of the Shareholders' Assembly on the following issues: adoption of financial statements and auditor's reports, changes to the Articles of Association, increase and decrease in share capital, status changes, acquiring and disposing of company assets of significant value, changes of the Company's core business activity and registered office, as well as termination of the Company.

Shareholders' Assembly Activities in 2019

In 2019, the 11th Ordinary Meeting of the Shareholders' Assembly (27 June 2019) and the 43rd Extraordinary Meeting of the Shareholders' Assembly (6 September 2019) were held. Both meetings were held in Belgrade, in the offices of the NIS Business Centre, 1 Milentija Popovića Street.

At the 11th Ordinary Meeting, the Shareholders' Assembly adopted the financial and consolidated financial statements of the Company for the year 2018 with the opinion of the auditor, and elected the auditor for 2019 (PricewaterhouseCoopers d.o.o. Beograd). The Company's 2018 Annual Report, the Report on the Audit of the Annual Report, the Report on the Performance Analysis of the Board of Directors and Its Committees, the Board of Directors' Annual Report on accounting practices, financial reporting practices and on compliance with laws and other regulations, and the Report on the Performance of the Shareholders' Assembly Board were all adopted. The Shareholders' Assembly adopted the Report on the suitability of the Board of Directors' composition and the number of members in relation to the company needs and the Report on the estimate of the amount and structure of remunerations for the members of the Board of Directors of NIS j.s.c. Novi Sad, which were prepared with the assistance of external experts. The Shareholders' Assembly also adopted the amendments to the Articles of Association and the Rules of Procedure of the Shareholders' Assembly, to ensure compliance with the Law on Companies.

In addition to the aforementioned, the Shareholders' Assembly adopted the Decision on the Distribution of Earnings for 2018, Dividend Payment and Determining the Total Undistributed Earnings of the Company. The Decision prescribes that 25% of the earnings from 2018 is to be allocated for dividend payment, i.e. it was decided to pay a total of RSD 6.52 billion to the Company's shareholders.

The Shareholders' Assembly also appointed members of the Board of Directors as well as the Chairman and members of the Shareholders' Assembly Board for supervision of shareholders' operations and the reporting procedure for the current term of office, and adopted the information on the approval of deals in which there is a personal interest.

On the 43rd Extraordinary Meeting, the Shareholders' Assembly appointed Dragutin Matanović as member of the Board of Directors.

Shareholder Relations and Information Provision

More information on Investor Relations on page 118

In addition to the reports NIS is legally required to publish as a joint stock company, and which are publicly available to all interested parties (including performance reports presented to shareholders at Shareholders' Assembly meetings), the Company has also established a two-way communication with shareholders and investors. They can receive all necessary information about the Company's operations and their rights all year round through the Offices for Minority Shareholders Affairs in Novi Sad and Belgrade, dedicated call centre or e-mail service through which each shareholder may ask questions and receive answers electronically, as well as through the Investor Relations Service.

Also, the Company holds special presentations for shareholders and investors on most important events and takes part in meetings with representatives of the investment community. Representatives of the Company's top management regularly attend quarterly presentations of business results, and these presentations include both the results from the past period, as well as the Company's future plans and strategies.

NIS j.s.c. Novi Sad applies the highest standards in the area of information sharing, and ensures equal treatment of all information users. The Company ensures that published information is available to all interested parties in an equal and easily accessible way as soon as possible, and mostly uses its website for this purpose. A special segment of the website intended for shareholders and investors contains the most important news, decisions of the authorities, answers to the most common questions of shareholders in the previous period, as well as all necessary information on shares, shareholder rights and dividends. All information and documents on the website are available in Serbian, Russian and English. The statutory reporting procedure is defined by special company documents governing the method and process of publishing information and submitting information to the relevant authorities.

The Company has an established mechanism for preventing and resolving potential conflicts between minority shareholders. There is a five-member commission tasked with resolving complaints of minority shareholders. The commission's responsibilities, manner in which it can be contacted and the manner of its operation are regulated by a special internal document of the Company.

http://ir.nis.eu/en/usefull-information/

Information for minority shareholders regarding the proceedings before this commission is available on the Company's website.

Board of Directors

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

Members of the Board of Directors

The members of the Board of Directors are appointed and dismissed by the Shareholders' Assembly. At the 11th Ordinary Meeting of NIS' Shareholders' Assembly held on 27 June 2019, 10 members of the Board of Directors of NIS were appointed, while the eleventh member was appointed at the 43rd Extraordinary Meeting of the Shareholders' Assembly held on 6 September 2019. The members elect the Chairperson of the Board of Directors, while the responsibilities of the Board of Directors' Chairperson and the CEO are clearly divided. The members of the Board of Directors have the right combination of the required knowledge, skills and experience relevant for the type and scope of activities performed by NIS j.s.c. Novi Sad.

Candidates for members of the Board of Directors could be proposed by the Nomination Committee or company shareholders that individually or jointly possess at least 5% of the Company's shares.

The Board of Directors consists of executive and non-executive directors. The Board of Directors consists of one executive member, while all the other members are non-executive. Two of these non-executive members are also independent members of the Board of Directors who meet special criteria prescribed by the Law.

The Board of Directors has a significant number of foreign members who bring international experience and who have an understanding of challenges faced by the Company. Eight out of eleven members of the Board of Directors are Russian citizens, while three members of the Board of Directors are citizens of the Republic of Serbia.

The members of the Board of Directors must fulfil the criteria prescribed by the Law, as well as special conditions prescribed by the Articles of Association, about which they are required to give a statement at the beginning of their term of office. They are also obliged to inform the Company about all changes regarding their status, especially if these changes affect their ability to meet the requirements for membership in the Board of Directors, create a conflict of interest or breach the non-compete clause.

The term of office of the members of the Board of Directors is terminated at the first subsequent ordinary meeting of the Shareholders' Assembly, except in the case of co-optation, when the term of office of co-opted members of the Board of Directors lasts until the next meeting of the Shareholders' Assembly. Upon the expiration of their term of office, each member of the Board of Directors may be reappointed for an unlimited number of times.

Changes in the Composition of the Board of Directors in 2019

At the 11th Ordinary Meeting of NIS' Shareholders' Assembly, held on 27 June 2019, Vadim Yakovlev, Kirill Tyurdenev, Danica Drašković, Alexey Yankevich, Sergey Papenko, Alexander Krylov, Dejan Radenković, Alexander Chepurin, Anatoly Cherner and Olga Vysotskaia were appointed as members of the Board of Directors, while the membership of Nikola Martinović and Wolfgang Ruttenstorfer in the Board of Directors of NIS j.s.c. Novi Sad expired on the date of the aforementioned meeting of NIS' Shareholders' Assembly. Dragutin Matanović was appointed as member of the Board of Directors on the 43rd Extraordinary Meeting of NIS' Shareholders' Assembly, held on 6 September 2019.

Board of Directors' Members as of 31 December 2019

Vadim Yakovlev

Chairman of NIS j.s.c. Novi Sad Board of Directors
Deputy Chairman of PJSC "Gazprom Neft" Executive Board,
Deputy of PJSC "Gazprom Neft" CEO in charge of exploration and production including offshore, strategic planning and mergers and acquisitions

Born in 1970.

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

During his employment with PricewaterhouseCoopers from 1995 to 2000, Mr. Yakovlev held various positions, starting from a Consultant to being promoted to Audit Manager. In the period from 2001 to 2002, he served as Deputy Head of Financial and Economics Department, YUKOS EP c.j.s.c. From 2003 to 2004, he was Financial Director of Yugansk Neftegaz, NK Yukos. From 2005 to 2006, Mr. Yakovlev held the position of Deputy General Director in charge of economy and finance at SIBUR-Russian Tyres.

From 2007 to 2010 – "Gazprom neft" PJSC Deputy CEO in charge for economics and finance. From 2007 – Deputy Chairman of the Executive Board of "Gazprom neft" PJSC. From 2010 to 2011 – First Deputy CEO – "Gazprom neft" PJSC Financial Director. From 2011 he was at the post of the "Gazprom neft" PJSC First Deputy CEO.

As of 2019 he holds the post of the "Gazprom neft" PJSC Deputy CEO in charge of exploration and production.

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

Kirill Tyurdenev

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

Born in 1977.

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

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

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

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

Danica Drašković

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

Born in 1945.

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

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

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

Alexey Yankevich

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

Born in 1973.

In 1997, Mr. Yankevich graduated from Saint-Petersburg State Electrical Engineering University ("LETI"), majoring in optical and electronic instruments and systems. In 1998, he completed a course at LETI-Lovanium International School of Management in Saint-Petersburg.

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

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

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

Sergey Papenko

Member of NIS j.s.c. Novi Sad Board of Directors
Head of Organizational Development and Joint Ventures Management Department of PJSC "Gazprom Neft"

Born in 1973.

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

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

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

Alexander Krylov

Member of NIS j.s.c. Novi Sad Board of Directors
Director of the Division for Regional Sales in PJSC "Gazprom Neft"

Born in 1971.

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

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

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

Dragutin Matanović

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

Born in 1954.

Batchelor of Electric Engineering (BEE).

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

Director of the Company "Lola računari" in Belgrade.

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

Dejan Radenković

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

Born in 1971.

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

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

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

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

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

Alexander Chepurin

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

Born in 1952.

Graduated from the Moscow State Institute of International Relations (MGIMO University) in 1975. A career diplomat, from 1975 onwards Mr. Chepurin worked at the Ministry of Foreign Affairs of the USSR and later, the Ministry of Foreign Affairs of the Russian Federation.

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

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

From 2012 to June 2019, he served as Ambassador of the Russian Federation to Serbia. He has the rank of Ambassador Extraordinary and Plenipotentiary and several Russian and Serbian state orders and medals. In 2009, he was awarded a PhD Degree in Political Science. From 2012 to 2019 Mr. Chepurin closely dealt with issues of cooperation development between Russian energy companies and the Republic of Serbia, focusing on strengthening cooperation between Russian and Serbian energy companies.

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

Anatoly Cherner

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

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

Born in 1954.

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

In the same year he was employed at the Sheripov Grozny Refinery, starting as an operator to become refinery director in 1993. In 1996, he joined SlavNeft as Head of the Oil and Oil Products Trading Department and was later appointed Vice-Chairman of the company. He joined SibNeft (from June 2006 – "Gazprom Neft" PJSC) as Vice-Chairman for refining and marketing in April 2006. In December 2007 he was appointed Deputy CEO for logistics, refining and sales in "Gazprom Neft" PJSC.

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

Olga Vysotskaia

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

Born in 1961.

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

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

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

Composition of the Board of Directors as at 31 December 2019

Function	Name and surname	Date of the first appointment into BoD	CEO	Non-executive Director	Independent Director	The Audit Committee	Nomination Committee	The Remuneration Committee	Citizenship
Chairperson of the BoD	Vadim Yakovlev	February 10, 2009		X					Russian
CEO	Kirill Tyurdenev	December 8, 2016	X				member		Russian
Member of BoD	Sergey Papenko	June 21, 2018		X					Russian
Member of BoD	Alexey Yankevich	June 18, 2013		X					Russian
Member of BoD	Alexander Krylov	November 29, 2010		X					Russian
Member of BoD	Dejan Radenković	June 27, 2019		X		member			Serbian
Member of BoD	Danica Drašković	April 1, 2009[1]		X					Serbian
Member of BoD	Alexander Chepurin	June 27, 2019		X	X		member		Russian
Member of BoD	Anatoly Cherner	February 10, 2009		X				President	Russian
Member of BoD	Olga Vysotskaia	June 21, 2018		X	X	President		member	Russian
Member of BoD	Dragutin Matanović	September 6, 2019		X			President		Serbian
BoD Commissions members that are not members of BoD									
Member of Audit Committee	Alexey Urusov					member			Russian
Member of the Remuneration Committee	Zoran Grujičić							member	Serbian

1 *Danica Drašković was a member of the Board of Directors of NIS j.s.c. Novi Sad (earlier Executive Board) from April 1, 2009 to June 18, 2013, and she was re-elected as a member of Board of Directors on June 30, 2014.*

Board of Directors' Activities in 2019

The Board of Directors held 2 sessions with the personal presence of members and 20 written sessions. All meetings of the Board of Directors were attended by all the members, with a maximum average attendance of 100%.

The regular activities of the Board of Directors include: the review of the Annual Report of NIS j.s.c. Novi Sad, Financial Statements and Consolidated Financial Statements of the Company for 2018; adoption of periodic (quarterly) reports of the Company in 2019; convening of the ordinary meeting of the Shareholders' Assembly; adoption of the Company's Business Plan; determination of the date(s), procedure and manner of dividend payment to the Company's shareholders. In addition, the agenda of the BoD included the decisions to call the 43rd Extraordinary Meeting of the NIS Shareholders' Assembly, terminate membership of NIS j.s.c. Novi Sad in Pannon Naftagas Kft. Hungary due to its liquidation, approve subscription of additional funds into the capital of RAG Kiha Kft Hungary, form branches of the Company, approve the change in the repayment period of subordinated and financial loans between NIS j.s.c. Novi Sad and subsidiaries abroad (NIS PETROL EOOD, Republic of Bulgaria, NIS PETROL S.R.L. Romania, NIS PETROL doo Banja Luka, Republika Srpska and O Zone j.s.c. Beograd), and to approve the conclusion of the Subordinated and/or Financial Loan Agreement between NIS j.s.c. Novi Sad and NIS PETROL S.R.L. Romania. Moreover, the Board of Directors approved a line of credit between the Company and Banca Intesa a.d. Belgrade. The BoD approved several proposals for the dismissal and appointment of representatives of the Company in the subsidiaries of NIS j.s.c. Novi Sad, and appointed the members of the Audit, Remuneration and Nomination Committees of the Board of Directors for the current term of office. In order to achieve the Company's projected goals and assess the Company's performance and effectiveness of corporate governance, the Board of Directors used quarterly reports to review operational analyses for the reporting periods, with the performance assessments of NIS j.s.c. Novi Sad as at the end of 2019. For this purpose, the BoD also used the report on post-investment monitoring of NIS' projects both in Serbia and abroad. To assess its own performance, the Board of Directors analyzed its own work and submitted an adequate report for the 11th Ordinary Meeting of the Shareholders' Assembly. The Board also looked at the performance with regard to the key business indicators for 2018, as well as the system of evaluating key business indicators for 2019, and adopted the Standard of the Long-Term Motivation Program of NIS j.s.c. Novi Sad.

In 2019, the Board of Directors adopted 75 decisions, while the implementation of these decisions is monitored through periodic reports on the implementation of decisions and orders of the Board of Directors.

Attendance at the Meetings of the Board of Directors and Board of Directors' Committees in 2019

BoD Member	Board of Directors		Audit Committee		Remuneration Committee	
	% of attendance	Number of meetings	% of attendance	Number of meetings	% of attendance	Number of meetings
Vadim Yakovlev *Chairperson of the BoD*	100%	22/22	-	-	-	-
Kirill Tyurdenev *CEO*	100%	22/22	-	-	-	-
Alexey Yankevich[1]	100%	22/22	100%	5/5	-	-
Sergey Papenko	100%	22/22				
Alexander Krylov	100%	22/22	-	-	-	-
Nikola Martinović[2]	100%	12/12	-	-	-	-
Danica Drašković	100%	22/22	-	-	-	-
Wolfgang Ruttenstorfer[3]	100%	12/12	100%	5/5	-	-
Anatoly Cherner	100%	22/22	-		100%	3/3
Olga Vysotskaia[4]	100%	22/22	100%	1/1	100%	3/3
Dejan Radenković[5]	100%	10/10	100%	1/1	-	-
Alexander Chepurin[6]	100%	10/10	-	-	-	-
Dragutin Matanović[7]	100%	8/8	-	-	-	-
Members of the BoD's Committees who are not members of the BoD						
Nenad Mijailović[8]	-	-	100%	5/5	-	-
Zoran Grujičić	-	-	-	-	100%	3/3
Alexey Urusov[9]	-	-	100%	1/1	-	-

1 *Member of the Audit Committee until 27 June 2019.*
2 *The term of office of the member of the Board of Directors was terminated on 24 June 2019 due to a resignation.*
3 *Member of the Board of Directors and Chairman of the Audit Committee until 27 June 2019.*
4 *President of Audit Committee from December, 12 2019.*
5 *Member of the Board of Directors since 27 June 2019 and member of Audit Committee from December 12, 2019.*
6 *Member of the Board of Directors since 27 June 2019.*
7 *Member of Board of Directors since 6 September 2019.*
8 *Member of the Audit Committee until 27 June 2019.*
9 *Member od the Audit Committee since 12 December 2019.*

Board of Directors' Rules of Procedure and Meetings

The Rules of Procedure of NIS' Board of Directors and Committees of the Board of Directors ("BoD Rules of Procedure") govern the operation and decision-making process of NIS' Board of Directors and Committees of the Board of Directors, including the procedure for convening and holding meetings.

For each fiscal year, the Board of Directors adopts a work plan which includes all issues to be considered in accordance with the applicable laws and company business needs, and establishes the deadlines for these issues to be considered in the meetings of the Board of Directors. In addition to planned issues, the Board of Directors also deals with other issues within its scope of work, as required.

In order to ensure that the members of the Board of Directors are adequately informed before making decisions, and to keep them up to date with the activities of the Company, the CEO and the management ensure that the members of the Board of Directors receive accurate, timely and complete information on all issues reviewed at meetings and all other important issues concerning the Company. Meetings of the Board of Directors are prepared with the assistance of the Corporate Secretary and under the supervision of the Chair of the Board of Directors, so that each member may adequately contribute to the work of the Board of Directors.

The Board of Directors adopts decisions by a simple majority of votes of all members of the Board of Directors, except for the decision to co-opt, which is made by a simple majority of votes of attending members, and decisions requiring a different majority under the Law and/or the Articles of Association. Each member of the Board of Directors has one vote.

Board of Directors and Committee Members' Remunerations

Remuneration Policy – In 2016, the Shareholders' Assembly adopted the current Remuneration Policy for the Members of the Board of Directors and of the Board of Directors' Committees. The Policy specifies that the remuneration should be attractive and competitive, in order to attract and retain the persons that meet the professional and other criteria required by the Company for the members of the Board of Directors and its Committees. At the same time, the remuneration should not significantly deviate from the compensation paid to the members of the Board of Directors and its Committees in other companies with the same or similar activities, size and scope of operations.

In line with the remuneration policy, the remuneration for executive directors is specified under employment contracts or fixed-term contracts for each executive director of the Company. In this case, they do not receive any remuneration for their membership in the Board of Directors and its Committees, except for the compensation of costs and professional liability insurance in relation to the membership and work as part of the Board of Directors and its Committees.

Remuneration Structure – – The remuneration policy stipulates that the remuneration consists of:

- Fixed portion,
- Reimbursement of expenses, and
- Liability insurance for the members of the Board of Directors and its Committees.

Fixed (permanent) portion of the remuneration to the members consists of a fixed portion of the annual remuneration for the membership in the Board of Directors and the fixed annual remuneration for participation in the Committees of the Board of Directors. This type of remuneration includes the compensation for the time and effort that the members of the Board of Directors or its Committees put into their role and the preparation and active participation in the meetings of the Board of Directors or its Committees. This requires the members to review the documents in advance, be present and take an active part in the meetings.

Reimbursement of expenses – Members of the Board of Directors and its Committees are entitled to reimbursement for all expenses incurred in connection with their membership on the Board of Directors or its Committees, in line with internal corporate documents.

Liability insurance of members of the Board of Directors – Members of the Board of Directors are entitled to liability insurance (Directors & Officers Liability Insurance) in accordance with internal corporate documents.

Amendment to the Remuneration Policy – In order to maintain the remuneration at an appropriate level, the remuneration policy is subject to periodic reviews and analyses, and should reflect the needs, abilities and interests of the Company and other changes in relevant criteria. As recommended by the Remuneration Committee, the Shareholders' Assembly adopted the current Remuneration Policy for the Members of the Board of Directors and of the Board of Directors' Committees on 28 June 2016, when the previous version of the policy ceased to apply.

Remuneration Committee Report – At least once a year, the Remuneration Committee prepares a report on the assessment of the amount and structure of remunerations for the Company's Shareholders' Assembly. Acting within its competence, the Remuneration Committee carried out a 2019 evaluation of the compliance of the amount and structure of remunerations for the members of the Board of Directors with the principles, framework and criteria defined by the current Remuneration Policy. Consequently, it compiled an appropriate report adoptedat the 11th Extraordinary Meeting of the Shareholders' Assembly, held on 27 June 2019. Based on the results presented and the analysis of the remuneration market, this report concludes that the annual amount of the fixed remuneration for non-executive members of the Board of Directors is at the level of the corresponding reference group, that the structure of the compensation for independent members of the Board of Directors is in line with the current market practices, and that the amount and structure of the remmuneration the members of the Board of Directors is in accordance with the principles, framework and criteria provided for by the current Remuneration Policy for the Members of the Board of Directors and the Board of Directors' Committees.

Total amount paid to Board of Directors members in 2019, net RSD	
BoD Members	222,482,266

Long-Term Incentive Program

The long-term incentive program for non-executive directors and members of governing bodies is subject to the Rules on the Long-Term Incentive Program for Non-Executive Directors and Members of Governing Bodies, which lays down the program's underlying principles and parameters.

The program is one of the key elements of the incentive system for non-executive directors and members of the Company of governing bodies, aimed at providing incentives for the non-executive directors and members of governing bodies to ensure the achievement of the Company's long-term objectives.

The purpose of the long-term incentive program is to align the interests of program participants with the long-term interests of the Company and its shareholders, and to provide incentives for program participants which will ensure long-term sustainable development of the Company and the achievement of its strategic objectives. These incentives, in turn, reflect the Company's capabilities and requirements and are linked to the positive performance of the Company during a period that will ensure an increase in shareholder value.

The long-term incentive program consists of consecutive cycles. Program parameters and method of inclusion into the program are defined in advance in the foregoing Rules, whereas the premiums are paid following the completion of a full cycle.

Induction and Training of the Board of Directors' Members

Upon appointment, members of the Board of Directors are introduced to the Company's operations, and provided with greater insight into the Company' operating procedures, strategies and plans, and the key risks it faces, and their expedited active involvement in the activities of the Board of Directors. This includes, among other things, introducing them to internal company documents, and providing basic information about the Company, corporate governance, persons appointed to managerial positions, information on the corporate performance, business strategy, business plan, objectives and other information they need to able to perform their roles.

The Company also organises special programs for additional training and development and allocates funds for these purposes in cases where members of the Board of Directors express the need for this.

Analysis of the Board of Directors' Activities

The Board of Directors analyzes its performance and the performance of its Committees annually, in order to identify potential problems and propose measures to improve its performance.

Its performance is analyzed through a survey completed by the members of the Board of Directors which contains two sets of key questions for evaluation of the Board of Directors' performance. The first group comprises criteria for evaluating the work of the Board of Directors with respect to its objectives, duties and responsibilities, while the second group comprises criteria for evaluating the procedures applied in the work of the Board of Directors.

The results of the valuation, which are derived from the responses of members of the Board of Directors provided in the survey, are presented to the Shareholders' Assembly in a special report.

Strategic Meetings

The members of the Board of Directors attend strategic sessions that provide them with a better insight into the Company's business operations and enable them to analyze the priority areas of development and forecasts for the key performance indicators and prerequisites for the Company's long-term development.

Membership in other Companies' Boards of Directors or Supervisory Boards

Vadim Yakovlev	• PJSC NGK "Slavneft" • LTD "Gazprom Neft-Sahalin" • Salym Petroleum Development N.V. (Chairman of Supervisory Board) • FGAOU Tyumen State University (member of the Supervisory board) • LTD "UT IT Novaya Industriya" (Chairman of the BoD)
Kirill Tyurdenev	-
Danica Drašković	-
Alexey Yankevich	• PJSC "NGK Slavneft" • "Gazprom Neft Lubricants s.p.a." Italy (Chairman of the BoD)
Sergey Papenko	• PJSC NGC "Slavneft" • JSC "Artikgaz" • JSC "Evrotech-Yugra" • CJSC "Nortgas" • LTD "Slavneft-Krasnoyarskneftegaz" • "Gazprom neft – Vostok" LLC • Salym Petroleum Development N.V. (member of the SB) • LTD "Gazprom Resource Nortgaz" (CEO) • Messoyakhaneftegaz (JSC JV) • Tomskneft VNK • LTD "ASB GEO" • PJSC "SN-MNG"
Alexander Krylov	• Association Hockey Club "Avangard" (Chairman of the BoD)
Dragutin Matanović	-
Dejan Radenković	-
Alexander Chepurin	-
Anatoly Cherner	• PJSC NGK "Slavneft" • PJSC "Slavneft-YANOS" (Chairman of the BoD) • Saint Petersburg International Mercantile Exchange • OJSC "Mozirski NPZ" • "Gazprom Neft Lubricants s.p.a." Italy
Olga Vysotskaia	• Nonprofit organization "Serebryanoe vremya" (Chair of the Supervisory Board, Director) • LTD INK (independent member of the BoD, Chair of the Audit Commission)

Board of Directors' Committees

With a view to ensuring efficiency, the Board of Directors established three standing committees as its advisory and expert bodies which provide assistance to its activities, particularly with regard to: issues in its domain, preparation and supervision of the implementation of decisions and documents it adopts, and performance of certain specialised tasks required by the Board of Directors.

The Board of Directors established the following Committees:

- Audit Committee,
- Remuneration Committee and
- Nomination Committee.

As appropriate, the Board of Directors may establish other standing or ad hoc committees to deal with issues relevant for its activities.

Each of the three Committees consists of 3 members which are appointed and dismissed by the Board of Directors. The Board also appoints one of its members as the chairperson, who manages the work of the Committee and prepares, convenes and presides over its sessions and performs other tasks necessary for carrying out activities from its domain.

The majority of members in each Committee are non-executive directors, and at least one member must be an independent director of the Company. The Board of Directors can choose members of its Committees among persons who are not the Company's directors but have the adequate knowledge and work experience relevant to the Committees.

The role, competencies and responsibilities of the Committees are defined by law, and by the Rules of Procedure of the Board of Directors and its committees which also regulate the composition, conditions for selection and number of members, term of office, dismissal, manner of operation, as well as other relevant issues related to the work of the Board of Directors' Committees.

At least once a year, these committees draft and submit to the Board of Directors reports on issues within their scope of work, but the BoD may request reports on all or some of the issues within their scope at shorter intervals as well.

The Board and its committees may seek professional advice from independent experts when necessary for the successful performance of duties.

Audit Committee

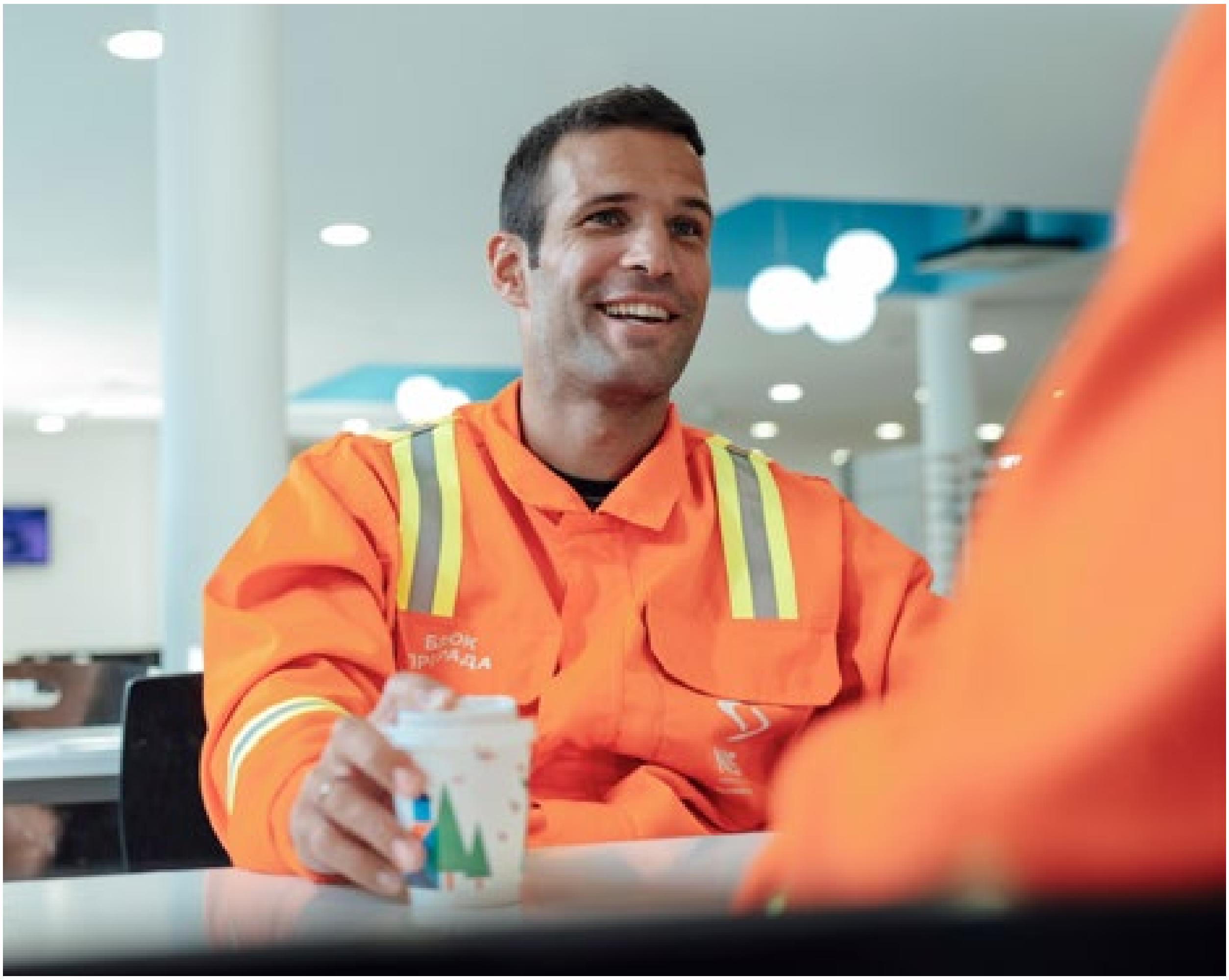
In addition to the general conditions for the composition of the Board of Directors' Committees, the Chairperson of the Audit Committee must be an independent director of the Company, while at least one member must be a certified auditor or who has the adequate knowledge and work experience in the field of finance and accounting, and who is independent from the Company.

Members of the Audit Committee are:

- Olga Vysotskaia, Chair of the Audit Committee,
- Dejan Radenković, Member of the Audit Committee and
- Alexey Urusov, Member of the Audit Committee.

The chair and members of the Audit Committee were appointed by the decision of the Board of Directors dated 12 December 2019, while Wolfgang Ruttenstorfer, Alexey Yankevich and Nenad Mijailović served as the chairman and members of the Audit Committee in the previous term of office (until 27 June 2019).

