Annual Report 2018

NIS

FUTURE AT WORK

2018

Annual Report

NIS
GAZPROM NEFT

FUTURE
AT WORK

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

Referral to the corporate website www.nis.eu

The Annual Report for 2018 presents a factual overview of activities, development and performance of NIS Group in 2018. 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 2018 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 2018 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.

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NIS Group in 2018

Realized EBITDA of

53.7

of billion RSD

14%

higher than in 2017

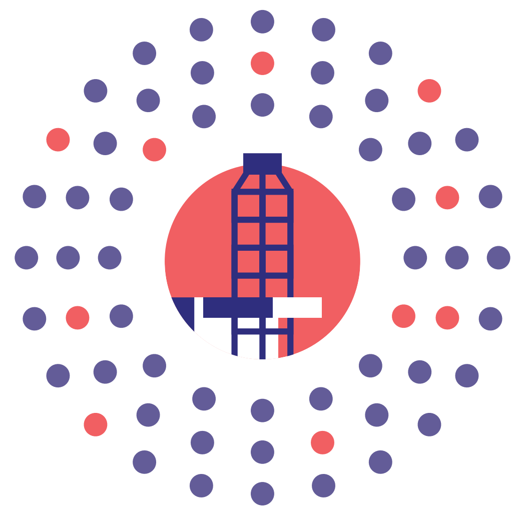
Wells drilled in Serbia in 2018

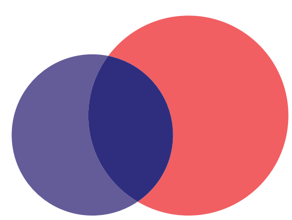
50

development wells

10

explorational wells



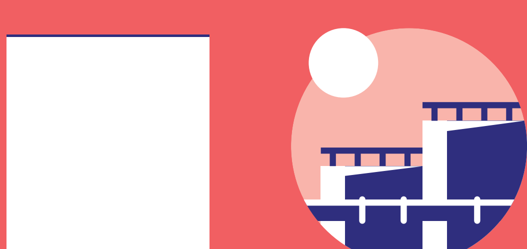


Investment growth of

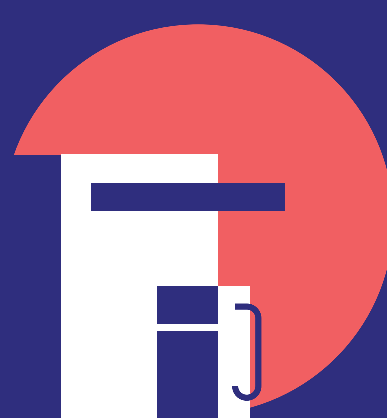
55%

Increase in resource base of

0.6%



Retail network development



5 *petrol stations reconstructed*

2 *new petrol stations commissioned*

1 *petrol station purchased*

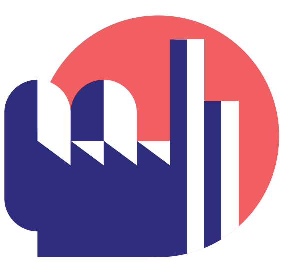
Refining volume of

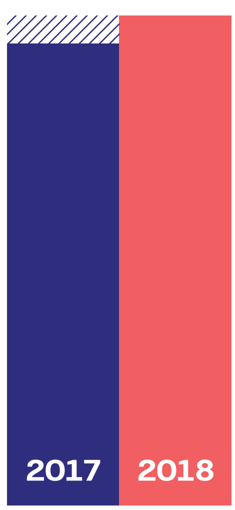
3,836

thousand tonnes

6%

higher than last year





Increase in sales volume of

7%

being

3,748

thousand tonnes

Awards and acknowledgements

The Sports Association of Zrenjanin has presented NIS with the 2017 Sponsor-Donor Award at the Annual Awards Ceremony, providing recognition to outstanding individuals, sports associations and sponsors.

Romania's Oradea City Hall and the Oradea Agency for Local Development held a ceremony in Romania at which NIS Petrol was awarded for its local social responsibility program 'Growing Rural Romania'.

NIS has also won the prestigious Captain Miša Anastasijević Award as the best company in Serbia.

Among a wide array of domestic companies and brands, NIS has been declared a winner 'Number 1' in the category 'Energy' at the prize awarding ceremony for Corporate Superbrands Srbija 2017/2018.

For the second consecutive year, NIS received the award for the best corporate brand in the category 'Production Goods and Business Services' at the Best of Serbia award ceremony.

At a ceremony held at the Belgrade City Assembly on February 7th, PC Press magazine presented awards for the best online achievements in 2017, and NIS' internal portal won the Special Award for Corporate Communications.

For the sixth time since this award has been established, the Gold Plaque for Best Investor Relations in 2018 was awarded to NIS by the Belgrade Stock Exchange, competing with 16 other companies from Serbia and the wider region.

Realization Of Key Projects

Bottom of the Barrel

The project 'Bottom of the Barrel with Delayed Coking Technology' is a capital investment of the second phase of the Pančevo Oil Refinery modernization, with a planned investment of EUR 300 million.

Optimal utilization of the refining capacity as well as an increase in oil refining efficiency at NIS, from the present 86% to 99.2%, is expected after the construction and startup of a new unit, scheduled for the third quarter of 2019. Operation of this new unit will enable increased production of high-quality gasoline and diesel, as well as the start of the production of coke, which has, to date, been imported. Implementation of this project will solve the problem of fuel oil with high sulphur content placing, since additional volumes of light products and coke will be produced instead of high-sulfur fuel oil. It is also important to note that the implementation of the Bottom of the Barrel project will contribute to Serbia's fulfilment of its international obligations regarding reduced sulphur content in certain liquid fuels. Reaching the maximum EBITDA indicator is also expected, because of increased refining depth and production of high margin products, bearing in mind market needs and limitations.

CCPP Pančevo

CCPP Pančevo, with total power of up to 196 MW, and anticipated annual production of 1,350 GWh, is realized by NIS through the Serbskaya Generaciya d.o.o. Novi Sad company, with NIS owning 49% stake in that company.

The project financing agreement has been signed and the construction permit obtained for the gas turbine unit. The production of the main equipment and part of the auxiliary equipment has also commenced. The construction of the Information Centre has been completed. In addition to the main design for the gas turbine unit project, the technical documentation for an associated substation 220 kV, regulating and metering station as well as steam turbine unit is being prepared.

The following steps on the project include obtaining a construction permit for the steam turbine unit and providing a site for the 220kV and regulating and metering substation, as well as completion of preparation work at the site.

The total anticipated project's value is €180 million and is expected to be operational in Q3 2020.

‘Plandište‘ Wind Farm

This project is carried out in association with a partner. NIS’ share amounts to 50%.

The 34-strong-wind-turbines electricity plant is expected to have an installed power of 102 MW. The project is located at the most advantageous area of Serbia in terms of wind force.

At the moment, the project designing company has a preliminary privileged power, producer status which, depending on meeting certain requirements, allows the application for feed-in tariff of € 92/MWh.

Negotiations are currently been under way with several EPC contractors to set up this Wind Farm.

’Together for the Community’ social responsibility programme

In 2018, NIS marked 10 years of ‘Together for the Community’ Social Responsibility Programme, through which NIS cooperates with local communities across Serbia and contributes to general social welfare. In a desire to mark the anniversary, the Company organised a social responsibility caravan in 2018, which travelled thousands of kilometres and visited all local communities involved in this programme in Serbia (Belgrade, Novi Sad, Niš, Čačak, Zrenjanin, Pančevo, Kikinda, Kanjiža, Novi Bečej, Srbobran, Žitiše, and Požarevac). During one decade, more than 900 projects worth over one billion dinars were implemented in 12 local communities, and the Company will continue making efforts through the social responsibility programme in the forthcoming period, to improve the living conditions of citizens throughout Serbia.

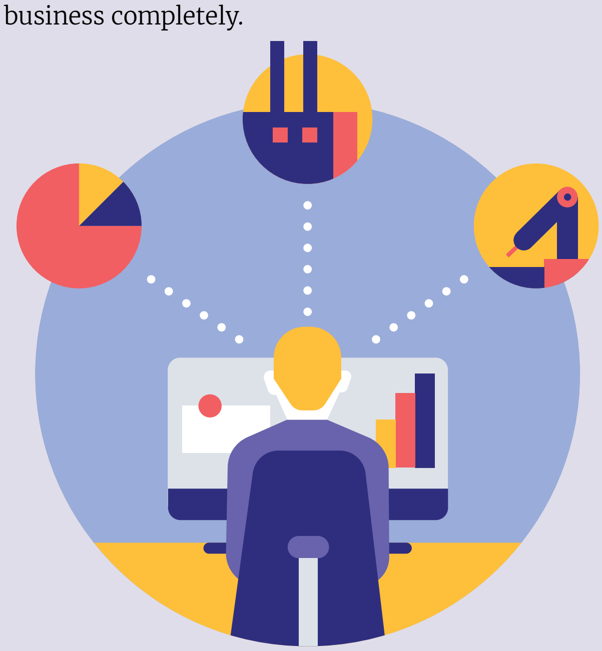
NIS Digital transformation

Under the concept ‘Introduction of digital transformation in NIS j.s.c., Novi Sad’, during the previous year, 70 projects have been identified in all Blocks and Functions of NIS, in order to increase business efficiency using the latest technologies.

Besides the implementation of the latest technologies, cooperation with the world's leading companies in the IT and Petro industries has been achieved (BCG, Sarlux, MOL, Microsoft, E&Y), resulting not only in an increase in employee competences in the field of Digital Transformation, but also implementation of the latest technologies using industry best practices.

We would especially like to highlight the use of artificial intelligence and machine learning in the areas of predictive maintenance of refinery plants, changes in sales practices to consumers at petrol stations and the development of a platform for electricity trading etc.

Since we started process last year, we expect that in the coming period NIS will use the full potential that new technologies offer and digitally transform the business completely.



Agile Methodology in Project Implementation

During the previous year, Agile methodology in project implementation was introduced in NIS and initiated the changes in internal procedures (procurement, culture, budgeting...) and education of around 300 employees, from all organizational units of NIS.

The Agile Centre was established in previous period, in order to provide swift approval and launching of initiatives nominated by employees, with constant monitoring, mentoring and assistance in using agile methodology.

Using this methodology, the following projects have been implemented: ‘Waste Management’ (industrial waste management software), ‘Silent Signing’ (a platform for digital signing of all types of documents applied in the company), and project ‘Drive Through’ (payment via a mobile application at petrol stations), which is in the implementation phase.

HR Initiatives

In 2018 a lot of efforts were made in development of the employer's brand. This activity was conducted by the Recruitment and Selection Section. The concept of Employer branding strategy has been presented and approved. A plan of activities in this domain has been developed. As one of the key activities, the project 'Diagnostics of culture, values and creation of EVP' was launched.

A detailed analysis of the processes and tools of integrated talent management in NIS was conducted. As a result, there was an initiative to introduce a unique digital platform for talent management in the company.

Letter to Shareholders

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

Dear friends,

Development is the key principle of the manufacturing operation model adhered to by NIS in 2018. In the first report year after the adoption of the new NIS Corporate Development Strategy, important steps were taken towards the achievement of the 2025 goals. In order to ensure long-term sustainability of NIS operations, we have invested RSD 41 billion in development projects, which is 55% more than in the previous year. This has been the largest investment in company development since 2013.

NIS's key investment project in 2018 was the construction of the Bottom of the Barrel plant as a part of the second stage of the Pancevo Oil Refinery modernization program. In total, more than EUR 300 million will be invested in this project. The commissioning of the delayed coking unit, scheduled for the third quarter of 2019, will allow the company to increase the scope of production of white oil products and start domestic coke pro-

‘In order to ensure long-term sustainability of NIS operations, we have invested RSD 41 billion in development projects, which is 55% more than in the previous year. This has been the largest investment in company development since 2013.’

duction, which will open the doors of a completely new market segment for NIS.

It should be emphasized that we have continued to invest significantly into exploration and production, as well as sales and distribution. 3D seismic surveys have covered more than 1,117 square kilometres in Serbia in 2018, while, at the same time, the geological explorations have improved their efficiency. We are focused on the start of commercial output of the oil and gas in Romania, after obtaining promising results. Moreover, we have continued the modernisation of our retail network, along with development of the loyalty program and our branded.

A significant part of NIS’s investments in exploration and production has been directed towards discovering new hydrocarbon reserves, both in Serbia, where 3D seismic surveys covered more than 1,117 square kilometers in 2018, and outside its borders. NIS has increased the efficiency of geological surveys, which has already yielded results: the Company is initiating commercial production of oil and gas in Romania, where owing to new technologies several promising sites have been discovered.

We have continued the modernization of the retail network and increased its effectiveness, and the promotion of branded fuels on the market and the development of the loyalty program for our customers have contributed to the rise in popularity of our petrol stations.

In 2018, NIS operated successfully and achieved good financial results. EBITDA amounted to RSD 53.7 billion, which is a 14%-increase if compared with 2017. Net profits reached RSD 25.1 billion. The Pancevo Oil Refinery anniversary was marked by a new record – the Company processed more than 3.8 million tons of crude oil and intermediary products, which improved the 2017 result by 6%. In general, in 2018, NIS sold 3.7 million tonnes of oil products, increasing the export by 14% in comparison to the previous year. Nevertheless, it

‘In order to increase the competitiveness in the ever-changing world, we have initiated the process of digital transformation of NIS.’

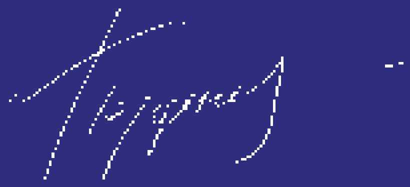
is important to emphasize that records were not set in the business segment alone. NIS’s contributions to the state budget increased by 17% in comparison to 2017 and amounted to approx. RSD 193 billion. Almost RSD 7 billion were distributed to company shareholders. NIS continued to invest in the development of communities where it operates, implementing a large number of socially-aware projects and investing almost RSD 408 million for such purposes.

NIS’s 2018 business results may unconditionally be described as successful. Nevertheless, the modern market creates new global trends and sets new challenges for the company. In order to increase the competitiveness in the ever-changing world, we have initiated the process of digital transformation of NIS, which is not limited to the introduction of new digital technologies and business process optimization, but it also entails the development of digital culture, retention and recruiting of best experts in the new areas, who can think and act in the new realities created by the Fourth Industrial Revolution. The Company has already defined the scope of digitization, which, at this moment, encompasses approx. 70 projects, 17 of which have already been started. We expect these initiatives to yield major results in the near future.

Another important project in 2018 was the transformation of the corporate structure. The aim of NIS in this area is to increase the efficiency, precision and speed of management decision-making through transformation. In 2018, we have implemented Exploration and Production Block and Downstream Division reforms, thus creating conditions for the Company to move onto a new level of operative efficiency.

By solving global operative tasks, just like before, we have focused on the increase in the business process safety levels in all segments of production activities. Health and environmental protection are still our priorities. We actively work on an HSE improvement program by fine-tuning

Kirill Tyurdenev
CEO of ‘NIS j.s.c. Novi Sad’



our standards and requirements and, most importantly, by controlling rule observation in the area of workplace safety, which ensures we keep achieving excellent results in this area.

In 2019, the word ‘development’ will remain the key word for the entire NIS. We will continue the implementation of the ambitious investment program, whose goal is to strengthen our business model, which is resistant to external challenges. The 2018 results indubitably prove that NIS possesses sufficient knowledge, abilities and experience to achieve the set targets.

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 2018 disclosed in the Annual Report on pages 184 to 259, and issued the Auditor's opinion on 28 February 2019, which has been disclosed on page 183. We have also audited the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018 disclosed in the Annual Report on pages 264 to 342, and issued the Auditor's opinion on 28 February 2019, which has been disclosed in the Annual Report on page 263 (collectively 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 2018 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 2018 is consistent, in all material respects, with the information contained in the financial statements.

Milivoje Nešović
Licensed auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 8 April 2019

PricewaterhouseCoopers d.o.o. Beograd

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

Independent Auditor's Report on the Annual Report has been given after performed audit of the electronic version of the Annual Report for 2018, published on the corporate website of the Company.

1.02 Highlights

January-March

- The project of designing and construction of gas preparation facility was launched in Jimbolia field in Romania.
- Works on reconstruction and rebrending of Bagrdan PS (Petroleum station) were completed, and put into operation on March 14th, 2018.
- A fuel oil flow control system was installed in the Energy Plant in Pančevo, which has significantly lowered consumption of energy-generating products.
- Rebranding of 2 petrol stations was completed: ‘12 February’ (NIS brand) and ‘Vojvode Mišića’ (GAZPROM brand).
- A new payment function was added to the ‘On the Road with Us’ card.
- NIS and the Ministry of Education, Science and Technological Development of the Republic of Serbia signed a Memorandum of Cooperation which sets out the terms of joint projects in the field of science and education.
- NIS representatives made a donation to the Institute for Health Protection of Children and Youth of Vojvodina in Novi Sad for procurement of new medical equipment.

April–June

- The First Scientific-Technical Conference of the Exploration and Production Block and STC was held.
- Teremia North 2D seismic project was launched in Romania.
- The project of designing and construction of oil preparation facility was launched at the Teremia field in Romania.
- 3D seismic project, South Banat 2 (Južni Banat 2) was completed.
- 3D seismic project on EX-3 Block was initiated in Romania.
- Launching of a new 3D seismic project in Serbia, Turija IV.
- Processing of a new type of oil, Iran Heavy, was tested.
- Installation of the additive system on vehicles and the start of supplying and selling OPTI fuel on Gazprom PSs.
- Expanding resale activities in the aviation fuel sales channel.
- A GAZPROM petrol station was opened in Niš as the 20th station in this premium brand retail chain in Serbia. The bitumen production plant was overhauled.

July-September

- Commencement of drilling operations on two exploration wells in Romania.
- Zeta Petroleum partner retreated from the concession in Jimbolia Block and transfers its share to NIS Petrol.
- Reconstruction works were completed on 2 Petroleum Stations: Subotica 1 and Lazarevac.
- Establishing technological conditions for connecting CCPP Pančevo to the existing lines within POR.
- For the sixth year in a row, NIS paid a dividend to its shareholders; a total of RSD 6.95 billion was allocated for this purpose, which represents 25% of the Company's net income last year.
- Oversized equipment was successfully installed within the project for the construction of a Bottom of the Barrel, plant with delayed coking technology in the Pančevo Oil Refinery. On that occasion a visit of the leading domestic media outlets to the construction site was organized in the Refinery.

October - December

- Celebration of the 50th anniversary of the oil field Velebit.
- Completed acquisition of 3D seismic data at the exploration area Turija IV.
- Within the ‘Bottom of the Barrel Project’, the detailed design and general construction works were completed. 95% of equipment and material for the project was delivered. All the oversized and critical equipment was installed.
- Record production and shipping of bitumen (54 thousand tonnes) was reached in October.
- The highest monthly oil refining and finishing capacities in the last ten years was reached in November (387 thousand tonnes).
- The First NIS International Scientific and Technical Conference, one of the most significant events in the field of oil and gas exploration and production in 2018, was held in Novi Sad.
- NIS launched Jazak water onto the Serbian market after giving it a new visual identity characterized by a modern design and improved eco-friendly packaging.
- The celebration of the 10th anniversary of NIS’s social responsibility programme, ‘Together for the Community’, was held in Belgrade.
- The celebration of the 50th anniversary of the commencement of production in the Pančevo Oil Refinery was held in Belgrade.
- As a part of the modernization of its retail network, NIS opened reconstructed NIS Petrol stations in Novi Sad and Kovin, while GAZPROM petrol station Žarkovo 2 began selling compressed natural gas.

Highlights Following the Reporting Date

- The festive celebration held in Pančevo marked the beginning of construction of the Pančevo cogeneration unit (thermoelectric power and heating plant, CCPP), which is being realized in the partnership between NIS and Gazprom Energoholding companies.
- Signing of the Memorandum of Cooperation between NIS Company and Serbian Ministry of Health, within NIS’s social responsibility program ‘Together for the Community’.

1.03 NIS Group

NIS Group is one of largest vertically integrated energy systems, which employs companies in Southeast Europe, with approximately 11,000 workers.

The main activities of NIS are: exploration, production and refining of oil and natural gas, the sales and distribution of a wide range of petroleum and gas products as well as the implementation of petrochemicals and energy projects.

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

Countries of operation in the picture on page 29

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

Business Activities

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

Exploration and Production Block

Exploration and production

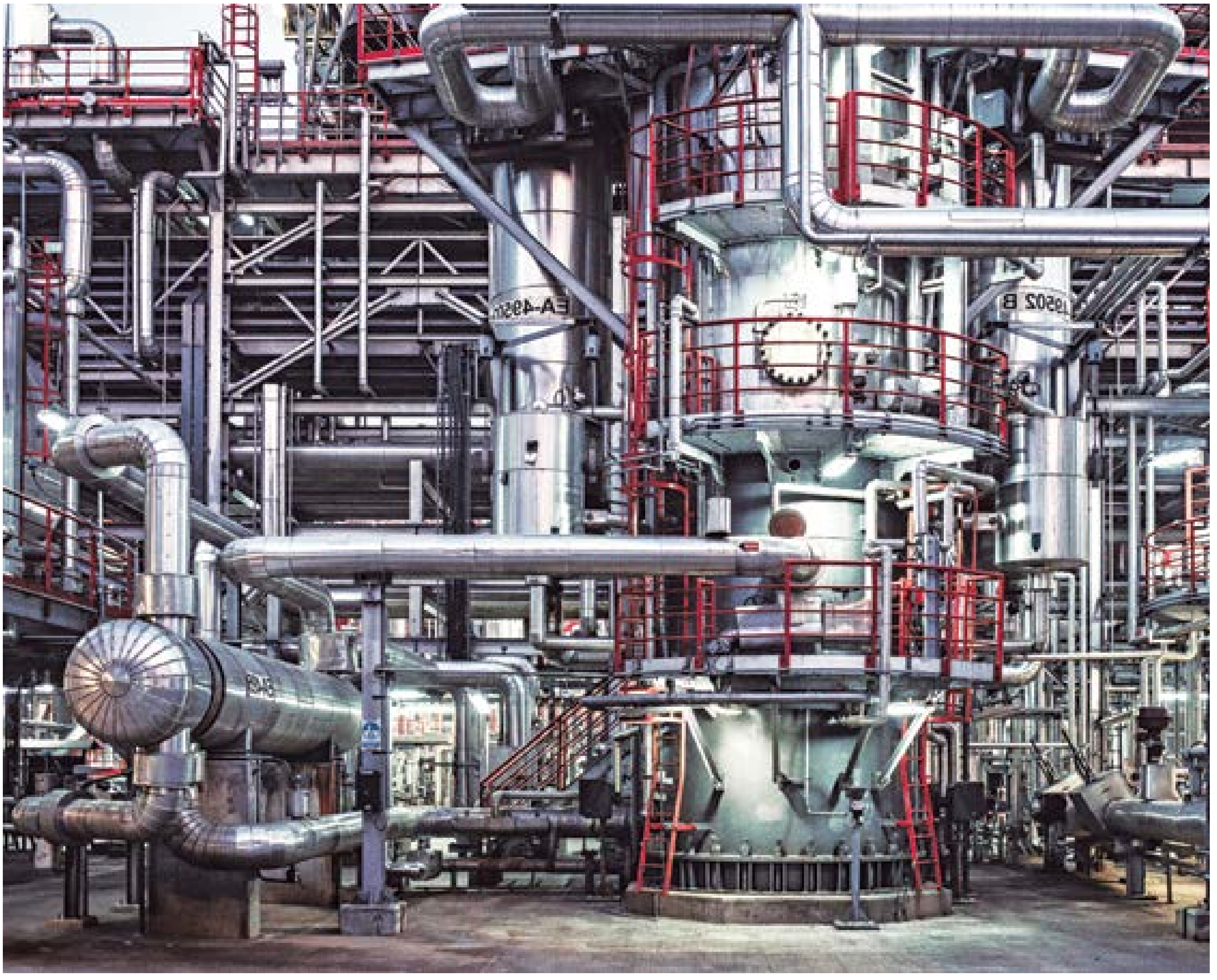
NIS is the only company in Serbia engaged in the exploration and production of oil and gas. NIS activities in this field also include operative support to production, management of the oil and gas reserves, management the development of oil and gas reservoirs, and major exploration and production projects.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

The 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 a design capacity of 65,000 tonnes of LPG and natural gasoline per year. An amine natural gas treating, which uses HiPACT technology (High Pressure Acidgas Capture Technology) is also located in Elemir. The Elemir-based plant is the first HiPACT plant in Europe, and the gas processing method completely prevents carbon dioxide emission into the atmosphere.

As a result of the 'Transformation' project, the production plant 'Energetika', which deals with the

1 Exploration and production and subsidiary companies – NTC Naftagas, Naftagas-Oilfield Services and Naftagas Transport.

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



production of electricity and heat, as well as the production of compressed gas, was formed.

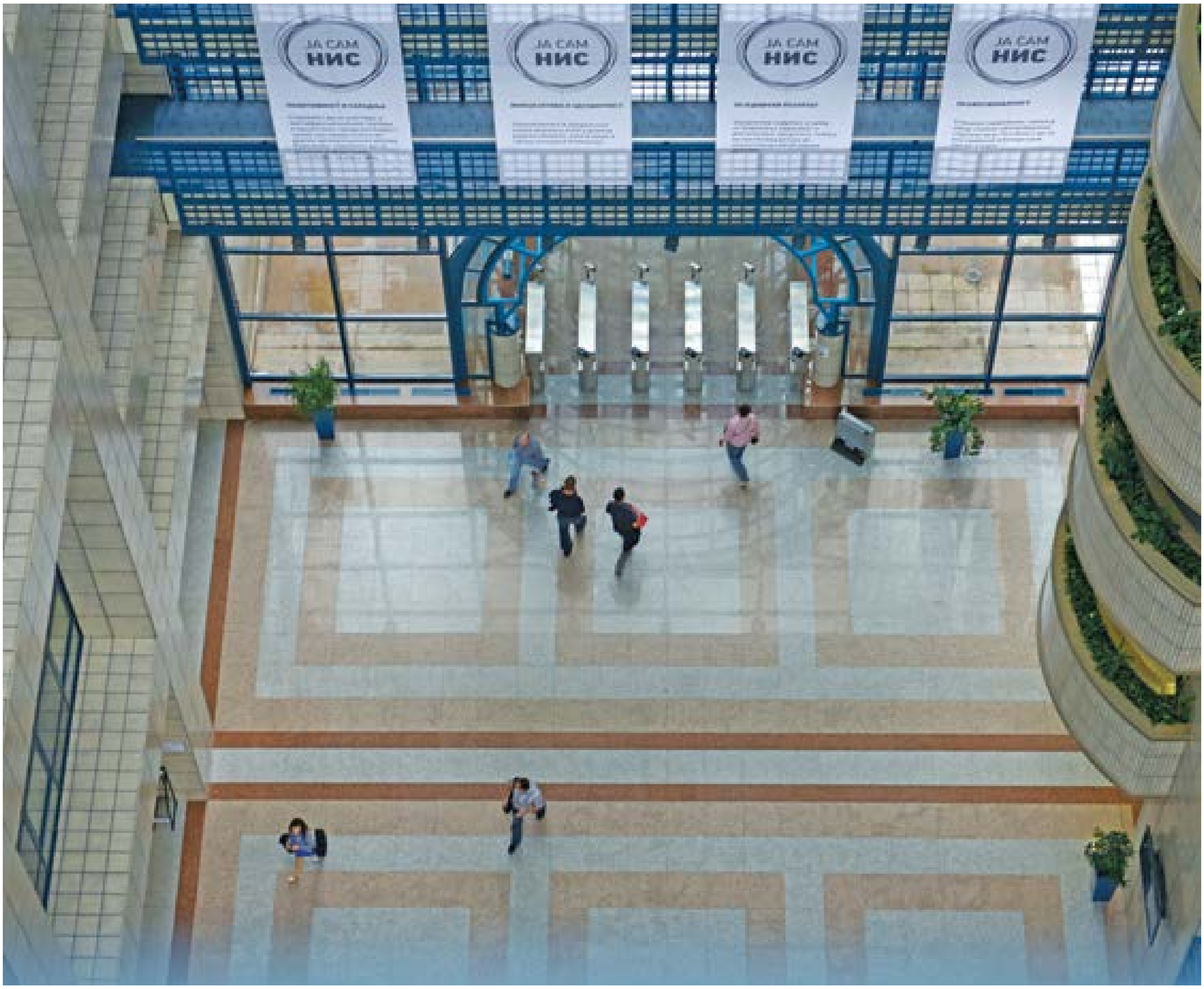
NIS is determined to constantly develop its technologies and implement business innovations in every segment of its operations. In the field of research and production, scientific and technological support is provided by the Scientific and Technological Center NTC NIS Naftagas ltd. Novi Sad.

Services

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

In addition, they provide maintenance services for the equipment required for work and the construction and maintenance of oil and gas systems and facilities. Apart from freighting and organizing heavy equipment employing, Services provide passenger transportation and vehicle rental services.

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



Downstream Division

Refining

NIS manages the Pančevo Oil Refinery with a maximum projected annual capacity of 4.8 million tonnes. After the MHC/DHT Complex became operational in 2012, Pančevo Oil Refinery produces: motor fuel in accordance with Euro-5 standard[3], aviation fuel, liquid petroleum gas, petrochemical raw materials, fuel oil, bitumen and other petroleum products. Owing to the constant modernization of refining facilities, NIS locally produces fuels which meet European standards, while NIS Group holds a strategically important leading position on the regional market of petroleum products.

The construction of a Bottom of the Barrel plant with delayed coking technology is currently underway at the Pančevo Oil Refinery, being a key project of the second stage of the Refinery modernization. The start of operations in the plant is planned for Q3 2019. After the completion of this project, the Pančevo Oil Refinery will produce larger quantities of the finest petroleum products, primarily diesel, and will also start producing coke, a product which is currently imported into Serbia.

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

Sales and Distribution

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

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

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

Energy

NIS is engaged in the production of electrical and thermal energy from traditional and renewable resources, the production and sale of compressed natural gas, the purchase, sale and management portfolio of natural gas, trade of electrical energy, the development and implementation of strategically important energy projects, as well as projects for improving energy efficiency.

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

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

Nine Functions within the parent company NIS j.s.c. Novi Sad provide support to core activities. Five of these functions are partially decentralized and have functionally subordinate departments within Blocks. These are: Finance, Economics, Planning and Accounting Function; Strategy and Investments Function; Procurement Function; Organizational Affairs Function; HSE Function. The other four functions are centralized - Legal and Corporate Affairs Function; Corporate Security Function; Public, External and State Relations Function; Internal Audit Function (this Function is directly subordinated to the General Director), while the Internal Control Responsible reports to the Board of Directors Audit Commission[4]. One of the CEO's Deputies is in charge of petrochemicals operations.

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

1945

The Oil and Petroleum Product Trading Company was founded.

1949

The Oil Exploration and Production Company 'Naftagas' 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 the Banat district.

1953

The first petrol stations started being built in Serbia's major cities.

1963

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

1968

Oil refineries were put into operation in the cities of Novi Sad and Pančevo. 'Velebit' oil reservoir was discovered.

1985

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

1991

The public enterprise 'Naftna Industrija Srbije 'was established.

1999

NATO bombing, during which NIS suffered human and material losses. After bombing, intense reconstruction of the damaged facilities took place.

1930 1940 1950 1960 1970

1980 1990 2000 2010 2020

2005
NIS gained the status of a joint stock company.

2008
Oil and lubricants brand NISOTEC was launched in the Serbian market.

2009
The Russian company PJSC 'Gazprom Neft' became the majority shareholder in NIS.

Beginning of modernisation of the refining complex.

2010
NIS became an open joint stock company listed on the Belgrade Stock Exchange.

2011
Regional expansion of NIS begins. Subsidiary companies in Bosnia and Herzegovina, Bulgaria, Hungary and Romania established.

2012
The first phase of modernization of the Pančevo Oil Refinery completed; production production of fuel of Euro 5 quality standard begins. Grand opening of the first premium brand gas station GAZPROM in Belgrade.

2013
Payment of dividends to the shareholders from profit for the previous year started.

The transformation of NIS into an energy company started. The first cogeneration plant in Sirakovo became operational.

2014
The first sale of electrical energy in the market.

2015
The sales of G-Drive 100 petrol at GAZPROM gas stations started.

2016
Amine natural gas processing plant in Elemir becomes operational.

NIS started to sell Premium G-Drive Diesel Fuel.

2017
Beginning of work on Bottom of the Barrel plant.

Contract for construction of thermal power plant Pančevo was signed.

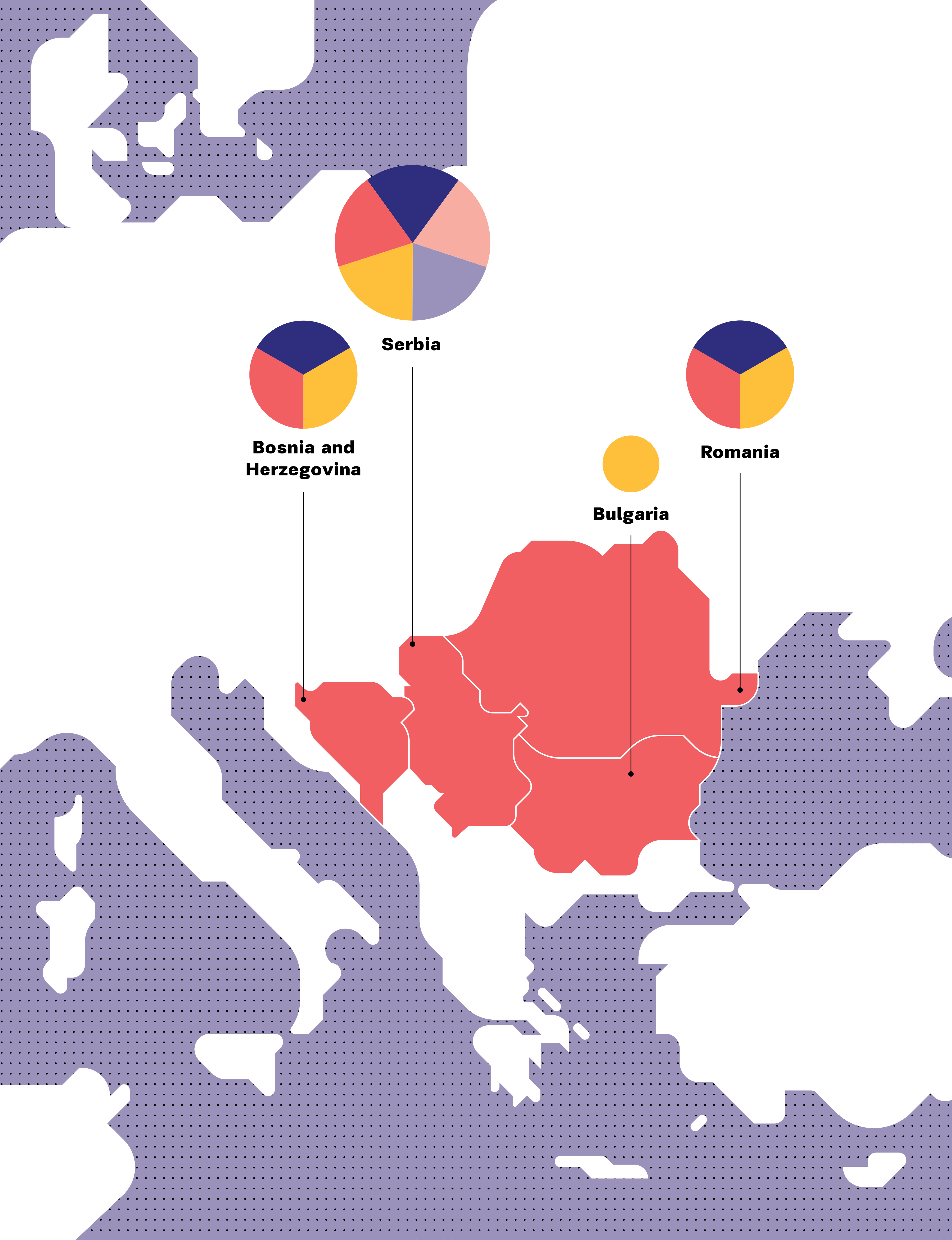
Corporate Development Strategy until 2025 adopted.

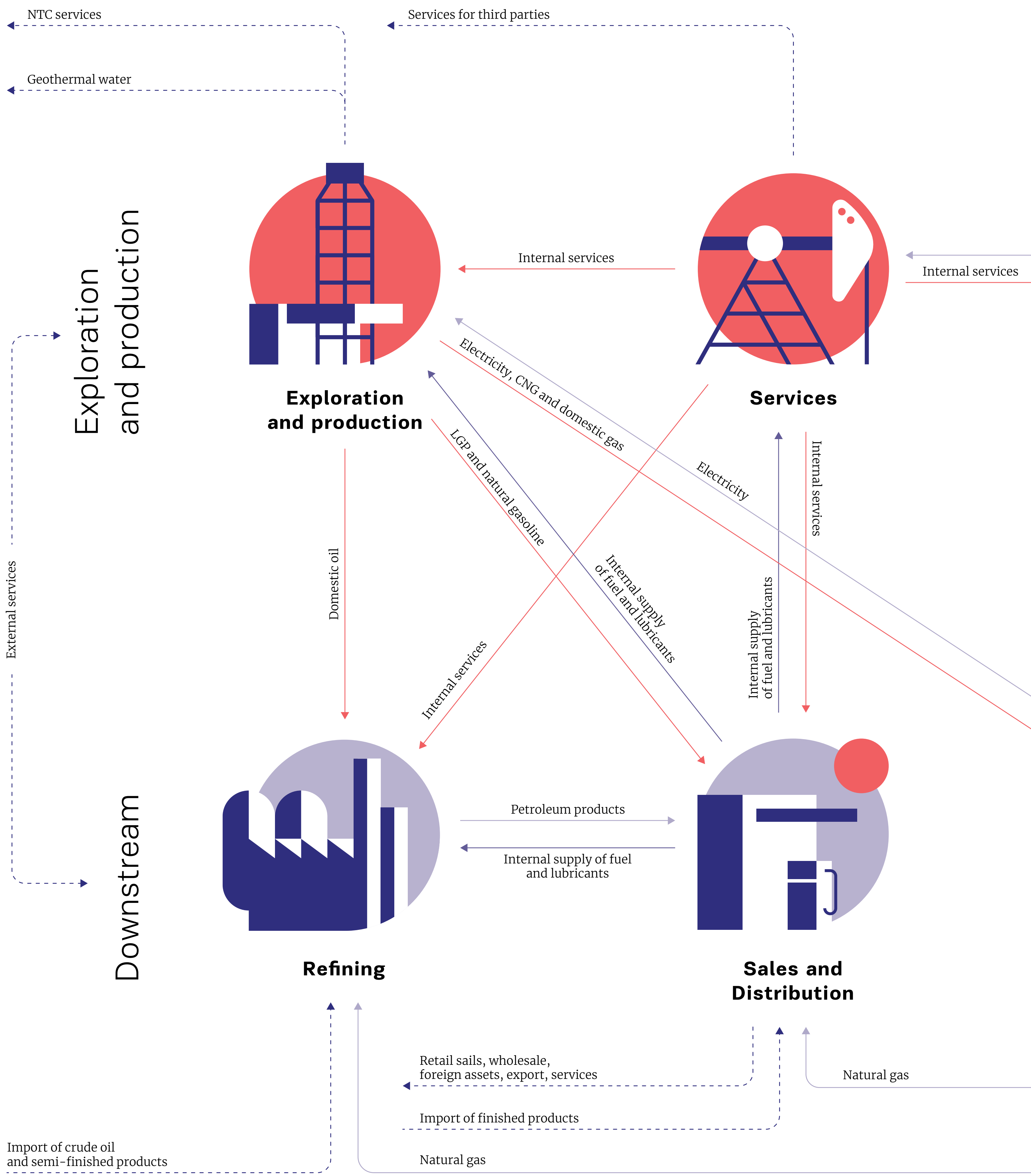
2018
Activities on the Bottom of the Barrel project continue.

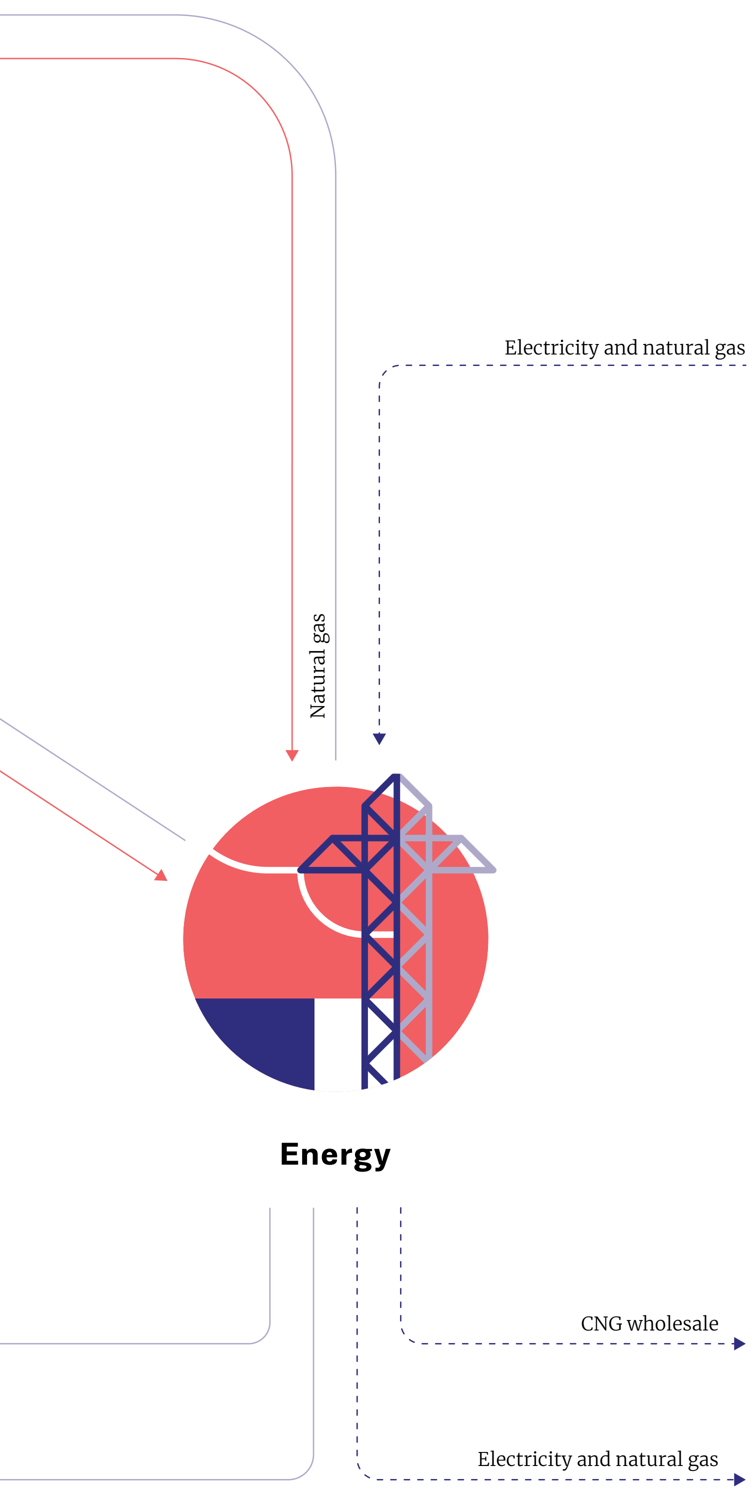
NIS Worldwide

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

NIS Group organisational structure on page 33


Serbia
Bosnia and Herzegovina
Bulgaria
Romania


NTC services
Services for third parties
Geothermal water
Exploration and production
Internal services
Internal services
Exploration and production
Services
Electricity, CNG and domestic gas
Electricity
LGP and natural gasoline
Internal services
External services
Domestic oil
Internal supply of fuel and lubricants
Internal supply of fuel and lubricants
Internal services
Downstream
Petroleum products
Internal supply of fuel and lubricants
Refining
Sales and Distribution
Retail sails, wholesale, foreign assets, export, services
Natural gas
Import of finished products
Import of crude oil and semi-finished products
Natural gas



Intersegment Pricing

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

The 'one product, one intersegment 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 according to the so-called 'export parity'.
- 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 products and natural gas products are defined according to the following principles:
    1. Combined import-export parity is a principle used to calculate intersegment prices of products with free import to the local market and a significant share in the sales export channels.
    2. Import parity is a principle used to calculate intersegment prices of products, with free import and with majority of sales in the local market.
    3. Export parity is used for products that are predominantly exported,
    4. Other petroleum products, i.e. those products which due to their specific features 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 whose selling prices are defined by annual or long-term contracts, and represent an alternative to other products or redundancies in production units.

Products

- Natural gas
- Compressed natural gas
- Motor fuels
- Aviation fuels
- Bunker fuels
- Energy fuels
- Oils and lubricants
- Bitumen
- Fuel oils
- Petrochemical products
- Other products.

NIS

GAZPROM NEFT

NIS Group Business Structure

Subsidiaries

- Naftagas – Technical Services LLC Zrenjanin
- Naftagas – Oilfield Services LLC Novi Sad
- Naftagas – Transport LLC Novi Sad
- STC NIS – LLC Novi Sad
- O Zone a.d. Beograd
  - NIS Energowind d.o.o. Beograd
- NIS Oversees o.o.o. St. Petersburg
- NIS Petrol EOOD Sofia
- NIS Petrol SRL Bucharest
- NIS Petrol d.o.o. Banja Luka
  - G – Petrol d.o.o. Sarajevo
- Pannon Naftagas kft Budapest
- Jadran Naftagas d.o.o. Banja Luka
- NIS-Svetlost d.o.o. Bujanovac

Representatives and Branch Offices

- Branch Offices in Serbia*
- Angola Representative Office
- Bulgaria Representative Office
- Croatia Representative Office
- Bosnia and Herzegovina Representative Office**
- Romania Representative Office
- Russian Federation Representative Office
- Turkmenistan Branch Office***

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

** The representative office in Bosnia and Herzegovina was closed on December the 27th, 2018.

*** The process of liquidation has been initiated.

Corporate Centre

Exploration and Production Block

Exploration and Production Block

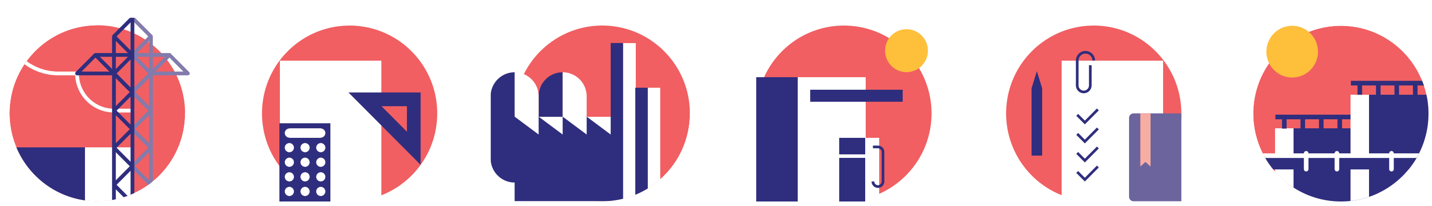
- Directorate for Oil and Gas Production
- Department for Planning, Economics and Control
- Department for Perspective Development and Project Implementation
- Department for Geological Research and Reservoir Engineering
- HSE Sector
- HR Sector
- Procurement Sector
- Group for Administrative-Document Support

NIS j.s.c. Novi Sad Organisational Structure

Representative offices and branches

Downstream Division

Group for Administrative-Document Support



Energy Directorate

Metrology Department

Refining Block

- Production Directorate
- Technical Directorate
- PEC Department
- Development and Investment Department
- HSE Sector
- Sector for MT and SS
- HR Sector

Sales and Distribution Block

- Commercial Activities
- Retail
- Logistics Department
- Development
- Department for Sales and Distribution Coordination
- PEC Department
- Organizational Affairs Department
- Department for Quality Control and Metrology
- Sector for MT and SS
- HSE Sector
- Jazak Unit

Department for Production and Commerce Planning, Optimization and Analysis

Crude Oil Sector

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 recognisable 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

Professionalism

Acquiring up-to-date knowledge in order to permanently increase the level of professional expertise and the ability to implement it in specific business processes.

Initiative and Responsibility

Finding and proposing new solutions, both in the area of work responsibilities, as well as in the Company's interests.

Positive Attitude and Cooperation

Readiness to participate in multifunctional groups and projects, eagerness to meet demands of colleagues from other units of the company, willingness to exchange information, ability to work in teams.

Shared Results

Joint efforts in achieving visible and meaningful results, a desire to succeed accompanied by inescapable mutual assistance and cooperation of employees.

1.04 Strategy

Strategy 2025

In 2017, a new Integrated Corporate Strategy 2025 was adopted, which will provide further growth, as well as 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 up to 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 the previous year, but this will be compensated for by the existing reservoirs engineering, geological exploration in Serbia, further development of the most profitable foreign concessions, primarily in Romania, as well as a steady operational efficiency increase.

In 2018, we made significant progress towards meeting the objectives established by Strategy 2025.

Refining

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 NIS' priorities by 2025. The Pančevo Oil Refinery has already started the construction of the 'Bottom of the Barrel' facility with delayed coking technology, a project worth more than €300 million and one of the largest investments in Serbia in the future period. 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 an increase in the quantity of products that meet European quality standards.

Information on the status of the 'Bottom of the Barrel' project on page 65

Sales and Distribution

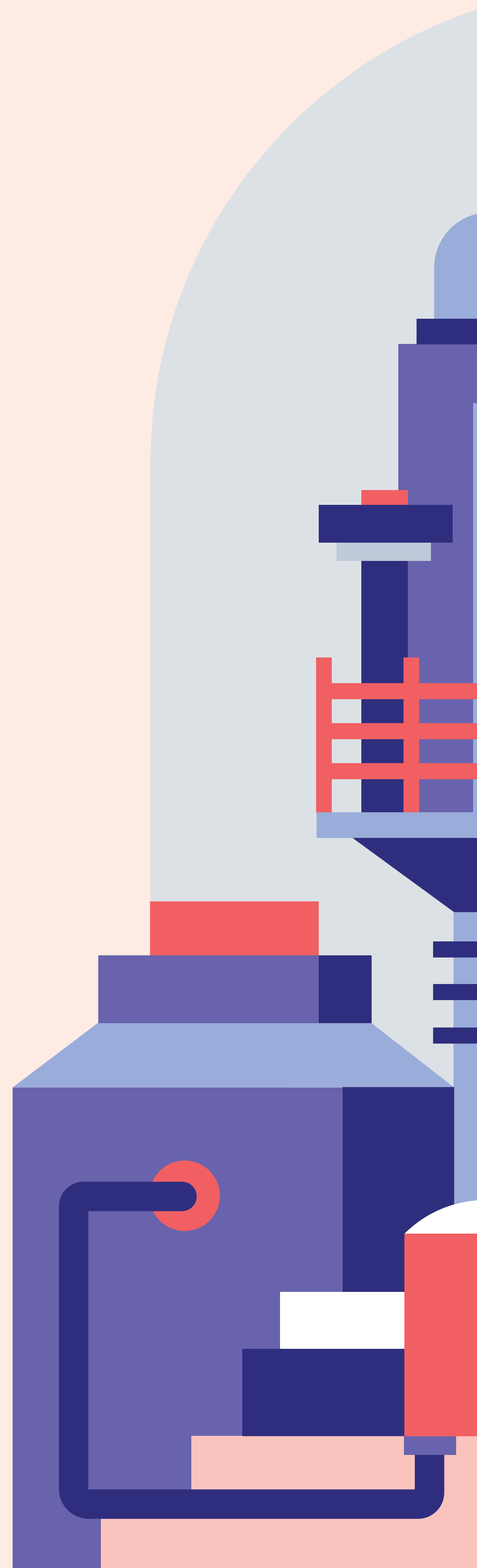
The strategy identified modernisation of the retail network and an increase in its profitability by growing of branded fuel sales and developing additional businesses, as well as an increase in the efficiency and volume of wholesale and development in foreign sales markets. In the following period, NIS will devote itself to the development and improvement in operating specialised product business lines – aviation fuels, lubricants and bunker fuels – through raising the level of specialised 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 increasing electricity production from small power plants, development of wind turbine generation, with plans for significant increase in electricity trade.

Operational efficiency programmes 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 in the conditions of a complex business environment.

Success Strategy



A successful 2018 was marked by two important records. Our oil refining output and petroleum products sales reached their 10-year peaks.

Moreover, exports rose by

14%

and NIS strengthened its position on the regional market.

In this year, we also celebrated the

50th

anniversary of the start of production at the Pančevo Oil Refinery, a plant committed to modernisation and improvement of efficiency.

1.05 Risk Management

Integrated Risk Management System

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

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

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

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

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

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

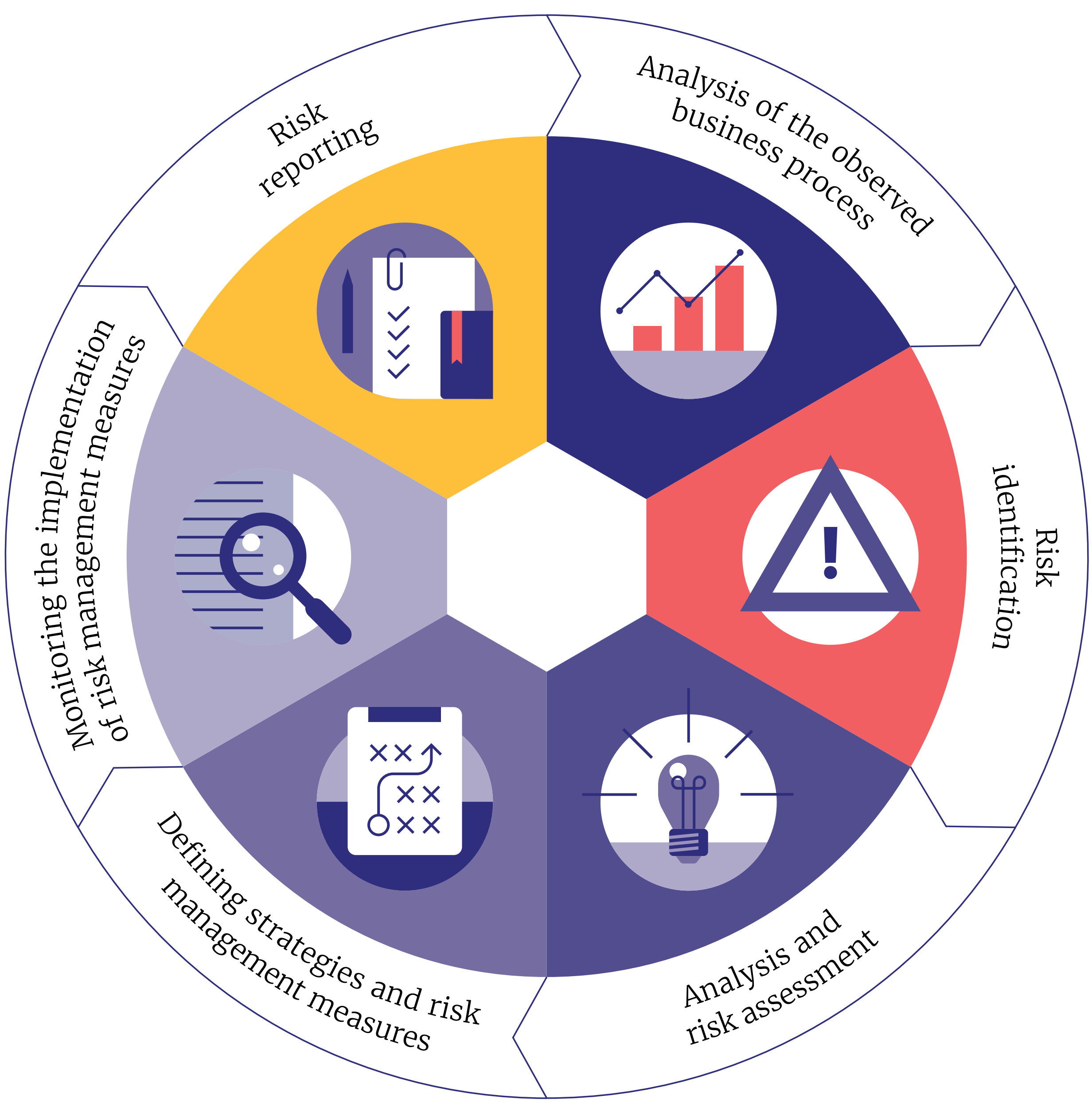
IRMS Business Process Flow at NIS

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

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

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

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



IRMS in Business Planning Process

Key risks associated with corporate goals are endorsed by the Board of Directors through 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 actions and financial resources needed to carry out the actions – are incorporated in the adopted business plans.

Through its operations, the Group is exposed to operational, political, market, financial and reputational risks.

Operational Risks

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

Market Risks

Risk Description	Risk Management Actions
Price risk	
Due to its core activity, NIS Group is exposed to risks associated with price volatility, specifically the price of crude oil and petroleum products affecting the value of inventories and refining margins, which in turn affects future cash flows.	These risks are partly offset by adjusting petroleum product selling prices against the changes in oil and petroleum product prices. The need to use some of commodity hedging instruments in the Group's subsidiaries, including NIS j.s.c. Novi Sad as a subsidiary, is at the discretion of Gazprom Neft Group. In addition, the following actions are undertaken to reduce a potentially negative impact of the risk: • Annual planning based on multiple scenarios, plan follow-up and timely adjustment of operating plans for crude oil procurement; • Regular sessions of NIS j.s.c. Novi Sad Committee in charge of crude oil purchase/sale to discuss all major subjects related to both crude oil purchase and sale (sale of oil from Angola-Palanca crude oil); • Tendency to enter into long-term crude oil purchase contracts at the 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, growing competitiveness in import tenders and more prominent progress regarding purchase prices; • Expansion/diversification of the crude oil basket for prospective import, provision of samples of the crude oil types that have not been used for processing at the Pančevo Oil Refinery; • Constant efforts to optimise processes and achieve most optimum economic effects and indicators; • Occasional benchmarking to survey the market and price trends and to analyse the commercial capacities of major prospective suppliers of crude oil, reputable companies which are dominant and reliable in crude oil trading.

Political Risks

Risk Description	Risk Management Actions
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 regarding loan arrangements with commercial banks from some of the EU- and US-based banking groups.	NIS regularly follows international developments and assesses potential consequences for the company's business. 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.

