2015
ANNUAL REPORT

NIS
GAZPROM NEFT

FUTURE
AT WORK

The Annual Report for 2015 represents a true-to-fact review of performance, development and performance in 2015. The Report covers and presents information on NIS Group, which is comprised of NIS j.s.c. Novi Sad and its subsidiaries. If any information relates to individual subsidiaries or to NIS j.s.c. Novi Sad only, it is so noted in the Report. The terms “NIS j.s.c. Novi Sad” and “Company” denote the parent company NIS j.s.c. Novi Sad, whereas the terms “NIS” and “NIS Group” relate to NIS j.s.c. Novi Sad with its subsidiaries.

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The Annual Report illustrates how the Group’s strategic goals, corporate governance, achieved results and potentials, in conjunction with the environment, help to create value in the short, middle and long term.

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The Annual Report is rendered in Serbian, English and Russian. In case of any discrepancy, the Serbian version will be given precedence. The Annual Report for 2015 is also available for download from the corporate web site.

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For more information on NIS Group, visit the corporate web site **www.nis.eu.**

2015 Annual Report

NIS
GAZPROM NEFT
FUTURE AT WORK

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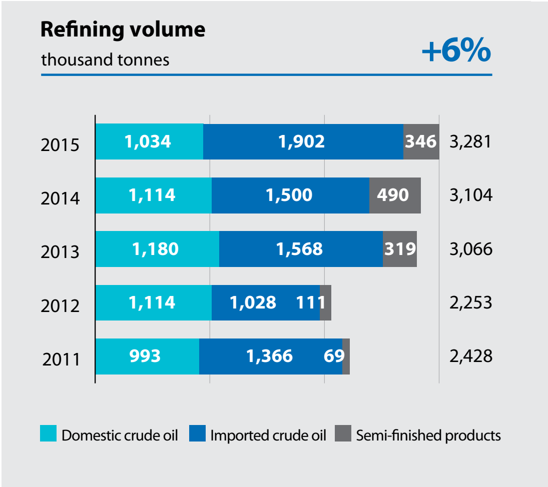
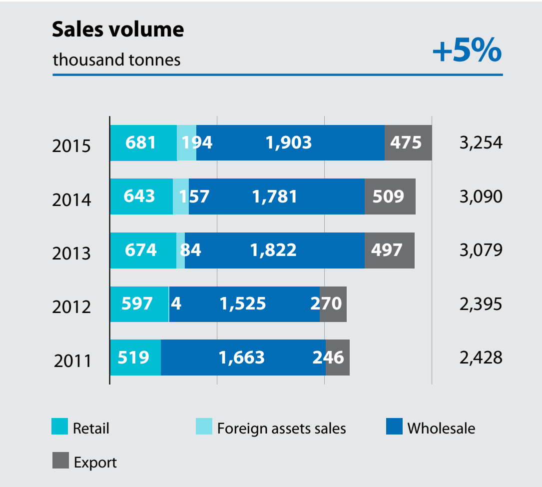
NIS GROUP 2015

8% Estimated growth of hydrocarbon reserves

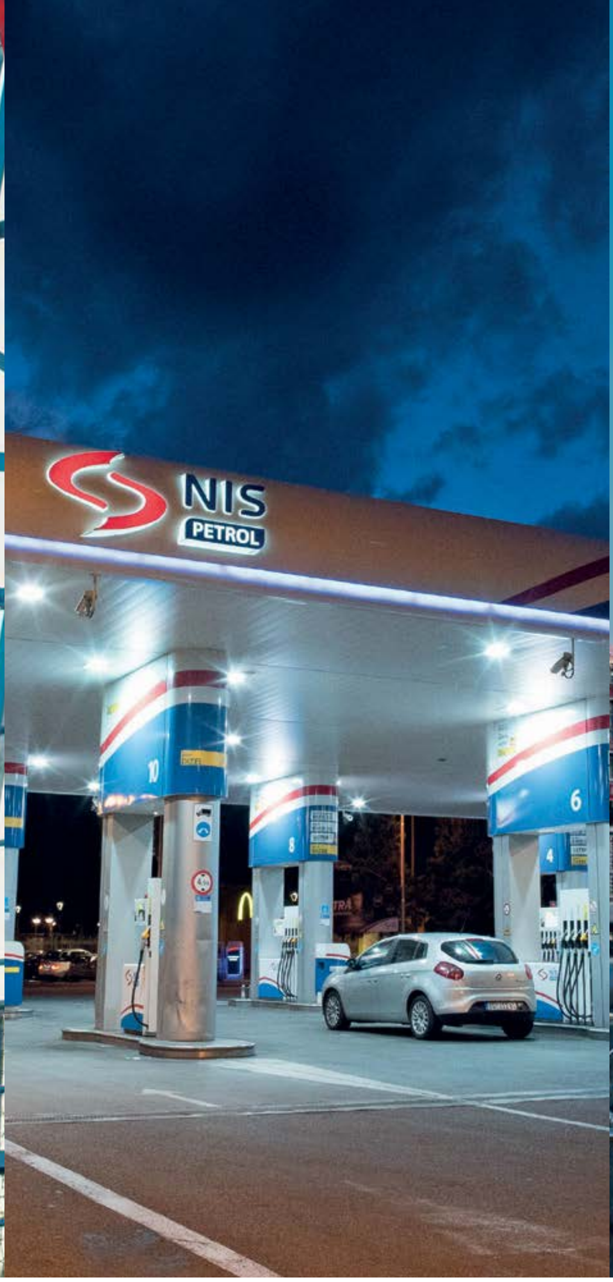
1% Oil and gas production plan was exceeded

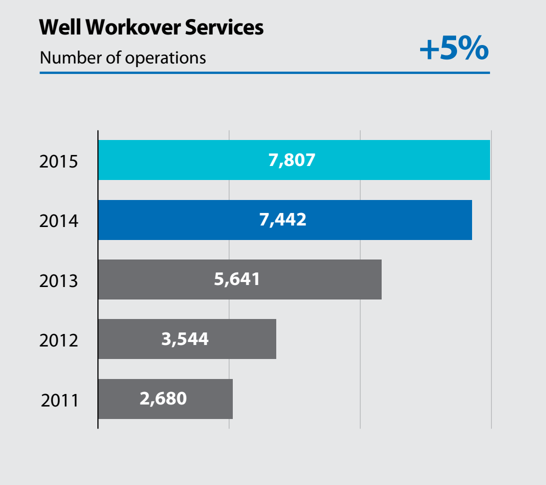


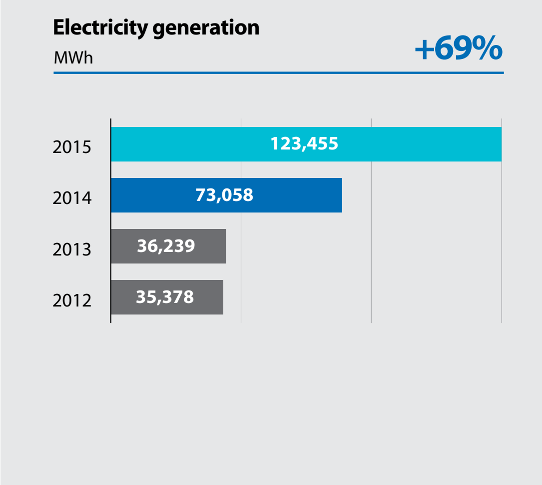


NET PROFIT bn RSD 14.6

30.3 bn RSD CAPEX







Despite cutbacks in investment projects, the operating targets set under the 2015 Business Plan were either achieved or outperformed.

110 mn EUR

The total economic effect (on both EBITDA and the cash flow) of the implemented measures aimed at increasing operational efficiency in 2015

1% **Increase of market share on retail market of Republic of Serbia (from 41% in 2014 to 42% in 2015)**

For the third year in a row, NIS paid dividends to its shareholders in total of RSD 7.64 billion.

Continuing uncertainty on the world market

The growing uncertainty on the world market and the rising volatility on the global oil market were the main factors that influenced NIS in 2015. Regardless of the market trends, NIS optimized its investment program and maintained the levels of production and refining. In 2015, NIS Group reported a net income of RSD 14.6 billion which is compelling evidence to the efficiency of the NIS management team and stability of the European energy market.

Consistency in implementing plans

We are proud to say that in 2015 NIS fulfilled all its adopted business plan targets. We adjusted our investment plan and invested a total of RSD 30 billion in our development. In addition, for the third year in a row, NIS paid dividends to its shareholders in total of RSD 7.64 billion in dividends to its shareholders, or 25 per cent of the company's net income in 2014. We intent to keep the practice of paying out more than 15%, stated in our dividend policy as minimum, of our net profit to our shareholders. Last year, NIS received its fourth award from the Belgrade Stock Exchange for excellence in investor relations.

In 2015 NIS continued the successful collaboration with its shareholders – PJSC "Gazprom Neft" and the Serbian Government. I would like to highlight the support we received from the Government of Serbia in finding the solution for repaying debts of state-owned companies to NIS. NIS remains one of the largest companies of the Republic of Serbia, a responsible tax payer and a reliable partner.

Future projects

In 2016 NIS management will focus on keeping the company profitable and responding promptly to any changes in the macroeconomic environment. This year's business plan will see implementation of a 30-billion-dinar investment program, which is on a par with the 2015 level. The Company will continue with its exploration and production projects, increasing electricity generation and the modernization of its sales assets and Pančevo Oil Refinery.

I am convinced that our collaboration with shareholders coupled with the efforts of the management team and all employees our company will enable us to implement our investment program and become the driving force for the company's progress in the near future.

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

Efficiency has become our business motto, and the operational efficiency increase programme our principal ally in combatting the crisis.

Stable and efficient in a crisis

Efficiency and stability were the key words and concepts that we based our business operations on in the year gone by. Unfavourable trends, exemplified primarily in the low crude oil prices in the global market and the currency losses, were present throughout 2015, making it anything but business-friendly. But, we were not taken by surprise, nor did we just twiddle our thumbs. Efficiency has become our business motto, and the operational efficiency increase programme our principal ally in combatting the crisis and a recipe for maintaining NIS stability and profitability.

We applied this concept in 2015 in all the NIS's business areas. We continuously put in efforts to cut costs in all the segments of collaboration with partners. In refining, we increased the premium product level, while in production we applied new technologies. In sales and distribution, we continued to introduce new products and services for our customers. We have introduced changes to our staffing policy so as to reduce the number of expatriates in management in favour of local professionals. The total economic effect, on both EBITDA and the cash flow, of the implemented measures aimed at increasing operational efficiency in 2015 exceeds EUR 110 million. I also have to point out NIS employees' initiative that within the "I have an idea!" programme offered more than 900 suggestions as to how to boost internal efficiency of all business areas. It was precisely owing to the efficiency increase that NIS remained a stable source of income in a year full of challenges, for employees and shareholders alike. It is important to point out that as the biggest company in Serbia, NIS provides the greatest contribution to the Serbian budget – in 2015 alone, our indirect and direct tax and other public revenue-related obligations stand at 151.9 billion dinars, which is 12% increase compared to 2014.

We are not giving up on key investments

By adapting our business activity to the on-going oil crisis and by doing whatever is in our power to avoid risks associated with low oil prices, we were able to continue with key investments. I am proud to say that there were no cutbacks on investments on account of short-term increase in profit. We are still among Serbia's largest investors, having invested around 30 billion dinars in 2015, which is, for instance, twice the net profit of NIS for that year.

We invested in a further increase of the oil and gas reserves; we continued with the modernization of the Pančevo Oil Refinery and the activities around the implementation of the Bottom-of-the-Barrel project. We modernized our retail network and continued with the transformation from an oil and gas company into the region's leading energy holding, signing an agreement on the construction of a 140 MW thermal power plant – district heating plant in

Pančevo which is to supply electricity to both our refinery in Pančevo and the nearby industrial zones.

In the upcoming year, our business priorities remain key investment projects on the one hand, and efficiency increase and saving, on the other. The potential of the operational efficiency increase programme for the period 2016-2018 is estimated at about 100 million euros, which will enable to remain a competitive and stable company.

Future at Work

Stringent compliance with top HSE standards was the main focus throughout 2015. This also was one of the contributing factors to our success. Aware of our responsibility to employees, the environment and future generations, we declared 2016 to be the year of HSE at NIS. We will be fully concentrating on projects in the field of health, safety and environment, which is our strategic commitment.

One of our primary tasks is development of the community in which we operate, because, we believe that success is not complete unless shared with one's closest environment. Along these lines NIS continued to support the local community, individuals and institutions, in line with our corporate slogan "Future in Action". We can say with pride that we earmarked the total of 401.2 million dinars for funding socially responsible projects, and invested 627 million dinars in the environment. Even with the crisis, in 2015 NIS did not decrease investments in socially responsible projects, and we continued to support education, science, sports, culture, and numerous events and humanitarian actions across Serbia.

Finally, NIS entered 2016 as a successful company. Based on the results that we achieved together – the employees as well as the management – I believe it will stay so.

Kirill Kravchenko
General Director
of *NIS j.s.c. Novi Sad*

Business Report

AUDITOR'S REPORT ON 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 2015 disclosed in the Annual Report on pages 126 to 186, and issued the Auditor's opinion on 29 February 2016, which has been disclosed on page 125. We have also audited the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2015 disclosed in the Annual Report on pages 190 to 252, and issued the Auditor's opinion on 29 February 2016, which has been disclosed in the Annual Report on page 189 (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 2015 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 International Standards on Auditing. These standards require 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 2015 is consistent, in all material respects, with the information contained in the financial statements.