In 2019, the Audit Committee held two meetings where the members were personally present, as well as four written sessions. Among other things, the Committee analyzed the Quarterly Report, the Financial Statements and the Consolidated Financial Statements for the first quarter (Q1) of 2019 and subsequently made appropriate recommendations to the Board of Directors. The Audit Committee also analyzed the 2018 Annual Report as well as the report of an independent auditor, PricewaterhouseCoopers d.o.o. Beograd, on the audit of this report. The Committee also assessed the qualifications and independence of the auditors of PricewaterhouseCoopers d.o.o. Beograd relative to the Company. In addition, the Audit Committee prepared the Annual Internal Audit Plan for NIS j.s.c. Novi Sad for 2019 and the Internal Audit Charter of the Company (version 4.0), and reviewed audit findings and significant audit issues for 2018 and monitored the implementation status of the audit recommendations given in the Management Letter Points of NIS j.s.c. Novi Sad for 2018, and reported on 28 February 2019. The Audit Committee analyzed the Internal Audit's Report with the results of the internal audit of the operations of NIS j.s.c. Novi Sad for year 2018 and 6 months of 2019.



Remuneration Committee

Members of the Remuneration Committee are:

- Anatoly Cherner (Chair of the Remuneration Committee),
- Olga Vysotskaia (Member of the Remuneration Committee) and
- Zoran Grujičić (Member of the Remuneration Committee).

All three members performed functions in the Remuneration Committee in the previous term of office as well, while Olga Vysotskaia served as Chair of the Remuneration Committee (until 27 June 2019).

During the previous term, the Remuneration Committee held 3 written sessions. The Committee reviewed the performance of key indicators for 2018, the rating system and indicators for rewards for 2019, and also proposed remunerations for the auditors of the Financial and Consolidated Financial Statements of NIS j.s.c. Novi Sad for 2019. The Remuneration Committee prepared the Report on the estimate of the amount and structure of remuneration for the members of the Board of Directors of NIS j.s.c. Novi Sad, which was submitted for review to the Shareholders' Assembly on the session held on 27 June 2019.

Nomination Committee

Members of the Nomination Committee are:

- Dragutin Matanović (Chair of the Nomination Committee),
- Alexander Chepurin (Member of the Nomination Committee) and
- Kirill Tyurdenev (Member of the Nomination Committee).

The chair and members of the Nomination Committee were appointed by the decision of the Board of Directors dated 12 December 2019.

Shareholders' Assembly Board

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

Pursuant to the powers granted to it by the Articles of Association, the Shareholders' Assembly Board also presents its assessments of: reporting to the Shareholders' Assembly on the implementation of accounting practices; financial reporting practices of the Company and its subsidiaries; reporting of the Shareholders' Assembly concerning the credibility and completeness of reports to the Company's shareholders on relevant issues; proposed methods for the distribution of profit and other payments to the Company's shareholders; procedures for the independent audit of the Company's financial statements; internal control activities in the Company and evaluation of their effectiveness; proposals for the incorporation or liquidation of companies in which the Company holds a share, or of the Company's subsidiaries; proposals for the acquisition and sale of shares, stakes and/or other interests that the Company holds in other companies; and of the evaluation of the manner in which the Company handles complaints filed by its shareholders.

Members of the Shareholders' Assembly Board as at 31 December 2019

At the 11th Ordinary Meeting of the Shareholders' Assembly held on 27 June 2019, the following members of the Shareholders Assembly were elected:

- Zoran Grujičić (Chairman),
- Dragan Bračika (Member) and
- Alexey Urusov (Member),

while Nenad Mijailović ceased to be member of the Board of the Shareholders' Assembly on the date of the above-mentioned meeting of the Shareholders' Assembly.

Zoran Grujičić

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

Born in 1955.

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

From 1980 to 1994, he was employed by the "Cer" heat transfer appliances plant in Čačak, where he held a variety of positions, including General Manager, Technical Manager, Production Manager and Design Engineer. From May 1994 to February 1998, he served as Advisor to the General Manager of Interkomerc, Belgrade. From February 1998 to June 2004, he was Managing Director of MNG Group d.o.o., Čačak. From June 2004 to February 2007, he was Director of the trading company Agrostroj j.s.c. Čačak, Director of the limited partnership company Leonardo from Čačak and Director of the Vojvodina Highway Centre. Since February 2007, Mr. Grujičić has been employed with NIS j.s.c. Novi Sad and has held the following positions: Deputy Director of the Logistics Department in Jugopetrol, Head of RC Čačak at the Retail Department – Čačak Region, Manager of Retail Network Development in the Development Department, Sales and Distribution. From October 2012 to January 2016, he had served as Advisor to the Sales and Distribution Director and since February 2016 has been an Advisor to the Function for External Affairs and Government Relations Director. He has served as Advisor to the General Director since October 2017.

From 30.06.2014 to 27.06.2019, Mr Grujičić was a member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders.

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

Dragan Bračika

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

Born in 1982.

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

From 2013 to 2015, he was Advisor to General manager of the Novi Sad Fair.

From 2016 to the present he serves as Director of Ceptor Andrevlje.

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

Alexey Urusov

Member of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad
Director of Economics and Corporate Planning Department in “Gazprom Neft“ PJSC

Born in 1974.

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

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

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

Activities of the Shareholders' Assembly Board in 2019

In 2019, the Board of the Shareholder's Assembly held three meetings where the members were personally present, as well as seven written sessions. The Board of the Shareholders' Assembly reviewed the Company's annual financial and consolidated financial statements for 2018, as well as its periodical (quarterly) financial and consolidated financial statements for for Q1, Q2 and Q3 of 2019. Additionally, the Board of the Shareholders' Assembly also reviewed the independent auditor's reports on the audit of the Company's financial statements, the proposal on the appointment and compensation of the auditor for 2019, the manner of the distribution of the Company's profits and dividends for 2018, and then submitted a report on its activities to the Shareholders' Assembly. Moreover, the Board of the Shareholders' Assembly reviewed the proposals for: the termination of membership of NIS j.s.c. Novi Sad in Pannon Naftagas Kft. Hungary due to its voluntary liquidation, approval of subscription of additional funds into the capital of RAG Kiha Kft Hungary, and termination of membership of NIS j.s.c. Novi Sad in RAG Kiha Kft. Hungary due to its liquidation, formation of the Company's branch offices, approval of the modification of the payment deadlines for subordinated loans between NIS j.s.c. Novi Sad and subsidiaries abroad (NIS PETROL doo Banja Luka, Republic of Srpska, and NIS PETROL S.R.L. Romania), and the approval of the conclusion of the Subordinated and/or Financial Loan Agreement between NIS j.s.c. Novi Sad and NIS PETROL S.R.L. Romania. The Shareholders' Assembly Board adopted 38 conclusions in 2019.

Membership in Other Companies' Boards of Directors or Supervisory Boards

Zoran Grujičić	-
Dragan Bračika	• Member of Board of Directors, Sokobanja Specialized Hospital for Prevention and Treatment of Lung Deseases and Rehabilitation • Director, Centre for Economic and Technology Development Ceptor Andrevlje
Alexey Urusov	• Gazprom Neft – Catalytic Systems LLC (Member of Board of Directors) • Gazprom Neft – Energoservice LLC (Member of Board of Directors) • ITSK LLC (Member of Board of Directors) • Noyabrskneftegazsvyaz LLC (Member of Board of Directors)

Total amount paid to SAB members in 2019, net RSD	
Members of SAB	19,581,898

Chief Executive Officer

The Board of Directors appoints one of its executive members to act as the Chief Executive Officer. The CEO coordinates the activities of the executive members of the Board of Directors and organizes the Company's activities. In addition to this, the CEO performs daily management activities and is authorized to decide on matters which do not fall under the competence of the Shareholders' Assembly and the Board of Directors. The Chief Executive Officer is a legal representative of NIS j.s.c. Novi Sad.

Advisory Board of the CEO

The Advisory Board of the CEO is a professional body that helps the CEO in his activities and in the consideration of matters within his responsibilities. The composition of the Advisory Board was determined by the Decision of the CEO, and it includes the First Deputy CEO – Head of Downstream Division, the First Deputy CEO – Head of Exploration and Production Block, Heads of the Refining and Sales and Distribution Blocks, as well as heads of the Company's Functions. In addition to issues related to the business management of the Company, the Advisory Board deals with the strategy and development policy whose basis is set by the Shareholders' Assembly and the Board of Directors of the Company.

Members of the Advisory Board of the CEO

On 31 December 2019, members of Advisory Board of the CEO were:

Gennady Lubin
First Deputy CEO for Exploration and Production

Andrey Tuchnin
First Deputy CEO – Head of Downstream Division

Vladimir Gagić
Head of Refining Block

Alexey Chernikov
Head of Sales and Distribution Block

Viacheslav Zavgorodnii
Deputy CEO, Head of Strategy and Investment Function

Igor Tarasov
Deputy CEO, Director of Corporate Security Function

Anton Cherepanov

**Deputy CEO,
Director of Finance, Economics, Planning and Accounting**

Sergey Fominykh

**Deputy CEO,
Director of Legal and Corporate Affairs Function**

Natalia Bylenok

**Deputy CEO,
Head of Function for Organizational Affairs**

Vadim Smirnov

Deputy CEO, Director of the Function for Government Relations and Corporate Communications

Miloš Grbić

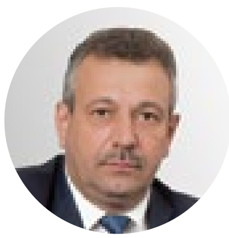
Deputy CEO, Director of Procurement Function

Jelena Popara

Director of the Internal Audit Function

Ulrich Peball

HSE Director*



Valery Proskurin

Director of "Naftagas – Oil Services" LLC Novi Sad

Biographies of members of the Advisory Board can be found on the corporate website http://ir.nis.eu/en/corporate-governance/advisory-board-of-the-ceo/

* *Ulrich Peball's membership in the Advisory Board of the CEO was terminated on 22 November 2019, when Mr Peball ceased to be the Head of the HSE Function.*

Activities of the Advisory Board in 2019

During 2019, there were 12 Advisory Board sessions, chaired by the CEO, where the members discussed the following matters on a monthly basis:

- reports on HSE incidents and initiatives from the preceding period;
- reports on implementation of the decisions and tasks delegated at the sessions;
- reports regarding operational and financial indicators for the Exploration and Production Block;
- reports regarding operational and financial indicators for the Division Downstream;
- reports presenting monthly financial results of operations and
- reports on statuses of the key open issues within Functions.

In addition, the reports showing Company's quarterly results of operations, reports on operations of different boards in the Company, and an important issue concerning the update of the corporate strategy for company's development by 2025 were all presented to the members of the CEO Advisory Board. The Internal Audit presented the reports on implementation of the recommendations made based on audits and reports on the conducted activities regarding key risk management.

It is especially worth mentioning that, with the aim to continue realising the "Transformation" project, the proposals made by the members of the Advisory Board to end bureaucracy were discussed at 3 separate sessions.

Company Management Succession Plan

In order to minimise the potential risks for the Company and increase operational efficiency, there are special systems and processes aimed at filling possible vacancies when it comes to the top operational management of the Company. They include the implementation of specialized training programs, so that continuous investment in the development of knowledge, and skills the Company ensures long-term reduction of potential risks in relation to its key management positions.

Moreover, the Company assesses potential successors and compiles special lists of successors that include their names, current positions and plans for their professional development.

Acquisition and Disposal of Company's Shares by Managers and Related Parties

Pursuant to Article 84a of the Capital Market Law and internal documents of the Company, all persons employed as managers in the Company are prohibited from performing transactions for their own account or for the account of a third party in relation to equity or debt securities of the Company or other related financial instruments during the period of 30 days prior to the publication of the annual, semi-annual or quarterly financial statements. The Company may grant a special written consent for trading during the period of prohibition, if there are conditions prescribed by law and the documents of the Securities Commission.

In addition, all persons employed as managers in the Company, as well as related parties (as defined by the Law), are obliged to report any acquisition or sale of the Company's shares for their own account to the

Securities and Exchange Commission within 5 days, if these individual acquisitions or sales exceed the amount of RSD 100,000, and also if the total value of individual acquisitions or sales in one calendar year exceeds RSD 500,000.

In 2019, the Company did not receive any information of any acquisitions or sales of the Company's shares by any members of the Company's bodies or related parties.

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

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

Internal Audit Activities

The regulatory framework of operations of the internal control, i.e. internal audit at NIS j.s.c. Novi Sad has been established by the Company Law, Internal Audit Charter, Internal Audit Standard and other relevant legal and internal regulations.

The Internal Audit provides services of independent and objective assurance, and consultancy to add value and improve Company's business. The Internal Audit helps the Company attain its goals by introducing a systematic and disciplined approach to evaluation and improvement of efficiency in risk management, controls, and corporate management.

The Company's Internal Audit operates in compliance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Global Institute of Internal Auditors, which has been confirmed by the conformity assessment made by the independent external estimator.

In particular, internal audit activities include:
- examination and assessment of the adequacy and efficiency of corporate governance, risk management and internal controls;
- monitoring the compliance of the Company's business activities with the law, other regulations and documents of the Company;
- supervision of the implementation of accounting policies and financial reporting;
- review of the implementation of the risk management policy;
- monitoring the compliance of the organization and activities of the Company with the corporate governance code;
- evaluation of policies and processes in the Company, and providing proposals for their improvement.

Internal audit activities are performed by the Internal Audit Function. Organizational and functional independence of internal audit is ensured by the Internal Audit Charter. Through the person responsible for internal control appointed by the Board of Directors, the Internal Audit Function is functionally subordinated to the Audit Committee, and linearly to the Company's CEO. As a rule, the person responsible for internal control serves as the Head of the Internal Audit Function. Twice a year, the Head of Internal Audit Function reports to the Audit Committee on the performance of the Internal Audit Function and the evaluation of the internal controls and risk management systems in the Company. The Audit Committee is, among other things, authorized to:
- approve the Internal Audit Charter;
- approve the Annual Internal Audit Plan;
- propose the appointment and dismissal of the person responsible for internal control of Company's business, in accordance with the Company Law, while the Company's Board of Directors adopts the decision on appointment and dismissal of the aforementioned person (who, as a rule, performs the role of the Head of IAF);
- check for any restrictions on access to information (scope limitations) or limitations of resources necessary for internal audit activities;
- monitor the existing risks and measures taken to manage those risks.

External Auditor

Audit of Financial Statements

In accordance with the Law and Articles of Association, the Auditor of the Company is appointed by the Shareholders' Assembly at the proposal of the Board of Directors. The Company's auditor is elected at every ordinary meeting of the Shareholders' Assembly, and according to the Capital Market Law. Since NIS j.s.c. Novi Sad is a public joint-stock company, the legal entity that performs the audit, can perform up to five consecutive audits of its annual financial statements.

The auditing agency's reports on the audit of the Company's financial statements and consolidated financial statements for 2018 were adopted on 27 June 2019 at the 11th Ordinary Meeting of the Shareholders' Assembly, attended by the auditor of the PricewaterhouseCoopers d.o.o. Beograd (whose attendance at the Assembly's ordinary meetings is mandatory in accordance with the Law). At the same meeting, the Shareholders Assembly elected the same auditing agency, PricewaterhouseCoopers d.o.o. Beograd, to audit its financial statements for 2019.

In accordance with the Law, the Audit Committee was provided with an independent auditor's statement confirming the independence vis-à-vis the Company and informing the Audit Committee about the additional services the auditor provided to the Company. The statement was a part of the material for 11th Ordinary Meeting of the Shareholders' Assembly.

Other Services of the Auditor

Apart from auditing the financial statements and consolidated financial statements for 2018, PricewaterhouseCoopers d.o.o. Beograd and its affiliated companies provided NIS with other additional services in 2019. Considering the knowledge and experience required for the provision of such services, it was deemed more efficient to contract PricewaterhouseCoopers d.o.o. Beograd rather than a third party.

Integrated Management System

The process of identification and classification of business processes in the entire Company was completed. The defined business processes are mapped in compliance with the Mapping Plan, whereas the method of their implementation is described in relevant normative and methodological documents conforming to the standardisation plan. In addition, *KPI*s (key performance indicators) are also established for all business processes defined in this way.

The business processes identified across the Company are unified in the integrated management system (*IMS*), in line with the requirements of the international standards for the management systems (*ISO* 9001, *ISO* 14001, *OHSAS* 18001, *ISO* 50001, *CAC/RCP* 1). The established *IMS* is implemented throughout the Company and it is continually developed in line with the Certification Strategy, whose implementation of which is supervised by the *IMS* Committee.

The compliance with the above international standards is audited by accredited certification bodies which issues certificates on the basis of conducted audit.

In addition to external audits, the Company conducts internal audits of business processes and the management systems in line with the annual schedule of internal audits.

The results of these audits are formally presented in reports, whose basis the owners of business processes at the Company define actions to eliminate causes of the identified or potential non-compliance, with the aim of continuous improvement of the IMS and the business operations in general.

Transactions Involving Personal Interest and Non-Compete Clauses

Transactions involving personal interest – A person who, in accordance with the Law, has special duties towards the Company, is obliged to promptly inform the Board of Directors about the existence of a personal interest (or interest related to him/her) in a legal contract concluded by the Company, or in a legal action undertaken by the Company.

The Company identifies legal affairs and actions with related parties, in order to ensure that they are concluded only if they are not harmful to the Company's operations. Legal affairs and actions with related parties are approved by the Board of Directors in accordance with the Law.

The information on the approval of the conclusion of affairs in which there is a personal interest is submitted to the Shareholders' Assembly at its first subsequent meeting by the Board of Directors.

On its website, the Company publishes important information on activities in which there is a personal interest in accordance with the criteria prescribed by the Law.

Non-Compete Clause – In order to monitor compliance with non-compete agreements, the Company carries out quarterly surveys of members of the Board of Directors about the current engagement, as well as about membership in boards of directors and supervisory boards of other companies. Data on memberships in the management bodies of other companies are published on the Company's website, and within Annual and Quarterly Reports.

By concluding the Agreement Mutual Rights and Obligations with the Company, the members of the Board of Directors are additionally acquainted with their obligation to notify the Company in the event of the conclusion of a legal transaction with the Company, as well as with their obligation of non-competition to the Company and other special duties of the members of the Board of Directors.

Related-Party Transactions

In 2019, NIS Group entered into business partnerships with its affiliates. The most important related-party transactions involved the supply/delivery of crude oil, petroleum products and electricity. An outline of related-party transactions is part of the Notes to the Financial Statements.

Insider Information

Trading in shares using insider information is strictly forbidden and punishable by law, i.e. the Capital Markets Law. Therefore, the Company requires all persons who have permanent or temporary access to this information to fully comply with the provisions of laws, by-laws, and the Company's documents related to insider information and confidential information.

The criteria for deciding who can be in the capacity of an insider, insiders' rights and obligations, the Company's obligations to ensure the confidentiality of insider information, the procedure for disclosing insider information, and the rules for the compilation, management and updates of the insider list are regulated by the Company's internal documents.

Code of Conduct

The Code of Ethics of NIS prescribes the basic rules and norms of conduct that determine relations with colleagues, clients, business partners, government authorities, local governments, the public and competitors.

The principles contained in the Code give clear recommendations for making ethically balanced decisions in different situations, and the code defines norms and rules of conduct that are based on corporate values and which all employees must comply with, as expected by the Company.

Anti-Corruption and Fraud Policies

The Company adopted the Anti-Corruption And Fraud Policies, with the aim of preventing and combating all forms of corruption and fraud.

The Policy provides the conditions for timely detection, prevention and minimization of the risks of unlawful, unethical and corrupt behavior, based on the established uniform standard of conduct, values, principles of lawful business and basic rules for combating corruption and fraud.

The Policy prescribes that all persons, if they well-founded suspicions or evidence that corruption or fraud has been or will be committed, must provide appropriate information through pre-defined and protected channels of communication, with the guarantee of confidentiality. Moreover, the Policy defines measures for the protection of persons who provided this information, and outlines the manner in which these measures will be implemented so as to ensure that the position of the person who has revealed corruption or fraud in this manner is not threatened in any way.

Relations with Stakeholders and Corporate Social Responsibility

In relations with its stakeholders, NIS fosters constant communication, mutual trust, partnership and an open dialogue. It is essential for NIS to understand stakeholders' requirements and expectations.

1.11

Human Resources

NIS is one of the initiators of HR practices in Serbia, and a company that strives to implement and follow HR trends that are a result of new business and operation models. The complexity of the industry and the fact that our team numbers 11,000 people from approximately 20 different countries constantly motivate us to look for new and improved HR solutions, and give priority to the needs, expectations and potentials of our employees.

The year 2019 was marked by the implementation of a new HR strategy, transformation of our corporate culture and company values, improvement of NIS' employer brand and creation of its Employer Value Proposition. The Culture and Value Diagnostics and EVP Creation Project lasted for several months, during which NIS successfully identified the direction and strategy of the target corporate culwture which will help us achieve our strategic goals and create a workplace that meets the expectations of our employees.

We are particularly proud of the fact that the Voice of the Young survey by the AIESEC student association showed that NIS is among the top 5 companies that young people from Serbia would like to work for. Over three thousand young people from all parts of the country took part in the survey. This was also supported by the fact that nearly 2,000 final-year students and fresh graduates sent their applications during the two rounds of NIS Calling, NIS' internship program.

In the previous year, we conducted a detailed analysis of the processes and tools for integrated talent management in NIS. As a result, in early 2019, we launched a very important HR project aimed at the introduction of an integrated digital platform for talent management in the company. The application of this solution should effectively streamline communication among employees from all levels, and ensure full implementation of all important processes related to talent management.

This year was also marked by a new initiative – Organizational Affairs Function knowledge workshops,

where employees exchanged knowledge and experience from their field of work. Additionally, *Coffee with HR*, a concept of internal workshops, was further expanded – in addition to managers, employees from all functions were able to discuss the current topics in the field of human resources. Also, we held workshops for all colleagues from the Head Office who joined our company this year with the aim of facilitating their integration into the new working environment.

Similarly, the company launched a number of activities in order to promote a better working atmosphere and connect its employees. Ice cream day, "music" Friday, workshops for employees' children and theatre plays are only some of the activities which made workdays of our colleagues more cheerful and interesting.

Professional Development of Employees

Global business practices in the field of human resources differ in many aspects, but they all agree regarding one thing – continuous employee development is imperative for the modern business ecosystem.

In order to equip its employees with skills they need to address business challenges, NIS invests into their development and contributes to the improvement of their potential, thus developing professional resources of the entire NIS Group.

In 2019, a total of 2,180 training courses with 7,140 participants (4,059 employees) were held in cooperation with external providers. The total number of training hours in 2019 is 104,075, while the total expense amounts to RSD 275 million. Our employees received support in expanding their professional skills from leading global companies (*NExT Schlumberger, PricewaterhouseCoopers*), companies from the management field (*Roscongress, Aspentech, Energy Institute, IFP trainings, Cotrugli Business School*) and the best domestic companies: *Puzzle Software, Economic Research Centre Belgrade, Forum Media, Mokra Gora School of Management, Project Management Centre, GI group, Omega Consulting, DCT (Dale Carnegie)* and many other institutions. The training courses broadened both professional and personal skills and skills necessary for successful team management.

In 2019 as well, NIS continuously worked on increasing its efficiency. For these purposes, the Company organised Root Cause Analysis training in priority organizational units, which will be continued during the next year as well.

The Foreign Language Learning Program is aimed at improving English, Russian or Serbian language skills of our employees, and consequently improving their work performance. This year, we organised group Russian language courses in our business centres in Belgrade, Novi Sad, Šangaj, Zrenjanin and Pančevo. The courses were provided for 460 of our employees.

Professional Development of Employees in Business Blocks

In order to develop their business skills and build team spirit, NIS' employees take part in numerous competitions where they achieve excellent results. These competitions are held both within NIS and at the level of the Gazprom Neft Group.

The Refining Block implemented an e-Learning platform which provides an integrated knowledge base from the refining field, and has features for identifying knowledge gaps, administering knowledge tests and generating reports. The Company began transferring its current training management system into e-learning, which will improve and facilitate access to the records on required and completed training courses. In addition to an integrated knowledge library, we will also have an integrated CTS (competency tracking system).

The Company completed the implementation of an OTS (operator training simulator) for a part of plants in the Refining Block. It began training control room operators by focusing on safety, i.e. through simulation of standard process operations (starting or stopping a process and regular operation) as well as of non-standard events (failures caused by various factors), and through generation of possible scenarios. Additionally, simulators will be used to train new operators and to safely and efficiently introduce them to process operations and teach them how to manage them. The OTS has an important role in training process and automation engineers, who were thus provided with an opportunity to enhance their existing knowledge and skills in the field of process management.

This year, the construction of a training centre was initiated again, and the company is selecting contractors for the refurbishment of the premises where trainings are presently held. This project also includes the construction of a training ground for technical and HSE training. This will provide better conditions for both theoretical and practical aspects of training.

This year, the best employees of the Sales and Distribution Block took part in many internal and international competitions, such as "The Best in Your Profession" (with over 1,000 participants) and "NIS Aero – The Best in Your Profession/Aviation Fuelling Challenge".

At the interregional competition in St. Petersburg (Russia), our employees reaffirmed their high level of knowledge demonstrated on the last year's competition and won two second places in the following categories: "best territory manager" and "best warehouse manager".

The winners of the NIS Aero internal competition were successful on the international scene as well. They represented the Sales and Distribution Block at the "Aviation Fuelling Challenge", an international competition organised by Gazprom Neft. Our colleagues won the second place as a team, but also achieved exceptional results competing individually – they won the second place in the category *technical manager*, and the third in the category *wing man*.

In addition to these competitions, the company also holds the "Negotiation Competition". In total, 77 employees took part. To prepare its employees, the company organised 18 training sessions and a large number of interactive consultations with 24 finalists.

The Sales and Distribution Block boasts numerous internal induction and development training courses for the employees in Retail Sales, and we are particularly proud of our development training courses and the academy for sales managers.

In three training centres, including a mobile crew that carries out testing and corrective field training, about 3,000 employees completed internal training.

As internal training courses for lower-level managers, first-time managers and talent pool for managerial positions, the company organized interactive workshops in the format of video training sessions, exercises and exchanges of experience on challenges in management with the Sales and Distribution Block's top management.

Between 5 and 7 June, in the Business Centre in Novi Sad, the company held the 2nd Scientific and Technical Conference for young scientists and specialists from the Exploration and Production Block, STC (Scientific and Technological Centre) and Oil Services. The participants were young specialists under 30 years of age and young scientists, our colleagues, under 35 years of age. The Conference was divided into three parts. First, the participants presented their posters (with key information about their research paper), and then gave presentations in which they elaborated on their research before the expert committee. Finally, on the third day, a workshop dedicated on teamwork was held.

Seven of our winners from the Exploration and Production Block and the STC presented their scientific works on the final 9th Scientific and Technical Conference of Gazprom Neft's Exploration and Production Block, held between 31 October and 1 November in St. Petersburg.

In addition to these competitions, another important event for the Exploration and Production Block happened this year – the opening of the most modern oil operator training centre in the region, in Elemir. The Centre was officially opened on 4 September in Elemir, and its training courses are intended for both NIS' employees and students from high schools and faculties specialized for the oil industry. This will help NIS, a socially responsible company, continue to improve the conditions for education and professional development of both its employees and future oil operators.

In September, the company held a professional competition "The Best Technologist in 2019" at the Elemir Training Centre. Eight participants took part in the competition, and the best received awards.

This year's competition (eighth so far) for the best in their profession in the Exploration and Production Block was held on 17 May on the field of Gathering Station 1 Unit on the Velebit Oilfield. The best exploration operator, oil and gas preparation and transport operator, oil and gas production operator and a technician/technologist were selected in the tough and fair competition, during which they expressed great motivation to achieve good results in both theoretical knowledge regarding their work duties and practical work on the field. Thirty employees from all parts of the Block took part in the competition.

Like in the previous years, the best in their profession in the Exploration and Production Block took part in the competition within Gazprom Neft, held in August at a site of Slavneft-Megionneftegas in Russia. The three most successful participants in each profession were awarded cup trophies, recognition awards as well as money.

NIS Corporate University

In line with the continuous learning concept, the Corporate University completed the fourth cycle of training programs for its employees.

In 2019, over 2,000 employees underwent training aimed at developing their competencies and acquiring new knowledge and skills.

In addition to training courses tailored for specific positions, this year we also had elective, open courses.

Employees chose the topics of these courses by themselves, in line with their professional and development needs. These were some of the topics: Leadership in the Digital Age, Design Thinking, Communication with Difficult and Demanding Clients, Emotional Intelligence in a Business Environment, Storytelling, Conflicts Are OK, High-Impact Presentation and many other.

In 2019, the Corporate University focused on increasing the scope of training courses and developing the curriculum in line with the global trends in professional development. Each training course was tailored in cooperation with renowned business schools from the country and the region, training and development partners and leading lecturers of our providers.

In 2019, 24 employees completed the Leader development program, aimed at advancing the leadership potential or our employees. The Leader program educates its participants in the relevant business fields, thus contributing to the development of professional knowledge and leadership skills through the interaction with international lecturers, experiential learning, mentorship and coaching.

E-learning Programs

In order to keep up with global trends, we continued with e-learning training – cutting-edge online training courses for the Company's employees, in this year as well. Modern and efficient technologies ensure that the training content is presented in an interesting and interactive way.

Moreover, the quality of our e-learning courses was recognised in other parts of the region as well – our company received a prestigious award for our e-learning solution and design for Induction Courses on a competition held within the Learning Disruption conference in Zagreb.

Talent Development

In 2019, in order to improve its employee development processes, NIS internally developed the methodology and implemented a pilot talent management process called Employee Calibration. This procedure includes an evaluation of employee performance and potential by line managers, and their categorization into a 9-box performance and potential grid. This is accomplished on calibration sessions as well as on meetings attended by line managers, their peers, a higher-level manager and HR. The procedure is concluded by providing a structured feedback and an individualized development plan for the employee, which they will implement in the following year with the support of the line manager and HR. This new process should enable our company to identify development needs of its employees in the future period in a more objective, transparent and efficient manner. It is particularly important because it provides an approach tailored to the development of each employee through the formulation of individualized development plans. The pilot procedure was completed at the level of middle management in Organizational Affairs, and was launched for NIS' top management. In the future period, our company plans to include more employees in this process, and to expand it to lower management levels.

During the year, development and assessment centres with over 150 participants were created to provide support to the development/business needs of NIS' blocks and functions, and to identify and develop the leadership potential of its talents. Moreover, the centres took part in recruiting for managerial positions.

Caring for Employee Social Status

For its employees, NIS provides a higher level of social care than that prescribed by law, which is regulated in its Collective Agreement and other internal documents. Some of the benefits guaranteed in the Collective Agreements and other internal documents of the Company include:

- special protection of disabled employees and employees suffering from an occupational disease;
- preventive treatments for employees with high-risk jobs and protected pension age as well as other employees, with the aim of preventing occupational diseases and disabilities;
- solidarity allowance, coverage of medical bills, refunds of funeral expenses for an employee and/or members of immediate family;
- one-off assistance for the birth of the third and each subsequent child;
- compensation for the damage employees have suffered due to the destruction or damage to their homes due to natural or other disasters;
- scholarships for regular education of the children of killed and deceased employees;
- group health insurance for all employees that covers critical illness and surgeries as well as accidents;
- group insurance for all employees that covers death caused by an accident or illness;
- assistance for employees' housing needs in the form of mortgage subsidies;
- additional (optional) pension plans.