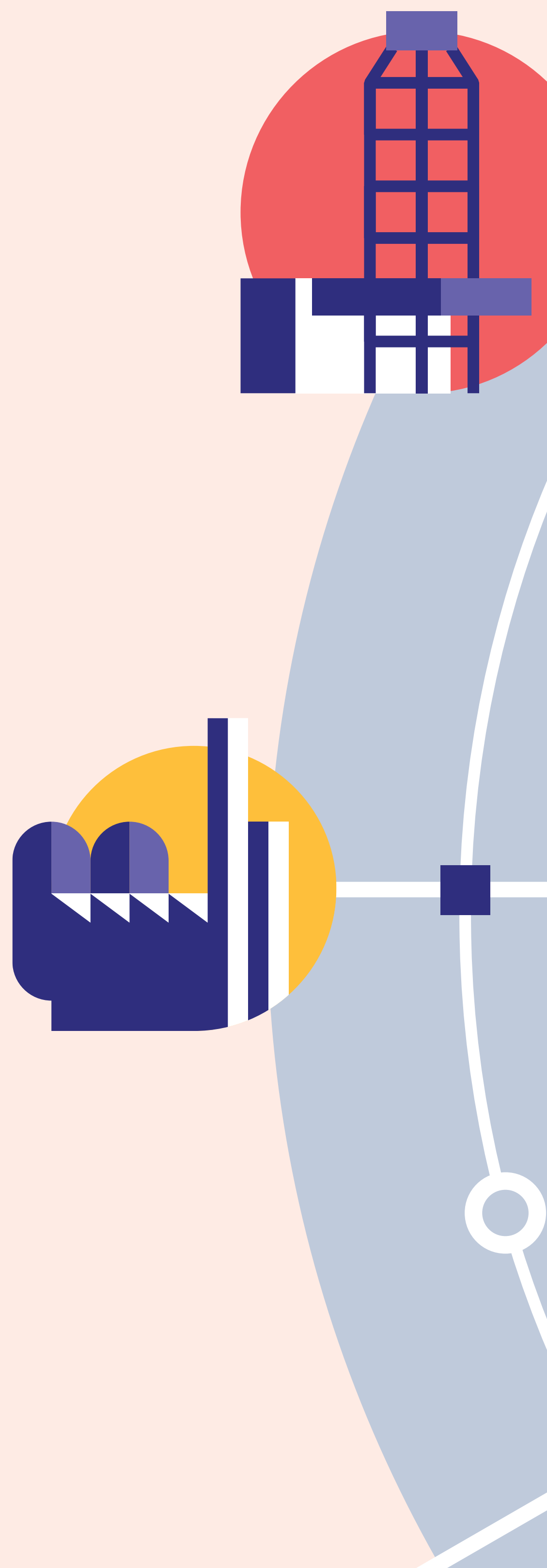
Financial Risks

Risk Description	Risk Management Actions
Foreign Exchange Risk	
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 the 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 US dollar or euro. Other actions include the balancing of the foreign exchange equilibrium in terms of adjusting the currencies in which export transactions are denominated to the currencies of foreign liabilities; managing the currency structure of the loan portfolio etc.
Interest Rate Risks	
NIS Group is exposed to the risk of interest rate volatility, both in terms of its bank loans and deposits.	NIS j.s.c. Novi Sad takes out loans with commercial banks at floating or fixed interest rates depending on projections of changes of base interest rates in the monetary market. Consequently, funds in the form of intercompany loans to third parties are placed at floating or fixed interest rates, whereas funds deposited as term or demand deposits are placed at flat interest rates. Deposits are aligned with the credit limit methodologies of commercial banks (funds are reciprocally placed only with major commercial banks from which NIS j.s.c. Novi Sad takes out loans and/or credit/documentary lines). In this respect, revenues and cash flows from bank deposits are substantially independent of any changes in base interest rates, whereas for loans/credits granted exposure to the risk of base interest rate volatility (EURIBOR, LIBOR, etc.) is higher.
Credit Risks	
Arises in relation to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans given to third parties, and exposure to wholesale and retail risks, including unrecoverable debt and assumed liabilities.	Credit risk management is established at the level of NIS Group. With respect to credit limits, banks are ranked according to adopted methodologies applicable to major and other banks, in order to determine the maximum extent of bank exposure of NIS j.s.c. Novi Sad at any given time (through deposits, documentary instruments: bank guarantees, Letters of Credit, etc. issued for the benefit of NIS j.s.c. Novi Sad). Regarding accounts receivable, there is a credit limit methodology in place which serves to define the level of exposure in relation to individual customers, depending on their financial indicators.

Financial Risks

Risk Description	Risk Management Actions
Liquidity Risk	
Liquidity risk denotes a risk of NIS Group encountering difficulty in meeting its liabilities. It is the risk of not having suitable sources to finance 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, it is continually contracting for and securing sufficient credit and documentary lines while maintaining the maximum allowable level of credit exposure and meeting the commitments under commercial bank arrangements (covenants). Since mid-September 2014, NIS j.s.c. Novi Sad has been exposed to the risk of limited external financing capacities due to the imposition of sectoral sanctions by the EU and the US on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU. The sanctions prevent NIS j.s.c. Novi Sad from borrowing from the EU or US banks for a period longer than 30 and 60 days respectively. Exemption from the EU sanctions is related to the possibility of borrowing for a period longer than 30 days from EU banks exclusively if the loan is intended for the payment of non-sanctioned goods and services imported from the EU. In order to acquire necessary funds for future transactions, NIS negotiated/contracted over 700 mln EUR of new credit lines with Serbian, Russian and Arabian banks for general funding and with Serbia-based European banks for funding imports from the EU (financing for a period longer than 30 days is allowed if the subject of financing is import of goods or services from the EU), thus ensuring necessary funds for regular repayment of loans in 2018 and 2019, as well as for early repayment of loans in order to improve the loan portfolio (lowering the average cost of financing and extending the average portfolio maturity). In addition to improved qualities of the portfolio, restructuring of the credit portfolio, carried out in 2018, has enabled us to free cash flow for the implementation of planned investments and normal operation of the company in the upcoming 4 years.

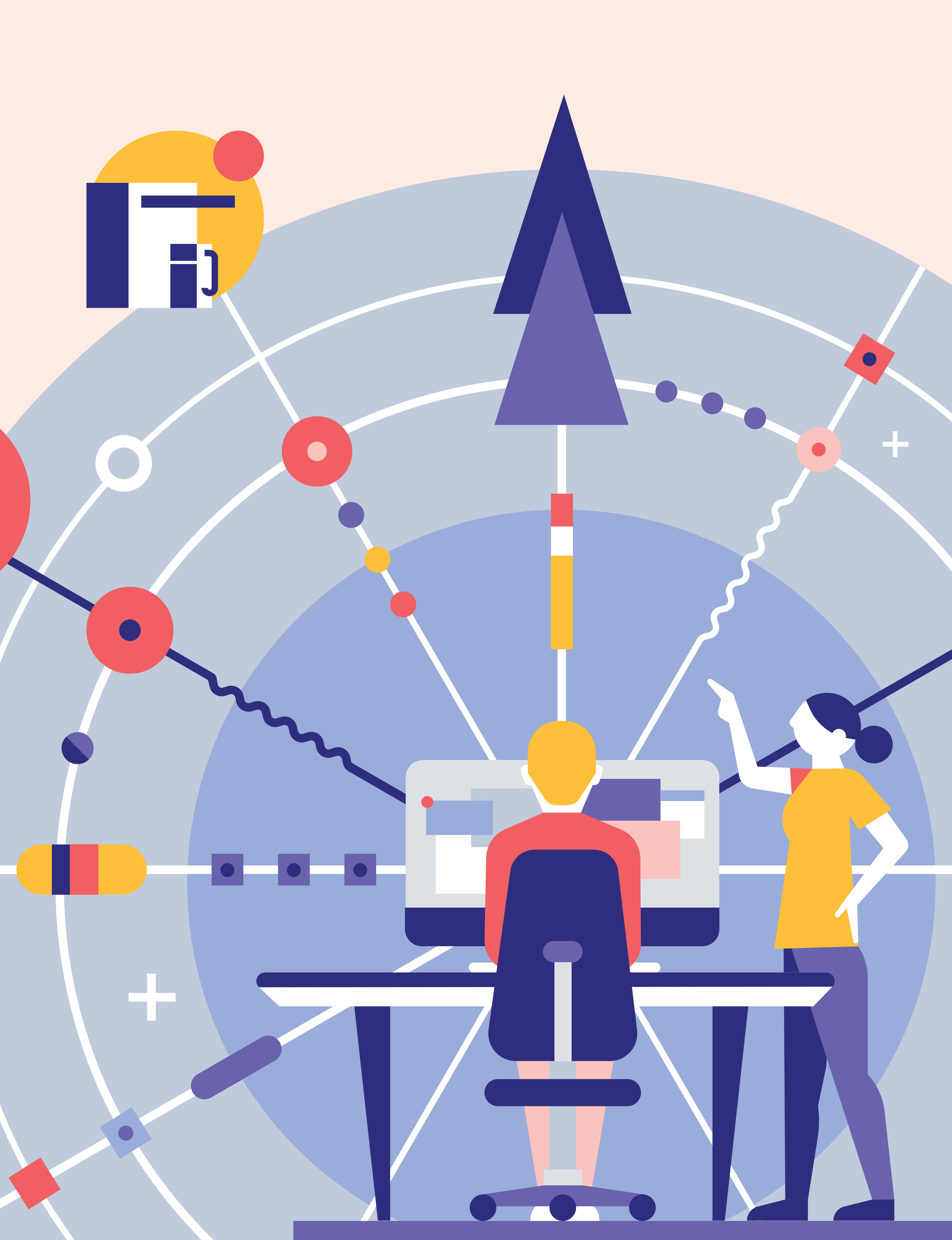
Digitalisation – Opportunity for Development



In 2018, we launched the process of digitalisation in all business segments in the Company.

In this manner, we hope to transform the challenges of rapid technological change into our business successes and opportunities for development.

For us, digitalisation does not mean only the implementation of new technologies – it is also an opportunity to improve all processes, motivate our experts and hire new ones, as well as to apply new values.

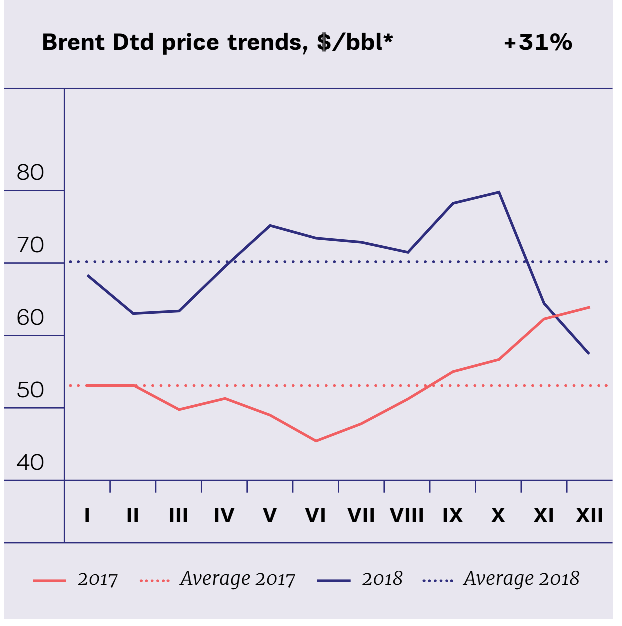


1.06 Business Environment

The World

Oil

The world oil and gas industry has recorded a net increase in production of 164 billion m³ in 2018, which represents the agreement signed by the OPEC member countries and 11 non-OPEC countries. The annual growth was particularly driven by North America, which recorded an increase of 71 billion m³, followed by the Middle East with an increase of 39 billion m³. Russia reached a record natural gas output (5% increase) and export (9.5% increase), while also increasing crude oil output by nearly 12 billion m³. Europe was the only region which production declined in 2018.



* Source: Platts.

Rystad Energy predicts that the growth trend will continue in the upcoming years. The expected average annual growth from 2018, to 2021 is 115 billion m³, which would exceed the average annual growth from 2011 to 2017 by 90%.

The price of crude oil fell by the end of the last year by as much as 24% compared to to the 1st of January, the largest decline was recorded in the last quarter when a barrel of Brent crude oil finished the year with a price of only $57, compared to its $81 price in October.

At the beginning of December, at the fifth ministerial meeting of OPEC members and non-member countries, an agreement was reached that the current production of crude oil should be reduced by 2.5%, i.e. 1.2 million barrels a day, in the division of 2/3 for OPEC and 1/3 for non-OPEC countries (excluding Iran, Venezuela and Libya). Although the US president urged OPEC members to suspend the Oil Saving Agreement, in order to maintain low fuel prices ("The world does not need expensive oil, it does not want high prices!", he posted on his Twitter account), the producing countries were not very enthusiastic about the warnings and did not come to an agreement, which resulted in a 5% jump in oil prices.

According the Russian Energy Minister's estimate, during the two years of the agreement term, Russia generated at least 120 billion dollars of additional revenue. He also said that low oil prices create additional problems for the state budget and the overall economy, and that a sharp decline in prices could affect the national currency and the inflation rate. The Russian Minister believes that the stability of the market in the first half of 2019 can be ensured by reducing oil production and does not rule out the possibility of extending the validity of the existing agreement.

In the estimates published at the end of 2018, Forbes magazine reported that the price of oil should remain low in the first quarter of 2019, while the agreed cut in production would be reflected in the market from April. On the other hand, a significant impact on the supply in the global market will trigger the production of US shale oil, which reached record heights last year, and the EIA predicting further growth for 2019. The only thing that could stop this trend is the retention of low oil prices, combined with a decline in investment and lending from Wall Street. The forecasted slower growth of oil demand in 2019 compared to the previous year could also have made the price of a barrel stay at a low level.

At the end of December, Qatar withdrew its membership of OPEC. Oil production in Qatar has fallen by more than 15% from 2013 to 2017, and Qatar is among the modest owners of confirmed crude oil reserves among OPEC members (with a share of around 2%). However, according to the official announcement of Qatar's withdrawal decision from the organization, they have a desire to (as the largest natural gas producer (LNG) - with a share of around 30% in the world market) focus on the development and increase in the capacity of natural gas to flow from the current 77 to 110 million tonnes a year over the next five years.

The ban on the use of vehicles with diesel engines in urban areas is being announced in a growing number of countries, and engine constructors are considering various technologies, even some that have been abandoned in the previous period. New technologies will enable lower fuel consumption, and therefore lower emissions of carbon dioxide, nitrogen oxides and carbon dioxide particles, meeting the requirements of the Euro 6b standards, which will come into force in the autumn of 2019.

Digital technologies take on an increasingly important place, and 'predictive analytics' are currently in the focus of many companies. At this moment, just over half of the 100 major oil and gas companies are using predictive analytics solutions. 'Business Intelligence' software provides insights into the future of the industry and new trends by analyzing huge data ('big data') of structured and unstructured data. Recent research by Bain and company has shown that oil and gas producers could increase field and refinery performance by 6 to 8% using digital technologies, and companies are increasingly turning to new digital solutions.

Macroeconomic Trends

The global economy started in 2018 with strong, synchronized growth, but the momentum dropped as the year progressed and the growth trends differed. The economies of the Eurozone, Great Britain, Japan and China began to weaken. By contrast, the US economy has accelerated, thanks to the fiscal stimulus.

Analysts warn that the new year in global capital markets could be quite turbulent. The situation on the world markets will worsen in 2019 due to the global economic slowdown, the possible further increase in interest rates in the US and the American-Chinese trade war. Some even think that the worst is yet to come in the upcoming year and that investors now have less reasons to be optimistic, because due to tightening of the monetary politics of the US central bank, that is, the Federal reserve, there will be less money for investment.

The trade dispute between the two largest world economies, the United States and China is often referred to as the greatest threat to the growth of the global economy. The trade war of China and the United States also affects business confidence and investment in Asia. The risk of the escalation of trade conflicts is still high, and if such an escalation occurs, world trade could slow down even further. Sales in the capital and goods markets, in addition to the gradual abolition of stimulus by some central banks, means that financial conditions in the world are getting worse. Combined with increased political uncertainty, these risks point to a greater likelihood of recession over the next few years, which will reflect differently in certain parts of the world: American growth will remain above the trend; economic foundations remain fairly solid; the expansion of Europe will slow down even further; Japan's recovery will remain weak; the Chinese economy will continue to slow down; growth in developing countries has reached a peak and will continue to decline during next year.

Serbia

According to the Statistical Office of the Republic of Serbia, the total economic activity in 2018, measured by GDP and expressed in constant prices, registered a real growth of 4.4% in relation to the previous year. High private and government investments, import growth of 9% as compared to 2017, and increased consumption will be the main promoters of GDP growth in the following years.

Favorable trends in the real sector continued to positively reflect on the labor market where further employment and earnings growth is recorded. Earnings without taxes and contributions in 2018, compared to 2017, are nominally higher by 5.9% and in real terms by 3.8%, while the unemployment rate in 2018 is 11.3%. Also, the net inflow of foreign direct investment reached 3 billion euros and more than fully covered the current account deficit of the balance of payments, and in the medium term it has had a positive impact on the growth of exports and the reduction in external imbalances. The inflows were directed towards export-oriented sectors. Within the processing industry, the highest inflows of foreign direct investments have been recorded in the automotive industry, production of basic metals, rubber and plastics, pharmaceutical and chemical products. These have led to positive trends in the field of employment, production and export of the processing industry.

It was estimated that gross investments into fixed assets in 2018, compared to the previous year, recorded a real growth of 9.1%.

Industrial production in 2018 had a physical volume increase of 2.0% compared to the previous year.

Retail turnover experienced real growth of 4.5% while wholesale turnover increased by 9.1% in current prices.

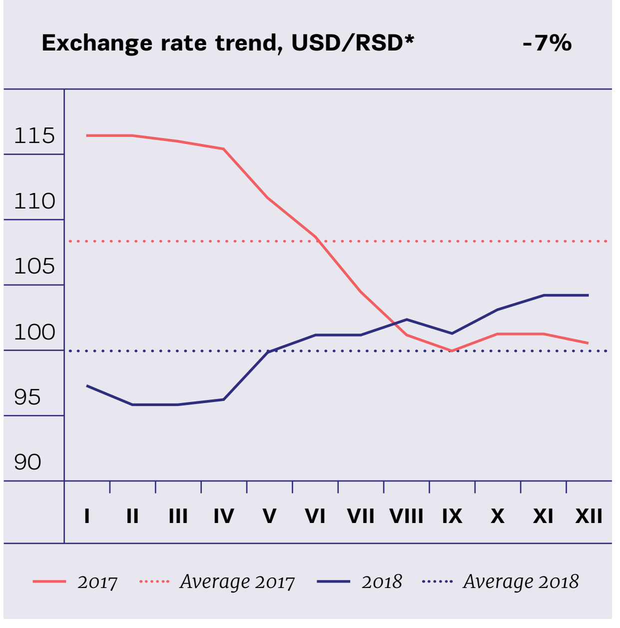
Prices of products and services of personal consumption in December 2018, compared to November 2018, on average are higher by 0,1%. Consumer prices in December 2018, compared to the same month in previous year, increased by 2,0%. Compared to 2017, consumer prices in 2018, on average are higher by 2,0%.

Year-on-year inflation also continued to remain low and stable in 2018, amounting to 2.0% in December, which was its average level for 2018. The low inflationary pressures prevailing over the course of the year were also confirmed by the stable movement of basic inflation. According to the projection of the National Bank of Serbia, year-on-year inflation will continue to be stable within the target of 3.0 % ± 1,5 %, which will be determined primarily by gradual growth in aggregate demand.

The Executive Board of the National Bank of Serbia kept the reference interest rate at 3.0%, taking into account the expected inflation trends and its factors in the upcoming period, as well as the effects of the recent mitigation of the monetary policy.

The price of oil continues to be a factor of inflation which requires caution, although it has been significantly reduced in the last months of 2018.

The reduction in public debt continued in 2018, being about 56% of the GDP.



** Source: NBS*

- Average USD/RSD exchange rate in 2018 was down RSD 7.6, a decrease of 7% on the average exchange rate in the same period of 2017.
- In 2018, the USD/RSD exchange rate rose by 4.27 RSD (4%).
- During 2017, the USD/RSD exchange rate fell by RSD 18.02 (15%).

Legislative Changes

In 2018, the legislative activities of the competent state authorities have been moving in the direction of improving the business environment through adopting a number of laws which regulate fiscal and tax issues, including registration with the cadastre and legalizing of buildings, as well as further compliance of local regulations with EU regulations, above all in the area of fighting corruption, protecting personal data and environmental protection. Related to that, The National Assembly adopted several important laws in the observed period:

- **The Law on Fees for Use of Public Goods** – this law regulates all charges which are paid for using public goods and goods of general interest, i.e. goods used by the general public, and which have until now been prescribed by separate non-tax laws. The key aims of this law are to improving transparency of the public revenue system and provide insight into business expenses for all entities, along with excluding the possibility of prescribing such charges in the future by any regulation other than this law. The law prescribes the types of fees, manner and deadlines for payment, the manner of ascertaining and reporting, the manner of income allocation among the different levels of executive power etc.
- **Law on Electronic Government** – this law regulates the issues which should contribute to the development of electronic business operations in the Republic of Serbia. One of the key aims of this law is to facilitate electronic communication between the citizens, legal entities and non-government organizations with the administrative authorities, as well as between different administrative authorities, and to enable a simpler, more transparent, safer and more efficient electronic public service by reducing legal obstacles.
- **Law on Lobbying** – The law regulates this issue for the first time in the Republic of Serbia. This law places emphasis on lobbying during the procedure of adopting laws, other regulations and general acts from the jurisdiction of state and local government bodies in order to fulfil the interests of the party who ordered the lobbying. The main aim of this law is to establish a clear normative framework in the field of lobbying in order to protect the public interest, through increasing the openness of work transparency and responsibility of state authorities as the persons being lobbied.
- **Law on Personal Data Protection** – This law regulates personal data processing, i.e. protection of rights and ensuring the protection of rights regarding data processing, and the rights, obligations and responsibilities of persons handling, processing and receiving data, as well as the competence and position of the independent body for protecting personal data. The aim of the law is to improve the existing legal framework for personal data protection, along with further compliance with the EU regulations.
- **Law on the Registration Procedure with the Cadastre of Real Estate and Utilities** – This law separates the field of registration with the Cadastre of real estate and utilities from the Law on State Surveying and Cadastre of Immovable Property, and regulates this issue in detail, including official communication between the competent authorities, along with gradual introduction of an electronic form for registration with the Cadastre.

In 2018, a number of by-laws significant for business were adopted, such as: the Regulation on the limit values of polluting, harmful and hazardous substances in the ground, the Regulation on requirements for providing confidential qualified services, the Regulation on the manner of submitting documents during the procedure of registration with the Cadastre, Regulation in the manner of issuing the Cadastre excerpts electronically. Also adopted were: a Rulebook on technical norms for fire protection of industrial facilities; A Rulebook on the standards and strategy for developing free-trade zones in the Republic of Serbia for the period from 2018 to 2022; A Rulebook on work permits etc.

NIS analysed the aforementioned regulations in the adoption stage via its working body – the Regulations Committee, and gave its contribution in order to ensure these regulations meet the needs and requirements of the energy entities doing business in the market of the Republic of Serbia.

Apart from the adopted regulations, numerous draft laws and bylaws were in consideration during 2018, such as the Draft law on Agency Employment, the Draft law on public procurements, the Draft law on trade, the Draft law on e-commerce, the Draft law on fiscal cash registers, as well as bylaws of the Law on Mining and Geological explorations and The Law on Fees for use of public goods.

NIS shall continue to strive to give its utmost contribution to creating a positive business environment in Serbia, as well as to emphasize specifically the importance of harmonizing regulations and strategies in order to make their application unhindered and complete.

1.07

Performance Analysis

Market Share[5]

The consumption of motor fuels in the region shows growth, which is primarily caused by positive macroeconomic trends as well as the growth of fuel consumption in the transport, industry and construction sectors.

The consumption of motor fuels in Serbia is also growing.

The following had a positive impact on diesel consumption: a more successful agricultural season, infrastructure works and a very successful construction season.

Part of the diesel fuel consumption returns from the grey zone to the legal economy.

The decrease in the consumption of LPG is the result of a reduction in the number of vehicles with this drive and high prices.

Market Share in the Serbian Market

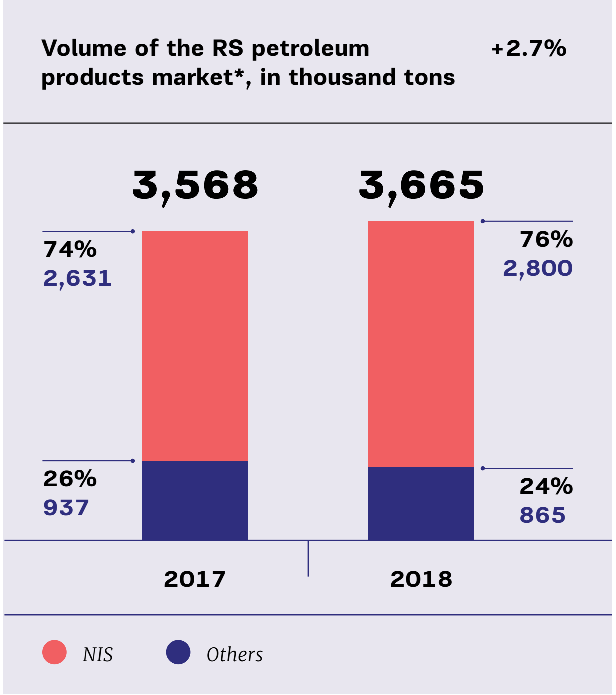
NIS share in the total petroleum products market has increased by 2.7 percentage points, partly as a result of higher share in motor fuel sales, but also due to an increase in primary fuel and LPG share.

The total consumption of petroleum products in Serbia has increased by 2.7%.

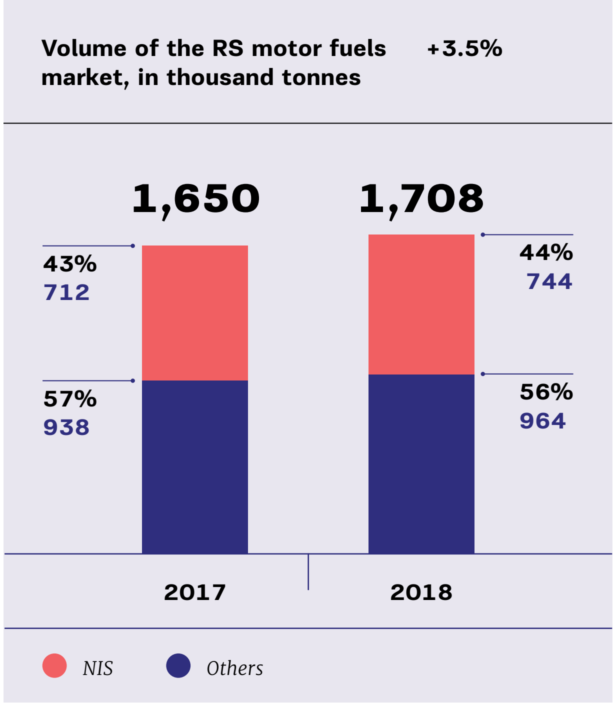
The main elements of consumption growth are:

- growth in consumption of bitumen and coke
- growth in the consumption of motor fuels, predominantly diesel
- growth in the consumption of aviation fuels

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



** Data for 2018 are given on the basis of estimates.*



** The sales of NIS and other competitors include motor fuels (gas, motor fuels, diesel). LPG bottles are not included. Data for 2018 are given on the basis of estimates.*

NIS has increased its retail market share.

The retail market has grown by 3.5%, largely due to the growth in the diesel segment.

Furthermore, positive growth trends in the transport, agriculture and transit traffic segment are also recorded.

Market Share in Bosnia and Herzegovina, Bulgaria and Romania

Bosnia And Herzegovina

Both the aftermath of the tanker collusion in the port of Ploče in August and explosions at the oil refinery in the town of Brod have significantly affected the supply in Bosnia and Herzegovina in October.

Bosnia and Herzegovina has failed to provide oil reserves that it had committed itself to possess when signing the documents for accession to the European Union. The Ministry of Foreign Trade did not come forward with specific proposals and actions within the models for the establishment of the stocks as stipulated by the Energy Community Secretariat.

The reconstruction of the oil terminal in Bihać began in 2018. The Government of Bosnia and Herzegovina Federation has again decided to call a tender for the exploration and exploitation of oil and gas.

NIS has 37 petrol stations in Bosnia and Herzegovina.

NIS' share in the overall motor fuel market is 15.1%, with a retail market share of 9.8%.

In 2018, HIFA Petrol opened several new petrol stations, and the first petrol station in Montenegro. This company also bought the terminal in Ševarlije near the town of Doboj in the Republic of Srpska, which is the fifth terminal of the company. The capacity of the terminal is 2.5 million litres of LPG and 1 million litres of petroleum products. The total storage capacity of the HIFA Petrol company is 9 million tons of petroleum products and 3.6 million litres of LPG. HIFA Petrol also renewed the contract with the EUFOR for the supply and distribution of all petroleum products and aviation fuel.

New shares have been issued in the process of equity increase of the Energopetrol Company, hence, the share owned by the Government of Bosnia and Herzegovina has dropped from 22% to 8%, and small shareholders from 11% to 4%. At the same time the INA's share increased from 67% to 88%. If INA were to buy a share of the government's shares, it would command a 96% stake in Energopetrol and would be eligible for a forcible transfer of all remaining shares, hence, the small shareholders would be compelled to sell shares, even if unwillingly.

Bulgaria

Bulgaria adopted the Law on Administrative Regulation of Economic Activities Related to Oil and Petroleum Products, introducing collateral of BGN 500,000 for the wholesale of oil and petroleum products. The same amount of collateral is also applied to storing fuel outside tax warehouses.

The European Commission has asked Bulgaria to harmonize VAT with EU legislation. Small fuel companies are obliged to provide large sums of money in advance to guarantee their ability to pay VAT, while large companies only need to deposit a guarantee for an amount equal to VAT due to their transactions.

Bulgarian Petroleum and Gas Association (BPGA) proposed four measures to reduce fuel prices. One of them is that it was announcement that the use of biodiesel, which is twice as expensive, during the winter season. Companies need to reconsider their maintenance costs. Measures have been proposed to make the industry more transparent. BPGA has asked the Government for assistance during talks with the Commission for the Protection of Competition, so that companies can publish the costs of their products, in order to make the public aware of existing margins. According to them, this measure should be applied to all market participants. They also insist on measures against the grey economy and smuggling.

During 2018, Bulgaria was shaken by mass protests against high fuel prices. The main reason for high fuel prices for end-users is the fact that Russian company Lukoil controls most of the excise warehouses in Bulgaria, which gives it the opportunity to control prices despite small excises and VAT on fuels.

NIS has 35 petrol stations in Bulgaria.

NIS' share in the overall motor fuel market is 5.8%, with a retail market share of 4.5%.

French oil giant ‘Total’ and its partners, Austrian ‘OMV’ and Spanish ‘Repsol’, have started drilling a third well in a block of the Bulgarian coast in the Black Sea.

The Comission on Protection of Competion Bulgaria (CPC) has penalized the Tradenet Varna PS chain for unfairly attracting clients. The penalty was 0.1% of the total turnover in 2017, i.e. about BGN 175,000.

Romania

Romania has adopted a Draft ‘Offshore’ law with amendments; hence, the current fees shall apply to the Black Sea oil production throughout the duration of the petroleum agreements.

The customs Administration in Romania has instructions not to extend licenses for wholesale petroleum products for companies that do not own a warehouse by the prescribed dates.

NIS has 18 petrol stations in Romania.

NIS’ share in the overall motor fuel market is 0.8%, with a retail market share of 1.1%.

In Romania, ANRM has approved the takeover of Repsol share in 4 oil and gas exploration agreements in the Black Sea by ‘OMV Petrom’. ‘OMV Petrom’ has a 51% share, while ‘Repsol’ holds a 49% share, but ‘Repsol’ announced its intention to withdraw from these concessions as a result of the agreement. ‘OMV Petrom’ started production on the new Black Sea platform from the Lebăda Vest site, with a daily production of 1,000 BOE. The company also started to build the largest fuel storage facility in western Romania. In addition to these activities, ‘OMV Petrom’ has concluded an agreement with Mazarine Energy Romania S.R.L.

‘MOL’ signed a new contract with the ‘Rompetrol’ Refinery for fuel supplies. In 2018, ‘MOL’ purchased the most petroleum products for its petrol stations on the domestic market and imported very small quantities from Hungary. At the same time, ‘MOL Romania’ opened the first filling station for electric cars in Bucharest. This station is an initiative that is a part of the long-term strategy of the company – ‘MOL Group 2030’ – with the aim of becoming a complete supplier of mobile solutions. The second component of the strategy is the ‘MOL’ partnership within the ‘NEXT-E’ consortium, with the aim of building a network of filling stations for electric cars in 6 Central and Eastern European countries.

During the first nine months of 2018, ‘Rompetrol’ posted a 66% larger exports than in the same period of the previous year (1.4 million USD). ‘Rompetrol’ sells petroleum products in Ukraine, Turkey, Lebanon, Serbia, Greece, Macedonia, Bosnia and Herzegovina, Morocco, Croatia and Egypt. ‘Rompetrol’ had a total of 114 stations within its network as of the end of 2018.

The Swiss Clariant Group officially started the construction of a large plant for the production of cellulosic ethanol produced from agricultural residues in Craiova. The investment is worth more than EUR 100 million. It’s the first ‘sunliquid’ plant of this company.

Key Performance Indicators

Q4 2018	Q4 2017	Δ[1]	Indicator	Unit of measure	2018	2017	Δ[2]
67.8	61.4	+10%	Brent Dtd	$/bbl	71.0	54.3	+31%
74.2	66.9	+11%	Sales revenue[3]	RSD billion	281.0	234.7	+20%
3.4	6.8	-50%	Net profit	RSD billion	25.1	27.0	-7%
11.7	12.7	-8%	EBITDA[4]	RSD billion	53.7	47.0	+14%
4.7	20.1	-77%	OCF	RSD billion	37.4	59.0	-37%
9.9	13.7	+39%	CAPEX[5]	RSD billion	41.0	26.5	+55%
50.5	42.9	-15%	Accrued liabilities for taxes and other public revenue[6]	RSD billion	192.7	165.3	+17%
659	661	-0.3%	Total bank indebtedness[7]	USD million	659	661	-0.3%
2.2	1.6	+40%	LTIF[8]	%	2.2	1.6	+40%

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 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 debt to banks + Letters of Credit. As at 31 December 2018, this was $656.8 million of total debt to banks + $2.3 million in 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 subsidiaries; Naftagas – Oilfield Services LLC Zrenjanin and Naftagas – Transport d.o.o. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 31 December 2018, hence there is no difference between 2018Y and Q4.*

Operating Indicators

Exploration and Production

Q4 2018	Q4 2017	Δ[1]	Indicator	Unit of measure	2018	2017	Δ[2]
332	341	-3%	Oil and gas output[3]	Thousand t.o.e.	1,332	1,385	-4%
223	225	-1%	Domestic oil output[4]	Thousand tonnes	886	900	-1.5%
1.07	1.1	-2%	*LTIF*[5]	%	1.07	1.1	-2%
9.2	7.6	+21%	EBITDA	RSD billion	37.0	28.4	+30%
6.6	5.8	+14%	*CAPEX*[6]	RSD billion	19.8	17.2	+15%

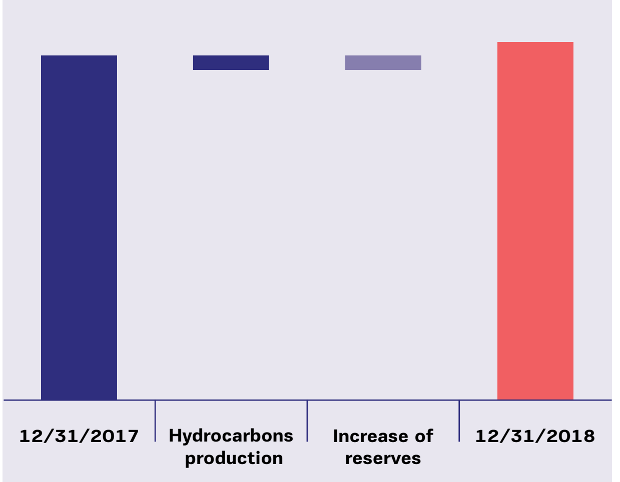
1 *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded to RSD billion.*
2 *Any deviations in percentages and aggregate values result from rounding. The change percentages shown are obtained from values not rounded 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 2018, hence there is no difference between 2018Y and Q4.*
6 *Financing, exclusive of VAT.*

The main aims of the Exploration and Production Block in 2018 were to achieve the planned hydrocarbon production, realize the planned projects and improve the efficiency of geological and exploration works, as well as to improve production and technological efficiency by implementing operational efficiency improvement measures.

In 2018, Exploration and Production Block managed to achieve the planned volume of hydrocarbon production, with simultaneous increase of hydrocarbon reserves by 0.6%, with maximum engagement of the Services Block. In the past three years, success of exploratory-development drilling has remained at a high level, both in the region and within the parameters of production assets of GPN; success rate of exploratory drilling is 78%.

In the area of geology and reservoir development, emphasize is on the preservation of the high quality of geological-technical activities and on new technology testing, aimed at increasing of oil and gas production.

Estimation of the increase in hydrocarbon reserves in 2018 **+0.6%**



Geological Exploration and Well Engineering

The success rate of development drilling in 2018 is 96%. Within the scope of development drilling, additional research and determination of oil saturation in active wells and condensation of the well network was actively conducted.

In the last few years the programme of transferring wells from the inactive fund has been successfully continued. Successful operations of maintenance and isolation works were carried out on the Lokve and Kikinda-Varoš fields, confirming the good prospects of the facility where the expansion of the GTA program is planned in the upcoming years.

As for project documentation, 12 studies, 7 feasibility studies and 8 mining projects were carried out according to the plan. Based on the performed reservoir analysis and renewed 3D models. 49 development wells were drilled in 13 reservoirs, and a drilling plan for 2019 was prepared.

Exploratory Drilling and Well Testing

As a part of the implementation of geological and exploration works, the Exploration and Production Block drilled 10 exploration wells, where testing of production characteristics is in process.

2/3D Seismic Surveys

The acquisition of 3D seismic data was completed in exploration areas South Banat II and Turija IV.

The first phase of 2D seismic research was carried out in the exploration area Morović. 2D seismic research has been completed in Čoka and Radojevo within the geological exploration projects in NIS Petrol Romania blocks. Data processing and interpretation is underway.

The processing of 3D seismic data recorded in the exploration area South Banat II and the complex seismic and geological interpretation of data from the exploration areas Turija III, South Banat I and Morović were completed. The interpretation of seismic data collected in the exploration area South Banat II is underway. The processing and interpretation of gravimetric and geomagnetic data collected in the exploration area south of the Sava and the Danube were completed.

International Projects

At the exploration block Kiskunhalas in Hungary wells were liquidated in September of 2018 due to uncommercial inflow. The exploration works at the Kiskunhalas block were completed and the exploration license was returned.

The Company's business in Romania in the Upstream sector is carried out by the resources of NIS Petrol s.r.l. (a subsidiary, which is whole own by NIS j.s.c Novi Sad) in six concession blocks. The Blocks operator is NIS Petrol s.r.l.

Key events in 2018:

- 2D seismic works on the Teremia North and Jimbolia fields were completed as well as 3D seismic works on EX-3. Processing of the received data is currently underway.
- Designing and construction of the complex for preparation of oil and gas for preparatory testing in the fields Teremia North and Jimbolia (the start of which was planned for the second quarter of 2019) is being carried out.
- Drilling of two exploration bores (on EX-7 Block) has begun.
- An approval for deadline extension for minimal working program (MWP) on blocks EX-2, EX-3, EX-7 and EX-8 for two years until December 2020 was received by Romania's National Agency for Mineral Resources (NAMR).

In September 2018, the partner for concession Jimbolia, Zeta Petroleum Company, stepped out of the project with transferred of its stake in favour to NIS Petrol s.r.l. from Romania.

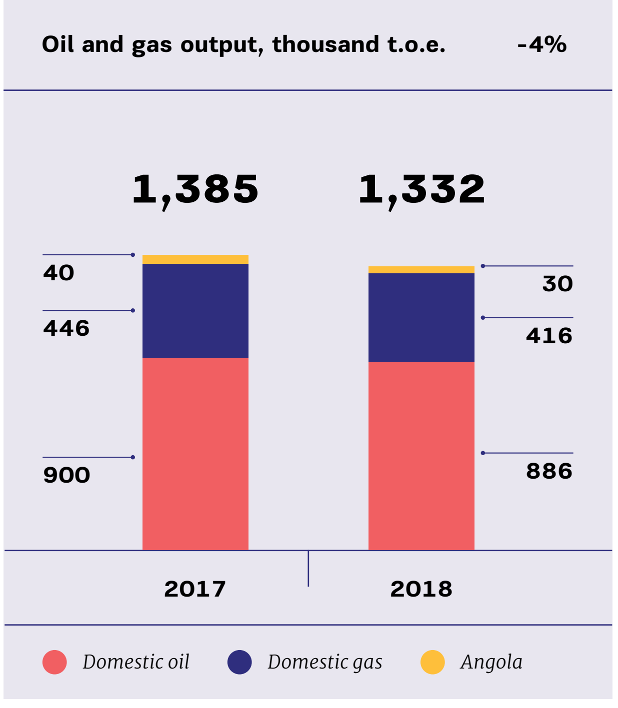
Field works were realized in May in Bosnia and Herzegovina at the East Hercegovina block with the goal of defining routes and methodologies for conducting seismic testing. The project of exploration works for the Majevica blocks was prepared and it included the development of Ob-2 and the realization of seismic and geophysical testing at the East Herzegovina block.

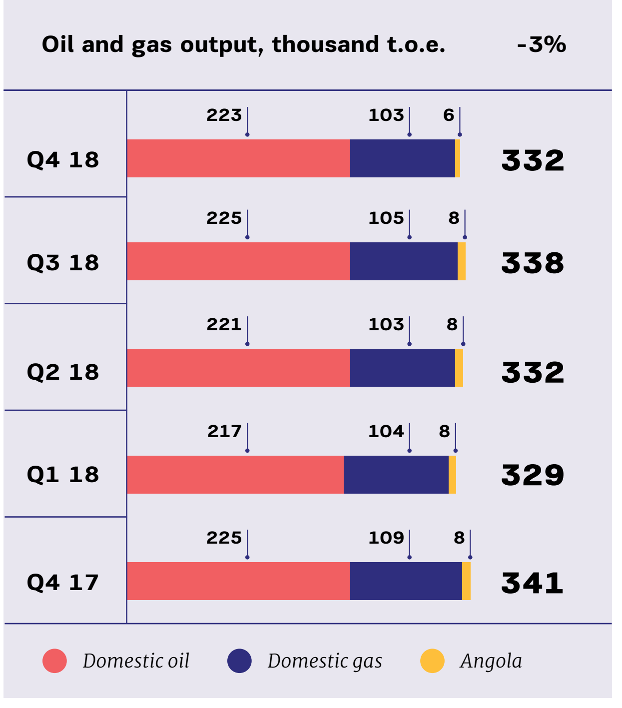
Operating Indicators

A total of 1,332 thousand tonnes of oil and gas equivalent were produced in 2018.

A new organizational structure of the Exploration and Production Block started on October the 1st with the goal of decreasing management levels and consolidating the business under one manager. A transformation was carried out and in that way a sole Block was formed, responsible for the overall business regarding exploration and production.

A Production department and a Technical department were formed in order to clearly assign roles and to liaise between operations and plant management and technical support and reliability of equipment; and also form a centralized development.





Services

The Services Block completed drilling of 60 wells (50 development and 10 exploration) in 2018. The 3D seismic projects in Serbia - South Banat II and Turia IV, where 1,117 km² were recorded - were successfully completed. Also during 2018, the presence on the EU market continued through activities on projects in Romania. The production of 3D Seismic on the project Ex-3, where 223 km² was recorded, was completed, as well as the 2D seismic production Valcani and Jimbolia, and drilling of the two exploration wells began. Also, in 2018, works on the reconstruction of 4 PS were completed.

Q4 2018	Q4 2017	Δ[1]	Indicator	Unit of measure	2018	2017	Δ[2]
11	13	-15%	Wells finished	Number of wells	60	61	-2%
4.1	2.8	48%	*LTIF*[3]	%	4.1	2.8	48%
0.8	-0.3	340%	EBITDA	RSD billion	1.8	1.5	17%
0.5	0.3	51%	*CAPEX*[4]	RSD billion	0.9	0.6	49%

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.*
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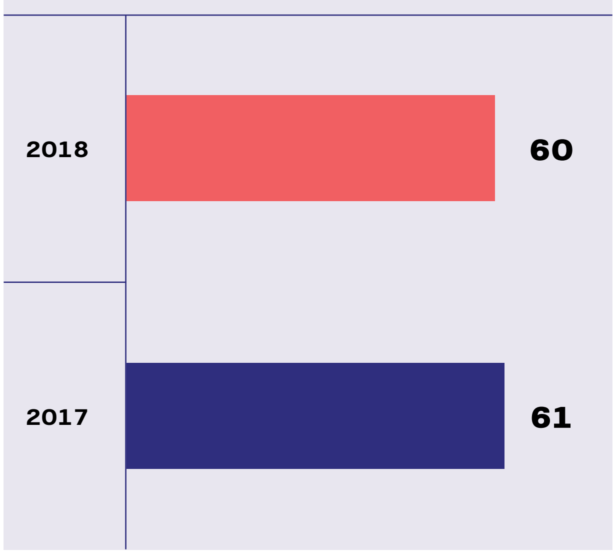
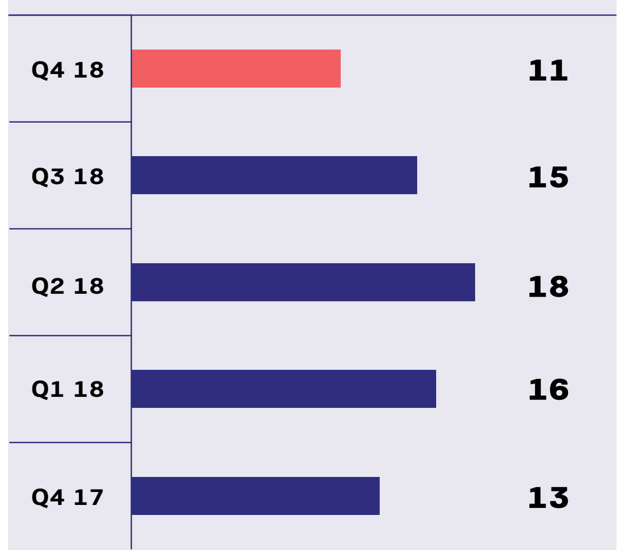
3 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The specified indicator is calculated cumulatively, from the beginning of the year, and the indicated data represent the current status as of 31. December 2018, hence there is no difference between 2018Y and Q4.*
4 *Financing, exclusive of VAT.*

Oilfield Services

Number of finished wells **-2%**



Number of finished wells



Naftagas – Oilfield Services performed works in 2018 using an average of 7 drilling rigs. The drilling of 60 wells was completed, 60 for the needs of 'Exploration and Production' Block. 4 very technically and technologically demanding wells were successfully completed. Two drilling plants were engaged in drilling the 2 exploration wells in Romania. The strategy 'Technical Limits' is still being implemented with the aim of increasing the drilling rate and efficiency of the process itself.

The Workover Unit worked on average with 14 workover rigs and carried out 465 well workovers in 2018. The investment project - Procurement of hydraulic rotary heads was realized, and a project for the procurement of new operating tubing and drilling pipes was launched.

The Well Services Department had 7,061 interventions, and the Cementing Office 1,672. Also, a successful purification of the 'Je-116' well from paraffin was carried out using a flexible tubing and 'SpinCat' tool.

In 2018, The construction block carried out the reconstruction works of the petrol stations - 'Bagrdan' - Jagodina, 'Subotica 1', 'Lazarevac' and 'Novi Sad' for the Sales and Distribution Block, while the works on maintenance, repair and production of equipment for the 'Exploration and Production' Block were continued.

Technical Services

Renovation of the following units in the Pančevo Oil Refinery was completed: S-100, S-200 (Visbreaking) and S-2400. Additionally, there were constant activities related to the maintenance of facilities and equipment in Sales and Distribution and Refining Blocks.

Transport

By supporting the activities of all blocks. Naftagas - Transport l.l.c. Novi Sad provided transportation services of passenger, freight, special-purpose and bus vehicles. The total number of kilometres in 2018 was 28.20 million.

From the beginning of 2018, Naftagas-Transport l.l.c. has been certified for public and international transportation, based on which it provided the transportation of equipment to Romania (for NFS) and B&H (for Exploration and Production Block) were realized, resulting in a total of 27,771 covered kilometres in the international traffic. Also, by procuring and commissioning 35 tanks and 9 tractor units, the volume of crude oil transport for the Exploration and Production Block was increased.

Refining

Q4 2018	Q4 2017	Δ	Indicator	Unit of measure	2018	2017	Δ
1,067	993	+7%	Volume of refining of crude oil and semi-finished products	Thousand tonnes	3,836	3,605	+6%
0	1.3	-	*LTIF*[1]	%	0	1.3	-
-2.7	6.2	-144%	*EBITDA*[2]	RSD billion	8.3	15.8	-47%
5.5	1.9	181%	*CAPEX*[3]	RSD billion	16.4	5.5	198%

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 the 31st of December 2018, hence there is no difference between 2018Y and Q4.*
2 *EBITDA of the Refining Block includes the Energy Plant at the Pančevo Refinery.*
3 *Financing, exclusive of VAT.*

The Refining Block reports another successful business year, which is best reflected through the achieved key performance indicators. In 2018 a ten year high volume of oil refining and finishing was achieved, of 3.8 million tonnes.

The achieved EBITDA for 2018 is 8.3 billion RSD. The achieved measure efficiency in 2018 amounts to 0.9 billion RSD.

In December 2018, 50 years of work and development of the Pančevo Oil Refinery was celebrated. With the opening of the new MHC&DHT complex with mild hydrocarbons and hydro-power plants at the end of 2012, production of the highest quality petroleum products of the Euro -5 standard started. With this investment, the first phase of modernization was successfully completed and a new a refinery processing phase started, which is continued in 2017 by opening of the construction site for the delayed coking plant within the Bottom of the Barrel project, which introduces the refinery to a new round of development and further modernization of refinery processing.

During 2018 the implementation of the Bottom of the Barrel project dynamics has been accelerating, especially with regards to construction, concrete and mechanical works, and the number of employees at the site is increased.

Refining Activities and Volume

In 2018, the production of petroleum products increased by 6% compared to the same period in the previous year as a result of market demands (diesel, jet fuel, virgin naphtha, bitumens).

The renovation was completed on the plant for bitumen production, as well as at the Klaus, Visbreaking and Diesel deparaffinization plants. Within the works on the Bottom-of-the-Barrel project, the Merox plant was handed over for reconstruction.

A new compressor for ejector gas at the vacuum distillation plant was put into operation, which significantly reduced the sulphur oxide emissions into the atmosphere. The APC (Advanced Process Control) system was implemented on the hydrocracking unit.

The burners were replaced in the vacuum distillation unit.

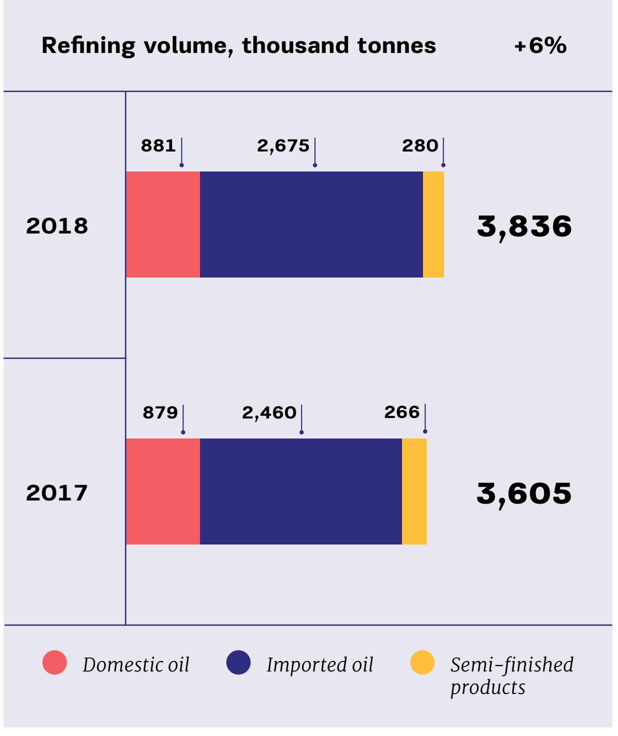
Technological conditions for connecting CCPP Pančevo to the existing lines within POR were established.

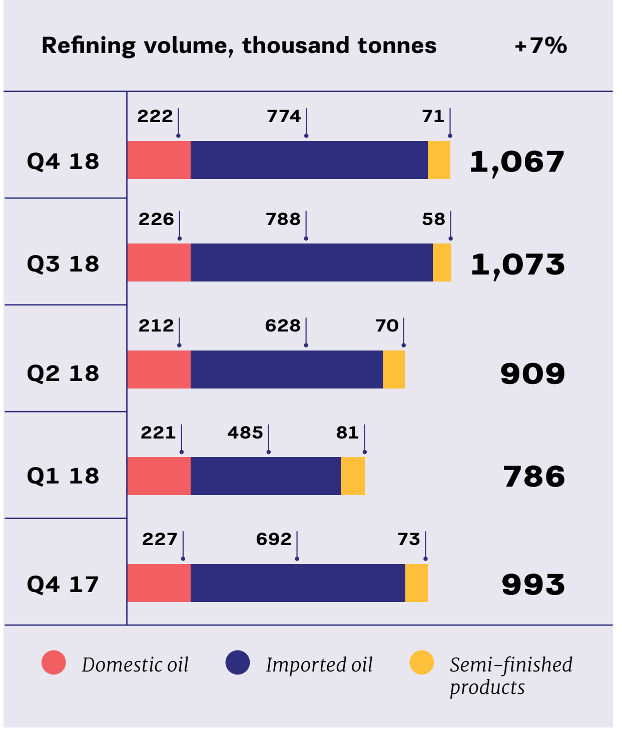
The procedure for extending the scope of certification for the new type of bitumen for the roads ‘EV 35/50’, which NIS wishes to launch on the European market has been completed.

At the beginning of November 2018, the Agency for Protection from Ionizing Radiation and Nuclear Safety of Serbia, assigned to the Refining Block the Licence to Perform Radiation Activity and the Solution for the Use of Ionizing Radiation Sources to the Refining Block for ionizing sources installed at the FCC Plant (Plant for production of diesel, gas, gasoline components and gases). The plan is to extend the validity of this solution, which is related to the next five years, to Deep refining with the technology of the delayed coking plant which is under construction, where these devices will also be installed.

In 2018, we were working actively on the projects within digital transformation, which will be continued in 2019, with the focus on the project €kon$, where the commissioning of the first phase of the project at the Primary Refining Plants (Atmospheric and Vacuum Distillation) is expected already in early 2019.

During 2018, preparatory activities for the execution of the capital overhaul of the Pančevo Oil Refinery, planned for the first quarter of 2019, were carried out.





The Refining Block reports another successful business year, which is best reflected through the achieved key performance indicators. In 2018 a ten year high volume of oil refining and finishing was achieved, of 3.8 million tonnes.

The Bottom of the Barrel Project

The detailed project of the project Bottom-of-the-Barrel was completed, with the exception of works in connection to changes induring in the construction process.

The foundations were laid and the basic steel constructions of the project installed, while the general construction works have been completed.

All oversize and critical equipment was delivered and installed. Installation of heat exchanger and vessels, including the coke oven, has been performed.

A fully equipped transmission substation and a distribution substation for the distribution of electricity, as well as a control block for instrumentation, were constructed.

95% of the equipment and material for the project was delivered.

Works on the installation of pipelines, electrical and technical equipment and instrumentation in the field were conducted.

Overhaul

In January, the bitumen production unit was overhauled and the bitumen loading system was reconstructed without the need to shutdown this production unit.

In mid-February 2018, a planned overhaul was conducted by applying modern methods for equipment cleaning, in order to increase the total efficiency of refining and improving the operation during the summer period. During this scheduled shutdown, the technological line of the hydrogen unit was completely replaced, which will result in the higher operational reliability of this and other refining units, 14 heat exchangers and more than 20 air cooler sections were cleaned. The revision and overhaul of four columns were carried out while several technical and technological modifications were made on processing units.

The catalysts were replaced on the pyrolysis gasoline hydrodesulphurisation unit.

Scheduled overhaul activities on the small atmospheric distillation plant were carried out.

The overhaul of the plants Klaus (C-2450), and Visbreaking (C-200) was carried out together with the current overhaul of the plant for Diesel deparaffinization (C-2400).

The overhaul of the boiler BF-9602/1 was carried out, the repair of the furnace 2401, as well as the repair of the GB 2501 compressor on FCC (C-2300) plant.

Throughout 2018, preparatory activities were carried out for the execution of POR capital overhaul in February-March 2019, which were planned to be completed in 38 days (from the start of the suspension until the establishment of the normal technological regime).

Other Projects

During 2018, the LOTO system (isolation and locking equipment) was implemented in order to increase occupational safety.

The following investment projects have been put into operation: Contractor accommodation location, Installation of on-line analyzers for linear API separation and POR line analysis, Modernization of the installation for loading / unloading of bitumen on RS/ACS at Pančevo Refinery, Application of antireflection furnace coating on Catalytic Reforming Plant (S-300), Installing an on-line simulator distillation analyzer and a blinking point on the MHC / DHT diesel line, Reconstruction of the tank FB-0805. Expansion of the APC controller from S-300 to S- 500, Extension of the railway scale (legal obligation) and Modernization of the radio system in POR.

The implementation of the Digital Transformation was initiated in the Refining Block with the projects for training operators on plant simulators (OTS), the project for the anticipation of failures (Machine Learning) and the operator support project (€kon$) have been started.

A feasibility study for Automatic fire extinguishing systems for the extinguishing and cooling of old POR plants and protection of the furnace in the event of gas leakage on POR plants has been developed.

The NIS Executive Board approved the realization phase of the following projects: Reconstruction of the system for prevention of corrosion at the Atmospheric distillation plant (S-2100) of POR, Reconstruction of the fire protection system in POR (Module 1), Reconstruction of the laboratory building in POR, Upgrade of DCS system in block 5,6, FCC and Bitumen.