Milivoje Nešović
Licensed auditor

PricewaterhouseCoopers d.o.o. Beograd pwc

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 7 April 2016

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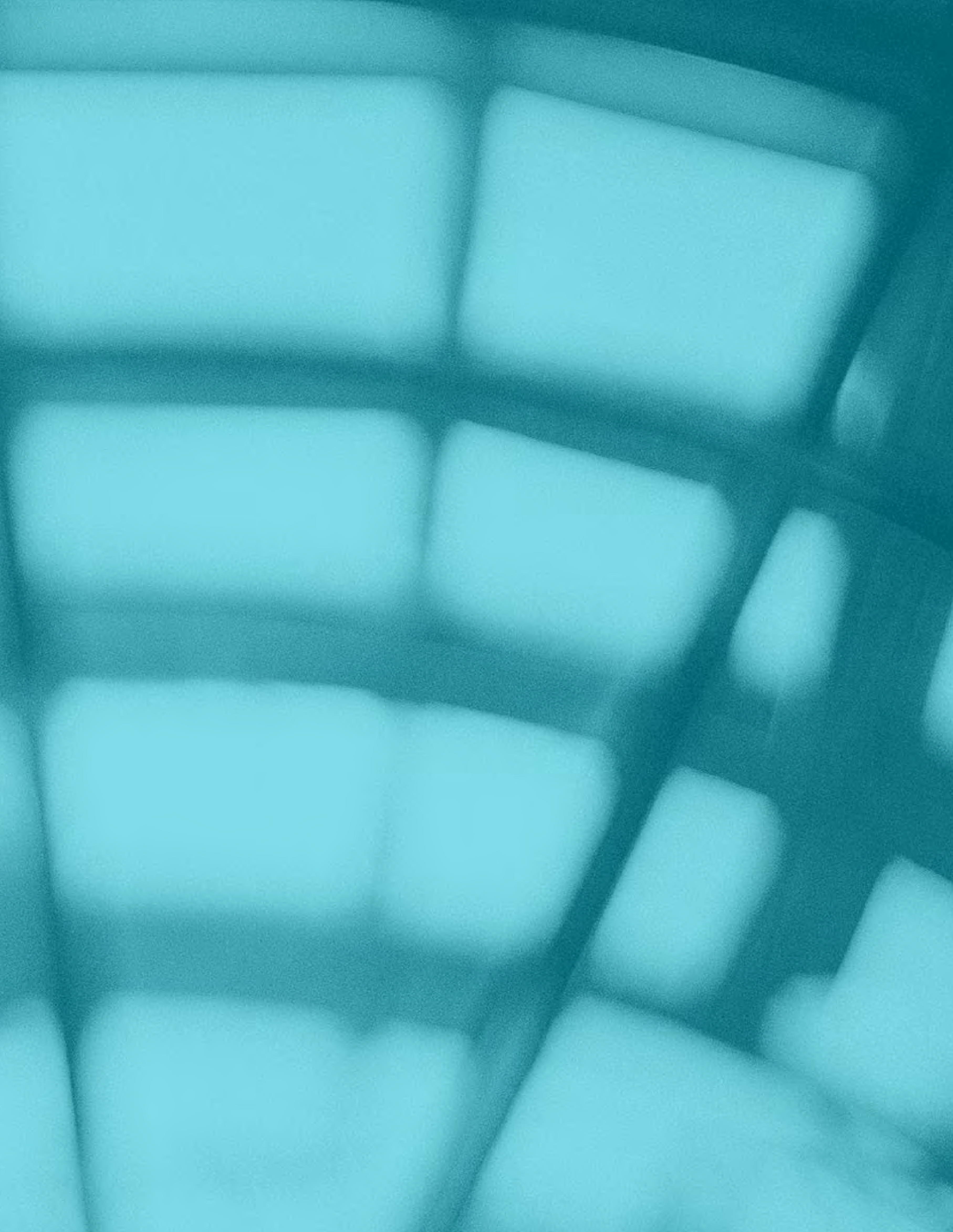
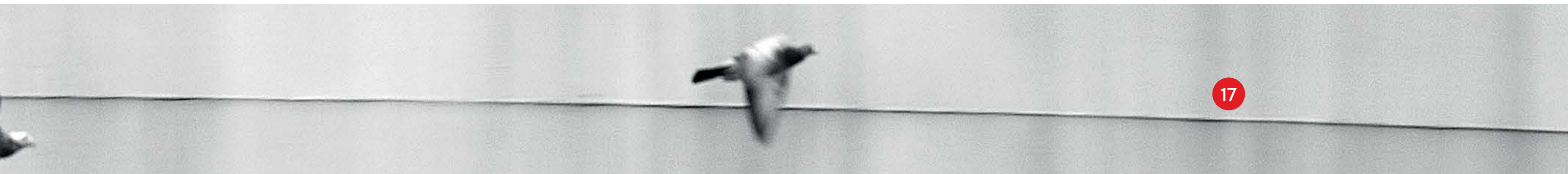


KEY EVENTS IN 2015

NIS GAZPROM NEFT FUTURE AT WORK



January

- NIS Board of Directors adopts the 2015 Business Plan
- Small-sized power plants at Bradarac and Velebit oilfields put into operation to generate electricity and thermal power
- For the sixth consecutive year, NIS General Director Kirill Kravchenko voted the most powerful foreign national in Serbia in 2014 in a survey by Blic daily
- NIS receives recognition for supporting the International Minibasket Festival
- NIS awarded as a partner and sponsor the Serbian Basketball Association

February

- Works on compressed natural gas production plant began at a petrol station in Novi Sad
- NIS signed strategic cooperation agreements with representatives from eleven cities and municipalities, under which NIS will continue with local development investments through its programme Together to the Community
- NIS received the corporate social responsibility award from the American Chamber of Commerce (AmCham)
- NIS won the prestigious SAP Quality Award 2014 for best implementation of SAP solution in the Business Transformation Category for Central & Eastern Europe

March

- NIS releases audited Consolidated Financial Statements for 2014
- NIS and Novi Sad University continue collaboration by entering into a strategic cooperation contract
- NIS sponsors the 43rd International Film Festival (FEST)

April

- In collaboration with the Embassy of the Republic of Serbia in Belgium and the Energy Charter Secretariat, NIS organises a round-table meeting entitled "Serbia and the EU: Challenges and Opportunities Ahead" at the Brussels Congress Centre
- For the third consecutive year, NIS supports Balkan Trafik Festival, a music festival aimed at promoting the Balkan culture and arts in Brussels
- NIS-supported project "Education to Jobs" finishes; the project was aimed at training personnel for deficient professions according to NIS demand

May

- NIS announces Consolidated Financial Statements for the first quarter of 2015
- NIS has chosen 152 projects within the Together to the Community project with the aim of promoting the quality of life in local communities in which it operates and fostering their development
- NIS Board of Directors reviews the Annual Report for 2014 and the Quarterly Report for First Quarter of 2015

June

- OJSC "Centroenergoholding" and NIS sign an agreement to establish "Serbskaya Generaciya" LLC Novi Sad to implement the project for the construction of a combined heat and power plant in Pančevo
- 7th NIS Shareholders' Meeting held; Decision on 2014 Profit Distribution, Dividend Payment and Determination of Total Amount of Retained Earnings of the Company adopted
- Since the start of the year, NIS has completed additional modernisation works at the Pančevo Oil Refinery through four investment projects.– completion of the third stage of loading terminal modernisation, closed drainage system for process equipment, implementation of the programme for diesel fuel production increase and the closed sampling system project
- NIS receives Best from Serbia Award for 2014 in the Corporate Brand category

July

- NIS publishes its 2014 Sustainability Report
- NIS publishes Consolidated Financial Statements for the first half of 2015
- PJSC "Gazprom Neft" sponsors the third, Mokra Gora-based Bolshoi music festival
- NIS sponsors young mathematicians to become winners of four medals at the 56th International Mathematics Olympiad in Thailand

August

- *NIS j.s.c. Novi Sad* pays out dividends to shareholders based on 2014 profits
- Small-sized power and heat plant put into operation at the Sirakovo oil and gas field
- A compressed natural gas (CNG) filling facility has been put into commercial operation at PS Novi Sad 10
- NIS sponsors Nišville Jazz Festival for the seventh consecutive year

September

- NIS launches NIS Chance, a programme which provides employment opportunities to young people with no professional experience
- Modernised NIS Petrol station at Autokomanda opened
- NIS supports the International Energy Conference in Sofia entitled "Energy Security and Infrastructure in South East Europe"
- NIS and the Traffic Safety Agency team up and organise the Traffic Safety Week
- NIS and PJSC "Gazprom Neft" partner with the "Novak Djokovic" Foundation to start the implementation of a project for refurbishment of physics and chemistry labs in the schools damaged in last year's floods in Serbia

October

- Sale of 100-octane gasoline G-Drive 100 launched at GAZPROM petrol stations
- Completion of additional modernisation works at two refining plants in Pančevo - FCC and Alkylation
- NIS presented on the benefits of using compressed natural gas at the Energy Fair
- NIS signed the Memorandum of Cooperation with the Belgrade University's Faculty of Civil Engineering, Faculty of Mechanical Engineering and Faculty of Chemistry
- Opening of PJSC "Gazprom Neft"-supported exhibition Let's Discover the Arctic at Kalemegdan, Belgrade
- Business Registers Agency ranked NIS the most profitable company in Serbia
- NIS announced its consolidated business report for 9M 2015
- Extension of cooperation between NIS and the Belgrade University, started back in 2010
- NIS received the prestigious SAP Quality Award 2015 for a successful implementation of SAP solution in the Business Transformation Category for Central & Eastern Europe
- NIS hosted the fourth consecutive Investor Day to inform investors about business results for nine months of 2015
- NIS organised the first HR conference on recruitment and selection in Serbia

November

- NIS awarded for best investor relations by the Belgrade Stock Exchange
- NIS and the Exit Foundation announced a contest entitled Youth Heroes, aiming to promote young people who represent positive role models in the society
- NIS was the general sponsor of the Science Festival for the third consecutive year
- NIS voted the most profitable company in Serbia by "BUSINESS TOP," a list published by the Business and Finance magazine

December

- Renowned World Finance magazine voted NIS the leading oil and gas company in sustainable development in Eastern Europe
- Opening of a new, GAZPROM-branded petrol station Novi Beograd
- Opening of the final of the ten school labs refurbished as part of the collaboration between PJSC "Gazprom Neft" and NIS with the "Novak Djokovic" Foundation
- NIS awarded for its contribution to developing non-financial reporting, a prestigious award presented to companies issuing social responsibility reports against the Global Reporting Initiative (GRI)
- NIS signed the Memorandum of Cooperation with the Sombor Faculty of Pedagogical Sciences
- NIS awarded for the most comprehensive approach to talent development by Stanton Chase, an international executive search company

IMPORTANT EVENTS FOLLOWING THE DATE OF REPORTING

January

- 3D seismic survey successfully completed at Turija II exploration area
- New generation of trainees of NIS Chance programme has signed employment contracts

February

- New loyalty program "On the Road with Us" launched
- Additional modernization of Bitumen Production Unit in Pancevo Oil Refinery finished
- Kirill Kravchenko, General Director of *NIS j.s.c. Novi Sad*, declared the most powerful foreigner in Serbia by daily Blic for the 7th year in a row

March

- Two modern laboratories for physics and chemistry opened at the Technical Faculty "Mihajlo Pupin" in Zrenjanin with the support of NIS
- NIS presented at the International Days of Energy and Investments in Novi Sad the advantages of the use of compressed natural gas
- PJSC "Gazprom Neft" will support the interior decoration work on the main dome of the Church of Saint Sava in Belgrade

GROUP'S PROFILE

NIS Group is one of the largest vertically-integrated energy systems in South East Europe. NIS Group operates in crude oil and natural gas exploration and production, refining of crude oil and natural gas; sales and distribution of a wide range of petroleum and gas products; and implementation of petrochemicals and energy projects.

EXPLORATION AND PRODUCTION BLOCK

Exploration and Production Block covers exploration, production, infrastructure and operational support to production, management of oil and gas reserves, oil and gas reservoir engineering, and major exploration and production projects. Major portion of NIS oil deposits are in Serbia; however NIS has made a breakthrough into the region, conducting explorations in Bosnia and Herzegovina, Hungary and Romania. In Angola, NIS has been operating since 1980; it began oil exploitation in that country in 1985

Elemir-located plant for the preparation of natural gas, production of LPG and natural gasoline and CO_2 capture is also operated by Exploration and Production Block and it has a total design capacity of 65,000 tonnes of LPG and natural gasoline per year.

Through its subsidiary, Scientific and Technological Centre (STC) NIS Naftagas d.o.o. Novi Sad, NIS provides scientific and technical support to the parent company's prevailing activity and aims to ensure development and innovation in its business area.

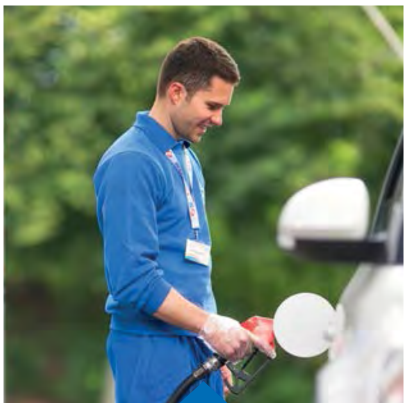
SERVICES BLOCK

Services Block provides various services in exploration for and production of oil and gas, ranging from geophysical research, well construction, completion and workover to special well operations and measurement services. This Block also provides services of equipment maintenance and construction and maintenance of oil and gas systems and facilities. In addition to carriage of goods and engagement of machinery, Services Block also provides passenger transportation and car rental services.

Services Block has expanded its business to foreign markets, namely Bosnia and Herzegovina, Romania and Russia.

REFINING BLOCK

It deals with refining of crude oil and other raw materials as well as the production of petroleum products. It outputs a wide range of petroleum products: from motor and power fuel to the feed for petrochemical industry, and other crude-oil-related products. Refining Block's processing complex is made up of two production units located in the towns of Pančevo and Novi Sad. The maximum designed capacity of both refineries processing plants (in Pančevo and Novi Sad) exceeds seven million tons of crude oil a year. The Pančevo Refinery is operational, with its designed capacity of 4.8 million tons per annum, while the Novi Sad Refinery has been on a stand-by and its designed capacity of 2.5 million tons per annum is currently not in operation.



SALES AND DISTRIBUTION BLOCK

Sales and Distribution Block is structured around external and internal trade, wholesale, retail in petroleum products and associated products. NIS runs the largest retail network in Serbia and is growing its sales and distribution business into regional countries - Bosnia and Herzegovina, Bulgaria and Romania. In the market of Serbia and the region, NIS is present with two brands: *NIS Petrol* and *GAZPROM*.

As separate business lines, NIS is developing aviation fuel supply, bunkering, lubricants and bitumen sales.

ENERGY BLOCK

Energy Block is in charge of production of electricity and thermal energy from conventional and renewable sources, gas and electricity sales, development and introduction of strategically important energy projects, development and implementation of projects for energy efficiency improvement.

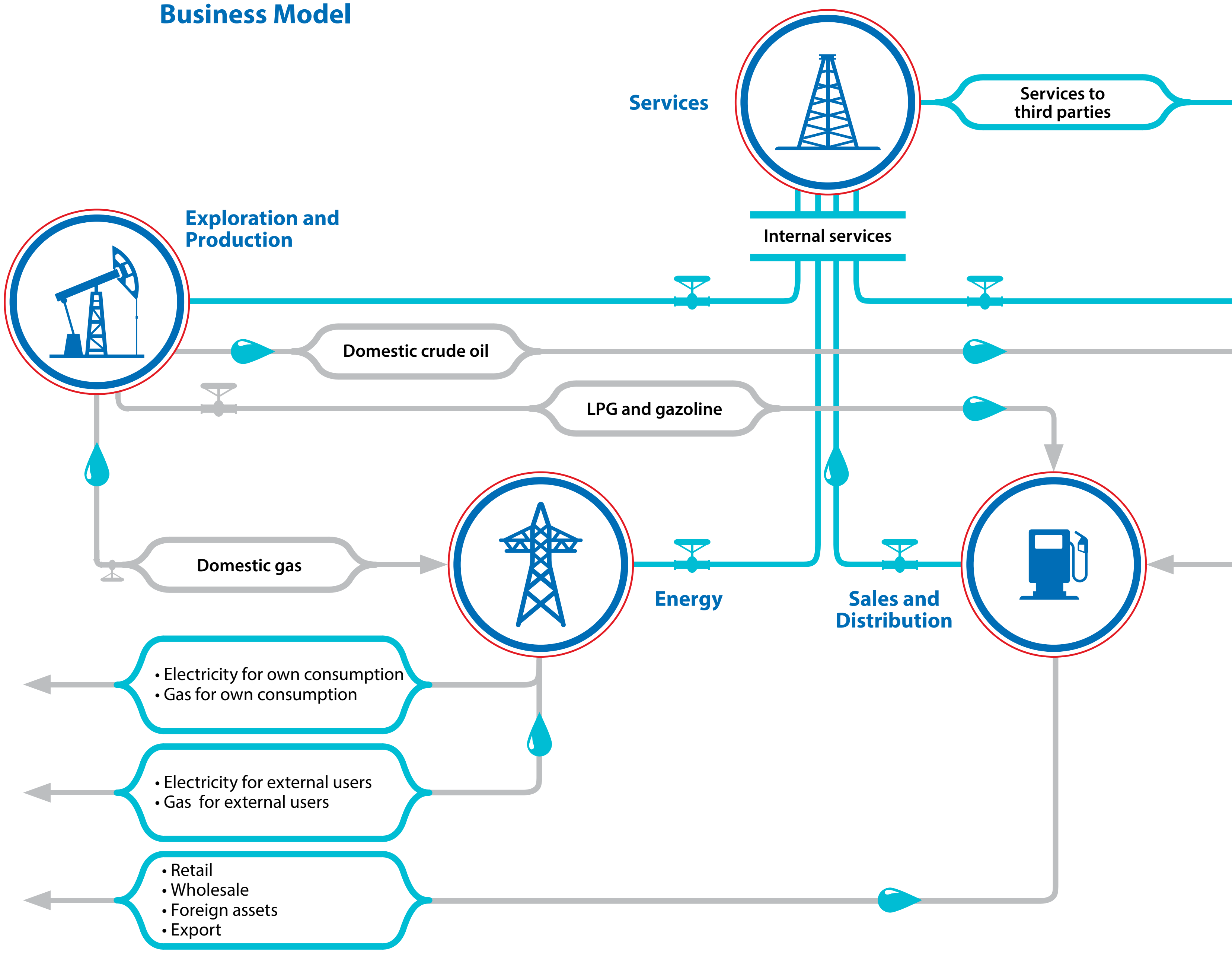
Energy Block develops and implements energy projects within NIS Group, analyses and evaluates investment projects in the Serbian energy sector as part of strategic partnerships.