Material and Non-Material Incentives

Employee motivation is crucial for high business standards, promotion of creativity, ingenuity and innovativeness, employee professional development as well for the Company's ability to retain them. As one of the most desirable employers in the region, NIS provides its employees with the conditions for efficient work and a good work atmosphere through a number of financial and non-financial incentive programs.

Programs for regular financial incentives are divided into three categories depending on the position our employees hold: variable pay in production and technical organizational units, variable pay in sales and variable pay and annual bonus in administration. Variable pay and bonuses for our employees depend on the level of achievement of collective and individual objectives, and in this way they give a clear sense of direction and connect individual work with the Company's objectives.

In exceptional cases, i.e. for outstanding performance that exceeds the expected productivity, our employees receive special bonuses and bonuses for successful participation in projects.

In addition to financial incentives, we also offer other types of motivation to our employees – the goal of non-financial incentives is to grant social and professional recognition by providing respect and the sense of self-actualization and belonging. One of the principal motivators is a feeling that your work and results you achieved is recognized by others.

Managers of organizational units play the crucial role in the development of non-financial motivation, as do our programs for non-financial incentives and employee remuneration such as: Bravo Remuneration, Discount System, Employee of the Month/Year, Best Manager, I Have an Idea and many other.

The non-financial incentive programs provide our employees with the opportunity to actively participate in important segments of NIS' business operations, to develop their creativity and initiative and win awards, all with the aim of maintaining the best work practices and creating new values for the Company.

Recruitment and Selection of Candidates

In line with its slogan "The Future Starts with You", NIS believes that its future begins with each new employee that joins its team of over 11,000 people. The candidate recruitment and selection process in NIS is based on the principles that guarantee equal opportunities for all employees and job applicants, regardless of their gender, religious or political beliefs, national or social origin, and it prevents all types of discrimination. Each decision regarding candidates must be based on objective and relevant criteria, i.e. the ability of the candidate to meet the requirements and standards of the position they applied for. In 2019, the team of the Sector for Recruitment, Selection and Employer Brand hired approximately 1,900 candidates from different fields.

This year as well, NIS has continued the practice of providing internships for the most talented and ambitious students. To give students the opportunity to intern at any time during the year, NIS has launched NIS Calling in 2019. This new seasonal internship program provides students with first work experiences during 320-hour internships, with flexible working hours which they can organise in accordance with their faculty class schedules. For the two rounds of NIS Calling internship program in 2019, 60 final-year and Master's students were selected in a thorough selection process. The selected students are mainly future mining and geology, mechanical, technology and electrical engineers as well as future economists, psychologists and legal counsellors. Since 2012, NIS has traditionally offered this internship program in collaboration with various universities, with the aim of facilitating the exchange of knowledge and advancing science and research. The aim of this programme is to motivate students thirsty for knowledge and experience, and to introduce them to the best global practices. After the first round of this year's NIS Calling program, the best five interns started working at NIS.

In 2019, we strengthened the media presence of NIS' long-term program Return to Serbia, which has provided tens of our colleagues with the opportunity to return to their country. By launching this program and working closely with a number of organisations which connect people from various fields as well as with all individuals interested in continuing their careers in our company, we continue to support the return of highly qualified professionals who are ready to assume leading positions and apply their knowledge and skills in NIS.

NIS has also continued to strengthen its position of a desirable employer by participating successfully in over 20 job fairs, conferences, workshops and forums during the year, including ESTIEM Case Study Show, Original Conversations, Chatting with Your Company, OPENS FundCon Fundraising Congress, HR Experience, HR Week 2019, Spanel and many other.

Our partnership with AIESEC, one of the largest student organizations in the world, was marked by two large projects implemented in 2019. The web platform of this student organization and the Knowledge Hub project enabled the exchange of NIS' educational programs and professional blogs written jointly by its employees and students from Serbia. Additionally, NIS has provided support to the Voice of the Young survey, whose aim was to collect opinions and expectations of over 3,000 young people throughout Serbia regarding their first job and employer.

By setting ambitious goals and constantly improving the experience of applicants that go through our recruitment and selection process, we achieve results that ensure our place among the best, and our good practices serve as an example to other companies.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МАТИЦА
NIS

Employee Number and Structure

Organizational unit	12/31/2019			12/31/2018		
	Direct	Leasing	Total	Direct	Leasing	Total
NIS j.s.c Novi Sad	**4,218**	**3,633**	**7,851**	**4,059**	**3,594**	**7,653**
Exploration and Production Block	923	178	1,101	858	216	1,074
Services Block[1]	0	0	0	0	0	0
Downstream Division	2,110	3,096	5,206	2,062	2,944	5,006
Refining Block	936	17	953	956	30	986
Sales and Distribution Block	1,030	3,063	4,093	999	2,899	3,898
Energy Directorate	37	4	41	41	5	46
the rest of Downstream Division[2]	107	12	119	66	10	76
Corporate Centre	1,144	359	1,503	1,094	434	1,528
Representative and Branch Offices	41	0	41	45	0	45
Local subsidiaries	**1,756**	**1,485**	**3,241**	**1,571**	**1,767**	**3,338**
Naftagas – Oil Sevices LLC Novi Sad[3]	1,112	1,013	2,125	991	1,267	2,258
Naftagas – Technical Services LLC Zrenjanin	213	121	334	174	126	300
Naftagas – Transport LLC Novi Sad	83	321	404	81	338	419
STC NIS – Naftagas LLC Novi Sad	348	30	378	325	36	361
Subsidiaries abroad	**70**	**2**	**72**	**73**	**1**	**74**
NIS Petrol e.o.o.d. Sofia (Bulgaria)	33	0	33	35	0	35
NIS Petrol s.r.l. Bucharest (Romania)	29	0	29	29	0	29
NIS Petrol LLC Banja Luka (Bosnia and Herzegovina)	5	0	5	6	0	6
Jadran Naftagas LLC Banja Luka (Bosnia and Herzegovina)	3	0	3	3	0	3
Panon Naftagas k.f.t. Budapest (Hungary)	0	2	2	0	1	1
Other subsidiaries included in consolidation	**467**	**100**	**567**	**442**	**123**	**565**
O Zone j.s.c. Belgrade	4	100	104	4	123	127
NIS Overseas o.o.o. Saint Petersburg (Russian Federation)	4	0	4	4	0	4
NIS Svetlost LLC Bujanovac	0	0	0	0	0	0
G Petrol LLC Sarajevo (Bosnia and Herzegovina)	459	0	459	434	0	434
TOTAL:	**6,511**	**5,220**	**11,731**	**6,145**	**5,485**	**11,630**

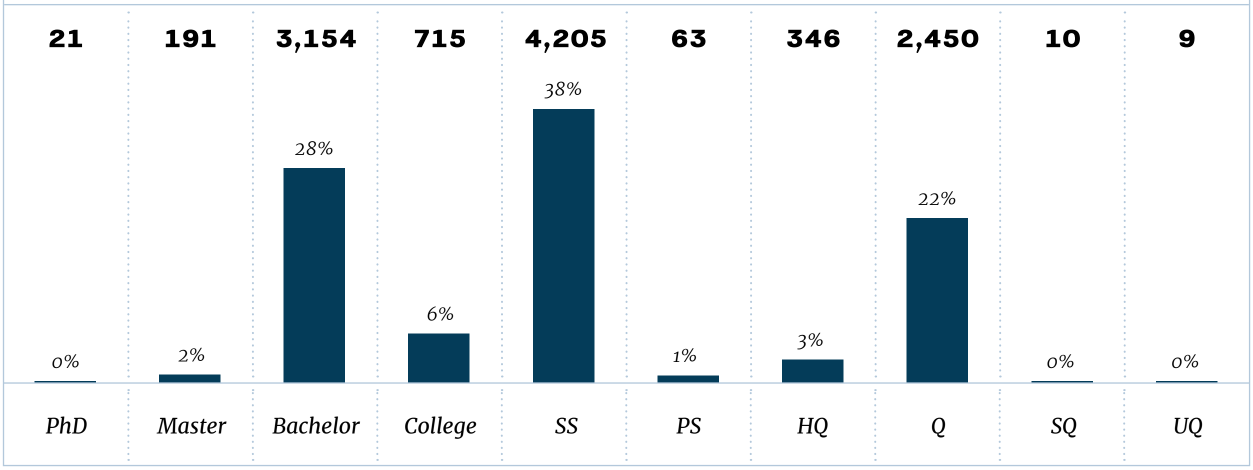
1 *As of 12/31/2019, there were 7 employees in the Block Services, but since they are currently transferring to the Oil Services, they are presented as NFS' employees in the table.*

2 *The rest of the Downstream Division consists of: Director of Division's Office, Department for Crude Oil, Department of Planning, Optimization and Analysis of Production and Sales, Department of Metrology and Group for Administration and Documentation Support.*

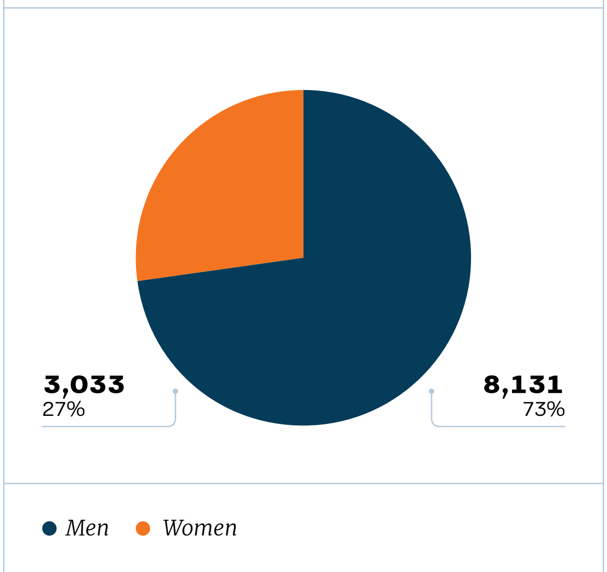
3 *Including the employees in subsidiaries.*

Employee Structure in terms of Qualifications, Gender and Age[1]

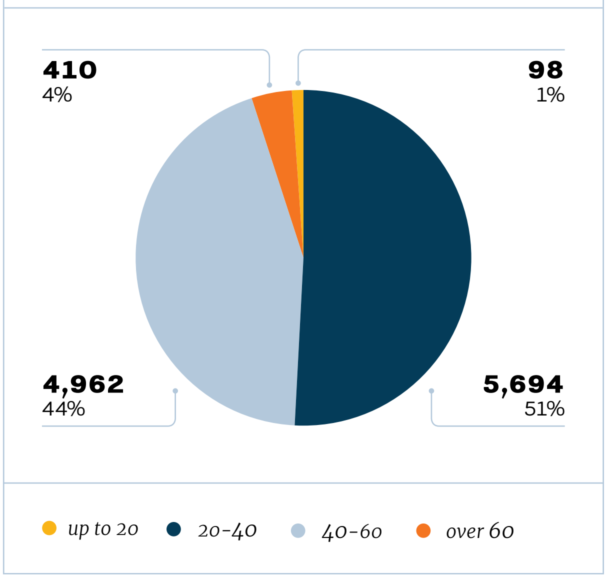
Employee qualification structure



Employee gender structure



Employee age structure



1 *Includes both direct employees and leased employees at NIS j.s.c. Novi Sad, including representative offices and branches, subsidiaries in the country and subsidiaries abroad, except for employees at other subsidiaries that are undergoing consolidation.*

Causes of Employment Termination

In 2019, a total of 322 employees left NIS[1]: 54 employees retired, 57 employees left NIS after termination of employment by mutual consent, while the employment of 211 people was terminated on other grounds – involuntary termination, voluntary termination (resignation), redundancy, etc.

Cause of employment termination	NIS j.s.c. Novi Sad[1]	Subsidiaries[2]
Retirement	33	21
Termination by mutual consent	51	6
Other	104	107
Total	**188**	**134**

1 *Including representative offices and branches. Of the total number of terminations, 14 are from representative offices and branches.*
2 *Naftagas – Oil Services LLC Novi Sad, Naftagas – Technical Services LLC, Zrenjanin, Naftagas – Transport LLC Novi Sad and STC NIS – Naftagas LLC Novi Sad.*

1 *NIS j.s.c. Novi Sad with the subsidiaries Naftagas – Oil Services LLC Novi Sad, Naftagas – Technical Services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and STC NIS – Naftagas LLC Novi Sad.*

People are Greatest Wealth

For years, NIS has been one of the most sought-after employers in Serbia.

Our goal is to retain the best and attract

young talents

from the labor market and that's why we have created a five-year HR strategy.

The needs, expectations and potential development of each of the over

11,000

employees remain one of NIS's priorities.

1.12

Environmental Protection, Industrial and Occupational Safety

Taking care of the health and safety of our employees, contractors, third parties, the local population and the environment is a priority for NIS. A healthy, safe, capable, ready and motivated employee is not only an individual goal, but also an overall goal of the Company.

In 2019, in order to improve occupational health and safety, NIS focused on the preparation for the implementation of the Karkas Safety Shield Program, improvement of the HSE competency of its employees through an HSE culture improvement program, contractor HSE management, monitoring the implementation of safety requirements for high-risk activities, and further improvement of safe driving practices (traffic safety).

Environmental Protection

In 2019, NIS continued with the practice of monitoring environmental projects that eliminate and mitigate risks – i.e. bring high and medium risks to an acceptable level. In the past year, we invested RSD 534 million in the implementation of green projects aimed at protecting and improving the environment.

In order to ensure that our units operate in line with the Directive 2010/75/EU on industrial emissions and stricter emission limit values for air pollutants, in 2019 we installed low NOx burners on the process furnaces in the Hydrodesulfurization (HDS) Unit II, Atmospheric Distillation Unit and the Fluid Catalytic Cracking Unit (FCC) in the Pančevo Oil Refinery.

We also completed the project on the separation of sewer systems for faecal, oily and atmospheric wastewater and the reconstruction of the wastewater treatment plant in the PP Warehouse Novi Sad. In 2019, we installed 6 separators on our petrol stations: 4 separators were replaced, while 2 were installed on petrol stations that had not previously had them. Therefore, 99% of our petrol stations have separators for treating oily atmospheric wastewater. The Company has a total of 350 wastewater treatment plants.

We also continued our activities on remediation of historical pollution on oil fields. Eight primary mud pits were remediated, and the suction pit in OS KP Kikinda was remediated and recultivated. So far, the Company has remediated 198 primary mud pits and two absorptives pools, whose total area is 150,612 m^2.

A study defining measures and activities was conducted for the purpose of preparing NIS' units for participation in the EU greenhouse emissions trading system, and implementing a system for monitoring, reporting and verifying greenhouse emissions in accordance with the EU ETS Directive.

In 2019, nearly RSD 359.4 million was allocated for the costs of fees and taxes for environmental protection, as well as water fees.

Overview of charges and fees in 2019	Water charges (RSD million)	Environmental protection charges and fees (RSD million)	Total (RSD million)
NIS j.s.c. Novi Sad	77.7	278.0	355.7
Subsidiaries[1]	1.6	2.1	3.7
Total	**79.3**	**280.1**	**359.4**

1 *Including Naftagas – Oil Services LLC Novi Sad, Naftagas – Technical Services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and STC NIS – Naftagas LLC Novi Sad.*

In 2019, NIS continued with the practice of monitoring environmental projects that eliminate and mitigate risks – i.e. bring high and medium risks to an acceptable level.

Industrial Safety

The industrial safety management system includes hazard identification, risk assessment and management of risks related to production processes and processing equipment. Supported by advanced technological solutions, modernization of production and continuous employee development, this system provides adequate prevention, monitoring, and effective and timely response in emergencies.

Fire Protection

In 2019, the Company added new vehicles to its fleet:

- two new fire engines for the Firefighting Units in Elemir and Pančevo, and
- three emergency vehicles, distributed at locations in Pančevo, Elemir and Kikinda.

Improving the Skill Set, Equipment and Resources of Firefighting Units:

- in 2019, the Department for Emergency Management began the construction of its Training Centre for members of firefighting units at the PP Warehouse Novi Sad.;
- NIS' professional firefighting units won the 3rd place at the international competition of Gazprom Neft's firefighting units in Omsk;
- the team of the Firefighting Unit Elemir won the 1st place on the Vojvodina Cup, and secured their place in the National Firefighter Championship in 2020;
- twenty-seven members of NIS' firefighting units completed rescue from height and depth training, and the equipment necessary for their work was procured;
- all firefighting units transferred from VHF to UHF frequency, thus ensuring a more reliable and better-quality connection between their members.

Process Safety

Process safety is a disciplined framework for managing the integrity of the operating system/processes of handling hazardous substances. It relies on good design principles as well as on good engineering, operating and maintenance practices. This field deals with the prevention and control of incidents that have the potential to release hazardous materials and energy. Such incidents may lead to exposure to toxic substances, fires and explosions, which in turn may cause more dangerous incidents, including death, injuries, property damage, unplanned production downtime and environmental damage.

In order to improve process safety, the Company implemented the following activities:

- The crucial element of process safety is identification of hazards and risk assessment. Great attention was paid to this element in 2019. It should be noted that the Company adopted several all-new innovations and improvements in this area – we acquired Leader, new software that organizes risk assessments and maintains a risk register, and reviews proposed technical measures that are most effective for risk mitigation, i.e. for the improvement of process safety.
- No less important element in process security is managing technical and technological changes is just as important element of process safety. At the company level, we adopted a normative-methodological document (NMD) that ensures that changes in project and technical documentation for plants, operations, organisations or activities are systematically evaluated and reviewed prior to their implementation, in order to prevent accidental creation of new risks or increase of the existing risks for employees, property, public goods or the environment.
- Compared to 2018, the number of medium and major events dropped by 40% in 2019 as the result of our efforts in the area the process safety.

Emergency Situations

In 2019, the documentation packages on emergency situations in NIS j.s.c. were reviewed in line with organisational changes, the newly adopted Law on Disaster Risk Reduction and Emergency Management and all bylaws that have resulted from it. Additionally, the competent government body approved the completed Assessment of Risks of Exposure to Natural and Other Disasters in NIS j.s.c. Novi Sad.

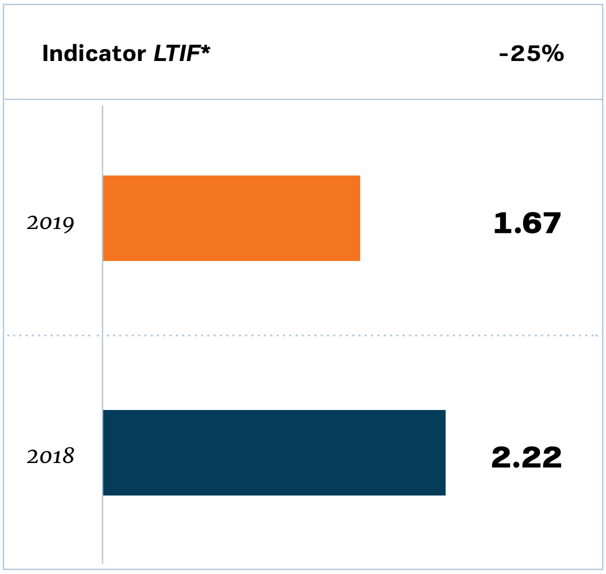
In 2019, we continued our collaboration with the National Training Centre for Emergency Situations within the Ministry of Interior of the Republic of Serbia by holding joint drills and training sessions for civil protection officers in locations at both the Sales and Distribution Block and the Exploration and Production Block.

Five command simulation exercises for emergency responses were carried out with the participation of the Emergency Preparedness and Response Teams in the key locations of the Company's infrastructure (three exercises in locations at the Sales and Distribution Block; one exercise in a location at the Refining Block and one exercise in a location at the Exploration and Production Block).

Occupational Safety

In 2019, in order to improve occupational health and safety, NIS focused on the preparation for the implementation of the Karkas Safety Shield Program, improvement of the HSE competency of its employees through an HSE culture improvement program, contractor HSE management, monitoring the implementation of safety requirements for high-risk activities, and further improvement of safe driving practices (traffic safety).

When compared to 2018, the LTIF for 2019 was reduced by 25%. We recorded 43 LTIs in the 12 months of 2018, whereas in the 12 months in 2019, there were 33 LTIs of the Company's employees.



* *Ratio of the number of employee injuries with sick leave and total number of working hours multiplied by 1 million (total NIS j.s.c. Novi Sad with subsidiaries Naftagas –Technical Services LLC Zrenjanin, Naftagas – Oil Services LLC Novi Sad, Naftagas – Transport LLC Novi Sad, STC NIS – Naftagas LLC Novi Sad).*

Risk Management in Occupational Safety

In 2019, NIS began making amendments to the *General Risk Assessment in the Workplace and the Work Environment in NIS j.s.c. and its subsidiaries*. The amendments include a new approach and concept of risk assessment, in line with the legal requirements in the Republic of Serbia which govern occupational health and safety and which define the workplace as a space where work is carried out in line with the new risk assessment methods.

HSE Incident Management

The main objectives of HSE incident management are as follows:

- timely response and damage control, i.e. HSE incident management;
- prevention of future incidents by continuously improving the HSE management system;
- legal compliance;
- learning and sharing the lessons drawn from each and every HSE incident.

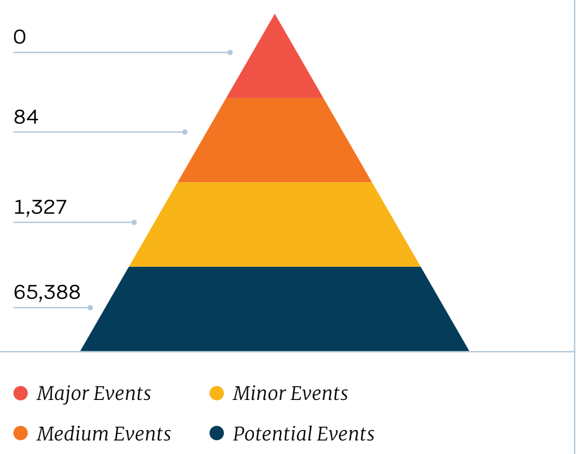
Every employee or a third party who was present during an HSE incident for any reason (participant/witness) must immediately, without any delay, notify the line manager or location host.

Pursuant to HSE Incident Classifier, HSE incidents are classified as either major, medium-sized, minor or potential (near misses).

After the investigation determines the key causes of an incident, corrective measures must be defined in order to remove these causes and prevent the occurrence of similar incidents. When formulating corrective measures, systemic causes of HSE incidents must be taken into consideration so as to ensure that these incidents are not repeated. All measures that result from these investigations are entered into HSEnet, and their implementation is monitored.

The picture below shows a transparency pyramid with the number of HSE incidents that occurred in the Company during 2019:

Transparency Pyramide



As opposed to 2018, there were no major HSE incidents in 2019.

During 2019, there were 33 work-related injuries with days of sick leave (lost-time injuries, LTIs).

All major, medium and HiPo (high potential) incidents that occurred in 2019 (including minor and potential incidents) were investigated at the request of the head of the Block/Division. The investigations helped identify 505 corrective measures that were scheduled for implementation in 2019. The percentage of implemented corrective measures recommended for 2019 through the investigations of HSE incidents is 85%.

After an Incident Investigation Report is approved, we prepare HSE Incident Notifications, i.e. HSE warnings that are distributed to all employees in the Company and their colleagues in the GPN Group. In this way, we ensure the exchange of information on HSE incidents and of lessons learned that tell us how to prevent these or similar incidents in the future.

Karkas Safety Shield Project

This project was created in Gazprom Neft on the basis of an analysis of HSE incidents in 69 of its subsidiary companies (SCs). First, they carried out an analysis of major and medium-sized incidents from the previous three years (2016-2018), and then identified the areas that pose the greatest risk in the Company in the field of occupational safety and health.

On the basis of the identified risks, Gazprom Neft defined requirements/barriers for 9 areas: electrical safety, work at height, high-risk work activities, accident protection, accidents and disasters, traffic safety and hydrogen sulphide emissions. These must be met by all SCs in the Group in order to reduce risks and prevent all undesirable effects on the company.

Project Goals:

- "Objective 0" – eliminating injuries, accidents, incidents and harmful effects on the environment;
- raising the level of industrial safety culture;
- preventing fatal and other injuries of employees and contractors;
- reducing financial losses caused by incidents and accidents;
- maintaining the positive image of the Company with regard to industrial safety culture in the areas that are within social responsibility of NIS j.s.c. and PJSC Gazprom Neft.

In 2019, NIS began the implementation of the *Karkas Safety Shield Program*, which will last for three years. We carried out the diagnostics in all Blocks and SCs, and identified improvement measures, i.e. barriers that will prevent undesirable HSE incidents.

Management of Contractors and Third Parties

NIS j.s.c is focused on promoting its collaboration with contractors, improving contractors, safe work practices and raising health and safety awareness.

NIS j.s.c. continued to work on improving the contractor management process in 2019 as well. For six years on a row, our company has successfully managed its contractors, aiming to improve the practices in the areas of OHS (occupational health and safety), EP (environmental protection) and FP (fire protection).

In this year, the company reviewed its standard for contractor HSE management. The "Stairs" program clearly defines roles and responsibilities of internal process participants and contractors. Numerous processes were improved and optimized.

Key responsible persons completed training for CSM (Contractors System Management) in all blocks and subsidiary companies. For 2020, we plan to organize workshops with contractors, as well as additional training courses for employees for contractor management.

As is tradition, we held the 11th Contractor HSE Forum. The HSE Forum also included a panel discussion, presentation of good practices, exposition of the "Stairs" program and promotion of the best contractors. Eleven contractor companies were promoted and awarded. By awarding and promoting the best contractors, our company showed that it recognized the contractors that manage their contractual obligations in a safe, professional and responsible manner.

Employee Health Care

Ensuring that our employees are both physically and mentally healthy is one of the strategic goals of the Company, as well as an important task of the HSE Function. The main focus of employee health care is on prevention, early detection of diseases, health surveillance and prevention of occupational diseases, as well as on the improvement of the physical and mental health of our employees. Promotion of a healthy lifestyle and raising awareness of the importance of prevention in health care is accomplished through educational campaigns, training and other communication channels.

As a socially responsible company, we organise a wide range of health screening tests (in 2019 - 21,126 employees underwent the examinations) with the aim of prevention and early detection of cancer, diabetes, heart diseases, etc.

In addition to regular health screenings in 2019, we also organized "mini health screenings" where our employees could check their blood sugar level, blood pressure, body mass index (BMI) and measure carbon monoxide (CO) levels in exhaled air.

During 2019, several campaigns were conducted on the prevention of obesity, diabetes, dehydration, cardiac and oncological diseases.

The Traffic Safety Week included workshops with drug driving and drink driving simulators that demonstrated the effect that alcohol and drugs can have on driving (using glasses), which was just one of regular activities aimed at tackling alcohol and drug abuse in the workplace.

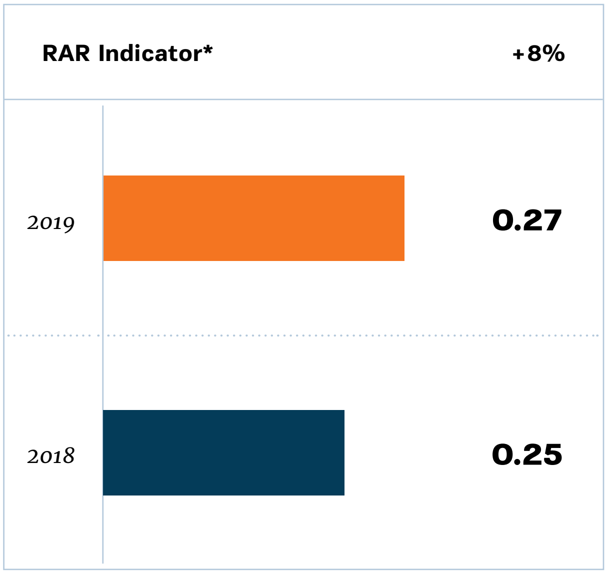
In order to prevent drug and alcohol abuse at work, the company tests its employees and third parties by administering regular and random alcohol tests at the company's entrance/exit gates and locations. In 2019, the company's employees and contractors underwent 28,702 tests at its various locations.

Traffic Safety

NIS' employees cover approximately 40 million kilometres per year, which means that they are exposed to a large number of traffic risks. Our company pays great attention to the safety of its employees in traffic in order to minimize these risks.

In 2019, we carried out many activities aimed at proactive and preventive action, including: practical and theoretical training courses in collaboration with the Ministry of Defence (military obstacle course in Kraljevo); continued use of continuous vehicle monitoring (IVMS – In Vehicle Monitoring System); provision of advisors for transport of dangerous goods in all NIS' organizational units; presenting quarterly awards to the best drivers recognized by the IVMS and RAG+ (Red Amber Green) reports, campaigns, informing employees about risks and hazards and advising them on safe driving practices (summer and winter conditions, low visibility, driving fresh, etc.), updating the "drivers' base" – i.e. driving records e-system, so that all employees and their managers can check the current status of the driving style, other activities (reports, notifications to the management, preparation of normative documents, coordination and planning of activities for organizational units within the company, etc.).

RAR (Road Accident Rate) is the ratio of traffic accidents. The RAR for 2019 is 0.27 (there were 11 road accidents).



* *The ratio of traffic accidents per kilometres travelled multiplied by 1 million.*

HSE Culture Improvement

In collaboration with the British company Dekra, NIS began implementing the HSE Culture Improvement Program in 2018.

In the first year, the Refining Block and the Services Block held two group training modules and began coaching activities. In 2019, new workshops were organized – group training programs for operators, leaders and potential Champions, while the coaching process began in other block as well.

In 2019, we held the following group training modules: “Leading Safety Performance“, “Hazard Hunt“ and “Just and Fair Culture“ – the total of 33 workshops with over 480 participants. The top 40 Champions attended a two-day training course “Coaching for High Performance“ (three specialized workshops). The results of evaluations of these training programs show that they are well-received in all organizational units, that the participants were open to cooperation and that they believe in changes in NIS.

In 2019, there were 98 days of coaching, and nearly 200 leaders took part, from all levels of hierarchy. The coaching program also included the top management in NIS and its blocks, which provides support to this program and sets an example for other leaders, their co-workers.

A survey on the opinions about coaching from June 2019 showed that leaders were more open to coaching after participating in it, that they were satisfied with it and that coaching provided them with useful knowledge and skills that they would be able to apply in their future work. The survey participants also believe that coaching techniques help improve leadership, strengthen trust between leaders and employees, help them in personal development and improve personal and overall safety in the company.

HSE Training, Development of HSE Competency and Employee Awareness

In 2019, the focus was on revising and updating educational materials for workplace training programs (M2) and HSE management system training programs (M3), with the aim of improving the quality of training.