The reconstruction of the POR dispatcher building was finished. Implementation of the complex project System of integral and technical protection of POR is currently in progress.

Within the framework of the realization of the project to increase the traffic safety on the section in front of the entrance to the POR. works on horizontal and vertical traffic signalization in Spoljnostarcevacka Street were completed.

The project Career Path was implemented. Within this project, 84 employees passed the exams and mastered knowledge and skills for the next position in their career path. The first generation of high school students with majors oil and gas operations, initiated by the refinery's needs, started the new curriculum. Cooperation with high schools and faculties has been achieved.

Sales and Distribution

Q4 2018	Q4 2017	Δ[1]	Indicator	Unit of measure	2018	2017	Δ[2]
1,008	988	+2%	Total sales volume of petroleum products [3]	Thousand tonnes	3,748	3,491	+7%
94	105	-11%	Sales volume – foreign assets[4]	Thousand tonnes	359	338	+6%
762	731	+4%	Sales volume of petroleum products in the domestic market[5]	Thousand tonnes	2,807	2,642	+6%
616	597	+3%	Motor fuels[6]	Thousand tonnes	2,383	2,154	+11%
250	235	+6%	Retail[7]	Thousand tonnes	949	916	+4%
2.0	1.2	+68%	LTIF[8]	%	2.0	1.2	+68%
5.2	1.9	x2	EBITDA	RSD billion	13.9	10.3	+35%
0.8	1.3	-34%	CAPEX[9]	RSD billion	3.2	2.1	+51%

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 internal sales volume (12M 2018.: 16.1 thousand tonnes; 12M 2017.: 15.9 thousand tonnes).*
4 *The sales volume of foreign assets includes sales generated by the subsidiaries of NIS 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 the 31st of December 2018, hence there is no difference between 2018Y and Q4.*
9 *Financing, exclusive of VAT.*

Points of Sale[6] and Logistics

NIS Group owns over 400 active retail sites. Most of them, i.e. 327 retail sites are located in the Republic of Serbia. In addition to 10 internal petrol stations, NIS owns 317 public petrol stations (20 of which under the GAZPROM brand). In other countries of the region, NIS owns 37 petrol stations in Bosnia and Herzegovina (27 under the GAZPROM brand), 35 petrol stations in Bulgaria (all of them under the GAZPROM brand) and 18 petrol stations in Romania (all of them under GAZPROM brand).

After the completion of total reconstructions, the following petrol stations were put into operation in Serbia: Subotica 1, Lazarev grad, Novi Sad 11 and Kovin (all under NIS the brand). Two petrol stations in Niš were taken into long-term lease, rebranded and put into operation: Vojvode Mišića (under the GAZPROM brand) and 12. februar (under the NIS brand). The Bagrdan petrol station (under the GAZPROM brand) was re-branded and put into operation.

Loyalty Program and Marketing Activities

In Serbia and the region, over 175 marketing campaigns were conducted in 2018, aimed at development of the consumer brand, the loyalty programme, and the improvement of fuel and non-fuel sale. Additional promotional sales campaigns were run at six newly-opened petrol stations.

Two G-Drive Instant Wins (G-Drive Takes You to Russia and G-Drive Instant Win, with the largest prize pool yet, for On the road with us loyalty card users) and ATL image campaigns were run, aimed at increasing the share of G-Drive fuel in petroleum product (petrol and diesel) sales volumes.

By introducing OPTI petroleum products (petrol and diesel) into the GAZPROM retail network and OPTI TNG at 148 GAZPROM and NIS Petrol petrol stations in the second quarter of 2018, the branded fuel portfolio was improved.

In the private-label domain, the development of Drive Cafe brand continued by launching private-label products and promoting coffee. 23 new products were launched, for which the visual identity packaging was created and communication support provided: G-Drive Energy Gums (Spearmint and Peppermint), G-Drive Energy Cherry, Drive Cafe Oatmeal (4 types), G-Drive Isotonic by Aqua Viva (4 types), and G-Drive Bamboo Cups (3 types), G-Drive Energy Candies (Spearmint and Peppermint), 6 types of Drive Cafe salads and 1 new Drive Cafe sandwich (tuna and corn).

Strategic repositioning of Jazak water was completed. The visual identity of Jazak water (packaging and label) was redesigned, and the media event (press tour) was organised in the Jazak water factory. Communication support was provided in the form of placement of articles and advertorials in Lifestyle magazines.

Two reconstructed petrol stations were put into operation - Novi Sad 11 and Kovin. The start of operation was marked by promotions at the points of sale, including campaigns offering different benefits for the customers – the same price of Premium and standard petroleum products, as well as giveaways with every purchase.

As regards the B2B business segment, in the domain of cooperation with the customers - card users, a series of campaigns were organised offering rewards for corporate clients: travel to the Football World Championships in Russia and Formula One World Championship in Monza. An official celebration was organized, with over 300 guests. As regards cooperation with wholesale customers, a visit to the Pančevo Oil Refinery was organised and a new sales tool was created for wholesale representatives.

The 'On the road with us' loyalty programme has been developed since late 2015 and, by the end of 2018, over 696 thousand cards were issued, and the share of this programme in the total sales to physical customers in 2018 was 60%.

In 2018, 'On the road with us' card was enriched with a new payment function, enabling customers to purchase fuel and other merchandise with a deferred payment of up to 45 days at all NIS Petrol and GAZPROM petrol stations. Since the introduction of this new function, over 34 thousand requests have been submitted with over 27 thousand being approved.

6 As at 31 December 2018.

In 2018, the partnership loyalty programme with the company Tehnomanija continued, so the holders of 'On the road with us' cards receive bonus points for each and every purchase. The bonus points can be redeemed on NIS Petrol and GAZPROM petrol stations exclusively. In the third quarter of 2018. a new promotional campaign was launched in 'Gigatron' retail shops, under which the holders of 'On the road with us' cards receive bonus points for each and every purchase. The bonus points can be redeemed on NIS Petrol and GAZPROM petrol stations exclusively.

As a part of the loyalty programme in Bosnia and Herzegovina, around 79,157 cards were issued in 2018, and the share of these customers in the total sales to individuals was 50%. As a part of the 'On the road with us' program in Bulgaria, by the end of 2018, 145,781 cards were issued. The share of the users of this program in total sales to physical customers in 2018 was 70%.

Project Drive Cafe retail concept was successfully introduced to the PSs in Bosnia and Herzegovina and Bulgaria. By introducing OPTI petroleum products (petrol and diesel) to the GAZPROM retail network in Bulgaria, the branded fuel portfolio was improved in this country in which the company operates.

The Agro Card programme for farmers has been developed since late 2013. By the end of 2018, 129,798 cards were issued. The activities successfully retained the level of sales from 2017, and aimed to achieve the same with regards to fulfillment of the planned volume indicators for 2018 and reactivation of customers.

In the oils and lubricants sale channel, a new "de-icing" product from the NISOTEC family was launched, designed for quick deicing and ice and frost removal from the windscreen. NISOTEC AdBlue, diesel exhaust fluid, with an easy pour spout was also launched.

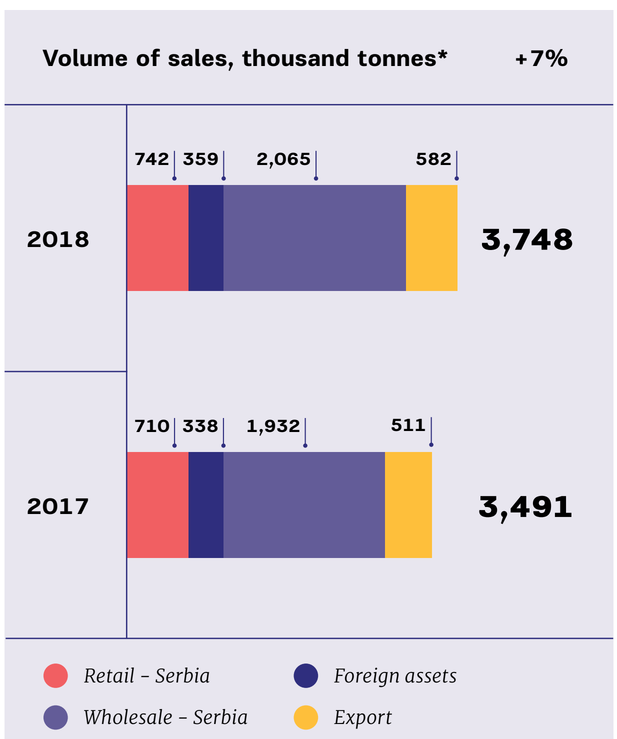
The top quality of the company's products was acknowledged at this year’s 85th International Agricultural Fair in Novi Sad, with awarding of the large champion cup for the top quality of motor, hydraulic and transmission oils.

The traditional marketing campaign aimed to promote the NISOTEC brand, titled 'My Car Loves NISOTEC', was successfully organised. The distributor motivation programme was implemented in Serbia and the region, while the company’s lubricants under the NISOTEC brand still hold the leading position in Serbia, with a market share of 22.7 per cent.

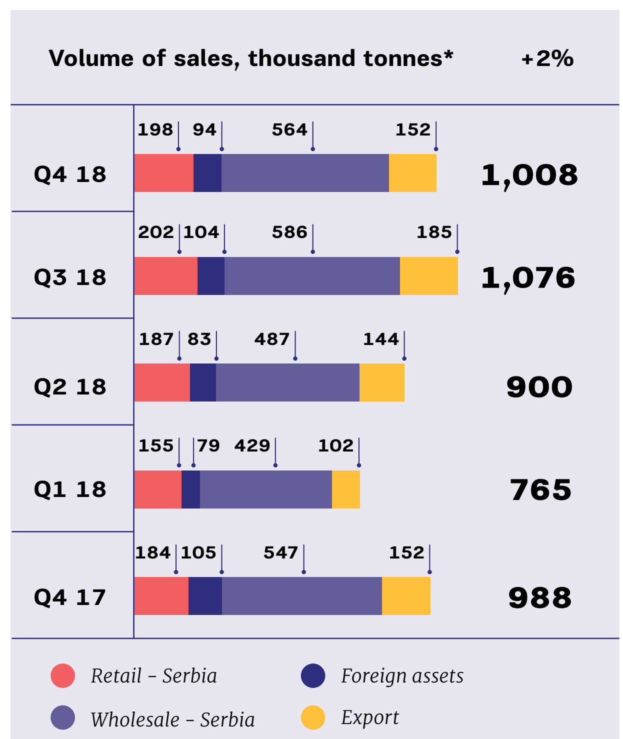
Operating Indicators [7]

In 2018, the sales volume growth was 7% in relation to 2017, so the total sales volume amounted to 3,748 thousand tonnes.

- Retail in Serbia - retail volume growth of 5% resulted from the growth in diesel fuel sales.
- Wholesale in Serbia - growth of 7% mainly due to non-energy fuels.
- Export - growth of 14% as a result of growth in motor and non-energy fuel exports.
- Foreign assets - growth of sales volume of 6% (retail channel - 1% and wholesale channel - 15%).



* Without internal sales (12M 2018: 16.1 thousand tonnes; 12M 2017: 15.9 thousand tonnes, Q4 2018: 3.8 thousand tonnes; Q4 2017: 4.5 thousand tonnes).

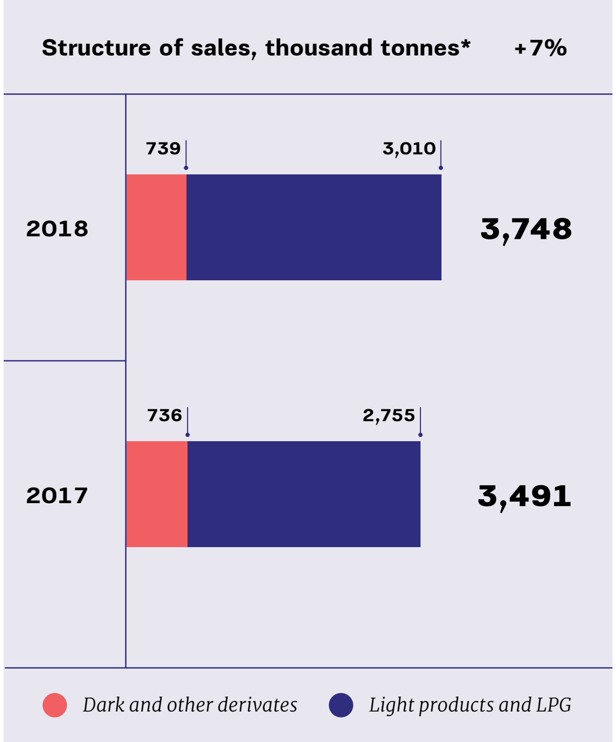


* Without internal sales (12M 2018: 16.1 thousand tonnes; 12M 2017: 15.9 thousand tonnes, Q4 2018: 3.8 thousand tonnes; Q4 2017: 4.5 thousand tonnes).

7 Without internal sales (12M 2018: 16.1 thousand tonnes; 12M 2017: 15.9 thousand tonnes, Q4 2018: 3.8 thousand tonnes; Q4 2017: 4.5 thousand tonnes).

In 2018, the Sales and Distribution Block's sales figures increased by 7%, while exports rose by 14%.

In Serbia and the region, over 175 marketing campaigns were conducted in 2018, aimed at development of the consumer brand, the loyalty programme, and the improvement of fuel and non-fuel sale.



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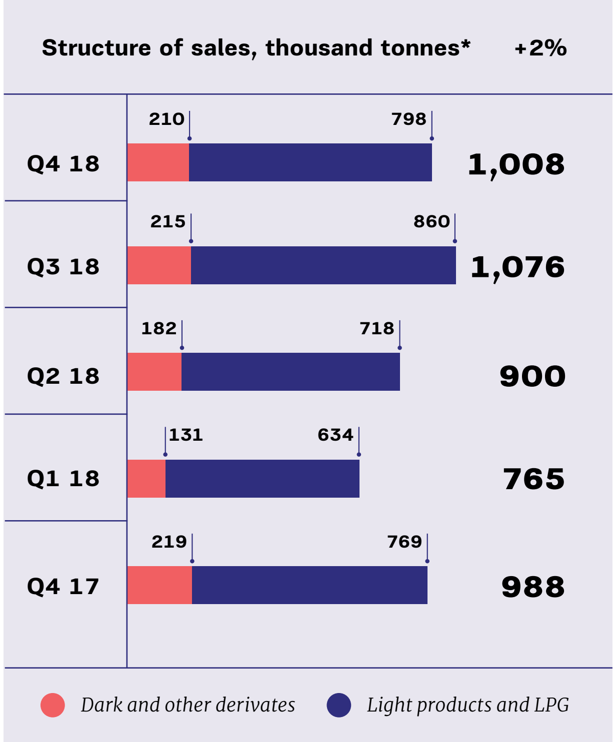

* *Without internal sales (12M 2018.: 16.1 thousand tonnes; 12M 2017.: 15.9 thousand tonnes; Q4 2018.: 3.8 thousand tonnes; Q4 2017: 4.5 thousand tonnes).*

Energy

Q4 2018	Q4 2017	Δ[1]	Indicator	UoM	2018	2017	Δ[2]
41,090	35,805	+15%	Electricity production	MWh	152,425	153,772	-1%
4.45	0.0	-	LTIF[3]	%	4.45	0.0	-
-0.05	0.1	-150%	EBITDA	RSD billion	0.4	0.9	-60%
0.09	0.3	-70%	CAPEX	RSD billion	0.3	0.5	-40%

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.*
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After the transformation of the Energy Block in July 2018, the Energy Directorate successfully continued with activities of natural gas portfolio management of trade in natural and compressed gas and electricity, where significant results for NIS were achieved. Moreover, the Energy Directorate is a functional NIS energy leader, with functionally subordinate organizational units for energy in Block Upstream and Downstream division and with key tasks to both ensure reliable supply of electricity to NIS production facilities and improve the energy efficiency of the process.

The realized EBITDA of the Energy Block in 2018 is 0.4 billion dinars. The contracted electricity trading volume in 2018 amounts to 1.25 TWh. Numerous activities aimed at developing business and improving energy and operational efficiency have been realized.

Currently, NIS, CCPP Pančevo and Vetropark Plandište, is underway, together with the partners.

Gas Monetisation

Regarding the small electricity plant at the oilfield OC Kikinda, the project passport has been officially approved and documentation completed for referral to the Exploration and Production Block's Investment Committee. Exploration and Production Block is still in charge of the project completion.

As a part of the reconstruction of the Velebit 3 small electricity plant, in view of gaining an incentive price for electricity, a cogeneration unit reconstruction contract has been undertaken. All necessary equipment for this project shall be procured and works completed within five months of the contract signing. All other activities concerning the construction of heat accumulators and thermal sub-station have been completed.

The final activities have been undertaken aimed at reducing heating costs for consumers based in the compound of the former Novi Sad Refinery (of heat source decentralization). Construction of the central steam boiler is over and technical acceptance of the facility started as well as the preparations for a test run and the proving of the guaranteed parameters. Final operations have begun in the boiler room in the waste water treatment plant as well as in four other small boiler rooms in the Novi Sad Refinery compound.

As a part of the investment in maintenance of the equipment in the power plant and electricity system in the Pančevo Oil Refinery, technical documentation for the planned projects has been completed. Equipment delivery and work completion services have been contracted for the projects to be delivered as part of the turnaround in the Pančevo Refinery within the stipulated period. Other projects are being completed according to schedule.

CNG Projects

Construction of the CNG unit at PS Žarkovo 2 (Belgrade) is over and a test run has started. The construction of the CNG unit at PS Blok 45 in New Belgrade was supplied with the main equipment before the end of 2018 following the completion of the factory testing. The Sales and Distribution Block has applied with the competent state agency for location terms for drafting technical documentation.

Regarding the CNG unit project at the Palić oilfield, works are currently under way to build a gas measuring and regulation station (obligation of Srbijagas) after which the conditions for the supply of CNG will be met. Plant reconstruction has been agreed, which is not a condition for the contracted supply of CNG. The Exploration and production Block is in charge of the plant reconstruction.

Trade in Electricity

In terms of the electricity trade, NIS operates in the markets of Serbia, Bosnia-Herzegovina,Romania, Slovenia and Hungary. In addition to these markets, it has been also traded on the border with Yugoslavia's former Republic of Macedonia. NIS commenced trading at the Serbian Power Exchange (SEEPEX). Registration has been completed and operation started with an auction office JAO (Joint Auction Office) that awards transborder portable capacities for Central and South-East Europe. Electricity import from Bulgaria started in November.

Energy Efficiency

The Energy Competence Centre of NIS and a Group for internal energy examinations has been set up with a primary mission to carry out energy examinations of power generating and technological equipment, to evaluate their energy efficiency and suggest measures to boost energy efficiency of technological processes in Exploration and Production and Downstream.

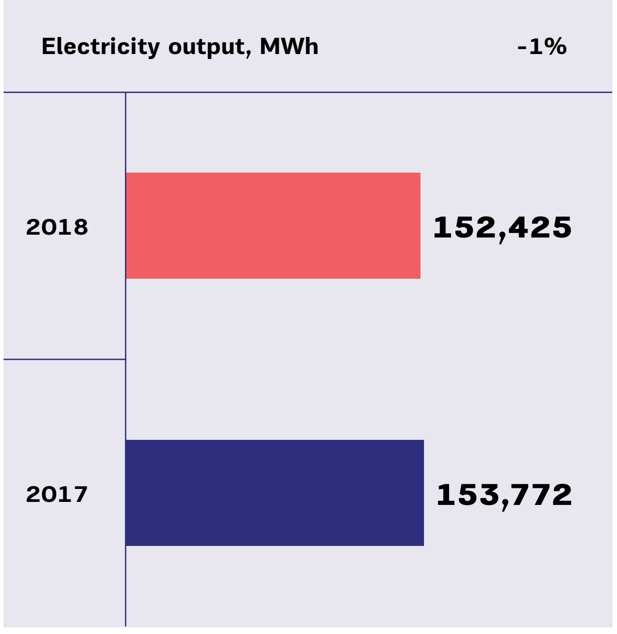
According to the results of the implementation of measures from the energy efficiency program of NIS j.s.c. for 2018, an effect of 353 million RSD was achieved. During the same year, additional measures were introduced and implemented at the end of the year in the amount of RSD 169 million, which in total amounts to RSD 522 million.

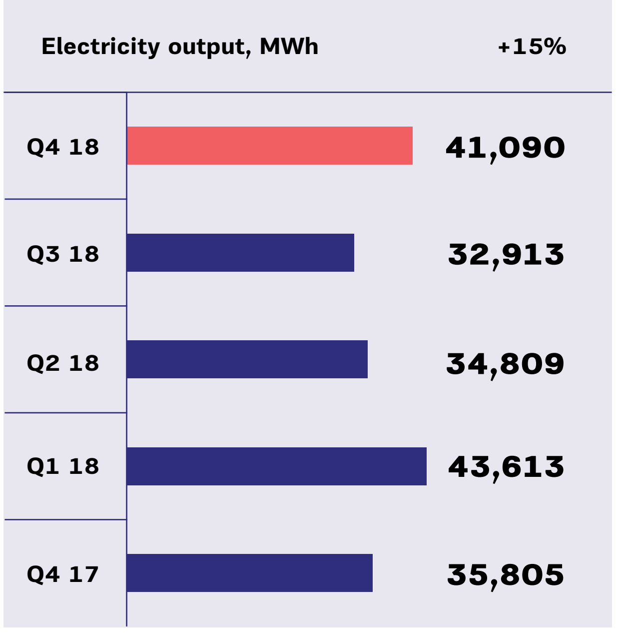
The Energy Management System (EnMS) as per ISO 50001 Standard was implemented in NIS j.s.c. over the course of 2013, with the first certificate obtained in March 2014. External supervision examinations have been carried out continuously. In March 2017, an external supervision examination of IMS (integrated management system) was conducted in order to gain a certificate for the energy management system for entire NIS j.s.c. and the certificate validity has been confirmed through to 2020.

According to Serbia's Power Generation Law, an authorized energy Advisor appointed by the Mining and Energy Ministry shall conduct a mandatory external energy examination in NIS j.s.c. in 2019.

Operating Indicators

In 2018, a total production[8] of 152,425 MWh of electricity was achieved. At small power plants the production was 7% lower compared to the previous year, due to less gas availability in the fields Sirakovo and Majdan. Production of electricity in the power plant Pančevo is dependent on the volume and structure of needs for steam of the Refining Block. In order to produce electricity at cogeneration units, in 2018, 34.9 million m^3 of non-commercial gas was used.





Currently, NIS, CCPP Pančevo and Vetropark Plandište, is underway, together with the partners.

8 As of July 2018, electricity generation is within competence of the Exploration and Production Block (small power plants) and the Refining Block (Energy Power Plant Pančevo).

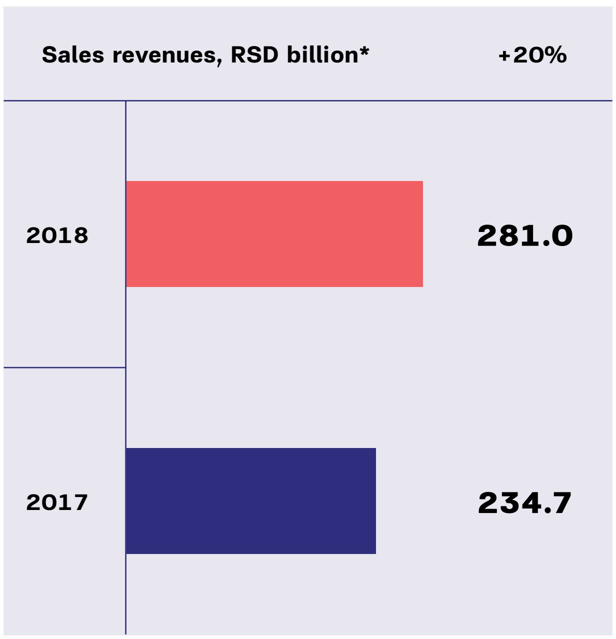
Financial Indicators

Sales Revenues

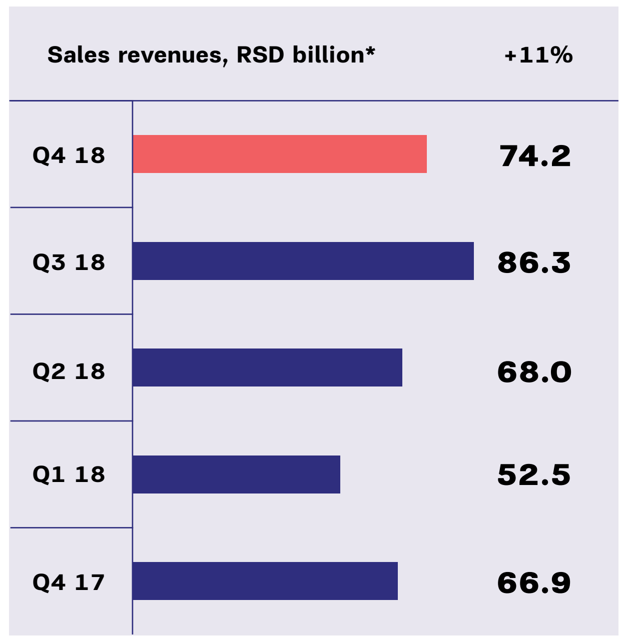
During 2018, NIS achieved a 20-percent growth in sales revenue compared to the previous year. This growth was achieved due to an increase in the volume of sales, as well as an increase in the retail prices of petrol and diesel fuels, which on average increased by 6.4% in 2018, comparing to 2017 (Euro Premium 95 – +4.98%; Euro Diesel – + 7.7%).

More information on oil price trends on page 48

The increase in retail prices was prompted by the rise in crude oil prices in the global market.

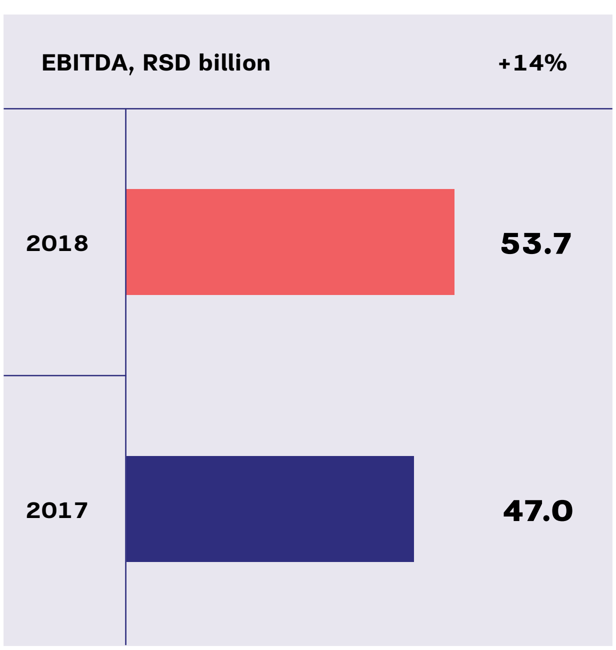


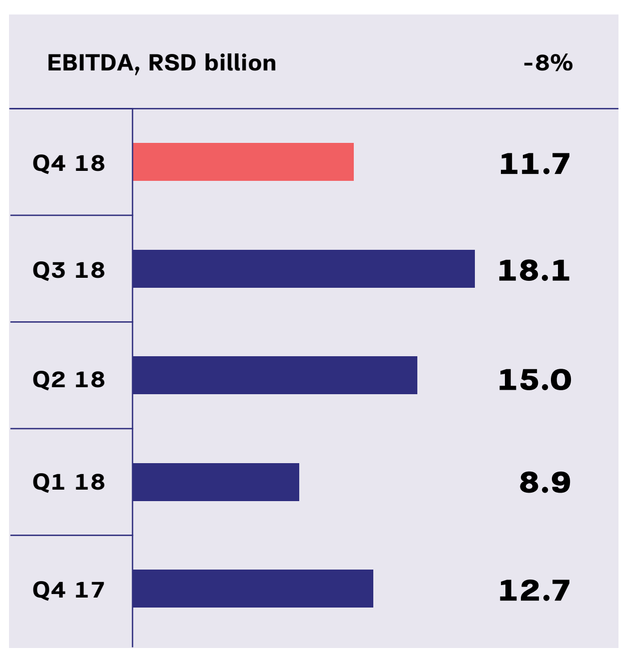
* *Consolidated operating revenue.*



* *Consolidated operating revenue.*

EBITDA



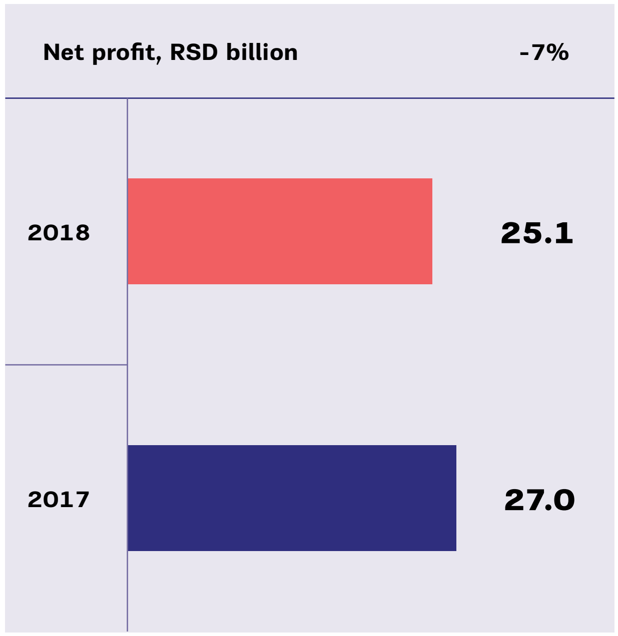


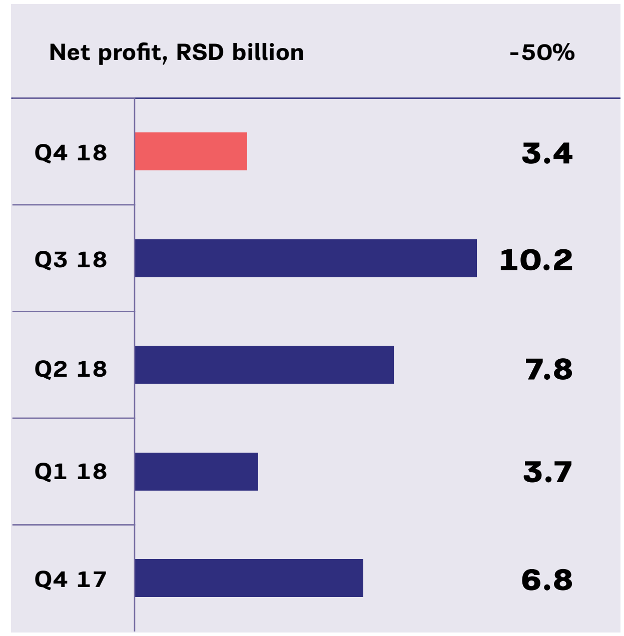
EBITDA for 2018 was 14% higher than in the previous year and amounted to RSD 53.7 billion.

The main reasons for the increase include:

- The increase in the prices of crude oil and petroleum products,
- Operational efficiency improvement and
- Increase in sales and distribution volume.

Net Profit





Net profit realised in 2018 is RSD 25.1 billion, a 7% decrease comparing to 2017.

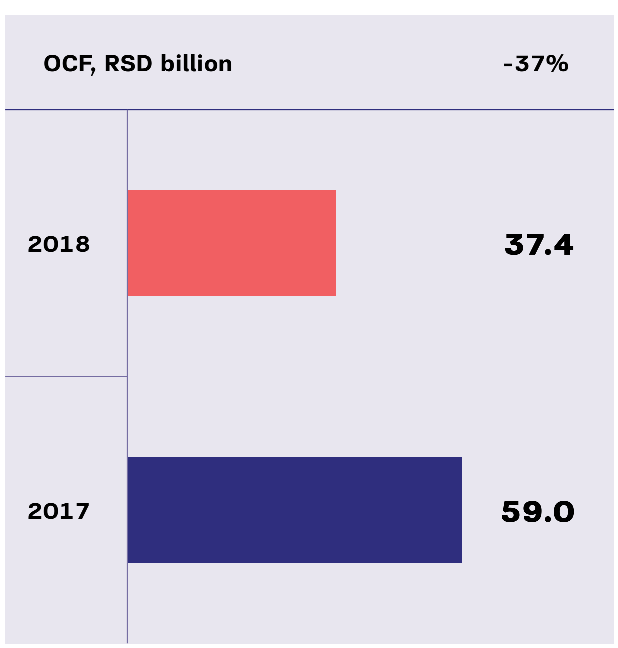
The main reasons for the decrease include:

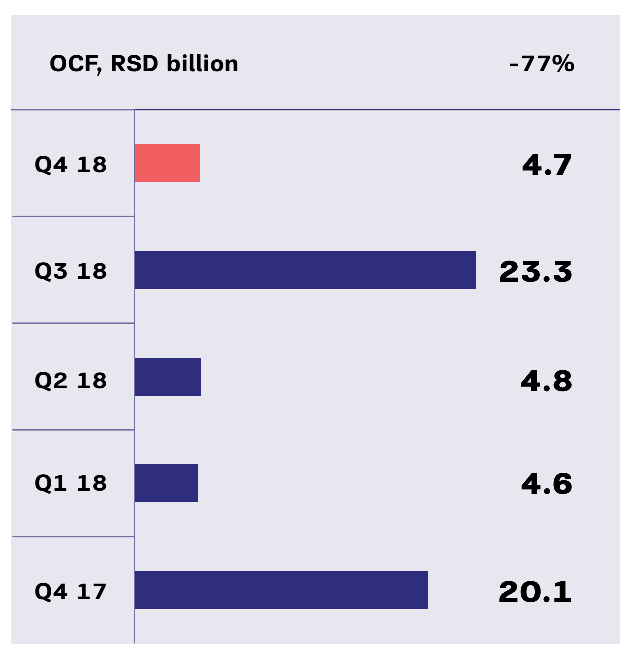
- Change of EBITDA
- Depreciation (transition to functional method)
- Differences in exchange rate
- Lower interest costs.

OCF

In 2018, Operating Cash Flow amounted to RSD 37.4 billion, 37% decrease comparing to 2017:

- In 2017, receivables from HIP and Srbijagas were collected
- Increased inflow due to higher petroleum product prices
- Increase in liabilities for crude oil and petroleum product import
- Increase in liabilities paid to government
- Increase in liabilities for customs duties.





CAPEX

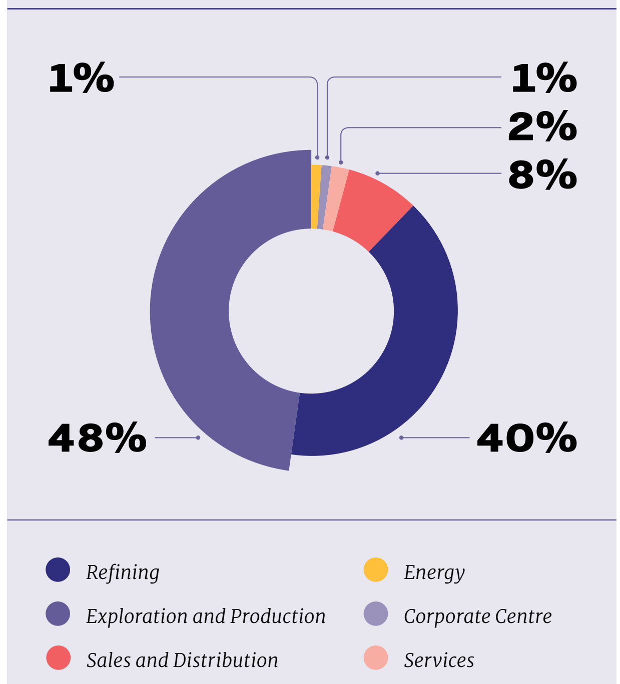
In 2018, the main investments focused on the implementation of oil and gas production projects. A significant portion of investment was allocated to modernise refinery processing. During the year, NIS also invested in Sales and distribution, Energy and Services projects,as well as in a number of projects in the Corporate Centre.

During 2018, RSD 41.0 billion was allocated to finance investments, which is 55% more than allocated in 2017.

CAPEX by type of project*, RSD billion

* *Amounts given in RSD billion, excluding VAT.*

Investments by segment



As much as RSD 41 billion was allocated to investments, a 55% increase on the previous year.

Organisational unit	Major projects
Exploration and Production	• Drilling of development wells • Investment in geological and technical activities • Programme of 3D seismic exploration and drilling of exploration wells in the Republic of Serbia • Investment in base infrastructure • Investment in concession rights
Services	• Modernisation of Tubing centre • Procurement of semi-trailer tanks and towing vehicles • Construction of mud landfill in Novo Miloševo • Purchase of Gravel Pack equipment
Bottom of the Barrel Project	• Modernization of refining - continuation of implementation according to the Bottom of the Barrel project
Refining	• Programme of production efficiency increase and the programme of investment maintenance of the Refining Block • Projects of the harmonization of legislation and regulations • Investment in projects related to production efficiency increase • Capital investment in relation with environmental protection
Sales and Distribution	• Retail network development in Serbia (petrol station construction and reconstruction, petrol station acquisition, and petrol station renting and rebranding • Logistics projects (acquisition of tank trucks, capital workover of tank wagons, preparation of technical documentation for the legalization of petroleum product depots) • Retail network development in the region (acquisition of 3 PSs and additional equipment in Bosnia, implementation of Drive Café branding elements on PSs in the region) • Other retail related projects (introduction of Drive Café concept at petrol stations, increasing safety at PSs)
Energy Block	• Decentralization and modernization of the heating source at hte Novi Sad refinery • Investment Maintenance program for Energy Block
Corporate Centre	• Projects with an IT component (upgrade of communication infrastructure in data centres, replacement of EoL Core system of IP telephony, improved safety of data centres, and purchase of MDM licenses)

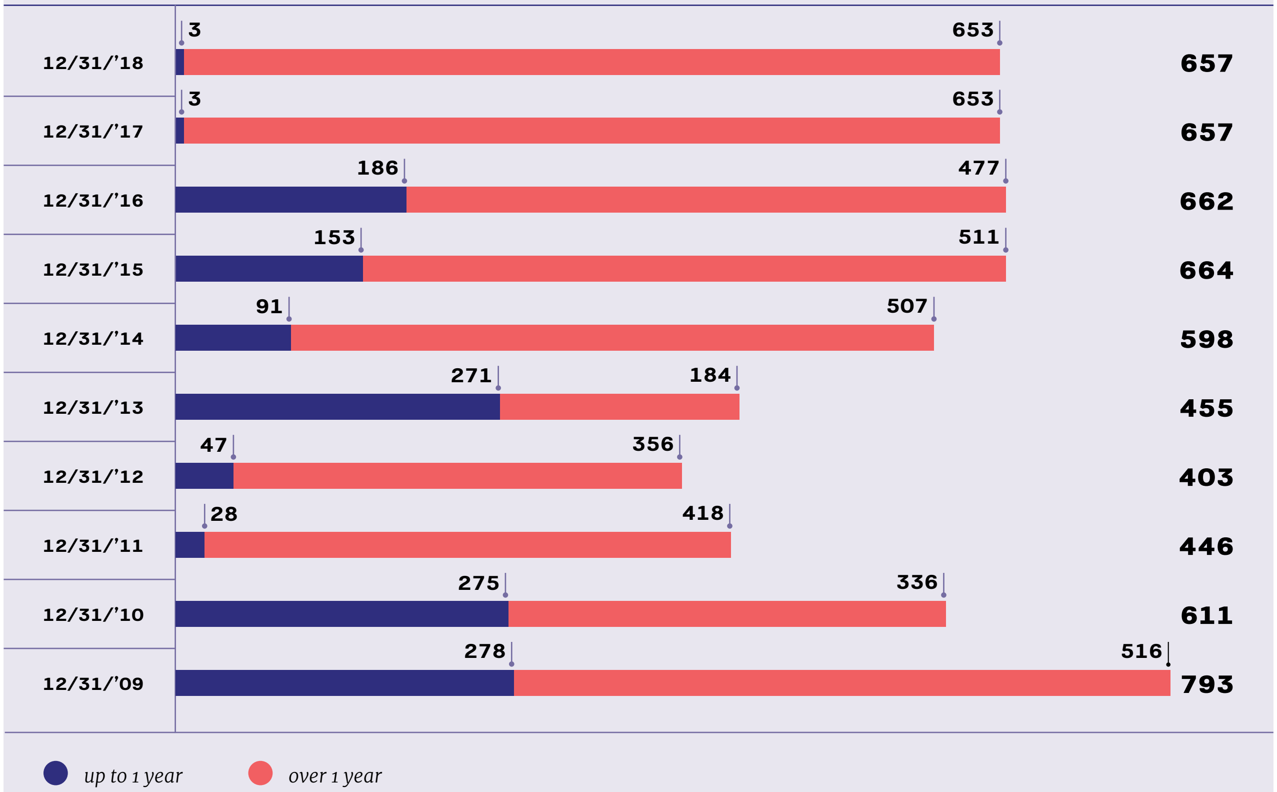
Indebtedness

At the end of 2018, debt to banks remained at the level of USD 657 million, accompanied by an increase in EUR loans compared to December 31, 2017. Additionally, the debt to the parent company PJSC Gazprom Neft has been reduced and currently amounts to 209.3 million EUR.

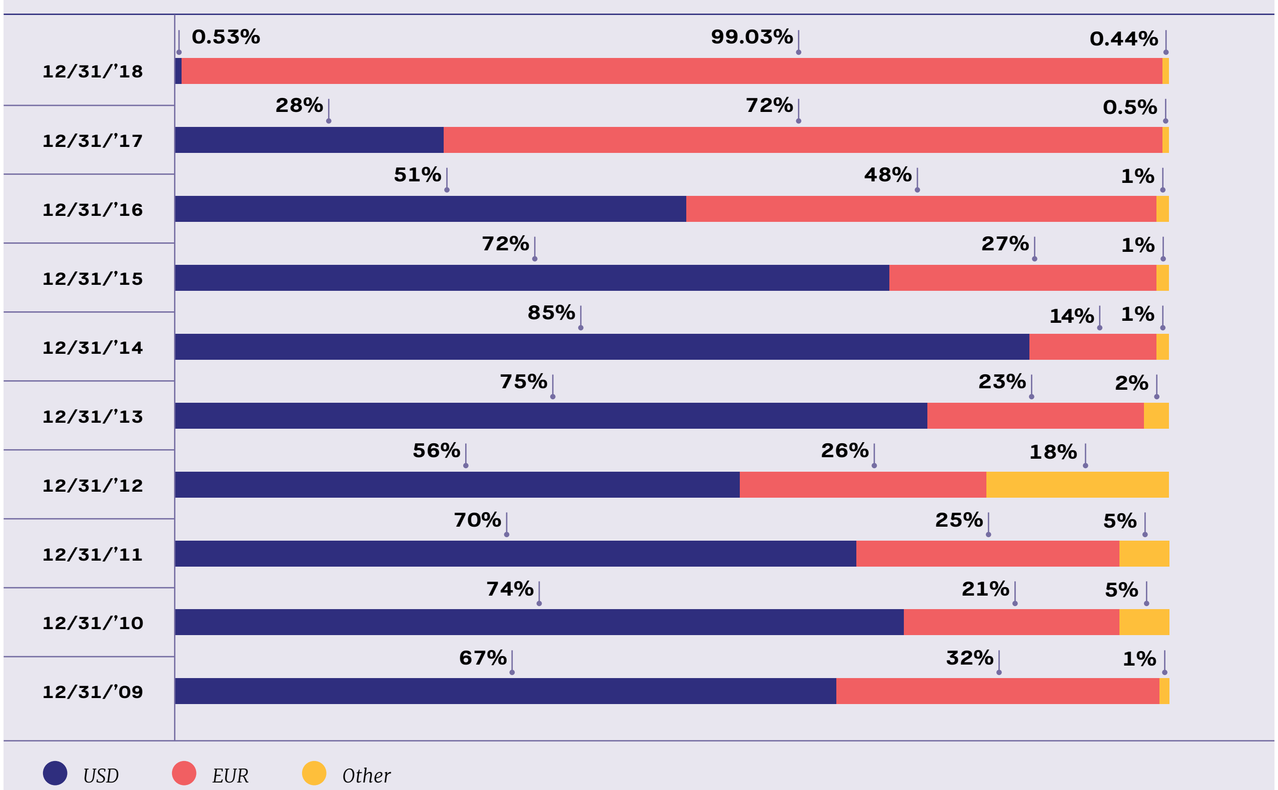
Despite restrictions imposed by sanctions, NIS successfully implemented the second stage of credit portfolio restructuring in 2018. The results are the extension of the average maturity of the portfolio from the expected 2.21 years - expected at the end of 2018 (if it had not been restructured) - to 4.04 years with a simultaneous decrease in the average borrowing price by 30% compared to 2017, as well as the change currency structure of the portfolio (the share of EUR nominated loans increased from 72% to 99% as a result of sanctions restrictions and the impossibility of withdrawing loans in the long term, except for the financing of EU imports).

By restructuring, NIS successfully freed cash flow for timely financing of large investment projects (especially the strategically important Bottom-of-the-Barrel project,but also other planned investments) in the period from 2019 to 2021, while simultaneously improving the characteristics of the loan portfolio and stabilizing the financial situation regarding the obligations to repay loans.

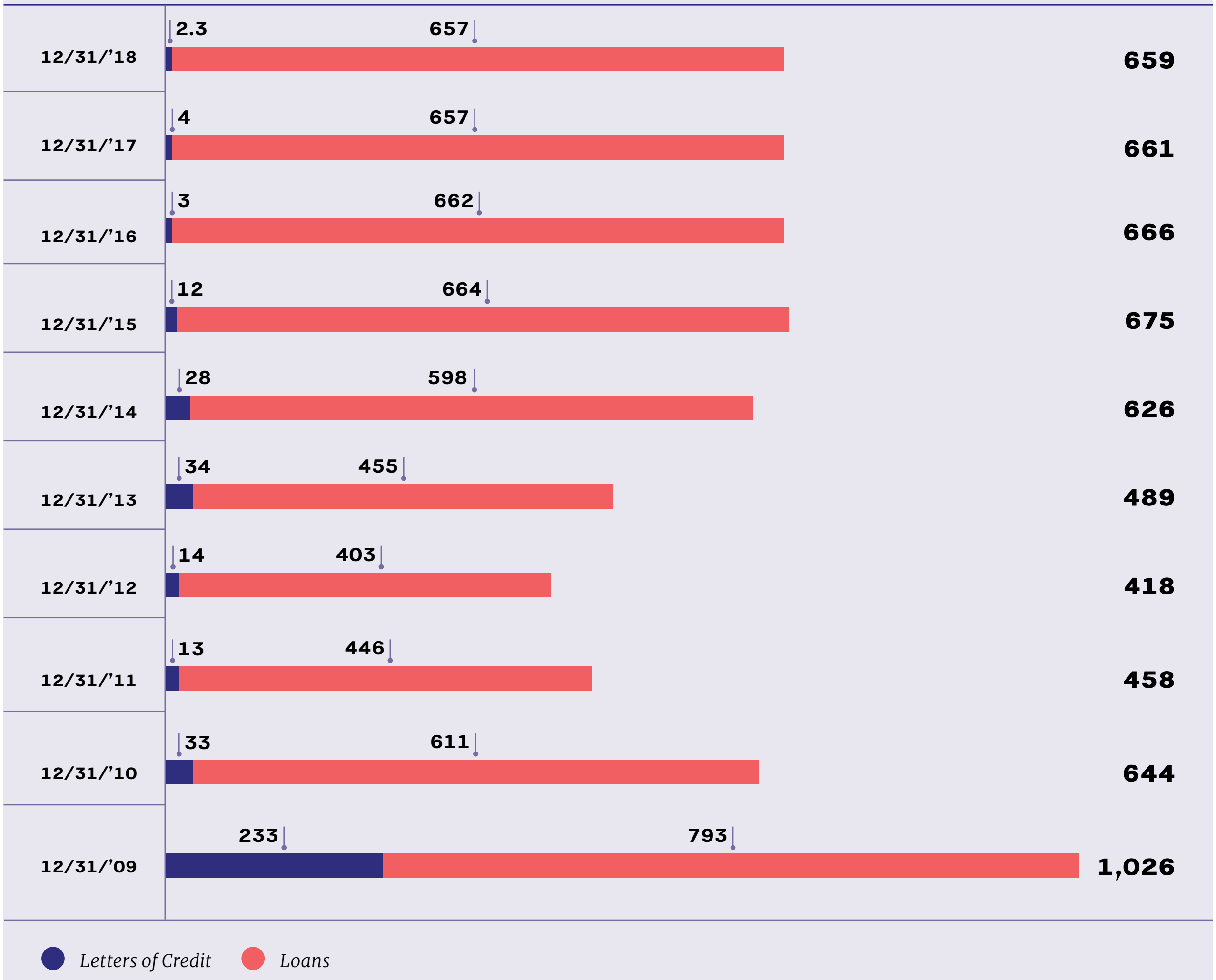
Total bank debt trends with maturity structure, in USD million



Total bank debt structure, by Currency, in %



Total bank indebtedness*, USD million **-0.3%**



* *In addition to debt to banks and Letters of Credit NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of $35.6 million, corporate guarantees in the amount of $47.4 million and Letters of Intent signed with banks in the amount of $0.3 million and financial leasing in the amount of $8.0 million as at 31 December 2018.*

Taxes and Other Public Revenue[9]

The total amount of accrued liabilities for public revenue payable by NIS j.s.c. Novi Sad along with the subsidiaries deriving from its organisational structure[10] in Serbia is RSD 170.95 billion in 2018, which is 18% more comparing to last year.

The total amount of accrued liabilities for public revenue payable by NIS Group in 2018 is 192.7 RSD billion, which 17% higher than in 2017.

NIS j.s.c. Novi Sad	**2018**	**2017**	**%Δ[1]**
Social insurance contributions paid by employer	1.6	1.5	+1%
Corporate tax	3.8	3.4	+11%
Value-added tax	21.5	21.8	-1%
Excise duties	132.2	106.4	+24%
Commodity reserves fee	6.5	6.0	+8%
Customs duties	0.8	0.7	+15%
Royalty	1.5	1.2	+21%
Other taxes	1.5	1.3	+9%
Total	**169.2**	**142.3**	**+19%**
NIS subsidiaries in Serbia[2]			
Social insurance contributions paid by employer	0.5	0.5	+4%
Corporate tax	0.1	0.1	+112%
Value-added tax	0.9	1.3	-29%
Excise duties	-	-	-
Customs duties	0.06	0.04	+55%
Royalty	-	-	-
Other taxes	0.1	0.1	+10%
Total	**1.7**	**2.0**	**-13%**
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	**170.95**	**144.4**	**+18%**
NIS regional subsidiaries and Angola			
Social insurance contributions paid by employer	0.04	0.1	-40%
Corporate tax	0.2	2.2	-92%
Value-added tax	2.3	1.5	+53%
Excise duties	13.4	12.9	+4%
Customs duties	4.2	2.6[3]	+61%
Royalty	-	-	-
Other taxes	0.1	0.1	-4%
Total	**20.1**	**19.3**	**+4%**
Deferred taxes (total for Group)	1.7	1.6	+2%
Total NIS Group[4]	**192.7**	**165.3**	**+17%**

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 *Naftagas – Oilfield Services LLC Novi Sad, Naftagas – Technical Services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and NTC NIS Naftagas LLC Novi Sad.*
3 *This item shows exclusively the amount of customs liabilities, while earlier it indicated the entire amount of the customs debt inclusive of taxes payable on import.*
4 *Including taxes and other liabilities for public revenues for subsidiaries in the region, corporate tax in Angola and deferred taxes.*

9 In RSD billion.

10 Naftagas – Oilfield Services LLC Novi Sad, Naftagas – Technical Services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and STC NIS Naftagas LLC Novi Sad.

Ratio Indicators[11]

Profitability ratios	2018	2017
Gross profit margin (EBITDA margin)[1]	19%	20%
Net profit margin[2]	9%	11%
Return on assets (ROA)[3]	6%	7%
Return on equity (ROE)[4]	11%	13%
Liquidity ratios		
Current ratio[5]	180%	172%
Quick ratio[6]	92%	112%
Net working capital ratio[7]	11%	12%
Leverage ratios		
Leverage coefficient[8]	36%	39%
Net Debt/EBITDA[9]	1.47	1.48

1 *EBITDA/Operating Revenues.*
2 *Net profit/Operating Revenues.*
3 *Net profit/Average Total Assets.*
4 *Net profit/Average Equity.*
5 *Current Assets/Short-term Liabilities.*
6 *(Current Assets – Inventories)/ Short-term Liabilities.*
7 *(Current Assets – Short-term Liabilities)/Total Assets.*
8 *(Long-term Liabilities + Short-term Liabilities)/ Total Assets.*
9 *(Long-term Liabilities + Short-term Financial Liabilities – Cash and Cash Equivalents)/EBITDA.*

11 Ratio indicators were calculated using data from Consolidated Financial Statements prepared in the form prescribed by the Ministry of Finance of the Republic of Serbia which does not comply with IAS 1 – Presentation of Financial Statements.

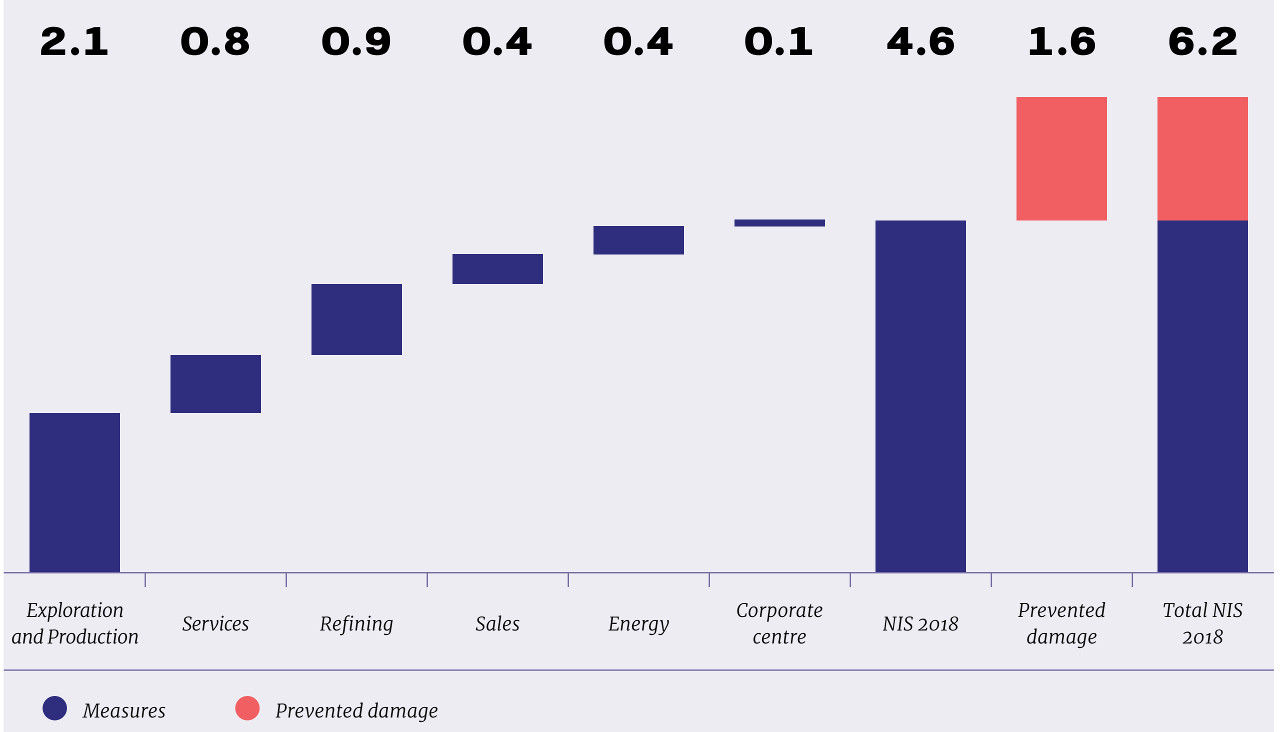
Operational Efficiency Improvement

In 2018, the effects of operational efficiency improvement measures also had a significantly positive impact on financial performance. Throughout the year, business operations were marked by the implementation of operational efficiency improvement measures with a new element in the form of implementation of the Operational Management System (OMS).

The effect of operational efficiency improvement measures on EBITDA in 2018 is RSD 6.2 billion. In addition, the effect from the prevented damage is RSD 1.6 billion.

More information on OMS Etalon Program on page 86

Effect of operational efficiency improvement measures on EBITDA, RSD billion



The incentive programme '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.

828 ideas were put forward within 'I HAVE AN IDEA!' programme in 2018, which generated over RSD 600 million.

We Create New Values

Development will become a crucial term for NIS in the upcoming years – our objective is to use new investments to lay solid foundations for a long-term stability of NIS Group, and to continue to create new values for our shareholders, employees and community in which we operate.

Since 2009, we have invested nearly EUR

3

billion in NIS' development.

Only in 2018, the level of investment increased by

55%

on the previous year.

1.08 OMS Etalon

NIS followed in the footsteps of global oil majors in 2017, launching a comprehensive transformation of the company's operations within a project titled OMS – Operational Management System. The Project seeks to bring about maximum operational efficiency by boosting business processes reliability and safety as a result of entire staff constant improvement.

State-of-the-art tools are introduced to implement the OMS, while the existing processes are optimized and reorganized. This activity is aligned with strategic objective setting and business planning, and identification of measurable efficiency criteria (performance), based on the industry's best practices.

During the course of 2017, operations in all of the company's production operations underwent diagnostics. The results indicated an existing level of maturity as well as possibilities for development. During 2018, priority activities were identified and long-term system development plans made. KPIs to monitor progress and potential were selected and architecture was created to manage an initiatives portfolio and involve all stakeholders to the maximum efficient level.

Key activities included initiatives to create and develop production reliability system, introduce regular management practices, shift to approaches based on risks, reengineering contractors and procurement processes management, as well as the philosophy and Lean production and continuous improvements tool.

Exploration and Production

The main focus in 2018 was the realization of the OMS Elements Development Plan. The management was trained and practices of regular management were applied (Visual management, Efficiency discussion, Feedback, Efficient meetings). Mechanisms for PRM support were developed. The pilot project RCM (Reliability-centred maintenance) for analyzing the Amine plant in Elemir was concluded. The plans for analysis of critical conditions of equipment were defined. The implementation of the computerized maintenance management system (CMMS) IBM Maxima was initiated. The strategy for element 3 - Production Process Management - was developed. A risk analysis was conducted using the HAZOP method at 3 facilities in the Block. The projects of visualization and Job positions organization were realized using the 5S methodology in the Block's facilities. Operational efficiency improvement measures were realized.