NIS Group core business is supported by supporting functions within the parent Company *NIS j.s.c. Novi Sad*. Five out of ten supporting functions are partially de-centralized, with their functionally subordinate departments in Blocks[1], while all other functions are centralised[2]. One of the General Director's deputies is in charge of petrochemical operations.

[1] Function for Finance, Economics, Planning and Accounting, Function for Strategy and Investment, Function for Material and Technical and Service Support and Capital Construction, Function for Organisational Issues and Function for HSE

[2] Function for Legal and Corporate Affairs, Function for Corporate Security, Function for External Affairs and Government Relations, Function for Public Relations and Communications and Function for Internal Audit (Function for Internal Audit reports to General Director, while the person in charge of internal supervision reports to the Audit Commission of the Board of Directors).

Business Model



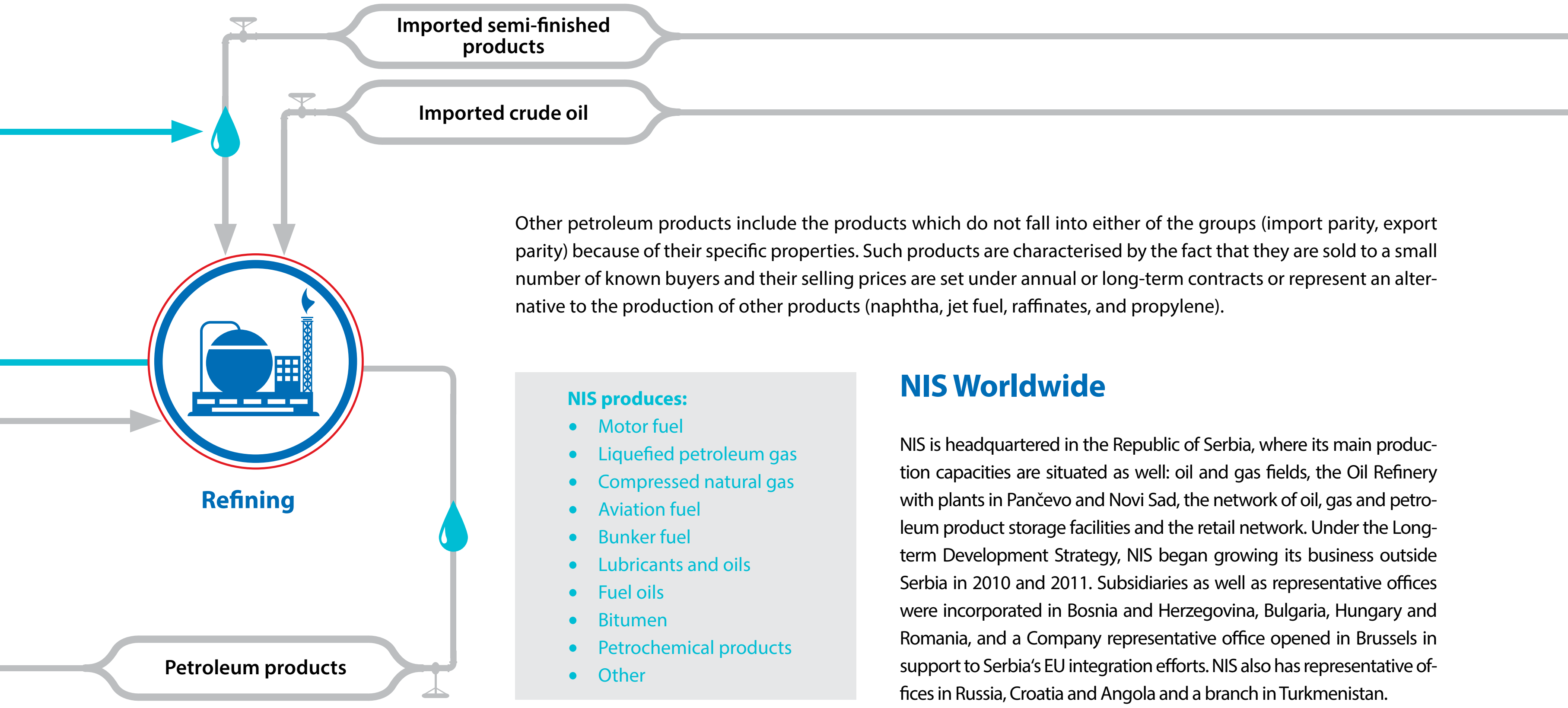
Intersegment Pricing

The concept of intersegment pricing is based on the market principle and the principle of "one product - one intersegment price". This "one product - one intersegment price" principle means that the movement of one product through different profit centres within NIS is valued at a single intersegment price, irrespective of which profit centres the movement involves.

Those intersegment prices that serve for generating internal revenues between NIS' business segments have been so determined as to reflect the market position of each business segment.

Intersegment prices are divided into:

- Intersegment price of domestic oil (between Exploration and Production Block and Refining Block) set as per the export parity price
- Intersegment price of natural gas (between Exploration and Production Block and Refining Block, and between Exploration and Production Block and Energy Block), which is equal to the lowest selling price of natural gas at which NIS sells natural gas to external buyers
- Intersegment price of petroleum products and natural gas products (between Refining Block and Sales and Distribution Block, between Exploration and Production Block and Sales and Distribution Block, and between Refining Block and Energy Block) set based on the following principles:
  - Import parity - the principle used for the calculation of intersegment prices of imported products
  - Export parity is used for products which are exported only or which are exported to certain extent



Other petroleum products include the products which do not fall into either of the groups (import parity, export parity) because of their specific properties. Such products are characterised by the fact that they are sold to a small number of known buyers and their selling prices are set under annual or long-term contracts or represent an alternative to the production of other products (naphtha, jet fuel, raffinates, and propylene).

NIS produces:

- Motor fuel
- Liquefied petroleum gas
- Compressed natural gas
- Aviation fuel
- Bunker fuel
- Lubricants and oils
- Fuel oils
- Bitumen
- Petrochemical products
- Other

NIS Worldwide

NIS is headquartered in the Republic of Serbia, where its main production capacities are situated as well: oil and gas fields, the Oil Refinery with plants in Pančevo and Novi Sad, the network of oil, gas and petroleum product storage facilities and the retail network. Under the Long-term Development Strategy, NIS began growing its business outside Serbia in 2010 and 2011. Subsidiaries as well as representative offices were incorporated in Bosnia and Herzegovina, Bulgaria, Hungary and Romania, and a Company representative office opened in Brussels in support to Serbia's EU integration efforts. NIS also has representative offices in Russia, Croatia and Angola and a branch in Turkmenistan.

NIS Group Business Structure[3]

NIS
GAZPROM NEFT

REPRESENTATIVE AND BRANCH OFFICES

- Turkmenistan Branch Office
- Branch Offices in Serbia
- Angola Representative Office
- Bulgaria Representative Office
- Croatia Representative Office
- Kingdom of Belgium Representative Office
- Bosnia and Herzegovina Representative Office
- Hungary Representative Office
- Romania Representative Office
- Russian Federation Representative Office

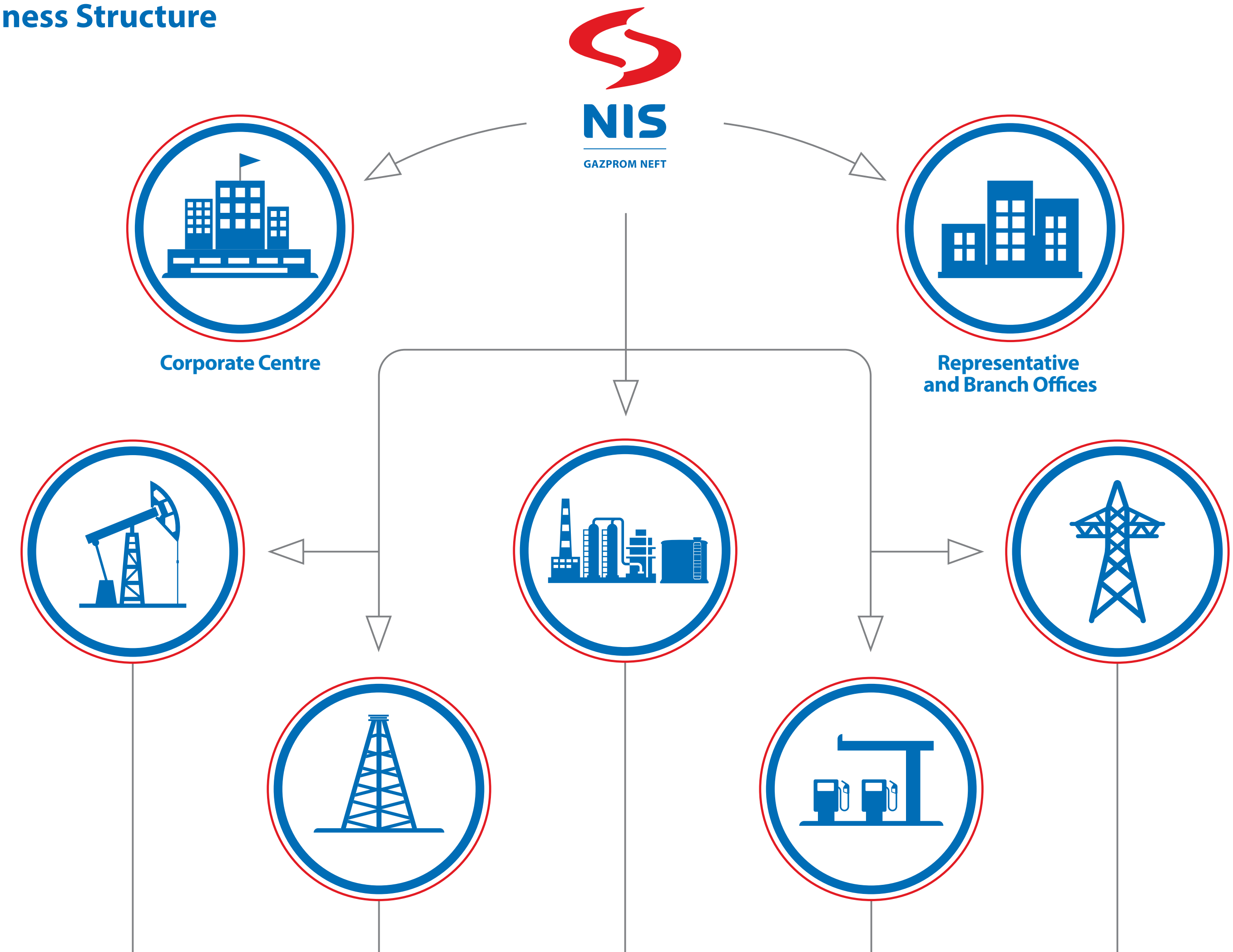
SUBSIDIARIES

- Ozone a.d. Beograd
  - NIS Energowind d.o.o. Beograd
- Naftagas - Naftni Servisi d.o.o. Novi Sad
- Naftagas – Tehnički servisi d.o.o. Zrenjanin
- Naftagas - Transport d.o.o. Novi Sad
- NTC NIS-Naftagas d.o.o. Novi Sad
- NIS Oversees o.o.o. Saint Petersburg
- NIS Petrol e.o.o.d. Sofia
- NIS Petrol s.r.l. Bucharest
- NIS Petrol d.o.o. Banja Luka
  - G-Petrol d.o.o. Sarajevo
- Pannon Naftagas k.f.t. Budapest
- Jadran Naftagas d.o.o. Banja Luka
- NIS-Svetlost d.o.o. Bujanovac

[3] Under the Law on Tourism of the Republic of Serbia, if a company does not operate a hospitality business as a core activity, in order to perform these activities, it is obligated to form a branch office, i.e. premises outside its headquarters and register it accordingly, or otherwise establish an organisational unit that is recorded in the Tourism Registry. For this reason, the Company registered all petrol stations at which it operates a hospitality business as separate branches. The list of petrol stations which are registered as branches is posted on the website: http://ir.nis.rs/o-nama/grupa/#c88.

On 21 April 2015, the liquidation procedure of Jubos d.o.o. Bor Company was initiated, on 15 October 2015, the company was stricken off the Register of Companies run by the Agency for Business Registration

NIS j.s.c. Novi Sad Business Structure



Exploration and Production

- Oil and Gas Exploration Department
- Department for Geological Research and Reservoir Engineering
- Drilling Department
- Department for Drilling Works
- Capital Construction Department
- Department for Perspective Development and Foreign Assets
- PEC Department
- Oilfield Services Management Department
- HSE Sector
- Project Activity Centre
- HR Section

Services

- Oilfield Services Management Centre
- PEC Department
- Chief Engineer
- Sector for MT and SS
- HR Sector
- HSE Section
- Oilfield Services Contracting Section
- Waste Mud Unit

Refining

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

Sales and Distribution

- Commercial Affairs
- Retail
- Development
- Logistics Department
- Department for Sales Coordination
- PEC Department
- Organisational Affairs Department
- MT and SS Department
- HSE Sector
- Metrology Section
- Controlling and Audit Section

Energy

- Investment Project Support Department
- Department for Development
- Electricity Trade Department
- Department for Trading and Managing Natural Gas Portfolio
- Energy Facilities Exploitation Department
- PEC Department
- HSE Sector
- MT and SS Section

MISSION

Using natural resources and modern technologies, give the people in the Balkans the energy that will drive them towards the better.

VISION

As a vertically integrated energy company, and within its portfolio, NIS j.s.c. Novi Sad will be a recognized leader in the Balkans, pursuing the pace of sustainable development, efficiency increase while exhibiting at the same a high level of social and environmental responsibility, in line with contemporary standards of customer service.

NIS GAZPROM NEFT FUTURE AT WORK

VALUES

Professionalism:
Gaining contemporary know-how in order to constantly improve the expertise with ability to apply it in a specific work process.

Initiative and responsibility:
Finding and proposing new solutions, both in terms of work commitments, and in the sphere of Company’s interests.

Positivity and cooperation:
Willingness to participate in multi-functional groups and projects, helpfulness to colleagues from other organizational units of the Company, readiness to exchange information, and the team work capacities.

Shared result:
Joint venture in order to achieve visible and impressive results, striving to accomplish success with the foreseeable mutual assistance and cooperation of employees.