Since overall safety depends on our joint dedication and readiness to apply good HSE practices at all times and in all circumstances, the Company carried out both internal and external HSE training for 38,464 employees (i.e. 154,849 hours was spent on HSE training) in 2019.

38,464
employees attended

10,931
contractors trained

154,849
hours spent on HSE trainings

HSE Motivation

The number of employees awarded through HSE Motivation increases every year: between 2012 and 2019, the total of 8,965 employees were rewarded, 1,547 of whom received awards in 2019.

HSE Indicators

HSE Indicators	2019	2018	% of changes
Injuries	*112*	*119*	*6%*
Lost-time injuries	*33*	*43*	*23%*
Fire	*32*	*22*	*45%*
Traffic accidents	*11*	*10*	*10%*
Environmental pollution	*14*	*16*	*12%*
Inspection visits coefficient	*0.17*	*0.19*	*10%*
Visits by inspection bodies	*1,029*	*799*	*29%*
Measures proposed during inspection visits	*178*	*155*	*15%*

1.13

Corporate Social Responsibility

Corporate social responsibility and community development

A responsible attitude towards the community, strengthening it and creating conditions for its further development are NIS' priorities for its socially responsible projects. For years, NIS has been one of the leading domestic social investors under the slogan "Future at Work". In the last decade, around RSD 3.8 billion has been invested in numerous educational, health, social, cultural and sports projects and institutions. NIS' focus in this area is the support to the young generations since they are the driving force of our future development, and the wish to help them unlock their full potential in their own country. Within the Common Cause Community program only, more than RSD 1.2 billion has been invested in community development, and more than 950 different projects have been implemented. This way, in the past 11 years, NIS has supported the procurement of equipment for 14 maternity wards, 27 community health centres and a dozen children's hospitals, and renovated 75 children's playgrounds and parks, among other things.

When it comes to *Common Cause Community 2019* program, the focus was on providing support to healthcare providers, especially those specialized in treating children. In 2019, a total of RSD 116.5 million was invested in the community through 20 projects within this program. This money was used to purchase state-of-the-art medical equipment and devices and renovate important health healthcare providers in 13 partner cities and towns across Serbia – Belgrade, Novi Sad, Niš, Čačak, Zrenjanin, Pančevo, Kikinda, Kanjiža, Novi Bečej, Srbobran, Žitište, Požarevac and Plandište. Owing to these projects, implemented through NIS' partnership with local communities,

healthcare providers in our country now have modern ambulances for emergency services, vehicles for domiciliary care, ultrasound machines for infant hip screening, modern dental and ophthalmic equipment, ECG machines, inhalers, and other equipment which is crucial for patient care.

Healthcare providers in Serbia received our support in 2019 outside the *Common Cause Community* program as well. The funds raised by NIS' employees and the company itself were donated to Dr. Vukan Čupić Mother and Child Health Care Institute in Belgrade, one of the most important healthcare providers in Serbia and the region specialized in the treatment and hospitalization of children and young patients. The equipment procured for the Institute includes an operating table, an anaesthetic machine, a vital signs monitor, surgical lights and an aspirator. At the same time, NIS' employees and members of the Volunteer Club organized a campaign to decorate the interior of the Institute in order to improve the conditions for those who work and stay in this institution. In doing so, NIS has expanded the list of healthcare providers which received its support in this way, which include the Tiršova University Children's Hospital in Belgrade, Child and Youth Healthcare Institute of Vojvodina in Novi Sad, Studenica General Hospital in Kraljevo, Clinical and Hospital Centre in Kosovska Mitrovica, Clinic for Burns in Belgrade, Haematology and Oncology Ward for Children's Internal Medicine in Niš, to name a few of many healthcare institutions which received donations over the course of past years.

Of particular importance for NIS is the cooperation with national and international educational institutions, implemented through the corporate programme "Energy of Knowledge". Since 2012, NIS has been investing in the future and education of quality staff

Social Responsibility

We have paid the greatest attention to children and young people by investing in health care facilities, educational institutions, sports and culture throughout Serbia.

We demonstrated our social responsibility in 2019 yet again by investing over RSD

371 million

in various projects that contribute to community development.

We are particularly proud of our staff's

volunteer work

which was awarded the National Volunteer Award.

through scholarships for students in Serbia and abroad and continuous cooperation with educational institutions and scientific societies in Serbia and abroad.

NIS has signed Memoranda of Cooperation with the Russian State University of Oil and Gas "I. M. Gubkin", the St. Petersburg Mining University and the MGIMO University in Moscow, as well as new Memoranda of Cooperation with the Universities of Belgrade and Novi Sad. In 2019, Memoranda of Cooperation were also signed with the Faculty of Mechanical Engineering and Electronic Engineering in Niš.

In the Pančevo Mechanical and Electrical Engineering School "Nikola Tesla", in cooperation with the Ministry of Education, Science and Technological Development and the Institute for the Advancement of Education, the supplementing and adjustment of the curricula was completed and new NIS classrooms were opened in order to improve the working conditions, adjust the school programme and train staff for the needs of the Pančevo Oil Refinery.

In cooperation with the Serbian Chemical Society, the Society of Physicists of Serbia and the Society of Mathematicians of Serbia, in 2019, NIS supported the organization of the Serbian Olympiad in Mathematics, Physics and Chemistry and the departure of the winners to international Olympiads. During the 2018/2019 school year, NIS has awarded scholarships to 35 students attending Serbian faculties and oil and gas universities in Russia. In 2019, 11 scholarship recipients graduated from Serbian faculties and 18 from Russian universities. Twelve students were employed by the company. NIS continued to provide scholarships to six students for pursuing master's degrees in Russia. In the 2019/2020 school year, four new scholarships were awarded to students in Russia and five to students of the University of Novi Sad.

Mandatory internships were implemented for the recipients of NIS scholarships from the Russian Federation and the following Serbian faculties: Technical Faculty "Mihajlo Pupin", Department of Industrial Engineering in the Exploitation of Oil and Gas, Faculty of Technology and Faculty of Mining and Geology in Belgrade. Over 250 internships and field visits to the company by students of partner faculties were realized, as well as over 30 guest lectures by NIS experts and scholarship recipients at partner faculties in Serbia.

The 7th NIS Russian Language Olympiad was held. Support was continued for the implementation of bilingual teaching at three schools in Serbia as well as support for teaching at the Faculty of Education in Sombor to provide adequate staff for teaching Russian. NIS Classrooms for Russian were opened in Titel, Smederevska Palanka, Brekovo, Blace, Bajina Bašta, Vrbas and at the Belgrade Faculty of Philology. Donations continued to support schools in the adaptation and equipment of the Russian language classrooms. In cooperation with the Faculty of Philology in Belgrade, the realization of the Serbian language classes at the Russian School of the Embassy of Russia in Belgrade was continued.

This year, in cooperation with the PEXIM Foundation, NIS was once again the sponsor of the eighth gala dinner organized by Serbian students at the University of Cambridge.

In 2019, NIS marked an important anniversary – 10 years of partnership with the Petnica Science Centre, the leading regional institution for education and development of young talents. A panel discussion was organized on this occasion, sending a clear message to the young generations – "It is possible to be successful in your job in Serbia". The goal of the discussion was to encourage and motivate new generations to pursue professional development, and stay in or return to Serbia. Since 2009, NIS has donated over RSD 100 million to Petnica, and helped it purchase up-to-date equipment (geoscanners) and offered its expertise by having its experts take part in the seminars at the Science Centre. In addition, for the seventh consecutive time, NIS provided support to the leading regional event aimed at the promotion of education and science among the young people – the Science Festival in Belgrade held under the slogan "Reveal". At the event, NIS presented itself through an exhibition titled "Knowledge Motivates", created with the aim of revealing the secrets from the world of energy.

Since NIS' social responsibility is oriented towards the young, in 2019, the fourth "Youth Heroes" competition was organized in collaboration with the EXIT Foundation. The competition gave Serbia a new generation of young heroes, who will set an example for the coming generations in our country by their decisiveness. At the closing ceremony held in the Svilara Cultural Centre in Novi Sad, awards were given to the 19 most successful candidates, who deserved the "Young Hero" title owing to their achievements. There were four categories of winners: science and education, culture and art, entrepreneurship and creative industries and social activism; in addition, a special "Youth Heroes" award was presented. By organizing this competition at the national level, NIS wishes to contribute to the promotion of true values and to show that, if they wish to make positive changes, individuals can accomplish great things and motivate the entire community to act.

NIS has continued providing support to culture and art as well. For the fourth year in a row, NIS was the partner to Emir Kusturica in organizing the Autumn Theatre Festival on Mokra gora, an event that promotes the theatre and young artists. In 2019, NIS gave its support to the Joy of Europe International Children's Festival for the eleventh year running. He also supported a unique international cultural event -Belgrade Dance Festival.

In 2019, NIS continued promoting sportsmanship and healthy lifestyle among children throughout Serbia, and it continued sponsoring top sport teams and associations, such as the Partizan Basketball Club, Tennis and Basketball Federation of Serbia. The project "We're All on the Same Team" was carried out for the third year running. Owing to this project, the trophy won by the champions of Serbia in football travelled across our country, making stops at NIS petrol stations, while mini half-court basketball tournaments for future basketball champions were organized in the three largest cities of Serbia. More than 2,000 young athletes took part in these tournaments. In order to promote sport among children, we also continued holding free Open Tennis Schools in several cities and towns in Serbia. Also, NIS continued supporting Dušan Borković, the best Serbian car racing driver.

NIS made a big step forward in volunteering, as well. The NIS Volunteer Club was officially established in 2018. The Club brings together more than 500 members – our employees, who regularly take part in the planning, design, and implementation of volunteer activities. The Club has implemented numerous initiatives aimed at helping socially vulnerable groups, children and the young, renovation of children's hospitals and environmental protection. In 2019, we held a corporate competition titled "Improve! Teach! Spread Joy!". The top five initiatives, designed by NIS employees, were selected and implemented. The volunteers renovated the interior of a nursery school in Sefkerin, the garden of the "Altruist" Association of Persons with Developmental Delay in Žabalj, reconstructed the fence around Milan Petrović School in Novi Sad. They also attended the workshop organised by the Association of Persons with Down Syndrome in the Sound of Your Heart Cafe ("Zvuci srca") in Belgrade, and decorated the interior of Rade Drainac Elementary School in Belgrade. NIS volunteers particularly cherish the time spent with the children and young people coming from these institutions and the humanitarian organization "A Child's Heart". This contribution through volunteering won us a National Volunteering Award in the Achievement of the Year category, which is traditionally awarded by the Responsible Business Forum and Smart Kolektiv. Moreover, the NIS Volunteer Club joined NURDOR's initiative named "Take a Step", whose goal is to raise funds for the construction of a new house in Belgrade for parents of sick children undergoing treatment. Preparation of New Year's gifts was traditionally saved for the end of 2019. This time, gifts were given to the children without parental care in the centres in Subotica, Kruševac, Negotin, Pančevo and Niš. The management and players of the Partizan Basketball Club joined this initiative as well. This year, NIS volunteers helped every child say what they wanted using drawings, poetry or acting, to ensure that they received the gift they wished for.

In 2019, NIS continued setting standards in sustainable development. The 2018 Sustainable Development Report was presented – this is the ninth consecutive report since the beginning of reporting. On this occasion, a ceremony was held in Rector's Hall at the University of Belgrade, in line with NIS' decision to bring young people into the focus of social responsibility, and to encourage development of their potential. The central part of the ceremony was a panel discussion titled "Investing in Young People for a Sustainable Future of Serbia", which was attended by Kirill Tyurdenev, NIS CEO, Slavica Đukić Dejanović, Minister without Portfolio in charge of demography and population policy, Zlatibor Lončar, Minister of Health, and Mladen Šarčević, Minister of Education, while Aleksandar Antić, Minister of Mining and Energy, opened the discussion. Owing to the efforts made in this field, NIS was also presented as an example of good practice at the session of the Inter-Ministerial Working Group for the Implementation of the United Nations 2030 Agenda for Sustainable Development, held in late December in the Palace of Serbia.

NIS' responsible attitude towards the local community and its efforts to continuously improve the quality of products and services brought several awards in 2019, including the Socially Responsible Business Award by the Serbian Chamber of Commerce, National Award in Occupational Safety and Health, the best corporate brand award in the Products and Services category within the Best of Serbia initiative organized by the Chamber of Commerce and the Ministry of Trade, Tourism, and Telecommunications.

In 2019, NIS invested over RSD 371 million in various socially responsible projects, and improving the quality of life of a wider social community still takes priority in this field.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1.14

Communication

Public Relations

More information on Investor Relations on page 118

The priority of NIS' Department for External Communications is to inform the public about all crucial and other business activities of the Group in a timely and transparent manner. In line with this priority, NIS fosters a timely and bidirectional communication with the media and all other interested parties – we inform them about all our important events through press releases, regular press tours for media representatives, statements given by company representatives, expert articles and other information posted on our corporate website (www.nis.eu). Visitors of our corporate website can also view information about investors, news about key development projects and career opportunities in NIS, as well as information on open calls and procurement procedures. Our website also contains electronic versions of annual reports and sustainable development reports. NIS also continues to strengthen its social media presence, which is crucial for fostering a bidirectional communication with customers and other interested parties. Our company has corporate and customer accounts on all relevant social media platforms.

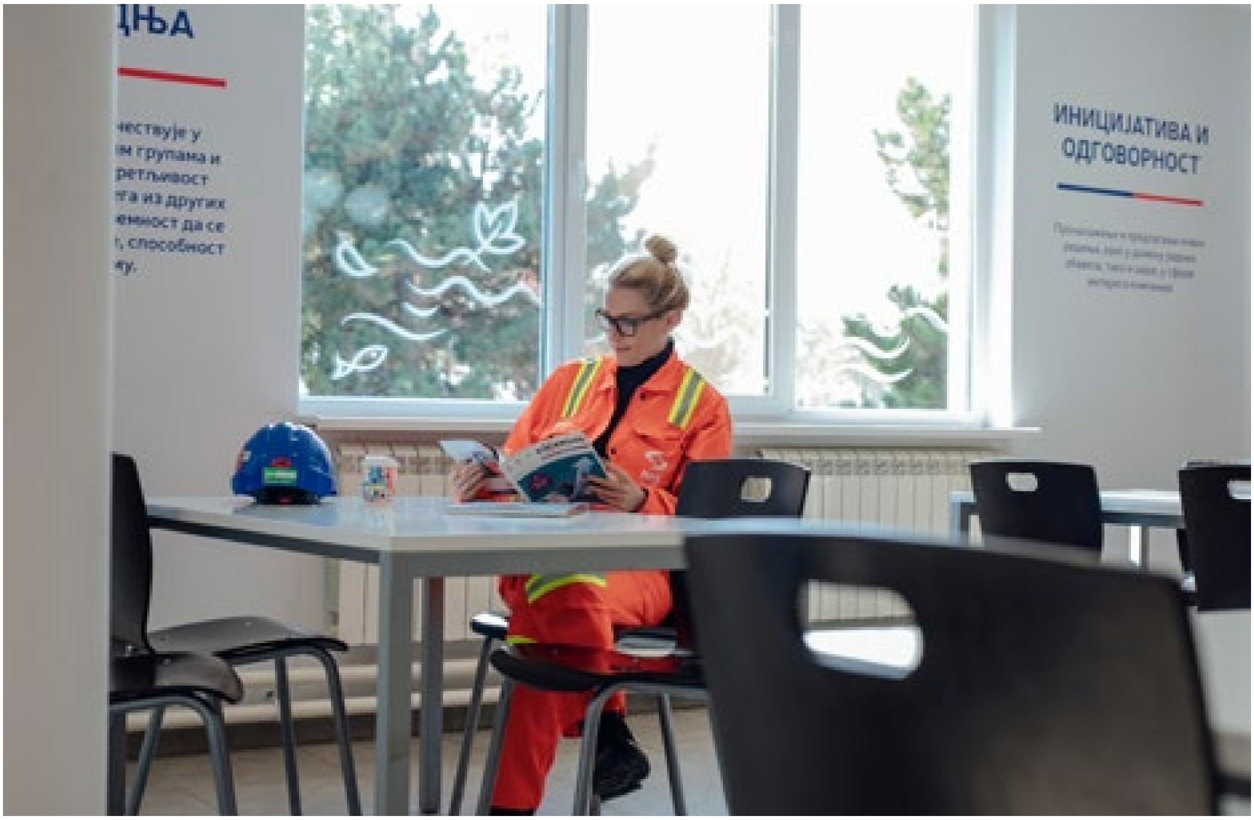
Corporate Culture

In addition to its ability to adjust to the market needs and implement new technologies, our company's success also depends on our readiness to change the way in which we do our jobs.

In 2019, NIS created a 5-year HR strategy under the slogan "Future Ready", launching a series of positive changes and projects concerning human resources management and development and improvement of the workplace environment. Launched in 2018, the project "Culture and Values Diagnostics and EVP Creation" successfully defined the target corporate culture that the company will strive to achieve in the future period by creating an EVP and new corporate values. The company's long-term objective is to remain one of the most desirable employers in Serbia and to strengthen its employer brand in various target groups. According to AIESEC's (an international student association) latest survey from 2019, NIS is among the top 5 employers that young Serbs would like to work for after finishing their studies.

Informing Employees

Keeping your employees informed is essential for meeting the business objectives and improving the business operations of a company. In this sense, the main goal of NIS Internal Communications is to provide employees with timely and accurate information on all current topics – from business results, changes and plans for company development, occupational safety, staff development and training, to social and other types of employee benefits. For achieving this goal, NIS' Internal Communications utilize a variety of tools that include print, electronic and digital information channels. In the process of informing employees, two-way communication and feedback is very important. This form of open communication, in addition to daily communication during work, was made possible for NIS' employees through the option to openly ask questions in the "Questions for Management" section of the intranet portal, as well as at events such as the "Corporate Forum". A key role in the feedback chain belongs to the SOS line, which employees can use for consultations on the ethical standards of the Company, as well as for reporting unlawful or unethical activities, i.e. activities that violate the provisions of the Code of Business Ethics. In addition to keeping employees informed, Internal Communications play a significant role in the process of improving corporate culture, in which they provide communication support for the promotion of corporate values through internal marketing activities, such as communication campaigns, organization of internal events, and surveying of employee opinions on key topics related to their commitment to the company.



Government Relations

Cooperation with Business Associations

In 2019, NIS collaborated with business associations, guided by a common interest in continuously improving the business environment in Serbia. Cooperation with associations allows the exchange of knowledge and experience with the wider business community in Serbia and enables the formulation of optimal proposals for improving business conditions.

As in the previous period, the most intensive cooperation took place with the Foreign Investors Council (FIC), the American Chamber of Commerce in Serbia (AMCHAM) and the Serbian Chamber of Commerce (SCC), as well as the trade association National Petroleum Committee of Serbia – World Petroleum Council (NPCS-WPC).

During 2019, NIS representatives participated in the working groups and committees of FIC, AMCHAM and SCC, providing expert input in the creation of integrated proposals of the most important economic factors for improving the legislation and actions of competent government bodies.

NPCS-WPC also received support in organizing and planning participation in the upcoming 23rd World Oil Federation Congress in Houston, United States, to be held in 2020. NIS' representatives are also participating in the preparation of a regional workshop on Digitalization in the oil and gas sector, which will also take place next year.

Curbing the Grey Market

In 2019, NIS cooperated with the Coordination Commission for the Improvement of Inspection as well as the competent inspection bodies in order to maintain effective control in this area.

As a comprehensive measure of reducing the grey market in the country, NIS supports the implementation of the National Program for Suppression of the Shadow Economy and the associated Action Plan for 2019-2020.

1.15
Research and Development

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

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

Implementation and development of new technologies, scientific and research activities, as well as increasing the efficiency of exploration, production and refining of oil and gas remain in focus of the STC management and employees. It is oriented towards several directions. In the field of geological exploration, STC is implementing a regional project, whose aim is the discovery of hydrocarbons in Paleozoic or intra-Paleozoic rocks, and, in the case of discovery, their efficient production. In the field of exploration and production of oil and gas, we are working on finding the optimal solution for preventing the removal of sand from low-bonded rock collectors, the right choice of polymers for heavy and viscous oil reservoirs in order to increase the coefficient of utilization as well as agents for preventing the formation of chemical deposits on equipment production in wells.

To prepare produced crude oil for transport to the refinery, STC is optimizing a demulsifier which will separate the water produced together with oil as quickly as possible and shorten the production process. The laboratory is introducing new methods of testing petroleum products and having them accredited in accordance with EU standards. It is also extensively preparing for the application of completely new methods for testing botom-of-the-barrel products.

Apart from these directions, STC is actively engaged in the development and application of new technologies, including information and communication technologies in its core activity. In this direction, STC has made large steps in the field of improving user software support, database maintenance, implementation and maintenance of a virtual platform. It also provides support and maintains software for processing seismic data, coordinates and leads projects with IT elements, and implements new infrastructural and software solutions in accordance with the Company's core activity.

The realization of these activities was made possible by constant improvement of our employees' expertise and by investment in information technologies, both of which represent key prerequisites for development of NIS j.s.c.

1.16

Further Development

Exploration and Production Block

Exploration and Production

The following is planned for 2020:
- implementation of exploration and development drilling programs in Serbia and Romania;
- implementation of programs of geological and technical activities;
- maintaining the pace of base production decline;
- fulfilment of programs and extension of licensing obligations at 6 exploration areas in Serbia;
- construction of a gathering station in the Iđoš oil-field;
- continued implementation of 5S, SOP, visual management systems;
- development of the Teremia North field;
- start of the Velika Teremija Project;
- implementation of the Smart Activist Group Project.

Downstream Division

Refining Block

The commissioning of the DCU unit is key target which is planned during 2020, which will lead to an increase in the refining margin due to an increase in refining depth.

Implementation of planned projects and measures is also expected to increase efficiency (energy efficiency, losses, personnel, operational availability).

The implementation of digital transformation is also planned within:
- “Master APC” Project;
- “RAM software” – Reliability, Availability and Maintainability Software Project;
- “Predictive maintenance” system.

Within the three-year investment plan, key projects are planned to be implemented:
- reconstruction of the FCC Unit and construction of a new ETBE unit;
- reconstruction of an industrial sidetrack in the RNP’s perimeter;
- reconstruction of corrosion prevention systems in the Atmospheric Distillation Unit;
- implementation of biofuels;
- reconstruction of the fire protection system in the RNP.

Sales and Distribution Block

The Sales and distribution Block’s plans for 2020 include:
- reconstruction and construction of PSs in Serbia, and construction of PSs in Romania and Bosnia;
- network of installations – the initial phase of the reconstruction of oil bases in Novi Sad, Niš and Elemir;
- procurement of vehicles to increase the SETT’s capacities: replacement of tractor units for the transport of white goods;
- further expansion of Drive Cafe concept: opening two mobile Drive Cafes in Serbia, introduction of new products under own brand;

- personalized offers for users of the On the Road With Us cards via the cashier display ("General offer");
- further implementation of the DRIVE.GO mobile application (a software application for improving the performance of regional managers), PS G-Manager and the Paketomat mobile application;
- development of the features of the On the Road With Us mobile application (map virtualization), development of a new feature of the Agro payment card and expansion of the range of cash back services for users of Dina cards;
- automation of goods receipt process on PS – (Mobile PDA);
- NIS Corporate Sport 2020: year-round employee health promotion program; Gazprom Neft Winter Sports Games in February; continued support for daily recreational activities to 5 other cities across Serbia; NIS Sports Games in May; sports games of Gazprom Neft's Regional Sales Departments in June next year, Gazprom Neft Summer Sports Games in September, Naftijada – sports games of oil and gas companies from Southeast Europe in October 2020.

2

Financial Statements

2.01 Stand-Alone Financial Statements

Auditor's Report on Stand-Alone Financial Statements

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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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Our audit approach

Overview

Materiality	• 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	• 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.

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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
Estimation of decommissioning and environmental protection provisions 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. 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. 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. 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.	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. 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. Of particular note, we performed the following procedures: - 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.

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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.

iv

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- 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.

Ralenac Sonja

Sonja Ralenac
Licensed certified Auditor

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 26 February 2020

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Balance Sheet

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

In thousand RSD

		Note	31 December 2019	31 December 2018
C.	**DEFFERED TAX ASSETS**	**14**	**962,195**	**2,405,175**
D.	**CURRENT ASSETS**		**98,006,123**	**97,006,290**
I.	**INVENTORY**	**15**	**44,495,986**	**44,951,884**
1.	Materials, spare parts and tools		27,586,180	23,257,263
2.	Work in progress		4,859,254	4,923,492
3.	Finished goods		9,636,535	13,042,863
4.	Merchandise		2,010,350	3,220,159
5.	Assets held for sale		91,901	9,271
6.	Advances for inventory and services		311,766	498,836
II.	**TRADE RECEIVABLES**	**16**	**28,372,063**	**27,501,759**
1.	Domestic trade receivables - parents and subsidiaries		378,770	358,735
2.	Foreign trade receivables - parents and subsidiaries		4,092,863	2,652,875
3.	Domestic trade receivables - other related parties		1,184,469	1,226,862
4.	Foreign trade receivables - other related parties		96,193	629,519
5.	Trade receivables - domestic		21,663,394	21,859,900
6.	Trade receivables - foreign		956,374	773,868
7.	Other trade receivbles		-	-
III.	**RECEIVABLES FROM SPECIFIC OPERATIONS**		**266,456**	**248,374**
IV.	**OTHER RECEIVABLES**	**17**	**1,934,027**	**1,290,500**
V.	**FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS**		**-**	**-**
VI.	**SHORT TERM FINANCIAL INVESTMENTS**	**18**	**5,433,722**	**5,628,600**
1.	Short-term loans and investments - parent companies and subsidiaries		48,185	-
2.	Short-term loans and investments – other related parties		-	-
3.	Short-term loans and investments - domestic		-	23,639
4.	Short-term loans and investments - foreign		-	-
5.	Other short-term loans and investments		5,385,537	5,604,961
VII.	**CASH AND CASH EQUIVALENTS**	**19**	**13,501,827**	**12,222,578**
VIII.	**VALUE ADDED TAX**		**-**	**-**
IX.	**PREPAYMENTS AND ACCRUED INCOME**	**20**	**4,002,042**	**5,162,595**
E.	**TOTAL ASSETS**		**419,807,416**	**401,474,162**
F.	**OFF-BALANCE SHEET ASSETS**	**21**	**114,298,524**	**113,012,309**

In thousand RSD

		Note	31 December 2019	31 December 2018
A.	**EQUITY**		**260,463,602**	**249,303,631**
I.	**EQUITY**		**81,530,200**	**81,530,200**
1.	Share capital	22	81,530,200	81,530,200
2.	Stakes of limited liability companies		-	-
3.	Stakes		-	-
4.	State owned capital		-	-
5.	Socially owned capital		-	-
6.	Stakes in cooperatives		-	-
7.	Share premium		-	-
8.	Other capital		-	-
II.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
III.	**OWN SHARES**		**-**	**-**
IV.	**RESERVES**		**-**	**-**
V.	**REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT**		**152,143**	**152,143**
VI.	**UNREALISED GAINS FROM SECURITAS AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**117,174**	**147,011**
VII.	**UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**58,183**	**60,082**
VIII.	**RETAINED EARNINGS**		**178,722,268**	**167,534,359**
1.	Retained earnings from previous years		161,022,203	141,466,870
2.	Retained earnings from current year		17,700,065	26,067,489
IX.	**NON-CONTROLLING INTEREST**		**-**	**-**
X.	**LOSS**		**-**	**-**
1.	Loss from previous years		-	-
2.	Loss from current year		-	-
B.	**LONG-TERM PROVISIONS AND LIABILITIES**		**94,487,675**	**97,447,273**
I.	**LONG-TERM PROVISIONS**	**23**	**11,251,613**	**10,079,405**
1.	Provisions for warranty claims		-	-
2.	Provision for environmental rehabilitation		9,862,043	9,148,887
3.	Provisions for restructuring costs		-	-
4.	Provisions for employee benefits		1,135,761	701,478
5.	Provisions for litigations		253,809	229,040
6.	Other long term provisions		-	-
II.	**LONG-TERM LIABILITIES**	**24**	**83,236,062**	**87,367,868**
1.	Liabilities convertible to equity		-	-
2.	Liabilities to parent and subsidiaries		13,673,582	19,240,982

In thousand RSD

		Note	31 December 2019	31 December 2018
3.	Liabilities to other related parties		-	-
4.	Liabilities for issued long-term securities		-	-
5.	Long term borrowings - domestic		46,581,100	50,326,327
6.	Long-term borrowings - foreign		22,329,288	17,227,014
7.	Finance lease liabilities		652,092	573,545
8.	Other long-term liabilities		-	-
C.	**DEFFERED TAX LIABILITIES**	**14**	**-**	**-**
D.	**SHORT-TERM LIABILITIES**		**64,856,139**	**54,723,258**
I.	**SHORT-TERM FINANCIAL LIABILITIES**	**25**	**7,519,940**	**8,141,968**
1.	Short term borrowings from parent and subsidiaries		1,594,071	2,218,378
2.	Short term borrowings from other related parties		-	-
3.	Short-term loans and borrowings - domestic		-	-
4.	Short-term loans and borrowings - foreign		-	-
5.	Liabilities relating to current assets and held-for-sale assets attributable to discounted operations		-	-
6.	Other short term liabilities		5,925,869	5,923,590
II.	**ADVANCES RECEIVED**		**2,040,024**	**1,322,558**
III.	**TRADE PAYABLES**	**26**	**36,720,956**	**25,887,149**
1.	Trade payables - parent and subsidiaries - domestic		4,389,956	3,063,798
2.	Trade payables - parent and subsidiaries - foreign		10,596,754	10,254,323
3.	Trade payables - other related parties - domestic		1,208,375	1,250,402
4.	Trade payables - other related parties - foreign		503,451	661,182
5.	Trade payables - domestic		6,496,104	5,811,834
6.	Trade payables - foreign		13,449,126	4,843,290
7.	Other operating liabilities		77,190	2,320
IV.	**OTHER SHORT-TERM LIABILITIES**	**27**	**7,589,108**	**7,999,458**
V.	**LIABILITIES FOR VAT**		**935,984**	**1,146,310**
VI.	**LIABILITIES FOR OTHER TAXES**	**28**	**6,979,573**	**6,987,963**
VII.	**ACCRUED EXPENSES**	**29**	**3,070,554**	**3,237,852**
E.	**LOSS EXCEEDING EQUITY**		**-**	**-**
F.	**TOTAL EQUITY AND LIABILITIES**		**419,807,416**	**401,474,162**
G.	**OFF-BALANCE SHEET LIABILITIES**	**21**	**114,298,524**	**113,012,309**