The achieved measure efficiency in 2018 amounts to 2.1 billion RSD.

Refining

Within OMS, the Refining Block's management attended training courses for practices of regular management.

Leadership and Culture

Operational risks management

Contractor and supplier management

Project management

Information, documentation, policy and standard management

Emergency preparedness management

Change management

Managing stakeholder expectations

Managing the organization and competences

THE PEOPLE

Managing production processes

USE

Managing equipment reliability and integrity

EQUIPMENT

Efficiency management and constant development

Refining Block focused on practices of Line Touring, Conducting Meetings and Visual Management. The project of Digitalization and Meeting Management was initiated.

During 2018, the implementation of the RCM methodology (reliability-centred maintenance) at the FCC facility was implemented, as well as preparations made and trainings held for the employees of the Refining Block for the widespread application of this practice in all plants. Further automated data collection for the CMMS (Computer Maintenance Management System) was carried out by connecting to the SCADA system of the plant while the automated system for calculating the key reliability indicators was developed.

A system of Structural visits to the plant with 3D map of the operator's movement and electronic shift log was implemented. The purchase of industrial tablets, which will be the most important tool for operators during structural visits and will practically fully digitize this process directly with the CMMS system, has been initiated.

At the plants, the practice of regular application of the HAZID methodology for identification and risk reduction was introduced, the procedure for managing the changes in the plants was further improved and a 'color code' for the designation of refinery units with labels and colours of equipment and facilities, was created.

Projects for the implementation of the continuous improvement methodology "LEAN 6 Sigma" at the plants of the Refining Block have been launched. A system for resolving production problems 'A3' has been launched, the '5S' toolbox for work environment arranging has been implemented at the plants of Block 5 and visual boards on installations have been implemented with the aim of focusing all employees on safety, reliability and efficiency.

Sales and Distribution

During January and February 2018, the Lubricants Department – i.e. the Blending Plant in Novi Sad, underwent the OMS diagnostics. The diagnostics focused on five OMS elements which are central to the business of this plant, in particular: Reliability and asset integrity management, Production process management, Operational risks management, Change management, and Efficiency and continuous improvement management.

Based on the results of the diagnostics and the review of business processes against the requirements of the OMS elements; the Activity Plan for process improvement was drafted, providing initiatives to help effect these improvements.

Based on the Activity Plan, in 2018, the following initiatives were implemented in the Lubricants Department: the asset register was drafted and classification by failure hierarchy completed; the set of technical documents was prepared to be included in the asset design dossier; Business Continuity Risk Assessment risk session was conducted to define the key risks/scenarios, the realisation of which may result in a full production unit downtime; Training was completed; The Change Management case study prepared and Lean Six Sigma training organised.

Additionally, in the Sales and Distribution Block, the training in Regular Management Practices was provided for all first and second-level managers (senior and middle management). These practices include: Effective Meetings, Visual Management, Feedback and Discussion on Effectiveness.

Operational Risks on Belgrade LPG Depot Project were implemented, within which, at the meetings held during March 2018, the key operational risks involved in the business of this depot were defined, the measures to mitigate the effects of these risks were developed, the responsible persons assigned, and the deadlines for measure implementation defined.

OMS Project execution is monitored by the Project Steering Committee of the Sales and Distribution Block.

Energy

Before the transformation of the Energy Block, more precisely until July the 1st, 2018, the process of OMS introduction had been going as planned for the implementation in 2018.

Employee involvement in suggesting ideas in the first 9 months of 2018 was well over the ambitious targets set for this process. The Block Director, his deputy and the Directorate director have visited production facilities twice in the first two quarters: Turija Cogeneration Plant and CNG plant at PS Novi Sad 10. In October, 2018, 100% of executives had successfully undergonetraining in Regular Management Practices (RMP).

With the changes which the Transformation Project introduced into the Energy Block the completion of activities stipulated by the OMS Action Plan and OMS projects of the Energy Block have been suspended, and the resumption of the OMS implementation has been transferred to the Project offices in the Blocks, which have assumed the production facilities.

During 2018, key activities included initiatives to create and develop production reliability system, introduce regular management practices, shift to approaches based on risks, reengineering contractors and procurement processes management, as well as the philosophy and Lean production and continuous improvements tool.

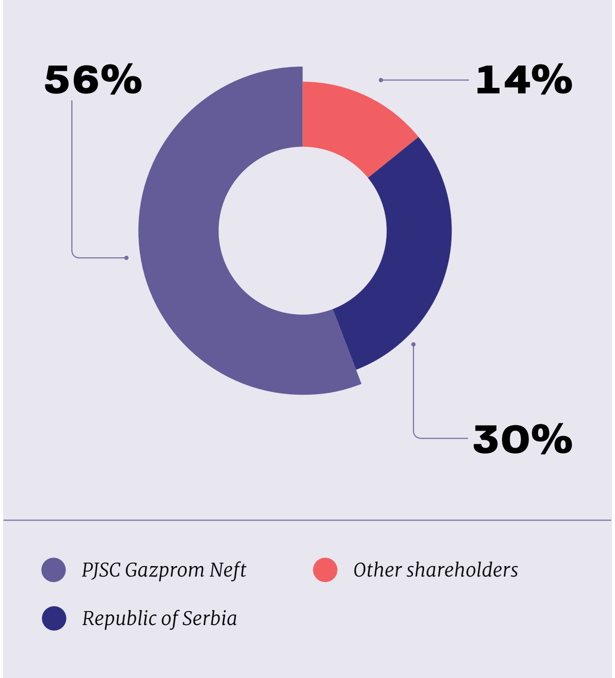
1.09 Securities

Share Capital Structure

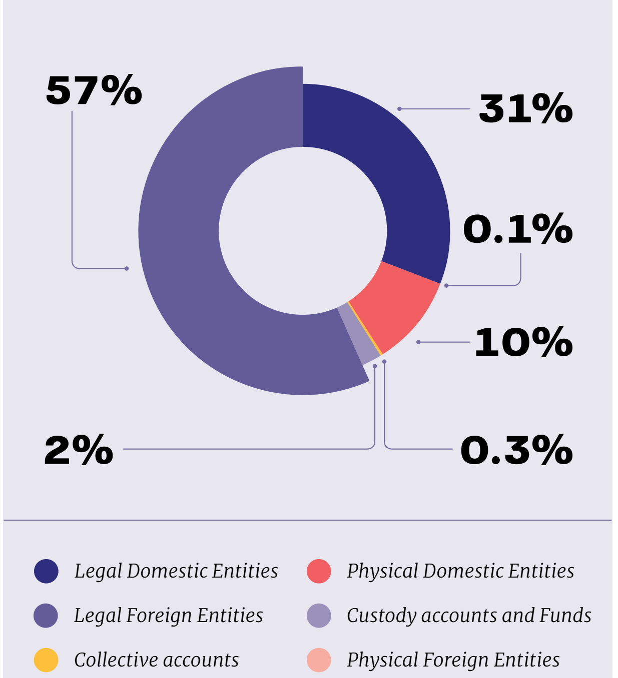
NIS share capital is RSD 81.53 billion and is divided into a total of 163,060,400 shares with a nominal value of RSD 500. All issued shares are ordinary shares, vesting their holders with the following rights:

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

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:

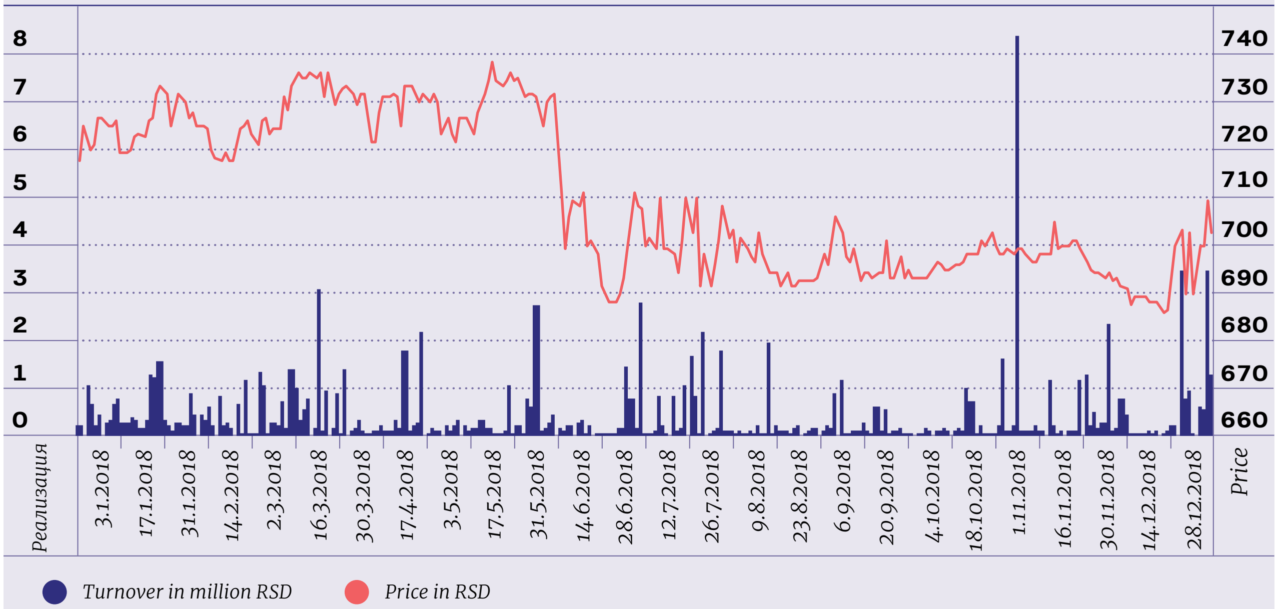
Shareholder	Number of shares	% in share capital
PJSC Gazprom Neft	91,565,887	56.15%
Republic of Serbia	48,712,094	29.87%
Societe Generale banka Srbija a.d. – custody account - fund	1,675,601	1.03%
Societe Generale banka Srbija a.d.– custody account - fund	613,829	0.38%
Global Macro Capital Opportunities	371,854	0.23%
Dunav Osiguranje a.d.o. Beograd	276,734	0.17%
Aktiv-fond d.o.o. Beograd	236,330	0.14%
Convest a.d. Novi Sad – collective account	231,391	0.14%
AWLL Communications d.o.o. Beograd	227,352	0.14%
Erste bank a.d. – custody account	188,681	0.12%
Other shareholders	18,960,647	11.63%
Total number of shareholders as at 31 December 2018:		**2,088,471**

Share Trading and Indicators per Share

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

In 2018 there were no acquisitions of treasury shares by the Company.

Price and turnover trends in 2018



Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in 2018	
Last price (28 December 2018)	690 RSD
Highest price (29 January 2018)	750 RSD
Lowest price (18 June 2018)	662 RSD
Total turnover	943,044,002 RSD
Total volume (number of shares)	1,342,601 shares
Total number of transactions	23,024 transactions
Market capitalization as at 31 December 2018[1]	112,511,676,000 RSD
EPS	159.86 RSD
Consolidated EPS	154.24 RSD
P/E ratio	4.31
Consolidated P/E ratio	4.47
Book value as at 31 December 2018	1,528.90 RSD
Consolidated book value as at 31 December 2018	1,489.48 RSD
P/BV ratio	0.45
Consolidated P/BV ratio	0.46

1 *December 31, 2018 was a non-trading day at the Belgrade Stock Exchange j.s.c. Belgrade. For the calculation of market capitalization on December 31, 2018, a share price as at December 28, 2018 was taken into account.*

Dividends

NIS j.s.c. Novi Sad dividend policy is based on a balanced approach taking into account the necessity of profit retention for investment funding purposes, as well as 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.

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
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
Total amount of dividend, RSD bn	0.00	0.00	0.00	12.4	13.1	7.6	4.0	4.0	6.9
Payment ratio	-	-	-	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
Dividend per share, gross, RSD	0.00	0.00	0.00	75.83	80.22	46.85	24.69	24.66	42.61
Share price as at 31 December, RSD	-	475	605	736	927	775	600	740	724
Shareholders' dividend yield, in %[4]	-	-	-	10.3	8.7	6.0	4.1	3.3	5.9

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

Investor Relations

The basic objective of NIS j.s.c. Novi Sad in relations to its investors, is to establish and develop a long-term relationship with them based on trust through transparent information disclosure and 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 organises presentations of the results achieved. where representatives of top management analyse in detail the business operations and the results achieved in direct communication with representatives of the investors. Additionally, NIS j.s.c. Novi Sad takes part in investment conferences organised by the 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 an Investor's Day, which is held in the Company's offices and where important and the significant projects are always presented. This year, business results of the NIS Group in the first nine months of 2018 and projects Bottom of the Barrel in the Oil Refinery Pančevo. Plandište Wind Farm and CCPP Pančevo were the main subjects of the 7th NIS Investor's Day, held in the Company Business Centre in Novi Sad. On this occasion, participants in the Investor's Day had the opportunity to get acquainted with the application of modern technologies and innovations that NIS uses in its business by visiting the Scientific and Technological Centre (STC) in Novi Sad. Here, the main activities and the most important projects were presented, including: Scientific and Technological Centre, the application of new technologies in the production of oil and gas, IT projects within the Company and NIS investments into educational system in Serbia.

http://ir.nis.eu

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 has been reaffirmed by an award given to the Company again this year. NIS j.s.c. Novi Sad won the Gold Plaque Award of the Belgrade Stock Exchange for the best investor relations in 2018, competing with 16 domestic and regional companies for the coveted award, which the Company won for the sixth time. The decision was made by reputable financial analysts and a university professor based on assessing 35 criteria of company openness towards the investors.

Overview of Financial Instruments Used by the Group

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

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

Once again, the Gold Plaque for Best Investor Relations was awarded to NIS j.s.c. Novi Sad by the Belgrade Stock Exchange.

Rating

Rating assigned by	Member of Group	Previous rating		Rating score	
		Rating	Date	Rating	Date
Business Registers Agency - Republic of Serbia	-	BB Very good	1 February 2018	BB Very good	7 February 2019
Bisnode d.o.o. Belgrade, Serbia	Dun&Bread-street	*5A1 Strong Even*	30 January 2018	*5A1 Strong Up*	8 January 2019
	Bisnode AB. Stockholm. Sweden	C2	30 January 2018	A1	8 January 2019

Trust as the Cornerstone of Development

Our relationship with shareholders and investors is based on mutual trust and two-way communication. NIS informs the public about all its activities in a timely and transparent manner. Our objective is to contribute through our example to the entire business community in Serbia.

In 2018, for the second consecutive year, NIS was awarded the Gold Plaque for Best Investor Relations by the Belgrade Stock Exchange.

Our priority is to become an even better partner to our shareholders and investors in the coming years.

1.10 Corporate Governance

Statement on Application of Code of Corporate Governance

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

In accordance with Article 368 of the Company Law (hereinafter '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 (hereinafter '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 the implementation thereof and ensures the compliance of the company's organisation and actions 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 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 corporate governance bodies.

Shareholders' Assembly and Shareholders' Rights

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

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

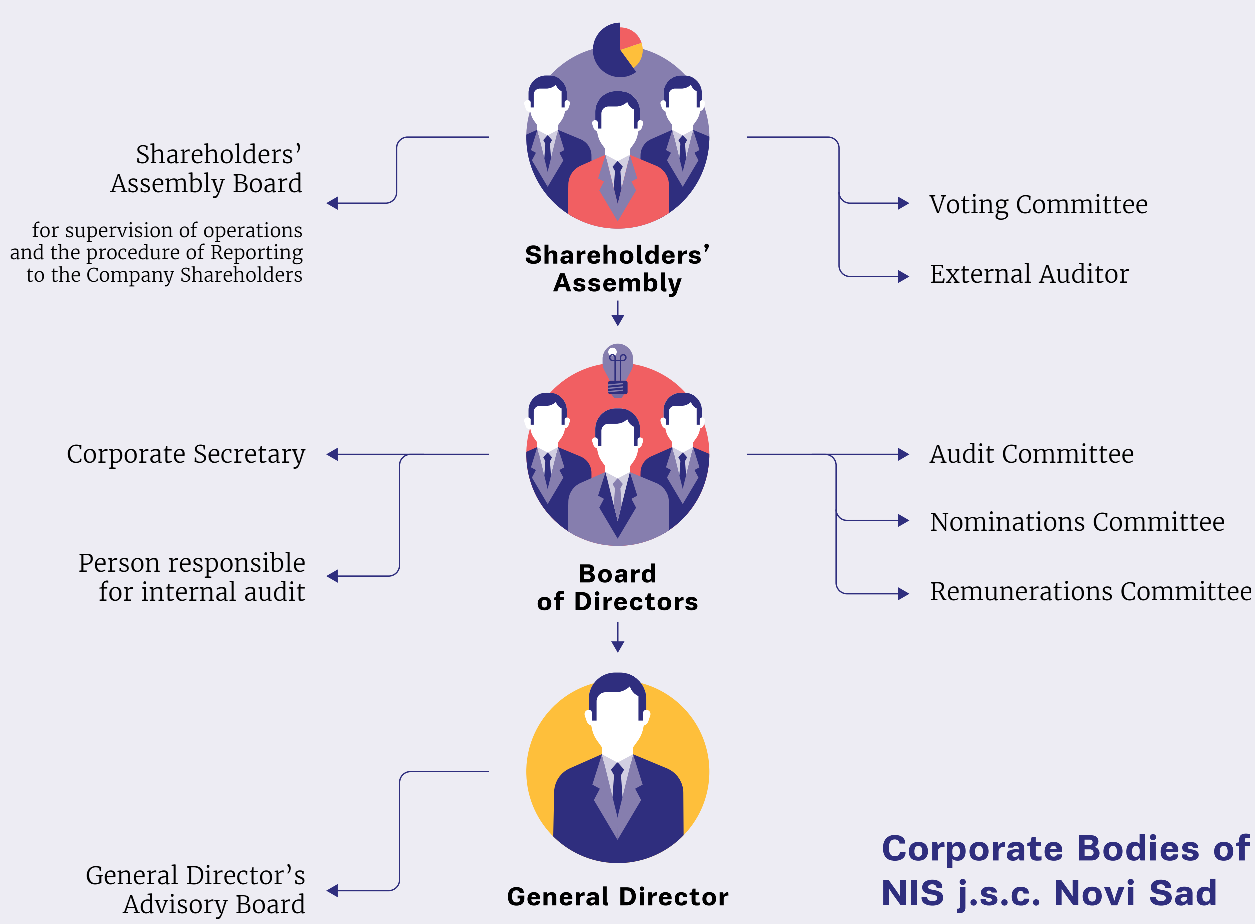
The rules regarding the method of convening meetings, operation and decision-making process of the Shareholders' Assembly, and particularly the issues *http://ir.nis.eu/corporate-governance/shareholders-assembly/#c41*

relating to how shareholders exercise their rights in connection with the Shareholders' Assembly, are laid down in advance and incorporated into the corporate Rules of Procedure of the Shareholders' Assembly, which are made public and available to all shareholders.

A call for the 10^{th} regular session of the Shareholders Assembly held on the June 21^{st}, 2018 was made by the post on the Company's internet page (www.nis.eu), the website of the Business Register Agency (www.apr.gov.rs) and the regulated market website (www.belex.rs), while for the future planned General Meetings of Shareholders the information about the decision of the Board of Directors on the convening of the meeting and the invitation for the meeting will be sent or published in the manner envisaged by the amendments to the Law that shall apply from the 1^{st} of October 2018. The invitation is to be sent no later than 30 days prior to the day of the regular, or 21 days prior to the holding of the extraordinary session. Simultaneously with the announcement of the invitation for the Shareholders Assembly meeting, the Company's website also publishes the materials for the General Meeting of Shareholders, which are also available for inspection at the Company's headquarters, to each shareholder who so requests, or to his/her proxy until the day of the session.

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 materials for the meeting have been made available to the shareholders, explanations of the shareholders' rights, manner and deadlines for the exercise of such rights, as well as information on the Shareholders' Day. Furthermore, proxy forms and absentee ballots, which are also available at the company headquarters, as well as 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 voting results, minutes of the Shareholders' Assembly meeting, the list of attendees and invitees and the list of attending and represented shareholders of the Company.



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

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 language.

Special Shareholders' Rights

The agreement for the sale and purchase of the shares of NIS j.s.c. Novi Sad, which was entered into on the 24th of December 2008 between PJSC Gazprom Neft and the Republic of Serbia, stipulates that, as long as the parties to such an agreement 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 the Article 4.4.1 of the Agreement, as long as the Republic of Serbia is a shareholder holding no less than a 10-percent equity interest, it shall be entitled to such number of members on the Board of Directors as 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, which is the tenth day prior to the Shareholders' Assembly meeting, based on the records of 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 issues 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 held by a Company shareholder having at least 0.1% shares of the total number of company shares, i.e. 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 are eligible to participate in the Shareholders' Assembly meeting through a joint proxy, to vote in absentia or to 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, 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 containing additional items for the agenda of the Shareholders Assembly meeting which they propose to be discussed, additional items which they propose for the Assembly to make a decision or other decision on the existing items on the agenda. These submissions can be made on the condition that this proposal is explained and the text of the proposed decisions submitted (if the decision of the Shareholders Assembly is proposed).

Right to Raise Questions, Get Answers and Put Forward Motions

The Company's 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 proper assessment of the issue which relate to the items on the agenda of the General Meeting of Shareholders. The members of the Board of Directors should answer these questions.

Voting Majority

Decisions of the Shareholders' Assembly shall be adopted, as a rule, by a simple majority of the votes of the present shareholders of the Company 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 this, as long as the Republic of Serbia has at least a 10% share in the Company's share capital, it is necessary to confirm the vote of the Republic of Serbia for making decisions of the Shareholder's 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 assets of the Company of significant value, changes in the Company's main activity and seat, as well as termination of the Company.

Shareholders' Assembly Activities in 2018

In 2018, the 10th regular session of the Shareholders' Assembly (June 21, 2018) was held in Belgrade, in the building of the Business Centre NIS, 1 Milentija Popovića Street, while no extraordinary session was held.

At the X regular session, the Shareholders' Assembly adopted the financial and consolidated financial statements of the Company for the year 2017 along with the opinion of the auditor and elected the auditor for 2018 (PricewaterhouseCoopers d.o.o. Beograd). The Annual Report of the Company for 2017 and the Report on the Audit of the Annual Report, the Report on the Analysis of the Work of the Board of Directors and the Board of Directors' Committees, the Annual Report of the Board of Directors on accounting practice, the practice of financial reporting and compliance with the law on other regulations were all adopted as well as the Report on the work of the Shareholders' Assembly Board. The Shareholders Assembly adopted the Report on the suitability of the composition of the Board of Directors and the recommendation regarding the number of members of the Board of Directors to the needs of the Company and the Report on estimate of the amount and structure of fees for the members of the Board of Directors of NIS j.s.c. Novi Sad, which were made with the help of external experts.

More information on dividend payment on page 93

In addition to the aforementioned, the Shareholders' Assembly adopted the Decision on distribution of profit for 2017, payment of dividends and determination of the total amount of undistributed profit of the Company, which determined that 25% of the profit realized in 2017, is to be allocated for dividends payment, i.e. it was decided to pay a total of RSD 6,948 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 and adopted not only the procedure for reporting the shareholders for the current mandate period but also information on the approval of the conclusion of affairs in which there is a personal interest.

Shareholder Relations and Information Provision

More information on Investor Relations on page 94

In addition to the reports published by NIS as a public joint stock company in accordance with legal regulations, which are publicly available to all interested parties, including reports on the results of operations presented to shareholders at the General Meeting of Shareholders, the Company also has developed two-way communication with shareholders and investors. Shareholdrs and investers now have the opportunity to receive all necessary information about the Company's operations and their rights during the year through dedicated Call centre and e-mail service the Offices for Minority Shareholders in Novi Sad and Belgrade, via which each shareholder may ask questions and receive answers electronically, as well as through Investor relations service.

Also, the Company holds special presentations for shareholders and investors in connection with the most important events and participates in meetings with representatives of the investment community. On quarterly presentations of the business results, representatives of the highest management of the Company are regularly present, and these presentations consider both the results in the past period, as well as the plans and strategies of the Company.

NIS j.s.c. Novi Sad applies the highest standards in the area of information, while respecting the principles of equal treatment of all users of information. It ensures that published information is available to all interested parties in an equal and easily accessible way in the shortest amount of time and uses its website to a large degree for that purpose. A special segment of the website, which is intended for shareholders and investors, contains the most important news, decisions of the authorities, answers to the most common issues 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 language. The statutory reporting procedure is defined by special Company acts governing the method and process of publishing information and submitting information to the relevant authorities.

A mechanism for preventing and resolving potential conflicts between minority shareholders and the Company is also in place. There is a five-member committee for resolving complaints by minority shareholders, in which process the competence of the commission, address to the commission and manner of work are regulated by a special internal act of the Company.

http://ir.nis.eu/usefull-information/#c1745

Information for minority shareholders regarding the proceedings before the Committee 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 and identifying the Company's further courses of development, as well as for establishing and controlling the effectiveness of the corporate business strategy.

Members of the Board of Directors

Members of the Board of Directors are appointed and dismissed by the Shareholders' Assembly. At the X regular session of NIS's Assembly of Shareholders held on June 21, 2018, 10 members of the Board of Directors of NIS were appointed. The members elect the Chairperson of the Board of Directors, while the functions of the Board of Directors' Chairperson and the CEO are clearly divided. The members of the Board of Directors have an appropriate blend of 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 Nomination Committee or shareholders of the Company that individually or together 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 of the Board of Directors are non-executive, two of whom are also independent members of the Board of Directors fulfilling special criteria prescribed by the Law.

The Board of Directors has a significant number of foreign members who bring international experience, with understanding of challenges that the Company is facing. 7 out of 10 members of the Board of Directors are Russian citizens, 2 members of the Board of Directors are citizens of the Republic of Serbia, while one member is an Austrian citizen.

Members of the Board of Directors must fulfill the criteria prescribed by the Law, as well as special conditions prescribed by Statute, about which they give statement at the beginning of mandate and are obligated to inform the Company about all the changes in their status, especially those because of which they possibly do not fulfil the conditions for membership in the Board of Directors; for example any change which could lead to a conflict of interest or a breach of the prohibition of competition.

The mandate of the members of the Board of Directors shall be terminated at the first subsequent ordinary session of the Shareholders' Assembly, except in the case of cooptation, when the mandate of the coopted members of the Board of Directors lasts until the next session of the General Meeting of Shareholders. Upon the expiration of the mandate, each member of the Board of Directors may be reappointed without limitation of the number of mandates.

Changes in the Composition of the Board of Directors in 2018

At the 10th regular session of NIS's Assembly of Shareholders held on June 21, 2018, the following members of the Board of Directors of NIS were appointed: Vadim Yakovlev, Kirill Tyurdenev, Danica Drašković, Alexey Yankevich, Sergey Papenko, Alexander Krylov, Nikola Martinović, Wolfgang Ruttenstorfer, Anatoly Cherner and Olga Vysotskaia, while the membership of Kirill Kravchenko and Stanislav Shekshnia in Board of Directors of NIS j.s.c. Novi Sad stopped on the day of the aforementioned meeting of the Shareholders' Assembly of NIS.

Board of Directors' Members as of 31 December 2018

Vadim Yakovlev

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

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

Born in 1970.

In 1993, Mr Yakovlev graduated from the Moscow Engineering Physics Institute, Department of Applied Nuclear Physics. Mr Yakovlev graduated from the Faculty of Finance at the International University in Moscow in 1995. Since 1999, he has been a qualified member of the ACCA (the Association of Chartered 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, from Consultant to Audit Manager. In the period 2001 to 2002, he served as Deputy Head of Finance and Economics Department, YUKOS EP j.s.c. From 2003 to 2004, he was the CFO of Yugansk Neftegaz, NK Yukos. From 2005 to 2006, Mr Yakovlev held the position of Deputy CEO in charge of economics and finance at SIBUR-Russian Tyres. From 2007 to 2010 he was Deputy CEO in charge of Economics and Finance at PJSC Gazprom Neft. Since 2007, he has been Deputy Chairman of the Executive Board of PJSC Gazprom Neft. From 2010 to 2011, he was the CFO of PJSC Gazprom Neft. Since 2011, he has been the first deputy of the CEO of PJSC Gazprom Neft.

He was elected member of the Board of Directors of NIS j.s.c. Novi Sad on February 10, 2009, and was elected Chairman of the Board of directors of NIS j.s.c Novi Sad on July 31, 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.

Graduated with honours from the School of International Relations (Bachelor's Degree with specialisation) and then obtained a Master's Degree in International Law (with specialisation) from the Moscow State Institute of International Relations (MGIMO). Also obtained a Master of Law (LL.M) from the University of Manchester. Completed executive education programmes at the international business school INSEAD and London Business School. From 2000 to 2004, worked for A.T. Kearney and Unilever. In 2004, joined McKinsey & Co. From 2007 to 2012, worked as Deputy CEO for Strategy and Corporate Development with SIBUR – Fertilisers. In 2012, joined JSFC Sistema, as Executive Vice-President and Executive Board Member. Before his arrival at NIS, Mr Tyurdenev held the position of the President and Chairman of the Executive Board at United Petrochemical Company, which was being acquired by JSFC Sistema at the time, and as Chairman of the Board of Directors of Ufaorgsintez In April 2016, he joined NIS in the position of First Deputy of CEO for Refining, Sales and Distribution. He was appointed CEO of NIS j.s.c. Novi Sad on March 22, 2017.

Mr Tyurdenev was elected a member of the NIS j.s.c. Novi Sad Board of Directors on December 8, 2016.

Danica Drašković

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

Born in 1945.

Ms Drašković graduated from the Faculty of Laws, University in 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 economic sector, and as a Belgrade City Magistrate. Ms Drašković is the owner of the publishing house Srpska Reč, founded in 1990. She has authored three books written in the opinion journalism style.

She was a member of NIS j.s.c. Novi Sad Board of Directors from April 1, 2009 to June 18, 2013. She was re-elected on June 30, 2014.

Alexey Yankevich

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

Deputy CEO in charge of Economics and Finance at PJSC Gazprom Neft

Born in 1973.

In 1997, Mr Yankevich graduated from Saint-Petersburg State Electrical Engineering University (LETI), majoring in Optical 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 2001 to 2005, he served as Deputy Head of the Planning, Budgeting and Controlling Department at YUKOS RM o.j.s.c. (business unit responsible for logistics and downstream operations). He became Certified Management Accountant (CMA) in 2004. 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 position of Head of Planning and Budgeting Department and was Head of Economics and Corporate Planning Department at PJSC Gazprom Neft. Since August 2011 he has served as acting CEO Deputy for Economics and Finance at PJSC Gazprom Neft. Mr Yankevich has been a member of the Executive Board of PJSC Gazprom Neft and Deputy CEO of PJSC Gazprom Neft for Economics and Finance since March 2012.

He was elected a member of the Board of Directors of NIS j.s.c. Novi Sad on June 18, 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.

Finished Kharkov state university in 1996 (major in economic cybernetics) and graduated in 1999 from the MBA University HOFSTRA (Hampstead New York, USA), major in Finance&Banking.

From 1994 to 1996 he worked as a manager of the Department of the First Ukrainian International Bank in Kharkov. From 1996 to 1998, he worked as a consultant for TACIS Project, and in 1998 as an auditor at PricewaterhouseCoopers. From 2000 to 2007, at the Moscow office of McKinsey and Company Inc Russia, he worked as a consultant, and then as a junior partner. Since 2007 holds a position of the Head of Organizational Development and Joint Ventures Management Department of PJSC Gazprom neft.

He was elected member of the Board of Directors of NIS j.s.c. Novi Sad on June 21, 2018.

Alexander Krylov

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

Director of the Regional Sales Department at PJSC Gazprom Neft

Born in 1971.

In 1992, Mr Krylov graduated from LMU (Leningrad) and in 2004, he graduated from the Faculty of Laws of Saint Petersburg State University. In 2007, he earned an MBA degree from Moscow International Business School MIRBIS, specialising 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) with the following companies: Russian-Canadian SP Petrobild and c.j.s.c. Alpol. From 2005 to 2007, he was Deputy Head of the Sales Department at Sibur Ltd. Since April 2007 to date, Mr Krylov has been serving as Head of the Petroleum Product Supply Department, Head of the Regional Sales Department and Director of the Regional Sales Department at PJSC Gazprom Neft.

He was elected member of the Board of Directors of NIS j.s.c. Novi Sad on November 29, 2010.

Nikola Martinović

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

Born in 1947.

Mr Martinović completed his primary education in Feketić, and secondary in Srbobran. He graduated from the Faculty of Economics in Subotica, where he also defended his Master's Thesis, titled Transformation of the Tax System in Serbia by Implementing VAT. From 1985 to 1990, he was the CEO of Solid Company from Subotica, and from 1990 to 1992, he served as an Assistant Minister of the Interior of the Republic of Serbia. From 1992 to 2000, Mr Martinović held the position of Assistant CEO of Naftna Industrija Srbije in charge of financial affairs and was the CEO of Naftagas Promet from 1996 to 2000. From 2005 to August 31, 2013, Mr Martinović worked as a Special Advisor at NIS j.s.c. Novi Sad. From September 1, 2013, to December 15, 2013, he was Special Advisor to the CEO of O Zone j.s.c. Belgrade, and from December 15, 2013 until retirement on November 17, 2014, he performed the duties of the Advisor to the Director of STC NIS Naftagas LLC. Novi Sad. He has been a member of the Council of the Governor of the National Bank of Serbia since 22 November 2011.

Mr Martinović was a member of the Naftna Industrija Srbije/NIS j.s.c. Novi Sad Board of Directors from 2004 to 2008, and he was re-elected on February 10, 2009.

Wolfgang Ruttenstorfer

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

Born in 1950.

In 1976. he graduated from the Economics and Business Administration at the Vienna University of Economics and business. He holds a PhD degree. Mr. Ruttenstorfer's career started in the Austrian company OMV in 1976. In 1985, he was transferred to the Planning and Control Department and in 1989, he became responsible for the strategic development of the OMV Group. Being appointed Marketing Director in 1990, he became a member of the Executive Board in 1992, and was in charge of finance and chemical products. By early 1997, he was a member of the OMV EB. when he was appointed Deputy Minister of Finance. On January 1 2000, he was re-appointed a member of the OMV EB in charge of finance, a function he performed until April 2002. He was in charge of gas affairs by December 2006. In the period from January 1 2002 to March 31 2011, Mr. Ruttenstorfer was the Chairman of the Executive Board of the OMV Group. Mr Ruttenstorfer has been or is holding board positions in companies like VIG, Roche, Flughafen Wien AG., RHI MAGNESITA NV, Telekom Austria, CollPLant Holdings LTD and Erne Fittings GmbH.

He was elected Independent member of the NIS j.s.c. Novi Sad Board of Directors as of 20 April 2012.

Anatoly Cherner

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

Born in 1954.

Mr Cherner graduated from Grozny Oil Institute in 1976, majoring in Oil and Gas Chemical Engineering. From 1976 to 1993, he was employed with the Sheripov Grozny Refinery, starting as an operator and ending up as a refinery director. In 1996, he joined SlavNeft as Head of the Oil and Petroleum Product Trading Department and was later appointed Vice-Chairman of the company. In April 2006, he was appointed Vice-Chairman for refining and marketing at SibNeft (Gazprom Neft since June 2006). In December 2007 he was appointed Deputy CEO for logistics, refining and sales at PJSC Gazprom Neft.

He was elected a member of the Board of Directors of NIS j.s.c. Novi Sad on February 10, 2009.

Olga Vysotskaia

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

Born in 1961.

In 1984 she finished the Leningrad State University, Department of Economic Cybernetics as a prize student, specialty: Economist-mathematician, and in 1987 a post-graduate study in the field of mathematical cybernetics at the Institute for Social and Economic Studies of the Academy of Sciences of the USSR, Leningrad Department. In 1998 she earned her MBA from Bristol University. In 2009, she obtained the Diploma of Professional Independent Director of the London Institute of Directors.

From 1988 to 1995 worked as a Chairperson of the Board of Directors, CEO and the director of a series of private companies. From 1995 to 2003, she worked on different partner positions in KPMG in Saint Petersburg, New York and Moscow. From 2003 to 2005, she was the executive person of the Internal audit administration in Yukos, and the executive partner in Deloitte&Touche from 2005 to 2008. In the period from 2006 to 2013, she held the positions of an independent member of the BoD, the President of the Audit Committee, a member of the Strategy Commission and a member of the Commission for Fees in EM-Alliance and KIT-Finance, as well as an independent member of the Commission for OAOBaltika audit. From 2012 to 2013 she was a partner in PricewaterhouseCoopers (PwC), and from 2014 to 2014 is an independent member of the BoD, Audit Committee and Commission for Fees of Chairperson of UK Nefte Trans Servis. From 2013 is an independent member of BoD of DOO Ink, and from 2015 until 2018 she was an independent member of BoD of SUEK.

She was elected a member of the Board of Directors of NIS j.s.c. Novi Sad on June 21, 2018.

Composition of the Board of Directors as at 31 December 2018

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						Russian
Member of BoD	Sergey Papenko	June 21, 2018		X					Russian
Member of BoD	Alexey Yankevich	June 18, 2013		X		member			Russian
Member of BoD	Alexander Krylov	November 29, 2010		X					Russian
Member of BoD	Nikola Martinović	September 24, 2005[1]		X					Serbian
Member of BoD	Danica Drašković	April 1, 2009[2]		X					Serbian
Member of BoD	Wolfgang Ruttenstorfer	April 2,. 2012		X	X	President			Austrian
Member of BoD	Anatoly Cherner	February 10, 2009		X				member	Russian
Member of BoD	Olga Vysotskaia	June 21, 2018		X	X			President	Russian
BoD Commissions members that are not members of BoD									
Member of Audit Committee	Nenad Mijailović					member			Serbian
Member of the Remuneration Committee	Zoran Grujičić							member	Serbian

1 *Nikola Martinović was a member of the Executive Board of NIS j.s.c. Novi Sad (today Board of Directors) from September 24, 2005 to February 29, 2008, and re-elected as a member on September 30, 2008. Before election into Executive Board of NIS j.s.c. Novi Sad, he was a member of the Executive board of the Public Company NIS - Oil Industries of Serbia from April 1, 2004 to September 23, 2005.*

2 *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 2018

The Board of Directors held 3 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%.

On the agenda of the Board of Directors, in addition to the regular activities related to the consideration of the Annual Report of NIS a.d. Novi Sad were Financial Statements and Consolidated Financial Statements of the Company for 2017, adoption of periodic (quarterly) reports of the Company in 2018, convening of the regular session of the Shareholders Assembly, adoption of the Business Plan of the Company, determination of the days, procedure and manner of dividend payment to the Company's shareholders, also decisions have been made on sale of shares of the Company in the Central Cooperative Bank j.s.c. Skoplje and Recrea tours j.s.c. Belgrade, the formation of branches of the Company, and the approval of 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 and *NIS PETROL S.R.L.* Romania). Further, the Board of Directors approved the Financing Agreement between the Company, Banca Intesa a.d. Beograd and Všeobecnáúverová banka a.s. Republic of Slovakia. The Board of Directors approved several proposals for dismissal and appointment of representatives of the Company in the subsidiaries of NIS j.s.c. Novi Sad and appointed the members of the Commissions of the Board of Directors of the Audit Company and fees for the current mandate period. For the purpose of achieving the projected goals of the Company, reviewing the Company's performance and quality of corporate governance, the Board of Directors, through quarterly reports, reviewed business analyses in the reporting period with the business appraisals of NIS j.s.c. Novi Sad to the end of 2018 as well as through the Report on post-investment monitoring of projects of NIS j.s.c. Novi Sad in Serbia and abroad. For the purposes of perceiving its own performance, the Board of Directors analysed its own work and submitted an appropriate Report for the 10th regular session of the Shareholders' Assembly. The Board also looked at the results of meeting the key business indicators for 2017, as well as the system of evaluating key business indicators for 2018.

During 2018, the Board of Directors adopted 72 decisions, while the control of the execution of decisions taken is monitored through periodic reports on execution of decisions and orders of the Board of Directors.

Attendance at the Meetings of the Board of Directors and Board of Directors' Committees in 2018

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%	23/23	–	–	–	–
Kirill Tyurdenev *CEO*	100%	23/23	–	–	–	–
Alexey Yankevich	100%	23/23	100%	5/5	–	–
Kirill Kravchenko[1]	100%	14/14	–	–	–	–
Sergey Papenko[2]	100%	9/9	–	–	–	–
Alexander Krylov	100%	23/23	–	–	–	–
Nikola Martinović	100%	23/23	–	–	–	–
Danica Drašković	100%	23/23	–	–	–	–
Wolfgang Ruttenstorfer	100%	23/23	100%	5/5	–	–
Anatoly Cherner	100%	23/23	–	–	100%	3/3
Stanislav Shekshnia[3]	100%	14/14	–		100%	
Olga Vysotskaia[4]	100%	9/9	–		–	–
Members of the BoD's Committees who are not members of the BoD						
Nenad Mijailović	–	–	100%	5/5	–	–
Zoran Grujičić	–	–	–	–	100%	3/3

1 *Member of the Board of directors til June 21, 2018*
2 *Member of the Board of directors til June 21, 2018*
3 *Member of the Board of directors and President of Remuneration Committee til June 21, 2018*
4 *Member of the Board of directors til June 21, 2018 and President of Remuneration Committee from October 22, 2018*

Board of Directors' Rules of Procedure and Meetings

The Rules of Procedure of the Board of Directors and Committees of the Board of Directors of the Company (hereinafter The Rules of Procedure of the Board of Directors) govern the operation and decision-making processes of the Board of Directors and Committees of the Board of Directors of the Company. including the procedure for convening and holding meetings.

The Board of Directors adopts a work plan for each fiscal year which includes all issues to be considered in accordance with the relevant 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 considers other issues under its competence, as required.

In order for the members of the Board of Directors to be properly informed before making decisions and to keep them up to date with the activities of the Company, the CEO and the Management of the Company ensure that the members of the Board of Directors receive accurate, timely, and complete information on all issues considered at meetings, as well as on all other important issues concerning the Company. Meetings of the Board of Directors are prepared with the help of the Corporate Secretary and under the supervision of the Chairman of the Board of Directors, so that each member may provide adequate contribution to the work of the Board of Directors.

The Board of Directors takes 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 Policy for Remunerating Members of the Board of Directors and Members of Committees of the Board of Directors. The Policy outlines that the remuneration should be attractive and competitive to attract and retain the persons meeting professional and other criteria required for the Company as members of the Board of Directors and members of the Committees of the Board of Directors. The remuneration should not significantly deviate from the compensation paid to members of the Board of Directors and members of the Board of Directors Committees in other companies with the same or similar activities. size and scope of operations.

The remuneration policy states that remuneration for executive directors is specified under an employment contract or another contract of hire for each executive director of the Company. without them receiving any compensation for membership on the Board of Directors and Committees of the Board of Directors. except for the compensation of costs and professional liability insurance in connection with 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 of members of the Board of Directors and Committees of the Board of Directors.

Fixed (permanent) portion of the remuneration to members consists of a fixed portion of the annual membership fee for the Board of Directors and the fixed annual fee for participation in the Committees of the Board of Directors. Such type of remuneration includes the fee for the time and effort of the members of the Board of Directors or members of the Committees of the Board of Directors, with respect to their role and is related to the preparation and active participation in the meetings of the Board of Directors or Committees of the Board of

Directors, which requires the members to study the documents in advance, be present and take an active part in the meetings.

Reimbursement of expenses – Members of the Board of Directors and Committees of the Board of Directors are entitled to reimbursement for all expenses incurred in connection with their membership on the Board of Directors or Committees of the Board of Directors, within the limits of norms determined by internal corporate acts.

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 acts.

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 Meeting adopted at current Remuneration Policy for the members of the Board of Directors and Committees of the Board of Directors on 28 June 2016. when the previous policy version 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 Shareholders' Assembly of the Company. Acting within its competence, the Remuneration Committee carried out a 2018 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 10th ordinary meeting of the Shareholders' Assembly, held on 21 June 2018. 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 monetary compensation for independent members of the Board of Directors is in line with current market practices, and that the fee amount and structure for the members of the Board of Directors is in accordance with the principles, framework and criteria provided for by the current Policy for Remuneration Policy for the Members of the Board of Directors and Members of Committees of the BoD.

Total amount paid to Board of Directors members in 2018, net RSD	
BoD Members	236,429,145

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 and identifying the Company's further courses of development, as well as for establishing and controlling the effectiveness of the corporate business strategy.

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 incentive 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 its and Company Shareholders, 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 sufficient to ascertain that there has been 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, as well as the key risks that it faces, and their expedited active involvement in the activities of the Board of Directors. This includes, among other things, becoming familiar with internal company acts, 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 analyses its work and the work of the Committees' annually in order to identify potential problems and propose measures to improve the performance of the Board of Directors.

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

The evaluation results, based on 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 Board of Directors' members attend strategic sessions, provide its members with a better insight into the Company's business operations and enable them to analyse and scrutinise the priority areas of development and forecasts for the key business operation indicators and prerequisites for the Company's long-term development.

Membership in other companies' boards of directors or supervisory boards	
Vadim Yakovlev	• JSC NGK Slavneft (Chairman of BoD) • JSC SN-MNG • LTD GPN Development (Chairman of BoD) • JSC Gazprom Neft-NNG (Chairman of BoD) • LTD Gazprom Neft-Hantos (Chairman of BoD) • LTD Gazprom Neft-NTC (Chairman of BoD) • FLLC Gazprom Neft-Orenburg (Chairman of BoD) • LTD Gazprom Neft-Sahalin • Salym Petroleum Development N.V. (Supervisory Board Chairperson) • LLC Gazprom Neft Shelf • LTD Technological Centre Bazen • LTD GPN-GEO
Kirill Tyurdenev	–
Alexey Yankevich	• JSC NGK Slavneft • JSC Gazprom Neft – Aero • LTD Gazprom Neft – SM • LTD Gazprom Neft Business-Service (Chairman of BoD) • Gazprom Neft Lubricants Italy SPA (Chairman of BoD) • LTD Gazprom Neft Marine Bunker • LTD Gazprom Neft Shelf
Sergey Papenko	• JSC NGK Slavneft • JSC Artikgaz • JSC Evrotek-Jugra • ZAD Nortgaz (Chairman of BoD) • LTD Slavneft-Krasnojarskneftegas • LTD Gazprom Neft - Vostok • LTD Gazprom Neft - Angara • Salym Petroleum Development N.V. (member of SB) • LTD Gasprom Resurs Nortgaz (CEO) • JSC Mesojahaneftegaz • JSC Tomskneft VNK (Chairman of BoD)
Alexander Krylov	• JSC Gazprom Neft – Novosibirsk (Chairman of BoD) • JSC Gazprom Neft – Tyumen (Chairman of BoD)[1] • JSC Gazprom Neft – Ural (Chairman of BoD) • JSC Gazprom Neft – Yaroslavl (Chairman of BoD) • JSC Gazprom Neft - Northwest (Chairman of BoD) • LTD Gazprom Neft Asia (Chairman of BoD) • LTD Gazprom Neft - Tajikistan (Chairman of BoD) • LTD Gazprom Neft – Kazakhstan (Chairman of BoD) • LTD Gazprom Neft – Centre (Chairman of BoD) • JSC Gazprom Neft – Terminal (Chairman of BoD) • LTD Gazprom Neft – Regional Sales (Chairman of BoD) • JSC Gazprom Neft - Transport (Chairman of BoD) • LTD Gazprom Neft – Krasnoyarsk (Chairman of BoD) • LTD Gazprom Neft – Corporate Sales (Chairman of BoD) • LTD Gazprom Neft – Belnefteprodukt (Chairman of BoD) • JSC Gazprom Neft - Alternative Fuels (Chairman of BoD) • LTD ITSK • LTD Gazprom Neft – Laboratory (Chairman of BoD) • LTD Gazprom Neft - Tyumen (Chairman of BoD) • LTD Gazprom Neft – Novosibirsk (AZC) (Chairman of BoD) [2] • LTD Gazprom Neft - Novosibirsk (NB) (Chairman of BoD) [3] • Association Hockey Club 'Avangard' (Chairman of BoD)

Membership in other companies' boards of directors or supervisory boards	
Nikola Martinović	–
Danica Drašković	–
Wolfgang Ruttenstorfer	• Flughafen Wien AG, Vienna (Member of the Supervisory Board) • RHI MAGNESITA NV, Vienna (Member of BoD) • LTD „CollPLant Holdings“ (Member of BoD) • Erne Fittings GmbH (Chairman of SB)
Anatoly Cherner	• JSC NGK Slavneft • JSC Gazprom Neft – ONPZ (Chairman of BoD) • JSC Slavneft – JANOS • JSC Gazprom Neft – MNPZ (Chairman of BoD) • JSC Gazprom Neft – Aero (Chairman of BoD) • JSC Saint-Petersburg International Mercantile Exchange • LTD Gazprom Neft – SM (Chairman of BoD) • LTD Gazprom Neft Marine Bunker (Chairman of BoD) • LTD Gazprom Neft – Logistics (Chairman of BoD) • JSC Mozirski NPZ • Gazprom Neft Lubricants Italy SPA • LTD Gazprom Neft - Catalytic Systems (Chairman of BoD) • LTD Automatica-Service (Chairman of BoD)
Olga Vysotskaia	• non-profit organization Silver Time (Chairperson of SB, Director) • LTD INK (Independent member of BoD, Audit Committee Chairperson)

1 *The company has been liquidated on 27th December 2018.*
2 *The company is not operating since 17th October 2018.*
3 *The company is not operating since 26th December 2018.*

Board Of Directors' Committees

With a view to ensuring its efficient performance, the Board of Directors established three standing committees to act as advisory and expert bodies which provide assistance to its activities, particularly with the consideration of its issues in its domain, preparation and supervision of its implementation of the decisions and acts it adopts, as well as for carrying out 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 to 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, 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, as well as by the Rules of Procedure of the Board of Directors and its committees, which also regulates the composition, conditions for selection and number of members, mandate, dismissal, manner of work, as well as other relevant issues related to the work methods of the committees of the Board of Directors.

At least once a year, these committees draft and submit to the Board of Directors reports on issues within their scope of work, and 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 relating to 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 person who is an authorized 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:

- Wolfgang Ruttenstorfer, Chairman,
- Alexey Yankevich, Member of the Audit Committee and
- Nenad Mijailović, Member of the Audit Committee,

and all three members also performed these functions in the Audit Committee in the previous mandate period.

During 2018, the Audit Committee held 5 written sessions. Among other things, the Committee analysed the Quarterly Report, the Financial Statements and the Consolidated Financial Statements for the Q1 and Q3 of 2018 and, subsequently made appropriate recommendations to the Board of Directors. The Audit Committee also analysed the Annual Report for 2017 as well as the Report of an independent auditor PricewaterhouseCoopers d.o.o. Beograd about the review audit of this statement. This auditing company also gave its opinion about the qualifications and independence of the auditors of PricewaterhouseCoopers d.o.o. Beograd relative to the Company. In addition, Audit Committee determined the Yearly plan about making the internal audit in NIS j.s.c. Novi Sad for year 2018 and the Internal Audit Charter of the Company (version 3.0), and also reviewed the Audit Implementation Plan and the identification of key audit issues for 2018 and monitored the implementation status of the auditor recommendations given in the Management Letter Points, of NIS j.s.c. Novi Sad for year 2017, and reported on the day of February 28 and August 31, 2018. The Audit Committee analysed the Report of the Internal Audit Function with the results of the internal control of the operations of NIS j.s.c. Novi Sad for year 2017 and 6 months of 2018.

Remuneration Committee

Members of the Remuneration Committee are:

- Olga Vysotskaia (Chairperson),
- Anatoly Cherner (Member), and
- Zoran Grujičić (Member)

Members of the Remuneration Committee, Anatoly Cherner and Zoran Grujičić, performed the aforementioned functions in the previous mandate, while Olga Vysotskaia was appointed Chairman of the Commission Committee in place of Stanislav Sheshnia, who held that function in the previous term (until June 21, 2018).

During the previous term, the Remuneration Committee held 3 written sessions. The Committee reviewed the performance of key indicators for 2017, the rating system and indicators for rewards for 2018, and also proposed remunerations for the auditors of the Financial and Consolidated Financial Statements of NIS j.s.c. Novi Sad for 2018. The Remuneration Committee prepared the Report on estimation 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 June 21, 2018.

Nomination Committee

Nomination of members of the Nomination Committee is scheduled for for the upcoming period.

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 opinion, on the following matters: 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 profit distribution and other payments to the Company’s shareholders; methods of independent audit of the Company’s financial statements; internal audit activities in the Company and assessment their efficiency; proposals for the incorporation or liquidation of companies in which the Company holds a share, or ofthe Company’s subsidiaries; proposals for the acquisition and sale of shares, stakes and/or other interests the Company holds in other companies, and the assessment of how the Company uses to handle complaints filed by its shareholders.

Members of the Shareholders’ Assembly Board as at 31 December 2018

At the 10th Ordinary Shareholders’ Assembly held on 21 June 2018, all members of the Shareholders’ Assembly Board whose term of office ended were re-elected. As a result, there were no changes in the composition of the Shareholders’ Assembly Board in 2018 and its members are as follows:

- Nenad Mijailović (Chairman),
- Zoran Grujičić (Member),
- Alexey Urusov (Member).

Nenad Mijailović

Chairman of the Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders

Born in 1980.

Mr Mijailović graduated from the Faculty of Economics, University of Belgrade in 2003. In 2007, he obtained his Master's Degree at the University of Lausanne, Switzerland. In 2010, he started his PhD studies at the Faculty of Economics, University of Belgrade. In 2011, he obtained an international CFA licence in the field of finance. From 2003 to 2009, he worked as a finance and banking consultant and manager in the following companies: Deloitte Belgrade, AVS Fund de Compensation Geneve, JP Morgan London, and KBC Securities Corporate Finance Belgrade. From December 2009 to August 2012, Mr Mijailović served as Advisor to the Minister in the Ministry of Economy and Regional Development, Department of Economy and Privatisation. In August 2012, he was appointed Deputy Minister of Finance and Economy of the Republic of Serbia. From August 2014 to September 2018, he served as the State Secretary in the Ministry of Finance of the Republic of Serbia. In September 2018, Mr Mijailović was appointed CFO in Galenika j.s.c. Belgrade.

He was a member of the Board of Directors NIS j.s.c. Novi Sad from 18 June, 2013 to 30 June, 2014. Appointed Chairman of the Shareholders' Assembly Board for the Supervision of Operations for Reporting to Shareholders of NIS j.s.c. Novi Sad on June 30, 2014.

Zoran Grujičić

Member of the Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders

Born in 1955.

Mr Grujičić graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994, he was employed at Heat Transfer Equipment Factory 'Cer' 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. from Čačak. From June 2004 to February 2007, he was Managing Director of the Trade Company Agrostroj j.s.c. Čačak, director of the Limited Partnership Leonardo, Čačak and the director of the Centre for Roads of Vojvodina. Since February 2007, Mr Grujičić has been employed with NIS j.s.c. Novi Sad and held the positions of Deputy Director of Logistics Department, in Jugopetrol; Head of RC Čačak at Retail Department – Čačak Region; Retail Network Development Manager at Development Department, Sales and Distribution. From 1 October 2012 to January 2016, he served as Advisor to the Director of Sales and Distribution, and in February 2016, he became Advisor to the Director of External and Government Relations. Since October 2017, he has been Advisor to the CEO.

Appointed Chairman of the Shareholders' Assembly Board for the Supervision of Operations and Reporting to Shareholders of NIS j.s.c. Novi Sad on June 30, 2014.

Alexey Urusov

Member of the Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders

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

Born in 1974.

Mr Urusov graduated from the Tyumen State University (specialist in finance) and the University of Wolverhampton in the United Kingdom (Business Administration). Mr Urusov holds a Master's Degree in sociology. From 2006 to 2008, he worked as executive vice-president for planning and performance management at Integra Group. From 2002 to 2006, he worked at TNK-VR. From 2002 to 2003, Mr Urusov was a member of TNK BoD's Group for monitoring and control, and in period from 2004 to 2006 worked as CFO at TNK-VR Ukraine. From 2009 to 2012, worked for NIS j.s.c. Novi Sad as Chief Financial Officer. Since 2012, he has been the Director of Economics and Corporate Planning Department at PJSC 'Gazprom Neft'.

Appointed Chairman of the Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to Shareholders of NIS j.s.c. Novi Sad on June 25, 2012.

Activities of the Shareholders' Assembly Board in 2018

The Shareholders' Assembly Board held 10 written sessions in 2018. The Shareholders' Assembly Committee reviewed periodic reports of the Company, i.e. Quarterly Reports, Quarterly Financial and Consolidated Financial Statements for the Q1, Q2 and Q3 of 2018. In addition, the Shareholders' Assembly Board also discussed proposals for: sale of shares of NIS j.s.c. Novi Sad in Central Cooperative bank j.s.c. Skoplje and Recreatours j.s.c. Belgrade, the formation of subsidiaries of the Company, approval of adjustments of the repayment periods of subordinated and financial loans between NIS j.s.c. Novi Sad and its subsidiaries abroad (NIS PETROL EOOD, Republic of Bulgaria and *NIS PETROL S.R.L.* Romania), and approval of adjustments of interest rates for subordinated and financial loans between NIS j.s.c. Novi Sad and its subsidiaries abroad (NIS PETROL EOOD, Republic of Bulgaria and NIS PETROL S.R.L. Romania, NIS PETROL ltd Banja Luka, Republic of Srpska and O zone j.s.c. Belgrade). Shareholders' Assembly Board adopted a total of 48 conclusions in 2018.

Membership in other companies' boards of directors or supervisory boards	
Nenad Mijailović	–
Zoran Grujičić	–
Alexey Urusov	• LTD Gazprom Neft Marine Bunker Balkan S.A. (Member of BoD) • AS Baltic Marine Bunker (Member of BoD) • LTD Gazprom Neft - Catalytic Systems (Member of BoD) • LTD Gazprom Neft Energoservice (Member of BoD) • LTD Gazprom Neft Business-Service (Member of BoD) • LTD ITSK (Member of BoD) • LTD Noyabrskneftegazsvyaz (Member of BoD)

Total amount paid to SAB members in 2018, net RSD	
Members of SAB	18,043,500

NIS j.s.c. Novi Sad applies the highest standards in the area of information, while respecting the principles of equal treatment of all users of information.