NIS.EU


ЈА
САМ
НИС
У сигурном
кругу
Најбољи
Колективни
уговор у региону
Модеран систем
управљања
зарадама
Више од 20
бонус шема
Богат
социјални
пакет
Добровољно
пензионо
осигурање
стамбени
кредити
Развој

STRATEGY

Strategic Objectives

External Environment

The adverse macroeconomic environment, which is forecasted to continue in the near future, brings new challenges for the oil industry. The Middle East is aggressively developing not only oil and gas production, but also its refining capacities. Consequently, low prices of crude oil and increased refining throughput of petroleum products are jeopardising the stability of the industry globally.

Development Areas

In the near future, our efforts will be fully concentrated on maintaining profitability and maximising shareholders' return in the deteriorating macroeconomic conditions, while laying the ground for further development.

The focus will be:
1. maintaining the resource base growth indicators;
2. continuing with modernisation and efficiency increase projects at the Pančevo Oil Refinery;
3. further developing the retail network and
4. diversifying the business by investing in energy projects.

Special attention will be dedicated to the optimisation of all operational indicators of business.

Exploration and Production

With regard to exploration and production, special attention will be given to increasing the efficiency of existing reservoirs and to measures to reduce production losses. Our exploration activities in Serbia will continue, as well as potential exploration of unconventional resources in the middle term. NIS has continuously been researching into concession opportunities, analysing business prospects in the region and beyond, with the aim of ensuring long-term sustainable development.

Refining

In consequence of the development of global refining capacities, especially in the Middle East, only the most complex refineries in the Mediterranean region and in Europe will be able to compete on an equal footing and to maintain profitability in the long run. To that end, we are continuing the modernisation of refining facilities, along with our efforts to increase operational efficiency and all relevant refining indicators.

Sales

NIS will pursue its sales expansion focusing primarily on the increased realisation in premium retail and wholesale channels, which sell fuel produced at Pančevo Refinery. Other than that it will aim to increase the retail profitability by selling larger quantities of branded fuel and by developing non-fuel goods and services sales, while remaining highly competitive in all markets of its business operations. Addressing the issue of petrol stations format will result in the efficient management of two retail brands (*NIS Petrol* and *GAZPROM*); this also includes the increased number of standard format petrol stations and the optimisation of inefficient facilities, as well as boosting operational business efficiency of the existing refuelling stations network.

Energy

In the energy sector, investments will primarily go to the project for combined heating and power plant in Pančevo and cogeneration projects. Numerous options and development plans involving Serbia have been considered, which means a full monetisation of own natural gas. These projects should help maximise the effects of own energy sources and meet the internal energy demand with sales of surplus energy to external buyers, in parallel with further development of gas power plants and the production and sale of compressed natural gas. Energy Block is developing diverse energy sources - from conventional to renewable energy sources, which will be used to produce electricity and heat to meet the market demand.

Petrochemical Projects

Main strategic objectives related to HIP Petrohemija are focused on this company's exit from a long lasting business crisis, with the creation of the conditions for a long-term stable and sustainable business through a comprehensive recovery and implementation of development projects, also including the formation of conditions for the second phase of development. Since the development of the refinery and petrochemical refining should go in the direction of utilization of the existing petrochemical raw materials, and the conversion of petrochemical raw materials into polymers.

RISK MANAGEMENT

Integrated Risk Management System

NIS has set its risk management targets and established an integrated risk management system (IRMS).

Risk management goal is to ensure additional guarantees for meeting strategic and operational objectives by timely identification and prevention of risks, identification of effective measures and delivery of maximum efficiency of risk management measures.

IRMS is a systematic, structured, unified and on-going process of risk identification and assessment, identification of risk management measures and monitoring of their implementation. It allows for a consistent and clear-cut framework for risk management and reporting from business operations to the management of *NIS j.s.c. Novi Sad*.

Risk management has been incorporated into the NIS environment through the implementation of the following activities:

- Adoption of the risk-oriented approach in all aspects of production and management activity;
- Systematic analysis of identified risks;
- Establishment of a risk monitoring system and monitoring of the efficiency of risk management measures;
- Communication of adopted basic risk management principles and approaches to all employees;
- Provision of necessary normative and methodological support;
- Distribution of risk management powers and responsibilities between organisational units.

NIS IRMS Process Flow

*Or as needed.

The system's underlying principle is that the responsibility for managing various risks is assigned to different management levels depending on an estimated financial impact of the risk. Such approach allows for defining areas of responsibility for risk management and monitoring at all management levels, and for preparing corresponding action plans for managing key risks at the level of organisational units and *NIS j.s.c. Novi Sad* as a whole. All major subsidiaries[4] are also covered by the process through the preparation of a consolidated risk registry. The parent Company has set up the Risk Assessment Section, which coordinates the process and ensures its continuous development.

Furthermore, management systems, the organisational structure, processes, standards and other regulatory documents, the Code of Corporate Governance and the Code of Business Ethics altogether form an internal control system which gives guidance for implementing NIS' business activities and effective management of associated risks.

[4] NIS Petrol EOOD, NIS PETROL s.r.l., NIS Petrol d.o.o., Jadran–Naftagas d.o.o., Pannon Naftagas Kft, Naftagas-Tehnički servisi d.o.o., Naftagas-Naftni servisi d.o.o., Naftagas-Transport d.o.o.

IRMS Integration into Business Planning Process

Risk assessment is incorporated into business planning processes and information on key risks is incorporated into business plans.
Risks are reviewed in parallel with business planning processes. With respect to key risks, management targets (management strategies) are defined, as well as risk management measures, financial resources needed and people responsible for the implementation of measures. If internal and external circumstances should change, the list of key risks and corresponding risk management measures and resources needed may be revised throughout the year.
In its business operations, the Group is exposed to industrial (operational) and financial risks.

Operational Risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Risks Associated with Oil and Gas Exploration and Production	
With respect to geological research, the goal of NIS Group is to increase the resource base and production. This largely depends on the outcome of geological and exploration activities aiming at increasing 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 to achieve planned resource base growth.	Measures applied to mitigate the risks are selecting candidates for exploration drilling based on seismic and geological interpretation of new 3D seismic data, expertise in geological research provided by the majority shareholder and selection of most prospective wells, application of latest exploration methods, and experience in geological research, all of which reduces the probability of risks arising.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Market Risks	
Foreign Exchange Risk – NIS Group operates in an international setting and it is exposed to the risk of volatile foreign currency exchange rates, arising from business transactions in different currencies, primarily USD and EUR. The risk is associated with future business transactions and recognised assets and liabilities.	Part of the risks relating to the impact of the national currency exchange rate against USD is neutralised through natural hedging of petroleum product selling prices, which are adjusted to changes in the exchange rate. Risk management instruments are also used, including forward transactions on the foreign exchange market, which reduces the impact of foreign currency losses in the event of depreciation of national currency against USD or EUR. Other measures include balancing of the foreign exchange equilibrium in terms of adjusting the currencies in which export transactions are denominated with the currencies of foreign liabilities; managing the currency structure of the loan portfolio etc.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Market Risks	
Price Change Risk – In view of its core activity, NIS Group is exposed to price change risks, namely the price of crude oil and petroleum products, which affects the value of inventories and margins in oil refining, 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. Whether commodity hedging instruments will be applied in Gazprom Neft 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 in order to reduce potentially negative impact of the risk: • Annual planning based on the multiple scenarios approach, plan follow-up and timely adjustment of crude oil procurement plans; • Regular sessions of the Crude Oil Procurement Committee to discuss all major subjects related both to the procurement and sale of crude oil (Angola-Palanca crude oil); • Tendency to enter into long-term contracts for crude oil purchase at most favourable commercial terms, including extended payment terms on an open account basis and entering into purchase contracts based on which NIS would, in line with current intergovernmental agreements, be exempted from the payment of customs clearance fees at import based on preferential status; • Occasional benchmarking for the purpose of market research and price trend analysis, i.e. analysing commercial capacities of major prospective suppliers of crude oil, renowned companies which are dominant and reliable in crude oil trading; • Daily follow-up of crude oil publications, analysis/testing of crude oil which has not been used in NIS refining plants, with analysing and reviewing potential commercial terms of procurement.
Interest Rate Risk – NIS Group is exposed to the interest rate risk both in terms of its indebtedness with banks and placement of deposits.	*NIS j.s.c. Novi Sad* takes out loans from commercial banks at floating interest rates and performs sensitivity analysis with respect to changes in interest rates in order to estimate if raising a loan at a flat interest rate is required to a certain extent. Term deposits are placed exclusively with major commercial banks from which *NIS j.s.c. Novi Sad* takes out loans and/or credit/documentary lines. Moreover, the term deposits, both in RSD and in foreign currency, are short-term (up to 90 days), at flat interest rates. Based on the aforesaid, revenues and cash flows are substantially independent of changes in market interest rates on deposited funds in the form of term deposits, although the interest rates that *NIS j.s.c. Novi Sad* can obtain in the market heavily rely on the base interest rate at the moment of depositing (Belibor - reference interest rate of the National Bank of Serbia).
Credit Risk	
Credit Risk is related to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans granted to foreign or local subsidiaries, as well as due to the exposure in wholesale and retail sale risks, including unrecoverable debt and assumed payment obligations.	Credit risk management is established at the level of NIS Group. With respect to credit limits, banks are ranked in line with adopted methodologies applicable to core and other banks with the aim of setting the maximum amount of exposure of *NIS j.s.c. Novi Sad* to the bank at any given time (through facilities to secure claims from one bank, documentary instruments (bank guarantees, Letters of Credit etc.) issued to *NIS j.s.c. Novi Sad*). Regarding the accounts receivable, a methodology for credit limits has been developed and serves as a basis for defining the level of exposure in relation to specific customers, depending on their financial indicators.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Liquidity Risk	
Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities. It is the risk of having insufficient sources of financing for the Group's business operations.	NIS Group continuously monitors liquidity in order to ensure sufficient cash to meet its operational and investment needs and financial liabilities. To this end, it is continually contracting 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). Liquidity forecasts take into account the Group's plans debt repayment schedules, compliance with contractual terms and compliance with internally-set goals, and it is based on the daily cash flow projections of the entire NIS Group which are the basis for making decisions regarding raising external loans, in which case adequate bank financing sources are secured, provided compliance with the allowable limits set by PJSC "Gazprom Neft". Aiming to increase liquidity and decrease dependence on external financing sources, as well as to decrease NIS Group's costs of financing, as of 1 January 2014 the Group has applied the cash pooling system for liquidity management, which involves centralized management of liquidity and financing with respect to the division of NIS Group in the Republic of Serbia[5]. Since mid-September 2014, throughout 2015 *NIS j.s.c. Novi Sad* has been exposed to limited external financing capabilities, as already stated, due to the imposing of sectorial sanctions by the EU and the U.S.A. on the largest Russian-owned power generating companies incorporated outside EU. Owing to continuous monitoring of geopolitical situation and capital market trends, as well as timely response and entering into lines of credits with banks before the aforesaid sanctions were imposed, NIS managed to secure sufficient limits for documentary business and for credit financing of NIS Group in 2015. Furthermore, with the aim of acquiring necessary funds for future transactions, in 2015 NIS has negotiated/contracted new credit lines with Serbian and Russian banks for unlimited funding purposes and with Serbia-based European banks for funding imports from the EU (exempt from the sanctions), thus ensuring the necessary funds for 2016.

Other Risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Risk Arising from Sanctions against Russian Companies and Gazprom Neft Group	
Sanctions imposed against Russian companies and the Gazprom Neft Group brought about risks to long-term development prospects due to restrictions regarding loan arrangements with commercial banks from EU- and USA-based bank groups.	NIS continuously monitors international developments, assessing consequences to the business and undertaking appropriate actions to minimize any adverse impacts on the Group's performance.

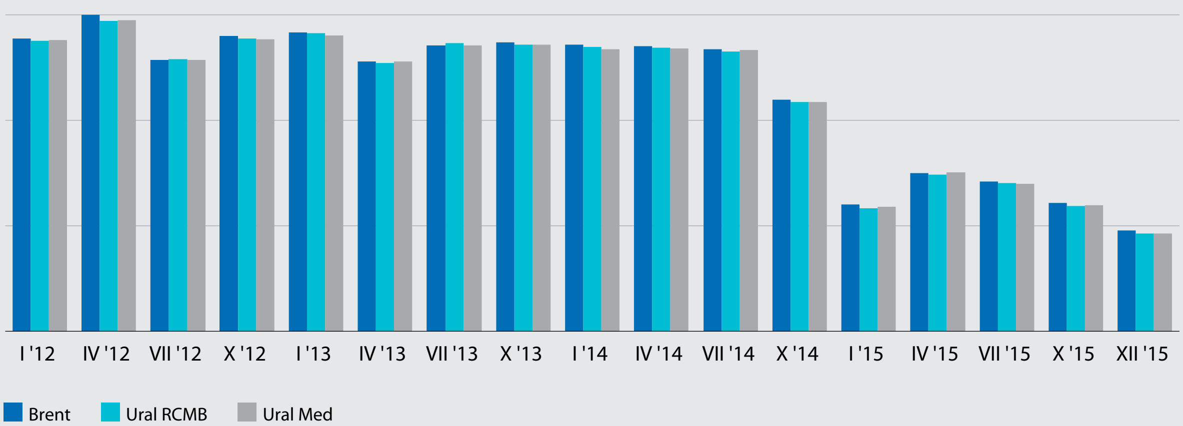
[5] NIS j.s.c. Novi Sad and subsidiaries Naftagas-Naftni servisi, Naftagas-Tehnički servisi, Naftagas-Transport and NTC Naftagas-NTC.

BUSINESS ENVIRONMENT

World

Crude oil price continued plunging throughout 2015, and December saw the drop of the price of one barrel on the London market below 40 dollars for the first time since the 2009 recession, plunging in the American market as far down as 36 dollars. Many analysts point out that the oil price drop is a consequence of poor demand driven by the slowing down of global economy's growth, primarily that of China, the world's biggest raw materials consumer. On the other hand, production is still high because the world's biggest manufacturers have not been successful in reaching an agreement on the reduction of production in order to support the prices. There is fear in the world over the diminishing storage capacities in the conditions in the conditions of oversupply.
The US President has lifted the ban on the export of crude oil from the country, which was in effect for four decades. However, the US can hardly "remove" Russia from the position it occupies in the European oil market, because for Europeans American oil is far more expensive than Russian oil.
The change in the interest rates and dropping investments will result in a reduction of the American oil production; Iraq is facing infrastructural limitations in production, and it would appear that Saudi Arabia is at the end of the rising cycle, which indicates that OPEC's production will remain at the present level. American shale oil production, a foundation of the great production hike in recent years, will decrease in the next year by 600,000 barrels a day, the data of the International Energy Agency (IEA) show. At the same time, after lifting the sanctions, Iran has been intensifying its production, so the IMF estimates that the growth of the Iranian oil export will have an additional effect on the oil price, and bring it down by 5 to 15 dollars per barrel.