In thousand RSD

Income Statement

		Note	Year ended 31 December 2019	2018
	INCOME FROM REGULAR OPERATING ACTIVITIES			
A.	**OPERATING INCOME**	7	**245,288,826**	**258,523,448**
I.	**INCOME FROM THE SALE OF GOODS**		**29,317,171**	**9,562,486**
1.	Income from sales of goods to parent and subsidiaries on domestic market		227,251	58,413
2.	Income from sales of goods to parent and subsidiaries on foreign market		142,551	216,831
3.	Income from the sale of goods to other related parties on domestic market		1,283	102
4.	Income from the sale of goods to other related parties on foreign market		187,210	135,052
5.	Income from sale of goods on domestic market		27,314,442	8,424,284
6.	Income from sale of goods on foreign market		1,444,434	727,804
II.	**INCOME FROM SALES OF PRODUCTS AND SERVICES**		**215,587,750**	**248,477,040**
1.	Income from sales of products and services to parent and subsidiaries on domestic market		838,470	1,146,373
2.	Income from sales of products and services to parent and subsidiaries on foreign market		18,431,398	15,826,450
3.	Income from sales of products and services to other related parties on domestic market		19,071,606	26,702,899
4.	Income from sales of products and services to other related parties on foreign market		385,054	536,311
5.	Income from sales of products and services – domestic		150,161,146	170,938,052
6.	Income from sales of products and services – foreign		26,700,076	33,326,955
III.	**INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS**		**-**	**2,257**
IV.	**OTHER OPERATING INCOME**		**383,905**	**481,665**
	EXPENSES FROM REGULAR OPERATING ACTIVITIES			
B.	**OPERATING EXPENSES**		**222,587,880**	**226,386,000**
I.	COST OF GOODS SOLD		25,965,473	8,077,143
II.	WORK PERFORMED BY THE ENTITY AND CAPITALIZED		2,343,286	1,613,042
III.	INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		-	6,006,557
IV.	DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		3,470,567	-
V.	COST OF MATERIAL		130,509,980	162,591,024
VI.	COST OF FUEL AND ENERGY		3,139,822	3,336,459
VII.	COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES		15,593,065	15,245,145
VIII.	COST OF PRODUCTION SERVICES	30	15,108,734	14,323,354
IX.	DEPRECIATION, DEPLETION AND AMORTIZATION	8,9	19,005,884	18,301,276

In thousand RSD

		Note	Year ended 31 December 2019	2018
X.	COST OF LONG-TERM PROVISIONING		604,750	618,876
XI.	NON-PRODUCTION COSTS	31	11,532,891	11,512,322
C.	**OPERATING GAIN**		**22,700,946**	**32,137,448**
D.	**OPERATING LOSS**		**-**	**-**
E.	**FINANCE INCOME**	**32**	**3,083,292**	**4,578,389**
I.	FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME		1,774,064	2,077,184
1.	Finance income - parent company and subsidiaries		1,756,956	2,026,867
2.	Finance income - other related parties		5,522	22,490
3.	Share of profit of associates and joint ventures		-	-
4.	Other financial income		11,586	27,827
II.	INTEREST INCOME (FROM THIRD PARTIES)		478,114	765,027
III.	FOREIGN EXCHANGE GAINS (THIRD PARTIES)		831,114	1,736,178
F.	**FINANCE EXPENSES**	**33**	**3,527,458**	**5,427,179**
I.	FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES		1,636,926	1,694,814
1.	Finance expense - parent company and subsidiaries		1,610,891	1,674,668
2.	Finance expense - other related parties		4,728	12,735
3.	Share of loss of associates and joint ventures		-	-
4.	Other financial expense		21,307	7,411
I.	INTEREST EXPENSE (FROM THIRD PARTIES)		1,446,602	1,940,679
II.	FOREIGN EXCHANGE LOSSES (THIRD PARTIES)		443,930	1,791,686
G.	**PROFIT FROM FINANCING OPERATIONS**		**-**	**-**
H.	**LOSS FROM FINANCING OPERATIONS**		**444,166**	**848,790**
I.	**INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**	**34**	**293,218**	**1,016,559**
J.	**LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**		**224,925**	**205,707**
K.	**OTHER INCOME**	**35**	**1,141,058**	**969,970**
L.	**OTHER EXPENSES**	**36**	**1,452,124**	**1,426,519**
M.	**OPERATING PROFIT BEFORE TAX**		**22,014,007**	**31,642,961**
N.	**OPERATING LOSS BEFORE TAX**		**-**	**-**
O.	**NET INCOME ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS**		**-**	**-**
P.	**NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS**		**-**	**-**
Q.	**PROFIT BEFORE TAX**		**22,014,007**	**31,642,961**
R.	**LOSS BEFORE TAX**		**-**	**-**

In thousand RSD

		Note	Year ended 31 December 2019	2018
II.	INCOME TAX			
I.	CURRENT INCOME TAX	37	2,870,963	3,922,034
II.	DEFERRED TAX EXPENSE FOR THE PERIOD	37	1,442,979	1,653,438
III.	DEFERRED TAX INCOME FOR THE PERIOD	37	-	-
S.	**PERSONAL INCOME PAID TO EMPLOYER**		-	-
T.	**NET PROFIT**		**17,700,065**	**26,067,489**
V.	**NET LOSS**		-	-
I.	NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		-	-
II.	NET INCOME ATTRIBUTABLE TO THE OWNER		17,700,065	26,067,489
III.	NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		-	-
IV.	NET LOSS ATTRIBUTABLE TO THE OWNER		-	-
V.	EARNINGS PER SHARE			
1.	Basic earnings per share		0.109	0.160
2.	Diluted earnings per share		-	-

In thousand RSD

Statement of Other Comprehensive Income

		Note	Year ended 31 December 2019	2018
A.	**NET PROFIT/(LOSS)**			
I.	**PROFIT, NET**		**17,700,065**	**26,067,489**
II.	**LOSS, NET**		-	-
B.	**OTHER COMPREHENSIVE PROFIT OR LOSS**			
a)	*Items that will not be reclassified to profit or loss*			
1.	**Changes in the revaluation of intangible assets, property, plant and equipment**			
	a) increase in revaluation reserves		-	72,748
	b) decrease in revaluation reserves		-	-
2.	**Actuarial gains (losses) of post employment benefit obligations**			
	a) gains		-	4,531
	b) losses		29,837	-
3.	**Gains and losses arising from equity investments**			
	a) gains		-	-
	b) losses		-	-

In thousand RSD

		Note	Year ended 31 December 2019	2018
4.	**Gains or losses arising from a share in the associate's other comprehensive profit or loss**			
	a) gains		-	-
	b) losses		-	-
b)	*Items that may be subsequently reclassified to profit or loss*			
1.	**Gains (losses) from currency translation differences**			
	a) gains		-	-
	b) losses		-	-
2.	**Gains (losses) on investment hedging instruments in foreign business**			
	a) gains		-	-
	b) losses		-	-
3.	**Gains and losses on cash flow hedges**			
	a) gains		-	-
	b) losses		-	-
4.	**Gains (losses) from change in value of available-for-sale financial assets**			
	a) gains		7,267	477
	b) losses		-	-
I.	OTHER COMPREHENSIVE PROFIT BEFORE TAX		-	77,756
II.	OTHER COMPREHENSIVE LOSS BEFORE TAX		22,570	-
III.	TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD		-	-
IV.	**TOTAL NET COMPREHENSIVE PROFIT**		**-**	**77,756**
V.	**TOTAL NET COMPREHENSIVE LOSS**		**22,570**	**-**
C.	**TOTAL NET COMPREHENSIVE PROFIT**			
I.	TOTAL COMPREHENSIVE PROFIT, NET		17,677,495	26,145,245
II.	TOTAL COMPREHENSIVE LOSS, NET		-	-
D.	**TOTAL NET COMPREHENSIVE PROFIT / (LOSS)**		**17,677,495**	**26,145,245**
1.	Attributable to shareholders		17,677,495	26,145,245
2.	Attributable to non-controling interest		-	-

In thousand RSD

Statement of Cash Flows

		Note	Year ended 31 December 2019	2018
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflow from operating activities**		**458,104,310**	**476,318,584**
1.	Sales and advances received		456,750,061	474,854,352
2.	Interest from operating activities		970,344	982,567
3.	Other inflow from operating activities		383,905	481,665
II.	**Cash outflow from operating activities**		**404,562,970**	**441,057,925**
1.	Payments and prepayments to suppliers		195,327,034	222,503,666
2.	Salaries, benefits and other personal expenses		14,281,098	15,357,756
3.	Interest paid		1,748,635	2,115,651
4.	Income tax paid		4,060,442	5,306,655
5.	Payments for other public revenues		189,145,761	195,774,197
III.	**Net cash inflow from operating activities**		**53,541,340**	**35,260,659**
IV.	**Net cash outflow from operating activities**		**-**	**-**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I.	**Cash flows from investing activities**		**9,266,231**	**10,495,139**
1.	Sale of shares (net inflow)		26,968	-
2.	Proceeds from sale of intangible assets, property, plant and equipment		391,938	368,430
3.	Other financial investments (net inflow)		8,838,868	10,101,578
4.	Interest from investing activities		-	-
5.	Dividend received		8,457	25,131
II.	**Cash outflow from investing activities**		**50,600,146**	**47,164,889**
1.	Acquisition of subsidiaries or other business (net outflow)		-	-
2.	Purchase of intangible assets, property, plant and equipment		41,820,136	43,100,975
3.	Other financial investments (net outflow)		8,780,010	4,063,914
III.	**Net cash inflow from investing activities**		**-**	**-**
IV.	**Net cash outflow from investing activities**		**41,333,915**	**36,669,750**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			

In thousand RSD

		Note	Year ended 31 December 2019	2018
I.	**Cash inflow from financing activities**		**27,624,508**	**50,372,081**
1.	Increase in share capital		–	–
2.	Proceeds from long-term borrowings (net inflow)	24	**15,060,454**	**37,213,097**
3.	Proceeds from short-term borrowings (net inflow)	24	**12,564,054**	**13,158,984**
4.	Other long-term liabilities		–	–
5.	Other short-term liabilities		–	–
II.	**Cash outflow from financing activities**		**38,593,492**	**60,221,960**
1.	Purchase of own shares		-	-
2.	Repayment of long-term borrowings (net outflow)	24	18,760,584	39,952,348
3.	Repayment of short-term borrowings (net outflow)	24	13,188,360	13,239,092
4.	Repayment of other liabilities (net outflow)		-	-
5.	Financial lease	24	127,024	82,516
6.	Dividend distribution	22	6,517,524	6,948,004
III.	**Net cash inflow from financing activities**		–	–
IV.	**Net cash outflow from financing activities**		**10,968,984**	**9,849,879**
D.	**TOTAL CASH INFLOW**		**494,995,049**	**537,185,804**
E.	**TOTAL CASH OUTFLOW**		**493,756,608**	**548,444,774**
F.	**NET CASH INFLOW**		**1,238,441**	–
G.	**NET CASH OUTFLOW**		–	**11,258,970**
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**		**12,222,578**	**23,410,724**
I.	**CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS**		**256,962**	**370,178**
J.	**CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS**		**216,154**	**299,354**
K.	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**13,501,827**	**12,222,578**

In thousand RSD

Statement of Changes in Equity

	Equity components			
	Share capital	**Reserves**	**Loss**	**Retained earnings**
Balance as at 1 January 2018				
a) debit	**-**	**-**	**-**	**-**
b) credit	**81,530,200**	**-**	**-**	**157,276,833**
Adjustments of material errors and changes in accounting policies				
a) debit	-	-	-	8,860,905
b) credit	-	-	-	-
Restated opening balance as at 1 January 2018				
a) debit	**-**	**-**	**-**	**-**
b) credit	**81,530,200**	**-**	**-**	**148,415,928**
Changes in period				
a) debit	-	-	-	6,949,058
b) credit	-	-	-	26,067,489
Balance as at 31 December 2018				
a) debit	**-**	**-**	**-**	**-**
b) credit	**81,530,200**	**-**	**-**	**167,534,359**
Adjustments of material errors and changes in accounting policies				
a) debit	-		-	-
b) credit	-	-	-	-
Restated opening balance as at 1 January 2019				
a) debit	**-**	**-**	**-**	**-**
b) credit	**81,530,200**	**-**	**-**	**167,534,359**
Changes in period				
a) debit	-	-	-	6,512,156
b) credit	-	-	-	17,700,065
Balance as at 31 December 2019				
a) debit	**-**	**-**	**-**	**-**
b) credit	**81,530,200**	**-**	**-**	**178,722,268**

Other comprehensive income components			
Revaluation reserves	Acturial gain/(loss)	Gains (losses) from change in value of available-for-sale financial assets	Total Equity
-	**-**	**64,014**	
81,796	**142,480**	**-**	**238,967,295**
-	-	-	-
-	-	-	(8,860,905)
-	**-**	**64,014**	
81,796	**142,480**	**-**	**230,106,390**
2,401	-	-	
72,748	4,531	3,932	19,197,241
-	**-**	**60,082**	
152,143	**147,011**	**-**	**249,303,631**
-	-	-	
-	-	-	-
-	**-**	**60,082**	
152,143	**147,011**	**-**	**249,303,631**
-	29,837	-	
-	-	1,899	11,159,971
-	**-**	**58,183**	
152,143	**117,174**	**-**	**260,463,602**

In thousand RSD

Notes to the Stand-Alone Financial Statements[1]

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.

1 *All amounts are in RSD 000, unless otherwise stated*

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.

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).

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.

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.

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:

	Useful lives in years
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.

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.

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:

- 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.

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 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).

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.

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 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 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 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 basic, 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.

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

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, 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	**943,835**	**919,432**

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 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.

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)**

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.

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.

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.

Movements on the Company's provision for otherimpairment 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.

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**

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.

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.

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**

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
Through a retail network	-	-	-
Wholesale activities	1,408,299	-	1,408,299
Sale of petroleum products	187,113,944	46,228,751	233,342,695
Through a retail network	66,171,840	-	66,171,840
Wholesale activities	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
Through a retail network	-	-	-
Wholesale activities	1,622,853	-	1,622,853
Sale of petroleum products	197,879,244	48,125,760	246,005,004
Through a retail network	63,956,088	-	63,956,088
Wholesale activities	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**

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
	46,228,751	48,125,760
Lease revenue	1,967	-
Sales of electricity	205,143	851,600
Other sales	189,676	264,032
	47,290,723	**50,769,403**

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

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights
At 1 January 2018		
Cost	9,330,701	8,165,992
Accumulated amortisation and impairment	(1,565,494)	(6,043,048)
Net book amount	**7,765,207**	**2,122,944**
Year ended 31 December 2018		
Additions	-	-
Transfer to assets under development	2,299,438	193,070
Amortization	(758,279)	(837,574)
Transfer from PP&E (note 9)	-	-
Closing net book amount	**9,306,366**	**1,478,440**
As at 31 December 2018		
Cost	11,630,139	8,301,639
Accumulated amortization and impairment	(2,323,773)	(6,823,199)
Net book amount	**9,306,366**	**1,478,440**
At 1 January 2019		
Cost	11,630,139	8,301,639
Accumulated amortization and impairment	(2,323,773)	(6,823,199)
Net book amount	**9,306,366**	**1,478,440**
Year ended 31 December 2019		
Additions	-	-
Transfer to assets under development	3,139,293	795,980
Amortization	(1,005,829)	(485,018)
Transfer from PP&E (note 9)	-	-
Disposals and write-off	-	(371)
Closing net book amount	**11,439,830**	**1,789,031**
As at 31 December 2019		
Cost	14,769,431	9,013,191
Accumulated amortization and impairment	(3,329,601)	(7,224,160)
Net book amount	**11,439,830**	**1,789,031**

Other intangibles	Intangible assets under development	Total
960,875	5,515,048	23,972,616
(97,937)	(45,506)	(7,751,985)
862,938	**5,469,542**	**16,220,631**
(370)	1,947,886	1,947,516
7,584	(2,500,092)	-
(21,243)	-	(1,617,096)
-	(11,625)	(11,625)
848,909	**4,905,711**	**16,539,426**
968,089	4,951,217	25,851,084
(119,180)	(45,506)	(9,311,658)
848,909	**4,905,711**	**16,539,426**
968,089	4,951,217	25,851,084
(119,180)	(45,506)	(9,311,658)
848,909	**4,905,711**	**16,539,426**
-	2,232,327	2,232,327
-	(3,935,273)	-
(20,388)	-	(1,511,235)
-	(47,459)	(47,459)
-	(53,865)	(54,236)
828,521	**3,101,441**	**17,158,823**
967,444	3,125,788	27,875,854
(138,923)	(24,347)	(10,717,031)
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).

9. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment
At 1 January 2018			
Cost	10,630,202	181,307,667	112,287,936
Accumulated depreciation and impairment	(301,324)	(54,006,843)	(51,596,561)
Net book amount	**10,328,878**	**127,300,824**	**60,691,375**
Year ended 31 December 2018			
Additions	141,441	17,840,046	5,519,739
Acquisitions through business combinations	-	-	-
Appraisal effects	-	85,161	-
Impairment charge (note 35 and 36)	-	(67,304)	(250)
Depreciation	-	(9,637,766)	(6,978,256)
Transfer from intangible assets (note 8)	-	-	-
Transfer to investment property	(38,530)	(157,507)	-
Transfer to assets held for sale	(15,765)	(26,992)	(21,995)
Disposals and write-off	(39,436)	(110,821)	(80,713)
Other transfers	(14,903)	14,903	-
Closing net book amount	**10,361,685**	**135,240,544**	**59,129,900**
At 31 December 2018			
Cost	10,660,018	198,580,407	117,308,009
Accumulated depreciation and impairment	(298,333)	(63,339,863)	(58,178,109)
Net book amount	**10,361,685**	**135,240,544**	**59,129,900**
Year ended 31 December 2019			
Additions	35,821	16,781,918	5,470,872
Impairment charge (note 35 and 36)	-	(98,929)	-
Depreciation	-	(9,949,991)	(7,339,460)
Transfer from intangible assets (note 8)	-	-	-
Transfer to assets held for sale	(56,573)	(18,619)	(30,607)
Disposals and write-off	(73)	(61,976)	(136,427)
Transfer to right-of-use assets	-	(456,413)	(362,992)
Other transfers	-	970	(963)
Closing net book amount	**10,340,860**	**141,437,504**	**56,730,323**
At 31 December 2019			
Cost	10,639,193	213,989,196	121,515,375
Accumulated depreciation and impairment	(298,333)	(72,551,692)	(64,785,052)
Net book amount	**10,340,860**	**141,437,504**	**56,730,323**

Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
27,313,677	75,517	491,491	2,148,358	334,254,848
(2,001,642)	(1,117)	(228,280)	(36,946)	(108,172,713)
25,312,035	**74,400**	**263,211**	**2,111,412**	**226,082,135**
14,623,749	2,234	4,773	4,743,073	42,875,055
217,660	-	-	-	217,660
-	-	-	-	85,161
(13,412)	-	-	-	(80,966)
-	-	(68,158)	-	(16,684,180)
11,625	-	-	-	11,625
-	-	-	-	(196,037)
(9,108)	-	-	-	(73,860)
(860,282)	(98)	(22)	(6,096,317)	(7,187,689)
-	-	-	-	-
39,282,267	**76,536**	**199,804**	**758,168**	**245,048,904**
41,282,441	77,653	496,173	790,744	369,195,445
(2,000,174)	(1,117)	(296,369)	(32,576)	(124,146,541)
39,282,267	**76,536**	**199,804**	**758,168**	**245,048,904**
14,598,106	1,091	-	2,047,039	38,934,847
(141,530)	-	-	-	(240,459)
-	-	(64,086)	-	(17,353,537)
47,459	-	-	-	47,459
-	-	-	-	(105,799)
(611,234)	(10)	-	(2,468,019)	(3,277,739)
-	-	-	-	(819,405)
(13)	-	-	-	(6)
53,175,055	**77,617**	**135,718**	**337,188**	**262,234,265**
55,160,985	78,734	496,173	358,551	402,238,207
(1,985,930)	(1,117)	(360,455)	(21,363)	(140,003,942)
53,175,055	**77,617**	**135,718**	**337,188**	**262,234,265**

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).

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)
Recurring fair value measurements *Land and buildings*			
– 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)
Recurring fair value measurements Land and buildings			
– 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).

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure
As at 1 January 2018		
Cost	14,874,546	2,951,585
Depreciation and impairment	(4,897)	(2,087)
Net book amount	**14,869,649**	**2,949,498**
Year ended 31 December 2018		
Additions	4,541,289	13,003,379
Transfer from asset under construction	(4,892,273)	(14,136,238)
Other transfers	(43,248)	(675,033)
Appraisal effects	-	-
Impairment	-	(3,471)
Depreciation and depletion	-	-
Unsuccessful exploration expenditures derecognised (note 7)	(57,075)	-
Transfer to investment property	-	-
Disposals and write-off	(17,101)	(36,909)
	14,401,241	**1,101,226**
As at 31 December 2018		
Cost	14,401,241	1,103,654
Depreciation and impairment	-	(2,428)
Net book amount	**14,401,241**	**1,101,226**
Year ended 31 December 2019		
Additions	4,496,878	13,559,151
Transfer from asset under construction	(6,747,789)	(11,223,519)
Other transfers	120,288	102,175
Impairment	-	-
Depreciation and depletion	-	-
Unsuccessful exploration expenditures derecognised (note 7)	(377,207)	-
Disposals and write-off	(151,518)	(491)
	11,741,893	**3,538,542**
As at 31 December 2019		
Cost	11,741,893	3,538,542
Depreciation and impairment	-	-
Net book amount	**11,741,893**	**3,538,542**

	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
	17,826,131	135,319,515	22,129	153,167,775
	(6,984)	(32,675,985)	(20,309)	(32,703,278)
	17,819,147	**102,643,530**	**1,820**	**120,464,497**
	17,544,668	117,748	-	17,662,416
	(19,028,511)	19,056,693	(15)	28,167
	(718,281)	1,791,710	666	1,074,095
	-	85,161	-	85,161
	(3,471)	-	-	(3,471)
	-	(9,566,607)	-	(9,566,607)
	(57,075)	-	-	(57,075)
	-	(114,709)	-	(114,709)
	(54,010)	(142,745)	(50)	(196,805)
	15,502,467	**113,870,781**	**2,421**	**129,375,669**
	15,504,895	156,367,336	22,742	171,894,973
	(2,428)	(42,496,555)	(20,321)	(42,519,304)
	15,502,467	**113,870,781**	**2,421**	**129,375,669**
	18,056,029	777,397	-	18,833,426
	(17,971,308)	17,971,308	-	-
	222,463	(173,746)	1,620	50,337
	-	(17,482)	-	(17,482)
	-	(10,376,256)	-	(10,376,256)
	(377,207)	-	-	(377,207)
	(152,009)	(102,629)	(10)	(254,648)
	15,280,435	**121,949,373**	**4,031**	**137,233,839**
	15,280,435	174,428,161	24,376	189,732,972
	-	(52,478,788)	(20,345)	(52,499,133)
	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).

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
	16,847,566	16,847,566
Less: Provision	(3,421,980)	(3,421,980)
	13,425,586	**13,425,586**

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)	-
		16,847,566	**(3,421,980)**	**13,425,586**

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)
			1,038,800	**1,038,800**

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.

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	(146,948)
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	(126,332)

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	(2,300,154)	(4,043,046)
	23,205,187	**23,279,079**

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

	Currency	31 December 2019	31 December 2018
Domestic			
O Zone a.d., Belgrade, Serbia	EUR	79,077	96,995
		79,077	96,995
Foreign			
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
		25,505,341	**27,322,125**

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.

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
Deferred tax liabilities			
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)**

	Provisions	Impairment loss	Investment credit	Fair value loss	Total
Deferred tax assets					
As at 1 January 2018	**1,019,695**	**949,128**	**2,985,851**	**11,297**	**4,965,971**
Temorary 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
Less: impairment of inventory	(4,670,632)	(4,830,527)
Less: impairment of advances	(149,250)	(217,327)
	44,404,085	**44,942,613**
Non-current assets held for sale	135,670	15,094
Less: impairment of assets held for sale	(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**

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**
Less: Impairment	(5,772,211)	(6,041,909)
	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
Less: Impairment	(9,849,169)	(9,962,427)
	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
Less: Impairment	(7,349,525)	(5,688,179)
	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.

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 pladges recived	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:

	Decommi-ssioning	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**

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**

	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.

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**

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**

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 finacial 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**

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
Release of impairment:		
- 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
Impairment:		
- 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
Tax effect on:		
Revenues exempt from taxation	(222)	(57,707)
Expenses not deductible for tax purposes		
- Tax paid in Angola	74,711	171,416
- Other expenses not deductable	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%

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.

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**

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)**

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)		
- HIP Petrohemija	1,183,648	-
- Srbijagas	-	418,784
- Other state owned companies	-	371,395
Trade and other payables		
- HIP Petrohemija	(1,208,375)	-
- Srbijagas	-	(361,934)
Other current liabilities		
- HIP Petrohemija	(3,064)	-
	(27,791)	**428,245**
As at 31 December 2018		
Trade and other receivables (gross)		
- HIP Petrohemija	1,222,764	-
- Srbijagas	-	17,547
Trade and other payables		
- HIP Petrohemija	(1,250,402)	-
- Srbijagas	-	(126,092)
Other current liabilities		
- HIP Petrohemija	(1,852)	-
	(29,490)	**(108,545)**

	Entities under comon control and associates	Other
As at 31 December 2019		
Operating income		
- *HIP Petrohemija*	19,070,224	-
- *Srbijagas*	-	1,419,220
- *AIR Serbia*	-	5,124,131
Operating expenses		
- *HIP Petrohemija*	(198,691)	-
- *Srbijagas*	-	(912,530)
	18,871,533	**5,630,821**
As at 31 December 2018		
Operating income		
- *HIP Petrohemija*	26,679,415	-
- *Srbijagas*	-	755,157
Operating expenses		
- *HIP Petrohemija*	(213,106)	-
- *Srbijagas*	-	(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.

2.02 Consolidated Financial Statements

Auditor's Report on Consolidated Financial Statements

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

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated 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 Consolidated 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 Group 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 consolidated 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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Our audit approach

Overview

- Overall Group materiality: 1,437 million Serbian dinars (hereafter "RSD"), which represents 5% of an average profit before tax for the past three years.

- We conducted audit work at 9 reporting units in 4 countries.
- The group engagement team audited Serbian subsidiaries, while Bulgarian and Romanian subsidiaries were audited with the involvement of PwC network firms in the respective countries. PwC network firm in Bosnia and Herzegovina audited Naftna Industrija Srbije a.d. Bosnian foreign subsidiaries. Our audit scope addressed 99% of the Group's revenues and 98% of the Group's absolute value of underlying profit before tax.

- 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 consolidated 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated 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 consolidated financial statements as a whole.

Overall Group materiality	RSD 1,437 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 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 consolidated 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.

ii

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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
Estimation of decommissioning and environmental protection provisions Provisions associated with decommissioning, environmental protection and restoration are disclosed in Note 21 to the consolidated financial statements; a description of the accounting policy and key judgements and estimates is included in Note 2 and Note 3. 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. 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 Group's consolidated balance sheet. 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.	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 consolidated income statement and consolidated statement of other comprehensive income rather than being recognised as an asset. 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. Of particular note, we performed the following procedures: - 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.

iii

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How we tailored our Group audit scope

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

In establishing the group scope of our audit work, we determined the nature and extent of work to be performed both at the reporting units and at the consolidated level. Where the work is performed by the local reporting unit auditors, we perform consolidated level oversight and review procedures to ensure sufficient evidence has been obtained to support our opinion on the consolidated financial statements taken as a whole. All local reporting unit audits are undertaken by us and PwC network firms.

Our approach to determining the scope of the audit of the Group is a three-step process whereby reporting units are deemed to be within the scope for audit testing based on meeting one or more of the following criteria:

1) Significant contribution, greater than 15%, to profit before taxation, revenue or total assets. These reporting units are subject to full scope audits;
2) The presence of a significant risk, either at the reporting unit as a whole or relating to a specific financial statement line item. This includes financial statement line items impacted by the risks of material misstatement identified in our planning; or
3) The most significant other reporting units that enable us to satisfy our coverage criteria on each financial statement line item and to add elements of unpredictability in our scope.

Based on this process, we identified 9 reporting units in four countries that, in our view, required either full scope audit (Naftna Industrija Srbije a.d.) or directed audit procedures over specific financial statement line items. Together, these reporting units accounted for 99% of the Group's revenue and 98% of the Group's absolute value of underlying profit before tax.

As a result of its structure and size, the Group also has several small reporting units that are individually immaterial but, in aggregate, make up a material portion of its profit before taxation, revenue or total assets. These are covered by the work that we perform at the consolidated level, which includes three main components:

1) Overall analytical review procedures: A significant proportion of the remaining reporting units not selected for procedures at an individual component level were subject to analysis of year-on-year movements at the consolidated level, with a focus on higher risk balances and unusual movements. The reporting units not subject to the above overall analytical review procedures were individually, and in the aggregate, immaterial.
2) Tests of financial systems, processes and controls: We tested entity level controls applied at the consolidated level. Our audit work, in which we tested the design and operating effectiveness of systems and controls applicable for all subsidiaries in scope, was led by our group audit team. The results from this testing are reviewed throughout the year and considered in our continuous update of group audit scope.
3) Testing of specific transactions: In addition, at the consolidated level we performed transaction testing of material financial statement lines, including impairment of goodwill and litigations.