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 decides 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. Composition of the Advisory Board is determined by the Decision of the CEO, and it consists of the First Deputy CEO - Director of the Downstream Division, the First Deputy CEO - Director of the Exploration and Production Block, Directors of Refining, and Sales and Distribution Blocks, as well as Directors of Company's Functions. In addition to issues related to the business management of the Company. Advisory Board deals with the issues of 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

Gennady Lubin
First Deputy CEO,
Director of Exploration
and Production Block

Andrey Tuchnin
First Deputy CEO
for Downstream

Vladimir Gagić
Refining Director

Alexey Chernikov
Sales and Distribution Director

Viacheslav Zavgorodnii
Deputy CEO, Strategy and
Investments Director

Igor Tarasov
Deputy CEO,
Corporate Security Director

Anton Cherepanov
Deputy CEO,
Finance, Economics, Planning
and Accounting Director

Sergey Fominykh
Deputy CEO,
Legal and Corporate Affairs
Director

Natalia Bylenok
Deputy CEO,
Organisational Affairs Director

Vadim Smirnov
Deputy CEO,
Public Relations and
Communication Director

Maxim Kozlovskiy
Deputy CEO
Procurement Function Director

Jelena Popara
Internal Audit Director

Ulrich Peball
HSE Director

Biographies of members of the Advisory Board can be found on the corporate website https://www.nis.eu/en/about-us/company-information/management

Activities of the Advisory Board in 2018

The Advisory Board to the Chief Executive Officer of NIS j.s.c. Novi Sad held 20 sessions over the course of 2018. As part of the „Transformation" project, the Chief Executive Officer issued a Resolution, which introduced changes to the makeup of this Board with a view to creating integrated and synchronised key processes with a clear division of responsibilities and powers. Members of the Advisory Board to the Chief Executive Officer have met once a month to deliberate:

- Reports concerning HSE events and initiatives made in the previous period;
- Reports concerning the endorsement of decisions and tasks assigned in previous sessions;
- Reports concerning operative and financial indices in the Exploration and Production Block;
- Reports concerning operative and financial indices in 'Downstream' Division;
- Reports presenting monthly financial business activities results;
- Reports concerning the status of the most important unresolved issues within Functions.

As in the previous years, the members of the CEO Advisory Board were presented quarterly results of the Company's performance and business strategies, results of stocktaking of assets and liabilities, as well as reports on the work of various Company's Committees. Internal Audit Function presented reports concerning the completion of recommendations made over the course of the completed audit procedures, as well as report concerning the completion of activities for key risks management.

It is worth noting that the issues which the members of the Advisory Board addressed in 2018 were related to the two most important strategic aims: the construction of the combined cycle power plant CCPP Pančevo, as well as the Plandište Wind Farm.

Company Management Succession Plan

In order to minimise the potential risks for the Company and increase work efficiency of the work, there are special systems and processes within the Company aimed at ensuring the fulfillment of possible vacancies when it comes to the highest operational management of the Company. This implies the implementation of specific training programs, so that through continuous investment in the development of knowledge, and skills acquisition, it allows for the reduction of potential risk in relation to key management positions in the Company.

Moreover, potential successors are assessed and special lists of successors are established that include the names and surnames of these persons, their current positions and plans for their development.

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

Pursuant to Article 84a of the Capital Market Law and internal acts of the Company, all persons acting 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. Special written consent of the Company may be made for trading during the period of prohibition, if there are conditions prescribed by the law and the acts of the Securities Commission.

In addition, all persons performing the duties of the manager in the Company, as well as related persons (as defined by the law), are obliged to report any acquisition or disposal for their own account of the Company's shares to the Securities and Exchange Commission within 5 days If the individual acquisitions or disposals exceed the amount of 100,000 dinars. A report must also be made if the sum of the value of individual acquisitions or disposals in the course of one calendar year exceeds the value of RSD 500,000.

In 2018, the Company did not receive any information of any acquisitions or alienations of the Company's shares by any members of the Company bodies or their related parties.

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

Name and surname	Number of shares	% in total number of shares
Nikola Martinović	224	0.0001%

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
Nenad Mijailović	5	0.000003066%

Internal Audit Activities

Regulatory framework of internal control, i.e. internal audit at NIS j.s.c. Novi Sad is established by the Company Law, Internal Audit Charter, Internal Audit Standard and other relevant internal regulations.

The Internal Audit audit provides services of independent and objective assurance and assessment of corporate governance processes, risk management and internal control system in order to improve processes, add value and increase the overall efficiency of the Company. Management consulting services are also provided, in line with the principles of independence and objectivity.

In particular, internal audit activities include:

- examination and assessment of the adequacy and efficiency of corporate governance, risk management and internal controls;
- control of compliance of the Company's business activities with the law, other regulations and acts of the Company;
- supervision of the implementation of accounting policies and financial reporting;
- monitoring the implementation of the risk management policy;
- monitoring the compliance of the Company's organisation and activities of y with the corporate governance code;
- evaluation of policies and processes in the Company, and providing proposals for their improvement.

Internal audit activities are performed within the Internal Audit Function. Organizational and functional independence of internal audit is secured by the Internal Audit Charter. The Internal Audit Function, via the person responsible for internal control, appointed by the Board of Directors, is functionally subordinated to the Audit Committee, and linearly to the Company's CEO. As a rule, the person responsible for internal control performs the role of the Director of the Internal Audit Function. Twice a year the Director of Internal Audit Function reports to the Audit Committee on the operational results of the Internal Audit Function and the evaluation of the systems of internal controls and risk management in the Company. The Audit Committee is among other authorized to:

- Pass the Internal Audit Charter;
- Pass the Annual Internal Audit Plan;
- Propose the appointment and discharge of the person responsible for internal control of Company's business, in accordance with the Company Law, while the Board of Directors of the Company makes the Decision on the appointment and discharge of the aforementioned person (who as a rule performs the role of the IAF director);
- Check for any restrictions on access to information (scope limitations) or limitations of resources necessary for the internal audit;
- Monitors 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 regular session of the Shareholders' Assembly, and according to the Capital Market Law and having in mind that 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 annual financial statements.

The Audit Company reports on the audited financial statements and consolidated financial statements of the Company for 2017 were adopted on June 21, 2018 at the X regular session of the General Meeting of Shareholders, attended by the auditor of the PricewaterhouseCoopers d.o.o. Beograd, whose attendancein accordance with the Law, is (mandatory at the regular session of the Assembly. At the same meeting, the Shareholders Assembly elected the same auditing company, PricewaterhouseCoopers d.o.o. Beograd, as the auditors of the financial statements for 2018.

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 provided by the auditor to the Company. The stated statement was a part of the material for X regular session of the Shareholders Assembly.

Other Services of the Auditor

Apart from auditing 2017 financial statements and consolidated financial statements for 2017, PricewaterhouseCoopers d.o.o. Beograd and its affiliated companies provided NIS with other additional services in 2018. 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, KPIs (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, upon which 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 Self-Interest and Non-Competition

Transactions Involving Self-Interest - A person who, in accordance with the law, has special duties towards the Company, shall inform the Board of Directors without delay about the existence of a self-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 Board of Directors submits to the General Meeting of Shareholders at its first subsequent session the information on the approval of the conclusion of affairs in which there is a self-interest.

On the basis of amendments to the Law that apply from October 1, 2018, the Company publishes on its website important information on activities in which there is a personal interest in accordance with the criteria prescribed by the Law.

Competition Ban - In order to monitor compliance with the competition ban, the Company organises quarterly surveys of members of the Board of Directors concerning their membership in Board of Directors and Supervisory Boards in other companies. Data on membership in the management bodies of other companies are regularly published in the Company's 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 the obligation to notify the Company in the event of a possible conclusion of a legal transaction with the Company, as well as with the obligation of non-competition to the Company and other special duties of the members of the Board of Directors.

Related-Party Transactions

In 2018, NIS Group entered into business partnerships with its affiliates. The most important related-party transactions were made based on the supply/delivery of crude oil, petroleum products and electricity. An outline of related-party transactions is included in the Notes to the Financial Statements.

Insider Information

Trading in shares using insider information is strictly forbidden and punishable under the 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 acts related to insider information and confidential information.

The criteria for deciding who can serve in the capacity of insiders, what insiders'rights and obligations, consist of the Company's obligation to ensure the confidentiality of insider information, the procedure for publishing insider information, and the rules for the compilation, management and updates of the insider list are regulated by the Company's internal acts.

Code of Conduct

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

https://www.nis.eu/en/about-us/company-information/code-conduct

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.

Corruption and Fraud Prevention Policies

The Company adopted the Corruption and Fraud Control Policy, 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 provides for the obligation of all persons, in the event of arguable suspicions relating to the commission or preparation of corruptive or fraudulent actions, or, in case of their disclosure, provide appropriate information through pre-defined and protected channels of communication, with the guarantee of confidentiality. Moreover, the policy defines measures for protection of persons that provided this information and the manner of their implementation, which ensures that the position of the person, who in this way indicates corruption or fraudulent actions, is not in any way endangered.

Relations with Stakeholders and Corporate Social Responsibility

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


NIS
БУДУЋНОСТ
НА ДЕЛУ

Our Employees Are Our Driving Force

We are aware that happy and motivated employees are the key to success of every company. Therefore, every year we strive to improve our practices in the area of human resources and to contribute to the development of the HR community in Serbia.

Continuous employee development constitutes the cornerstone of modern business. Only in 2018, we invested RSD

237

million into professional development of our employees

Our Corporate University hosted lectures by many globally renowned experts from the business world and other fields, and this year, the largest number of our colleagues attended its courses – as many as

2,500!

1.11 Human Resources

NIS' main mission is to generate energy which will lead to advancement, whereas the energy that drives NIS is provided by its employees, who are the key to its success. In order to maintain this synergy NIS creates a business environment in which each employee can fulfil their true potential, and which observes all employee rights stipulated by the Labour Law, Collective Agreement/Rules of Procedure, internal acts, international acts such as the UN Declaration of civil rights and International Labor Organization's Declaration on Fundamental Principles and Rights at Work as well.

In 2018, much effort was made in the development of the employer's brand, and this activity was managed by the Sector for Recruitment and Selection. The concept of Employer branding strategy has been presented and approved. A plan of activities in this domain has been developed. As one of the key activities, the project "Culture Diagnostics, Values and Creation of EVP" was launched.

The fourth C&B conference, which has been successfully gathering HR professionals from Serbia and the world for years, was held.

The next step of the Career Path project has been implemented. In the Refining Block, 84 employees passed exams and mastered the knowledge and skills for the next step on their career path. Also, categorisation of operators in the Exploration and Production Block has occurred, specifically operators and those responsible for the preparation and dispatch of oil and gas. Categorisation defines target earnings for a certain level of operator.

A detailed analysis of the processes and tools of integrated talent management in NIS was conducted. As a result, there was an initiative to introduce a unique digital platform for talent management in the company.

In order to help new colleagues to fit into our NIS community as quickly as possible, the project 'NIS Host' was launched with the goal of integrating new employees into the new work environment.

The HR team continued to actively pursue internal workshops with the managers of *Coffee with HR* in which employees of all functions took part, and where various topics from the field of HR were discussed.

Since direct managers represent the first information source for employees, the Guide for managers was created, which aims to help managers address everyday issues from different areas of employee management.

Professional Development of Employees

World business practices in the area of human resources differ a lot in many aspects from one another, but they agree on one thing - continuous development of employees is the imperative of the contemporary business ecosystem.

In order to equip its employees with skills they need to address various business challenges, NIS invests in their development and contributes to the improvement of their potential, thus developing professional resources of the entire NIS Group. During 2018, the Company invested RSD 237 million into development of knowledge, skills and capabilities of its employees.

In 2018, a total of 2,221 training courses were held in cooperation with external providers, with 7,288 participants, whereas the internal training courses were attended by more than 4,000 participants. Our employees received support in expanding professional knowledge both from global majors from the field of exploration and production (*NExT Schlumberger, PricewaterhouseCooper*), management (*Roscongress, Aspentech, Energy Institute, IFP trainings, Cotrugli Business School*), but the best domestic companies as well: *Puzzle Software, Economic Research Centre Belgrade, Forum Media, Mokrogorska Management School, Project Managing Centre, GI group, Omega Consulting, DCT (Dale Carnagi*) and many other. The trainings enhanced development of both professional and personal skills and skills necessary for successful team management.

During 2018, NIS continuously worked on increasing efficiency. For these purposes, the Company organised *Lean Six Sigma* training courses and programmes connected to the equipment reliability.

Within the Company digitalisation project, more than 150 trainees passed the basics of Agile, and the first certificates for Scrum Master and Product Owner programmes were awarded.

The programme of Learning the Foreign Languages is intended to improve the knowledge of English, Russian or Serbian language of the employees, with the purpose of more efficient work performance. During 2018, 200 employees were included in group or individual lectures.

Professional Development of Employees in Business Blocks

In order to improve business skills as well as team spirit, NIS employees participated in numerous competitions where they achieved remarkable results. These competitions are organized both within NIS and on the level of Gazprom Neft Group.

During 2018 the competition 'The Best in the Field' was organised in the Exploration and Production Block was held in four disciplines: operator in oil and gas production, operator of well exploration, operator for oil and gas preparation, operator for well exploration and technician technologist. Thirty four employees participated in the competition. The best participants participated in the main competition of Gazprom Neft in Noyabrsk where two competitors received special prizes. For the first time this year The Exploration and Production Block was a host of Best Technologist competition in which 116 employees participated.

On 10 October, the opening ceremony for the 1st NIS international scientific and technical conference was held in Novi Sad. This was one of the most significant events in the field of oil and gas exploration and production. The aim of this three-day Conference, which took place in the Business Centre in Novi Sad, was to facilitate the exchange of knowledge and experience of scientific institutions and industry in the implementation and development of new scientific methods for oil and gas deposits exploration and exploitation.

The Conference was attended by more than 200 participants who presented 68 scientific papers in the field of oil and gas exploration. The topics discussed at the conference encompassed reservoir development, geophysics and geology, novel technologies and IT in oil processing industry, hydrocarbon systems modelling.

Along with speakers from NIS and Scientific-Technological Centre (STC), experts from number of renowned companies, scientific and educational institutions from Serbia, Russia, Croatia, Germany, France, Greece, the Netherlands and other countries attended the Conference. The experts who delivered their papers at the event represented companies such as: Gazprom Neft, Lukoil, Schlumberger, DEA, Wintershall and INA, as well as papers delivered by the representatives of the institutions such as Mihailo Pupin - Technical Faculty within Novi Sad University, Lomonosov Moscow State University, Saint Petersburg State University, Institute for Earth Sciences in Paris and many others. During the Conference experts from Delft Inversion and Schlumberger held two workshops focused on the development and implementation of new technologies in seismic and petrophysical explorations.

In addition to the competitions mentioned above, the most significant events for the Exploration and production Block over the course of 2018 include:

- The construction of a training centre in Elemir (which commenced in November 2018, and is planned to be completed in May 2019);
- The procurement of a simulator for operators of oil and gas production which will be used for practical training in many operations performed on various types of wells in NIS (ESP, submersible pump, gas lift, gas). The training centre also possesses ESPs and wells equipped with submersible pumps.

In the Services Block, the most important events that marked the year 2018 were: the Friendship and Sports Day, Day on the River (May), Driver's Challenge – a traditional competition within the Traffic Safety Week, the competition (in October), The Best in the Field – an exchange of experience for professionals who are the best in their field, also competition in Russia under the same name in which one of our colleague scored the highest number of points on the test.

The key events in the Refining Block in this year were as follows:

- The competition 'The Best in the Field' was held in July 2018. Its participants were divided into two teams: operators from the Group of Plants and operators from Oil Movement. The first four operators had a chance to participate in a competition held in the refinery in Omsk, Russia. In addition to theoretical and practical tasks in the field of oil refining and movement, the operators demonstrated their knowledge of HSE policies, first aid and fire protection. All major Russian oil companies were represented with the Refining Block from NIS representing the best image of the Company in the best possible way.

- A system for in-house employee training was implemented in the Production Block with a view to expanding training courses for personnel with shift work schedules and encouraging knowledge exchange and employee development. Moreover, the implementation of a technical training system was launched in the Technical Department.
- In September 2018, "23. maj" Secondary Technical School of Pančevo established a new course for Oil and Gas Processing Technicians. The curriculum was developed in association with the engineers from the Refining Block with the aim of preparing students adequately for both work in the Refinery and studies in the field of oil and petrochemical engineering.
- An e-learning training programme for operators and engineers was launched. The implemented E-learning platform provides a unique knowledge base from the refining field, and includes the features for identifying knowledge gaps, administering knowledge tests and generating reports.
- The first stage of the selection process for suppliers of OTS simulators for several plants in the Refining Block was completed. Simulations of standard processing operations – start-up/shutdown, simulations of equipment failures, generation of possible scenarios, and simulations of virtual plant operations; all in all providing a safe way to train command centre operators.

This year, the best employees from the Sales and Distribution Block took part in a raft of competitions, such as the competition 'Best in the field 2018'. This competition attracted a large number of applications, with more than 929 employees in total taking part:

- Retail Departments of Sales and Distribution Block and G-Petrol – 742 employees
- Logistics (warehouse managers and tanker truck drivers) – 187 employees.
- The regional competition in Yekaterinburg (Russia) was a great success, with 2 first place awards.

We can also single out the Negotiatons Competition, in which more than 55 employees applied. As many as 16 lectures were held on the topic of negotiations.

Nis Corporate University

During 2018, NIS Corporate University continued developing a system of continuous learning, as well as improving managerial and leadership skills and competencies in line with global standards in the field of employee training and development.

Blended learning, which combines traditional in-class training with modern tools and methodologies such as e-learning, workshops, sessions and business simulations, ensures that development activities are fully aligned with the actual needs of employees.

In the course of 2018, NIS Corporate University's programs were attended by the largest number of employees so far. As many as 2,500 employees occupying positions ranging from directors to the specialists, participated in these training courses.

In this year, NIS Corporate University placed, emphasis on increasing the number of topics of training programmes, and developing the curriculum. All training courses were designed in association with renowned business schools from the country and the wider region, training and development partners and leading lecturers employed by the providers. Following global trends the company's employees had the opportunity to listen to world-renowned lecturers on topics such as: Change management, *Agile*, *Design Thinking*, Digital transformation, Digital leadership, Global Trends Of the Fourth Industrial Revolution, etc.

We continue with the development of the mentoring culture, through training courses certified by the *Academy of Executive Coaching UK*, London, (*Coaching Skills Certificate*) and *Coaching and Mentoring International* (*CMI*), London (Mentoring Competencies Certificate for mentors).

In 2018, the fourth Leader development program was launched, aimed at improving the leadership potential of NIS's employees. This year, 26 employees from all organizational units of the Company.
The Leader program provides training in the field

of relevant business topics, thus contributing to the advancement of professional knowledge and leadership skills, primarily through interaction with international lecturers, learning through experience, mentoring support and coaching.

E-Learning Programmes

This year as well, we continued with *e-learning* trainings, i.e. cutting-edge online training courses for the Company's employees, in order to keep up with global trends. Modern and efficient technologies enabled the content of the training to be presented in an interesting and interactive way.

The advantages of the *e-Learning* training were first observed in the field of occupational health and safety as well as in the case of the Company's new employees. Following the modern global trends, a segment of the Introductory training includes an educational film 'Welcome to NIS', which helps employees become familiar with from Company at their workspace through 34 educational films.

Talent Development

The annual competency-based performance appraisal was upgraded to include another step – appraisal of employees who report to a functional manager in line with the Functional Relationship Matrix. This change was systemically supported, and was presented to our employees in a timely manner, together with the changes adopted by the Instruction.

As many as 10 assessment and Development Centres with more than 155 participants were organized during 2018. These centres had been set up to provide support to the development and business needs of Blocks and Functions, and to identify and develop the leadership potential of the Company's talents. Moreover, the Centres took part in executive recruiting. The first international project aimed at the establishment of the Assessment and Development Centre was launched on the initiative of NIS's Representative Office in Bulgaria.

Over the course of 2018, NIS's integrated talent management processes and tools were scrutinised.

The resulting initiative called for the digitalisation of the Company's HR processes. This initiative was equally important for HR, the Company as a whole and its employees, and within it, we organized SAP SuccessFactors workshops for HR and IT teams, scrutinised business needs and developed the Business Case: NIS HR Digital Transformation. In the coming period, this will be the base for the implementation of NIS HR digitalisation project.

Caring for Employee Social Status

NIS's employees are provided with a degree of social protection higher than that prescribed by law, and this area is regulated by the Collective Agreement and internal policies.

Benefits provided by the Collective Agreement and internal policies are as following:

- Special protection for employees with disabilities and suffering from occupational diseases, as well as preventive care for employees who work in special working conditions and for employees with reduced retirement age, aimed at preventing occupational diseases and disabilities;
- Social solidarity benefits (payment of medical expenses, including medications; funeral expense reimbursement for employees and/or their close family members);
- Compensation for damages suffered by employees due to the destruction or damage of their homes that is a result of natural and other disasters;
- Scholarships for full-time education for the children of deceased employees;
- Group health insurance plans for employees in case of serious illness and/or surgery;
- Group employee insurance in case of accidents;
- Addressing employee housing needs by granting subsidies for mortgages;
- Voluntary retirement insurance;
- Preventive care for employees.

Material and Non-Material Incentives

With a view to improving work efficiency, NIS continues to develop its employee reward system and to offer benefits that will secure the Company's position as one of the most attractive employers in the region.

There are three basic employee reward systems: variable pay in the production and technical organizational units, variable pay in sales, and variable pay and annual bonuses for administrative employees. NIS also has a bonus system for special achievements, as well as a system of project premiums for rewarding successful project work.

In modern business environments, non-financial incentives are becoming far more significant for overall employee motivation than purely financial incentives. The aim of non-financial incentives is to grant social and professional recognition to our employees by providing them with self-actualisation, respect and sense of belonging. Managers can motivate their employees by creating a positive work environment by facilitating open communication and corporate culture, thus helping them achieve better results.

As for immaterial motivation, the Company developed programmes such as Bravo Rewards, Discount System, Employee of the Month/Year, I Have an Idea, etc., which enables our employees to actively participate in the Company's operations and express their creativity and initiative.

Recruitment and Selection of Candidates

NIS's human resources policy is based on the principles that guarantee equal opportunities for all its employees as well as potential ones, regardless of their gender, religion, political opinion, ethnic or social origin. These principles eliminate the possibility of any kind of discrimination. Every decision made about a candidate must be based on objective and relevant criteria, i.e. whether the candidate possesses the skills necessary to satisfy the requirements and standards of a particular position. In 2018, the Department for Recruitment, Selec-

tion and Employer Brand Development hired about 1,500 candidates of various profiles.

NIS continued the tradition of organising internships for the most talented and ambitious students this year. 110 final-year undergraduate and master's students were selected through a detailed selection process within the Summer Internship programme. The students selected are mostly future mining and geological, mechanical, technology and electrical engineers, as well as future economists and lawyers. Since 2012, the Company has been traditionally organising Summer Student Internships in association with universities, with the aim of exchanging resources and knowledge, and advancing science and research. This program motivates students eager for knowledge and experience, and educates them about best practices around the world. Following the completion of this year's programme, over 15 best interns obtained employment in NIS.

During 2018, the media campaign for NIS's long-term program Return to Serbia was intensified and, as a result, it gave a chance to dozens of colleagues to return to their country. By launching this program and establishing cooperation with a number of professional organizations from different fields (and with all professionals interested in building their careers in our company), we continued to support the return of highly qualified professionals to Serbia, ready to take leadership positions and apply their knowledge and skills in our company.

NIS continued to strengthen its position as a desirable employer BY successfully participating in several job fairs, conferences, workshops and forums during the year, such as Top Job 2018, Career Days 2018, Vivaldi Forum, XResource Program, Young Serbian Leaders' Forum, etc.

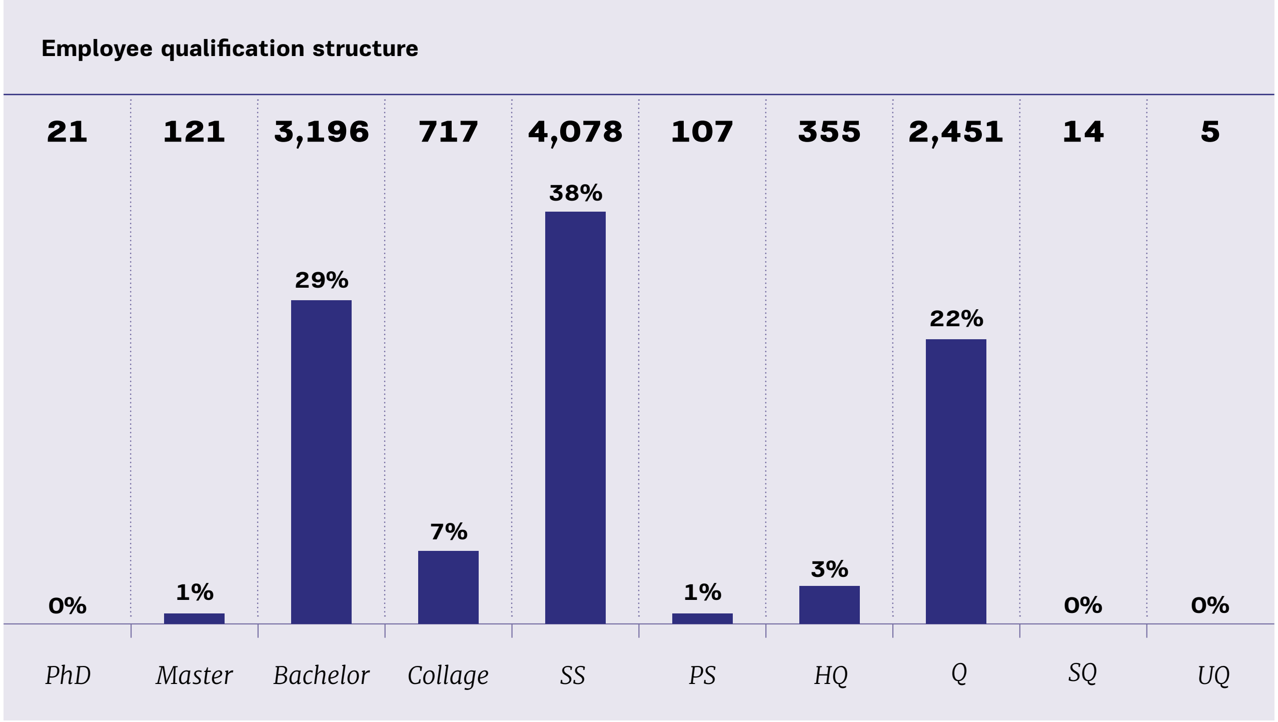
By setting ambitious goals and constantly improving our employees' experience as well as that of candidates who go through the recruitment and selection process, we achieve results that position us among the best, and our good practices become a role model for other companies.

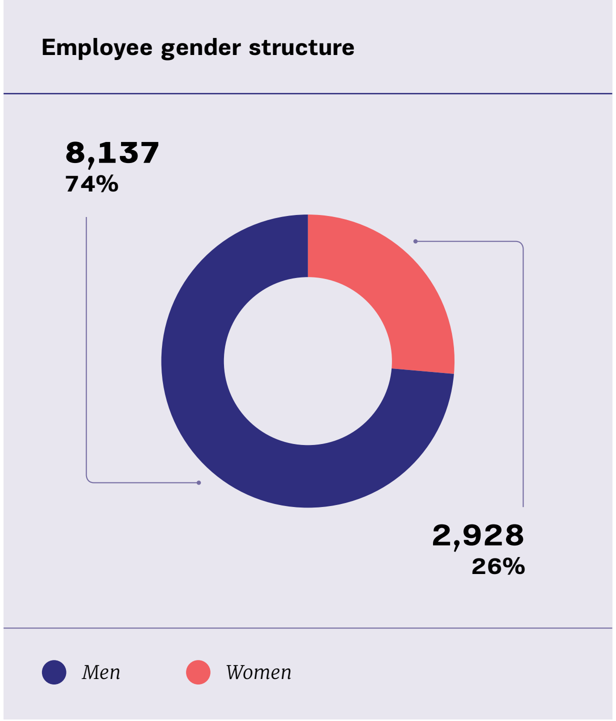
Employee Number and Structure

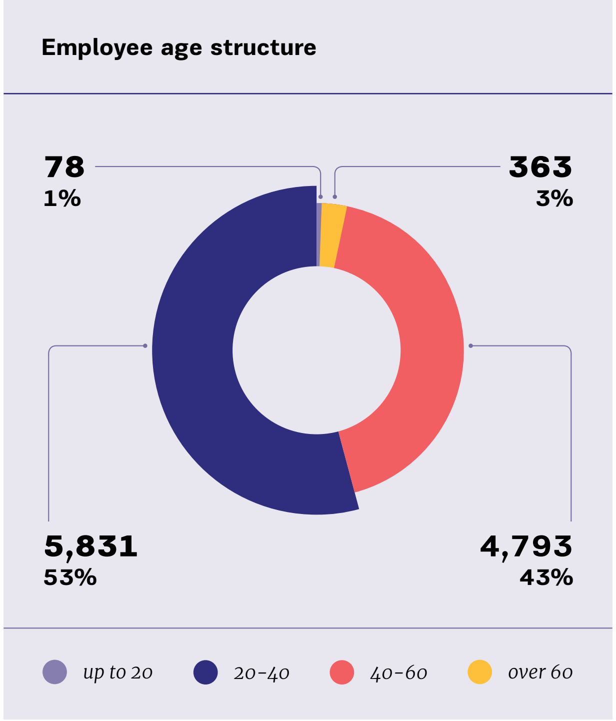
Organisational unit	2018			2017		
	Direct	Leasing	Total	Direct	Leasing	Total
NIS j.s.c Novi Sad	**4,059**	**3,594**	**7,653**	**4,088**	**3,563**	**7,651**
Exploration and Production Block	858	216	1,074	802	220	1,022
Services Block[1]	0	0	0	88	24	112
Downstream Division[2]	2,062	2,944	5,006			
Refining Block[3]	956	30	986	836	32	868
Sales and Distribution Block[4]	999	2,899	3,898	965	2,799	3,764
Energy Directorate[5]	41	5	46	248	26	274
rest of the Downstream Division[6]	66	10	76			
Corporate Centre	1,094	434	1,528	1,089	462	1,551
Representative and Branch Offices	45	0	45	60	0	60
Local subsidiaries	**1,571**	**1,767**	**3,338**	**1,366**	**1,699**	**3,065**
Naftagas - Oilfield Services LLC Novi Sad[7]	991	1,267	2,258	569	889	1,458
Naftagas – Technical Services LLC Zrenjanin	174	126	300	391	488	879
Naftagas – Transport LLC Novi Sad	81	338	419	97	292	389
NTC NIS – Naftagas LLC Novi Sad	325	36	361	309	30	339
Subsidiaries abroad	**73**	**1**	**74**	**70**	**1**	**71**
NIS Petrol e.o.o.d. Sofia (Bulgaria)	35	0	35	35	0	35
NIS Petrol s.r.l. Bucharest (Romania)	29	0	29	26	0	26
NIS Petrol Ltd. Banja Luka (Bosnia and Herzegovina)	6	0	6	5	0	5
Jadran Naftagas Ltd. Banja Luka (Bosnia and Herzegovina)	3	0	3	4	0	4
Panon Naftagas k.f.t. Budapest (Hungary)	0	1	1	0	1	1
Other subsidiaries included in consolidation	**442**	**123**	**565**	**545**	**110**	**655**
O Zone j.s.c. Belgrade	4	123	127	5	110	115
NIS Overseas o.o.o. Moscow (Russian Federation)	4	0	4	114	0	114
NIS Svetlost Ltd. Bujanovac	0	0	0	0	0	0
G Petrol Ltd. Sarajevo (Bosnia and Herzegovina)	434	0	434	426	0	426
TOTAL:	**6,145**	**5,485**	**11,630**	**6,069**	**5,373**	**11,442**

1 *As of 31/12/2018, there were 7 employees in the Block Services, but they are in the process of transfer to the Oilfield Services, so they are shown in the Table in NFS.*
2 *The transfer of employees to the new structures of the Downstream Division begins as of July 2018 and ends in September.*
3 *The Refining Block becomes subordinate to the new Division.*
4 *The Sales and Distribution Block becomes subordinate to the new Division.*
5 *By reorganizing and creating a new Division, the Energy Block ceases to exist; only the Energy Directorate subordinate to the Division remains, while the other parts are decentralized into the Exploration and Production Block, Refining Block and Sales and Distribution Block*
6 *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 Commercial, Department of Metrology and Group for Administration and Documentation Support*
7 *Including the employees in subsidiaries.*

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







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 which are part of consolidation.

Causes of Employment Termination

In 2018, a total of 284 employees left NIS[2]: 37 employees retired, 48 employees left NIS after termination of employment by mutual agreement, while the employment of 199 people was terminated on other grounds (involuntary termination, voluntary termination, redundancy, death etc.).

Cause of employment termination	NIS j.s.c. Novi Sad[1]	Subsidiaries[2]
Retirement	23	14
Termination by mutual agreement	42	6
Other	146	53
Total	**211**	**73**

1 *Including Representative Offices and Branches. Of the total number of terminations, 14 are from Representative Offices and Branches.*
2 *Naftagas – Oilfield Services LLC Novi Sad, Naftagas – Technical Services LLC Zrenjanin, Naftagas – Transport LLC Novi Sad and NTC NIS Naftagas LLC Novi Sad.*

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

Transformation Project

2018 elapsed in the sign of transformation of the organisational structure, digital transformation, transformation of the corporate culture, and operational transformation. All the forms of transformation share one and the same goal, and that is to create a new and an improved version of the company.

In order to realise the business strategy of the company and following the example of the world's largest companies, in 2018 we initiated the 'Transformation' Project. The 'Transformation' Project primarily aims at the creation of an of organisational structure, aligned with the current NIS business model, then achieving a balance between the support Functions and business Blocks, as well as identifying the level of encumbrances and bureaucratization in the processes.

Within the Exploration and Production Block, the responsibility for the entire block was centralized and subsidiary company was created, with real growth opportunities in the market.

Within the Downstream division we have positive effects on EBITDA as a result of merging two blocks into one division, the development of 'Jazak' as a result of the organizational movement within the Sales and Production Block, while within the Technical Services we are noticing an increase in service volumes.

Also, the role of the Headquarters was changed from control to support.

By implementing the 'Transformation' project, we expect to improve the functions within NIS, to improve the quality of services and optimize the number of reports within the NIS Group.

What was done in 2018?

A structure was formed in accordance with current world trends in organizational development

A new Downstream division was established responsible for coordination between the two business blocks

Unique KPIs for Downstream were formalized

The UPS Block was reorganized with a centralized development function, production and technical functions

Two affiliated companies were reorganized: Technical Services and Oilfield Services, which can independently operate on the market. The Affiliates were focused on the profile Block

A functional model for organisational units within the Company within NIS j.s.c. Novi Sad was created.

Caring About Our Employees and Environment

Our goals are always demanding and ambitious. With respect to the area of safety, health and environmental protection, we strive to prevent both occupational injuries in all work processes and negative impact on the environment.

All our business operations entail the responsible use of natural resources, since sustainable development is NIS' priority.

In the course of 2018, we invested RSD

320

million in environmental protection, and we continue to improve HSE culture in all NIS' segments by sharing our best solutions and practices with our numerous business associates.

1.12 Environmental Protection, Industrial and Occupational Safety

Safe working conditions for all our employees and business partners are one of NIS's strategic goals, and we constantly strive to decrease the number of work-related injuries and occupational diseases. Prevention principles are continuously applied with the aim of improving working conditions and decreasing the number of negative HSE events. In terms of occupational health and safety, the standards that NIS applies and our existing practices exceed the current legal requirements. Our business decisions are made in accordance with the national legislation and above the legal minimum in order to ensure the efficient risk management. The contractor safety is also regulated and they are required to comply with NIS standards.

Environmental protection represents one of the NIS's commitments, and is reflected in sustainable use of natural resources, environmental risk identification, reducing the impact of production on air, water and soil, minimising waste generation, recycling and waste management in accordance with the law, environmental monitoring, remediating historical pollution improving the existing processes and investments in the ecological projects in accordance with BAT principles (the best available techniques).

Environmental Protection

During 2018, we implemented the practice of monitoring environmental projects for eliminating and mitigating i.e. reducing high and medium risks to an acceptable level. We continued to implement our projects in line with the completed risk assessment and defined HSE Strategy 2017 - 2030, and even launched new projects (installation of Low NOx burners at the Hydrodesulfurization and Atmospheric Distillation Plant).

In this year, RSD 320 million was invested in environmental projects aimed at improving environmental protection.

In order to harmonise the plant operation with stricter limit values of the air pollutant emissions, in 2018, we began the realisation of Low NOx burner installation in the process furnaces BA-401 and BA-402 at the hydrodesulfurization plants S-400.

The Ejector Gas Scrubbing project was carried out on process furnace BA-2201 at the Vacuum Distillation Plant with the aim of reducing SO_2 below the emission limit value (ELV).

Compliance with the legal requirements was achieved due to the realisation of the project of installation of the system for automated and continuous monitoring (CEMS- Continuous Emissions Monitoring System) at the Hydrogen Plant in the Oil refinery Pancevo, which enables timely correction of the plant working parameters in case of exceeding limits.

During the year 2018, we installed 28 separators at the petrol stations, four were replaced with the new ones and we also bought 3 petrol stations with the pre-installed separators. So, 98% of petrol stations had the separators for oily atmospheric water treatment. The entire company owns 368 plants for wastewater treatment.

During 2018, the construction of the Deep Refining Plant was continued in the Oil refinery Pančevo. After commissioning (it was planned for the III quarter of 2019.), we expect the increase of white oil derivative production as well as the production of the, currently imported, high-calorie gas - coke. The emissions of sulphur and nitrogen oxides, and dry-powder inhalers will be significantly reduced. After the plant construction, the final effect will be the reduction of sulphur oxide emissions in the air in the entire Republic of Serbia due to the lower presence of high-sulphur fuels on the market, which is the requirement of the Directive 1999/32 EC on reduction in the sulphur content of certain liquid fuels.

During 2018, the Study on defining measures and activities necessary for the calculation of the free emission unit allocation with defining the benchmarking methodology for CO_2 emissions for NIS j.s.c. plants, which will participate in EU ETS (Ekonerg, Croatia). The study was made in order to prepare NIS j.s.c. plants for participation in the EU trading scheme of gas emissions with the greenhouse effect and implement the system for monitoring, reporting and verification of gas emissions with the greenhouse effect in accordance with EU ETS Directive.

Measurements were made, also the Study on the geoelectrical tests at the oil derivative warehouse Novi Sad in order to define the areas of groundwater and soil contamination with hydrocarbon produced as the result of NATO bombing in 1999, as well as the further activities related to groundwater and soil remediation at this location.

The repair of historical contamination at the oil fields continues. That way, during this year, we repaired 4 primary sludge pits and started the remediation-related activities at the settling basin at the OS KP - Kikinda. Even 190 primary sludge pits with the total surface area of 134,196 m^2 were repaired so far.

The Waste Recording Application was complemented to ensure faster and simpler creation of statutory reports and recording of generated and disposed waste. Faster and simpler statutory report creation was established, generated and disposed waste. The application enables to search the data by 29 criteria. The application of the framework agreement models was continued within the Company and its subsidiaries during the process of contracting waste disposal services (except for the oily waste), in accordance with the current framework agreements valid until the end of 2020, with the possibility to make an annex for the new operators and new types of waste. During 2018, we completed the analysis of the possibility to contract services for oily waste disposal and laboratory analysis in accordance with the framework agreement model.

During 2018, we continued the process of employee and operator competence improvement through trainings, workshops, audits and meetings with the operators and laboratories. Four workshops related to the chemicals management were conducted, one workshop related to waste and chemicals management with the representatives of the Ministry of Environmental Protection, and the training "Environmental Protection in Terms of Penalties and Law" was conducted in cooperation with the Faculty of Law Novi Sad.

The employees of NIS j.s.c. participated in the volunteer actions on the occasion of: June 5th, Environment Protection Day, the waste was collected in Fruška Gora, the cotton canvas bags made in accordance with the motto 'Fight against the plastic!' were distributed, September 15th was celebrated as the International Cleaning and Waste Collection Day at the Petrovaradin Fortress within the 'Fortress Without Waste' action; we participated in HSE World Water Day campaign on March 22nd; we joined the 'Earth Hour' action by turning off the decorative lighting in Business Centers Belgrade and Novi Sad on March 25th, and we have celebrated the Danube Day on June 29th.

During 2018, we spent approximately 377.6 million RSD on environmental protection fees and taxes, as well as the water fees.

Overview of charges and fees in 2018	Water charges (RSD mn)	Environmental protection charges and fees (RSD mn)	Total (RSD mn)
NIS j.s.c. Novi Sad	75.9	299.4	375.3
Subsidiaries[1]	0.6	1.7	2.3
Total	**76.5**	**301.1**	**377.6**

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

Industrial Safety

The industrial safety management system includes the key process of danger identification, risk assessment and risk management related to the production processes and process equipment. Along with production modernisation, advanced technological solution application and employee training, this system enables adequate prevention, monitoring, as well as the timely and efficient reacting in emergency situations.

Fire Protection

Radio communication system:

- Transferring all the fire brigades on frequency in order to get a more reliable signal as well as improved quality of radio communication between the fire brigade members.
- Uniting the radio communication systems in all the fire brigades into a single radio communication system.
- Upgrading the radio communication system through the procurement of the system for radio communication over a mobile device, i.e. mobile application.

Vehicle fleet renewal:

- The 10-year repair of the firefighting vehicles with hydraulic arm and platform was conducted in the authorized servicing centre in Austria.
- The procurement of two firefighting vehicles and three SUV vehicles for the rapid interventions.
- The procurement of an ambulance vehicle for the needs of the fire brigade Pančevo.

Improving the competences of fire brigade members:

- The space for the construction of Training centre for the fire brigade members within the Novi Sad complex was given to the Department for Emergency Situations.
- The members of fire brigade Pancevo participated in the industrial fire brigade competition in Omsk.
- All the planned drills were completed in accordance with the HSE drill plan.
- The evacuation drills were conducted in the business centres in Novi Sad and Belgrade.

The assets and equipment of the fire brigade members:

- Modernisation of FP system through the replacement of the fire alarm switchboards in the business centres in Novi Sad and Belgrade.
- The funding for the respiratory protective device procurement were provided
- The members of Velebit and Kikinda fire units were trained and equipped with rescue equipment (rescue from depth, height, and confined space).
- The fire brigade members were equipped with thermal imaging cameras.

Process Safety

The workshops for the employees at the process plants and production units were conducted in order to introduce them to processes such as: technical and technological changes management, integrity and reliability of equipment (inspection/testing of risk-based equipment), instrumentation safety systems, HSE risk management using tools for qualitative and quantitative hazard identification and risk assessment.

- The safe work practice implementation was continued - Isolating and locking the equipment when conducting the activities related to equipment maintenance.
- We have recorded the positive trend in terms of process safety indicators: the number of large and medium events was reduced for 55%, the small event transparency was improved - the safety system activation and the loss of primary content (Tier 3) for more than 5%, which enables timely response and taking adequate technical measures in order to prevent the escalation and ensure the non-repetition of the similar events.
- The further plan for the continuation of process safety trainings/workshops for the employees of the production units.
- During 2018, the external trainings, such as TUV Rheinland trainings for the process safety engineers were conducted. 63% of the total

number of participants passed the exam and gained certificates (15 of 24 applicants, who attended the training).

Emergency situations

- The revision of the existing documents was completed in accordance with the laws of Republic of Serbia and international good practice examples.
- An agreement with the National Training Centre for Emergency Situations of the Ministry of Internal Affairs of Republic of Serbia was realised. All of the eight drills defined by the agreement were completed by command - simulations as responses to the emergency situations (6 drills at the Sales and Distribution locations, 1 drill at the Refining location and 1 drill at the Exploration and Production locations).
- The training was conducted for the new members and re-training for the old members of the Catastrophe-Crisis Management Team of NIS j.s.c. Novi Sad (Company's Crisis Team - CMT).
- The simulation-based drill was realised with the guidance of the Mettle Crisis Leaders consulting firm from Australia. The Catastrophe-Crisis Management Team, Support Group and Emergency Preparedness Teams of Refining Sales and Distribution Blocks were exposed to the challenging response to the technical and technological accident and cyber-attack on IT infrastructure through the demanding scenarios. In the report submitted by the consulting firm, the level of the Company's preparedness to respond to crisis situations was rated as high.
- According to the HSE drill plan for 2018, 255 of the total 255 HSE drills were conducted within the Company.
- The rooms for the work of Support Group to the Catastrophe-Crisis Management Team of NIS j.s.c. Novi Sad are equipped with the latest communication equipment.
- The rooms with secret data are equipped with: a security cabinet, safety locker, safety locks and surveillance system.

Occupational Safety

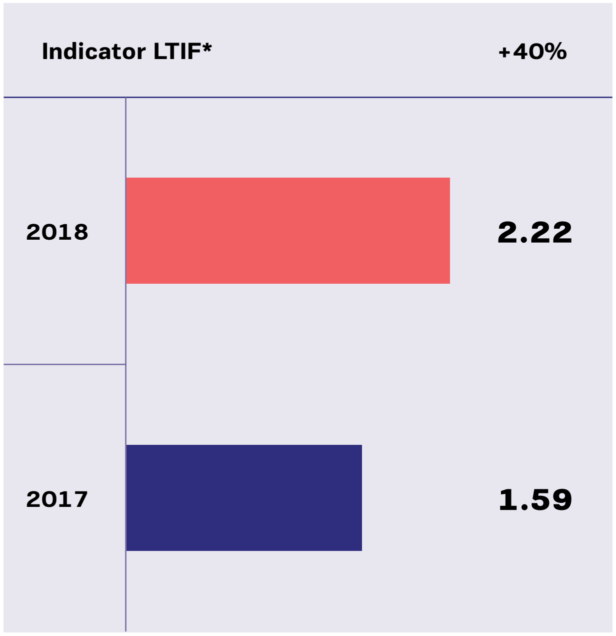
The health and safety of our employees, contractors, third parties and the local population is the priority for NIS. A healthy, safe, capable, ready and motivated employee is not only an individual goal, but also a goal of the Company.

During 2018, in order to improve the occupational health and safety, the focus of activities was on improving employee HSE competencies through the HSE Culture Improvement Program, managing the contractors in terms of HSE, controlling the implementation of the requirements for safe work while performing high-risk activities, as well as further improvement of the safe use of vehicles (traffic safety).

The practice of including top management in occupational health and safety continues, and they participate in the operational location visits through MWA (Management Walk Around). During 2018, 203 MWA visits were conducted by the top management of the Company.

In 2018, the LTIF indicator increased by 40% compared to 2017. During the 12 months of 2017, we recorded 30 LTI injuries, and during the 12 months of 2018, there were 43 LTI injuries of employees in the Company. We note an increase in LTI injuries in Sales and Distribution and Services Blocks during 2018. The greatest part of the total number of injuries in 2018 are mechanical injuries and injuries caused by slips and falls of the employees. Based on the analysis of the mentioned LTI injuries, in the following period a large number of proactive activities will be taken in order to avoid the repetition of the mentioned and similar HSE events in the future.

Personnel approach of all the employees in the Company, respecting the golden HSE rules and reporting all the unsafe activities or occurrences help us create safer working conditions for all employees. We have to always be focused on taking care of employee health and safety, as well as our commitment to environmental protection.



** Ratio between 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 – Oilfield Services LLC Novi Sad, Naftagas - Transport LLC Novi Sad).*

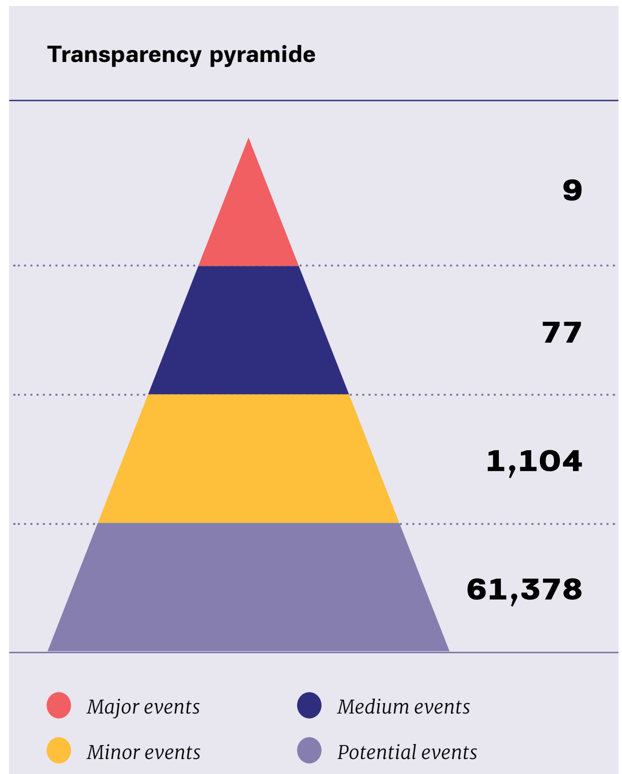
Management of HSE Events

Well-defined and applied corrective measures represent new HSE barriers that should prevent recurrence of similar HSE events in the future. The basic indicator of the effective implementation of this method is the absence of repeating HSE events.

In the Company, the management of HSE events takes place through the following stages:

- Identifying and timely information on HSE events. According to the severity of the consequences, they are divided into: Major, Medium, Minor and Potential events.
- Internal investigation of causes of HSE events (using the BSCAT Barrier Based Systematic Cause Analysis Technique method).
- Application of the corrective measures.
- Exchange of information about HSE events and recommendation to prevent the occurrence/repetition of events in the future.
- The process of submitting periodic reports on HSE events, as well as the analysis of the causes of HSE events.

The picture below shows a transparency pyramid showing the number of HSE events that happened in the company during 2018:



During 2018, 9 major events occurred in the Company:

- Four major events related to equipment: 3 in Pančevo Oil Refinery and 1 at the fuel dispensing station in Novi Sad due to bad weather conditions.
- Four traffic accidents with three third-party fatalities and two Company employees sustaining injuries.
- The fire at the repair facility, which besides the pecuniary damage also caused the injuries of three employees.

During 2018, there were 43 injuries at work which required with days of sick leave (LTI injuries).

The basis of the pyramid of transparency, besides observations and quick reports, is made of all potential HSE events (61,378), as well as the imposed measures from the inspections. By taking a proactive approach and reporting all unsafe activities or occurrences, as well as defining and implementing adequate corrective measures, we are working on preventing their repetition in the future.

In order to prevent similar future events, all Major and Medium events were the subject of internal investigations of the cause of the HSE events, while Minor and Potential events were explored at the request of the Company's management. Based on the investigation, 537 corrective measures have been defined. The percentage of realised corrective measures arising from the investigation of the cause of HSE events is 82%.

Once the causes of the event are detected, HSE Event Information is created and distributed to all employees of the Company, as well as to colleagues within the GPN Group, in order to exchange information about HSE events and lessons concerning the way in which the same or similar events in the future could be prevented.

HSEnet Application

HSEnet is a software application for the automation of the HSE process that reflects the HSE management system of the Company and enables automatic insight into data related to HSE events, employees' observations, environmental aspects and similar, and more efficient and faster access to HSE measures management.

During 2018, the application was used by 2,149 employees who, on average, accessed the application over 13,000 times a month.

In 2018, we were focused on simplifying data entry into the application, whereas in 2019, the focus will be on the introduction of advanced analytics tools, which will provide even better insight into the data contained in the HSEnet application.

Risk Management in the Field of Occupational Safety

In the field of occupational risk management, during 2018, the focus was on checking the compliance with the requirements ofalready established system based on risk assessment and system of operating licenses, in accordance with the best world practice.

The HSE Functions carried out planned corporate monitoring visits at 18 locations in all 4 Block of NIS j.s.c. 123 measures were imposed for the identified inconsistencies. In addition to this, a team for unannounced supervisory HSE visits was created, which during the course of 2018 carried out over 90 HSE visits, from which 138 measures were imposed. All reports and the imposed measures were entered into the HSEnet application.

During the year, the Guidelines for Stopping Unsafe Activities were adopted, and at the end of the year, Cards with basic safety measures were made in the course of performing high-risk activities, which at the start of of 2019 will be distributed to our employees and contractors on the field.

The drafting and revision of the safe operation guidelines intended for 2018 was undertaken in an altered form, adapted to end-users, executors of operational activities. After a detailed analysis of the activities and risk assessment, the steps for the safe conduct of the activities were presented briefly and clearly, thus achieving simplicity and better transparency.

HSE Inspection Supervision

Since the arrival of Gazprom Neft and its takeover of NIS, as its new majority owner, there has been an increased activity in the implementation of inspection supervision by the competent state authorities in the field of HSE at the locations of NIS j.s.c. As a response, at the end of 2012, it was decided to establish systematic control and management of the external HSE inspection supervision process, starting from 2013 at all levels of the Company. The carrier of this process is the HSE Function. Two years before the state passed the Inspection Supervision Act, our company already had an internal NMD, which systematically regulated this area.

The consistent practical implementation of both government and internal regulations in the field of inspection oversight in the last 6 years has not only increased the competencies of HSE persons, line managers and other professionals involved in inspection oversight, particularly in the preparation of mandatory documents presented for inspection, but also of the location which is the subject of inspection oversight. Moreover, we devote special attention to managing competent state authorities' documentation, as well as to monitoring implemented measures and set deadlines, which was improved through cthe centralised monitoring by the HSE Function. The result of this systemic approach to external inspection oversight is, among other things, a significant reduction of instances of noncompliance with legal regulations, i.e. imposed measures, by 78% (2013-2018).

Management of the Contractors and Third Parties

During 2018, NIS continuously worked to improve the process of contractor management in terms of safety and health at work, environmental protection and fire protection (CSM - Contractor Safety Management).

Thanks to the efforts of NIS employees made in establishing the process of managing contractors, over the past 6 years many contractors have accepted our practice in order to improve their own practice in the field of HSE. By applying it in their companies, they have raised the level of security to a higher level, respecting not only the legal minimum, but also the additional requirements that NIS requires.

In 2018, emphasis was on monitoring high-risk operations with the aim of verifying the compliance with NIS's internal procedures.

Control of the efficiency of the process of contractors management from the aspect of HSE in all organizational units of the Company was performed. In this way, certain deviations from the process described in the Standard of the Company - Management of Contractors from the aspect of HSE.

The improvement of the process will be implemented within the Stairs programme. In order to improve the Stairs program and the management of contractors and suppliers from the aspect of HSE, we organized a workshop on September 21, 2018 at the Hyatt Regency Hotel, which was attended by consultants from an external consulting firm. Three topics were presented and discussed at the workshop, together with representatives of the Company and external consultants:

- Responsible persons in the process of managing Contractors from the aspect of HSE;
- Stairs Programme;
- Additional initiatives - prequalification, motivation and evaluation.

With the help of the consultants, the steps necessary for the further development of the Stairs programme were defined, which will enable more efficient allocation of resources and improvement of efficiency and safety in the process of contractor management.

The 10th Contractor Forum was successful – representatives from over 100 companies across Serbia and the wider region took part in it (over 400 participants in total). The Forum was dedicated to managing the contractors' activities, with the focus on the importance of the development of HSE culture and safety awareness. Safe work conditions for all our employees and business partners constitute one of NIS's strategic goals, and we constantly strive to decrease the number of work-related injuries and occupational diseases. The Forum included a panel discussion on the topic *Challenges of Communication between Contractors and NIS Representatives* with the aim of improving the safety culture.

Goals for 2019:

- Implementation of Stairs programme - contractor management from the perspective of HSE
- Training of all interested parties in accordance with the requirements of the program.
- Increasing the efficiency of the process Contractor of Management from the perspective of HSE by shifting focus to supervision of high-risk activities.
- Traditionally, organisation of the large traditional Contractor Forum
- Creating additional channels of communication with the contractors in order to increase the transparency of the Company's demand towards the contractors' employees.

Employee Health Care

Looking after our employees' health, promotion of a healthy lifestyle, prevention and early diagnosis of diseases are all priorities and strategic goals of the Company.

As a socially responsible company, with the aim of improving and protecting our employees' health, in 2018 the Company prescribed minimum mandatory medical examinations for all employees, regardless of the risks associated with their positions. In this way, we improved the mandatory regular examinations for employees with high-risk positions. We also prescribed mandatory examinations for our administrative staff, whose positions are not associated with increased risk and therefore are not under any legal obligation to undergo yearly medical examinations. In addition to the comprehensive health screening, the minimum mandatory medical examinations include a series of other medical specialist examinations:

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

With the same goal of health promotion, a series of campaigns were also conducted:

- Course on Healthy and balanced diet;
- Lecture on the necessity of physical exercise *A step to health*;
- Two lectures on the topic *How to Beat High Blood Pressure*.

For the first time in October 2018, the Health Week was held at the Company's premises and Green Apple Day was marked as a symbol of a healthy life. During the same week, with the cooperation of local Health Centres and private health institutions, mini-systemic examinations were offered and lectures were held on the subjects of: weight control as prevention of obesity; control of sugar and blood pressure; healthy and balanced diet, self-examination of the breast as an important factor for the prevention of breast cancer.

During 2018, for the third time, seminars for quitting smoking by using Allen Carr's method Easy Way to Stop Smoking were held.

In order to prevent alcohol and drug abuse at the workplace, the Company implemented regular and extraordinary controls in the form of alcohol test among employees and other persons at the locations and facilities of the Company were carried out. During 2018, 12,477 persons were subjected to the alcohol test, and in 37 cases, the results were positive. For the purpose of testing the presence of alcohol and narcotic drugs in the organism, an umbrella agreement with authorized health institutions was concluded, which at any time of the day, within 24 hours, may carry out medical testing for the presence of alcohol or narcotic drugs in the organism of the employees. During the year 2018, only one case was reported in the Company when the need for this type of testing was identified.

Since 2012, as a socially responsible company, NIS has provided support to the development of sports activities in the corporate environment, with the aim of increasing efficiency and productivity by fostering a culture that values, supports and promotes employee health and well-being.

The development of corporate sports is in line with our HSE Policy, and the basic elements of support provided to our employees in 2018 included:

- recreational activities, in which more than 2,000 employees have been trained in the past 12 months in 14 cities throughout Serbia in order to improve their fitness;
- competitive activities, in which more than 250 employees represented the Company both at local sports events and in the Region, but also in international sports corporate events Gazprom neft organized in Kyrgyzstan and Russia;

It should also be noted that at the end of 2018, a meeting of all managers of Gazprom Neft Group was held for the first time in Serbia – over 20 managers met to discuss the further development of corporate sports, focusing on improving employee health and motivation.