Brent and Urals price trends during 2012-2015[6]



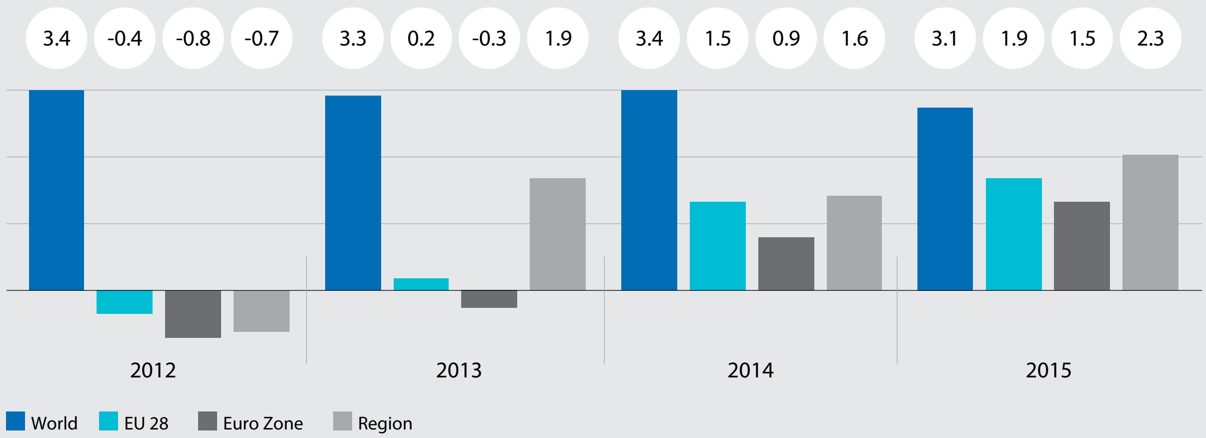
Other than increased production, crude oil prices have also been under pressure due to high U.S. dollar exchange rate, as the U.S. central bank or FED is poised to increase key interest rates next year, having increased them in December for the first time since 2006. On the international foreign exchange markets, the currencies of the important oil exporters have been under sale pressure due to the oil price drop, with the Japanese yen gaining in strength and the Euro benefitting. The Russian rouble fell to nearly 70 roubles per dollar.

[6] Source: IMF World Economic Outlook (WEO), October 2015
Region: Albania, B&H, Bulgaria, Montenegro, Hungary, Macedonia, Serbia, Romania, Croatia

In its report published in October 2015, the IMF notes that the world economy still grows at a modest pace, given that the recovery of the developed economies is still moderate and the growth in developing economies is losing momentum. Growth slowing down for the fifth year running is a reflection of a combination of factors: the poorer oil exporters' growth, Chinese economy's growth slowing down, with a less intensive reliance upon commodity-intensive investments, adaptation after a more intensive use of bank loans and investments, and diminished prospects for exporters of other goods, including the Latin American ones.

Although IMF slightly reduced previous forecast for global economic growth in 2015 and 2016 in its regular fall forecast, growing recession in Brazil, Middle East problems and strengthening of the dollar brought about an additional reduction to 3.4% of the new forecasts for the global economy growth, as it was made public during World Economic Forum Davos 2016.

Global GDP changes[7], in %



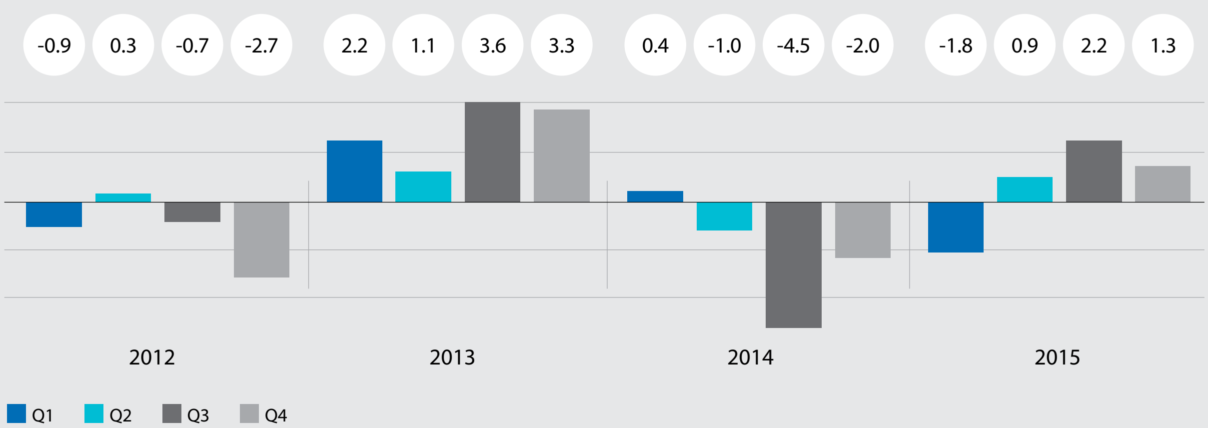
Serbia

The statistical data on industrial production, exports, possible investment activities, and retail sales in the country reveal a tendency of strengthening economic activity in Serbia.

The inflation has been oscillating below the baseline of the allowed deviation from the target, primarily due to an unusually low contribution of the growth of regulated prices and a pronounced drop of primary product prices.

In 2015, GDP grew by 1.5 per cent as a result of an earlier recovery of the mining and energy sector as well as a faster growth of the processing industry.

GDP changes in Serbia quarter over quarter (%)

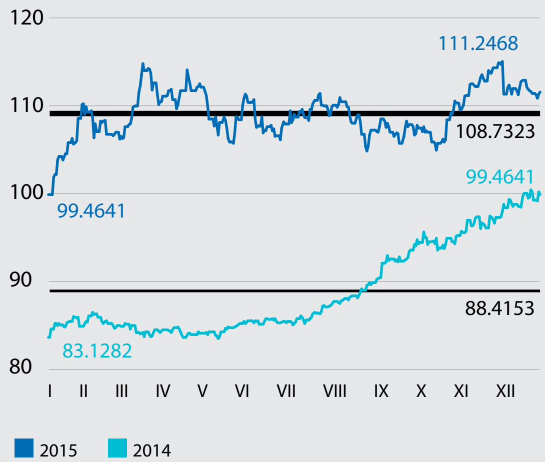


[7] Source: IMF World Economic Outlook (WEO), October 2015
Region: Albania, BH, Bulgaria, Montenegro, Hungary, Macedonia, Serbia, Romania, Croatia

The growing industrial production dynamic is expected to continue. The processing industry had the biggest growth. The growth of exports was one of the key factors in industrial production growth. The biggest problems can at the present moment be found in the chemical industry.

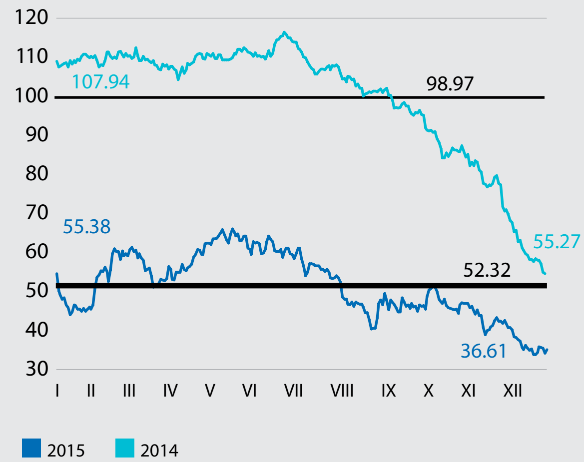
The growth of employment from 42.3% in second quarter to 43.2% in third quarter 2015, spurred on by a higher participation rate, mostly comes from the agriculture, industry, and construction sectors.

USD/RSD exchange rate changes[8] +23%



- Average USD/RSD exchange rate in 2015 is higher by RSD 20.3170, i.e. 23% of the 2014 average.
- In 2015, the USD/RSD exchange rate grew by RSD 11.7827, i.e.12%.
- In 2014, the USD/RSD exchange rate grew by RSD 16.3359, i.e. 20%.

Brent oil price[9], $/bbl -47%



- Average Brent oil price in 2015 is lower by 46.65 $/bbl, i.e. -47% of the 2014 average price.
- In 2015, Brent oil price is lower by 18.77 $/bbl, i.e. -34%.
- In 2014, Brent oil price is lower by 52.67 $/bbl, i.e. -49%

Legislative Changes

In 2015, the legislative activity in the Republic of Serbia was highly intensive and the goal was to harmonise domestic regulations with EU regulations on labour law, environmental protection, planning and construction, mining and geology etc. In this period, the National Assembly enacted several important laws:

- Law on Inspection Controls, which systematises the work and organisation of inspection controls (procedures, powers and obligations of inspection control participants, coordination of inspection controls, better utilisation of inspection resources etc.)
- Law Amending the Privatization Law, whereby the period to complete the process of privatisation of 17 companies of major importance to the Republic of Serbia is extended.
- Law Amending the Chemicals Law, which allowed for harmonising the Law with corresponding EU regulations and creating conditions for efficient inspections of the use of chemicals.
- Law Amending the Fire Protection Law, delineating the conditions to be met both in designing phase and usage of facilities, with regulation of mandatory staff/employee training, all with the aim of improving fire protection conditions in facilities in which activities with high risk of fire are performed.
- Law on Mining and Geological Research, which delineates geological research and mining activities and introduces a majorly important possibility of expropriation to

[8] Source: NBS
[9] Data for Europe Brent Spot Price FOB; Source: U.S. Energy Information Administration (http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm)

the benefit of holders of exploitation rights i.e. applied geological research in private property, and a possibility of trial operation of exploration wells (temporary exploitation).

- Law on Flammable and Combustible Liquids and Flammable Gases, which sets forth the conditions for setting up, construction and reconstruction of facilities for production, storage and sales and distribution of the foregoing substances and ensuring the required level of safety.
- Law on Legalisation of Buildings, which, unlike preceding regulations on this matter, regulates legalisation of buildings as a matter of public interest, allows for simpler procedures, and reduces the number of documents needed for legalisation as well as the costs of proceedings.

of petroleum products, for which monitoring is enforceable upon coming into force of the Decree, while biofuel monitoring is slated to start on 1 January 2018.

All of the foregoing regulations were analysed by NIS during the adoption phase through its working body – the Regulations Board, who put a lot of effort in harmonising the regulations with the business needs and requirements of energy companies operating in the Republic of Serbia.

In addition to the enacted laws, a number of draft laws were prepared and reviewed in 2015 and they are slated for adoption in 2016, primarily the Draft Law on General Administrative Procedure, Draft Law Amending the Law on Emergencies, Draft Law on Carriage of Dangerous Goods, and Draft Law on Fees for Use of Public Goods etc.

At the close of 2015, the Serbian Parliament passed the Law on Takeover of Liabilities of Public Enterprise Srbijagas Novi Sad to Naftna industrija Srbije a.d. Novi Sad and Conversion of Liabilities to Public Debt of the Republic of Serbia, resolving thus the issue of Srbijagas' outstanding debt. The Law stipulates that the debt must be repaid in six instalments and sets forth 31 May 2018 to be the final deadline for settling the debt.

Early in 2015, by-laws were enacted based on the Law Amending the Law on Planning and Construction, namely 25 by-laws which allows for a full implementation of the amended Law. Also in 2015 by-laws were enacted based on the Energy Law which concerns the marking and control of petroleum products. The new Decree on Petroleum Product Marking delineates the procedure for handling petroleum products which have been removed from sale in inspection control procedures. The Decree on Petroleum Product and Biofuel Quality Monitoring sets forth the terms, methods and procedure of monitoring with the view of increasing the quality

NIS will continue its maximum efforts to contribute to creating a positive business climate in Serbia, especially to highlight the necessity of harmonising regulations and strategies in order to ensure their unhindered and full application.

COMPANION FOR THE FUTURE

On the way to the future it is important to have the right companions. Experience, tradition and openness to constant modernization have positioned NIS as a leader in the domestic market of petroleum products. For decades we have had an ear for our customers‘ needs by investing in the network expansion of NIS Petrol and Gazprom petrol stations, upgrading also the facilities, the services and the product range; we have secured the conditions for a safe and enjoyable travel throughout Serbia and the region. In 2015, we opened 12 gas stations in Serbia, four under the brand GAZPROM, and eight under the brand NIS Petrol. In addition to 10 fuel stations, Belgrade also got a bunkering station “Belgrade” on the Danube, thus ensuring the supply of vessels with Euro-diesel. NIS Petrol gas station in Novi Sad became the first filler station of the compressed gas, the fuel of the future. Likewise, the GAZPROM fuel stations network across Serbia began selling G-Drive 100, the fuel with improved performances which we are very proud of.

NIS GAZPROM NEFT FUTURE AT WORK

NIS.EU

MARKET SHARE

Market Share on Serbian Market

Increase of market share on retail market in the Republic of Serbia

1%

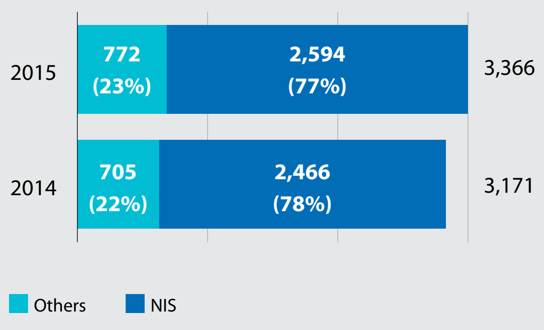
In 2015 the total consumption of petroleum products in Serbia grew, which was mainly a result of the growing consumption of diesel fuels, heavy oil, bitumen and somewhat lower of gasoline, and which was all mainly caused by the lower prices of petroleum products and significant infrastructure works.

Reasons to preserve an extremely big market share of NIS are the business flexibility and readiness to adjust the offer to the clients, even in conditions of extremely dynamic market changes.

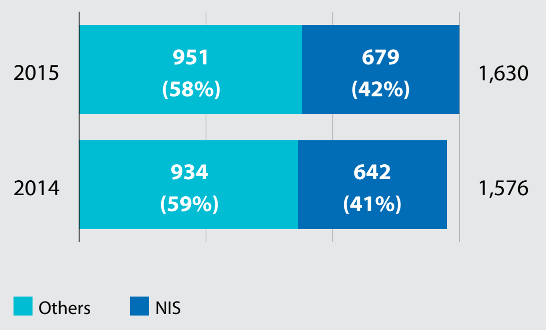
Retail market was enlarged in total by 3.4% in 2015, compared to the same period in 2014. NIS increased its total market share in the Serbian retail marker, with growth in the sale of gasoline and diesel, while the auto gas had a small drop, which is all in line with the consumption trend on the local market.

Portfolio of petroleum products offered in the market was improved this year, specifically in the part of additivated fuels. NIS launched a high-octane gasoline of top quality, under brand: *G-Drive*.

The volume of overall petroleum products market in the Republic of Serbia
thousand tonnes
+6.1%



Retail market in the Republic of Serbia[10]
thousand tonnes
+3.4%



Market Share in Bosnia and Herzegovina, Bulgaria and Romania

Bosnia and Herzegovina

Motor fuels market is recovering slower than the region due to weak commercial activities, although low prices and the cross-border sale contribute to the consumption growth.

Consolidation of retail operators has been observed, where the local distributors' networks of petroleum products are being increased (HIFA, Neskovic, Petric), while the NESTRO Group has been optimizing its network.

Smaller chains which have been territorially present in Republika Srpska or in the Federation are now expanding their network, targeting at the national coverage in the entire Bosnia and Herzegovina.

35 petrol stations are active in Bosnia and Herzegovina[11].

NIS' share in the total motor fuel market is 9.1% and in the retail market 9.4%.

[10] The sales range of NIS and other competitors includes motor fuel (gas, motor fuel, Diesel and EL heating oil used as the motor fuel). LPG cylinders are not included.
[11] Other than these there are another 2 petrol stations in Bosnia and Herzegovina operating in DODO (Dealer Owned Dealer Operated) mode.

Bulgaria

There is a gradual market recovery in the motor fuels market as a result of increased diesel consumption, which should be the key factor for the further and long term growth.

A new refinery block was opened in Bulgaria in May, owned by Lukoil. Hydro-cracking plant will increase the refining capacities by about a million tons of petroleum products intended both for the local market and for export, primarily to the Turkish market.

NIS continues to build its importance as the wholesale market player, specifically in the gasoline distribution.

35 petrol stations are active in Bulgaria.