Other information

Management is responsible for the other information. The other information comprises the Annual report (but does not include the consolidated 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 consolidated 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 consolidated 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 consolidated 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.

iv

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

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

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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 consolidated 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

vi

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Consolidated Balance Sheet

		Note	31 December 2019	31 December 2018
A.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
B.	**NON-CURRENT ASSETS**		**317,342,624**	**296,537,210**
I.	**INTANGIBLE ASSETS**	**8**	**24,413,233**	**23,371,384**
1.	Development investments		11,439,829	9,306,365
2.	Concessions, licenses, software and other rights		1,988,931	1,729,128
3.	Goodwill		1,354,508	1,549,378
4.	Other intangible assets		924,956	1,126,420
5.	Intangible assets under development		8,705,009	9,660,093
6.	Advances for intangible assets		-	-
II.	**PROPERTY, PLANT AND EQUIPMENT**	**9**	**289,781,916**	**270,113,614**
1.	Land		17,050,221	16,981,657
2.	Buildings		149,732,966	142,827,273
3.	Machinery and equipment		65,767,335	67,730,378
4.	Investment property		1,579,798	1,615,391
5.	Other property, plant and equipment		89,817	88,732
6.	Construction in progress		55,064,088	39,896,274
7.	Investments in leased PP&E		152,325	212,398
8.	Advances for PP&E		345,366	761,511
III.	**BIOLOGICAL ASSETS**		**-**	**-**
1.	Forest farming		-	-
2.	Livestock		-	-
3.	Biological assets in production		-	-
4.	Advances for biological assets		-	-
IV.	**LONG-TERM FINANCIAL INVESTMENTS**		**2,913,291**	**3,043,233**
1.	Investments in subsidiary		-	-
2.	Investments in joint ventures	10	1,851,101	1,980,388
3.	Investments in other legal entities and other available for sales financial assets		95,662	114,162
4.	Long term investments in parent and subsidiaries		-	-
5.	Long-term investments in other related parties		-	-
6.	Long-term investments - domestic		-	-
7.	Long-term investments - foreign		-	-
8.	Securities held to maturity		-	-
9.	Other long-term financial investments	11	966,528	948,683
V.	**LONG-TERM RECEIVABLES**		**234,184**	**8,979**
1.	Receivables from parent company and subsidiaries		-	-
2.	Receivables from other related parties		-	-
3.	Receivables from sale of goods on credit		-	-
4.	Receivables arising out of finance lease contracts		9,515	8,979
5.	Claims arising from guarantees		-	-
6.	Bad and doubtful receivables		-	-
7.	Other long-term receivables		224,669	-

In thousand RSD

		Note	31 December 2019	31 December 2018
C.	**DEFFERED TAX ASSETS**	**12**	**697,689**	**545,497**
D.	**CURRENT ASSETS**		**97,223,713**	**98,902,636**
I.	**INVENTORY**	**13**	**48,001,622**	**48,472,071**
1.	Materials, spare parts and tools		29,878,660	24,951,994
2.	Work in progress		4,855,798	4,923,492
3.	Finished goods		9,758,823	13,828,273
4.	Merchandise		2,986,653	4,152,553
5.	Assets held for sale		88,416	-
6.	Advances for inventory and services		433,272	615,759
II.	**TRADE RECEIVABLES**	**14**	**25,572,859**	**26,007,811**
1.	Domestic trade receivables - parents and subsidiaries		-	-
2.	Foreign trade receivables - parents and subsidiaries		-	99
3.	Domestic trade receivables - other related parties		1,184,469	1,227,518
4.	Foreign trade receivables - other related parties		100,451	645,804
5.	Trade receivables - domestic		23,265,532	23,348,658
6.	Trade receivables - foreign		1,022,407	785,732
7.	Other trade receivbles		-	-
III.	**RECEIVABLES FROM SPECIFIC OPERATIONS**		**673,870**	**542,613**
IV.	**OTHER RECEIVABLES**	**15**	**935,757**	**223,571**
V.	**FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS**		**-**	**-**
VI.	**SHORT TERM FINANCIAL INVESTMENTS**	**16**	**1,843,473**	**2,263,431**
1.	Short-term loans and investments - parent companies and subsidiaries		-	-
2.	Short-term loans and investments – other related parties		-	-
3.	Short-term loans and investments - domestic		-	23,593
4.	Short-term loans and investments - foreign		-	-
5.	Other short-term loans and investments		1,843,473	2,239,838
VII.	**CASH AND CASH EQUIVALENTS**	**17**	**15,295,810**	**15,480,830**
VIII.	**VALUE ADDED TAX**		**452,571**	**295,900**
IX.	**PREPAYMENTS AND ACCRUED INCOME**	**18**	**4,447,751**	**5,616,409**
E.	**TOTAL ASSETS**		**415,264,026**	**395,985,343**
F.	**OFF-BALANCE SHEET ASSETS**	**19**	**117,099,179**	**113,781,102**

In thousand RSD

		Note	31 December 2019	31 December 2018
A.	**EQUITY**		**254,694,792**	**242,875,804**
I.	**EQUITY**	**20**	**81,548,930**	**81,548,930**
1.	Share capital	20.1	81,548,930	81,548,930
2.	Stakes of limited liability companies		-	-
3.	Stakes		-	-
4.	State owned capital		-	-
5.	Socially owned capital		-	-
6.	Stakes in cooperatives		-	-
7.	Share premium		-	-
8.	Other capital		-	-
II.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
III.	**OWN SHARES**		**-**	**-**
IV.	**RESERVES**		**-**	**-**
V.	**REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT**		**79,755**	**79.755**
VI.	**UNREALISED GAINS FROM SECURITAS AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**400,112**	**251,499**
VII.	**UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**58,183**	**60,082**
VIII.	**RETAINED EARNINGS**		**172,724,178**	**161,055,702**
1.	Retained earnings from previous years		156,127,776	135,921,400
2.	Retained earnings from current year		16,596,402	25,134,302
IX.	**NON-CONTROLLING INTEREST**		**-**	**-**
X.	**LOSS**		**-**	**-**
1.	Loss from previous years		-	-
2.	Loss from current year		-	-
B.	**LONG-TERM PROVISIONS AND LIABILITIES**		**95,462,060**	**98,029,207**
I.	**LONG-TERM PROVISIONS**	**21**	**11,419,129**	**10,210,005**
1.	Provisions for warranty claims		-	-
2.	Provision for environmental rehabilitation		9,882,315	9,169,159
3.	Provisions for restructuring costs		-	-
4.	Provisions for employee benefits		1,262,848	791,889
5.	Provisions for litigations		273,966	248,957
6.	Other long term provisions		-	-
II.	**LONG-TERM LIABILITIES**	**22**	**84,042,931**	**87,819,202**
1.	Liabilities convertible to equity		-	-
2.	Liabilities to parent and subsidiaries		13,673,582	19,240,982

In thousand RSD

		Note	31 December 2019	31 December 2018
3.	Liabilities to other related parties		-	-
4.	Liabilities for issued long-term securities		-	-
5.	Long term borrowings - domestic		46,581,096	50,326,307
6.	Long-term borrowings - foreign		22,404,642	17,454,236
7.	Finance lease liabilities		1,326,436	755,575
8.	Other long-term liabilities		57,175	42,102
C.	**DEFFERED TAX LIABILITIES**	**12**	**-**	**-**
D.	**SHORT-TERM LIABILITIES**		**65,107,174**	**55,080,332**
I.	**SHORT-TERM FINANCIAL LIABILITIES**	**23**	**6,761,897**	**6,395,091**
1.	Short term borrowings from parent and subsidiaries		-	-
2.	Short term borrowings from other related parties		-	-
3.	Short-term loans and borrowings - domestic		-	-
4.	Short-term loans and borrowings - foreign		-	-
5.	Liabilities relating to current assets and held-for-sale assets attributable to discounted operations		-	-
6.	Other short term liabilities		6,761,897	6,395,091
II.	**ADVANCES RECEIVED**		**2,323,105**	**1,456,981**
III.	**TRADE PAYABLES**	**24**	**35,341,330**	**25,834,088**
1.	Trade payables - parent and subsidiaries - domestic		-	-
2.	Trade payables - parent and subsidiaries - foreign		10,500,427	10,243,742
3.	Trade payables - other related parties - domestic		1,208,375	1,251,648
4.	Trade payables - other related parties - foreign		543,563	684,857
5.	Trade payables - domestic		9,170,737	8,481,121
6.	Trade payables - foreign		13,786,047	5,168,398
7.	Other operating liabilities		132,181	4,322
IV.	**OTHER SHORT-TERM LIABILITIES**	**25**	**8,375,054**	**8,687,986**
V.	**LIABILITIES FOR VAT**		**1,088,459**	**1,383,089**
VI.	**LIABILITIES FOR OTHER TAXES**	**26**	**7,584,465**	**7,687,953**
VII.	**ACCRUED EXPENSES**	**27**	**3,632,864**	**3,635,144**
E.	**LOSS EXCEEDING EQUITY**		**-**	**-**
F.	**TOTAL EQUITY AND LIABILITIES**		**415,264,026**	**395,985,343**
G.	**OFF-BALANCE SHEET LIABILITIES**	**19**	**117,099,179**	**113,781,102**

In thousand RSD

Consolidated Income Statement

		Note	Year ended 31 December 2019	2018
	INCOME FROM REGULAR OPERATING ACTIVITIES			
A.	**OPERATING INCOME**	7	**272,096,500**	**280,983,749**
I.	**INCOME FROM THE SALE OF GOODS**		**65,592,808**	**38,545,631**
1.	Income from sales of goods to parent and subsidiaries on domestic market		-	-
2.	Income from sales of goods to parent and subsidiaries on foreign market		-	-
3.	Income from the sale of goods to other related parties on domestic market		1,312	102
4.	Income from the sale of goods to other related parties on foreign market		187,210	135,052
5.	Income from sale of goods on domestic market		27,314,259	8,428,537
6.	Income from sale of goods on foreign market		38,090,027	29,981,940
II.	**INCOME FROM SALES OF PRODUCTS AND SERVICES**		**206,093,358**	**241,912,753**
1.	Income from sales of products and services to parent and subsidiaries on domestic market		-	-
2.	Income from sales of products and services to parent and subsidiaries on foreign market		-	961
3.	Income from sales of products and services to other related parties on domestic market		19,072,216	26,700,155
4.	Income from sales of products and services to other related parties on foreign market		405,754	555,164
5.	Income from sales of products and services – domestic		150,765,338	171,203,221
6.	Income from sales of products and services – foreign		35,850,050	43,453,252
III.	**INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS**		**-**	**3,340**
IV.	**OTHER OPERATING INCOME**		**410,334**	**522,025**
	EXPENSES FROM REGULAR OPERATING ACTIVITIES			
B.	**OPERATING EXPENSES**		**248,735,954**	**248,318,196**
I.	COST OF GOODS SOLD		44,635,555	23,441,660
II.	WORK PERFORMED BY THE ENTITY AND CAPITALIZED		14,451,129	13,188,633
III.	INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		-	6,011,313
IV.	DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		3,437,901	-
V.	COST OF MATERIAL		136,940,194	168,678,465
VI.	COST OF FUEL AND ENERGY		4,371,248	4,552,772
VII.	COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES		21,364,042	20,101,583
VIII.	COST OF PRODUCTION SERVICES	28	15,605,920	14,926,665
IX.	DEPRECIATION, DEPLETION AND AMORTIZATION	8,9	20,976,349	20,340,977

In thousand RSD

		Note	Year ended 31 December 2019	2018
X.	COST OF LONG-TERM PROVISIONING		652,769	667,650
XI.	NON-PRODUCTION COSTS	29	15,203,105	14,808,370
C.	**OPERATING GAIN**		**23,360,546**	**32,665,553**
D.	**OPERATING LOSS**		**-**	**-**
E.	**FINANCE INCOME**	**30**	**2,563,129**	**3,826,427**
I.	FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME		1,126,759	1,254,731
1.	Finance income - parent company and subsidiaries		1,103,117	1,189,687
2.	Finance income - other related parties		12,004	36,108
3.	Share of profit of associates and joint ventures		-	-
4.	Other financial income		11,638	28,936
II.	INTEREST INCOME (FROM THIRD PARTIES)		515,861	766,588
III.	FOREIGN EXCHANGE GAINS (THIRD PARTIES)		920,509	1,805,108
F.	**FINANCE EXPENSES**	**31**	**4,178,538**	**5,748,045**
I.	FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES		2,066,382	1,811,230
1.	Finance expense - parent company and subsidiaries		1,901,458	1,713,344
2.	Finance expense - other related parties		14,330	23,682
3.	Share of loss of associates and joint ventures		129,287	66,634
4.	Other financial expense		21,307	7,570
I.	INTEREST EXPENSE (FROM THIRD PARTIES)		1,578,043	2,069,547
II.	FOREIGN EXCHANGE LOSSES (THIRD PARTIES)		534,113	1,867,268
G.	**PROFIT FROM FINANCING OPERATIONS**		**-**	**-**
H.	**LOSS FROM FINANCING OPERATIONS**		**1,615,409**	**1,921,618**
I.	**INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**	**32**	**121,212**	**868,513**
J.	**LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**		**134,564**	**170,170**
K.	**OTHER INCOME**	**33**	**1,265,910**	**1,215,316**
L.	**OTHER EXPENSES**	**34**	**1,868,685**	**1,804,368**
M.	**OPERATING PROFIT BEFORE TAX**		**21,129,010**	**30,853,226**
N.	**OPERATING LOSS BEFORE TAX**		**-**	**-**
O.	**NET INCOME ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS**		**-**	**-**
P.	**NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS**		**-**	**-**
Q.	**PROFIT BEFORE TAX**		**21,129,010**	**30,853,226**
R.	**LOSS BEFORE TAX**		**-**	**-**

In thousand RSD

		Note	Year ended 31 December 2019	2018
II.	**INCOME TAX**			
I.	CURRENT INCOME TAX	35	3,100,414	4,066,760
II.	DEFERRED TAX EXPENSE FOR THE PERIOD	35	1,443,301	1,674,486
III.	DEFERRED TAX INCOME FOR THE PERIOD	35	11,107	22,322
S.	**PERSONAL INCOME PAID TO EMPLOYER**		-	-
T.	**NET PROFIT**		**16,596,402**	**25,134,302**
V.	**NET LOSS**		-	-
I.	NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		-	-
II.	NET INCOME ATTRIBUTABLE TO THE OWNER		16,610,847	25,150,220
III.	NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		14,445	15,918
IV.	NET LOSS ATTRIBUTABLE TO THE OWNER		-	-
V.	EARNINGS PER SHARE			
1.	Basic earnings per share		0.102	0.154
2.	Diluted earnings per share		-	-

In thousand RSD

Consolidated Statement of Other Comprehensive Income

		Note	Year ended 31 December 2019	2018
A.	**NET PROFIT/(LOSS)**			
I.	**PROFIT, NET**		**16,596,402**	**25,134,302**
II.	**LOSS, NET**		-	-
B.	**OTHER COMPREHENSIVE PROFIT OR LOSS**			
a)	*Items that will not be reclassified to profit or loss*			
1.	**Changes in the revaluation of intangible assets, property, plant and equipment**			
	a) increase in revaluation reserves		-	360
	b) decrease in revaluation reserves		-	-
2.	**Actuarial gains (losses) of post employment benefit obligations**			
	a) gains		-	3,316
	b) losses		45,334	-
3.	**Gains and losses arising from equity investments**			
	a) gains		-	-
	b) losses		-	-

In thousand RSD

		Note	Year ended 31 December 2019	2018
4.	**Gains or losses arising from a share in the associate's other comprehensive profit or loss**			
	a) gains		-	-
	b) losses		-	-
b)	*Items that may be subsequently reclassified to profit or loss*			
1.	**Gains (losses) from currency translation differences**			
	a) gains		193,947	35,372
	b) losses		-	-
2.	**Gains (losses) on investment hedging instruments in foreign business**			
	a) gains		-	-
	b) losses		-	-
3.	**Gains and losses on cash flow hedges**			
	a) gains		-	-
	b) losses		-	-
4.	**Gains (losses) from change in value of available-for-sale financial assets**			
	a) gains		7,267	477
	b) losses		-	-
I.	OTHER COMPREHENSIVE PROFIT BEFORE TAX		155,880	39,525
II.	OTHER COMPREHENSIVE LOSS BEFORE TAX		-	-
III.	TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD		-	-
IV.	**TOTAL NET COMPREHENSIVE PROFIT**		**155,880**	**39,525**
V.	**TOTAL NET COMPREHENSIVE LOSS**		**-**	**-**
C.	**TOTAL NET COMPREHENSIVE PROFIT**			
I.	TOTAL COMPREHENSIVE PROFIT, NET		16,752,282	25,173,827
II.	TOTAL COMPREHENSIVE LOSS, NET		-	-
D.	**TOTAL NET COMPREHENSIVE PROFIT / (LOSS)**		**16,752,282**	**25,173,827**
1.	Attributable to shareholders		16,752,282	25,173,827
2.	Attributable to non-controling interest		-	-

In thousand RSD

Consolidated Statement of Cash Flows

		Note	Year ended 31 December 2019	2018
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflow from operating activities**		**508,836,518**	**517,301,936**
1.	Sales and advances received		508,048,842	516,240,758
2.	Interest from operating activities		377,342	539,153
3.	Other inflow from operating activities		410,334	522,025
II.	**Cash outflow from operating activities**		**451,903,613**	**479,924,756**
1.	Payments and prepayments to suppliers		210,583,641	235,577,593
2.	Salaries, benefits and other personal expenses		19,854,905	20,125,461
3.	Interest paid		1,705,155	2,071,683
4.	Income tax paid		4,329,868	5,470,912
5.	Payments for other public revenues		215,430,044	216,679,107
III.	**Net cash inflow from operating activities**		**56,932,905**	**37,377,180**
IV.	**Net cash outflow from operating activities**		**-**	**-**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I.	**Cash flows from investing activities**		**2,551,510**	**8,012,829**
1.	Sale of shares (net inflow)		26,968	-
2.	Proceeds from sale of intangible assets, property, plant and equipment		282,172	368,037
3.	Other financial investments (net inflow)		2,233,913	7,619,661
4.	Interest from investing activities		-	-
5.	Dividend received		8,457	25,131
II.	**Cash outflow from investing activities**		**49,112,305**	**47,225,072**
1.	Acquisition of subsidiaries or other business (net outflow)		-	-
2.	Purchase of intangible assets, property, plant and equipment		46,846,795	47,089,576
3.	Other financial investments (net outflow)		2,265,510	135,496
III.	**Net cash inflow from investing activities**		**-**	**-**
IV.	**Net cash outflow from investing activities**		**46,560,795**	**39,212,243**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			

In thousand RSD

		Note	Year ended 31 December 2019	2018
I.	**Cash inflow from financing activities**		**15,060,454**	**37,213,097**
1.	Increase in share capital		–	–
2.	Proceeds from long-term borrowings (net inflow)	22	15,060,454	37,213,097
3.	Proceeds from short-term borrowings (net inflow)		–	–
4.	Other long-term liabilities		–	–
5.	Other short-term liabilities		–	–
II.	**Cash outflow from financing activities**		**25,645,247**	**47,031,592**
1.	Purchase of own shares		-	-
2.	Repayment of long-term borrowings (net outflow)	22	18,760,583	39,952,347
3.	Repayment of short-term borrowings (net outflow)		-	-
4.	Repayment of other liabilities (net outflow)		-	-
5.	Financial lease	22	367,140	131,241
6.	Dividend distribution	20.1	6,517,524	6,948,004
III.	**Net cash inflow from financing activities**		–	–
IV.	**Net cash outflow from financing activities**		**10,584,793**	**9,818,495**
D.	**TOTAL CASH INFLOW**		**526,448,482**	**562,527,862**
E.	**TOTAL CASH OUTFLOW**		**526,661,165**	**574,181,420**
F.	**NET CASH INFLOW**		–	–
G.	**NET CASH OUTFLOW**		**212,683**	**11,653,558**
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**		**15,480,830**	**27,075,370**
I.	**CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS**		**268,965**	**385,469**
J.	**CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS**		**241,302**	**326,451**
K.	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**15,295,810**	**15,480,830**

In thousand RSD

Consolidated Statement of Changes in Equity

	Equity components			
	Share capital	Loss	Retained earnings	Revaluation reserve
Balance as at 1 January 2018				
a) debit	**-**	**-**	**-**	**-**
b) credit	**81,548,930**	**-**	**143,271,986**	**81,796**
Adjustments of material errors and changes in accounting policies				
a) debit	-	-	401,527	-
b) credit	-	-	-	-
Restated opening balance as at 1 January 2018				
a) debit	**-**	**-**	**-**	**-**
b) credit	**81,548,930**	**-**	**142,870,459**	**81,796**
Changes in period				
a) debit	-	-	6,949,059	2,401
b) credit	-	-	25,134,302	360
Balance as at 31 December 2018				
a) debit	**-**	**-**	**-**	**-**
b) credit	**81,548,930**	**-**	**161,055,702**	**79,755**
Adjustments of material errors and changes in accounting policies				
a) debit	-		-	-
b) credit	-	-	-	-
Restated opening balance as at 1 January 2019				
a) debit	**-**	**-**	**-**	**-**
b) credit	**81,548,930**	**-**	**161,055,702**	**79,755**
Changes in period				
a) debit	-	-	6,517,524	-
b) credit	-	-	18,186,000	-
Balance as at 31 December 2019				
a) debit	**-**	**-**	**-**	**-**
b) credit	**81,548,930**	**-**	**172,724,178**	**79,755**

Other comprehensive income components			
Acturial gain/(loss)	**Gains (losses) from currency translation differences**	**Gains (losses) from change in value of available-for-sale financial assets**	**Total Equity**
-	**-**	**64,013**	
195,215	**17,596**	**-**	**225,051,510**
-	-	-	
-	-	-	401,527
-	**-**	**64,013**	
195,215	**17,596**	**-**	**224,649,983**
			-
-	-	-	
3,316	35,372	3,931	18,225,821
-	**-**	**60,082**	
198,531	**52,968**	**-**	**242,875,804**
-	-	-	
-	-	-	-
-	**-**	**60,082**	
198,531	**52,968**	**-**	**242,875,804**
45,334	-	-	
-	193,947	1,899	11,818,988
-	**-**	**58,183**	
153,197	**246,915**	**-**	**254,694,792**

In thousand RSD

Notes to the Consolidated Financial Statements[1]

1. GENERAL INFORMATION

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

- Exploration, development and production 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 Group.

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

These consolidated financial statements have been approved and authorized for issue by Chief Executive Officer and will be presented to Board of Directors for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

These consolidated financial statements for the year ended 31 December 2019 were prepared in accordance with the Law on Accounting of the Republic of 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,

1 *All amounts are in RSD 000, unless otherwise stated.*

- "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 consolidated 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 Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

At the date of signing consolidated 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 consolidated financial statements were authorised for issue.

2.2. Basis of measurement

These consolidated 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 Group as a whole is not subject to significant seasonal fluctuation.

2.5. Foreign currency translation

a) Functional and presentation currency

Items included in the Consolidated Financial Statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Serbian dinars ("RSD"), which is the Group'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 consolidated 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 consolidated income statement within 'Finance income or expense'.

c) Group's Companies

The result and financial position of all Group companies whose functional currency is different from the Group's presentation currency are calculated as follows:

I. assets and liabilities are translated into the RSD using the exchange rate as at reporting date;
II. income and expenses are translated at average exchange rates and all resulting foreign exchange differences are recognized in reserves as separate items in equity.

2.6. Principles of consolidation

The consolidated financial statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. An investor is exposed, or has the right to variable returns from its involvement with investee when the investor's return from its involvement has the potential to vary as a result of the investee's performance. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date when control commences until the date when control ceases.

In accessing control, Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group's interest in the assets, liabilities, expenses and revenue of the joint operation. All other investments are classified either as held-to-maturity or as available for sale.

a) Joint Operations and Joint Ventures

A joint operation is a joint arrangement whereby parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

b) Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c) Non-controlling interests

In the consolidated financial statements, non-controlling interests in subsidiaries are presented separately from the Group equity as non-controlling interests. Non-controlling interest is measured at fair value or at its proportionate share in the acquiree's net identifiable assets. For each business combination a separate measurement principle is determined.

d) Investments in associates

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associate are accounted for using equity method and are recognised initially at cost. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired.

2.7. Business combinations

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group and recognised goodwill or a gain from a bargain purchase. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

2.8. Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ('bargain purchase') is recognized in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated profit or loss. Transaction costs, that the Group incurs in connection with a business combination are expensed as incurred.

2.9. Intangible assets

a) Goodwill

Goodwill that arises from business combination is included in intangible assets. Subsequently goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed (note 8).

b) Licenses and rights

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 (average usefull life is 5 years).

c) Software

These include primarily the costs of implementation the (SAP) computer software program. Acquired 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).

2.10. Oil and Gas properties

a) Exploration and evaluation expenditure

The Group 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.

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.

2.11. Property, plant and equipment

As of the date of establishment, the Group'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 Group 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 consolidated 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/expenses" in the consolidated income statement (notes 33 and 34).

2.12. 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.

2.13. 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 consolidated income statement as part of "Other income/expense".

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group 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.

2.14. 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.

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

From 1 January 2018, the Group 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 Group 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 Group's business model for managing the asset and the cash flow characteristics of the asset.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group'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 Group 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 Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group 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 Group classifies its debt instruments:

- 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 Group subsequently measures all equity investments at fair value. Where the Group'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 Group's right to receive payments is established.

c) Write-off

Financial assets are written-off, in whole or in part, when the Group 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 Group may write-off financial assets that are still subject to enforcement activity when the Group 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 group 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 group 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 Group 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 Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group 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 Group 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 Group 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 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 consolidated 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 Group 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 Group 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 Group 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, Group 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.

Group 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

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

Group uses a provision matrix in the calculation of the expected credit losses on trade receivables. Group 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 consolidated income statement.

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.

2.15. 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 34).

2.16. 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 Group, as well as receivables/payables related to collaterals such as guarantees and other warrants.

2.17. Share capital

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

2.18. Earnings per share

The Group 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.

2.19. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: the Group 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 consolidated income statement.

2.20. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated 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 Group 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 consolidated 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.

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.

2.21. Employee benefits

a) Pension obligations

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group 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 Group 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 consolidated statement of 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 Group recognises a liability and an expense for bonuses and profit-sharing based on an Individual performance assessment. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

In 2017, the Group has made decision to introduce new three-year (2018-2020) program for Group's managers which will be based on the Key Performance Indicators ("KPI") reached during the program (note 21).

2.22. Revenue recognition from contracts with customers

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

Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group 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 after eliminating sales within the Group.

a) Sales - wholesale

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

c) Sales of electricity

The Group 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 Group expects to physically deliver factual agreed quantity of electricity revenue is recognized at gross basis at the point of time of delivery in consolidated 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 Group 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 27.

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 Group relating to the creation or acquisition of a financial asset, for example fees for evaluating creditworthiness, evaluating 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.

2.23. Leases

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

The Group 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 Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group 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:

	Useful lives in years
Land	25
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.

Accounting policies applied until 31 December 2018

Leases under the terms of which the Group 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 Group's consolidated balance sheet. The total lease payments are charged to consolidated income statement on a straight-line basis over the lease term.

a) Right of use of land

Right of use of land acquired as a part of either acquisition or a separate transaction through payment to a third party or Local Authority is treated as an intangible asset. This acquired intangible assets has an indefinite useful life and is subject to annual impairment testing.

2.24. Dividend distribution

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

2.25. 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 consolidated financial statements required Management to make estimates and assumptions that affect 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 are 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 Group's 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 consolidated 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 Group 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 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 consolidated 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 1,900,267 (2018: RSD 1,849,565).

3.3. Impairment of goodwill

Goodwill is tested for impairment annually.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU. The estimated future cash flows include estimation of future costs to produce reserves, future commodity prices, foreign exchange rate, discount rate etc. (note 8).

3.4. 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 Group 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 Group 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 whole NIS Group would decrease by about 9.4% for retirement indemnity and 7.2% for jubilee benefit. If pay increased by 1.0% higher than assumed on an annual basic, than the past service liability (DBO) for the whole NIS Group would increase by amount 10.7% for the retirement indemnity and 7.7% for the jubilee benefit.

3.5. 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 (note 21) 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 Group'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.

3.6. Contingencies

Certain conditions may exist as of the date of these consolidated financial statements are issued that may result in a loss to the Group, 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 Group or unasserted claims that may result in such proceedings, the Group, 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 Group's consolidated 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 Group 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 36).

3.7. 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 Group performed stress sensitivity analysis of its impact on recoverability of the Group 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 Group's PPE exceed its carrying value.

The Group 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 Group's PPE by 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.

4. APPLICATION OF NEW IFRS

Accounting policies applied from 1 January 2019

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

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

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

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

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required 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)	1,171,875	1,414,558
Plant and equipment	438,495	335,712
Motor vehicles	263,429	85,151
Total right-of-use assets	**1,873,799**	**1,835,421**

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

Property, plant and equipment and intangible assets – decrease (notes 8 and 9)	(972,531)
Right-of-use assets – increase (note 9)	1,835,421
Prepayments – decrease	(71,944)
Lease liabilities – increase	(790,946)

In applying IFRS 16 for the first time, the group 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 Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a lease.

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

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

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

- *IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).*

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

The Group'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 primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group'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 Group identifies and evaluates financial risks in close co-operation with the Group's operating units.

In the normal course of its operations the Group has exposure to the following financial risks:
a) market risk (including foreign exchange risk and interest rate risk);
b) credit risk and
c) liquidity risk.

Market risk

The Group 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 Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and EUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange 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. Foreign exchange risks arise when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group functional currency.

The Group has borrowings denominated in foreign currency mainly in EUR which predominantly expose Group to the foreign currency translation risk.

The carrying values (net of allowance) of the Group'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
Other long-term financial investments	231,671	729,893	4,964	-	966,528
Long term receivables	9,515	224,669	-	-	234,184
Current assets					
Trade receivables	22,758,194	1,107,544	128,120	1,579,001	25,572,859
Receivables from specific operations	497,459	2,822	164,460	9,129	673,870
Other receivables	877,230	19,232	3,567	35,728	935,757
Short term financial investments	1,114,559	75,810	-	653,104	1,843,473
Cash and cash equivalents	6,206,398	5,408,179	2,148,914	1,532,319	15,295,810
Financial liabilities					
Non-current					
Long-term liabilities	(12,489)	(82,942,688)	(173,130)	(914,624)	(84,042,931)
Current liabilities					
Short-term financial liabilities	(15,559)	(6,462,042)	(36,162)	(248,134)	(6,761,897)
Trade payables	(9,280,442)	(8,013,428)	(16,284,376)	(1,763,084)	(35,341,330)
Other short-term liabilities	(7,860,308)	(227,495)	(168,997)	(118,254)	(8,375,054)
Net exposure	**14,621,890**	**(90,077,504)**	**(14,212,640)**	**765,185**	**(88,903,069)**

As of 31 December 2018	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Financial instrument at FVTOCI	111,475	-	-	2,687	114,162
Other long-term financial investments	104,100	767,463	6,203	70,917	948,683
Long term receivables	8,979	-	-	-	8,979
Current assets					
Trade receivables	23,128,244	885,305	536,185	1,458,077	26,007,811
Receivables from specific operations	366,173	3,523	162,063	10,854	542,613
Other receivables	143,567	44,057	1,243	34,704	223,571
Short term financial investments	2,124,148	139,237	-	46	2,263,431
Cash and cash equivalents	5,187,670	4,717,880	4,074,271	1,501,009	15,480,830
Financial liabilities					
Non-current					
Long-term liabilities	(649)	(87,070,328)	(309,067)	(439,158)	(87,819,202)
Current liabilies					
Short-term financial liabilities	-	(6,302,164)	(52,628)	(40,299)	(6,395,091)
Trade payables	(8,522,174)	(14,823,629)	(897,986)	(1,590,299)	(25,834,088)
Other short-term liabilities	(8,219,003)	(219,021)	(166,430)	(83,532)	(8,687,986)
Net exposure	**14,432,530**	**(101,857,677)**	**3,353,854**	**925,006**	**(83,146,287)**

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 Group 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 Group's financial statements 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 and equity for the year would have been RSD 4,503,875 (2018: RSD 5,092,884) 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 1,421,264 (2018: RSD 335,385) 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 Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value 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 Group’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.

Credit risk

The Group 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 Group’s lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the balance sheet is as follows:

	Year end 31 December	
	2019	**2018**
Financial instrument at FVTOCI	95,662	114,162
Other long-term investments (note 11)	966,528	948,683
Long term receivables	234,184	8,979
Trade receivables (note 14)	25,572,859	26,007,811
Receivables from specific operations	673,870	542,613
Other receivables (note 15)	935,757	223,571
Short term financial investments (note 16)	1,843,473	2,263,431
Cash and cash equivalents (note 17)	15,295,810	15,480,830
Total maximum exposure to credit risk	**45,618,143**	**45,590,080**

Credit risk management. Credit risk is the single largest risk for the Group'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 Group 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 Group;
- planned sales volume;
- duration of relationship with the Group, including ageing profile, maturity and existence of any financial difficulties.