Traffic Safety

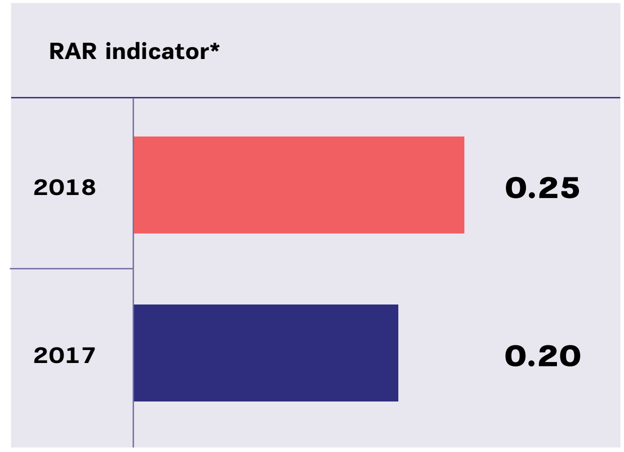
On average, NIS employees cumulatively cover 110,000 km on a daily basis, which means that they are exposed to a large number of traffic risks. NIS pays special attention to the safety of its employees in traffic and strives to minimize these risks.

In 2018, a number of activities were carried out with the aim of taking proactive and preventive action, and increasing the overall level of traffic safety, including:

- Practical and theoretical trainings for hundreds of drivers and users of NIS's vehicles, in cooperation with Naftagas-Transport and the Ministry of Defense, at the military field in Kraljevo;
- Driving Challenge 7 - driver competition, organized by Naftagas Transport;
- Continuous monitoring of vehicles (IVMS- In Vehicle Monitoring System)
- Updating of the Decision on the appointment of the Advisor for the Safety of the Transport of Dangerous Goods in all OD NIS and Affiliated companies (the employees' consent and Annexes of the Employment Contract with further defined obligations of the Advisor are provided);
- Defining the model proposal for the improvement of the IVMS system, as well as the test period for implementation in vehicles of Sales and Distribution Block;
- Existence of a 'Drivers database' i.e. electronic personal driver card system, where all employees and their managers can have an insight into the current status of their driving style;
- Quarterly rewards for the best drivers recognized in the IVMS system and through RAG (Red Amber Green) reporting;
- Organized visit of representatives of NIS (Sales and Distribution, Naftagas-Transport and FHSE) to OMV in Bucharest, Romania. The visit was conducted in order to exchange theoretical and practical experiences with their personnel in charge of Logistics and Transport;
- Campaigns and education the employees on risks, hazards and tips for safe traffic behavior (driving in summer and winter conditions, in cases of reduced visibility, slippery road, driving rested, etc.);
- Implementation of other activities such as: reporting, informing the management, drafting of normative documents, coordination and planning of activities of organizational parts of the company, audit of the road transport safety system, etc.

All of the measures listed above, along with indicators and achieved results, represent an excellent basis for continuing improvement of the overall traffic safety system, and the possibility of introducing the Road Safety Management System ISO 39001 in the following period.

RAR (Road Accident Rate) represents the ratio of traffic accidents. The value of the RAR indicator for 2018 is 0.25 (10 RAR events), while in 2017 we recorded 8 RAR events and an indicator value of 0.20. It is important to note that 4 out of 10 RAR events in 2018 were due to the liability of third parties (cases when a third-party vehicle hit an official company vehicle and caused a traffic accident). The value of the indicators without aforementioned four events would be 0.15 instead of 0.25 for 2018.

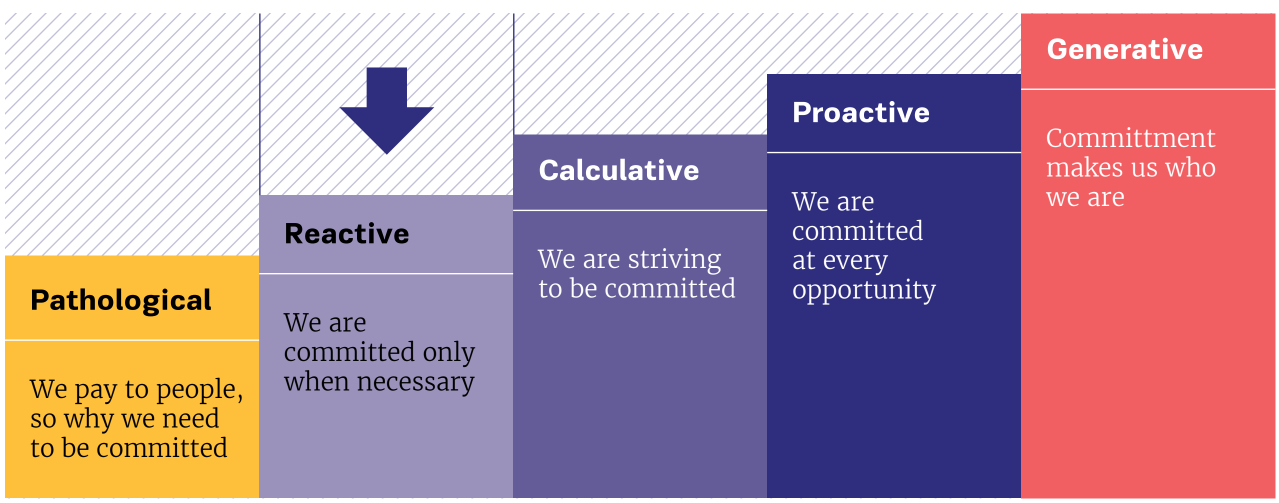


** The ratio of traffic accidents per kilometres travelled multiplied by 1 million*

HSE Culture Improvement

The results of the external evaluation, the Optimus Culture of Care Diagnostic conducted by Optimus – Dekra company in late 2016, showed that the HSE culture in NIS is at the reactive level as shown in the picture below:

This means that we do a lot in the area of HSE, but only when the event has already happened. Evidence of pathological culture is also present in NIS, as well as certain examples of proactive behaviour and initiative among employees.



During 2018, in order to improve the occupational health and safety, the focus of activities was on improving employee HSE competencies through the HSE Culture Improvement Program, managing the contractors in terms of HSE, controlling the implementation of the requirements for safe work while performing high-risk activities, as well as further improvement of the safe use of vehicles.

In order to improve HSE culture, our company started the implementation of the three-year program 'HSE Culture Improvement' in cooperation with the company Dekra from Great Britain. The program will be implemented in the period 2018-2020 through 5 key modules (areas):

- **Safe Mind Safe Body** – SMSB (2018). The target group of the workshop are field workers, in production (in RNP and Services Block), all those who directly participate in the execution of operational tasks, but do not have a management role;
- **Leading Safety Performance** – LSP (2018). Target group are managers of higher, lower and middle levels, with emphasis on middle and lower levels of management;
- **Coaching for High Performance** (2018-2020);
- **Hazard Hunt** (2019);
- **Just and Fair Culture** (2019).

During 2018, in order to improve HSE culture, we implemented two activity modules in cooperation with Dekra: for 1,335 operatives, 50 Safe Mind Safe Body workshop were organized, and 370 Leaders from all Blocks and 157 HSE persons passed the Leading Safety Performance training. The results of the evaluation of the training show that they are very well received in all blocks, that the participants were open to cooperation and believe in the changes in NIS.

Along with training courses, Dekra's consultants also provided field support, and used the interviews with employees who completed the training and their managers to motivate them to apply their knowledge in practice. Also, in the Processes and Services Blocks, 35 coaching days were realized, and 59 leaders were included in this program. In the course of its realization, the first NIS champions were identified who may be entrusted with an active role in transferring the culture of care to their team in the upcoming period, as well as with an influence in this field on other leaders, all in order to improve the HSE culture in the company.

HSE Training, Development of HSE Competencies and Employee Awareness

Trainings for Employees

In order to achieve a continuous reduction in the number of occupational injuries, occupational diseases, negative HSE events and prevent negative impacts on the environment, we pay great attention to developing and improving the knowledge and competencies of employees in terms of HSE.

In 2018, 167 thousand hours were spent on HSE training.

1,634 employees passed special training for people working on fire protection activities, and then 1,179 employees came in front of the MIA Commission of which 1,136 of them passed successfully.

In the area of environmental protection, the focus was on trainings in the area of criminal-legal protection of the environment.

In line with global trends, a state-of-the-art electronic (online) training mode was developed for the purposes of HSE training. It presents content to employees in an interactive and interesting manner. During 2017 and 2018, 12 training sessions were created and posted on the HSE platform for online learning: HSE Induction for employees, Fire Protection Induction, First Aid Administration in Life Threatening Situations, HSE Induction for Contractors, Emergency Action Training, Safe Movement Training, Waste Management Training etc.

562 out of 918 invited employees have undergone the HSE online Induction during the course of 2018.

Training for Contractors

Considering the fact that various activities are performed on the Company's premises by engaged contractors on a daily basis, special attention has been paid to the improvement of knowledge and skills of engaged contractors in the field of HSE. During the training, the contractors are familiar with both the risks and the basic requirements of the internal HSE standards and procedures of NIS.

Focus on HSE training in 2018:

Improvement of HSE culture among employees

Improvement of competences in the area of fire protection - special training of employees working in fire protection and examination workplaces

Creating e-learning content for general workplace trainings

36,545 Participants at HSE trainings

167,244 hours spent at HSE trainings

9,452 employees of our contractors completed Induction HSE training

Goals for 2019:

- HSE trainings and competence processes revision
- Updating educational materials
- New electronic tools creation - e-learning.

HSE Campaigns

During 2018, NIS has conducted 15 different HSE campaigns in the following areas:

- Safety
- Environmental protection
- Prevention and health care and
- Emergency situations.

HSE campaigns were conducted through direct interviews of experts with employees, visitors and contractors of the Company, realization of specific activities in the field, as well as the creation and distribution of educational posters, brochures and newspapers.

In order to promote internal HSE trainers in Q4, a competition for the best internal trainer from the HSE field was held.

HSE Motivation

In 2012, as part of its activities in the HSE field, NIS commenced the implementation of a special HSE motivation programme, aimed at both raising knowledge and awareness among its employees regarding the importance of work safety, and at recognizing and rewarding the best achievements in the field of improving safety in general and occupational safety in the Company. The number of awarded workers through HSE motivation is increasing from year to year: in the period 2012-2018, 7,418 employees were awarded, whereas 1,498 of them were awarded during the year 2018.

The HSE Motivation Automation Project was approved for implementation in July 2015, and full implementation was achieved in 2017. Automation of the process is an inevitable need of a modern company.

HSE Indicators

HSE indicators	2018	2017	% of changes
Injuries	119	120	1%
Lost-time injuries	43	30	43%
Fire	22	27	19%
Traffic accidents	10	8	25%
Environmental pollution	16	30	47%
Inspection bodies ratio	0.19	0.18	6%
Inspection bodies visits	799	903	11%
Measures given during inspection visits	155	159	2%

1.13 Corporate Social Responsibility

Corporate Social Responsibility and Community Development

As a socially responsible company, NIS has been sharing its successes with the community in which it operates for years, with the aim of contributing to general well-being and positive changes. Social responsibility for NIS and its employees represents a concern for the future – we therefore devote special attention to supporting young people, improving the quality of education, developing sports infrastructure, and providing support to sports organisations and athletes. NIS's priorities also include: donating equipment to health and social institutions vital for our society, investing in art and culture, and in the well-being of local communities.

In 2018, NIS invested nearly RSD 408 million in various socially responsible projects. At the same time, in order to express their readiness to contribute to positive changes and prosperity of the community in which they live and work, our employees took part in numerous volunteer and philanthropic campaigns aimed at helping the most vulnerable groups of our society, primarily children. In the same year, NIS Volunteer Club was formally established, and its main motive is to involve as many employees as possible in planning and realisation of these charitable activities. In this way, our employees contribute to achieving higher social goals, and strengthen the spirit of community in the Company.

Owing to its responsible attitude towards the community, NIS was awarded by the Sports Association of Zrenjanin and the Serbian Chemical Society, and received the Letter of Appreciation from the Mathematical Society of Serbia. NIS Petrol, NIS's daughter company operating in Romania, won the Oradea City Administration Award for its local social responsibility programme Growing Rural Romania. In addition, for the second consecutive year, NIS won the Best of Serbia award as the best corporate brand in the Production Goods and Business Services category, as well as the No.1 award in the Energy category at the Corporate Superbrands Serbia 2017/2018 award ceremony. However, the greatest reward for our employees are the smiles of children and the satisfaction of citizens in the institutions and communities in which these projects were realised.

In 2018, NIS celebrated a significant jubilee – 10 years of Together for the Community program, through which the Company cooperates with local communities all across Serbia. During this decade, more than 900 projects worth over one billion dinars were implemented in 12 local communities (Belgrade, Novi Sad, Niš, Čačak, Zrenjanin, Pančevo, Kikinda, Kanjiža, Novi Bečej, Srbobran, Žitište and Požarevac). The success of this programme, the largest of its kind in Serbia (by number of realised initiatives, included citizens, and invested funds), is reflected in numerous new and renovated kindergartens and parks, equipped laboratories and classrooms, modernised schools and cultural institutions, and improved sports infrastructure. To mark the jubilee, NIS organised a social responsibility caravan which travelled thousands of kilometres in 2018 and visited all the local communities participating in the programme. This strengthened old friendships and helped conceive new projects that will further improve the quality of life of the citizens of Serbia. It is particularly significant that NIS expanded its circle of partners and friends on the tenth anniversary of the Together for the Community program and included the 12th local community, Požarevac, in the program. In this way, NIS was given the opportunity to work in another part of Serbia to improve the living conditions of its citizens and build the Future at Work together with its partners.

Together for the Community 2018 programme included 26 projects selected for realisation, in which a total of RSD 114.5 million was invested. The goal was to support the realisation of capital projects that will significantly improve the living conditions in local communities, and which will also remain for future generations. Thus, Belgrade will receive two electric vehicles which will be available for use by both locals and tourists, in the pedestrian zone.

The equipping of the Health Centre in Sopot and the City Centre for Social Work will also be supported in Belgrade. In association with the EXIT Foundation, will support the setup of an art installation at the Petrovaradin fortress, which will promote this building around the world as the Fortress of Peace and represent one of the most important cultural and tourist sights of Novi Sad. In the same city, the adaptation of the 3x3 basketball court at Liman 4 will be supported. In Niš, three major institutions, the Health Centre, the National Theatre, and the Puppet Theatre, will be adapted. Thanks to the 'Together for the Community' program, in the last days of 2018, Čačak got the largest children's playground in Serbia within the reconstructed City Park. In Zrenjanin, the emphasis will be placed on improving infrastructure in elementary schools Đura Jakšić, Dositej Obradović, Petar Petrović Njegoš, Svetozar Marković, and Slavko Rodić. In cooperation with Zrenjanin ICT cluster, NIS will provide IT equipment for 20 schools and contribute to networking of all educational institutions in the city. In Pančevo, NIS and its partners will modernise the infrastructure of sports and recreation centres Mladost and Strelište, as well as sports grounds in the courtyard of elementary school Dositej Obradović Elementary school. Setting up a playground in the city square is a project that will be implemented in Kikinda, while in Kanjiža the priority will be modernisation of the Regional Centre for Professional Development of Employees in Education. When it comes to Novi Bečej, NIS will support the reconstruction and adaptation of elementary school Miloje Čiplić Elementary school and the Cultural Centre of the Local Community Novo Miloševo. Srbobran will receive support for the arrangement of the playground along the Srbobran-Bečej main road, while the residents of Žitište will be able to enjoy the arranged park in the Local Community of Srpski Itebej and the forested surface around the sports pond in Banatsko Karađorđevo, where 750 various young trees and greenery will be planted. The first project to be realised in the 'Together for the Community' program in Požarevac is the modernisation of the infrastructure of the Cultural and Sports Centre, which will contribute to the creation of adequate sports conditions for the citizens.

Guided by the idea that culture and art enrich our lives, NIS continued providing support in this domain as well. The focus was on young talents, as well as on projects that contribute to the promotion of human values through culture and art, and simultaneously improve Serbia's cultural and artistic repertoire. Thus, in 2018, NIS supported the October Salon in Belgrade, and was for the third consecutive year a partner of the Autumn Theatre Festival of Emir Kusturica on Mokra Gora. For the tenth consecutive year, NIS provided support to the Joy of Europe International Children's Festival, and, for the sixth time in a row, was a partner of the Balkan Trafik in Brussels, a festival which promotes Balkan culture and traditions at the EU's headquarters.

For the sixth consecutive time, NIS was the proud general sponsor of the Science Festival, the largest scientific festival in South East Europe, held in 2018 under the slogan The Future Earth. In addition, NIS continued its support to the Petnica Research Station, which began in 2009. During this period, NIS invested a total of RSD 108 million in this institution, which constitutes the most important source of young scientists in the wider region. The Company's funds were aimed at facilitating Petnica's internal operations, and at purchasing modern equipment which will expand the capacities of this research station. In cooperation with the EXIT Foundation, NIS organised the third Youth Heroes competition, whose aim is to present and promote young heroes in Serbia in the public, so that they can become an inspiration, pride, and role models for new generations. In the field of sports, NIS has worked in two directions: to strengthen sports infrastructure for top-level and recreational sports, as well as to support elite sports collectives in Serbia, and, on the other hand, to popularise sports among the youngest and develop values in children. Since a good team spirit is always wins, NIS proudly stands with the sports clubs by which our country is recognisable in the world – Basketball Club Partizan and Football Club Red Star. In addition, NIS supports the Volleyball Club Vojvodina, which has won 15 trophies and represents an important source of talents in this trophy sport. With this club, in 2018, NIS signed a Memorandum on ten years of cooperation. Among the clubs that NIS supports is ŽOK Spartak, one of the oldest women's volleyball clubs in Serbia, with notable results on the domestic and European scene. Also, since 2010, NIS has been a partner of the Tennis Association of Serbia, whose competitors have brought a lot of joy to the fans in Serbia, including the Davis Cup triumph. In addition, NIS cooperates with the Basketball Association of Serbia, and the focus in this cooperation is on the organisation of the mini-basket tournament, during which the youngest male and female basketball players are promoted. NIS traditionally supports the best domestic auto racing driver Dušan Borković, a member of the NIS Petrol Racing Team.

For NIS, children's physical activity and their overall healthy development is as important as achieving top sports results. Therefore, the Company supports numerous projects aimed at bringing children into the world of sports, teaching them to respect their opponents and develop a team spirit. To this end, NIS and the Tennis Association of Serbia has been organising major sporting events for many years – free Open Tennis Schools, in which thousands of children from all over Serbia took part. In addition, for the second year in a row, NIS supports Youth Sports Games, the biggest event for children and young adults in the wider region. The main goal of these games is to promote a healthy lifestyle and friendship, understanding, respect for diversity, solidarity and fair play. In 2018, the project We Are All One Team was successfully continued, and it provided sports fans with the opportunity to meet and talk to their idols, Partizan's basketball players and Red Star's football players. Within the same project, the championship trophy which Red Star's football players won in the national championship travelled all over Serbia. The children from several primary schools from Belgrade met Red Star's football players and Partizan's basketball players. In addition, NIS organised a competition in which its customers could put their racing skills to the test on the karting track in the company of Dušan Borković.

With regards to voluntary and philanthropic activities, NIS focused on supporting the youngest citizens and the most important health care and social care institutions. In total, nine volunteer actions were carried out, among which were socialising with residents and arranging the infrastructure of the Children and Youth Institution in Sremčica, arranging the Russian cemetery in Belgrade (organised in honour of the centenary of the end of the First World War and 180 years since the establishment of diplomatic relations between Serbia and Russia). NIS's volunteers, in addition to the continuous action From Bottle Cap to Smile, participated in the beautification of rooms at the Mother and Child Health Care Institute of Serbia Dr Vukan Čupić in Belgrade. NIS's employees joined the ecological action at Fruška Gora on the occasion of the World Environmental Day, the arrangement of the quay in Pančevo and the cleaning of the Petrovaradin Fortress in Novi Sad.

In 2018, support to health and social institutions throughout Serbia was traditionally provided. In March 2018, NIS donated over RSD 16 million to the Institute for Health Care of Children and Youth in Novi Sad for the procurement of modern medical equipment. Furthermore, NIS donated to the Haematology and Oncology Department of the Internal Medicine - Paediatrics Clinic in Niš, and to the Mother and Child Health Care Institute of Serbia Dr Vukan Čupić. NIS and its partners participated in the Magnet for Love campaign, during which a MRI scanner was purchased for the Institute for Health Protection of Children and Youth in Novi Sad. The end of 2018 was marked by significant donations to Studenica General Hospital in Kraljevo and the Clinical and Hospital Centre in Kosovska Mitrovica to the total value of EUR 145,000. The donation for the hospital in Kraljevo was intended for the purchase of a modern laparoscopic tower, while a new ambulance with a mobile incubator was purchased for the institution in Kosovska Mitrovica. Donations were provided by both NIS's employees and the Company itself. We would also like to add that our employees continued the tradition of making New Year's packages for children: they brought joy to children at the General Hospital in Kraljevo, the Health Centre in Kosovska Mitrovica and the Clinical Centre in Niš, and the children in the SOS Children's Village in Kraljevo. In this way, NIS remained the leading social investor in Serbia and continued to work on creating strong and promising communities.

Projects of ‘Together for the Community’ Programme

Belgrade

- Purchase of two electric cars, which will transport the citizens of the city centre as well as tourists, in the pedestrian zone
- Procurement of equipment for the call centre of the City Centre for Social Work in order to improve the availability of information on social protection rights and services and improve the web portal with integrated software for people with disabilities
- Procurement of a new biochemical analyser in order to perform better analyses and for more efficient work of the laboratory with patients in the Helath Centre Sopot

Novi Sad

- Adaptation of 3x3 basketball court at Liman 4 and equipment in accordance with FIBA standards
- Art installation setup at the Petrovaradin Fortress marking the 100th anniversary of the establishment of peace in the First World War, according to the concept of one of the most prestigious artists in the world with EXIT fondation

Pančevo

- Reconstruction of the multifunctional court at SRC ‘Mladost’ and ‘Strelište’, so as sport ground in the courtyard ES ‘Dositej Obradović’

Kikinda

- Setting up playground on the city square in Kikinda with the aim of developing motor and social skills in a healthy and safe environment

Zrenjanin

- Improving the infrustructure in ES ‘Djura Jakšić’, ‘Dositej Obradović’, ‘Petar Petrovic Njegoš’, ‘Svetozar Marković-Toza’ and ‘Slavko Rodić’ in order to improve the quality of teaching physical education
- In cooperation with Zrenjanin IT cluster NIS participated in networking of all educational institutions in the city of Zrenjanin by equipping 20 schools with IT equipment

Čačak

- Reconstruction of children’s playground by setting up children’s mobile play equipment and watering system by digging a new well with a new watering system in the city park in Čačak

Niš

- Adaptation of rooms by replacement of windows, floor coverings, painting of rooms and placement of energy efficient lighting in the health unit Rasadnik of the Health Centre NIŠ in order to improve working conditions and safety of patients and employees
- Renovation of flooring by the flattening and installation of new carpets in the interior of the Theatre with the aim of improving the conditions of work and staying in the theatre
- Adaptation of 4 sanitary facilities on the ground floor of the Theatre with the aim of improving the hygienic conditions for children who visit the theatre

Požarevac

- Setting up the sports base and new court within the Cultural and Sports Centre “Požarevac” with the aim of improving sports infrastructure in the city and creating adequate sports conditions

Kanjiža

- Arranging the yard of the Regional Centre for the purpose of bringing science closer to citizens, i.e. an attractive presentation of scientific phenomena in the fields of physics, biology, chemistry and geography in the open, publicly available green space

Srbobran

- Arrangement of the playground along the Srbobran-Bečej highway

Žitište

- Landscaping of park surfaces in Local community Srpski Itebej and afforestation around the sports pond in Banatsko Karađorđevo by planting 750 various young trees and greenery

Novi Bečej

- Reconstruction and adaption of 'Miloje Čiplić' Elementary school and Cultural Centre in Local community Novo Miloševo.

Together for the Community 2018 programme included 26 projects selected for realisation, in which a total of RSD 114.5 million was invested.

Energy Of Knowledge

Through its corporate programme Energy of Knowledge, NIS has been investing in the future and education of new highly qualified employees for the Company's needs for the seventh consecutive year. The programme provides scholarships for the best students in Serbia and abroad, and facilitates continuous cooperation with educational institutions and scientific associations in Serbia.

In 2018, NIS signed a new Memorandum of Cooperation with the Ministry of Education, Science and Technological Development of the Republic of Serbia.

Strategic cooperation continues with higher education institutions in Serbia, with universities in Belgrade and Novi Sad, as well as faculties in Serbia and abroad. The Company signed the Memorandum of cooperation with the Faculty of Economics in Subotica and donation contracts with University of Belgrade, University of Novi Sad and 5 faculties within these universities. The funds have been allocated for six schools, as donation for the adaptation of Russian language classrooms.

In the domain of secondary education, cooperation with the Technical School in Zrenjanin continues. In 2018, a professional practice programme was conducted with students at the Manager of Oil and Gas Facilities in Services Block. Nine students of this education profile started working at NIS in 2018.

In 2018, at the '23. maj' Technical School, in cooperation with the Ministry of Education, Science and Technological Development, a new educational profile 'Oil and Gas Processing Technician' was accredited for the needs of the Oil Refinery Pančevo. In 2018/2019 school year, the first generation of students enrolled. In cooperation with the Together for the Community corporate social responsibility programme within these universities, helped open a new ecological laboratory, equipped with the state-of-the-art equipment. Pančevo School of Mechanical Engineering's and 'Nikola Tesla' Electrical Engineering School, curricula were updated and adapted and new NIS classrooms equipped, with the aim of improving the conditions for training personnel for the needs of the Oil Refinery Pančevo.

In order to promote natural sciences, in cooperation with the Serbian Chemical Society, the Society of Physicists of Serbia, and the Society of Mathematicians of Serbia, we supported the organisation of the three Serbian knowledge Olympic games, as well as the participation of talented high school students at the International Olympic games.

The Society of Mathematicians of Serbia presented to NIS a Plaque award for charity in favour of improving the activities in 2018 NIS received special letter of appreciation from the Serbian Chemical Society. NIS was also the golden sponsor of the 6th Young Chemists Conference organised by the Serbian Chemical Society, where cooperation between NIS and the Society was presented.

For the sixth time in a row NIS organised the NIS Russian language Olympic Games, in order to popularize Russian language and culture. The support for the realisation of bilingual teaching in the 'Jovan Popović' Elementary School in Novi Sad, Aleksinac Grammar School, and the 'Jovan Jovanović Zmaj' Grammar School in Novi Sad continued. In 2018, the realisation of the Serbian language teaching in the Russian School at the Embassy of the Russian Federation in Belgrade started, in cooperation with the Faculty of Philology, University of Belgrade. For the purpose of professional training and certification of teaching staff for the Russian language, NIS continued its long-term cooperation with the Russian Centre of Science and Culture 'Russian House' and the Faculty of Education in Sombor. NIS Russian classroom was opened in Pirot Grammar School. Also, at the Faculty of Political Sciences at the University of Belgrade, the Centre for Russian Studies was opened.

In the field of training and courses for employees,-professional trainings and lectures for the employees were organised in cooperation with the Faculty of Mechanical Engineering of the University of Belgrade and the Faculty of Technical Sciences of the University of Novi Sad.

Professors from partner institutions delivered lectures to NIS experts, and several guest lectures were held by NIS experts at the Faculty of Mining

and Geology and Faculty of Economics of UB, Technical Faculty Mihajlo Pupin and the UNS Faculty of Technology. The UNS Faculty of Technology was the venue of the lecture delivered by Professor at the 'Lobachevsky' University in Nizhny Novgorod, as well as a visit to the Oil Refinery Pančevo.

In 2018, the CEO of NIS, Kirill Tyurdenev, held lectures at the MGIMO University in Moscow, as well as at the prestigious Judge Business School at the University of Cambridge. Our company was the patron and general sponsor of the traditional seventh festive dinner of Serbian students at the University of Cambridge, which was realised in cooperation with PEXIM Foundation.

Student internships and visits to NIS field facilities in were organised for students of Mihajlo Pupin Technical Faculty and the Faculty of Mining and Geology. Internships were organised for students of the Geophysics Department of the Faculty of Mining and Geology. The students at the 'Oil and Petrochemical Engineering' study programme of the Faculty of Technology of the University of Novi Sad visited Pančevo Oil Refinery.

Internships were also arranged for the NIS scholarship holders from the Russian Federation (RF) and students of 'Mihajlo Pupin' Technical Faculty, Department of 'Industrial Engineering in Oil and Gas Exploitation', as well as for the scholarship holders from Serbian faculties. Two students from the Faculty of Chemistry of 'Lobachevsky' University underwent an internship.

A several days' visit to NIS was organised for foreign and local students from the oil and gas study programmes of Gubkin Russian State University of Oil and Gas and Mihajlo Pupin Technical Faculty.

In 2017/2018 school year, NIS had 41 active scholarship contracts students who are studying at the targeted faculties of the University of Belgrade and Novi Sad, but also at the prestigious oil and gas universities in Russia. In 2018, there were a total of 17 NIS scholarship holders – 9 scholarship holders from the faculties in Serbia and 8 who were educated at the faculties in the Russian Federation. In 2018/2019 school year, NIS implemented 13 new scholarship contracts – of which 3 were in the Russian Federation and 10 in Serbia.

Building Community Together

Serbia is our home and we wish it will become more beautiful every day. In 2018, we marked the 10th anniversary of the Together for the Community programme, through which we cooperate with many local communities in Serbia.

In the successful decade behind us, we implemented over

900

projects aimed at contributing to the wellbeing of the communities in Serbia.

Only in 2018, we invested almost RSD

408

million in socially responsible programmes.

The youngest members of the community are our absolute priority and this is why NIS and its partners will continue to build Future at Work.

1.14 Communication

Public Relations

More information on Investor Relations on page 94

In accordance with NIS's strategic commitment to fostering continuous communication and open dialogue with all stakeholders, the priority of the Press Service is to timely and fully inform the public about all key business and other activities of the Group. Media and other stakeholders receive information about our business activities, corporate decisions and social responsibility activities through press releases, statements of the Company’s representatives, press tours, professional texts on the corporate website (www.nis.eu), as well as through information posted on the Company’s social media accounts. The Press Service promptly and transparently responds to all journalists’ questions. In addition, all relevant information about NIS is published on the corporate website in three languages: Serbian, Russian and English. Also, NIS has profiles and accounts on all the leading social media in Serbia (Facebook, LinkedIn, Twitter, Instagram and YouTube), which additionally contribute to NIS's dedication to engage in two-way communication with citizens. In order to strengthen the presence of NIS on the Internet, the corporate website is adapted for use on any device, while the design of the main page follows global trends of that area.

Corporate culture

In addition to well-informed employees, active development of the company’s corporate culture is also essential to meeting business objectives and improving business operations. Corporate culture refers to the manner in which we do our job, and in order to ensure the company’s success, all its employees should maintain the same or similar attitude towards their jobs. Employee behaviour should be consistent with the corporate values set out in the Code of Business Ethics.

The alignment of the company’s strategy with its corporate culture constitutes one of the main prerequisites for success. In order to complete the business transformation launched in 2009, NIS had to change its corporate culture. This means that all business decisions had to be made in accordance with the new corporate values. A business process entitled ‘the development of corporate culture’ was introduced to provide the main support to the company on this road. Since 2010, this process has been contributing to the transformation of NIS’s culture by conducting annual social surveys. From the very beginning of its business transformation, the Company has been highly successful in the process of development of its corporate structure - it has achieved its culture goals for 2018 and will continue to plan its development in line with the adopted strategy.

The development of corporate culture depends largely on the open communication with employees about all current topics - including business results, development plans, employee development and training, safety at work, social security packages and other employee benefits. NIS employs various information channels for the purpose of internal communication, and these include a large number of communication tools such as corporate electronic media and notice boards placed at more than 400 locations in Serbia whose purpose is to keep employees in the field informed. In this process, it is crucial to have a bi-directional communication between the management and employees, in the form of events such as the Corporate Forum or Direct Dialogues in our Blocks. Employees can also put questions to the management directly via the intranet Portal's section Questions for Management. The SOS line is the key feedback channel which our employees can use for consultations about the Company's ethical norms and through which they can report unlawful and unethical activities, i.e. activities which violate the Code of Business Ethics.

Government Relations

Cooperation with Business Associations

NIS has been cooperating with business associations and wider business community in the process of adopting new and amending current regulations. In 2018 these activities were focused on issues of great significance for the NIS business environment and conducting business. Continual cooperation was also maintained in the area of fighting the grey economy.

NIS has a long-standing cooperation with the Foreign Investors Council (FIC). NIS contributed to the preparation of the annual issue of the FIC White Book in 2018, by providing information on status, improvements in the previous year and recommendations for further improvement of the legal framework of the Republic of Serbia and of the business environment in various economic sectors. NIS's representatives actively participate in FIC work committees with focus on improving regulations in individual areas of wider business environment, such as illicit trade, planning, construction, taxes, etc. Also, the NIS representative was elected as vice president of the Anti-Illicit Trade Committee, with a two-year term. Proposals for improvement of the most relevant regulations in the process of public discussions were submitted to the Association, coordinated with the other members, and finally represented by the FIC.

The cooperation with the Chamber of Commerce and Industry of Serbia (CCIS) is also quite significant, as is the cooperation with the Association of Energy and Coal Mining. NIS contributed to the improvement of the business environment by submitting proposals for improving regulations. It also supported the activities of CCIS in relation to the representation of the common industry stance on government bodies and the business community.

In cooperation with the American Chamber of Commerce in Serbia (AMCHAM), comments were prepared and common stance of the members of the aforementioned Association was formulated with regards to numerous regulations which were the subject of the public discussions in 2018 and which are very important for the operation of business entities in Serbia. In the area of combating illicit trade, the AMCHAM and NIS worked together with the Working Group for Countering Illicit Trade within the Coordination Committee for Inspection Oversight, and supported the measures for strengthening oversight. NIS joined the AMCHAM initiative for including the Republic of Serbia in the annual research of the Global Illicit Trade Environment Index. The index is prepared by the international magazine The Economist - Intelligence Unit. The research results were presented at the Conference on the Illicit Trade - International and Local Outlook, which was held on 20 June, 2018 in Belgrade.

The WASTEOILFREE project was realized together with the National Petroleum Committee of Serbia - of the World Petroleum Council (NNKS-WPC). The aim of the project was to develop a sustainable system for collecting, classifying and disposing waste oil from ships in the Republic of Serbia.

Curbing The Grey Market

In line with the decision of the Government of the Republic of Serbia to make 2017 and 2018 the years of fighting against the underground economy, the authorities maintained a high degree of control in the sector of oil and gas trade, and carried out comprehensive activities aimed at reducing illicit trade in 2018. The most significant problems in this sector - import and inadequate use of base oil - were strictly monitored during 2018, owing to prompt and professional actions by the inspection authorities.

In line with the opportunities the Law on Inspection Oversight provides with the aim of defining institutional procedures of inspection authorities, NIS cooperated with both business associations and government bodies in the process of establishing additional controls on base oil trade. The expected result is the elimination of this aspect of the shadow economy in Serbia in the upcoming period. Furthermore, NIS cooperates with business associations and government bodies regarding re-export of petroleum products, with the aim of securing a higher level of control in this segment of the excise product market.

NIS continues to support further improvement of the inspection oversight system in the Republic of Serbia through comprehensive implementation of the Law on Inspection Oversight (ensuring the compliance of sector regulations with the Law; improving coordination of controlling authorities; consistent implementation of the applicable policies and procedures of inspection authorities; adoption of new policies and procedures of inspection authorities, and securing the funds for their implementation), increasing human and technical capacities of inspection authorities, as well as improving efficiency of judicial authorities in the field of illicit trade.

1.15 Research and Development

The introduction and efficient use of new technologies is one of the priorities of NIS's development in all business areas, from production and refining to human resources. Equipment modernisation, innovative approaches and application of cutting-edge technologies are the prerequisite for achieving progress, competitive advantage and regional leadership. NIS constantly modernises its oil and gas business operations, introduces and upgrades new oil and gas exploitation methods, builds new refining units, automates its operations, and develops and modernises its retail network.

With regard to research and development, NIS adopted the Rulebook on Planning, Execution, and Control of Innovative, Scientific, Research&Development and Technological Studies at NIS j.s.c. Novi Sad. The Science and Technology Council, which meets at a quarterly level, was set up as part of the General Director's Office.

In NIS Group, the research and development operations are organised within the subsidiary STC NIS Naftagas LLC Novi Sad, which, in synergy with PJSC Gazprom Neft, uses resources and technology of the parent company and performs two functions:

- Coordinates science and research activities, and
- Execute science and research activities.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1.16 Further Development

In the second half of 2019, NIS is to embark upon active stages in the implementation of two key projects – Bottom of the Barrel and construction of a combined heat and power plant in Pančevo.

In 2019 NIS is to embark onto two active stages in the execution of two projects – construction of the combined cycle and power plant in Pančevo and of the Wind Farm in Plandište.

Exploration and Production Block

Exploration and Production

An active programme of development drilling is planned for 2019, and GTM activities are at the level of 2018. Drilling of 40 development and 12 exploratory wells in Serbia, and 3 wells in Romania was planned for the purpose of increasing hydrocarbon reserves. NIS is preparing project and technical documentation to ensure a three-year term extension for geological explorations in the exploration area south of the Sava and the Danube. Testing several new technologies in the area of stabilization of the area around wells is also planned for 2019. Active work on the inactive fund is continuing, and includes plans for transferring 50 wells into the active fund. The beginning of test production is planned on 2 fields in Romania.

The continuation of development of OMS elements is planned for 2019. The PRM implementation will continue towards line managers and other employees. This will include the development of support mechanisms for other practices and PRM monitoring. The CMMS IBM Maxima implementation will commence in the Services Block, whereas the implementation of the Production Processes Management Strategy for will begin in the E&P Block. The application of the HAZOP methodology is planned on other facilities of the Block.

Naftagas Oilfield Services

In 2019, we plan to continue to provide high quality services such as drilling, well workover, oilfield services, 3D seismic surveys, as well as equipment workover and maintenance. In addition, Oilfield services will be focused on its equipment modernization plan, improvement of work processes and maintaining a presence on the EU market by engaging in projects in Romania.

Downstream Division

Refining Block

During 2019, capital repair of refining plants is planned. Also, the finishing and commissioning of DCU plant is planned, which will lead to an increase in refining margin thanks to increase in refining depth.

The realization of planned projects and measures in order to increase efficiency (energy efficiency, losses, personal, operative availability) is also expected.

‘Development’ shall remain the key word for NIS in 2019.

The implementation of digital transformation with emphasis on the €kon$ project (system for support in working with operators). Within three-year investment plan, the realization of the Efficiency increase programme (EIP) project has been planned:

- Reconstruction of FCC and construction of new ETBE plant;
- Reconstruction of corrosion prevention system at the atmospheric distillation;
- Replacement of power units on compressors GB-2301/2501/2601 drive;
- Replacement of burners on BA-2101/2301furnaces with low NOx burners;
- Reconstruction of the Laboratory building in RN Pančevo;
- Hot water system in RNP;
- Generating of low pressure steam at the account of HVGO reflux heat;
- Installing of efficient heat exchangers for pre-heating of raw materials S-2100;

Sales And Distribution Block

Reconstruction of 3 and building of 1 PS in Serbia, 2 in Romania and 2 in Bosnia. Modernization of warehouse network - completion of PIR phase of the warehouse reconstruction.

After the introduction of the Bottom of the Barrel we expect development of the new product coke, development of wholesale regional channels for the sales of petrol and diesel, creation and development of the logistic chain in order to supply the oil fuel to the Serbian market and development of branded fuels sales - increase in share of branded fuels in retail.

Energy

Plans for 2019 include preparations for and construction of three CNG plants for retail and launching of the Palić CNG Plant – wholesale.

Investment maintenance projects will be completed and are envisaged to be carried out as part of the turnaround in the Pančevo Oil Refinery in March 2019.

Continuous identification and evaluation shall be conducted in terms of potential projects pertaining to renewable sources of energy (mini hydro-power plants, roof and other photovoltaic power plant, biogas, biomass) as well as in the industry, remote heating and electricity generation.

Over the course of 2019, NIS plans to introduce a modern information system to support its electricity trade and risk management.

Financial statements

2.01
Stand-Alone Financial Statements

Auditor's Report on Stand-Alone Financial Statements

pwc

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Naftna Industrija Srbije a.d. Novi Sad (the "Company") which comprise the balance sheet as of 31 December 2018 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Law on Accounting and accounting regulation effective 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing and auditing regulation effective in the Republic of Serbia. These regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Naftna Industrija Srbije a.d. Novi Sad as of 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on Accounting and accounting regulation effective in the Republic of Serbia.

Milivoje Nešović
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 February 2019

PricewaterhouseCoopers d.o.o., Omladinskih brigada 88a, 11070 Belgrade, Republic of Serbia
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Balance Sheet

	Balance Sheet	Note	31 December 2018	31 December 2017
A.	**SUBSCRIBED CAPITAL UNPAID**			
B.	**NON-CURRENT ASSETS**		**302,062,697**	**293,522,379**
I.	**INTANGIBLE ASSETS**	**8**	**16,539,426**	**16,220,631**
1.	Development investments		9,306,366	7,765,207
2.	Concessions, licenses, software and other rights		1,478,440	2,122,944
3.	Goodwill		–	–
4.	Other intangible assets		848,909	862,938
5.	Intangible assets under development		4,905,711	5,469,542
6.	Advances for intangible assets		–	–
II.	**PROPERTY, PLANT AND EQUIPMENT**	**9**	**246,779,004**	**227,612,491**
1.	Land		10,361,685	10,328,878
2.	Buildings		135,240,544	127,300,824
3.	Machinery and equipment		59,129,900	60,691,375
4.	Investment property		1,730,100	1,530,356
5.	Other property, plant and equipment		76,536	74,400
6.	Construction in progress		39,282,267	25,312,035
7.	Investments in leased PP&E		199,804	263,211
8.	Advances for PP&E		758,168	2,111,412
III.	**BIOLOGICAL ASSETS**		**–**	**–**
1.	Forest farming			–
2.	Livestock			–
3.	Biological assets in production			–
4.	Advances for biological assets			
IV.	**LONG-TERM FINANCIAL INVESTMENTS**		**38,735,288**	**49,680,845**
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		114,162	119,919
4.	Long term investments in parent and subsidiaries	12	23,279,079	32,024,282
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	877,661	3,072,258
V.	**LONG-TERM RECEIVABLES**		**8,979**	**8,412**
1.	Receivables from parent company and subsidiaries		–	–

in thousand RSD

	Balance Sheet	Note	31 December 2018	31 December 2017
2.	Receivables from other related parties		–	–
3.	Receivables from sale of goods on credit		–	–
4.	Receivables arising out of finance lease contracts		8,979	8,412
5.	Claims arising from guarantees		–	–
6.	Bad and doubtful receivables		–	–
7.	Other long-term receivables		–	–
C.	**DEFFERED TAX ASSETS**	**14**	**2,405,175**	**2,487,491**
D.	**CURRENT ASSETS**		**97,006,290**	**104,140,906**
I.	**INVENTORY**	**15**	**44,951,884**	**33,758,553**
1.	Materials, spare parts and tools		23,257,263	20,495,109
2.	Work in progress		4,923,492	3,961,298
3.	Finished goods		13,042,863	7,998,501
4.	Merchandise		3,220,159	996,337
5.	Assets held for sale		9,271	163
6.	Advances for inventory and services		498,836	307,145
II.	**TRADE RECEIVABLES**	**16**	**27,501,759**	**29,735,674**
1.	Domestic trade receivables - parents and subsidiaries		358,735	489,470
2.	Foreign trade receivables - parents and subsidiaries		2,652,875	3,448,578
3.	Domestic trade receivables – other related parties		1,226,862	1,447,646
4.	Foreign trade receivables - other related parties		629,519	1,023,525
5.	Trade receivables - domestic		21,859,900	22,229,266
6.	Trade receivables - foreign		773,868	1,097,189
7.	Other trade receivbles		–	–
III.	**RECEIVABLES FROM SPECIFIC OPERATIONS**		**248,374**	**292,057**
IV.	**OTHER RECEIVABLES**	**17**	**1,290,500**	**2,345,007**
V.	**FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS**		**-**	**-**
VI.	**SHORT TERM FINANCIAL INVESTMENTS**	**18**	**5,628,600**	**10,381,808**
1.	Short-term loans and investments - parent companies and subsidiaries		–	56,019
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		5,604,961	10,325,789
VII.	**CASH AND CASH EQUIVALENTS**	**19**	**12,222,578**	**23,410,724**
VIII.	**VALUE ADDED TAX**		**-**	**-**
IX.	**PREPAYMENTS AND ACCRUED INCOME**	**20**	**5,162,595**	**4,217,083**
E.	**TOTAL ASSETS**		**401,474,162**	**400,150,776**
F.	**OFF-BALANCE SHEET ASSETS**	**21**	**113,012,309**	**108,101,006**

in thousand RSD

	Balance Sheet	Note	31 December 2018	31 December 2017
A.	**EQUITY**		**249,303,631**	**238,967,295**
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**	**81,796**
VI.	**UNREALISED GAINS FROM SECURITAS AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**147,011**	**142,480**
VII.	**UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**60,082**	**64,014**
VIII.	**RETAINED EARNINGS**		**167,534,359**	**157,276,833**
1.	Retained earnings from previous years		141,466,870	129,486,373
2.	Retained earnings from current year		26,067,489	27,790,460
IX.	**NON-CONTROLLING INTEREST**		**–**	**–**
X.	**LOSS**		**–**	**–**
1.	Loss from previous years		–	–
2.	Loss from current year		–	–
B.	**LONG-TERM PROVISIONS AND LIABILITIES**		**97,447,273**	**99,411,634**
I.	**LONG-TERM PROVISIONS**	**23**	**10,079,405**	**9,660,582**
1.	Provisions for warranty claims		–	–
2.	Provision for environmental rehabilitation		9,148,887	8,904,782
3.	Provisions for restructuring costs		–	–
4.	Provisions for employee benefits		701,478	410,234
5.	Provisions for litigations		229,040	345,566
6.	Other long term provisions		–	–
II.	**LONG-TERM LIABILITIES**	**24**	**87,367,868**	**89,751,052**

in thousand RSD

	Balance Sheet	Note	31 December 2018	31 December 2017
1.	Liabilities convertible to equity		-	-
2.	Liabilities to parent and subsidiaries		19,240,982	24,796,612
3.	Liabilities to other related parties		-	-
4.	Liabilities for issued long-term securities		-	-
5.	Long term borrowings - domestic		50,326,327	43,049,008
6.	Long-term borrowings - foreign		17,227,014	21,709,377
7.	Finance lease liabilities		573,545	196,055
8.	Other long-term liabilities		-	-
C.	**DEFFERED TAX LIABILITIES**	**14**	**-**	**-**
D.	**SHORT-TERM LIABILITIES**		**54,723,258**	**61,771,847**
I.	**SHORT-TERM FINANCIAL LIABILITIES**	**25**	**8,141,968**	**8,199,189**
1.	Short term borrowings from parent and subsidiaries		2,218,378	2,298,487
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		5,923,590	5,900,702
II.	**ADVANCES RECEIVED**		**1,322,558**	**1,374,398**
III.	**TRADE PAYABLES**	**26**	**25,887,149**	**29,393,322**
1.	Trade payables - parent and subsidiaries - domestic		3,063,798	2,576,370
2.	Trade payables - parent and subsidiaries - foreign		10,254,323	11,792,424
3.	Trade payables - other related parties - domestic		1,250,402	1,252,736
4.	Trade payables - other related parties - foreign		661,182	1,014,064
5.	Trade payables - domestic		5,811,834	6,874,255
6.	Trade payables - foreign		4,843,290	5,880,471
7.	Other operating liabilities		2,320	3,002
IV.	**OTHER SHORT-TERM LIABILITIES**	**27**	**7,999,458**	**8,880,747**
V.	**LIABILITIES FOR VAT**		**1,146,310**	**1,618,629**
VI.	**LIABILITIES FOR OTHER TAXES**	**28**	**6,987,963**	**8,506,087**
VII.	**ACCRUED EXPENSES**	**29**	**3,237,852**	**3,799,475**
E.	**LOSS EXCEEDING EQUITY**		**-**	**-**
F.	**TOTAL EQUITY AND LIABILITIES**		**401,474,162**	**400,150,776**
G.	**OFF-BALANCE SHEET LIABILITIES**	**21**	**113,012,309**	**108,101,006**

in thousand RSD

Income Statement

	Income Statement	Note	Year ended 31 December 2018	2017
	INCOME FROM REGULAR OPERATING ACTIVITIES			
A.	**OPERATING INCOME**	**7**	**258,523,448**	**215,836,203**
I.	**INCOME FROM THE SALE OF GOODS**		**9,562,486**	**16,974,716**
1.	Income from sales of goods to parent and subsidiaries on domestic market		58,413	19,443
2.	Income from sales of goods to parent and subsidiaries on foreign market		216,831	600,892
3.	Income from the sale of goods to other related parties on domestic market		102	161
4.	Income from the sale of goods to other related parties on foreign market		135,052	10,016,171
5.	Income from sale of goods on domestic market		8,424,284	6,276,036
6.	Income from sale of goods on foreign market		727,804	62,013
II.	**INCOME FROM SALES OF PRODUCTS AND SERVICES**		**248,477,040**	**198,452,051**
1.	Income from sales of products and services to parent and subsidiaries on domestic market		1,146,373	1,111,629
2.	Income from sales of products and services to parent and subsidiaries on foreign market		15,826,450	12,560,739
3.	Income from sales of products and services to other related parties on domestic market		26,702,899	21,952,875
4.	Income from sales of products and services to other related parties on foreign market		536,311	591,444
5.	Income from sales of products and services – domestic		170,938,052	137,769,953
6.	Income from sales of products and services – foreign		33,326,955	24,465,411
III.	**INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS**		**2,257**	**26,380**
IV.	**OTHER OPERATING INCOME**		**481,665**	**383,056**
	EXPENSES FROM REGULAR OPERATING ACTIVITIES			
B.	**OPERATING EXPENSES**		**226,386,000**	**186,182,516**
I.	COST OF GOODS SOLD		8,077,143	15,725,908
II.	WORK PERFORMED BY THE ENTITY AND CAPITALIZED		1,613,042	967,698
III.	INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		6,006,557	3,202,338
IV.	DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		-	-
V.	COST OF MATERIAL		162,591,024	117,219,414
VI.	COST OF FUEL AND ENERGY		3,336,459	2,880,049
VII.	COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES		15,245,145	14,361,093
VIII.	COST OF PRODUCTION SERVICES	30	14,323,354	14,064,332
IX.	DEPRECIATION, DEPLETION AND AMORTIZATION	8,9	18,301,276	14,188,482
X.	COST OF LONG-TERM PROVISIONING		618,876	861,981

in thousand RSD

	Income Statement	Note	Year ended 31 December 2018	2017
XI.	NON-PRODUCTION COSTS	31	11,512,322	11,051,293
C.	**OPERATING GAIN**		**32,137,448**	**29,653,687**
D.	**OPERATING LOSS**		**-**	**-**
E.	**FINANCE INCOME**	**32**	**4,578,389**	**13,630,527**
I.	FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME		2,077,184	3,761,830
1.	Finance income - parent company and subsidiaries		2,026,867	3,558,484
2.	Finance income - other related parties		22,490	41,754
3.	Share of profit of associates and joint ventures		-	-
4.	Other financial income		27,827	161,592
II.	INTEREST INCOME (from third parties)		765,027	1,101,732
III.	FOREIGN EXCHANGE GAINS (third parties)		1,736,178	8,766,965
F.	**FINANCE EXPENSES**	**33**	**5,427,179**	**7,574,284**
I.	FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES		1,694,814	3,016,359
1.	Finance expense - parent company and subsidiaries		1,674,668	2,948,723
2.	Finance expense - other related parties		12,735	40,043
3.	Share of loss of associates and joint ventures		-	-
4.	Other financial expense		7,411	27,593
II.	INTEREST EXPENSE (from third parties)		1,940,679	2,418,072
III.	FOREIGN EXCHANGE LOSSES (third parties)		1,791,686	2,139,853
G.	**PROFIT FROM FINANCING OPERATIONS**		**-**	**6,056,243**
H.	**LOSS FROM FINANCING OPERATIONS**		**848,790**	**-**
I.	**INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**	**34**	**1,016,559**	**307,888**
J.	**LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**		**205,707**	**604,118**
K.	**OTHER INCOME**	**35**	**969,970**	**931,953**
L.	**OTHER EXPENSES**	**36**	**1,426,519**	**1,388,866**
M.	**OPERATING PROFIT BEFORE TAX**		**31,642,961**	**34,956,787**
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**		**-**	**-**

in thousand RSD

	Income Statement	Note	Year ended 31 December 2018	2017
Q.	**PROFIT BEFORE TAX**		**31,642,961**	**34,956,787**
R.	**LOSS BEFORE TAX**		**-**	**-**
II.	INCOME TAX			
I.	CURRENT INCOME TAX	37	3,922,034	5,556,879
II.	DEFERRED TAX EXPENSE FOR THE PERIOD	37	1,653,438	2,045,123
III.	DEFERRED TAX INCOME FOR THE PERIOD	37	-	435,675
S.	**PERSONAL INCOME PAID TO EMPLOYER**		**-**	**-**
T.	**NET PROFIT**		**26,067,489**	**27,790,460**
V.	**NET LOSS**		**-**	**-**
I.	NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS			
II.	NET INCOME ATTRIBUTABLE TO THE OWNER		26,067,489	27,790,460
III.	NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		-	-
IV.	NET LOSS ATTRIBUTABLE TO THE OWNER		-	-
V.	EARNINGS PER SHARE			
1.	Basic earnings per share		0.160	0.170
2.	Diluted earnings per share		-	-

in thousand RSD

Statement of Other Comprehensive Income

	Statement of Other Comprehensive Income	Note	Year ended 31 December 2018	2017
A.	**NET PROFIT/(LOSS)**			
I.	**PROFIT, NET**		**26,067,489**	**27,790,460**
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	1,189
	b) decrease in revaluation reserves		-	-
2.	**Actuarial gains (losses) of post employment benefit obligations**			
	a) gains		4,531	19,568
	b) losses		-	-

in thousand RSD

			Year ended 31 December	
	Statement of Other Comprehensive Income	**Note**	**2018**	**2017**
3.	**Gains and losses arising from equity investments**			
	a) gains		–	–
	b) losses		–	–
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		477	2,505
	b) losses		–	–
I.	OTHER COMPREHENSIVE PROFIT BEFORE TAX		77,756	23,262
II.	OTHER COMPREHENSIVE LOSS BEFORE TAX		–	–
III.	TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD		–	–
IV.	**TOTAL NET COMPREHENSIVE PROFIT**		**77,756**	**23,262**
V.	**TOTAL NET COMPREHENSIVE LOSS**		**–**	**–**
C.	**TOTAL NET COMPREHENSIVE PROFIT**			
I.	TOTAL COMPREHENSIVE PROFIT, NET		26,145,245	27,813,722
II.	TOTAL COMPREHENSIVE LOSS, NET		–	–
D.	**TOTAL NET COMPREHENSIVE PROFIT / (LOSS)**		**26,145,245**	**27,813,722**
1.	Attributable to shareholders		26,145,245	27,813,722
2.	Attributable to non-controling interest		–	–

in thousand RSD

Cash Flow Statement

	Cash Flow Statement	Note	Year ended 31 December 2018	2017
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**CASH INFLOW FROM OPERATING ACTIVITIES**		**476,318,584**	**404,083,903**
1.	Sales and advances received		474,854,352	403,512,757
2.	Interest from operating activities		982,567	188,090
3.	Other inflow from operating activities		481,665	383,056
II.	**CASH OUTFLOW FROM OPERATING ACTIVITIES**		**441,057,925**	**349,374,755**
1.	Payments and prepayments to suppliers		222,503,666	169,771,567
2.	Salaries, benefits and other personal expenses		15,357,756	14,188,115
3.	Interest paid		2,115,651	2,877,058
4.	Income tax paid		5,306,655	3,328,363
5.	Payments for other public revenues		195,774,197	159,209,652
III.	**NET CASH INFLOW FROM OPERATING ACTIVITIES**		**35,260,659**	**54,709,148**
IV.	**NET CASH OUTFLOW FROM OPERATING ACTIVITIES**			**-**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I.	**CASH FLOWS FROM INVESTING ACTIVITIES**		**10,495,139**	**7,538,052**
1.	Sale of shares (net inflow)		-	-
2.	Proceeds from sale of property, plant and equipment		368,430	1,349,434
3.	Other financial investments (net inflow)		10,101,578	6,188,462
4.	Interest from investing activities		-	-
5.	Dividend received		25,131	156
II.	**CASH OUTFLOW FROM INVESTING ACTIVITIES**		**47,164,889**	**44,514,493**
1.	Acquisition of subsidiaries or other business (net outflow)		-	-
2.	Purchase of intangible assets, property, plant and equipment		43,100,975	28,481,297
3.	Other financial investments (net outflow)		4,063,914	16,033,196
III.	**NET CASH INFLOW FROM INVESTING ACTIVITIES**		**-**	**-**
IV.	**NET CASH OUTFLOW FROM INVESTING ACTIVITIES**		**36,669,750**	**36,976,441**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			

in thousand RSD

	Cash Flow Statement	Note	Year ended 31 December 2018	2017
I.	**CASH INFLOW FROM FINANCING ACTIVITIES**		**50,372,081**	**48,907,496**
1.	Increase in share capital		-	-
2.	Proceeds from long-term borrowings (net inflow)	24	37,213,097	36,955,269
3.	Proceeds from short-term borrowings (net inflow)	24	13,158,984	11,952,227
4.	Other long-term liabilities		-	-
5.	Other short-term liabilities		-	-
II.	**CASH OUTFLOW FROM FINANCING ACTIVITIES**		**60,221,960**	**62,879,759**
1.	Purchase of own shares		-	-
2.	Repayment of long-term borrowings (net outflow)	24	39,952,348	35,994,429
3.	Repayment of short-term borrowings (net outflow)	24	13,239,092	22,795,802
4.	Repayment of other liabilities (net outflow)		-	-
5.	Financial lease	24	82,516	68,459
6.	Dividend distribution	22	6,948,004	4,021,069
III.	**NET CASH INFLOW FROM FINANCING ACTIVITIES**		**-**	**-**
IV.	**NET CASH OUTFLOW FROM FINANCING ACTIVITIES**		**9,849,879**	**13,972,263**
D.	**TOTAL CASH INFLOW**		**537,185,804**	**460,529,451**
E.	**TOTAL CASH OUTFLOW**		**548,444,774**	**456,769,007**
F.	**NET CASH INFLOW**		**-**	**3,760,444**
G.	**NET CASH OUTFLOW**		**11,258,970**	**-**
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**		**23,410,724**	**20,053,651**
I.	**CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS**		**370,178**	**455,440**
J.	**CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS**		**299,354**	**858,811**
K.	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**12,222,578**	**23,410,724**

in thousand RSD

Statement of Changes in Equity

		Equity components			
		Share capital	Reserves	Loss	Retained earnings
Balance as at 1 January 2017					
a)	debit	–	–	–	–
b)	credit	**81,530,200**	–	–	**133,507,442**
Adjustments of material errors and changes in accounting policies					
a)	debit	–	–	–	–
b)	credit	–	–	–	–
Restated opening balance as at 1 January 2017					
a)	debit	–	–	–	–
b)	credit	**81,530,200**	–	–	**133,507,442**
Changes in period					
a)	debit	–	–	–	4,021,069
b)	credit	–	–	–	27,790,460
Balance as at 31 December 2017					
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**

Other comprehensive income components			Total Equity
Revaluation reserves	Acturial gain/(loss)	Gains (losses) from change in value of available-for-sale financial assets	
–	**–**	**66,519**	
80,607	**122,912**	**–**	**215,174,642**
–	–	–	–
–	–	–	–
–	**–**	**66,519**	**–**
80,607	**122,912**	**–**	**215,174,642**
			–
–	–	–	–
1,189	19,568	2,505	23,792,653
–	–	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**

in thousand RSD

Notes to the Stand-Alone Financial Statements*

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 2018 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

- The financial statements are prepared in the format prescribed by the Ministry of Finance of the Republic of Serbia,
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

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

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

At the date of signing Financial Statements, crude oil price increased since 31 December 2018 from 50.210 $/barrel to 65.375 $/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 2018 were evaluated through 28 February 2019, 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.