NIS' share in the total motor fuel market is 3.2% and in the retail market 3.8%.

Romania

MOL, after acquisition of ENI, became the third biggest retail operator in Romania.

OMV Petrom significantly improved its logistic base by finalizing the modernization of the warehouse in Kluz and Bacau, and by building three new depots in Jilava, Brazi and Isalnita, whereby the modern, available storage capacity reached 87,000 cubic meters.

18 petrol stations are active in Romania.

NIS' share in the total motor fuel market is 0.5% and in the retail market 0.7%.

RESULTS ANALYSIS

Key Performance Indicators

Key Indicators	Unit of Measure	2015	2014	$\Delta\frac{2015}{2014}$(%)[12]
NIS Group				
Urals	$/bbl	51.5	98.01	-47%
Net profit	billion RSD	14.6	27.8	-47%
EBITDA[13]	billion RSD	46.5	63.4	-27%
Sales revenue (excluding excise duty)	billion RSD	210.4	258.3	-19%
OCF	billion RSD	51.0	49.6	+3%
Liabilities from taxes and other public revenues[14]	billion RSD	151.9	136.2	+12%
CAPEX[15]	billion RSD	30.3	39.4	-23%
Total indebtedness[16]	million USD	675	626	+8%
Exploration and Production				
EBITDA	billion RSD	38.3	64.8	-41%
Oil and gas production[17]	thousand t.o.e.	1,577	1,653	-5%
Domestic oil production[18]	thousand tonnes	1,058	1,148	-8%
CAPEX	billion RSD	23.2	25.2	-8%
Services				
EBITDA	billion RSD	1.5	1.2	+17%
Well workover services	number of operations	7,807	7,442	+5%
CAPEX	billion RSD	0.8	1.0	-17%
Refining				
EBITDA	billion RSD	-4.6	-6.1	+25%
Oil and semi-finished products refining volume	thousand tonnes	3,281	3,104	+6%
CAPEX	billion RSD	2.8	7.7	-64%
Sales and Distribution				
EBITDA	billion RSD	12.3	8.9	+38%
Total petroleum product sales	thousand tonnes	3,254	3,090	+5%
Sales - foreign assets[19]	thousand tonnes	194	157	+24%
Domestic sales of petroleum products	thousand tonnes	2,585	2,424	+7%
Motor fuels	thousand tonnes	1,698	1,632	+4%
Retail	thousand tonnes	681	643	+6%
CAPEX	billion RSD	2.4	3.7	-36%

[12] All possible discrepancies in percentage values are due to rounding errors. Changes presented in percentage were calculated using indicator values that are not rounded to billions RSD.

[13] EBITDA = Sales revenue (excluding excise duty) – inventory costs (crude oil, petroleum and other products) – operating expenses (OPEX) – other costs that can be controlled by the management

[14] Taxes, duties, fees and other public revenues accrued for the observed period. The overview includes NIS' tax obligations and other public revenues in Serbia and other countries in which it operates. The amount does not include dividends paid out to the Republic of Serbia (in 2014 - 3.9 billion RSD and 2.3 billion RSD in 2015).

[15] CAPEX amounts do not include VAT.

[16] Total indebtedness = total debt to banks + Letters of Credit. As at 31 December 2015, it stands at 663.8 million USD of total debt +11.5 million USD in Letters of Credit.

[17] Due to changes in methodology, domestic oil production includes natural gasoline and light condensate, while gas production takes into account commercial production of gas.

[18] Including natural gasoline and light condensate.

[19] The sales of foreign assets represent the sales accomplished by NIS subsidiaries abroad (retail and wholesale)

Key Indicators	Unit of Measure	2015	2014	$\Delta\frac{2015}{2014}$(%)[12]
Energy				
EBITDA	billion RSD	5.6[20]	0.4	+1,442%
Electricity generation	MWh	123,455	73,058	+69%
CAPEX	billion RSD	0.7	1.0	-36%

Operating Indicators

Exploration and Production

Despite the reduced scope of investments, in 2015 Exploration and Production Block managed to meet the hydrocarbon production plan while increasing hydrocarbon reserves by 8%. The year was also marked by the application of new technologies and innovative solutions - multistage fracturing, horizontal drilling etc. We continued with the implementation of operational efficiency increase programme and we reduced costs, when compared with the previous year.

Key Tasks in 2015

Key tasks for Exploration and Production Block in 2015 were predominantly aimed at the preservation and expansion of the resource base, continuation of geological exploration programme and start of the test exploitation stage in Romania, Hungary and Bosnia and Herzegovina, introduction of new technologies to producing wells etc.

Accomplishments

In 2015, Exploration and Production Block drilled five exploration wells (three are operational, while two are in test phase). Hydro-carbon reserves were increased by 8%.

8%

Estimated growth of hydrocarbon reserves

At Kiskunhalas exploration block in Hungary test exploitation was completed at RAG Kiha-003 well, while the test exploitation of Obudovac-2 well at the exploration block in Bosnia and Herzegovina is under way. The first stage of seismic operations in blocks Ex-7 and Ex-8 is complete (joint project with East West Petroleum). Processing being complete, data interpretation is under way at STC NIS.

3D seismic survey has been conducted at Turija exploration area. For the first time in Pannonian Basin, at Turija oilfield, a "multi-stage" fracturing method has been successfully applied. Fracturing yielded good results in oil and gas production at unconventional deposit, and once hydrodynamic measurements are complete, production options at VPO well shall be determined.

Four new fracturing technologies were tested. New geophysical logging methods were applied. "Stinger blade bit- Schorpion bit SMIT Schlumberger" drilling bits have been procured to operate in case of strong soils. CO_2 gas was injected into deposits to maintain formation pressure (Rusanda project), and at OOO "KANAROS" and OOO "Borets" alternative screw type pumps were introduced.

Functional testing was completed at the Amine Facility at the Production and Transport of Oil and Gas Unit in Elemir for CO_2 capture. On 15 December 2015, "Ludan" and NIS signed a Record on Handover of Amine Facility.

Seeking a more efficient hydro-carbons production infrastructure projects were completed such as connecting of GS Majdan, pipeline construction, installation of mobile compressors…

Approvals for exploration and production of mineral resources and raw materials

Two exploitation permits were obtained (Rusanda Plitko and Martonoš zapad), three permits to conduct mining operations (Čestereg, Torda Plitko and Rusanda Plitko) and one permit to use the completed mining sites (Čestereg). Other than that, two applications were submitted to a competent state body to obtain an exploitation permit (Kasidol and Ostrovo) their issuance pending, as well as two applications to a competent state body to obtain a permit to use the completed mining sites (Torda Plitko and Rusanda Plitko) their issuance pending.

For the underground waters geological exploration process in the Republic of Serbia in 2015 six permits to conduct underground waters geological exploration were granted and an application was made to obtain a permit for Kasidol area.

As for assets abroad in 2015 the signed Annex to the Concession Agreement extended the period to conduct geological exploration at the exploration area in the Republic of Srpska until 31 December 2018, and applications were made seeking the extension of the completion periods for the blocks: 3, 7 and 8 in Romania and "Kelebija" Block in Hungary, their issuance pending.

[20] The Energy Block's EBITDA generated by regular business operations in 2015 amounted to 1.4 billion dinars. In December 2015, the outstanding debts were collected from Srbijagas. Therefore, the effect of this debt collection on the EBITDA of Energy Block amounted to 4.2 billion dinars.

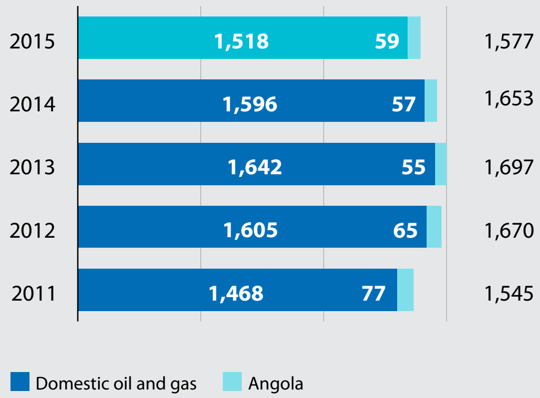
Operational Indicators

Accomplished volume of oil production in 2015 exceeds the planned by 6.7 thousand tonnes. From the planned activities aspect, production from the new drilling and base production are below the plan, which is compensated with the exceeding of the plan in case of other geotechnical operations (by 35 thousand tonnes).

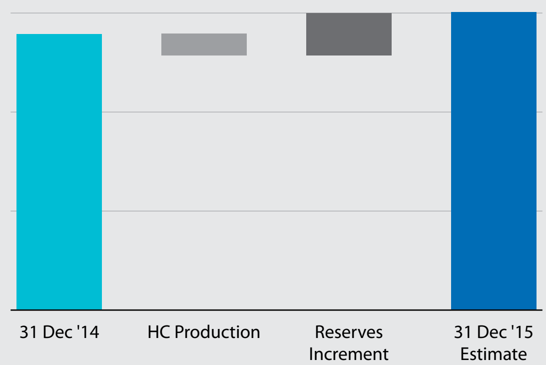
Production of domestic gas slightly exceeds the plan for 2015 (+0,15%), while the production of oil in Angola exceeds the plan for 2015 (+1,03%).

Oil and gas production -5%

thousand t.o.e.

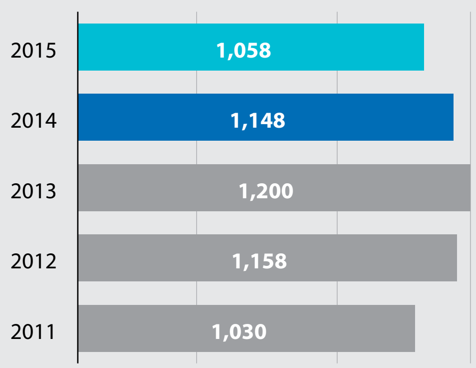


Estimated hydrocarbon reserves increase in 2015 +8%



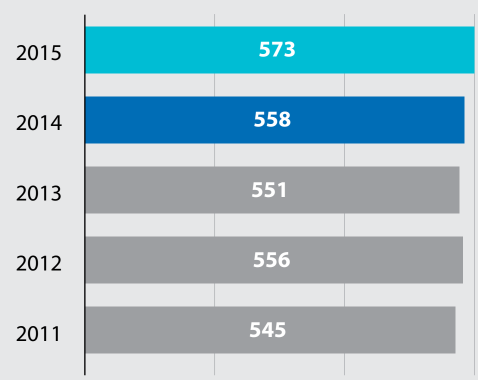
Domestic oil production -8%

thousand tonnes



Production of domestic commercial gas +3%

million m³



Main Priorities and Initiatives for 2016

- Accomplishment of the planned hydro-carbons production, geological explorations efficiency improvement, completion of geological explorations projects concerning tight reserves and unconventional resources.
- Increased production and technological efficiency, implementation of operational efficiency boost measures.

Services

Looking back on the last year, Services Block met its plan successfully in terms of gained revenues, and by optimising expenditure it managed to perform better than planned notwithstanding the reduced value of the services provided, mostly for Exploration and Production Block, which is its major client.

Operational efficiency exceeded the plan, as well as service provision going beyond NIS, to the reasonable extent so as not to hamper our activities for NIS.

We consider last year a success in terms of our performance, and we now look ahead to accomplish objectives set for next year, having in mind all difficulties and challenges it has in store for oil producing businesses.

Key Tasks in 2015

Services Blok's key tasks in 2015 were to improve the provision of services, boost their quality and efficiency.

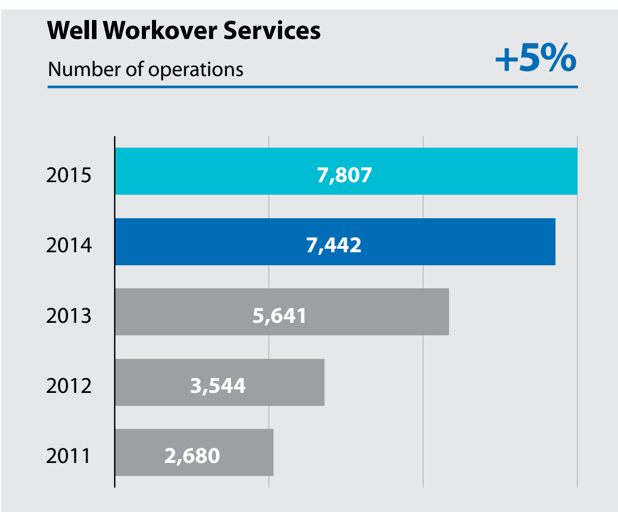
7,807

Number of operations of Well Workover Services

Accomplishments

In 2015 drilling schedule was met (48 wells), complicated structure wells were equipped. Implementation of Integrated Services and KCl polymer solutions reduced well construction period. Two new plants in Workover Unit were put in service. 3D survey was completed in Romania – Blocks 7, 8 and Turija and Turija 2 project started in Serbia. "MegaMacs" facility was test commissioned. A complex planning and preventive maintenance system was developed and put on stream. This year also saw the start of operation in the Centre for Training and Education of Workers in *Services Block*.

Operational indicators



Main priorities and initiatives for 2016

- "Mega Macs" plant to reach its full operational capacity and drill in machinery to be put on stream within the expansion of range of operations and services provided by Services Block.
- Presence in foreign markets depending on global macroeconomic fluctuations.
- Further operational efficiency boost, optimisation of the number of crews and accomplishing maximum efficiency, increase effective time rate in Workover Unit.

Refining

Last year was marked by intensive activities on "Bottom of the barrel" project. A contract was signed with CB&I company to design Basic Design Package and Front End Engineering Design (BDP/FEED) for "Bottom of the barrel" project. During 2015 CB&I company drafted the conceptual study for the project and produced the Basic Design Package (BDP).

The planned major overhaul of bitumen plants was completed, while September saw an overhaul of FCC complex and SARU plant. Early in the year, there was a start-up of the Diesel Dewaxing Plant with a view to improve the low-temperature properties of Diesel.

We are proud that Refining Block operated without any occupational injury throughout 515 days.

In 2015, Refining Block put intensive efforts into increasing operational efficiency in all aspects of development (energy efficiency, reliability, technological advancements etc.).

Key Tasks in 2015

Key tasks in Refining Block in 2015 are firstly related to unimpeded running and streamlining of the production activity, production development and efficiency boost.

Accomplishments

During 2015 the bitumen plants, FCC complex and SARU plant were overhauled, 16 pumps at C-2200 Vacuum distillation were reconstructed. Planned overhaul operations were fully completed on schedule and with good quality, which will allow for a continuous, reliable and safe operation of the plant.

The Diesel Deparaffinization Unit was started up at the beginning of the year with the aim of improving low temperature properties of diesel fuel, and procurement of a new crude oil demulsifier and improved operation of the desalting and dewatering section contributed to reduce technological losses.

Atmospheric and vacuum distillation processes were optimised with the aim of increasing the yield of light fractions. One of the results of the optimisation process was reducing water vapour consumption in the vacuum system by 30%. Changing the bitumen preparation technology helped increase the plant capacity from 1,150 t/d to 1,500 t/d.

Targeted key efficiency of operations indicators (Solomon) are either met or exceed the planned ones.