Trade, Specific and Other receivables

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

The Group 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.

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, sprecific 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%	24,959,646	(12,085)	24,947,561
- less than 30 days overdue	0.18%	1,313,262	(2,369)	1,310,893
- 31 to 90 days overdue	1.10%	124,561	(1,375)	123,186
- 91 to 270 days overdue	2.58%	113,860	(2,936)	110,924
- over 270 days overdue	96.09%	17,776,085	(17,086,163)	689,922
Total trade, specific and other receivables		**44,287,414**	**(17,104,928)**	**27,182,486**

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%	24,436,650	(21,506)	24,415,144
- less than 30 days overdue	0.32%	1,350,903	(4,355)	1,346,548
- 31 to 90 days overdue	1.13%	354,744	(4,007)	350,737
- 91 to 270 days overdue	4.22%	202,389	(8,542)	193,847
- over 270 days overdue	97.41%	17,877,762	(17,410,043)	467,719
Total trade, specific and other receivables		**44,222,448**	**(17,448,453)**	**26,773,995**

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 Group 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 Group.

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

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

	Trade receivables		Lease receivables	Total
	Individually impaired	Collectively impaired		
As at 1 January 2018	**2,405,561**	**5,537,017**	**-**	**7,942,578**
Remeasurement of expected credit losses	29,710	-	-	29,710
Restated balance at 1 January 2018	**2,435,271**	**5,537,017**	**-**	**7,972,288**
Reclassification other receivables for lease as of 1 January 2018	-	(72,630)	72,630	-
Provision for receivables impairment	3,648	67,590	3,239	74,477
Unused amounts reversed (note 32)	(98,877)	(592,748)	(15,724)	(707,349)
Receivables written off during the year as uncollectible	-	(1,150,269)	(533)	(1,150,802)
Unwinding of discount (note 30)	-	(44,661)	-	(44,661)
Other	186	970	-	1,156
As at 31 December 2018	**2,340,228**	**3,745,269**	**59,612**	**6,145,109**
As at 1 January 2019				
Provision for receivables impairment	7,261	75,724	2,321	85,306
Unused amounts reversed (note 32)	(6,218)	(73,532)	(7,870)	(87,620)
Receivables written off during the year as uncollectible	-	(263,040)	(1,232)	(264,272)
Other	(953)	3,298	-	2,345
As at 31 December 2019	**2,340,318**	**3,487,719**	**52,831**	**5,880,868**

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. The other classes within trade, sprecific and other receivables do not contain impaired assets.

Movements on the Group's provision for impairment of receivables from specific operations are as follows:

	Receivables from specific operations
As at 1 January 2018	**3,394,091**
Provision for receivables impairment	3,879
Unused amounts reversed (note 32)	(142,362)
Receivables written off during the year as uncollectible	(1,500,778)
Other	(116)
As at 31 December 2018	**1,754,714**
Provision for receivables impairment	2,185
Unused amounts reversed (note 32)	(3,068)
Receivables written off during the year as uncollectible	(12,958)
Other	(480)
As at 31 December 2019	**1,740,393**

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2018	**4,191,764**	**7,495,688**	**11,687,452**
Provision for other receivables impairment	5,856	13,682	19,538
Unused amounts reversed (note 32)	(12,919)	(3,577)	(16,496)
Receivables written off during the year as uncollectible	(2,048,409)	(92,703)	(2,141,112)
Other	(5,427)	4,675	(752)
As at 31 December 2018	**2,130,865**	**7,417,765**	**9,548,630**
Provision for other receivables impairment	4,813	9,415	14,228
Unused amounts reversed (note 32)	(12,914)	(1,088)	(14,002)
Receivables written off during the year as uncollectible	(55,294)	(7,177)	(62,471)
Other	(2,629)	(89)	(2,718)
As at 31 December 2019	**2,064,841**	**7,418,826**	**9,483,667**

Liquidity risk

Cash flow forecasting is performed as aggregated at the Group's level. The Company's finance function monitors rolling forecasts of the Group'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 times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group'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 Group over and above balance required for working capital management are invested as surplus cash in time deposits.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date.

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)	90,804,828	96,685,828	8,528,198	83,672,824	4,484,806
Trade payables and dividends	39,122,022	39,122,022	39,122,022	-	-
	129,926,850	**135,807,850**	**47,650,220**	**83,672,824**	**4,484,806**
As at 31 December 2018					
Financial liabilities (debt+lease)	94,214,293	100,623,609	8,147,806	86,866,787	5,609,016
Trade payables and dividends	29,606,396	29,606,396	29,606,396	-	-
	123,820,689	**130,230,005**	**37,754,202**	**86,866,787**	**5,609,016**

The Group's objectives when managing capital are to safeguard the Group'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 Group may adjust the amount of dividends paid to shareholders, revise its investment program, attract new or repay existing loans or sell certain non-core assets.

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

	31 December 2019	31 December 2018
Total borrowings (notes 22 and 23)	90,804,828	94,214,293
Less: cash and cash equivalents (note 17)	(15,295,810)	(15,480,830)
Net debt	**75,509,018**	**78,733,463**
EBITDA	44,479,734	53,708,499
Net debt to EBITDA	**1.70**	**1.47**

The Group 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. Group 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 Group's approach to capital management during the year.

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 Group 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 Group 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 carrying amount of trade and other receivables, other current assets 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 receivables and non-current payables the fair values are also not significantly different to their carrying amounts.

7. SEGMENT INFORMATION

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

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

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

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

Reportable segment results for the year ended 31 December 2019 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	48,317,499	272,263,504	(48,484,503)	272,096,500
Intersegment	47,501,435	983,068	(48,484,503)	-
External	816,064	271,280,436	-	272,096,500
EBITDA (Segment results)	**34,188,266**	**10,291,468**	**-**	**44,479,734**
Depreciation, depletion and amortization	(11,402,076)	(9,574,273)	-	(20,976,349)
Impairment losses/Revaluation surpluses (note 33 and 34)	(18,054)	32,032	-	13,978
Writte off exploration works (note 9)	(377,207)	-	-	(377,207)
Share of loss of associates and joint ventures	-	(129,287)	-	(129,287)
Finance expenses, net	(365,574)	(1,120,548)	-	(1,486,122)
Income tax	(212,842)	(4,319,766)	-	(4,532,608)
Segment profit (loss)	21,632,035	(5,035,633)	-	16,596,402

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	52,134,006	281,446,809	(52,597,066)	280,983,749
Intersegment	50,567,429	2,029,637	(52,597,066)	-
External	1,566,577	279,417,172	-	280,983,749
EBITDA (Segment results)	**38,791,347**	**14,917,152**	**-**	**53,708,499**
Depreciation, depletion and amortization	(10,805,415)	(9,535,562)	-	(20,340,977)
Impairment losses/Revaluation surpluses (note 33 and 34)	(3,756)	(266,918)	-	(270,674)
Writte off exploration works (note 9)	(57,075)	-	-	(57,075)
Share of loss of associates and joint ventures	-	(66,634)	-	(66,634)
Finance expenses, net	(203,244)	(1,651,740)	-	(1,854,984)
Income tax	(323,003)	(5,395,921)	-	(5,718,924)
Segment profit (loss)	27,015,242	(1,880,940)	-	25,134,302

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

	Year ended 31 December	
	2019	**2018**
Profit for the year	16,596,402	25,134,302
Income tax expenses	4,532,608	5,718,924
Other expenses	1,868,685	1,804,368
Other income	(1,265,910)	(1,215,316)
Loss from valuation of assets at fair value through profit and loss	134,564	170,170
Income from valuation of assets at fair value through profit and loss	(121,212)	(868,513)
Finance expense	4,178,538	5,748,045
Finance income	(2,563,129)	(3,826,427)
Depreciation, depletion and amortization	20,976,349	20,340,977
Other non operating expenses, net*	142,839	701,969
EBITDA	**44,479,734**	**53,708,499**

*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	824,057	665,186	1,489,243
Sale of gas	1,388,688	-	1,388,688
Through a retail network	-	-	-
Wholesale activities	1,388,688	-	1,388,688
Sale of petroleum products	186,520,141	70,167,285	256,687,426
Through a retail network	66,171,840	17,557,295	83,729,135
Wholesale activities	120,348,301	52,609,990	172,958,291
Sales of electricity	782,645	233,715	1,016,360
Lease revenue	351,477	6,439	357,916
Other sales	7,696,451	3,460,416	11,156,867
Total sales	**197,563,459**	**74,533,041**	**272,096,500**

	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	1,610,675	-	1,610,675
Through a retail network	-	-	-
Wholesale activities	1,610,675	-	1,610,675
Sale of petroleum products	196,980,360	68,224,641	265,205,001
Through a retail network	63,956,088	17,446,040	81,402,128
Wholesale activities	133,024,272	50,778,601	183,802,873
Sales of electricity	746,559	842,728	1,589,287
Lease revenue	474,818	-	474,818
Other sales	7,044,968	3,530,989	10,575,957
Total sales	**206,857,380**	**74,126,369**	**280,983,749**

Out of the amount of RSD 172,958,291 (2018: RSD 183,802,873) 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 d.o.o. Belgrade 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 in the amount of RSD 8,828,683 (2018: RSD 8,269,395).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 197,563,459 (2018: RSD 206,857,380), and the total of revenue from external customer from other countries is RSD 74,533,041 (2018: RSD 74,126,369).

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)		
Bulgaria	14,559,719	18,130,815
Bosnia and Herzegovina	27,417,504	18,704,608
Romania	13,415,451	14,877,723
Croatia	2,431,173	2,997,771
Switzerland	1,888,635	2,777,082
Great Britain	1,063,213	1,839,930
Nothern Macedonia	1,343,723	1,726,618
Hungary	1,610,845	1,810,152
All other markets	6,437,022	5,359,942
	70,167,285	68,224,641
Sales of electricity	233,715	842,728
Lease revenue	6,439	-
Other sales	3,460,416	3,530,989
	74,533,041	**74,126,369**

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

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

	31 December 2019	**31 December 2018**
Serbia	287,838,624	269,381,825
Romania	11,853,104	9,103,409
Bosnia and Herzegovina	7,276,613	7,304,192
Bulgaria	6,881,442	6,934,061
	313,849,783	**292,723,487**

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Godwill
At 1 January 2018			
Cost	9,330,701	9,133,906	2,256,798
Accumulated amortization and impairment	(1,565,494)	(6,584,823)	(513,308)
Net book amount	**7,765,207**	**2,549,083**	**1,743,490**
Year ended 31 December 2018			
Additions	-	-	-
Acquisitions through business combinations	-	-	11,986
Transfer from assets under development	2,299,438	211,033	-
Amortization	(758,280)	(1,027,607)	-
Impairment (note 34)	-	-	(201,854)
Transfer to PP&E (note 9)	-	-	-
Other transfers	-	(3,356)	-
Translation differences	-	(25)	(4,244)
Closing net book amount	**9,306,365**	**1,729,128**	**1,549,378**
As at 31 December 2018			
Cost	11,630,138	9,287,315	2,262,796
Accumulated amortization and impairment	(2,323,773)	(7,558,187)	(713,418)
Net book amount	**9,306,365**	**1,729,128**	**1,549,378**
At 1 January 2019			
Cost	11,630,138	9,287,315	2,262,796
Accumulated amortization and impairment	(2,323,773)	(7,558,187)	(713,418)
Net book amount	**9,306,365**	**1,729,128**	**1,549,378**
Year ended 31 December 2019			
Additions	-	-	-
Transfer from assets under development	3,139,293	829,622	-
Amortization	(1,005,829)	(574,386)	-
Impairment (note 34)	-	-	(180,004)
Transfer to PP&E (note 9)	-	-	-
Other transfers	-	4,697	-
Transfer to right of use assets	-	-	-
Translation differences	-	(130)	(14,866)
Closing net book amount	**11,439,829**	**1,988,931**	**1,354,508**
As at 31 December 2019			
Cost	14,769,430	10,033,485	2,233,762
Accumulated amortization and impairment	(3,329,601)	(8,044,554)	(879,254)
Net book amount	**11,439,829**	**1,988,931**	**1,354,508**

Other intangibles	Intangible assets under development	Total
1,436,956	9,089,090	31,247,451
(266,031)	(56,647)	(8,986,303)
1,170,925	**9,032,443**	**22,261,148**
37	3,170,422	3,170,459
-	-	11,986
7,584	(2,518,055)	-
(54,642)	(4,802)	(1,845,331)
-	-	(201,854)
-	(5,622)	(5,622)
3,356	-	-
(840)	(14,293)	(19,402)
1,126,420	**9,660,093**	**23,371,384**
1,443,305	9,721,470	34,345,024
(316,885)	(61,377)	(10,973,640)
1,126,420	**9,660,093**	**23,371,384**
1,443,305	9,721,470	34,345,024
(316,885)	(61,377)	(10,973,640)
1,126,420	**9,660,093**	**23,371,384**
704	3,283,123	3,283,827
-	(3,968,915)	-
(46,496)	-	(1,626,711)
-	-	(180,004)
-	(42,660)	(42,660)
(1,457)	(108,081)	(104,841)
(153,119)	-	(153,119)
(1,096)	(118,551)	(134,643)
924,956	**8,705,009**	**24,413,233**
1,252,029	8,760,424	37,049,130
(327,073)	(55,415)	(12,635,897)
924,956	**8,705,009**	**24,413,233**

Intangible assets under development as at 31 December 2019 amounting to RSD 8,705,009 (31 December 2018: RSD 9,660,093) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 8,538,201 (31 December 2018: RSD 9,398,379).

Impairment test for goodwill

Goodwill is monitored by the management on an individual CGU basis and geographical location. The recoverable amount of each CGUs has been determined by independent appraisal based on higher of value-in-use and fair value less cost to disposed calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

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

	2019	2018
Average gross margin	21.0%	22.0%
Growth rate	1%	1%
Discount rate		
- Romania market	6.99%	6.78%
- Bulgaria market	6.30%	6.67%
- Bosnia and Herzegovina market	8.73%	11.13%

Management determined the budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relation to the relevant CGU. The following is a summary of goodwill allocation:

	Opening balance	Addition	Impairment	Translation differences	Closing balance
2019					
Bosnia and Herzegovina	484,855	-	-	(2,468)	482,387
Romania	286,915	-	-	(8,355)	278,560
Bulgaria	777,608	-	(180,004)	(4,043)	593,561
	1,549,378	**-**	**(180,004)**	**(14,866)**	**1,354,508**
2018					
Bosnia and Herzegovina	474,012	11,986	-	(1,143)	484,855
Romania	287,848	-	-	(933)	286,915
Bulgaria	981,629	-	(201,854)	(2,167)	777,608
	1,743,489	**11,986**	**(201,854)**	**(4,243)**	**1,549,378**

Except recognised impairment loss in Bulgaria in the amount of RSD 180,004 (2018: RSD 201,854), impairment test in Romania and Bosnia and Herzegovina shows that the recoverable amount calculated based on value in use / fair value exceeds carrying value. If the revised estimated growth rate would be 0.5% instead of 1% and if applied discounted rate would be 1% higher than management's estimates, the recoverable amount of the each CGU in total still exceeds its carrying amount.

9. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment
At 1 January 2018			
Cost	17,153,246	191,485,363	128,531,892
Accumulated depreciation and impairment	(303,930)	(56,544,897)	(58,979,979)
Net book amount	**16,849,316**	**134,940,466**	**69,551,913**
Year ended 31 December 2018			
Additions	-	115,585	1,393
Acquisitions through business combinations	-	-	-
Transfer from assets under development	256,860	17,950,496	7,066,224
Impairment charge (note 34)	-	(67,304)	(634)
Depreciation	-	(9,955,870)	(8,468,614)
Transfer from intangible assets (note 8)	-	-	-
Transfer to investment property	(38,530)	(42,798)	-
Transfer to non-current assets held for sale	(15,765)	(26,992)	(21,995)
Disposals and write-off	(39,435)	(111,433)	(93,564)
Other transfers	(14,903)	39,209	(301,370)
Translation differences	(15,886)	(14,086)	(2,975)
Closing net book amount	**16,981,657**	**142,827,273**	**67,730,378**
At 31 December 2018			
Cost	17,282,588	209,356,843	134,383,253
Accumulated depreciation and impairment	(300,931)	(66,529,570)	(66,652,875)
Net book amount	**16,981,657**	**142,827,273**	**67,730,378**
Year ended 31 December 2019			
Additions	-	777,397	1,676
Transfer from assets under development	36,531	16,021,521	6,770,855
Impairment charge (note 34)	-	(98,929)	-
Depreciation	-	(10,156,657)	(8,778,245)
Transfer from intangible assets (note 8)	-	-	-
Transfer to investment property	-	-	-
Transfer to non-current assets held for sale	(56,573)	(18,619)	(30,607)
Disposals and write-off	(2,836)	(117,232)	(147,252)
Transfer to right of use assets	-	(456,413)	(362,999)
Other transfers	-	967	(108,025)
Translation differences	(57,234)	(69,541)	(10,370)
Closing net book amount	**16,901,545**	**148,709,767**	**65,065,411**
At 31 December 2019			
Cost	17,202,401	224,462,317	139,661,505
Accumulated depreciation and impairment	(300,856)	(75,752,550)	(74,596,094)
Net book amount	**16,901,545**	**148,709,767**	**65,065,411**

Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
27,681,410	88,653	528,159	2,105,408	367,574,131
(2,032,142)	(2,030)	(256,255)	(36,946)	(118,156,179)
25,649,268	**86,623**	**271,904**	**2,068,462**	**249,417,952**
39,971,334	-	-	4,875,356	44,963,668
439,465	-	-	-	439,465
(25,288,834)	3,580	11,674	-	-
(13,418)	-	-	(5,413)	(86,769)
-	(27)	(71,135)	-	(18,495,646)
5,622	-	-	-	5,622
-	-	-	-	(81,328)
(9,108)	-	-	-	(73,860)
(861,988)	(157)	(22)	(6,176,881)	(7,283,480)
-	(1,321)	-	-	(278,385)
3,933	34	(23)	(13)	(29,016)
39,896,274	**88,732**	**212,398**	**761,511**	**268,498,223**
41,899,970	90,751	539,696	799,493	404,352,594
(2,003,696)	(2,019)	(327,298)	(37,982)	(135,854,371)
39,896,274	**88,732**	**212,398**	**761,511**	**268,498,223**
38,786,941	-	-	2,226,024	41,792,038
(22,841,975)	1,634	11,434	-	-
(152,630)	(543)	-	-	(252,102)
-	-	(67,765)	-	(19,002,667)
42,660	-	-	-	42,660
(10,016)	-	-	-	(10,016)
-	-	-	-	(105,799)
(611,682)	(22)	(3,686)	(2,642,072)	(3,524,782)
-	-	-	-	(819,412)
49,464	(13)	-	-	(57,607)
(94,948)	29	(56)	(97)	(232,217)
55,064,088	**89,817**	**152,325**	**345,366**	**286,328,319**
57,064,616	91,807	547,316	372,108	439,402,070
(2,000,528)	(1,990)	(394,991)	(26,742)	(153,073,751)
55,064,088	**89,817**	**152,325**	**345,366**	**286,328,319**

In 2019, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 168,790 (2018: RSD 130,169).

The management of the Group 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 Group assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.7 for details. In addition Group has assessed and recognized impairment losses for the asset which has disposed due to obsolescence or physical demolition in amount of RSD 252,102 (2018: RSD 81,356).

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

b) 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	1,615,391	1,530,356
Fair value gains (loss) (note 33 and 34)	(8,290)	6,534
Transfer from PP&E carried at cost	10,016	81,328
Disposals	(37,319)	(1,405)
Other	-	(1,422)
As at 31 December	**1,579,798**	**1,615,391**

As at 31 December 2019, investment properties amounting to RSD 1,579,798 (31 December 2018: RSD 1,615,391) 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 Group'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 33).

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).

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)
Recurring fair value measurements			
Land and buildings			
– Shops and other facilities for rents	-	844,356	-
– Gas stations	-	-	735,442
Total	**-**	**844,356**	**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)
Recurring fair value measurements			
Land and buildings			
– Shops and other facilities for rents	-	871,709	-
– Gas stations	-	-	743,682
Total	**-**	**871,709**	**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 Group 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:		
Gains (loss) recognised in profit or loss, fair value measurement	(8,290)	6,534
Transfer from PPE	-	81,407
Other	50	(2,443)
Total increase (decrease) in fair value measurement, assets	(8,240)	85,498
Assets as at 31 December	**735,442**	**743,682**

c) 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 2.10).

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure
As at 1 January 2018		
Cost	19,004,026	2,929,684
Depreciation and impairment	(58,882)	(2,087)
Net book amount	**18,945,144**	**2,927,597**
Year ended 31 December 2018		
Additions	5,620,537	14,018,122
Changes in decommissioning obligations	-	-
Transfer from asset under construction	(1,944,034)	(15,365,263)
Impairment	-	(3,477)
Other transfers	(297,175)	(142,966)
Depreciation and depletion	(4,802)	-
Unsuccessful exploration expenditures derecognised (note 7)	(57,075)	-
Transfer to non-current assets held for sale	-	-
Disposals and write-off	(17,101)	(36,938)
Translation differences	(19,098)	-
	22,226,396	**1,397,075**
As at 31 December 2018		
Cost	22,258,139	1,399,503
Depreciation and impairment	(31,743)	(2,428)
Net book amount	**22,226,396**	**1,397,075**
As at 1 January 2019		
Cost	22,258,139	1,399,503
Depreciation and impairment	(31,743)	(2,428)
Net book amount	**22,226,396**	**1,397,075**
Year ended 31 December 2019		
Additions	6,741,856	14,402,084
Changes in decommissioning obligations	-	-
Transfer from asset under construction	(6,163,618)	(12,287,002)
Impairment	-	(29)
Other transfers	126,491	216,036
Depreciation and depletion	(4,751)	-
Unsuccessful exploration expenditures derecognised (note 7)	(377,207)	-
Transfer to right-of-use assets	-	-
Disposals and write-off	(151,518)	(491)
Translation differences	(204,232)	(1)
	22,193,417	**3,727,672**
As at 31 December 2019		
Cost	22,229,550	3,727,699
Depreciation and impairment	(36,133)	(27)
Net book amount	**22,193,417**	**3,727,672**

Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
21,933,710	147,452,224	32,323	169,418,257
(60,969)	(37,114,232)	(21,223)	(37,196,424)
21,872,741	**110,337,992**	**11,100**	**132,221,833**
19,638,659	-	-	19,638,659
-	117,748	-	117,748
(17,309,297)	17,309,282	15	-
(3,477)	(279)	-	(3,756)
(440,141)	1,520,485	624	1,080,968
(4,802)	(10,347,667)	-	(10,352,469)
(57,075)	-	-	(57,075)
-	(21,522)	-	(21,522)
(54,039)	(128,578)	(52)	(182,669)
(19,098)	1	-	(19,097)
23,623,471	**118,787,462**	**11,687**	**142,422,620**
23,657,642	166,462,451	32,008	190,152,101
(34,171)	(47,674,989)	(20,321)	(47,729,481)
23,623,471	**118,787,462**	**11,687**	**142,422,620**
23,657,642	166,462,451	32,008	190,152,101
(34,171)	(47,674,989)	(20,321)	(47,729,481)
23,623,471	**118,787,462**	**11,687**	**142,422,620**
21,143,940	-	-	21,143,940
-	777,397	-	777,397
(18,450,620)	18,439,064	11,556	-
(29)	(17,482)	(543)	(18,054)
342,527	(155,581)	1,619	188,565
(4,751)	(11,043,359)	-	(11,048,110)
(377,207)	-	-	(377,207)
-	(54,331)	-	(54,331)
(152,009)	(98,252)	(3,708)	(253,969)
(204,233)	(6)	-	(204,239)
25,921,089	**126,634,912**	**20,611**	**152,576,612**
25,957,249	185,208,089	40,956	211,206,294
(36,160)	(58,573,177)	(20,345)	(58,629,682)
25,921,089	**126,634,912**	**20,611**	**152,576,612**

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

d) Right of use assets

	Land	Property	Plant and equipment	Vehicles	Total
As at 1 January 2019	**-**	**-**	**-**	**-**	**-**
Changes in opening balances	153,119	1,261,439	335,712	85,151	1,835,421
Additions	-	4,278	216,426	175,197	395,901
Depreciation	-	(238,406)	(81,205)	(27,360)	(346,971)
Transfers	-	-	(30,910)	30,910	-
Effect of contract modifications and changes in estimates	-	344	-	-	344
Translation differences	(4,443)	(4,456)	(1,528)	(469)	(10,896)
As at 31 December 2019	**148,676**	**1,023,199**	**438,495**	**263,429**	**1,873,799**

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

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

		Ownership percentage	31 December 2019	31 December 2018
NIS MET Energowind d.o.o. Belgrade	Joint venture	50%	946,208	1,003,491
Gazprom Energoholding Serbia d.o.o. Novi Sad	Joint venture	49%	904,893	976,897
HIP Petrohemija ad Pančevo	Associate	20,86%	11,572,197	11,572,197
Less Impairment provision			(11,572,197)	(11,572,197)
Total investments			**1,851,101**	**1,980,388**

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

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

NIS MET Energowind d.o.o. Belgrade

In 2013 the Group acquired 50% of interest in a joint venture Energowind d.o.o. which was intended to be used as a vehicle for operation of future wind farm ''Plandiste'' with total capacity of 102 MW. During March 2019, MET Renewables AG acquired from third parties 50% of share in the project and became a joint partner on the project that has been renamed to NIS MET Energowind d.o.o. Beograd. On the date of the issuance of these consolidated financial statements there has been no significant business activity. Request has been submitted for the extension of the status of privileged electricity producer, which expires in May 2020. NIS MET Energowind d.o.o. is a private company and there is no available quoted market price.

Gazprom Energoholding Serbia d.o.o. Novi Sad

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

HIP Petrohemija

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

	NIS MET Energowind	Gazprom Energoholding Serbia
31 December 2019		
Current assets	132,063	698,256
Non-current assets	3,151,318	12,154,427
Current liabilities	975,707	71,219
Non-current liabilities	-	10,963,037
Revenue	661	44,430
Loss for the year	(114,565)	(146,948)
31 December 2018		
Current assets	12,764	878,074
Non-current assets	574,973	7,318,155
Current liabilities	640,447	33,102
Non-current liabilities	-	1,957,752
Revenue	1	21,205
Loss for the year	(9,426)	(126,332)

11. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2019	31 December 2018
Deposits with original maturity more than 1 year	158,079	-
Other long-term financial investments	9,176	80,121
LT loans given to employees	1,153,957	1,240,438
Less provision	(354,684)	(371,876)
	966,528	**948,683**

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.

12. 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	2,466,610	1,943,094
- Deferred tax assets to be recovered within 12 months	316,846	1,016,432
	2,783,456	**2,959,526**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(2,085,767)	(2,414,029)
	(2,085,767)	**(2,414,029)**
Deferred tax assets (net)	**697,689**	**545,497**

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

	2019	**2018**
At 1 January	545,497	2,197,910
Charged to the income statement (note 35)	(1,432,194)	(1,652,164)
Charged to other comprehensive income	-	(335)
Charged directly to equity	1,584,230	-
Other	156	86
31 December	**697,689**	**545,497**

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:

	Provisions	Carrying value of PP&E vs Tax base	Revaluation reserve	Total
Deferred tax liabilities				
As at 1 January 2018	**-**	**(2,753,626)**	**(14,435)**	**(2,768,061)**
Charged to the income statement (note 35)	-	353,586	-	353,586
Charged to other comprehensive income	-	-	360	360
Translation difference	-	86	-	86
As at 31 December 2018	**-**	**(2,399,954)**	**(14,075)**	**(2,414,029)**
Charged to the income statement (note 35)	-	328,107	-	328,107
Translation difference	-	155	-	155
As at 31 December 2019	**-**	**(2,071,692)**	**(14,075)**	**(2,085,767)**

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
Deferred tax assets					
As at 1 January 2018	**1,019,647**	**949,128**	**2,985,899**	**11,297**	**4,965,971**
Charged to the income statement (note 35)	(98,218)	(18,142)	(1,889,390)	-	(2,005,750)
Charged to other comprehensive income	-	-	-	(62)	(62)
Other	-	-	-	(633)	(633)
As at 31 December 2018	**921,429**	**930,986**	**1,096,509**	**10,602**	**2,959,526**
Charged to the income statement (note 35)	(6,636)	(657,203)	(1,096,462)	-	(1,760,301)
Charged directly to equity	-	1,584,230	-	-	1,584,230
Other	-	287	-	(286)	1
As at 31 December 2019	**914,793**	**1,858,300**	**47**	**10,316**	**2,783,456**

The recognition of deferred tax assets was based on a five-year business plan of the Group 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.

The Group did not recognize deferred tax assets in respect of unused tax loss carry forwards in the amount of 1,010 million RSD (2018: 795 million RSD) that arose mostly in Bosnia, Romania, Bulgaria and Hungary and are available for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group. They have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future.

13. INVENTORY

	31 December 2019	31 December 2018
Materials, spare parts and tools	34,018,674	29,197,127
Work in progress	4,855,798	4,923,492
Finished goods	10,387,422	14,523,129
Goods for sale	2,994,024	4,159,637
Advances	582,559	834,950
Less: impairment of inventory	(4,775,984)	(4,947,073)
Less: impairment of advances	(149,287)	(219,191)
	47,913,206	**48,472,071**
Non-current assets held for sale	132,185	5,943
Less: impairment of assets held for sale	(43,769)	(5,943)
	88,416	**-**
	48,001,622	**48,472,071**

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	**5,108,493**	**261,100**	**5,823**	**5,375,416**
Provision for inventories and advances (note 34)	10,274	1,962	-	12,236
Unused amounts reversed (note 33)	(31,976)	(1,687)	-	(33,663)
Receivables written off during the year as uncollectible	-	(42,184)	-	(42,184)
Other	(139,718)	-	120	(139,598)
Balance as of 31 December 2018	**4,947,073**	**219,191**	**5,943**	**5,172,207**
Provision for inventories and advances (note 34)	8,579	561	-	9,140
Unused amounts reversed (note 33)	(128,739)	(50)	-	(128,789)
Receivables written off during the year as uncollectible	-	(70,415)	-	(70,415)
Other	(50,929)	-	37,826	(13,103)
Balance as of 31 December 2019	**4,775,984**	**149,287**	**43,769**	**4,969,040**

14. TRADE RECEIVABLES

	31 December 2019	31 December 2018
Parents and subsidiaries - foreign	-	99
Other related parties - domestic	1,184,469	1,227,518
Other related parties - foreign	100,451	645,804
Trade receivables domestic – third parties	29,128,401	29,454,268
Trade receivables foreign – third parties	1,040,406	825,231
	31,453,727	32,152,920
Less: Impairment	(5,880,868)	(6,145,109)
	25,572,859	**26,007,811**

15. OTHER RECEIVABLES

	31 December 2019	31 December 2018
Interest receivables	2,076,082	2,144,788
Receivables from employees	93,805	93,524
Income tax prepayment	672,332	9,134
Other receivables	7,577,205	7,524,755
Less: Impairment	(9,483,667)	(9,548,630)
	935,757	**223,571**

16. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2019	31 December 2018
Deposits with original maturity more than 3 months less than 1 year	1,766,564	2,123,007
Other short-term financial assets	76,909	140,424
	1,843,473	**2,263,431**

As at 31 December 2019 deposits with original maturity more than 3 months less than 1 year amounting to RSD 1,766,564 (2018: RSD 2,123,007) relate to bank deposits with interest rates from 0.02% monthly to 3.5% p.a. (2018: from 4.65% p.a.).

17. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash in bank and in hand	10,953,668	6,928,798
Deposits with original maturity of less than three months	4,063,656	6,927,790
Cash with restriction	13,978	1,407,735
Cash equivalents	264,508	216,507
	15,295,810	**15,480,830**

18. PREPAYMENTS AND ACCRUED INCOME

	31 December 2019	31 December 2018
Deferred input VAT	1,929,283	1,774,863
Prepaid expenses	251,119	235,378
Prepaid excise duty	1,767,622	2,817,887
Housing loans and other prepayments	499,727	788,281
	4,447,751	**5,616,409**

Deferred input VAT as at 31 December 2019 amounting to RSD 1,929,283 (31 December 2018: RSD 1,774,863) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty as at 31 December 2019 amounting to RSD 1,767,622 (31 December 2018: RSD 2,817,887) 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.

19. OFF-BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2019	31 December 2018
Issued warranties and bills of exchange	75,404,707	73,171,617
Received warranties and bills of exchange	17,074,113	16,042,879
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	9,851,859	9,560,071
Assets for oil fields liquidation in Angola	1,361,966	1,361,966
Mortgages and pladges received	1,398,289	1,745,073
Other off-balance sheet assets and liabilities	208,695	193,839
	117,099,179	**113,781,102**

20. EQUITY

	Equity attributable			
	Share capital	Other capital	Reserves	Retained earnings (loss)
Balance as at 1 January 2018	**81,530,200**	**-**	**81,796**	**143,518,915**
Adoption of IFRS 9:				
-remeasurement of expected credit losses, net of tax	-	-	-	(401,527)
Restated total equity at 1 January 2018	**81,530,200**	**-**	**81,796**	**143,117,388**
Profit (loss) for the year	-	-	-	25,150,220
Gains from securities	-	-	-	-
Dividend distribution	-	-	-	(6,948,004)
Actuarial gain	-	-	-	-
Revaluation reserves	-	-	360	-
Other	-	-	(2,401)	(1,055)
Balance as at 31 December 2018	**81,530,200**	**-**	**79,755**	**161,318,549**
Balance as at 1 January 2019	**81,530,200**	**-**	**79,755**	**161,318,549**
Profit (loss) for the year	-	-	-	16,618,072
Gains from securities	-	-	-	-
Dividend distribution	-	-	-	(6,517,524)
Actuarial loss	-	-	-	-
Other	-	-	-	1,589,598
Balance as at 31 December 2019	**81,530,200**	**-**	**79,755**	**173,008,695**

to owners of the Group						
	Translation reserves	Unrealised gains (losses) from securities	Actuarial gain (loss)	Total	Non-controlling interest	Total Equity
	22,671	**(64,013)**	**194,437**	**225,284,006**	**(232,496)**	**225,051,510**
	-	-	-	(401,527)	-	(401,527)
	22,671	**(64,013)**	**194,437**	**224,882,479**	**(232,496)**	**224,649,983**
	-	-	-	25,150,220	(15,918)	25,134,302
	-	477	-	477	-	477
	-	-	-	(6,948,004)	-	(6,948,004)
	-	-	3,316	3,316	-	3,316
	-	-	-	360	-	360
	34,786	3,454	-	34,784	586	35,370
	57,457	**(60,082)**	**197,753**	**243,123,632**	**(247,828)**	**242,875,804**
	57,457	**(60,082)**	**197,753**	**243,123,632**	**(247,828)**	**242,875,804**
	-	-	-	16,618,072	(21,670)	16,596,402
	-	7,267	-	7,267	-	7,267
	-	-	-	(6,517,524)	-	(6,517,524)
	-	-	(45,334)	(45,334)	-	(45,334)
	192,616	(5,368)	-	1,776,846	1,331	1,778,177
	250,073	**(58,183)**	**152,419**	**254,962,959**	**(268,167)**	**254,694,792**

20.1. 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 of ordinary shares.

Dividend declared for the year ended 31 December 2018, amounted to RSD 6,517,524 or RSD 39,97 per share (31 December 2017: 6,948,004 or RSD 42.61 per share) were approved on the General Assembly Meeting held on 27 June 2019 and paid on 17 September 2019.

21. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2018	**9,844,878**	**681,162**	**457,058**	**1,026,864**	**603,488**	**12,613,450**
Charged to the income statement	213,094	124,000	40,613	331,179	47,958	756,844
New obligation incurred and change in estimates	117,748	-	-	-	-	117,748
Release of provision	-	(24,529)	(4,475)	-	-	(29,004)
Actuarial gain charged to other comprehensive income	-	-	(3,316)	-	-	(3,316)
Settlement	(133,445)	(123,706)	(58,278)	(864,021)	(124,610)	(1,304,060)
Other	(757)	759	163	-	(27)	138
As at 31 December 2018	**10,041,518**	**657,686**	**431,765**	**494,022**	**526,809**	**12,151,800**
As at 1 January 2019	**10,041,518**	**657,686**	**431,765**	**494,022**	**526,809**	**12,151,800**
Charged to the income statement	147,500	197,704	95,872	314,327	44,868	800,271
New obligation incurred and change in estimates	777,397	-	-	-	-	777,397
Release of provision	-	-	(1,107)	-	(1,539)	(2,646)
Actuarial loss charged to other comprehensive income	-	-	45,334	-	-	45,334
Settlement	(294,700)	(346,261)	(58,923)	-	(61,117)	(761,001)
Other	-	-	(38)	-	(90)	(128)
As at 31 December 2019	**10,671,715**	**509,129**	**512,903**	**808,349**	**508,931**	**13,011,027**

Analysis of total provisions:

	31 December 2019	31 December 2018
Non-current	11,419,129	10,210,005
Current	1,591,898	1,941,795
	13,011,027	**12,151,800**

a) Decommissioning

The Group'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 Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 509,129 (31 December 2018: RSD 657,686) 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 Group started setting-up a long-term incentive program for Group 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 808,349 (2018: RSD 494,022).

d) Legal claims provisions

As at 31 December 2019, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group charged provision for litigation amounting to RSD 44,868 (2018: RSD 47,958) for proceedings which were assessed to have negative outcome. The Group 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	188,783	147,206
Jubilee awards	324,120	284,559
	512,903	**431,765**

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	14.4	14.6

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2018	**143,027**	**314,031**	**457,058**
Benefits paid directly	(14,483)	(43,795)	(58,278)
Actuarial gain charged to other comprehensive income	(3,316)	-	(3,316)
Credited to the income statement	21,815	14,323	36,138
Translation difference	163	-	163
Balances as at 31 December 2018	**147,206**	**284,559**	**431,765**
Benefits paid directly	(21,534)	(37,389)	(58,923)
Actuarial loss charged to other comprehensive income	45,334	-	45,334
Credited to the income statement	17,815	76,950	94,765
Translation difference	(38)	-	(38)
Balances as at 31 December 2019	**188,783**	**324,120**	**512,903**

The amounts recognized in the consolidated income statement are as follows:

	Year ended 31 December	
	2019	**2018**
Current service cost	29,955	31,518
Interest cost	23,728	20,330
Curtailment loss	729	5,482
Actuarial (gain)/loss (jubilee awards)	40,352	(21,189)
Amortisation of past service cost	1	(3)
	94,765	**36,138**

22. LONG-TERM LIABILITIES

	31 December 2019	31 December 2018
Long-term loan - Gazprom Neft	19,143,014	24,738,405
Bank and other long-term loans	69,901,198	68,605,682
Lease liabilities	1,703,441	828,104
Other long-term borrowings	57,175	42,102
Less Current portion (note 23)	(6,761,897)	(6,395,091)
	84,042,931	**87,819,202**

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

	Long-term loans	Short-term loans	Finance lease	Total
As at 1 January 2018	**96,103,445**	**-**	**432,562**	**96,536,007**
Proceeds	37,213,097	-	-	37,213,097
Repayment	(39,952,347)	-	(131,241)	(40,083,588)
Non-cash transactions	-	-	529,262	529,262
Foreign exchange difference	(20,108)	-	(2,479)	(22,587)
As at 31 December 2018	**93,344,087**	**-**	**828,104**	**94,172,191**
As at 1 January 2019	**93,344,087**	**-**	**828,104**	**94,172,191**
Change in opening balance	-	-	790,946	790,946
Proceeds	15,060,454	-	-	15,060,454
Repayment	(18,760,583)	-	(367,140)	(19,127,723)
Non-cash transactions	(149,827)	-	447,079	297,252
Foreign exchange difference	(449,919)	-	4,452	(445,467)
As at 31 December 2019	**89,044,212**	**-**	**1,703,441**	**90,747,653**

a) Long-term loan – Gazprom Neft

As at 31 December 2019 long-term loan – Gazprom Neft amounting to RSD 19,143,014 (2018: RSD 24,738,405), with current portion of RSD 5,469,432 (2018: RSD 5,497,423), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

b) Bank and other long-term loans

	31 December 2019	**31 December 2018**
Domestic	46,832,409	50,621,092
Foreign	23,068,789	17,984,590
	69,901,198	68,605,682
Current portion of long-term loans	(915,460)	(825,139)
	68,985,738	**67,780,543**

The maturity of non-current loans was as follows:

	31 December 2019	**31 December 2018**
Between 1 and 2 years	10,845,263	1,479,321
Between 2 and 5 years	54,813,261	61,371,002
Over 5 years	3,327,214	4,930,220
	68,985,738	**67,780,543**

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

	31 December 2019	31 December 2018
USD	209,292	361,695
EUR	69,426,390	67,947,394
RSD	499	628
JPY	265,017	295,965
	69,901,198	**68,605,682**

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

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

c) Lease liabilities

	31 December 2019	31 December 2018
Non-current portion of lease liabilities	1,326,436	755,575
Current portion of lease liabilities	377,005	72,529
	1,703,441	**828,104**

Amounts recognized in profit and loss:

	2019
Interest expense (included in finance cost) (note 31)	71,930
Expense relating to short-term leases (note 28)	899,787
Expense relating to leases of low value assets that are not shown above as short-term leases (note 28)	92,722
Expense relating to variable lease payments not included in lease liabilities (note 28)	1,939,368

23. SHORT-TERM FINANCE LIABILITIES

	31 December 2019	31 December 2018
Current portion of long-term loans (note 22)	6,384,892	6,322,562
Current portion of lease liabilities (note 22)	377,005	72,529
	6,761,897	**6,395,091**

24. TRADE PAYABLES

As at 31 December 2019 trade payables in a amount of RSD 35,341,330 (31 December 2018: RSD 25,834,088) including payables to parents and subsidiaries-foreign amounting to RSD 10,498,354 (31 December 2018: RSD 10,243,742) fully relate to payables to the supplier Gazprom Neft, St Petersburg, mostly based on purchase of crude oil and trade payables – foreign amounting to RSD 13,786,047 (31 December 2018: RSD 5,168,398) mostly relate to payables for crude oil Trafigura PTE LTD in the amount of RSD 5,067,445 (31 December 2018: RSD 0) and Glencore Energy in the amount of RSD 4,280,335 (31 December 2018: RSD 0).

25. OTHER SHORT-TERM LIABILITIES

	31 December 2019	31 December 2018
Specific liabilities	199,734	206,959
Liabilities for unpaid wages and salaries, gross	1,310,849	1,240,193
Interest liabilities	742,362	745,320
Dividends payable	3,780,692	3,772,308
Other payables to employees	709,716	778,190
Decommissioning and site restoration costs	1,170,430	1,369,683
Environmental provision	128,099	160,362
Litigation and claims	234,965	277,852
Other current liabilities	98,207	137,119
	8,375,054	**8,687,986**

26. LIABILITIES FOR OTHER TAXES

	31 December 2019	31 December 2018
Excise tax	5,750,900	5,173,979
Contribution for buffer stocks	280,070	260,905
Energy efficiency fee	32,299	-
Income tax	70,083	635,119
Other taxes payables	1,451,113	1,617,950
	7,584,465	**7,687,953**

27. ACCRUED EXPENSES

Accrued expenses as at 31 December 2019 amounting to RSD 3,632,864 (31 December 2018: RSD 3,635,144) mainly relate to accrued employee bonuses of RSD 2,193,730 (31 December 2018: RSD 1,865,668) and contract liabilities arising from contracts with customers related to customer loyalty RSD 722,239 (31 December 2018: RSD 545,949).

Revenue in the amount of RSD 1,636,651 (31 December 2018: RSD 1,630,764) was recognized in the current reporting period related to the contract liabilities as at 1 January 2019, of which RSD 1,275,099 (31 December 2018: RSD 1,247,855) related to advances and RSD 361,552 (31 December 2018: RSD 382,909) to customer loyalty programme.

28. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2019	**2018**
Cost of production services	2,306,469	2,284,196
Transportation services	2,974,675	3,313,801
Maintenance	4,243,216	4,021,266
Rental costs (note 22)	2,931,877	2,653,780
Fairs	10,091	7,410
Advertising costs	984,933	867,648
Exploration expenses	436,944	241,154
Cost of other services	1,717,715	1,537,410
	15,605,920	**14,926,665**

29. NON-PRODUCTION EXPENSES

	Year ended 31 December	
	2019	**2018**
Costs of non-production services	9,340,298	8,881,322
Representation costs	147,947	123,767
Insurance premium	601,327	593,118
Bank charges	409,957	426,898
Cost of taxes	1,309,729	1,357,393
Mineral extraction tax	1,419,705	1,460,595
Other non-production expenses	1,974,142	1,965,277
	15,203,105	**14,808,370**

Costs of non-production services for the year ended 31 December 2019 amounting to RSD 9,340,298 (2018: RSD 8,881,322) mainly relate to costs of service organizations of RSD 6,965,810; consulting service costs of RSD 331,896; security cost of RSD 581,563 and project management costs of RSD 500,370.

30. FINANCE INCOME

	Year ended 31 December	
	2019	**2018**
Finance income - related parties		
- foreign exchange differences	1,115,120	1,225,794
Interest income	366,034	721,927
Amortisation income – discount of receivables	-	44,661
Gains on restructuring of borrowings	149,827	-
Foreign exchange gains	920,509	1,805,108
Other finance income	11,639	28,937
	2,563,129	**3,826,427**

31. FINANCE EXPENSE

	Year ended 31 December	
	2019	**2018**
Finance expenses – related parties		
- foreign exchange differences	1,521,899	1,240,252
- other finance expense	393,887	496,774
Interest expenses	1,411,282	1,718,621
Decommissioning provision: unwinding of the present value discount	147,500	89,194
Provision of trade and other non-current receivables: discount	19,261	261,732
Foreign exchange losses	534,113	1,867,268
Share of loss of associates and joint ventures	129,287	66,634
Other finance expenses	21,309	7,570
	4,178,538	**5,748,045**

32. 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	2,306
Income from valuation:		
- trade and specific receivables (note 6)	90,688	849,711
- other receivables (note 6)	14,002	16,496
	121,212	**868,513**

33. OTHER INCOME

	Year ended 31 December	
	2019	**2018**
Gains on disposal - PPE	39,217	198,319
Gains on disposal - materials	55,746	76,539
Surpluses from stock count	324,814	381,539
Payables written off	82,894	188,454
Release of long-term provisions (note 21)	2,646	29,004
Gain on bargain purchase	-	67,793
Release of impairment:		
- Investment property (note 9)	454,374	20,677
- Inventory (note 13)	128,739	31,976
- PPE & Other property	50	12,448
Penalty interest	73,871	117,763
Other income	103,559	90,804
	1,265,910	**1,215,316**

34. OTHER EXPENSES

	Year ended 31 December	
	2019	**2018**
Loss on disposal - PPE	316,783	256,342
Loss on disposal - material	52,954	2,703
Shortages from stock count	660,074	801,958
Write-off receivables	7,460	16,603
Write-off inventories	62,523	126,628
Impairment:		
- Intangible assets (note 8)	180,004	201,854
- PPE (note 9)	252,102	86,769
- Inventory (note 13)	8,579	10,274
- Other property	561	9,003
- Investment property (note 9)	8,290	2,728
Other expenses	319,355	289,506
	1,868,685	**1,804,368**

35. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2019	**2018**
Income tax for the year	3,100,414	4,066,760
Deferred income tax for the period (note 12)		
Origination and reversal of temporary differences	1,432,194	1,652,164
	4,532,608	**5,718,924**

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

	Year ended 31 December	
	2019	**2018**
Profit before tax	**21,129,010**	**30,853,226**
Tax calculated at domestic tax rates applicable to profits in the respective countries	3,433,314	4,929,684
Tax effect on:		
Revenues exempt from taxation	(640)	(59,111)
Expenses not deductible for tax purposes		
- Tax paid in Angola	74,711	171,416
- Other expenses not deductable	1,416,851	768,193
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	(79,191)	(37,320)
Other tax effects for reconciliation between accounting profit and tax expense	(312,437)	(53,938)
	4,532,608	**5,718,924**
Effective income tax rate	21.45%	18.54%

36. 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 Group's management recognised an environmental provision in the amount of RSD 509,129 (31 December 2018: RSD 657,686).

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

Taxes

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

Capital commitments

As of 31 December 2019 the Group has entered into contracts to purchase property, plant and equipment for RSD 2,809,071 (31 December 2018: RSD 15,944,407) and drilling and exploration works estimated to 56.89 USD million (31 December 2018: 69.01 USD million).

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

37. GROUP ENTITIES

The consolidated financial statements of below listed subsidiaries are consolidated as at 31 December 2019 and 31 December 2018:

Subsidiary	Country of incorporation	Nature of business	Share %	
			31-Dec 2019	31-Dec 2018
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
Pannon Naftagas Kft, Budapest	Hungary	O&G activity	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-Naftni servisi d.o.o. Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o. Novi Sad	Serbia	O&G activity	100	100
Naftagas-Tehnicki servisi d.o.o. Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o. Novi Sad	Serbia	Transport	100	100
NIS Petrol a.d., Belgrade	Serbia	Other	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	Trade	100	100
Jadran - Naftagas d.o.o. Banja Luka	Bosnia and Herzegovina	O&G activity	66	66
Svetlost, Bujanovac	Serbia	Trade	51	51

The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

During February 2020 company Ozone a.d. change name to NIS Petrol a.d. Belgrade.

38. 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 Group.

During 2019 and 2018, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

As of 31 December 2019 and 31 December 2018 the outstanding balances with related parties other than state and state own companies were as follows:

	Associates and joint venture	Parent	Parent's subsidiaries and associates
As at 31 December 2019			
Investments in associates and joint ventures	1,851,101	-	-
Trade receivables	1,184,469	-	100,451
Receivables from specific operations	415,683	-	-
Advances paid	-	-	34,371
Long-term liabilities	-	(13,673,582)	(128)
Short-term financial liabilities	-	(5,469,432)	(159)
Advances received	(3,782)	-	(2)
Trade payables	(1,208,375)	(10,500,427)	(543,563)
	2,239,096	**(29,643,441)**	**(409,030)**

	Associates and joint venture	Parent	Parent's subsidiaries and associates
As at 31 December 2018			
Investments in associates and joint ventures	1,980,388	-	-
Trade receivables	1,227,518	99	645,804
Receivables from specific operations	328,358	-	-
Other receivables	400	-	-
Advances paid	-	-	337,220
Long-term liabilities	-	(19,240,982)	-
Short-term financial liabilities	-	(5,497,423)	-
Advances received	(2,051)	-	(90)
Trade payables	(1,251,648)	(10,243,742)	(684,857)
	2,282,965	**(34,982,048)**	**289,077**

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

	Associates and Joint venture	Parent	Parent's subsidiaries and associates
Year ended 31 December 2019			
Sales revenue	19,073,529	-	592,963
Other operating income	8,855	-	-
Cost of goods sold	-	-	(241,897)
Cost of material	-	(51,345,851)	(333,140)
Cost of production services	(198,691)	-	(1,708)
Non-material expense	-	(2,072)	(95,959)
Finance expense	-	(393,887)	(3)
Other income	-	40,230	-
Other expenses	-	(111,235)	(593)
	18,883,693	**(51,812,815)**	**(80,337)**
Year ended 31 December 2018			
Sales revenue	26,699,964	961	690,509
Other operating income	6,565	-	-
Cost of goods sold	-	-	(333,240)
Cost of material	-	(68,928,066)	-
Cost of production services	(213,106)	-	-
Non-material expense	-	(3,000)	(78,590)
Finance expense	-	(496,774)	-
Other income	-	59,847	-
Other expenses	-	(198,412)	(1,291)
	26,493,423	**(69,565,444)**	**277,388**

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

	Associates and joint venture	Other
As at 31 December 2019		
Trade and other receivables (gross)		
- HIP Petrohemija	1,183,648	-
- Srbijagas	-	418,784
- AIR Serbia	-	371,395
Trade and other payables		
- HIP Petrohemija	(1,208,375)	-
- Srbijagas	-	(361,934)
Other current liabilities		
- HIP Petrohemija	(3,064)	-
	(27,791)	**428,245**
As at 31 December 2018		
Trade and other receivables (gross)		
- HIP Petrohemija	1,222,764	-
- Srbijagas	-	17,547
Trade and other payables		
- HIP Petrohemija	(1,250,402)	-
- Srbijagas	-	(126,092)
Other current liabilities		
- HIP Petrohemija	(1,852)	-
	(29,490)	**(108,545)**

	Associates and joint venture	Other
As at 31 December 2019		
Operating income		
- HIP Petrohemija	19,070,224	-
- Srbijagas	-	1,419,220
- AIR Serbia	-	5,124,131
Operating expenses		
- HIP Petrohemija	(198,691)	-
- Srbijagas	-	(912,530)
	18,871,533	**5,630,821**
As at 31 December 2018		
Operating income		
- HIP Petrohemija	26,679,415	-
- Srbijagas	-	755,157
Operating expenses		
- HIP Petrohemija	(213,106)	-
- Srbijagas	-	(963,917)
	26,466,309	**(208,760)**

Transactions with state and state owned companies controlled entities mainly relates to sales of petroleum products based on the price lists in force and terms that would be available to third parties. Transaction with HIP Petrohemija are included in Associates and joint venture in related party transactions.

Transactions with Key Management Personnel

In the year ended 31 December 2019 and 2018 the Group 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.


3

Statement of Individuals Responsible for the Preparation of Financial Statements

3.01 Statement of Individuals Responsible for the Preparation of Financial Statements

We hereby declare that, to the best of our knowledge, the annual Financial Statements are compiled against relevant International Financial Reporting Standards and in compliance with the Law on Accounting of the Republic of Serbia ('Official Gazette of the Republic of Serbia' No. 62/2013 and 30/2018), stipulating that financial statements be prepared in compliance with all IFRSs and regulations issued by the Ministry of Finance of the Republic of Serbia[1] and that they provide accurate and objective information on the assets and liabilities and financial standing and performance, profit and losses, cash flows and changes in equity of the public company, including its companies which are part of the consolidated statements.

Kirill Tyurdenev
CEO
NIS j.s.c. Novi Sad

1 Considering the differences between the two regulations, these Financial Statements depart from the IFRS in the following:
- *Group compiled the Financial Statements using the templates prescribed by the Ministry of Finance of the Republic of Serbia, which are not in compliance with the requirements of IAS 1 – Presentation of Financial Statements.*
- *Off-balance Sheet Assets and Liabilities are presented on the Balance Sheet Template. As defined by the IFRS, these items are neither assets nor liabilities.*

4

Appendices

4.01

General Information about NIS j.s.c. Novi Sad

Business name:	**NIS j.s.c. Novi Sad**
Company Registration No:	20084693
Address:	12 Narodnog fronta Street. Novi Sad
TIN:	104052135
Website:	www.nis.eu
Email:	office@nis.eu
Core activity:	0610 - Crude Oil Exploitation
Date of Establishment:	1 October 2005
Audit Company which audited the last financial report (as at 31 December 2019):	PricewaterhouseCoopers d.o.o. Beograd 88 Omladinskih Brigada Street 11070 Novi Beograd
Organized market where shares of the Issuer are traded in:	Belgrade Stock Exchange a.d. 1 Omladinskih brigada Street 11070 Novi Beograd

4.02

Glossary

Abbreviation	Meaning
3D	Three-dimensional
2D	Two-dimensioal
a.d.o.	Insurance joint stock company
ALARP	As low as reasonably possible
AMCHAM	American Chamber of Commerce
ANRM	National Agency for Mineral Resources
APC	Advanced Process Control
BAM	Convertible mark, Bosnia and Herzegovina currency
BAT	Best Available Techniques
B&H	Bosnia and Herzegovina
BC	Business Centre
bn	billion
BoD	Board of Directors
BPGA	Bulgarian Petrol and Gas Association
BV	Book Value
CAC/RCP	Codex Alimentarius Commission/Recommended Code of Practice
CAPEX	Capital Expenditures
CCIS	Chamber of Commerce and Industry of Serbia
CCPP	Combined-Cycle Power Plant
CEEC	Central-Eastern Europe and Caspian
CEMS	Continuous Emission Monitoring System
CFA	Certified Financial Analyst
CIS	Commonwealth of Independent States
CJSM	Closed joint stock company
CMMS	Computerized maintenance management system
CNG	Compressed Natural Gas
CO_2	Carbon Dioxide
CSM	Contractor Safety Management
DCU	Delayed Coking Unit
DWS	Downstream

Abbreviation	Meaning
EBITDA	Earnings before interest, Taxes, depreciation and amortisation
ELV	Emission limit values
EIA	Energy Information Administration
e.o.o.d.	Solely owned limited liability company (in Bulgaria)
EPCm	Engineering, procurement and construction management
EPS	Earnings per share
PS	Primary School
EIP	Efficiency Improvement Program
EnMS	Energy Management System
ETBE	Ethyl tert-butyl ether
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offer Rate
EU ETS	EU Emissions Trading System
FB&H	Federation of Bosnia and Herzegovina
FCC	Fluid Catalytic Cracker
FIC	Foreign Investors Council
FMECA	Failure mode, effects and cricicality analysis
FU	Firefighting Unit
FYR Macedonia	Former Yugoslav Republic Macedonia
GDP	Gross Domestic Product
GPN	PJSC Gazprom Neft
GTA	Geological-technical activities
GWh	Gigawatt hours
HAZID	Hazard Identification Study
HAZOP	Hazard Operational Analysis
HiPACT	High Pressure Acid Gas Capture Technology
HQ	Highly-qualified worker
HR	Human Resources
HS	High School
HSE	Health, Safety and the Environment
HVGO	Heavy vacuum gas oil
IAF	International Accounting Standard
IC	Investment Committee
IMF	International Monetary Fund
IMS	Integrated Management System

Abbreviation	Meaning
IPPC	Integrated Pollution Prevention and Control
IRMS	Integrated Risk Management System
ISO	International Standardisation Organisation
IT	Information Technology
IVMS	In-Vehicle Monitoring System
j.s.c. or JSC	Joint Stock Company
k.f.t.	Limited liability company (in Hungary)
km	kilometre
KPI	Key Performance Indicator
KRI	Key risk indicator
kW	Kilowatt, unit for measuring electrical energy
LFP	Law on Fire Protection
LIBOR	London Interbanking Offer Rate
LLC or llc	Limited Liability Company
LNG	Liquefied natural gas
LOTO	Lockout-tagout safety procedure
LPG	Liquefied Petroleum Gas
LSP	Leading Safety Performance
LTD	Limited
LTI	Lost Time Injury
LTIF	Lost Time Injury Frequency
m^2	Square meter
m^3	Cubic meter
MSc/MA	Master of Science/Master of Arts
MBA	Master of Business Administration
MHC/DHT	Mild hydrocracking and hydro treating unit
mn	million
MoC	Management of Change
MT and SS	Material,technical and service support
MTSS and CC	Material, technical and service support and capital construction
MW	Megawatt, SI unit of electricity
MWA	Management walk-around
MWe	Megawatt electrical – a unit of electrical generating capacity
MWh	Megawatt hour, unit of electricity
N_2	Nitrogen
NALED	National Alliance for Local Economic Development

Abbreviation	Meaning
NAMR	National Agency of Mineral Resources
NATO	North Atlantic Treaty Organisation/North Atlantic Alliance
NBS	National Bank of Serbia
NMD	Regulatory methodology document
NOX	Nitrogen Oxides
NPCS-WPC	National Petroleum Committee of Serbia - World Petroleum Council
OCF	Operating Cash Flow
OF	Oil field
OHSAS	Occupational Health and Safety Standard
OJSC	Open joint stock company
OMS	Operating Management System
OPEC	Organisation of the Petroleum Exporting Countries
OPEX	Operational Expenditure
OTS	Operator Training Simulators
PDW	Project and design works
PJSC	Public Joint Stock Company
P/BV	Price/Book Value
P/E	Price/EPS
PE	Public Enterprise
PEC	Planning, Economics and Controlling
PhD	Doctor of Philosophy
PS	Primary school
Q	Qualified worker
R&D	Research and Development
RAG	Red, Amber, Green
RAR	Road Accident Rate
RC	Research Centre or Regional Centre
RCM	Reliability-centered maintenance
RCSC	Russian Centre for Science and Culture
RF	Russian Federation
RMP	Regular Management Practice
RNP	Pančevo Oil Refinery
ROA	Return on Assets
ROE	Return on Equity
RS	Republic of Serbia

Abbreviation	Meaning
RCLT/TTLT	Rail car loading terminal, tank truck loading terminal
RSD	Serbian Dinar
SAB	Shareholders' Assembly Board for the Supervision of Operations and Reporting to the Company's Shareholders
SARU	Spent Acid Regeneration Unit
SEVESO	HSE-related Directive
SMSB	Safe Mind Safe Body
SO_2	Sulphur Dioxide
SORS	Statistical Office of the Republic of Serbia
SQ	Semi-qualified worker
s.r.l.	Limited liability company (in Romania)
SRU	Sulphur Recovery Unit
SS	Secondary School
STC	Scientific and Technological Centre
STEM	Science, Technology, Engineering and Mathematics
SUV	Sport utility vehicle or suburban utility vehicle
THS	Technical Services
t.o.e.	Tonnes of oil equivalent
TWh	Terawatt hour – unit of electricity
UB	University of Belgrade
UNS	University of Novi Sad
UPS	Upstream
UQ	Unqualified worker
USA	United States of America
UQ	Unqualified worker
US	United States
USD	US dollar
USD/bbl	US dollars per barrel
VAT	Value Added Tax

4.03
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