*All amounts are in RSD 000, unless otherwise stated

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	7 - 25
- Furniture	5 - 10
- Vehicles	7 - 20
- Computers	5 - 10
Other PP&E	3 - 10

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. 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.

2.10. 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.

2.11. 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 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.

g) Accounting policies applied until 31 December 2017

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Classification

Until 31 December 2017, the Company classified its financial assets in the following categories:

- Cash and cash equivalents
- Loans and receivables and
- Available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired.

The measurement at initial recognition did not change on adoption of IFRS 9.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method.

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as other income when the Company's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to other income in profit or loss for the year.

Impairment

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

2.12. 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).

2.13. 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.

2.14. Share capital

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

2.15. 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.

2.16. 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.

2.17. 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.

2.18. 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).

2.19. Revenue recognition

Accounting policies applied in 2018, from the date of initial application of IFRS 15 "Revenue 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, fuel coupons 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.

Accounting policies applied until 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company’s activities, as described below. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Company agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2.20. Leases

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 Balance Sheet. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

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 2018 would be to increase/decrease it by RSD 1,668,418 (2017: RSD 1,277,411).

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 6.70% (rather than 5.70%) per year, the past service liability (DBO) for the Company would decrease by about 9% for retirement indemnity and 6.9% 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 10.3% for the retirement indemnity and 7.4% 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 6.70% (rather than 5.70%) per year, the present liability would have decreased by approx. RSD 328,299.

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 40).

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 by 68.4 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.

3.7. ECL measurement for inter-company loans

The Company's measurement of expected credit losses for inter-company loans is a significant estimate that involves determination of methodology and data inputs.

The Company defines credit losses for inter-company loans as the difference between all contractual cash flows that are due to the Company in accordance with a contract and all cash flows that the Company expects to receive (i.e., all cash shortfalls), discounted to present value.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of the underlying business, etc., for which there may not be a readily accessible market.

If the discount rate used to calculate the present value of cash shortfalls had been 8.56% (rather than 7.56%) per year, the present value of intercompany loans would have decreased by approx. RSD 514,528.

4. APPLICATION OF NEW IFRS

Accounting policies applied from 1 January 2018

Adoption of IFRS 9 "Financial Instruments". The Company adopted IFRS 9, Financial Instruments, from 1 January 2018. The Company elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

Adoption of IFRS 15 "Revenue from Contracts with Customers". The Company applied simplified method of transition to IFRS 15, and elected to apply the practical expedient available for simplified transition method. The Company applies IFRS 15 retrospectively only to contracts that were not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 resulted in changes in accounting policies (see Note 2.19) and did not result any material adjustments to the statements of profit and loss, therefore the retained earnings as of 1 January 2018 has not been adjusted.

The significant new accounting policies applied in the current period and Accounting policies applied prior to 1 January 2018 are described in Note 2.

The following table reconciles the carrying amounts of financial assets as previously measured in accordance with IAS 39 and IAS 18 and the new amounts determined upon adoption of IFRS 9 and IFRS 15 on 1 January 2018.

	Carrying value under IAS 39 and IAS 18 At 31 December 2017	Remeasurement	Carrying value under IFRS 9 and IFRS 15 1 January 2018	Retained earnings effect at 1 January 2018
Long term investments in parent and subsidiaries (note 6)	32,024,282	(7,542,125)	24,482,157	(7,542,125)
Other long-term financial investments (note 13)	3,072,258	(371,818)	2,700,440	(371,818)
Deffered tax assets (note 14)	2,487,491	1,584,231	4,071,722	1,584,231
Other receivables (note 6)	2,345,007	(412,465)	1,932,542	(412,465)
Other short-term loans and investments (note 6)	10,325,789	(2,118,728)	8,207,061	(2,118,728)
		(8,860,905)		**(8,860,905)**

Remeasurement effect in amount of RSD 8,860,905 represents ECL on:

- intercompany loans in amount of RSD 9,660,853,
- interest receivables on intercompany loans in amount of RSD 412,465 and
- housing loans provided to employees in amount of RSD 371,818.

ECL is accounted for in accordance with IFRS 9.

Total amount of deferred tax assesst recognised in OCI due to deductible temporary differences arised on first time adoption of IFRS 9 is RSD 1,584,231.

Investments in equity securities. The Company has elected to irrevocably designate investments in a portfolio of non-trading equity securities as at FVOCI as permitted under IFRS 9. These securities were previously classified as AFS. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are impaired or disposed of. IFRS 9 does not provide an exemption to measure investments in unquoted equity securities at cost. The Company remeasured all such investments at fair value on adoption of IFRS 9 and designated as at FVOCI.

The following amended standards became effective for the Company from 1 January 2018, but did not have any material impact on the Company:

- Amendments to IFRS 2 “Share-based Payment” (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” (issued on 12 September 2016 and effective, depending on the approach, for annu-

al periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

- Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

5. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2018 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.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the standard on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company is currently assessing the impact of the interpretation on its financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Company does not expect a material impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. 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.

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 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)**

As of 31 December 2017	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Investments in other legal entities and other available for sales financial assets	117,900	-	-	2,019	119,919
Long-term investments in subsidiaries	-	32,024,282	-	-	32,024,282
Other long-term investments	2,107,572	959,722	4,964	-	3,072,258
Long term receivables	8,412	-	-	-	8,412
Current					
Trade receivables	21,522,594	7,385,002	827,079	999	29,735,674
Receivables from specific operations	83,375	53,319	155,363	-	292,057
Other receivables	97,157	2,245,812	1,193	845	2,345,007
Short term financial investments	7,713,679	2,668,129	-	-	10,381,808
Cash and cash equivalents	11,107,847	3,548,422	8,742,209	12,246	23,410,724
Financial liabilities					
Non-current					
Long-term liabilities	(641)	(71,582,425)	(17,890,189)	(277,797)	(89,751,052)
Current					
Short-term financial liabilities	(2,298,661)	(5,824,653)	(44,061)	(31,814)	(8,199,189)
Trade payables	(16,068,483)	(6,285,561)	(6,976,115)	(63,163)	(29,393,322)
Other short-term liabilities	(8,605,890)	(64,881)	(195,505)	(14,471)	(8,880,747)
Net exposure	**15,784,861**	**(34,872,832)**	**(15,375,062)**	**(371,136)**	**(34,834,169)**

The following exchange rates applied during the period:

Reporting date spot rate	31 December 2018	31 December 2017
EUR	118.1946	118.4727
USD	103.3893	99.1155

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 2018, 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 3,638,884 (2017:

RSD 1,743,642) higher/lower, mainly as a result of foreign exchange gains/(losses) on translation of EUR – denominated borrowings.
During 2018, the Company made repayment of borrowings denominated in USD and took new loans in EUR. Also, purchase of crude oil was denominated in EUR in 2018.

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:

	Year ended 31 December	
	2018	**2017**
Financial instrument at FVTOCI	114,162	-
Investments in other legal entities and other available for sales financial assets	-	119,919
Long term investments in subsidiaries	23,279,079	32,024,282
Other long-term investments	877,661	3,072,258
Long term receivables	8,979	8,412
Trade receivables	27,501,759	29,735,674
Receivables from specific operations	248,374	292,057
Other receivables	1,290,500	2,345,007
Short term financial investments	5,628,600	10,381,808
Cash and cash equivalents	12,222,578	23,410,724
Total maximum exposure to credit risk	**71,171,692**	**101,390,141**

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 2018 would have been 862,976 RSD (2017: 940,437 RSD) 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.

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 2018 and 36 months before 1 January 2018 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. 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.

As of 31 December 2017, the ageing analysis of short-term trade receivables is as follows:

	31 December 2017		
	Gross	**Impaired**	**Net**
Not past due	27,477,190	–	27,477,190
Past due:			
within 30 days	1,971,504	–	1,971,504
1 to 3 months	203,314	(5,941)	197,373
3 months to 1 year	311,162	(233,462)	77,700
over 1 year	7,642,349	(7,630,442)	11,907
Total	**37,605,519**	**(7,869,845)**	**29,735,674**

Movements on the Company's provision for impairment of trade 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**

	Trade receivables		**Total**
	Individually impaired	**Collectively impaired**	
As at 1 January 2017	**3,894,367**	**13,526,789**	**17,421,156**
Provision for receivables impairment	–	406,046	406,046
Unused amounts reversed (note 34)	–	(178,242)	(178,242)
Unwinding of discount (note 32)		(164,147)	(164,147)
Receivables written off during the year as uncollectible	–	(140,074)	(140,074)
Exchange differences	–	36,498	36,498
Transfer from LT receivables	–	208,808	208,808
Transfer to investment to associates	(1,349,735)	(8,362,950)	(9,712,685)
Other	(5,082)	(2,433)	(7,515)
As at 31 December 2017	**2,539,550**	**5,330,295**	**7,869,845**

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 2018 receivables from specific operations amounting RSD 2,197,767 (31 December 2017 : RSD 3,880,712) are mostly impaired in the amount of RSD 1,949,393 (31 December 2017: RSD 3,588,655). 98% these receivables are older than 5 years.

As of 31 December 2017 the ageing analysis of other receivables were as follows:

	31 December 2017		
	Gross	**Impaired**	**Net**
Not past due	1,542,588	-	1,542,588
Past due:			
within 30 days	21,987	(2,013)	19,974
1 to 3 months	11,111	(970)	10,141
3 months to 1 year	328,507	(101,776)	226,731
over 1 year	12,145,504	(11,599,931)	545,573
Total	**14,049,697**	**(11,704,690)**	**2,345,007**

Movements on the provision for other receivables:

	Interest on long – term pacements (current part)	Interest receivables	Other receivables	Total
As at 1 January 2017	**30,869**	**4,287,801**	**7,431,488**	**11,750,158**
Provision for other receivables impairment	4,668	73,550	63,290	141,508
Unused amounts reversed (note 34)		(74,237)	(17)	(74,254)
Receivables written off during the year as uncollectible	-	(101,760)	(61,632)	(163,392)
Exchange differences	(1,355)	-	-	(1,355)
Other	-	1,936	50,089	52,025
As at 31 December 2017	**34,182**	**4,187,290**	**7,483,218**	**11,704,690**
As at 1 January 2018	**34,182**	**4,187,290**	**7,483,218**	**11,704,690**
Remeasurement of expected credit losses (note 4)	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**

Other financial assets at amortised cost

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

	Total
As at 1 January 2017	16,934
Provision for impairment of long-term placements to subsidiaries	5,747
Exchange differences	(1,026)
Other	(21,655)
As at 31 December 2017	**-**
As at 1 January 2018	**-**
Remeasurement of expected credit losses (note 4)	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**

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 2017	196,399	2,019	-	198,418
Exchange differences	(7,952)	-	-	(7,952)
As at 31 December 2017	**188,447**	**2,019**	**-**	**190,466**
As at 1 January 2018	**188,447**	**2,019**	**-**	**190,466**
Remeasurement of expected credit losses(note 4)	-	-	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**

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 2018					
Borrowings	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**
As at 31 December 2017					
Borrowings	97,950,241	104,992,540	10,511,792	87,582,192	6,898,556
Trade payables and dividends payable	33,165,630	33,165,630	33,165,630	-	-
	131,115,871	**138,158,170**	**43,677,422**	**87,582,192**	**6,898,556**

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 2018	31 December 2017
Total borrowings	95,509,836	97,950,241
Less: cash and cash equivalents (note 19)	(12,222,578)	(23,410,724)
Net debt	**83,287,258**	**74,539,517**
EBITDA	51,101,970	44,169,691
Net debt to EBITDA	**1.63**	**1.69**

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 2018 and 2017. 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 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 35)	(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	**26,773,827**	**(706,338)**	**-**	**26,067,489**

Reportable segment results for the year ended 31 December 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,927,105	216,969,850	(45,060,752)	215,836,203
Intersegment	41,956,055	3,104,697	(45,060,752)	–
External	1,971,050	213,865,153	–	215,836,203
EBITDA (Segment results)	**28,182,125**	**15,987,566**	**-**	**44,169,691**
Depreciation, depletion and amortization	(5,507,982)	(8,680,500)	–	(14,188,482)
Impairment losses/Revaluation surpluses (note 35 and 36)	2,378	(232,749)	–	(230,371)
Write-off of exploration works (note 9)	(568,493)	–	–	(568,493)
Finance expenses, net	317,956	5,738,287	–	6,056,243
Income tax	(2,177,957)	(4,988,370)	–	(7,166,327)
Segment profit (loss)	**20,358,559**	**7,431,901**	**-**	**27,790,460**

EBITDA for the year ended 31 December 2018 and 2017 is reconciled below:

	Year ended 31 December	
	2018	**2017**
Profit for the year	26,067,489	27,790,460
Income tax expenses	5,575,472	7,166,327
Other expenses	1,426,519	1,388,866
Other income	(969,970)	(931,953)
Loss from valuation of assets at fair value through profit and loss	205,707	604,118
Income from valuation of assets at fair value through profit and loss	(1,016,559)	(307,888)
Finance expense	5,427,179	7,574,284
Finance income	(4,578,389)	(13,630,527)
Depreciation, depletion and amortization	18,301,276	14,188,482
Other non operating expenses, net*	663,246	327,522
EBITDA	**51,101,970**	**44,169,691**

*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 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**

	Year ended 31 December 2017		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	1,705,444	1,705,444
Sale of gas	2,314,509	-	2,314,509
Through a retail network	-	-	-
Wholesale activities	2,314,509	-	2,314,509
Sale of petroleum products	157,882,002	35,709,801	193,591,803
Through a retail network	54,723,169	-	54,723,169
Wholesale activities	103,158,833	35,709,801	138,868,634
Sales of electricity	462,216	10,636,249	11,098,465
Other sales	6,880,806	245,176	7,125,982
Total sales	**167,539,533**	**48,296,670**	**215,836,203**

Out of the amount of RSD 182,048,916 (2017: RSD 138,868,634) revenue from sale of petroleum products (wholesale), the amount of RSD 26,679,415 (2017: RSD 21,947,228) 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 Energy Financing Team in the amount of RSD 518,173 (2017: Gazprom Marketing & Trading Co., Ltd. In the amount of RSD 10,015,978).

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 207,754,045 (2017: RSD 167,539,533), and the total of revenue from external customer from other countries is RSD 50,769,403 (2017: RSD 48,296,670). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2018	**2017**
Sale of crude oil	1,528,011	1,705,444
Sale of petroleum products (retail and wholeasle)		
Bulgaria	11,069,476	8,611,846
Bosnia and Herzegovina	12,319,667	8,550,726
Romania	8,531,671	5,033,530
Croatia	2,997,771	2,677,174
Switzerland	2,777,082	2,642,440
Great Britain	1,839,930	1,953,167
Macedonia	1,726,618	1,614,993
Hungary	1,810,152	1,035,140
All other markets	5,053,393	3,590,785
	48,125,760	35,709,801
Sales of electricity	851,600	10,636,249
Other sales	264,032	245,176
	50,769,403	**48,296,670**

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	Other intangibles	Intangible assets under development	Total
At 1 January 2017					
Cost	6,617,839	7,812,985	951,010	6,728,622	22,110,456
Accumulated amortisation and impairment	(1,144,421)	(5,092,452)	(76,994)	(29,956)	(6,343,823)
Net book amount	**5,473,418**	**2,720,533**	**874,016**	**6,698,666**	**15,766,633**
Year ended 31 December 2017					
Additions	-	-	-	1,919,942	1,919,942
Transfer from assets under development	2,712,862	374,767	9,865	(3,097,494)	-
Amortization	(421,073)	(972,356)	(20,943)	-	(1,414,372)
Transfer from PP&E (note 9)	-	-	-	29,786	29,786
Disposals and write-off	-	-	-	(81,358)	(81,358)
Closing net book amount	**7,765,207**	**2,122,944**	**862,938**	**5,469,542**	**16,220,631**
As at 31 December 2017					
Cost					
Accumulated amortization and impairment	9,330,701	8,165,992	960,875	5,515,048	23,972,616
Net book amount	(1,565,494)	(6,043,048)	(97,937)	(45,506)	(7,751,985)
At 1 January 2018	**7,765,207**	**2,122,944**	**862,938**	**5,469,542**	**16,220,631**
Cost					
Accumulated amortization and impairment	9,330,701	8,165,992	960,875	5,515,048	23,972,616
Net book amount	(1,565,494)	(6,043,048)	(97,937)	(45,506)	(7,751,985)
Year ended 31 December 2018	**7,765,207**	**2,122,944**	**862,938**	**5,469,542**	**16,220,631**
Additions	-	-	(370)	1,947,886	1,947,516
Transfer from assets under development	2,299,438	193,070	7,584	(2,500,092)	-
Amortization	(758,279)	(837,574)	(21,243)	-	(1,617,096)
Transfer from PP&E (note 9)	-	-	-	(11,625)	(11,625)
Closing net book amount	**9,306,366**	**1,478,440**	**848,909**	**4,905,711**	**16,539,426**
As at 31 December 2018					
Cost	11,630,139	8,301,639	968,089	4,951,217	25,851,084
Accumulated amortization and impairment	(2,323,773)	(6,823,199)	(119,180)	(45,506)	(9,311,658)
Net book amount	**9,306,366**	**1,478,440**	**848,909**	**4,905,711**	**16,539,426**

Intangible assets under development as at 31 December 2018 amounting to RSD 4,905,711 (31 December 2017: RSD 5,469,542) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 4,579,282 (31 December 2017: RSD 4,560,631).

9. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment
At 1 January 2017			
Cost	10,769,717	166,064,135	106,150,666
Accumulated depreciation and impairment	(301,474)	(47,970,025)	(45,747,472)
Net book amount	**10,468,243**	**118,094,110**	**60,403,194**
Year ended 31 December 2017			
Additions	21,014	16,727,218	5,862,771
Impairment charge (note 35 and 36)	(145,510)	(26,637)	(1,006)
Depreciation	–	(6,261,289)	(6,444,494)
Transfer to intangible assets (note 8)	–	–	–
Transfer to investment property	(2,759)	(23,190)	–
Transfer to assets held for sale	(7,958)	(108,920)	(14,522)
Disposals and write-off	(4,152)	(89,520)	(125,516)
Other transfers	–	(1,010,948)	1,010,948
Closing net book amount	**10,328,878**	**127,300,824**	**60,691,375**
At 31 December 2017			
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 36 and 37)	–	(67,304)	(250)
Depreciation	–	(9,637,766)	(6,978,256)
Transfer to 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**

Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
25,290,900	75,517	431,292	2,062,604	310,844,857
(2,103,957)	(1,117)	(159,953)	(41,759)	(96,325,783)
23,186,943	**74,400**	**271,339**	**2,020,845**	**214,519,074**
2,775,589	–	60,199	2,827,562	28,274,353
(19,855)	–	–	(3,023)	(196,031)
–	–	(68,327)	–	(12,774,110)
(29,786)	–	–	–	(29,786)
–	–	–	–	(25,949)
–	–	–	–	(131,400)
(600,856)	–	–	(2,733,972)	(3,554,016)
–	–	–	–	–
25,312,035	**74,400**	**263,211**	**2,111,412**	**226,082,135**
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**

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 2018, 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 80,966 (2017: RSD 196,031).

Machinery and equipment include the following amounts where the Company is a lessee under a finance lease:

	31 December 2018	31 December 2017
Cost capitalised – finance leases	582,295	475,007
Accumulated depreciation	(220,663)	(165,330)
Net book amount	**361,632**	**309,677**

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:

	2018	2017
As at 1 January	1,530,356	1,549,663
Fair value gains (loss) (note 35 and 36)	6,534	7,757
Transfer from PP&E carried at cost	196,037	25,949
Disposals	(1,405)	(56,089)
Other	(1,422)	3,076
As at 31 December	**1,730,100**	**1,530,356**

As at 31 December 2018, investment properties amounting to RSD 1,730,100 (31 December 2017: RSD 1,530,356) 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 2018 and 2017. 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 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**

Fair value measurements at 31 December 2017 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	–	872,172	–
– Gas stations	–	–	658,184
Total	**–**	**872,172**	**658,184**

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:

	2018	2017
Long term growth rate	0%	0%
Discount rate	14%	14%

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

	2018	2017
Assets as at 1 January	**658,184**	**631,678**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	6,534	3,788
Transfer from PPE	81,407	22,484
Other	(2,443)	234
Total increase in fair value measurement, assets	85,498	26,506
Assets as at 31 December	**743,682**	**658,184**

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 2.7).

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure
As at 1 January 2017		
Cost	16,409,984	4,385,516
Depreciation and impairment	-	(876)
Net book amount	**16,409,984**	**4,384,640**
Year ended 31 December 2017		
Additions	3,188,714	13,479,375
Transfer from asset under construction	(4,059,755)	(14,908,872)
Other transfers	(29,077)	44,180
Impairment	-	(10,703)
Depreciation and depletion		
Unsuccessful exploration expenditures derecognised (note 7)	(568,493)	-
Disposals and write-off	(71,724)	(39,122)
	14,869,649	**2,949,498**
As at 31 December 2017		
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**

Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
20,795,500	115,864,815	22,129	136,682,444
(876)	(27,422,504)	(20,309)	(27,443,689)
20,794,624	**88,442,311**	**1,820**	**109,238,755**
16,668,089	765,325	-	17,433,414
(18,968,627)	18,968,627	-	-
15,103	(33,137)	-	(18,034)
(10,703)	-	-	(10,703)
(568,493)	-	-	(568,493)
(110,846)	(49,242)	-	(160,088)
17,819,147	**102,643,530**	**1,820**	**120,464,497**
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**

Unsuccessful exploration expenditures derecognised in the amount of RSD 57,075 mainly relate to exploration assets located in Serbia due to uncertain viability of commercial production (2017: amount of RSD 568,493 mainly relate to exploration assets located in Serbia in the amount of RSD 461,615).

10. INVESTMENTS IN SUBSIDIARY

	31 December 2018	31 December 2017
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 2018 relate to the following companies:

Company	Share %	Investment	Impairment	Net book value
O Zone 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 2018 and 2017 is presented below:

		Ownership percentage	31 December 2018	31 December 2017
Serbskaya Generaciya	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.

Serbskaya Generaciya

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 "TETO" 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.

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.

12. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES

	31 December 2018	31 December 2017
LT loans - Subsidiaries - Domestic	96,995	2,966,665
LT loans - Subsidiaries - Foregin	27,225,130	29,057,617
	27,322,125	32,024,282
Less: Impairment	(4,043,046)	-
	23,279,079	**32,024,282**

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

	Currency	31 December 2018	31 December 2017
Domestic			
O Zone a.d., Belgrade, Serbia	EUR	96,995	2,966,665
		96,995	2,966,665
Foregin			
NIS Petrol e.o.o.d. Sofija, Bulgaria	EUR	9,450,355	9,472,591
NIS Petrol SRL, Bucharest, Romania	EUR	13,705,024	11,555,915
NIS Petrol d.o.o. Banja Luka, BiH	EUR	3,632,903	7,059,772
Jadran - Naftagas d.o.o. Banja Luka, BiH	EUR	436,848	969,339
		27,225,130	29,057,617
		27,322,125	**32,024,282**

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 2018	31 December 2017
Other LT investments	9,099	2,037,710
LT loans given to employees	1,240,438	1,034,607
Less: Impairment	(371,876)	(59)
	877,661	**3,072,258**

Loans to employees as at 31 December 2018 amounting to RSD 1,240,438 (31 December 2017: RSD 1,034,607) 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 371,818.

14. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2018	31 December 2017
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	3,527,324	3,578,507
– Deferred tax assets to be recovered within 12 months	1,016,432	1,387,464
	4,543,756	4,965,971
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	(2,138,581)	(2,478,480)
	(2,138,581)	(2,478,480)
Deferred tax assets (net)	**2,405,175**	**2,487,491**

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

	2018	2017
At 1 January	**2,487,491**	**4,059,076**
Charged to the income statement (note 37)	(1,653,438)	(1,609,448)
Charged to other comprehensive income	1,571,122	(652)
Other	–	38,515
31 December	**2,405,175**	**2,487,491**

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 2017	**(2,598,440)**	**(14,224)**	**(2,612,664)**
Charged to the income statement (note 37)	134,394	–	134,394
Charged to other comprehensive income	–	(210)	(210)
As at 31 December 2017	**(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)**

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
Deferred tax assets					
As at 1 January 2017	**967,556**	**930,193**	**4,762,252**	**11,739**	**6,671,740**
Charged to the income statement (note 37)	13,624	18,935	(1,776,401)	–	(1,743,842)
Charged to other comprehensive income	–	–	–	(442)	(442)
Other	38,515	–	–	–	38,515
As at 31 December 2017	**1,019,695**	**949,128**	**2,985,851**	**11,297**	**4,965,971**
Temorary deductible differences on ECL remeasurement (note 4)	–	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**

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 2018	31 December 2017
Materials, spare parts and tools	28,080,706	25,436,957
Work in progress	4,923,492	3,961,298
Finished goods	13,042,863	7,998,501
Goods for sale	3,227,243	1,002,172
Advances	716,163	566,382
Less: impairment of inventory	(4,830,527)	(4,947,683)
Less: impairment of advances	(217,327)	(259,237)
	44,942,613	**33,758,390**
Non-current assets held for sale	15,094	5,986
Less: impairment of assets held for sale	(5,823)	(5,823)
	44,951,884	**33,758,553**

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 2017	**5,038,463**	**257,942**	**-**	**5,296,405**
Provision for inventories and advances (note 36)	3,097	6,974	-	10,071
Unused amounts reversed (note 35)	(316)	(1,940)	-	(2,256)
Other	(93,561)	(3,739)	5,823	(91,477)
Balance as of 31 December 2017	**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)
Write-off and other	(126,260)	(42,185)	-	(168,445)
Balance as of 31 December 2018	**4,830,527**	**217,327**	**5,823**	**5,053,677**

16. TRADE RECEIVABLES

	31 December 2018	31 December 2017
Parents and subsidiaries - domestic	362,245	492,980
Parents and subsidiaries - foreign	2,652,897	3,448,600
Other related parties - domestic	1,257,685	1,478,469
Other related parties - foreign	629,519	1,023,525
Trade receivables domestic – third parties	27,828,605	30,033,966
Trade receivables foreign – third parties	812,717	1,127,979
	33,543,668	**37,605,519**
Less: Impairment	(6,041,909)	(7,869,845)
	27,501,759	**29,735,674**

17. OTHER RECEIVABLES

	31 December 2018	31 December 2017
Interest receivables	3,708,417	6,446,723
Receivables from employees	82,747	83,724
Other receivables	7,461,763	7,519,250
Less: Impairment	(9,962,427)	(11,704,690)
	1,290,500	**2,345,007**

18. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2018	31 December 2017
ST loans and placements - Parent and subsidiaries	-	244,465
ST loans and placements - Domestic	25,658	2,019
Current portion of LT placements - Parent and subsidiaries	9,091,634	2,604,610
Other ST financial placements	2,199,487	7,721,180
Less: Impairment	(5,688,179)	(190,466)
	5,628,600	**10,381,808**

Other ST financial placements as at 31 December 2018 mostly relates to deposits with original maturity more than 3 months less than 1 year amounting to RSD 2,122,960, with interest rates 4.65% p.a. denominated in RSD.

19. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash in bank and in hand	5,621,606	14,432,604
Deposits with original maturity of less than three months	6,367,102	8,670,000
Cash with restriction	17,363	68,766
Cash equivalents	216,507	239,354
	12,222,578	**23,410,724**

20. PREPAYMENTS AND ACCRUED INCOME

	31 December 2018	31 December 2017
Deferred input VAT	1,567,844	1,099,407
Prepaid expenses	185,804	193,927
Accrued revenue	314,496	185,641
Prepaid excise duty	2,743,082	1,790,447
Housing loans and other prepayments	351,369	947,661
	5,162,595	**4,217,083**

Deferred input VAT as at 31 December 2018 amounting to RSD 1,567,844 (31 December 2017: RSD 1,099,407) 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 2018 amounting to RSD 2,743,082 (31 December 2017: RSD 1,790,447) 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 2018	31 December 2017
Issued warranties and bills of exchange	74,654,952	72,339,683
Received warranties and bills of exchange	13,845,865	15,995,009
Properties in ex-Republics of Yugoslavia	5,357,688	5,357,690
Receivables from companies from ex-Yugoslavia	6,347,969	6,085,575
Third party merchandise in NIS warehouses	9,504,956	6,663,266
Assets for oil fields liquidation in Angola	1,361,966	1,332,018
Mortgages recived	1,179,150	-
Other off-balance sheet assets and liabilities	759,763	327,765
	113,012,309	**108,101,006**

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 2018 and 31 December 2017 comprise of 163,060,400 ordinary shares.

Dividend declared for the year ended 31 December 2017, amounted to RSD 6,948,004 or RSD 42.61 per share. Distributions of dividends were approved on the General Assembly Meeting held on 21 June 2018 and paid on 27 August 2018.

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 2017	**8,641,302**	**838,655**	**564,890**	**660,942**	**615,786**	**11,321,575**
Charged to the income statement	606,379	–	–	365,922	28,167	1,000,468
New obligation incurred and change in estimates	762,585	–	–	–	–	762,585
Release of provision (note 35)	–	–	(168,854)	–	–	(168,854)
Actuarial gain charged to other comprehensive income	–	–	18,947	–	–	18,947
Settlement	(166,145)	(156,735)	(54,265)	–	(59,119)	(436,264)
As at 31 December 2017	**9,844,121**	**681,920**	**360,718**	**1,026,864**	**584,834**	**12,498,457**
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 loss charged to other comprehensive income	–	–	(4,531)	–	–	(4,531)
Settlement and other	(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**

Analysis of total provisions:

	31 December 2018	31 December 2017
Non-current	10,079,405	9,660,582
Current	1,928,116	2,837,875
	12,007,521	**12,498,457**

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 637,414 (31 December 2017: RSD 681,920) 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 2018 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in amount of 494,021 RSD (2017: RSD 1,026,864).

d) Legal claims provisions

As at 31 December 2018, 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 36,177 (charged provision in 2017: RSD 28,167) 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 2018.

e) Provision for employee benefits

Employee benefits:

	31 December 2018	31 December 2017
Retirement allowances	96,176	95,668
Jubilee awards	238,759	265,050
	334,935	**360,718**

The principal actuarial assumptions used were as follows:

	31 December 2018	31 December 2017
Discount rate	5.7%	4.65%
Future salary increases	2.0%	2.0%
Future average years of service	15.2	15

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2017	**71,573**	**493,317**	**564,890**
Benefits paid directly	(6,282)	(47,983)	(54,265)
Actuarial gain charged to other comprehensive income	18,947	-	18,947
Credited to the income statement	11,430	(180,284)	(168,854)
Balances as at 31 December 2017	**95,668**	**265,050**	**360,718**
Benefits paid directly	(10,138)	(38,733)	(48,871)
Actuarial loss charged to other comprehensive income	(4,531)	-	(4,531)
Debited/credited to the income statement	15,177	12,442	27,619
Balances as at 31 December 2018	**96,176**	**238,759**	**334,935**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December	
	2018	2017
Current service cost	26,200	40,457
Interest cost	16,247	38,022
Curtailment gain	4,901	(1,367)
Actuarial gains (jubilee awards)	(19,729)	82,845
Past service cost	–	(328,811)
	27,619	**(168,854)**

24. LONG-TERM LIABILITIES

	31 December 2018	31 December 2017
Long-term loan - Gazprom Neft	24,738,405	30,306,970
Bank loans	67,908,442	65,097,573
Finance lease liabilities	644,611	247,210
Less Current portion (note 25)	(5,923,590)	(5,900,701)
	87,367,868	**89,751,052**

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

	Long-term loans	Short-term loans (note 25)	Finance lease	Total
As at 1 January 2017	102,720,929	13,299,546	142,528	116,163,003
Proceeds	36,955,269	11,952,227	–	48,907,496
Repayment	(35,994,429)	(22,795,802)	(68,459)	(58,858,690)
Non-cash transactions	–	–	180,607	180,607
Foreign exchange difference	(8,277,226)	(157,483)	(7,466)	(8,442,175)
As at 31 December 2017	**95,404,543**	**2,298,488**	**247,210**	**97,950,241**
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**

a) Long-term loan - Gazprom Neft

As at 31 December 2018 long-term loan - Gazprom Neft amounting to RSD 24,738,405 (2017: RSD 30,306,970), with current portion of RSD 5,497,424 (2017: RSD 5,510,358), 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 2018	31 December 2017
Domestic	50,621,113	43,338,383
Foreign	17,287,329	21,759,190
	67,908,442	65,097,573
Current portion of long-term loans (note 25)	(355,101)	(339,188)
	67,553,341	**64,758,385**

The maturity of non-current loans was as follows:

	31 December 2018	31 December 2017
Between 1 and 2 years	1,403,463	23,252,660
Between 2 and 5 years	61,219,659	38,991,710
Over 5 years	4,930,219	2,514,015
	67,553,341	**64,758,385**

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

	31 December 2018	31 December 2017
USD	361,696	17,934,250
EUR	67,250,132	46,852,898
RSD	649	814
JPY	295,965	309,611
	67,908,442	**65,097,573**

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 2018 and 31 December 2017 respectively.

c) Financial lease liabilities

Minimum finance lease payments:

	31 December 2018	31 December 2017
Less than one year	79,525	58,894
1-5 years	343,516	208,456
Over 5 years	335,431	-
Future finance charges on finance leases	(113,861)	(20,140)
Present value of finance lease liabilities	**644,611**	**247,210**

	31 December 2018	31 December 2017
Less than one year	71,065	51,155
1-5 years	281,326	196,055
Over 5 years	292,220	-
Present value of finance lease liabilities	**644,611**	**247,210**

25. SHORT-TERM FINANCE LIABILITIES

	31 December 2018	31 December 2017
Short-term loans from subsidiaries (note 24)	2,218,378	2,298,488
Current portion of long-term loans (note 24)	5,923,590	5,900,701
	8,141,968	**8,199,189**

26. TRADE PAYABLES

As at 31 December 2018 payables in a amount of RSD 25,887,149 (31 December 2017: RSD 29,393,322) include payables to parents and subsidiaries in amount of RSD 13,318,121 (31 December 2017: RSD 14,368,794), mainly relate to payables to the supplier Gazprom Neft, St Petersburg in amount of RSD 10,243,742 (31 December 2017: RSD 11,792,424), for the purchase of crude oil.

27. OTHER SHORT-TERM LIABILITIES

	31 December 2018	31 December 2017
Specific liabilities	167,528	202,931
Liabilities for unpaid wages and salaries, gross	938,147	845,505
Interest liabilities	600,609	669,586
Dividends payable	3,772,308	3,772,308
Other payables to employees	603,737	1,428,540
Decommissioning and site restoration costs	1,369,683	1,419,423
Environmental provision	160,362	201,836
Litigation and claims	270,593	239,268
Other current liabilities	116,491	101,350
	7,999,458	**8,880,747**

28. LIABILITIES FOR OTHER TAXES

	31 December 2018	31 December 2017
Excise tax	4,680,755	4,777,490
Contribution for buffer stocks	260,905	527,858
Income tax	539,811	1,915,676
Other taxes payables	1,506,492	1,285,063
	6,987,963	**8,506,087**

29. ACCRUED EXPENSES

Accrued expenses as at 31 December 2018 amounting to RSD 3,237,852 (31 December 2017: RSD 3,799,475) mainly relate to accrued employee bonuses of RSD 1,715,646 (31 December 2017: RSD 1,746,078), and contract liabilities arising from contracts with customers related to customer loyalty in amount RSD 502,254 (31 December 2017: RSD 365,312).

30. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2018	2017
Cost of production services	2,352,003	2,421,156
Transportation services	3,626,498	3,341,470
Maintenance	4,607,624	4,362,285
Rental costs	1,324,118	1,195,482
Fairs	7,410	508
Advertising costs	761,250	823,779
Exploration expenses	241,054	624,627
Cost of other services	1,403,397	1,295,025
	14,323,354	**14,064,332**

31. NON-PRODUCTION COSTS

	Year ended 31 December	
	2018	2017
Costs of non-production services	6,857,109	6,807,934
Representation costs	134,409	128,862
Insurance premium	507,102	486,646
Bank charges	353,921	301,884
Cost of taxes	1,176,233	1,069,697
Mineral extraction tax	1,460,595	1,202,368
Other non-production expenses	1,022,953	1,053,902
	11,512,322	**11,051,293**

Cost of non-production services for the year ended 31 December 2018 amounting to RSD 6,857,109 (2017: RSD 6,807,934) mainly relate to costs of service organizations of RSD 4,361,528, project management costs of RSD 1,142,583 and consulting service costs of RSD 384,673.

32. FINANCE INCOME

	Year ended 31 December	
	2018	2017
Finance income - related parties		
- foreign exchange differences	1,170,587	2,703,009
- other finance income	878,771	897,229
Interest income	720,366	722,521
Income from discounting of receivables (note 6)	44,661	379,211
Foreign exchange gains	1,736,178	8,766,965
Other finance income	27,826	161,592
	4,578,389	**13,630,527**

33. FINANCE EXPENSE

	Year ended 31 December	
	2018	2017
Finance expenses – related parties		
- foreign exchange differences	1,147,319	2,320,083
- other finance expense	540,083	668,683
Interest expenses	1,589,753	2,279,585
Decommissioning provision: unwinding of the present value discount	89,194	138,487
Amortization of non-current financial instruments	261,732	-
Foreign exchange losses	1,791,685	2,139,853
Other finance expense	7,413	27,593
	5,427,179	**7,574,284**

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

	Year ended 31 December	
	2018	**2017**
Reversal of impairment of LT financial investments	99,280	540
Income from valuation:		
- trade and specific receivables (note 6)	846,522	233,094
- other receivables (note 6)	70,757	74,254
	1,016,559	**307,888**

35. OTHER INCOME

	Year ended 31 December	
	2018	**2017**
Gains on disposal – PPE	191,769	84,678
Gains on disposal – materials	59,353	31,209
Surpluses from stock count	306,215	406,206
Payables written off	168,056	23,966
Release of long-term provisions (note 23)	24,528	168,854
Gain on bargain purchase	11,937	-
Release of impairment:		
- Investment property	20,677	16,869
- Inventory (note 16)	1,170	316
- PPE and other property	12,450	2,021
Penalty interest	87,049	116,656
Other income	86,766	81,178
	969,970	**931,953**

36. OTHER EXPENSES

	Year ended 31 December	
	2018	2017
Loss on disposal – PPE	251,614	192,496
Shortages from stock count	681,573	505,368
Write-off receivables	13,616	24,774
Write-off inventories	91,284	116,246
Impairment:		
- PPE (note 9)	80,966	196,111
- Investment property and asset held for sale	2,728	43,396
- Inventory (note 16)	10,274	3,097
- Other property	9,000	6,973
Other expenses	285,464	300,405
	1,426,519	**1,388,866**

37. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2018	2017
Income tax for the year	3,922,034	5,556,879
Deferred income tax for the period		
Origination and reversal of temporary differences (note 14)	1,653,438	1,609,448
	5,575,472	**7,166,327**

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	
	2018	**2017**
Profit before tax	**31,642,961**	**34,956,787**
Tax calculated at domestic tax rates – 15%	4,746,444	5,243,518
Tax effect on:		
Revenues exempt from taxation	(57,707)	(304,646)
Expenses not deductible for tax purposes		
- Tax paid in Angola	171,416	2,177,957
- Other expenses not deductable	754,538	232,211
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	15,245	(38,129)
Other tax effects for reconciliation between accounting profit and tax expense	(54,464)	(144,584)
	5,575,472	**7,166,327**
Effective income tax rate	17.62%	20.50%

The weighted average applicable tax rate was 17.62% (2017: 20.50%). The decrease is caused by a change in the profitability of the Company.

38. OPERATING LEASES

Minimum lease payments under non-cancellable operating lease by lessor:

	31 December 2018	**31 December 2017**
Less than one year	279,782	267,034
1-5 years	337,152	383,664
Over 5 years	147,659	149,922
	764,593	**800,620**

Minimum lease payments under non-cancellable operating lease by lessee:

	31 December 2018	**31 December 2017**
Less than one year	112,380	80,264
1-5 years	152,687	182,614
Over 5 years	-	215,761
	265,067	**478,639**

The Company rents mainly IT equipment, offices, cars and GPS equipment.

39. BUSINESS COMBINATIONS

In 2018, the Company acquired one petrol station in Serbia. The total consideration paid for acquisition amounted to RSD 205,723. The fair value of net identifiable asset acquired amounted to RSD 217,660. Remaining amount was recognised as gain on bargain purchase in amount of RSD 11,937. The acquisition agreements include only acquisition of petrol stations and do not contain any contingent consideration.

40. 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 637,414 (31 December 2017: RSD 681,920).

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 2018.

Capital commitments

As of 31 December 2018 the Company has entered into contracts to purchase property, plant and equipment for 15,944,407 RSD (31 December 2017: 11,347,097 RSD).

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

41. 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 2018 and 2017, 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 2018 and 31 December 2017 the outstanding balances with related parties were as follows:

	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**

	Subsidiary	Parent	Entities under comon control and associates	Total
As at 31 December 2017				
Advances for PPE	97,920	–	–	97,920
Investments in subsidiaries	13,425,586	–	1,038,800	14,464,386
Long-term loans	32,024,282	–	–	32,024,282
Advances for inventory and services	16,239	–	7,754	23,993
Trade receivables	3,938,048	–	2,471,171	6,409,219
Receivables from specific operations	53,803	–	–	53,803
Other receivables	1,201,219	–	–	1,201,219
Short-term investments	2,660,628	–	–	2,660,628
Other current assets	424	–	–	424
Long-term liabilities	–	(24,796,612)	–	(24,796,612)
Short-term financial liabilities	(2,298,487)	(5,510,358)	–	(7,808,845)
Advances received	(1,543)	–	(74,376)	(75,919)
Trade payables	(2,641,454)	(11,727,340)	(2,266,800)	(16,635,594)
Other short-term liabilities	(45,929)	–	–	(45,929)
Accrued expenses	(5,030)	–	–	(5,030)
	48,425,706	**(42,034,310)**	**1,176,549**	**7,567,945**

For the year ended 31 December 2018 and 2017 the following transaction occurred with related parties:

	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)**
Year ended 31 December 2017				
Sales revenue	14,292,703	-	32,560,651	46,853,354
Other operating income	35,348	-	604	35,952
Cost of goods sold	(80,279)	-	(10,312,815)	(10,393,094)
Cost of material	(11,594)	(31,926,861)	-	(31,938,455)
Fuel and energy expenses	(1,600)	-	-	(1,600)
Employee benefits expenses	(86,982)	-	-	(86,982)
Production services	(3,645,691)	-	(197,261)	(3,842,952)
Non-material expense	(1,109,830)	(3,000)	(28,348)	(1,141,178)
Finance income	897,229	-	-	897,229
Finance expense	(36,256)	(632,427)	-	(668,683)
Loss from valuation of assets at fair value through profit and loss	(27,460)	-	-	(27,460)
Other income	1,337	83,321	-	84,658
Other expenses	-	(69,543)	(253)	(69,796)
	10,226,925	**(32,548,510)**	**22,022,578**	**(299,007)**

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

	Entities under comon control and associates	Other
As at 31 December 2018		
Trade and other receivables (gross)		
– HIP Petrohemija	1,222,764	–
– Srbijagas	–	17,547
– Other state owned companies	–	4,221,307
Trade and other payables		
– HIP Petrohemija	(1,250,402)	–
– Srbijagas	–	(126,092)
Other current liabilities		
– HIP Petrohemija	(1,852)	–
	(29,490)	**4,112,762**
As at 31 December 2017		
Trade and other receivables (gross)		
– HIP Petrohemija	1,446,685	–
– Srbijagas	–	109,748
– Republika Srbija	–	3,740,763
– Other state owned companies	–	4,936,110
Trade and other payables		
– HIP Petrohemija	(1,252,736)	–
– Srbijagas	–	(77,059)
Other current liabilities		
– HIP Petrohemija	(13,646)	–
	180,303	**8,709,562**

	Entities under comon control and associates	Other
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)**
As at 31 December 2017		
Operating income		
- HIP Petrohemija	21,947,228	-
- Srbijagas	-	782,306
Operating expenses		
- HIP Petrohemija	(195,139)	-
- Srbijagas	-	(926,488)
	21,752,089	**(144,182)**

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 2018 and 2017 the Company recognized RSD 1,018,152 and RSD 1,029,116 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

pwc

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Naftna Industrija Srbije a.d. Novi Sad (the „Parent") and its subsidiaries (the „Group") which comprise the consolidated balance sheet as of 31 December 2018 and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the requirements of the Law on Accounting and accounting regulation effective 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing and auditing regulation effective in the Republic of Serbia. These regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on Accounting and accounting regulation effective in the Republic of Serbia.

Milivoje Nešović
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 February 2019

PricewaterhouseCoopers d.o.o., Omladinskih brigada 88a, 11070 Belgrade, Republic of Serbia
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Consolidated Balance Sheet

	Consolidated Balance Sheet	Note	31 December 2018	31 December 2017
A.	**SUBSCRIBED CAPITAL UNPAID**		-	-
B.	**NON-CURRENT ASSETS**		**296,537,210**	**278,528,255**
I.	**INTANGIBLE ASSETS**	**8**	**23,371,384**	**22,261,148**
1.	Development investments		9,306,365	7,765,207
2.	Concessions, licenses, software and other rights		1,729,128	2,549,083
3.	Goodwill		1,549,378	1,743,490
4.	Other intangible assets		1,126,420	1,170,925
5.	Intangible assets under development		9,660,093	9,032,443
6.	Advances for intangible assets		-	-
II.	**PROPERTY, PLANT AND EQUIPMENT**	**9**	**270,113,614**	**250,948,308**
1.	Land		16,981,657	16,849,316
2.	Buildings		142,827,273	134,940,466
3.	Machinery and equipment		67,730,378	69,551,913
4.	Investment property		1,615,391	1,530,356
5.	Other property, plant and equipment		88,732	86,623
6.	Construction in progress		39,896,274	25,649,268
7.	Investments in leased PP&E		212,398	271,904
8.	Advances for PP&E		761,511	2,068,462
III.	**BIOLOGICAL ASSETS**		**-**	**-**
1.	Forest farming		-	-
2.	Livestock		-	-
3.	Biological assets in production		-	-
4.	Advances for biological assets		-	-
IV.	**LONG-TERM FINANCIAL INVESTMENTS**		**3,043,233**	**5,310,386**
1.	Investments in subsidiary		-	-
2.	Investments in associates and joint ventures	10	1,980,388	2,047,021
3.	Investments in other legal entities and other available for sales financial assets		114,162	119,919
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	948,683	3,143,446
V.	**LONG-TERM RECEIVABLES**		**8,979**	**8,413**
1.	Receivables from parent company and subsidiaries		-	-

in thousand RSD

	Consolidated Balance Sheet	Note	31 December 2018	31 December 2017
2.	Receivables from other related parties		-	-
3.	Receivables from sale of goods on credit		-	-
4.	Receivables arising out of finance lease contracts		8,979	8,413
5.	Claims arising from guarantees		-	-
6.	Bad and doubtful receivables		-	-
7.	Other long-term receivables		-	-
C.	**DEFFERED TAX ASSETS**	**12**	**545,497**	**2,197,910**
D.	**CURRENT ASSETS**		**98,902,636**	**106,828,207**
I.	**INVENTORY**	**13**	**48,472,071**	**37,322,937**
1.	Materials, spare parts and tools		24,951,994	22,868,451
2.	Work in progress		4,923,492	3,961,298
3.	Finished goods		13,828,273	8,084,524
4.	Merchandise		4,152,553	2,002,670
5.	Assets held for sale		-	163
6.	Advances for inventory and services		615,759	405,831
II.	**TRADE RECEIVABLES**	**14**	**26,007,811**	**27,914,176**
1.	Domestic trade receivables - parents and subsidiaries		-	-
2.	Foreign trade receivables - parents and subsidiaries		99	-
3.	Domestic trade receivables – other related parties		1,227,518	1,447,646
4.	Foreign trade receivables - other related parties		645,804	1,024,133
5.	Trade receivables - domestic		23,348,658	24,013,778
6.	Trade receivables - foreign		785,732	1,428,619
7.	Other trade receivbles		-	-
III.	**RECEIVABLES FROM SPECIFIC OPERATIONS**		**542,613**	**529,292**
IV.	**OTHER RECEIVABLES**	**15**	**223,571**	**1,190,740**
V.	**FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS**		**-**	**-**
VI.	**SHORT TERM FINANCIAL INVESTMENTS**	**16**	**2,263,431**	**7,742,504**
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	72,681
4.	Short-term loans and investments - foreign		-	-
5.	Other short-term loans and investments		2,239,838	7,669,823
VII.	**CASH AND CASH EQUIVALENTS**	**17**	**15,480,830**	**27,075,370**
VIII.	**VALUE ADDED TAX**		**295,900**	**286,562**
IX.	**PREPAYMENTS AND ACCRUED INCOME**	**18**	**5,616,409**	**4,766,626**
E.	**TOTAL ASSETS**		**395,985,343**	**387,554,372**
F.	**OFF-BALANCE SHEET ASSETS**	**19**	**113,781,102**	**108,361,401**

in thousand RSD

	Consolidated Balance Sheet	Note	31 December 2018	31 December 2017
A.	**EQUITY**		**242,875,804**	**225,051,510**
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**	**81,796**
VI.	**UNREALISED GAINS FROM SECURITAS AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**251,499**	**212,811**
VII.	**UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**60,082**	**64,013**
VIII.	**RETAINED EARNINGS**		**161,055,702**	**143,271,986**
1.	Retained earnings from previous years		135,921,400	116,309,335
2.	Retained earnings from current year		25,134,302	26,962,651
IX.	**NON-CONTROLLING INTEREST**		**–**	**–**
X.	**LOSS**		**–**	**–**
1.	Loss from previous years		–	–
2.	Loss from current year		–	–
B.	**LONG-TERM PROVISIONS AND LIABILITIES**		**98,029,207**	**100,262,181**
I.	**LONG-TERM PROVISIONS**	**21**	**10,210,005**	**9,766,303**
1.	Provisions for warranty claims		–	–
2.	Provision for environmental rehabilitation		9,169,159	8,904,782
3.	Provisions for restructuring costs		–	–
4.	Provisions for employee benefits		791,889	499,221
5.	Provisions for litigations		248,957	362,300
6.	Other long term provisions		–	–
II.	**LONG-TERM LIABILITIES**	**22**	**87,819,202**	**90,495,878**

in thousand RSD

	Consolidated Balance Sheet	Note	31 December 2018	31 December 2017
1.	Liabilities convertible to equity		-	-
2.	Liabilities to parent and subsidiaries		19,240,982	24,796,612
3.	Liabilities to other related parties		-	-
4.	Liabilities for issued long-term securities		-	-
5.	Long term borrowings - domestic		50,326,307	43,049,008
6.	Long-term borrowings - foreign		17,454,236	22,210,666
7.	Finance lease liabilities		755,575	380,137
8.	Other long-term liabilities		42,102	59,455
C.	**DEFFERED TAX LIABILITIES**	**12**	**-**	**-**
D.	**SHORT-TERM LIABILITIES**		**55,080,332**	**62,240,681**
I.	**SHORT-TERM FINANCIAL LIABILITIES**	**23**	**6,395,091**	**6,099,584**
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		6,395,091	6,099,584
II.	**ADVANCES RECEIVED**		**1,456,981**	**1,439,243**
III.	**TRADE PAYABLES**	**24**	**25,834,088**	**30,100,904**
1.	Trade payables - parent and subsidiaries - domestic		-	-
2.	Trade payables - parent and subsidiaries - foreign		10,243,742	11,727,340
3.	Trade payables - other related parties - domestic		1,251,648	1,252,736
4.	Trade payables - other related parties - foreign		684,857	1,047,572
5.	Trade payables - domestic		8,481,121	9,506,890
6.	Trade payables - foreign		5,168,398	6,561,904
7.	Other operating liabilities		4,322	4,462
IV.	**OTHER SHORT-TERM LIABILITIES**	**25**	**8,687,986**	**9,397,192**
V.	**LIABILITIES FOR VAT**		**1,383,089**	**1,853,794**
VI.	**LIABILITIES FOR OTHER TAXES**	**26**	**7,687,953**	**9,187,515**
VII.	**ACCRUED EXPENSES**	**27**	**3,635,144**	**4,162,449**
E.	**LOSS EXCEEDING EQUITY**		**-**	**-**
F.	**TOTAL EQUITY AND LIABILITIES**		**395,985,343**	**387,554,372**
G.	**OFF-BALANCE SHEET LIABILITIES**	**19**	**113,781,102**	**108,361,401**

in thousand RSD

Consolidated Income Statement

	Consolidated Income Statement	Note	Year ended 31 December 2018	2017
	INCOME FROM REGULAR OPERATING ACTIVITIES			
A.	**OPERATING INCOME**	**7**	**280,983,749**	**234,711,482**
I.	**INCOME FROM THE SALE OF GOODS**		**38,545,631**	**40,672,602**
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		102	155
4.	Income from the sale of goods to other related parties on foreign market		135,052	10,015,978
5.	Income from sale of goods on domestic market		8,428,537	6,276,844
6.	Income from sale of goods on foreign market		29,981,940	24,379,625
II.	**INCOME FROM SALES OF PRODUCTS AND SERVICES**		**241,912,753**	**193,578,793**
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		26,700,155	21,952,815
4.	Income from sales of products and services to other related parties on foreign market		555,164	592,358
5.	Income from sales of products and services – domestic		171,203,221	138,075,307
6.	Income from sales of products and services – foreign		43,453,252	32,958,313
III.	**INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS**		**3,340**	**26,380**
IV.	**OTHER OPERATING INCOME**		**522,025**	**433,707**
B.	**OPERATING EXPENSES**		**248,318,196**	**204,524,657**
I.	COST OF GOODS SOLD		23,441,660	28,700,433
II.	WORK PERFORMED BY THE ENTITY AND CAPITALIZED		13,188,633	10,697,349
III.	INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		6,011,313	3,213,109
IV.	DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		–	–
V.	COST OF MATERIAL		168,678,465	121,840,139
VI.	COST OF FUEL AND ENERGY		4,552,772	4,035,172
VII.	COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES		20,101,583	18,761,914
VIII.	COST OF PRODUCTION SERVICES		14,926,665	13,918,103
IX.	DEPRECIATION, DEPLETION AND AMORTIZATION		20,340,977	16,427,278
X.	COST OF LONG-TERM PROVISIONING		667,650	864,620
XI.	NON-PRODUCTION COSTS		14,808,370	13,887,456

in thousand RSD

	Consolidated Income Statement	Note	Year ended 31 December 2018	2017
C.	**OPERATING GAIN**		**32,665,553**	**30,186,825**
D.	**OPERATING LOSS**			
E.	**FINANCE INCOME**	**30**	**3,826,427**	**12,955,289**
I.	FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME		1,254,731	2,863,316
1.	Finance income – parent company and subsidiaries		1,189,687	2,657,706
2.	Finance income – other related parties		36,108	43,951
3.	Share of profit of associates and joint ventures		–	–
4.	Other financial income		28,936	161,659
II.	INTEREST INCOME (from third parties)		766,588	1,105,589
III.	FOREIGN EXCHANGE GAINS (third parties)		1,805,108	8,986,384
F.	**FINANCE EXPENSES**	**31**	**5,748,045**	**8,121,812**
I.	FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES		1,811,230	3,297,002
1.	Finance expense – parent company and subsidiaries		1,713,344	3,220,819
2.	Finance expense – other related parties		23,682	48,590
3.	Share of loss of associates and joint ventures		66,634	–
4.	Other financial expense		7,570	27,593
II.	INTEREST EXPENSE (from third parties)		2,069,547	2,553,231
III.	FOREIGN EXCHANGE LOSSES (third parties)		1,867,268	2,271,579
G.	**PROFIT FROM FINANCING OPERATIONS**		**–**	**4,833,477**
H.	**LOSS FROM FINANCING OPERATIONS**		**1,921,618**	**–**
I.	**INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**	**32**	**868,513**	**309,387**
J.	**LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**		**170,170**	**586,650**
K.	**OTHER INCOME**	**33**	**1,215,316**	**1,213,935**
L.	**OTHER EXPENSES**	**34**	**1,804,368**	**1,737,858**
M.	**OPERATING PROFIT BEFORE TAX**		**30,853,226**	**34,219,116**
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**		**30,853,226**	**34,219,116**

in thousand RSD

	Consolidated Income Statement	Note	Year ended 31 December 2018	2017
R.	**LOSS BEFORE TAX**		–	–
II.	INCOME TAX		–	–
I.	CURRENT INCOME TAX	36	4,066,760	5,640,826
II.	DEFERRED TAX EXPENSE FOR THE PERIOD	36	1,674,486	2,073,470
III.	DEFERRED TAX INCOME FOR THE PERIOD	36	22,322	457,831
S.	**PERSONAL INCOME PAID TO EMPLOYER**		**-**	**-**
T.	**NET PROFIT**		**25,134,302**	**26,962,651**
V.	**NET LOSS**		**-**	**-**
I.	NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		–	–
II.	NET INCOME ATTRIBUTABLE TO THE OWNER		25,150,220	26,991,074
III.	NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		15,918	28,423
IV.	NET LOSS ATTRIBUTABLE TO THE OWNER		–	–
V.	EARNINGS PER SHARE			
1.	Basic earnings per share		0.154	0.166
2.	Diluted earnings per share		–	–

in thousand RSD

Consolidated Statement of Other Comprehensive Income

	Consolidated Statement of Other Comprehensive Income	Note	Year ended 31 December 2018	2017
A.	**NET PROFIT/(LOSS)**			
I.	**PROFIT, NET**		**25,134,302**	**26,962,651**
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	1,189
	b) decrease in revaluation reserves		–	–
2.	**Actuarial gains (losses) of post employment benefit obligations**			
	a) gains		3,316	12,180
	b) losses		–	–

in thousand RSD

	Consolidated Statement of Other Comprehensive Income	Note	Year ended 31 December 2018	2017
3.	**Gains and losses arising from equity investments**			
	a) gains		–	–
	b) losses		–	–
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		35,372	613,542
	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		477	2,505
	b) losses		–	–
I.	OTHER COMPREHENSIVE PROFIT BEFORE TAX		39,525	629,416
II.	OTHER COMPREHENSIVE LOSS BEFORE TAX		–	–
III.	TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD		–	–
IV.	**TOTAL NET COMPREHENSIVE PROFIT**		**39,525**	**629,416**
V.	**TOTAL NET COMPREHENSIVE LOSS**		**–**	**–**
C.	**TOTAL NET COMPREHENSIVE PROFIT**			
I.	TOTAL COMPREHENSIVE PROFIT, NET		25,173,827	27,592,067
II.	TOTAL COMPREHENSIVE LOSS, NET		–	–
D.	**TOTAL NET COMPREHENSIVE PROFIT / (LOSS)**		**25,173,827**	**27,592,067**
1.	Attributable to shareholders		25,173,827	27,592,067
2.	Attributable to non-controling interest		–	–

in thousand RSD

Consolidated Cash Flow Statement

	Consolidated Cash Flow Statement	Note	Year ended 31 December 2018	2017
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**CASH INFLOW FROM OPERATING ACTIVITIES**		**517,301,936**	**440,902,299**
1.	Sales and advances received		516,240,758	439,897,897
2.	Interest from operating activities		539,153	570,695
3.	Other inflow from operating activities		522,025	433,707
II.	**CASH OUTFLOW FROM OPERATING ACTIVITIES**		**479,924,756**	**381,865,440**
1.	Payments and prepayments to suppliers		235,577,593	179,712,687
2.	Salaries, benefits and other personal expenses		20,125,461	18,675,293
3.	Interest paid		2,071,683	2,844,781
4.	Income tax paid		5,470,912	3,378,983
5.	Payments for other public revenues		216,679,107	177,253,696
III.	**NET CASH INFLOW FROM OPERATING ACTIVITIES**		**37,377,180**	**59,036,859**
IV.	**NET CASH OUTFLOW FROM OPERATING ACTIVITIES**		-	-
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I.	**CASH FLOWS FROM INVESTING ACTIVITIES**		**8,012,829**	**2,516,845**
1.	Sale of shares (net inflow)		-	-
2.	Proceeds from sale of property, plant and equipment		368,037	291,282
3.	Other financial investments (net inflow)		7,619,661	2,225,407
4.	Interest from investing activities		-	-
5.	Dividend received		25,131	156
II.	**CASH OUTFLOW FROM INVESTING ACTIVITIES**		**47,225,072**	**41,697,700**
1.	Acquisition of subsidiaries or other business (net outflow)		-	-
2.	Purchase of intangible assets, property, plant and equipment		47,089,576	30,066,617
3.	Other financial investments (net outflow)		135,496	11,631,083
III.	**NET CASH INFLOW FROM INVESTING ACTIVITIES**		-	-
IV.	**NET CASH OUTFLOW FROM INVESTING ACTIVITIES**		**39,212,243**	**39,180,855**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			

in thousand RSD

	Consolidated Cash Flow Statement	Note	Year ended 31 December 2018	2017
I.	**CASH INFLOW FROM FINANCING ACTIVITIES**		**37,213,097**	**36,955,269**
1.	Increase in share capital		–	–
2.	Proceeds from long-term borrowings (net inflow)	22	37,213,097	36,955,269
3.	Proceeds from short-term borrowings (net inflow)		–	–
4.	Other long-term liabilities		–	–
5.	Other short-term liabilities		–	–
II.	**CASH OUTFLOW FROM FINANCING ACTIVITIES**		**47,031,592**	**52,165,268**
1.	Purchase of own shares		–	–
2.	Repayment of long-term borrowings (net outflow)	22	39,952,347	35,994,428
3.	Repayment of short-term borrowings (net outflow)		–	12,032,433
4.	Repayment of other liabilities (net outflow)		–	–
5.	Financial lease	22	131,241	117,338
6.	Dividend distribution	20.1	6,948,004	4,021,069
III.	**NET CASH INFLOW FROM FINANCING ACTIVITIES**		**-**	**-**
IV.	**NET CASH OUTFLOW FROM FINANCING ACTIVITIES**		**9,818,495**	**15,209,999**
D.	**TOTAL CASH INFLOW**		**562,527,862**	**480,374,413**
E.	**TOTAL CASH OUTFLOW**		**574,181,420**	**475,728,408**
F.	**NET CASH INFLOW**		**-**	**4,646,005**
G.	**NET CASH OUTFLOW**		**11,653,558**	**-**
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**		**27,075,370**	**22,899,342**
I.	**CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS**		**385,469**	**469,641**
J.	**CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS**		**326,451**	**939,618**
K.	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**15,480,830**	**27,075,370**

in thousand RSD

Consolidated Statement of Changes in Equity

		Equity components		
		Share capital	Loss	Retained earnings
Balance as at 1 January 2017				
a)	debit	–	–	–
b)	credit	**81,548,930**	**-**	**120,330,404**
Adjustments of material errors and changes in accounting policies				
a)	debit	–	–	–
b)	credit	–	–	–
Restated opening balance as at 1 January 2017				
a)	debit	–	–	–
b)	credit	**81,548,930**	**-**	**120,330,404**
Changes in period				
a)	debit	–	–	4,021,069
b)	credit	–	–	26,962,651
Balance as at 31 December 2017				
a)	debit	–	–	–
b)	credit	**81,548,930**	**-**	**143,271,986**
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**
Changes in period				
a)	debit	–	–	6,949,059
b)	credit	–	–	25,134,302
Balance as at 31 December 2018				
a)	debit	–	–	–
b)	credit	**81,548,930**	**-**	**161,055,702**

	Other comprehensive income components				Total Equity
	Revaluation reserves	Acturial gain/ (loss)	Gains (losses) from currency translation differences	Gains (losses) from change in value of available-for-sale financial assets	
	–	–	595,946	66,518	
	80,607	**183,035**	**–**	**–**	**201,480,512**
	–	–	–	–	
	–	–	–	–	–
	–	–	595,946	66,518	
	80,607	**183,035**	**–**	**–**	**201,480,512**
	–	–	–	–	
	1,189	12,180	613,542	2,505	23,570,998
	–	–	–	64,013	
	81,796	**195,215**	**17,596**	**–**	**225,051,510**
	–	–	–	–	
	–	–	–	–	401,527
	–	–	–	64,013	
	81,796	**195,215**	**17,596**	**–**	**224,649,983**
	2,401	–	–	–	
	360	3,316	35,372	3,931	18,225,821
	–	–	–	60,082	
	79,755	**198,531**	**52,968**	**–**	**242,875,804**

in thousand RSD

Notes to the Consolidated Financial Statements*

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 2018 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

- The financial statements are prepared in the format prescribed by the Ministry of Finance of the Republic of Serbia,
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

As a result, the accompanying 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 increased since 31 December 2018 from 50.210 $/barrel to 65.375 $/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 2018 were evaluated through 28 February 2019, 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.