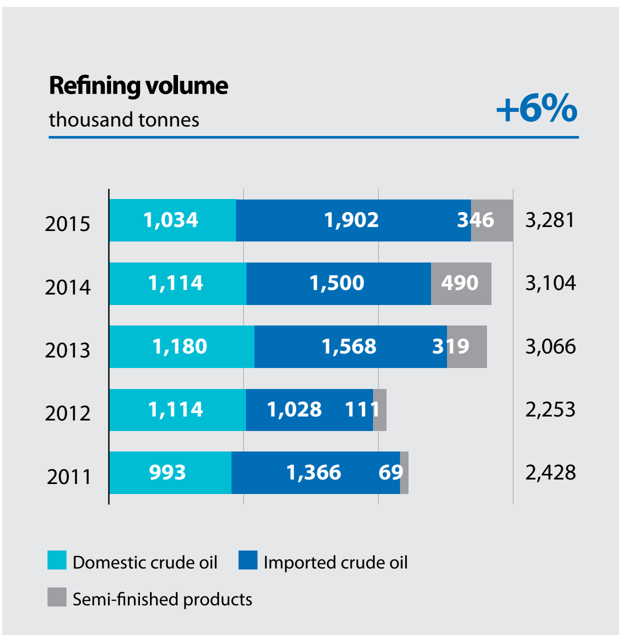
The first regular audit of the supervisory management system in accordance with the SRPS OHSAS 18001:2008 requirements and the Certification in Refining were successfully conducted as well as the first audit of the EnMS ISO 50001 system after its implementation in 2014.

In 2015, *Refining Block* put intensive efforts into increasing operational efficiency in all aspects of development. The largest portion of efforts is targeted at reducing operating costs and increasing refining efficiency, with an emphasis on energy efficiency and efficiency of process units. Therefore, a set of additional organisational measures which do not require (or require to a minimum extent) investments was prepared.

Operational indicators

In 2015, there was an increase in the volume of refined crude oil and semi-products by 6% compared to the same period last year. Refining volume follows market demand.

Natural gas used for own consumption was substituted with heavy fuel oil produced in 2015 which reduced refining costs.



Solomon indicators	2015
EII (Energe efficiency index Solomon)	122
PI (Personal index Solomon)	240
Exploitation readiness	95,5

Main priorities and initiatives for 2016

- Next year key tasks in operational efficiency boost are: implementation of project and measures with the aim of increasing operational efficiency (Solomon index); development and implementation of the program of measures in order to reduce irrecoverable hydrocarbon losses; continuation of activities on finding *Quick Wins* technological solutions; improvement of technological possibilities for refining a wide oil range (including heavy oil) and implementation of the risk management system in Refining business processes.
- In investments "Bottom of the barrel" project will be continued (the front end engineering design for the construction of the main delayed coking unit and auxiliary delayed coking units prepared), and there are also plans for a series of construction works (the catalytic reforming unit - installation of Packinox heat exchangers; Replacement of 0.4 MCC control panels at the process units of Block 5, cleaning of gas ejector at the C-2200 Vacuum Distillation Unit), as well as major overhaul.

Sales and Distribution

As for *Sales and Distribution Block*, we can say that this Block operated successfully against a backdrop of the oil crisis in 2015. We managed to increase the share in the Serbian retail market of petroleum products by 1% in spite of petrol station construction and reconstruction works. In Serbia we built up a total of 12 new petrol stations, as many as 10 of which in Belgrade. We also increased our share in regional markets. We introduced 100-octane gasoline G-Drive into the market, thus improving the product range on offer at our retail facilities. Total sales rose by 5% on the 2014 figure.

Key Tasks in 2015

The key tasks of *Sales and Distribution Block* in 2015 were increasing the efficiency of retail network and development of wholesale channels, logistics and product lines.

Accomplishments

At the end of 2015, in the Republic of Serbia NIS Group owns: 332 operating retail facilities[21] (330 petrol stations - 320 public (including 15 *GAZPROM*-branded) and ten internal petrol stations, and two LPG cylinder stores). NIS operates five storage stations for petroleum products which are in use[22] and five active storage stations for liquefied petroleum gas[23]. In regional countries, NIS operates 88 petrol stations. There are 35 active stations in Bulgaria, 18 in Romania and another 35[24] in Bosnia and Herzegovina NIS Petrol trade mark was introduced at NIS retail points. Principal advantages of the introduction of a private trade mark are control

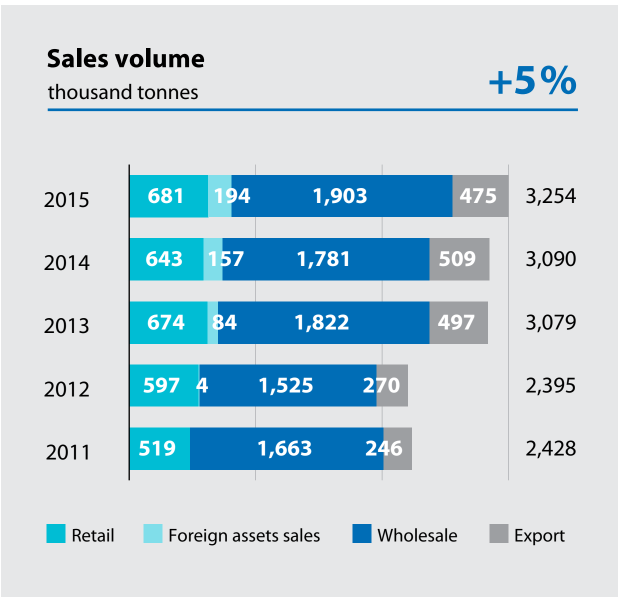
[21] Other than these there are another 5 petrol stations in Serbia operating in DODO (Dealer Owned Dealer Operated) mode
[22] NIS owns 6 storage facilities for petroleum products, 4 out of them are operational, while 2 are not operational. In addition to this NIS also operates a storage facility in the town of Požega on lease from the Republican Directorate for Statutory Reserves.
[23] NIS owns 6 LPG storage facilities, 5 out of them are operational and 1 is not operational. A portion of the storage facilities is co-owned with the Republic of Serbia
[24] Other than these there are another 2 petrol stations in Bosnia and Herzegovina operating in DODO (Dealer Owned Dealer Operated) mode

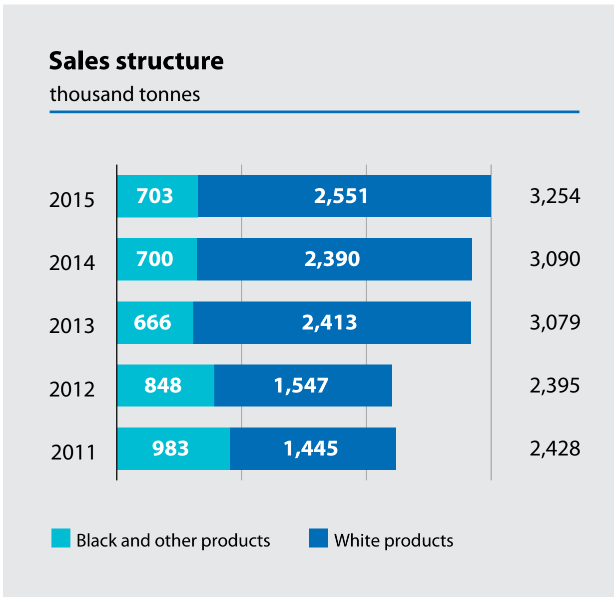
of quality and prices of production, independent market performance, production compliance with the brand identity, strengthened client loyalty and bigger profit.
Loyalty programme for farmers was developed (Agro and Golden cards), which increased clients numbers.
NIS share in Serbia's jet fuel market increased to 98%, and NIS started selling jet fuel at the market of Bosnia and Herzegovina.
NIS is the country's first major petrol stations network, with compressed natural gas in its offer.
New Bunkering Depot was opened in Belgrade which caters to both transit and domestic river traffic vessels.
More favourable contracts were concluded, with lower premiums, for crude oil and components import.
Negotiations with Serbia's government yielded agreement to reduce fees for statutory stock of jet fuel from RSD 2.6 per kilogram to RSD 0.1 per kilogram as of 30 June 2015, thus maintaining competitiveness in this market.

Operational indicators

2015 was marked by 5% increase in sales compared to 2014. Therefore, Serbia's total sales with foreign assets amounted to 3,254 thousand tons.

- Retail in Serbia - increase in retail volume by 6%.
  - Increase in retail sales primarily resulted from an increase in sales of diesel fuel by 8% and gasoline by 6%.
- Wholesale in Serbia - increase by 7%.
  - Sale of motor fuels is increased by 9 % of which increase in gasoline sales is 11% and increase in diesel sales is 9 %.
  - Increase in sales of heavy fuel oil is 7%.
  - Increase in sales of bitumen is 30%.
  - A drop in LPG sales marked (9%).
- Export - drop by 7%.
  - A drop in export compared to 2014 resulted from the drop in export of heavy fuel oil (68%) and virgin naphtha (71%).
  - Increase in export of diesel fuels by 56%, and export of propylene is two times higher compared to 2014.
- Foreign assets - Sales in Bosnia and Herzegovina, Romania and Bulgaria marked grew by 24% and amounts to 194.5 tons in 2015.
  - Sale of motor fuels marked a growth by 25% of which the growth in sales of diesel is 53% and the drop in gasoline sales is 12%.





Main priorities and initiatives for 2016

- Activities next year will also focus on the improvement of retail network efficiency by way of implementing a plan for reconstruction and optimisation of the number of petrol stations, increased average daily sales at each petrol station, introduction of branded fuel *G-Drive 100, G-Diesel, Ultra D, Ultra 98* into the markets of Serbia, Bulgaria and Bosnia and Herzegovina, optimisation of procurement prices and non-fuel goods, and price positioning by different types of goods.
- Further development of wholesale channels, logistics and business units will be achieved by increasing the volume of premium sales, revamping warehouse operations and reducing logistics costs, as well as by exporting petroleum products to neighbouring countries (Romania, Bulgaria, Macedonia, Montenegro) where margin is higher than in distant export destinations.

Energy

For the *Energy Block*, 2015 was a successful year. EBITDA from continuing operations amounted to 12 million USD[25]. With a view to constructing a combined heat and power plant with the capacity of 140 MW the Company CHPP Pančevo was founded. The privileged electricity producer status was obtained for the Plandište wind farm. Small power plants Velebit 3 and Sirakovo 2, as well as compressed natural gas filling facilities at Novi Sad 10 petrol station construction projects have been completed . In 2015 two projects were implemented regarding the connection with the existing geothermal system (Kanjiža and Bečej) with the aim of heating to new consumers.

Key Tasks in 2015

The key tasks of *Energy Block* for 2015 were business development and the improvement of operating performance (EBITDA) of the Block.

Accomplishments

Energy Block increased its EBITDA in 2015 primarily in the wake of steps taken by the management, most significant of them being: managing to get significantly lower purchase price of electricity for NIS own consumption in comparison to the anticipated, gas trade activities (finding new buyers and increasing the base price in the formula that sets prices for Srbijagas), as well as major cuts in expenditure.

Generated

123,455

MWh of electricity

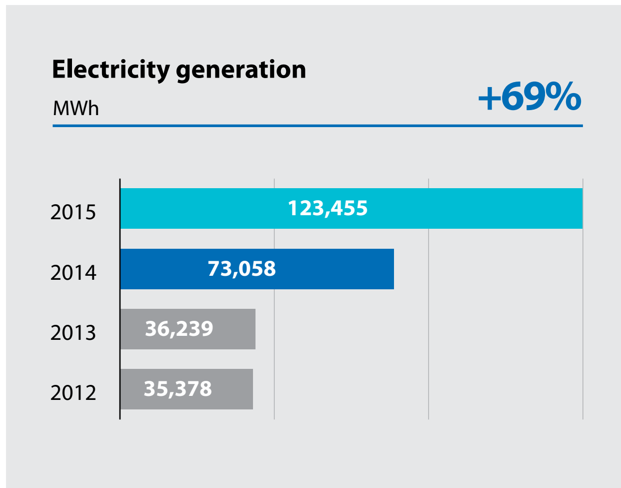
Bradarac (0,3 MW), Velebit 3 (2 MW), Turija (1 MW) and Sirakovo 2 (2 MW) small power plants began their commercial operation in 2015. Approval was gained for the completion of the construction project for Majdan small power plant (2,4 MW), with principal equipment complete and contractor selected. Approval was also gained for the completion of the construction project for Novo Miloševo small power plant (9,8 MW), additional survey of deposits is under way seeking to confirm the reserves and quality of natural gas.

The compressed natural gas filling facility at *Novi Sad 10* petrol station started its commercial operation. The construction project is under way of the compressed natural gas filling facilities at petrol station *Čačak 1*. As part of the completion of the compressed natural gas extraction project from Ostrovo deposit, feasibility study has been completed and contractor selected, project documents being finalised. *Serbskaya Generaciya* and *CHPP Pančevo* companies have been incorporated to complete the CHPP Pančevo project. Feasibility study and concept design are updated in compliance with the Republic of Serbia legislature. There has been an ending to the public debate on the general regulation plan for a Pančevo borough, which was subsequently endorsed by Pančevo Assembly. Bids have been invited to potential contractors to develop combined heating and power plant on "turn-key" terms. The Plandište wind farm project gained a status of preferential power generator. The Republic of Serbia is now expected to endorse regulations required for project funds disbursement.

NIS j.s.c. Novi Sad trades electrical power in Serbia's market, but also partners in cross-border trade on Serbia's borders with Bosnia and Herzegovina, Macedonia, Hungary and Romania. NIS PETROL Srl, Bucharest, has completed first transactions in electricity trading at Romania's OPCOM Stock Exchange. Late 2015 NIS Petrol Srl registered to take part in the wholesale market of Slovenia.

Operational indicators

123,455 MWh of electrical power has been generated, 25 million m^3 of non-commercial gas was utilised.



[25] The Energy Block's EBITDA generated by regular business operations in 2015 amounted to 1.4 billion dinars. In December 2015, the outstanding debts were collected from Srbijagas. Therefore, the effect of this debt collection on the EBITDA of Energy Block amounted to 4.2 billion dinars.

Main priorities and initiatives for 2016

Principal objectives of *Energy Block* in 2016 are to further develop its business and monetise gas.

- The start of construction and equipment (140 MW) manufacturing for CHPP Pančevo project is expected in 2016, its commissioning is scheduled for 2018. By late 2016, within Plandište wind farm project it is expected that electricity sales contract will be signed (Power Purchase Agreement) by preferential tariffs (feed in), the allocation of project funds, ordering of equipment, start of construction, while the start of operation is scheduled for 2017. The next year business development plan stipulate the creation of a model and a platform to make a decision on the completion of Kovin (CHPP, coal extraction) and Aleksinac projects (oil shale extraction and processing).
- As for the utilisation of gas in 2016, two power plants will be built and put in service on Majdan field (9.6 million m^3 of gas annually, 2,4 MW). A compressed natural gas production plant is to be built and commissioned in Ostrovo (7.1 million Sm^3 of gas annually), as well as the construction and commissioning of CNG module at Čačak 1 petrol station (0.3 million Sm^3 of gas annually).

ENERGY EFFICIENCY

During 2015 we continued vigorously towards the future. The energy efficiency improvement and the use of modern technologies from own sources in the energy production were our Company's priorities, while innovations and realized projects were a counterbalance to the negative trends in the global oil and gas market. Despite the fact that a year of savings is behind us, in 2015 we signed the agreement to build "TE-TO Pancevo" whose construction is planned to be completed by 2018, and we commissioned several small power plants that have become one of the most important energy sources of our company, whereas at the same time the Company started the natural compressed gas sale at fuel stations.