* All amounts are in RSD 000, unless otherwise stated

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 (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.

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	7 - 25
- Furniture	5 - 10
- Vehicles	7 - 20
- Computers	5 - 10
Other PP&E	3 - 10

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

An assets' 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 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.

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.

g) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

Until 31 December 2017, the Group classified its financial assets in the following categories:

- Cash and cash equivalents
- Loans and receivables and
- Available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired.

The measurement at initial recognition did not change on adoption of IFRS 9.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method.

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as other income when the Company's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to other income in profit or loss for the year.

Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

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 Company, 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

Accounting policies applied in 2018, from the date of initial application of IFRS 15 "Revenue 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, fuel coupons 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 25.

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.

Accounting policies applied until 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2.23. Leases

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 statements 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 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 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 2018 would be to increase/decrease it by RSD 1,849,565 (2017: RSD 1,481,790).

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 6.70% (rather than 5.70%) per year, the past service liability (DBO) for the whole NIS Group would decrease by about 9.0% for retirement indemnity and 6.9% 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 10.3% for the retirement indemnity and 7.4% 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 6.70% (rather than 5.70%) per year, the present liability would have decreased by approx. RSD 328,299.

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 38).

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 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 28.7 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 2018

Adoption of IFRS 9 "Financial Instruments". The Group adopted IFRS 9, Financial Instruments, from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

Adoption of IFRS 15 "Revenue from Contracts with Customers". The Group applied simplified method of transition to IFRS 15, and elected to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that were not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 resulted in changes in accounting policies (see Note 2.22) and did not result any material adjustments to the consolidated statements of profit and loss, therefore the retained earnings as of 1 January 2018 has not been adjusted.

The significant new accounting policies applied in the current period and Accounting policies applied prior to 1 January 2018 are described in Note 2.

The following table reconciles the carrying amounts of financial assets as previously measured in accordance with IAS 39 and IAS 18 and the new amounts determined upon adoption of IFRS 9 and IFRS 15 on 1 January 2018.

	Carrying value under IAS 39 and IAS 18 At 31 December 2017	Remeasurement	Carrying value under IFRS 9 and IFRS 15 1 January 2018	Retained earnings effect at 1 January 2018
Trade receivables (note 6)	27,914,176	(29,710)	27,884,466	(29,710)
Other long-term financial investments (note 11)	3,143,446	(371,817)	2,771,629	(371,817)
	-	**(401,527)**	-	**(401,527)**

Remeasurement effect relating to other long-term financial investments in amount of 371,817 thousand RSD represents ECL on housing loans provided to employees accounted for in accordance with IFRS 9.

Investments in equity securities. The Group has elected to irrevocably designate investments in a portfolio of non-trading equity securities as at FVOCI as permitted under IFRS 9. These securities were previously classified as AFS. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are impaired or disposed of.

IFRS 9 does not provide an exemption to measure investments in unquoted equity securities at cost. The Group remeasured all such investments at fair value on adoption of IFRS 9 and designated as at FVOCI.

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

5. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2018 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.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the standard on its Consolidated Financial Statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its Consolidated Financial Statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements.

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Group does not expect a material impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The Group 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 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.

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 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 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 and USD which predominantly expose Group to the foreign currency translation risk. Currency exposure arising from the borrowings is managed through the participation of the borrowing denominated in functional currency of the Group in the total credit portfolio.

The carrying values of the Group's financial instruments by currencies they are denominated are as follows:

As of 31 December 2018	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Financial instruments 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					
Current liabilities	(649)	(87,070,328)	(309,067)	(439,158)	(87,819,202)
Short-term financial liabilities					
Trade payables	-	(6,302,164)	(52,628)	(40,299)	(6,395,091)
Other short-term liabilities	(8,522,174)	(14,823,629)	(897,986)	(1,590,299)	(25,834,088)
Net exposure	(8,219,003)	(219,021)	(166,430)	(83,532)	(8,687,986)
	14,432,530	**(101,857,677)**	**3,353,854**	**925,006**	**(83,146,287)**

As of 31 December 2017	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Investments in other legal entities and other available for sales financial assets	117,900	-	-	2,019	119,919
Other long-term financial investments	2,107,677	959,722	4,964	71,083	3,143,446
Long term receivables	8,413	-	-	-	8,413
Current assets					
Trade receivables	21,114,139	4,269,578	827,079	1,703,380	27,914,176
Receivables from specific operations	341,232	13,170	155,363	19,527	529,292
Other receivables	151,116	1,014,723	1,227	23,674	1,190,740
Short term financial investments	7,657,613	63,519	-	21,372	7,742,504
Cash and cash equivalents	11,205,666	5,210,861	8,742,852	1,915,991	27,075,370
Financial liabilities					
Non-current					
Long-term liabilities	(283,880)	(72,137,729)	(17,890,187)	(184,082)	(90,495,878)
Current liabilities					
Short-term financial liabilities	(31,813)	(6,022,439)	(44,062)	(1,270)	(6,099,584)
Trade payables	(14,801,961)	(6,905,661)	(7,010,922)	(1,382,360)	(30,100,904)
Other short-term liabilities	(8,986,880)	(142,413)	(195,505)	(72,394)	(9,397,192)
Net exposure	**18,599,222**	**(73,676,669)**	**(15,409,191)**	**2,116,940**	**(68,369,698)**

The following exchange rates applied during the period:

Reporting date spot rate	31 December 2018	31 December 2017
EUR	118.1946	118.4727
USD	103.3893	99.1155

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 2018, 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 5,092,884 (2017: RSD 3,683,833) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

During 2018, the Group made repayment of borrowings denominated in USD and took new loans in EUR. Also, purchase of crude oil was denominated in EUR in 2018.

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 2018 would have been RSD 862,976 (2017: RSD 940,437) 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 ended 31 December	
	2018	**2017**
Financial instrument at FVTOCI	114,162	-
Investments in other legal entities and other available for sales financial assets	-	119,919
Other long-term investments (note 11)	948,683	3,143,446
Long term receivables	8,979	8,413
Trade receivables (note 14)	26,007,811	27,914,176
Receivables from specific operations	542,613	529,292
Other receivables (note 15)	223,571	1,190,740
Short term financial investments	2,263,431	7,742,504
Cash and cash equivalents (note 17)	15,480,830	27,075,370
Total maximum exposure to credit risk	**45,590,080**	**67,723,860**

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 2018 and 36 months before 1 January 2018 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. 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.

As of 31 December 2017, the ageing analysis of short-term trade receivables is as follows:

	31 December 2017		
	Gross	**Impaired**	**Net**
Not past due	25,321,163	–	25,321,163
Past due:			
within 30 days	2,128,643	–	2,128,643
1 to 3 months	242,422	(5,941)	236,481
3 months to 1 year	383,307	(238,143)	145,164
over 1 year	7,781,219	(7,698,494)	82,725
Total	**35,856,754**	**(7,942,578)**	**27,914,176**

Movements on the Group's provision for impairment of trade receivables are as follows:

	Trade receivables			
	Individually impaired	**Collectively impaired**	**Lease receivables**	**Total**
As at 1 January 2017	**3,761,188**	**13,729,000**	**-**	**17,490,188**
Provision for receivables impairment	3,313	410,845	–	414,158
Unused amounts reversed (note 32)	(740)	(178,994)	–	(179,734)
Receivables written off during the year as uncollectible	–	(140,623)	–	(140,623)
Unwinding of discount (note 30 and 31)	–	(164,147)	–	(164,147)
Transfer from LT receivables	–	208,808	–	208,808
Transfer to investment to associates (note 10)	(1,349,735)	(8,362,950)	–	(9,712,685)
Other	(8,465)	35,078	–	26,613
As at 31 December 2017	**2,405,561**	**5,537,017**	**-**	**7,942,578**
Remeasurement of expected credit losses	29,710	–	–	29,710
As 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 and 31)	–	(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**

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 2017	**3,790,258**
Provision for other receivables impairment	1,211
Unused amounts reversed (note 32)	(54,852)
Receivables written off during the year as uncollectible	(296,884)
Other	(45,642)
As at 31 December 2017	**3,394,091**
Provision for other 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**

As of 31 December 2017 the ageing analysis of other receivables were as follows:

	31 December 2017		
	Gross	Impaired	Net
Not past due	1,120,164	-	1,120,164
Past due:			
within 30 days	13,378	(2,013)	11,365
1 to 3 months	8,117	(970)	7,147
3 months to 1 year	137,645	(101,777)	35,868
over 1 year	11,598,888	(11,582,692)	16,196
Total	**12,878,192**	**(11,687,452)**	**1,190,740**

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2017	**4,288,279**	**7,448,501**	**11,736,780**
Provision for other receivables impairment	79,215	-	79,215
Unused amounts reversed (note 32)	(74,244)	(16)	(74,260)
Receivables written off during the year as uncollectible	(102,085)	1,966	(100,119)
Other	599	45,237	45,836
As at 31 December 2017	**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**

Liquidity risk

Cash flow forecasting is performed as aggregated at the Group's level. The Group'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 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 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**
As at 31 December 2017					
Financial liabilities (debt+lease)	96,595,462	103,637,762	8,412,188	88,135,122	7,090,452
Trade payables and dividends	33,873,212	33,873,212	33,873,212	-	-
	130,468,674	**137,510,974**	**42,285,400**	**88,135,122**	**7,090,452**

6.2. Capital risk management

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, return capital to shareholders, issue new shares or sell assets to reduce debt.

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 2018	31 December 2017
Total borrowings	94,214,293	96,595,462
Less: cash and cash equivalents (note 20)	(15,480,830)	(27,075,370)
Net debt	**78,733,463**	**69,520,092**
EBITDA	53,708,499	49,961,778
Net debt to EBITDA	**1.47**	**1.48**

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.

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 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 2018 and 2017. 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 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 (note 33 and 34)	(3,756)	(266,918)	-	(270,674)
Write-off of 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)	(1,718,374)	-	(1,921,618)
Income tax	(323,003)	(5,395,921)	-	(5,718,924)
Segment profit	**27,015,242**	**(1,880,940)**	**-**	**25,134,302**

Reportable segment results for the year ended 31 December 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,839,075	235,933,159	(45,060,752)	234,711,482
Intersegment	41,956,055	3,104,697	(45,060,752)	-
External	1,883,020	232,828,462	-	234,711,482
EBITDA (Segment results)	**29,987,138**	**16,974,640**	**-**	**46,961,778**
Depreciation, depletion and amortization	(6,821,640)	(9,605,638)	-	(16,427,278)
Impairment losses/Revaluation surpluses (note 33 and 34)	(75,245)	(244,237)	-	(319,482)
Write-off of exploration works (note 9)	(568,493)	-	-	(568,493)
Finance income, net	182,294	4,651,183	-	4,833,477
Income tax	(2,256,789)	(4,999,676)	-	(7,256,465)
Segment profit (loss)	**20,407,819**	**6,554,832**	**-**	**26,962,651**

EBITDA for the year ended 31 December 2018 and 2017 is reconciled below:

	Year ended 31 December	
	2018	2017
Profit for the year	25,134,302	26,962,651
Income tax expenses	5,718,924	7,256,465
Other expenses	1,804,368	1,737,858
Other income	(1,215,316)	(1,213,935)
Loss from valuation of assets at fair value through profit and loss	170,170	586,650
Income from valuation of assets at fair value through profit and loss	(868,513)	(309,387)
Finance expense	5,748,045	8,121,812
Finance income	(3,826,427)	(12,955,289)
Depreciation, depletion and amortization	20,340,977	16,427,278
Other non operating expenses, net*	701,969	347,675
EBITDA	**53,708,499**	**46,961,778**

*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 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**

	Year ended 31 December 2017		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,705,444	1,705,444
Sale of gas	2,306,408	-	2,306,408
Through a retail network	-	-	-
Wholesale activities	2,306,408	-	2,306,408
Sale of petroleum products	157,375,766	51,827,955	209,203,721
Through a retail network	54,723,170	16,011,635	70,734,805
Wholesale activities	102,652,596	35,816,320	138,468,916
Sales of electricity	462,216	11,053,820	11,516,036
Other sales	6,620,818	3,359,055	9,979,873
Total sales	**166,765,208**	**67,946,274**	**234,711,482**

Out of the amount of RSD 183,802,873 (2017: RSD 138,468,916) revenue from sale of petroleum products (wholesale), the amount of RSD 26,679,415 (2017: RSD 21,947,228) 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 Energy Financing Team in the amount of RSD 518,173 (2017: Gazprom Marketing & Trading Co., Ltd. in the amount of RSD 10,015,978).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of RSD 8,269,395 (2017: RSD 7,701,849).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 206,857,380 (2017: RSD 166,765,208), and the total of revenue from external customer from other countries is RSD 74,126,369 (2017: RSD 67,946,274). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2018	2017
Sale of crude oil	1,528,011	1,705,444
Sale of petroleum products (retail and wholeasle)		
Bulgaria	18,130,815	14,183,784
Bosnia and Herzegovina	18,704,608	12,757,872
Romania	14,877,723	10,754,460
Croatia	2,997,771	2,677,174
Switzerland	2,777,082	2,642,440
Great Britain	1,839,930	1,953,167
Macedonia	1,726,618	1,614,993
Hungary	1,810,152	1,035,140
All other markets	5,359,942	4,208,925
	68,224,641	51,827,955
Sales of electricity	842,728	11,053,820
Other sales	3,530,989	3,359,055
	74,126,369	**67,946,274**

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 2018	31 December 2017
Serbia	269,381,825	249,437,027
Bulgaria	6,934,061	7,334,652
Bosnia and Herzegovina	7,304,192	7,401,758
Romania	9,103,409	6,967,529
Hungary	-	28
	292,723,487	**271,140,994**

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Goodwil	Other intangibles	Intangible assets under development	Total
At 1 January 2017						
Cost	6,617,839	8,810,629	2,371,943	1,483,996	10,077,842	29,362,249
Accumulated amortisation and impairment	(1,144,421)	(5,558,094)	(527,093)	(234,720)	(52,882)	(7,517,210)
Net book amount	**5,473,418**	**3,252,535**	**1,844,850**	**1,249,276**	**10,024,960**	**21,845,039**
Year ended 31 December 2017						
Additions	-	-	-	345	2,411,927	2,412,272
Transfer from assets under development	2,712,862	427,948	-	57,032	(3,197,842)	-
Amortization	(421,073)	(1,118,170)	-	(65,256)	(4,878)	(1,609,377)
Impairment (note 34)	-	(8,641)	(19,248)	-	-	(27,889)
Transfer from PP&E (note 9)	-	-	-	-	(13,945)	(13,945)
Disposals and write-off	-	(3,729)	-	(3,508)	(81,359)	(88,596)
Other transfers	-	-	-	(48,529)	103,229	54,700
Translation differences	-	(860)	(82,112)	(18,435)	(209,649)	(311,056)
Closing net book amount	**7,765,207**	**2,549,083**	**1,743,490**	**1,170,925**	**9,032,443**	**22,261,148**
As at 31 December 2017						
Cost	9,330,701	9,133,906	2,256,798	1,436,956	9,089,090	31,247,451
Accumulated amortization and impairment	(1,565,494)	(6,584,823)	(513,308)	(266,031)	(56,647)	(8,986,303)
Net book amount	**7,765,207**	**2,549,083**	**1,743,490**	**1,170,925**	**9,032,443**	**22,261,148**
At 1 January 2018						
Cost	9,330,701	9,133,906	2,256,798	1,436,956	9,089,090	31,247,451
Accumulated amortization and impairment	(1,565,494)	(6,584,823)	(513,308)	(266,031)	(56,647)	(8,986,303)
Net book amount	**7,765,207**	**2,549,083**	**1,743,490**	**1,170,925**	**9,032,443**	**22,261,148**
Year ended 31 December 2018						
Additions	-	-	-	37	3,170,422	3,170,459
Acquisitions through business combinations	-	-	11,986	-	-	11,986
Transfer from assets under development	2,299,438	211,033	-	7,584	(2,518,055)	-
Amortization	(758,280)	(1,027,607)	-	(54,642)	(4,802)	(1,845,331)
Impairment (note 34)	-	-	(201,854)	-	-	(201,854)
Transfer from PP&E (note 9)	-	-	-	-	(5,622)	(5,622)
Other transfers	-	(3,356)	-	3,356	-	-
Translation differences	-	(25)	(4,244)	(840)	(14,293)	(19,402)
Closing net book amount	**9,306,365**	**1,729,128**	**1,549,378**	**1,126,420**	**9,660,093**	**23,371,384**
As at 31 December 2018						
Cost	11,630,138	9,287,315	2,262,796	1,443,305	9,721,470	34,345,024
Accumulated amortization and impairment	(2,323,773)	(7,558,187)	(713,418)	(316,885)	(61,377)	(10,973,640)
Net book amount	**9,306,365**	**1,729,128**	**1,549,378**	**1,126,420**	**9,660,093**	**23,371,384**

Intangible assets under development as at 31 December 2018 amounting to RSD 9,660,093 (31 December 2017: RSD 9,032,443) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 9,398,793 (31 December 2017: RSD 8,162,735).

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:

	2018	2017
Average gross margin	22.0%	22.0%
Growth rate	1%	1%
Discount rate		
- Romania market	6.78%	7.56%
- Bulgaria market	6.67%	7.37%
- Bosnia and Herzegovina market	11.13%	12.89%

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
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**
2017					
Bosnia and Herzegovina	494,015	-	-	(20,003)	474,012
Romania	307,831	-	-	(19,983)	287,848
Bulgaria	1,043,004	-	(19,248)	(42,127)	981,629
	1,844,850	**-**	**(19,248)**	**(82,113)**	**1,743,489**

Except recognised impairment loss in Bulgaria in the amount of 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 2017			
Cost	17,587,928	176,704,641	122,136,460
Accumulated depreciation and impairment	(304,262)	(50,116,681)	(51,664,446)
Net book amount	**17,283,666**	**126,587,960**	**70,472,014**
Year ended 31 December 2017			
Additions	-	771,170	-
Transfer from assets under development	21,401	15,971,073	6,247,036
Appraisal effects	-	1,399	-
Impairment charge (note 34)	(145,510)	(26,642)	(42,589)
Depreciation	-	(6,763,948)	(7,982,466)
Transfer to intangible assets (note 8)	-	(1,050,204)	1,049,229
Transfer to investment property	(2,759)	(23,190)	-
Transfer to non-current assets held for sale	(7,958)	(108,920)	(14,522)
Disposals and write-off	(4,152)	(93,026)	(154,796)
Other transfers	-	-	48,529
Translation differences	(295,372)	(325,206)	(70,522)
Closing net book amount	**16,849,316**	**134,940,466**	**69,551,913**
At 31 December 2017			
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 to 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**

Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
25,774,166	87,839	464,720	1,851,425	344,607,179
(2,110,867)	(1,143)	(185,158)	(41,759)	(104,424,316)
23,663,299	**86,696**	**279,562**	**1,809,666**	**240,182,863**
25,197,474	–	–	3,235,708	29,204,352
(22,346,075)	–	64,130	–	(42,435)
–	–	–	–	1,399
(47,382)	–		(3,023)	(265,146)
–	(51)	(71,436)	–	(14,817,901)
13,945	975	–	–	13,945
–	–	–	–	(25,949)
–	–	–	–	(131,400)
(610,047)	(57)	–	(2,973,584)	(3,835,662)
(102,958)	(895)	–	–	(55,324)
(118,988)	(45)	(352)	(305)	(810,790)
25,649,268	**86,623**	**271,904**	**2,068,462**	**249,417,952**
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**

In 2018, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 130,169 (2017: RSD 75,476).

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 2018, 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 81,356 (2017: RSD 262,550).

Machinery and equipment include the following amounts where the Group is a lessee under a finance lease:

	31 December 2018	31 December 2017
Cost capitalised – finance leases	582,295	475,007
Accumulated depreciation	(220,663)	(165,330)
Net book amount	**361,632**	**309,677**

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:

	2018	2017
As at 1 January	1,530,356	1,549,663
Fair value gains (loss) (note 33 and 34)	6,534	7,967
Transfer from PP&E carried at cost	81,328	25,949
Disposals	(1,405)	(56,089)
Other	(1,422)	2,866
As at 31 December	**1,615,391**	**1,530,356**

As at 31 December 2018, investment properties amounting to RSD 1,615,391 (31 December 2017: RSD 1,530,356) 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 2018 and 2017. 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 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**

Fair value measurements at 31 December 2017 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	–	872,172	–
– Gas stations	–	–	658,184
Total	–	**872,172**	**658,184**

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:

	2018	2017
Long term growth rate	0%	0%
Discount rate	14%	14%

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

	2018	2017
Assets as at 1 January	**658,184**	**631,678**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	6,534	3,788
Transfer from PPE	81,407	22,484
Other	(2,443)	234
Total increase in fair value measurement, assets	85,498	26,506
Assets as at 31 December	**743,682**	**658,184**

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 2017		
Cost	20,139,905	4,274,452
Depreciation and impairment	(26,494)	(876)
Net book amount	**20,113,411**	**4,273,576**
Year ended 31 December 2017		
Additions	5,067,953	12,751,699
Changes in decommissioning obligations	-	-
Transfer from asset under construction	(4,060,487)	(15,215,542)
Impairment	(27,447)	(10,703)
Other transfers	(1,184,964)	1,167,608
Depreciation and depletion	(4,878)	-
Unsuccessful exploration expenditures derecognised (note 7)	(568,493)	-
Disposals and write-off	(80,243)	(39,041)
Translation differences	(309,708)	-
	18,945,144	**2,927,597**
As at 31 December 2017		
Cost	19,004,026	2,929,684
Depreciation and impairment	(58,882)	(2,087)
Net book amount	**18,945,144**	**2,927,597**
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**

Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
24,414,357	127,806,623	31,406	152,252,386
(27,370)	(30,936,760)	(20,312)	(30,984,442)
24,386,987	**96,869,863**	**11,094**	**121,267,944**
17,819,652	–	–	17,819,652
–	765,325	–	765,325
(19,276,029)	19,276,924	(895)	–
(38,150)	(41,535)	–	(79,685)
(17,356)	(52,092)	975	(68,473)
(4,878)	(6,403,068)	(52)	(6,407,998)
(568,493)	–	–	(568,493)
(119,284)	(77,455)	(19)	(196,758)
(309,708)	30	(3)	(309,681)
21,872,741	**110,337,992**	**11,100**	**132,221,833**
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**
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**

Unsuccessful exploration expenditures derecognised in the amount of RSD 57,075 mainly relate to exploration assets located in Serbia due to uncertain viability of commercial production (2017: amount of RSD 568,493 mainly relate to exploration assets located in Serbia in the amount of RSD 461,615).

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying value of the investments in associates and joint ventures as of 31 December 2018 and 2017 is presented below:

		Ownership percentage	31 December 2018	31 December 2017
Serbskaya Generaciya	Joint venture	50%	1,003,491	1,008,221
HIP Petrohemija ad Pančevo	Associate	49%	976,897	1,038,800
HIP Petrohemija ad Pančevo	Associate	20,86%	11,572,197	11,572,197
Less Impairment provision			(11,572,197)	(11,572,197)
Total investments			**1,980,388**	**2,047,021**

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.

Energowind

In 2013 the Group has acquired 50% of interest in a joint venture, Energowind d.o.o. which is intended to be used as a vehicle for operation of future wind farm ''Plandiste'' with total capacity of 102 MW. On the date of the issuance of these Consolidated Financial Statements there have been no significant business activities. Energowind d.o.o. is a private company and there is no available quoted market price.

Serbskaya Generaciya

In 2015, the Group and Centrenergoholding OAO Russian Federation established the holding company Serbskaya Generaciya, through which they will jointly operate the Thermal and Heating Power Plant "TETO" 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 pf 12 years. Handing over CHP "TETO" Pancevo is expected to be completed by the 30th August 2020.

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.

11. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2018	31 December 2017
Deposits with original maturity more than 1 year	-	2,029,483
Other LT investments	80,121	79,416
LT loans given to employees	1,240,438	1,034,606
Less: Impairment	(371,876)	(59)
	948,683	**3,143,446**

Decrease in deposits with original maturity more than 1 year fully relates to reclassify to the short-term part.

Loans to employees as at 31 December 2018 amounting to RSD 1,240,438 (31 December 2017: RSD 1,034,606) 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 371,817.

12. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2018	31 December 2017
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	1,943,094	3,578,507
- Deferred tax assets to be recovered after within months	1,016,432	1,387,464
	2,959,526	**4,965,971**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(2,414,029)	(2,768,061)
	(2,414,029)	(2,768,061)
Deferred tax assets (net)	**545,497**	**2,197,910**

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

	2018	2017
At 1 January	**2,197,910**	**3,771,354**
Charged to the income statement (note 35)	(1,652,164)	(1,615,639)
Charged to other comprehensive income	(335)	14,179
Other	86	28,016
31 December	**545,497**	**2,197,910**

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 2017	**-**	**(2,885,670)**	**(14,225)**	**(2,899,895)**
Charged to the income statement (note 35)	-	130,547	-	130,547
Charged to other comprehensive income	-	-	(210)	(210)
Translation difference	-	1,497	-	1,497
As at 31 December 2017	**-**	**(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)**

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
Deferred tax assets					
As at 1 January 2017	**967,017**	**930,193**	**4,762,300**	**11,739**	**6,671,249**
Charged to the income statement (note 35)	11,280	18,935	(1,776,401)	-	(1,746,186)
Charged to other comprehensive income	14,831	-	-	(442)	14,389
Other	26,519	-	-	-	26,519
As at 31 December 2017	**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**

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 795 million RSD (2017: 886 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 2018	31 December 2017
Materials, spare parts and tools	29,197,127	27,510,780
Work in progress	4,923,492	3,961,298
Finished goods	14,523,129	8,544,853
Goods for sale	4,159,637	2,008,505
Advances	834,950	666,931
Less: impairment of inventory	(4,947,073)	(5,108,493)
Less: impairment of advances	(219,191)	(261,100)
	48,472,071	**37,322,774**
Non-current assets held for sale	5,943	5,986
Less: impairment of assets held for sale	(5,943)	(5,823)
	-	**163**
	48,472,071	**37,322,937**

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 2017	**5,326,077**	**261,983**	**-**	**5,588,060**
Provision for inventories and advances (note 34)	8,431	6,974	5,823	21,228
Unused amounts reversed (note 33)	(896)	(1,939)	-	(2,835)
Receivables written off during the year as uncollectible	-	(5,916)	-	(5,916)
Other	(225,119)	(2)	-	(225,121)
Balance as of 31 December 2017	**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)
Write-off and other	(139,718)	-	120	(139,598)
Balance as of 31 December 2018	**4,947,073**	**219,191**	**5,943**	**5,172,207**

14. TRADE RECEIVABLES

	31 December 2018	31 December 2017
Parents and subsidiaries - domestic	99	-
Parents and subsidiaries - foreign	1,227,518	1,447,646
Other related parties - domestic	645,804	1,024,133
Other related parties - foreign	29,454,268	31,924,918
Trade receivables domestic – third parties	825,231	1,460,057
Trade receivables foreign – third parties	32,152,920	35,856,754
Less: Impairment	(6,145,109)	(7,942,578)
	26,007,811	**27,914,176**

15. OTHER RECEIVABLES

	31 December 2018	31 December 2017
Interest receivables	2,144,788	5,211,198
Receivables from employees	93,524	94,329
Income tax prepayment	9,134	1,053
Other receivables	7,524,755	7,571,612
Less: Impairment	(9,548,630)	(11,687,452)
	223,571	**1,190,740**

16. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2018	31 December 2017
Deposits with original maturity more than 3 months less than 1 year	2,123,007	7,645,689
Other short-term financial assets	140,424	96,815
	2,263,431	**7,742,504**

As at 31 December 2018 deposits with original maturity more than 3 months less than 1 year amounting to RSD 2,123,007 (2017: RSD 7,645,689) relate to bank deposits with interest rates from 4.65% (2017: from 3.23% to 4.15% p.a.) denominated in RSD.

17. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash in bank and in hand	6,928,798	15,896,738
Deposits with original maturity of less than three months	6,927,790	9,418,037
Cash with restriction	1,407,735	1,521,241
Cash equivalents	216,507	239,354
	15,480,830	**27,075,370**

Cash with restriction as of 31 December 2018 amounting to RSD 1,407,735 (31 December 2017: RSD 1,521,241) mostly relates to funds in accordance with the interest in a joint venture through which the operation of future wind farm ''Plandiste'' will be managed. According to the Agreement, the Group can withdraw cash at any time.

18. PREPAYMENTS AND ACCRUED INCOME

	31 December 2018	31 December 2017
Deferred input VAT	1,774,863	1,419,963
Prepaid expenses	235,378	236,845
Prepaid excise duty	2,817,887	1,862,790
Housing loans and other prepayments	788,281	1,247,028
	5,616,409	**4,766,626**

Deferred input VAT as at 31 December 2018 amounting to RSD 1,774,863 (31 December 2017: RSD 1,419,963) 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 2018 amounting to RSD 2,817,887 (31 December 2017: RSD 1,862,790) 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 2018	31 December 2017
Issued warranties and bills of exchange	73,171,617	70,741,005
Received warranties and bills of exchange	16,042,879	17,697,476
Properties in ex-Republics of Yugoslavia	5,357,688	5,357,690
Receivables from companies from ex-Yugoslavia	6,347,969	6,085,575
Third party merchandise in NIS warehouses	9,560,071	6,819,872
Assets for oil fields liquidation in Angola	1,361,966	1,332,018
Mortgages recived	1,179,150	-
Other off-balance sheet assets and liabilities	759,762	327,765
	113,781,102	**108,361,401**

20. EQUITY

	Equity attributable			
	Share capital	Other capital	Reserves	Retained earnings (loss)
Balance as at 1 January 2017	**81,530,200**	**-**	**80,607**	**120,548,910**
Profit (loss) for the year	–	–	–	26,991,074
Gains from securities	–	–	–	–
Dividend distribution	–	–	–	(4,021,069)
Actuarial gain	–	–	–	–
Revaluation reserves	–	–	1,189	–
Other	–	–	–	–
Balance as at 31 December 2017	**81,530,200**	**-**	**81,796**	**143,518,915**
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 (note 4)	–	–	–	(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**

to owners of the Group					
Translation reservas	Unrealised gains (losses) from securities	Actuarial gain (loss)	Total	Non-controlling interest	Total Equity
(581,171)	**(66,518)**	**182,257**	**201,694,285**	**(213,773)**	**201,480,512**
-	-	-	26,991,074	(28,423)	26,962,651
-	2,505	-	2,505	-	2,505
-	-	-	(4,021,069)	-	(4,021,069)
-	-	12,180	12,180	-	12,180
-	-	-	1,189	-	1,189
603,842	-	-	603,842	9,700	613,542
22,671	**(64,013)**	**194,437**	**225,284,006**	**(232,496)**	**225,051,510**
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**

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 2018 and 31 December 2017 comprise of 163,060,400 of ordinary shares.

Dividend declared for the year ended 31 December 2017, amounted to RSD 6,948,004 or RSD 42.61 per share. Distributions of dividends were approved on the General Assembly Meeting held on 21 June 2018 and paid on 27 August 2018.

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 2017	**8,641,302**	**838,655**	**775,414**	**660,942**	**680,972**	**11,597,285**
Charged to the income statement	606,381	-	1,715	365,922	29,090	1,003,108
New obligation incurred and change in estimates	765,325	-	-	-	-	765,325
Release of provision	-	-	(276,284)	-	(34,298)	(310,582)
Actuarial gain charged to other comprehensive income	-	-	27,011	-	-	27,011
Settlement	(168,127)	(157,493)	(70,714)	-	(72,075)	(468,409)
Other	(3)	-	(84)	-	(201)	(288)
As at 31 December 2017	**9,844,878**	**681,162**	**457,058**	**1,026,864**	**603,488**	**12,613,450**
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 loss charged to other comprehensive income	-	-	(3,316)	-	-	(3,316)
Settlement and other	(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**

Analysis of total provisions:

	31 December 2018	31 December 2017
Non-current	10,210,005	9,766,303
Current	1,941,795	2,847,147
	12,151,800	**12,613,450**

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 657,686 (31 December 2017: RSD 681,162) 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 2018 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in amount of 494,022 RSD (2017: 1,026,864 RSD).

d) Legal claims provisions

As at 31 December 2018, 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 47,958 RSD (2017: 29,090 RSD) 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 2018.

e) Provision for employee benefits

Employee benefits:

	31 December 2018	31 December 2017
Retirement allowances	147,206	143,027
Jubilee awards	284,559	314,031
	431,765	**457,058**

The principal actuarial assumptions used were as follows:

	31 December 2018	31 December 2017
Discount rate	5.7%	4.65%
Future salary increases	2.0%	2.0%
Future average years of service	**14.6**	**15**

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2017	**106,143**	**669,271**	**775,414**
Benefits paid directly	(8,042)	(62,672)	(70,714)
Actuarial gain charged to other comprehensive income	27,011	-	27,011
Credited to the income statement	17,999	(292,568)	(274,569)
Translation differences	(84)	-	(84)
Balances as at 31 December 2017	**143,027**	**314,031**	**457,058**
Benefits paid directly	(14,483)	(43,795)	(58,278)
Actuarial loss charged to other comprehensive income	(3,316)	-	(3,316)
Debited/credited to the income statement	21,815	14,323	36,138
Translation differences	163	-	163
Balances as at 31 December 2018	**147,206**	**284,559**	**431,765**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December	
	2018	**2017**
Current service cost	31,518	53,968
Interest cost	20,330	52,179
Curtailment gain	5,482	(770)
Actuarial gains (jubilee awards)	(21,189)	106,446
Past service cost	(3)	(486,392)
	36,138	**(274,569)**

22. LONG-TERM LIABILITIES

	31 December 2018	31 December 2017
Long-term loan - Gazprom Neft	24,738,405	30,306,970
Bank loans	68,605,682	65,796,475
Finance lease liabilities	828,104	432,562
Other long-term borrowings	42,102	59,455
Less Current portion (note 23)	(6,395,091)	(6,099,584)
	87,819,202	**90,495,878**

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

	Long-term loans	Short-term loans (note 25)	Finance lease	Total
As at 1 January 2017	**103,449,326**	**12,189,945**	**343,080**	**115,982,351**
Proceeds	36,955,269	-	-	36,955,269
Repayment	(35,994,594)	(12,032,267)	(117,338)	(48,144,199)
Non-cash transactions	-	-	220,303	220,303
Foreign exchange difference	(8,306,556)	(157,678)	(13,483)	(8,477,717)
As at 31 December 2017	**96,103,445**	**-**	**432,562**	**96,536,007**
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**

a) Long-term loan - Gazprom Neft

As at 31 December 2018 long-term loan - Gazprom Neft amounting to RSD 24,738,405 (2017: RSD 30,306,970), with current portion of RSD 5,497,423 (2017: RSD 5,510,358), 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 2018	31 December 2017
Domestic	50,621,092	43,338,384
Foreign	17,984,590	22,458,091
	68,605,682	65,796,475
Current portion of long-term loans	(825,139)	(536,801)
	67,780,543	**65,259,674**

The maturity of non-current loans was as follows:

	31 December 2018	31 December 2017
Between 1 and 2 years	1,479,321	23,403,612
Between 2 and 5 years	61,371,002	39,342,047
Over 5 years	4,930,220	2,514,015
	67,780,543	**65,259,674**

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

	31 December 2018	31 December 2017
USD	361,695	17,934,250
EUR	67,947,394	47,551,800
RSD	628	814
JPY	295,965	309,611
	68,605,682	**65,796,475**

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 2018 and 31 December 2017 respectively.

c) *Financial lease liabilities*

Minimum finance lease payments:

	31 December 2018	31 December 2017
Less than one year	117,899	97,576
1-5 years	535,453	399,659
Over 5 years	915,340	611,584
Future finance charges on finance leases	(740,588)	(676,257)
Present value of finance lease liabilities	**828,104**	**432,562**

	31 December 2018	31 December 2017
Less than one year (note 23)	72,529	52,425
1-5 years	290,977	203,407
Over 5 years	464,598	176,730
Present value of finance lease liabilities	**828,104**	**432,562**

23. SHORT-TERM FINANCE LIABILITIES

	31 December 2018	31 December 2017
Short-term loans from subsidiaries (note 22)	6,322,562	6,047,159
Current portion of long-term loans (note 22)	72,529	52,425
	6,395,091	**6,099,584**

24. TRADE PAYABLES

As at 31 December 2018 trade payables in a amount of RSD 25,834,088 (31 December 2017: RSD 30,100,904) including payables to parents and subsidiaries-foreign amounting to RSD 10,243,742 (31 December 2017: RSD 11,727,340) fully relate to payables to the supplier Gazprom Neft, St Petersburg, mostly based on purchase of crude oil.

25. OTHER SHORT-TERM LIABILITIES

	31 December 2018	31 December 2017
Specific liabilities	206,959	199,075
Liabilities for unpaid wages and salaries, gross	1,240,193	1,116,595
Interest liabilities	745,320	743,499
Dividends payable	3,772,308	3,772,308
Other payables to employees	778,190	1,583,215
Decommissioning and site restoration costs	1,369,683	1,419,423
Environmental provision	160,362	201,836
Litigation and claims	277,852	241,188
Other current liabilities	137,119	120,053
	8,687,986	**9,397,192**

26. LIABILITIES FOR OTHER TAXES

	31 December 2018	31 December 2017
Excise tax	5,173,979	5,258,815
Contribution for buffer stocks	260,905	527,858
Income tax	635,119	1,953,078
Other taxes payables	1,617,950	1,447,764
	7,687,953	**9,187,515**

27. ACCRUED EXPENSES

Accrued expenses as at 31 December 2018 amounting to RSD 3,635,144 (31 December 2017: RSD 4,162,449) mainly relate to accrued employee bonuses of RSD 1,865,668 (31 December 2017: RSD 1,982,895) and contract liabilities arising from contracts with customers related to customer loyalty RSD 382,909 (31 December 2017: RSD 365,312).

28. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2018	**2017**
Cost of production services	2,284,196	2,198,742
Transportation services	3,313,801	3,723,605
Maintenance	4,021,266	3,426,803
Rental costs	2,653,780	1,666,379
Fairs	7,410	508
Advertising costs	867,648	897,000
Exploration expenses	241,154	624,857
Cost of other services	1,537,410	1,380,209
	14,926,665	**13,918,103**

29. NON-PRODUCTION COSTS

	Year ended 31 December	
	2018	**2017**
Costs of non-production services	8,881,322	8,466,351
Representation costs	123,767	118,253
Insurance premium	593,118	555,345
Bank charges	426,898	360,491
Cost of taxes	1,357,393	1,247,685
Mineral extraction tax	1,460,595	1,202,368
Other non-production expenses	1,965,277	1,936,963
	14,808,370	**13,887,456**

Costs of non-production services for the year ended 31 December 2018 amounting to RSD 8,881,322 (2017: RSD 8,466,351) mainly relate to costs of service organizations of RSD 6,743,147; consulting service costs of RSD 404,135; security cost of RSD 538,729 and project management costs of RSD 349,379.

30. FINANCE INCOME

	Year ended 31 December	
	2018	**2017**
Finance income - related parties		
- foreign exchange differences	1,225,794	2,701,657
Interest income	721,927	726,378
Amortisation Income - discount of receivables	44,661	379,211
Foreign exchange gains	1,805,108	8,986,384
Other finance income	28,937	161,659
	3,826,427	**12,955,289**

31. FINANCE EXPENSE

	Year ended 31 December	
	2018	**2017**
Finance expenses – related parties		
- foreign exchange differences	1,240,252	2,636,982
- other finance expense	496,774	632,427
Interest expenses	1,718,621	2,414,743
Decommissioning provision: unwinding of the present value discount	89,194	138,488
Provision of trade and other non-curent receivables: discount	261,732	-
Amortization of non-current financial instruments	1,867,268	2,271,579
Foreign exchange losses	66,634	-
Other finance expense	7,570	27,593
	5,748,045	**8,121,812**

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

	Year ended 31 December	
	2018	2017
Reversal of impairment of LT financial investments	2,306	541
Income from valuation:		
- trade and specific receivables (note 6)	849,711	234,586
- other receivables (note 6)	16,496	74,260
	868,513	**309,387**

33. OTHER INCOME

	Year ended 31 December	
	2018	2017
Gains on disposal – PPE	198,319	103,309
Gains on disposal – materials	76,539	43,423
Surpluses from stock count	381,539	468,984
Payables written off	188,454	39,130
Release of long-term provisions	29,004	310,582
Gain on bargain purchase	67,793	-
Release of impairment:		
- Investment property (note 9)	20,677	16,869
- Inventory (note 13)	31,976	896
- PPE and other property	12,448	1,939
Penalty interest	117,763	142,323
Other income	90,804	86,480
	1,215,316	**1,213,935**

34. OTHER EXPENSES

	Year ended 31 December	
	2018	2017
Loss on disposal – PPE	256,342	223,329
Shortages from stock count	801,958	584,272
Write-off receivables	16,603	28,767
Write-off inventories	126,628	197,538
Impairment:		
- Intagible assets (note 8)	201,854	27,889
- PPE (note 9)	86,769	265,146
- Inventory (note 13)	10,274	8,431
- Other property	9,003	6,974
- Investment property (note 9)	2,728	43,396
Other expenses	292,209	352,116
	1,804,368	**1,737,858**

35. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2018	2017
Income tax for the year	4,066,760	5,640,826
Deferred income tax for the period (note 12)		
Origination and reversal of temporary differences	1,652,164	1,615,639
	5,718,924	**7,256,465**

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	
	2018	2017
Profit before tax	**30,853,226**	**34,219,116**
Tax calculated at domestic tax rates – 15%	4,929,684	5,358,430
Tax effect on:		
Revenues exempt from taxation	(59,111)	(323,153)
Expenses not deductible for tax purposes		
- Tax paid in Angola	171,416	2,177,957
- Other expenses not deductable	768,193	253,836
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	(37,320)	(66,021)
Other tax effects for reconciliation between accounting profit and tax expense	(53,938)	(144,584)
	5,718,924	**7,256,465**
Effective income tax rate	18.54%	21.21%

The weighted average applicable tax rate was 18.54% (2017: 21.21%). The decrease is caused by a change in the profitability of the Group.

36. OPERATING LEASES

Minimum lease payments under non-cancellable operating lease by lessor:

	31 December 2018	31 December 2017
Less than one year	274,048	278,871
1-5 years	332,108	417,942
Over 5 years	137,390	149,922
	743,546	**846,735**

Minimum lease payments under non-cancellable operating lease by lessee:

	31 December 2018	31 December 2017
Less than one year	399,304	353,593
1-5 years	1,037,264	1,014,422
Over 5 years	111,513	951,109
	1,548,081	**2,319,124**

The Group rents mainly O&G equipment and petrol station.

37. BUSINESS COMBINATIONS

In 2018, the Group acquired one petrol station in Serbia and two in Bosnia and Herzegovina. The total consideration paid for acquisition amounted to 383,658 RSD. The fair value of net identifiable asset acquired amounted to 439,465 RSD, recognised goodwill amounted to 11,986 RSD and remaining amount was recognised as gain on bargain purchase. The acquisition agreements include only acquisition of petrol stations and do not contain any contingent consideration.

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 Group's management recognised an environmental provision in the amount of RSD 657,686 (31 December 2017: RSD 681,162).

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 2018.

Capital commitments

As of 31 December 2018 the Group has entered into contracts to purchase property, plant and equipment for RSD 15,944,407 (31 December 2017: RSD 11,347,097) and drilling and exploration works estimated to 69.01 USD million (31 December 2017: 58.17 USD million).

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

39. GROUP ENTITIES

The consolidated financial statements of below listed subsidiaries are consolidated as at 31 December 2018 and 31 December 2017:

Subsidiary	Country of incorporation	Nature of business	Share %	
			31-Dec 2017	31-Dec 2016
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	Electricity	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
O Zone 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.

40. 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 2018 and 2017, 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 2018 and 31 December 2017 the outstanding balances with related parties other than state and state own companies were as follows:

	Joint venture	Parent	Parent's subsidiaries and associates
As at 31 December 2018			
Investments in associates and joint ventures	1,980,388	-	-
Trade receivables	4,754	99	1,868,568
Receivables from specific operations	400	-	-
Long-term liabilities	-	(19,240,982)	-
Short-term financial liabilities	-	(5,497,423)	-
Advances received	(199)	-	(1,942)
Trade payables	(1,246)	(10,243,742)	(1,935,259)
	1,984,095	**(34,982,048)**	**(68,633)**

	Joint venture	Parent	Parent's subsidiaries and associates
As at 31 December 2017			
Investments in associates and joint ventures	2,047,021	-	-
Trade receivables	-	-	2,471,779
Other receivables	269,242	-	-
Payment in advance	-	-	2,754
Long-term liabilities	-	(24,796,612)	-
Short-term financial liabilities	-	(5,510,358)	-
Advances received	-	-	(74,404)
Trade payables	-	(11,727,340)	(2,300,308)
	2,316,263	**(42,034,310)**	**99,821**

For the year ended 31 December 2018 and 2017 the following transaction occurred with related parties:

	Subsidiary	Parent	Parent's subsidiaries and associates
Year ended 31 December 2018			
Sales revenue	20,549	961	27,369,924
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)
	27,114	**(69,565,444)**	**26,743,697**
Year ended 31 December 2017			
Sales revenue	–	–	32,561,306
Other operating income	–	–	2,377
Cost of goods sold	–	–	(10,312,815)
Cost of material	–	(31,926,861)	–
Cost of production services	–	–	(197,261)
Non-material expense	–	(3,000)	(116,320)
Finance expense	–	(632,427)	–
Other income	–	83,321	–
Other expenses	–	(69,543)	(253)
	-	**(32,548,510)**	**21,937,034**

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

	Parent's subsidiaries and associates	Other
As at 31 December 2018		
Trade and other receivables (gross)		
– HIP Petrohemija	1,222,764	–
– Srbijagas	–	17,547
– Other state owned companies	–	4,221,307
Trade and other payables		
– HIP Petrohemija	(1,250,402)	–
– Srbijagas	–	(126,092)
Other current liabilities		
– HIP Petrohemija	(1,852)	–
	(29,490)	**4,112,762**
As at 31 December 2017		
Trade and other receivables (gross)		
– HIP Petrohemija	1,446,685	–
– Srbijagas	–	109,748
– Republika Srbija	–	3,740,763
– Other state owned companies	–	4,936,110
Trade and other payables		
– HIP Petrohemija	(1,252,736)	–
– Srbijagas	–	(77,059)
Other current liabilities		
– HIP Petrohemija	(13,646)	–
	180,303	**8,709,562**

	Partent's subsidiaries and associates	Other
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)**
As at 31 December 2017		
Operating income		
– *HIP Petrohemija*	21,947,228	–
– *Srbijagas*	–	782,306
Operating expenses		
– *HIP Petrohemija*	(195,139)	–
– *Srbijagas*	–	(926,488)
	21,752,089	**(144,182)**

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 2018 and 2017 the Group recognized RSD 1,018,152 and RSD 1,029,116; respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

Statement of Individuals Responsible for the Preparation of Financial Statements

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), 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 the 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.

Appendices

4.01 General Details of 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
Web site:	www.nis.eu
e-mail:	office@nis.eu
Activity:	0610 - Crude Oil Exploitation
Date of Establishment:	1 October 2005
Audit Company which audited the last financial report (as at 31 December 2018):	Pricewaterhouse d.o.o., Belgrade 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 11070 Novi Beograd

4.02 Glossary

Abbreviation	Meaning
3D	Three-dimensional
2D	Two-dimensional
a.d.o.	Insurance joint stock company
ALARP	As low as reasonably possible
AMCHAM	American Chamber of Commerce
ANRM	National Agency for Mineral Resources
BAM	Convertible mark, Bosnia and Herzegovina currency
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
CMMS	Computerized maintenance management system
CNG	Compressed Natural Gas
CO_2	Carbon Dioxide
CSM	Contractor Safety Management
DCU	Delayed Coking Unit
DWS	Downstream
EBITDA	Earnings before interest, taxes, depreciation and amortisation

Abbreviation	Meaning
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 increase 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 criticality analysis
FP	Fire protection
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

Abbreviation	Meaning
HSE	Health, Safety and the Environment
HVGO	Heavy Vacuum Gas Oil
IMF	International Monetary Fund
IMS	Integrated Management System
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
LIBOR	London Interbanking Offer Rate
LLC	Limited Liability Company
LNG	Liquefied natural gas
LOTO	Lockout-tagout safety procedure
LPG	Liquefied Petroleum Gas
LTD	Limited
LTI	Lost Time Injury
LTIF	Lost Time Injury Frequency
m^2	Square meter
m^3	Cubic meter
MBA	Master of Business Administration
MHC/DHT	Mild hydrocracking and hydro treating unit
mn	million
MoC	Management of Change

Abbreviation	Meaning
MT and SS	Material,technical and service support
MTSS and CC	Material, technical and service support and capital construction
MW	Megawatt, unit of power in the International System of Units (SI).
MWA	Management Walk-around
MWe	Electric megawatt – a unit of measurement for generated electricity
MWh	Megawatt hour, unit for measuring electrical energy
N_2	Nitrogen
NALED	National Alliance for Local Economic Development
NATO	North Atlantic Treaty Organisation/North Atlantic Alliance
NBS	National Bank of Serbia
NMD	Regulatory methodology document
NO_x	Nitrogen Oxides
NPCS-WPC	National Petroleum Committee of Serbia – World Petroleum Council
NTC	Science and Technology Centre
OCF	Operating Cash Flow
OHSAS	Occupational Health and Safety Standard
OMS	Operating Management System
OPEC	Organisation of the Petroleum Exporting Countries
OPEX	Operational Expenditure
OTS	Operator Training Simulators
p.j.s.c. or 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
Q	Qualified worker
R&D	Research and Development
RAG	Red, Amber, Green

Abbreviation	Meaning
RAR	Road Accident Rate
RC	Research Centre or Regional Centre
RCSC	Russian Centre for Science and Culture
RF	Russian Federation
ROA	Return on Assets
ROE	Return on Equity
RS	Republic of Serbia
RS/ACS	RS - Railway station, ACS - auto charging station
RSD	Serbian Dinar
SAB	Shareholders’ Assembly Board
SARU	Spent Acid Regeneration Unit
SEVESO	HSE-related Directive
SO_2	Sulphur Dioxide
SQ	Semi-qualified worker
s.r.l.	Limited liability company (in Romania)
SRU	Sulphur Recovery Unit
SS	Secondary School
STEM	Science, Technology, Engineering and Mathematics
THS	Technical Services
t.o.e.	Tonnes of oil equivalent
TWh	Terawatt hour – a unit of measurement for electrical energy
UB	University of Belgrade
UNS	University of Novi Sad
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 Contact Details

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