NIS GAZPROM NEFT FUTURE AT WORK

NIS.EU

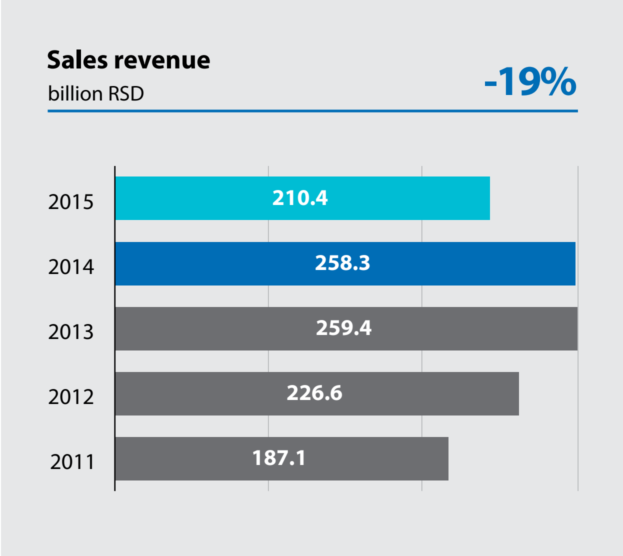
Financial Indicators

The outgoing year will be remembered for the challenges it posed to the economies in the entire region. The economic crisis plaguing the neighbouring countries coupled with the global energy crisis had an immediate impact on financial performance. The crude oil prices plunge has dealt a harsh blow to the entire oil and gas industry. To maintain NIS financial performance positive, it was necessary to revise the 2015 Business Plan. Although reduced crude oil price and petroleum products shrunk the sales revenues, reducing expenditure, while boosting operational efficiency, which was the mainstay of all business processes, ensured a proper response to the crippling macroeconomic conditions. The results achieved are the testament to the success of the measures taken.

Sales

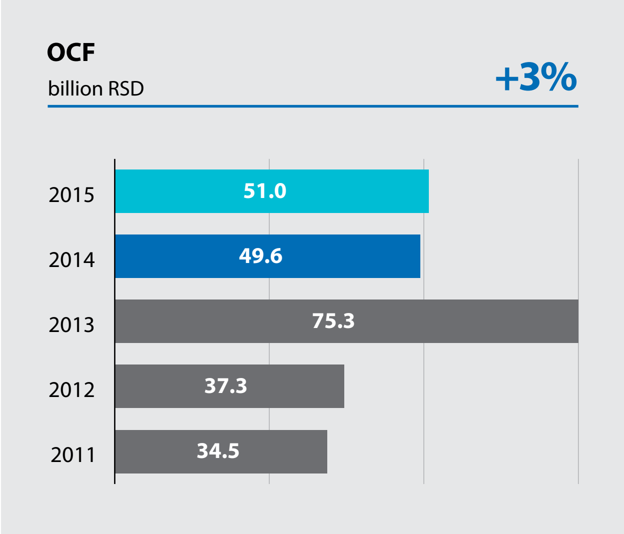
Lower prices of petroleum products in 2015 brought about lower sales revenues in comparison to 2014.
The price of Urals in 2015 averaged 51.53 $/bbl, slipping below the 2014 average for this oil type by 47%.
Retail prices of petroleum products rose in 2015 by around 8% compared with 2014.

Retail Price Trends	2015/2014 (%)
Europremium BMB 95	-8.60%
Euro Diesel	-7.47%



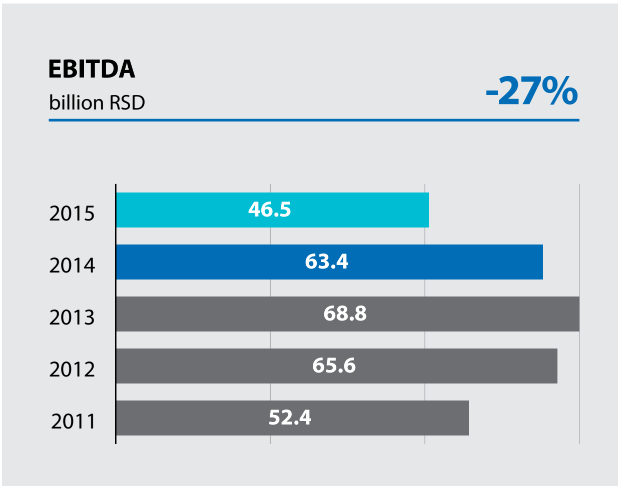
OCF

Although cash inflows in 2015 were lower in comparison to 2014, the reduced cash outflows resulted in a 3% growth of the operational cash flow in comparison to the previous year, so it reached RSD 51 billion. Lower payments for imported crude oil and petroleum products (lower price), and consequently lower payments for customs duties, on the one hand and the introduction of operational efficiency boost measures (less operational expenditure, extending payment maturity period to 60 days…) on the other, brought about such performance.



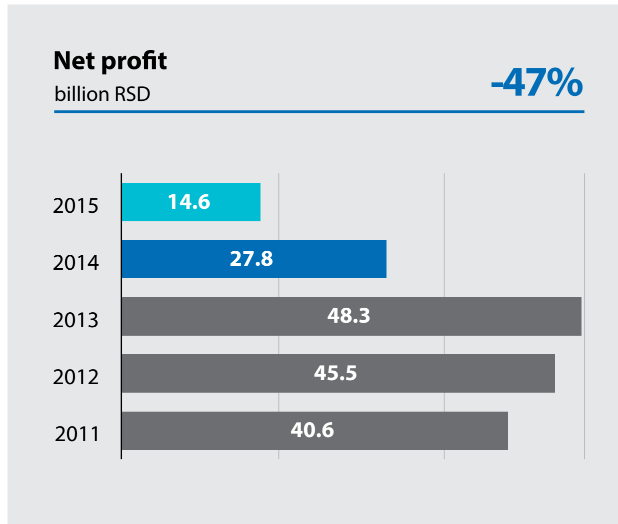
EBITDA

2015 EBITDA was RSD 46.5 billion and it dropped by 27% below the 2014 figure. The reduction of this particular indicator was mostly the result of crude oil price fluctuations.



Net Profit

Net profit in 2015 was RSD 14.6 billion and it dropped by 47% compared with last year. Such trend stemmed mostly from the oil price, which dropped by the exact same percentage over the year. In addition, the net effect of the USD/RSD exchange rates on net profit was -8.1 billion dinars.



Ratios

	2015	2014
Return on total capital (Gross profit/total capital)	10%	18%
Net return on equity (Net profit/shareholders equity[26])	18%	34%
Operating net profit (operating profit/net sales income)	12%	20%
Degree of leverage (short term and long term liabilities/total equity)	92%	97%
Degree of leverage (short term and long term liabilities/ shareholders equity[27])	215%	218%
1st degree liquidity (cash and cash equivalents/short term liabilities)	29%	11%
2nd degree liquidity (current assets - inventories/short term liabilities)	96%	94%
Net working fund ratio (current assets – current liabilities/total assets)	6%	10%

[26] shareholders equity = share capital
[27] shareholders equity = share capital

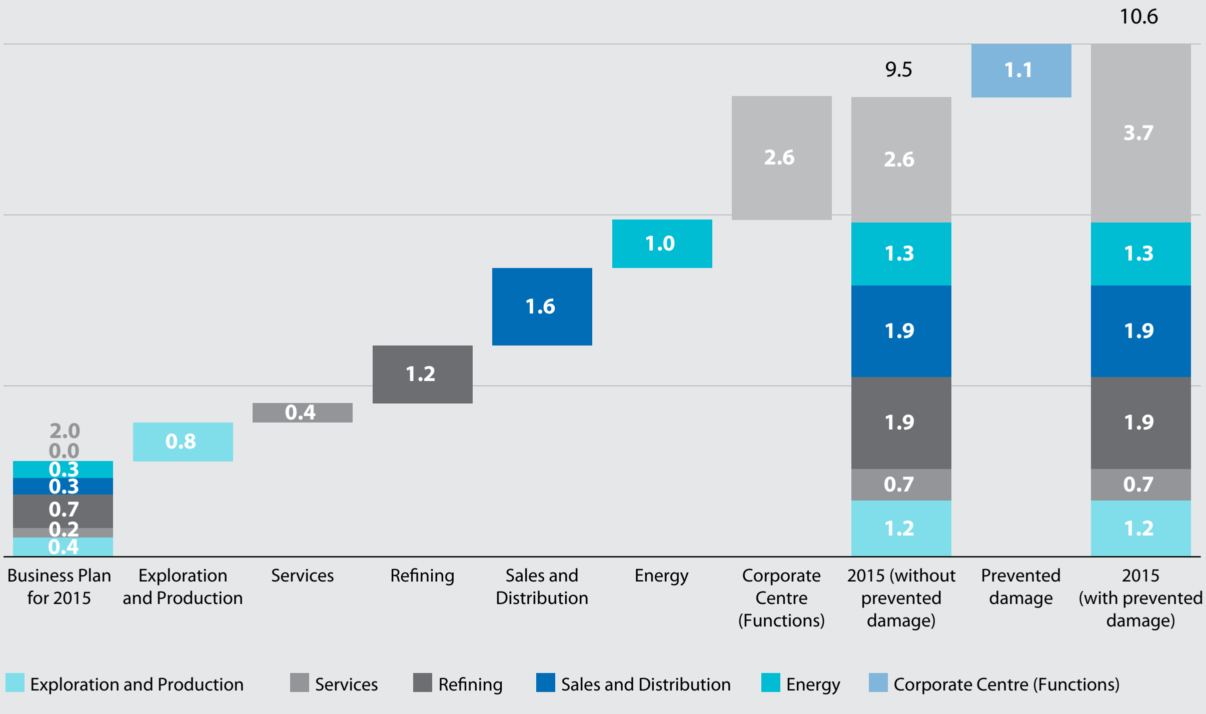
OPERATIONAL EFFICIENCY INCREASE

Operational efficiency increase was the model NIS selected in order to tackle the crisis. In this respect, the performance in 2015 was better than planned. The operational efficiency increase efforts not only reduced costs, but also opened up more opportunities to invest in development.

Operational efficiency was a theme that marked the year 2015 and is most likely to remain so still, given that adverse trends in the global oil market are slated to continue.

The results of the implementation of operational efficiency measures exceeded the expectations and employees were a significant contributing factor through their participation in the I Have an Idea! programme. The operational efficiency increase measures carried out in 2015 gave the effect on EBITDA of 10.6 billion dinars[28], which is 5.3 times more than projected. Besides that, operational efficiency increase measures had effect on cash flow in amount of 4.1 billion dinars[29].

Effects on EBITDA from operational efficiency increase measures, bn RSD



[28] Effect from measures for increase of operational efficiency is 9.5 billion dinars and the effect of prevented damage is 1.1 billion dinars

[29] Effect from measures for increase of operational efficiency is 3.8 billion dinars and the effect of prevented damage is 0.3 billion dinars

As a part of the operational efficiency increase efforts, *I Have an Idea*! programme gives a chance to employees to help improve business processes and thus to contribute to the stability of NIS' operations. The year 2015 saw a vast number of proposals, some of which were:

- the intensification of the operation of S-2100,
- higher temperatures at furnace outlets,
- changes in the quality of heavy fuel oil for own consumption,
- application of intelligent control stations,
- recycling of precious metal catalysts…

I HAVE AN IDEA!

According to the programme results so far, more than 900 ideas have been proposed and 82 approved, giving a total effect of around €29 million.

Around **900** Proposed ideas

total effect of approved ideas **29** million €

INVESTMENTS

Investment Projects

The Business Plan for 2015 and Mid-Term Investment Programme (hereinafter referred to as MIP) with a CAPEX investment plan 2015-2017 were adopted at the 49th meeting of the Board of Directors held on 5 January 2015.

fect the generated profit. This approach has balanced the portfolio, which in turn brought about the steady growth, development and a good foundation for future investments.
The amount of RSD 30.32 billion[30] was allocated in 2015 for investment financing, which is by 23% less than the amount allocated in 2014.

Despite cutbacks in investment projects, the operating targets set under the 2015 Business Plan were either achieved or outperformed.

According to MIP, the main investment directions in 2015 included the following groups of projects: environmental projects, projects in refining, sales and distribution, oil and gas production, and a number of projects in the headquarters administration.
Vibrant changes of macroeconomic indicators in 2015, first and foremost the plunge of crude oil prices on the global market put the key investment projects into question. In 2015, NIS prioritised its investment portfolio so as to achieve maximum gains from investments. Although the adopted 2015 Business Plan had already selected the best investment projects, all projects have been re-examined. Other than profitability some other criteria have been taken into account, such as: return on investments, projects' strategic importance and profitability loss due to postponement of projects. Thus the emphasis was put on the highly profitable projects, rapid return-on-investment projects and those projects whose postponement would negatively af-

The most important investments in oil and gas production in 2015 included:

- Drilling of development wells
- Investments in geological and technical measures
- Programme of 3D seismic explorations and drilling of exploration wells in the Republic of Serbia
- Gas business projects
- Investments in concession rights

The most important capital investments in environmental protection in Pančevo Oil Refinery included:

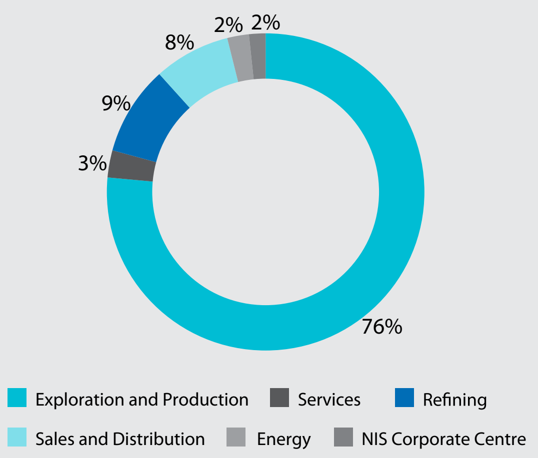
- Bio component blending with diesel fuel in Pančevo Oil Refinery
- Construction of a closed-circuit drainage system within Pančevo Oil Refinery
- Reduction of NOx emission in flue gases from Energy Plant

Investment funding by project type[31]	2015	2014
Environmental protection	**0.63**	0.99
Angola	**0.77**	0.30
Projects with direct economic effect	**22.70**	26.35
Projects without direct economic effect	**5.18**	10.35
Project research works	**1.05**	1.43
TOTAL:	**30.32**	**39.42**

[30] NIS j.s.c. Novi Sad with subsidiaries, excluding "NIS Oversiz" o.o.o. Sankt Peterburg, and "NIS Svetlost" d.o.o. Bujanovac.
[31] Numbers are shown in billion RSD and do not include VAT.

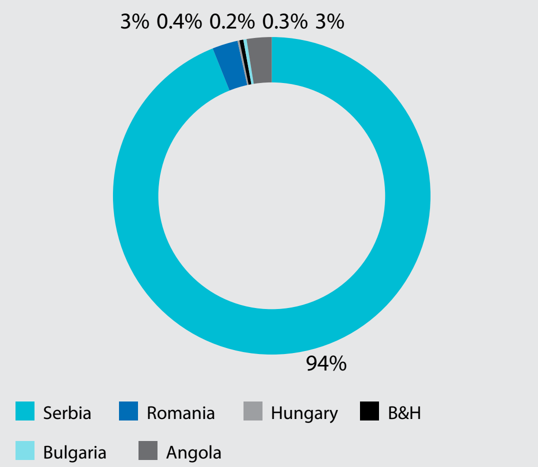
Investments by segments

%



Investments by Country

%



Investments in Other Major Projects

Apart from investments in the business capacities, NIS made important investments in the *Services Block* in 2015. The biggest investments referred to new workover units (equipment for 4 additional crews) in the amount of RSD 128 million. In addition, there were important investments in the IDECO V and IDECO VI drilling mud treating system – RSD 115 million. The amount of RSD 207 million was invested in the replacement of obsolete equipment, mining tools and drilling tools. The amount of RSD 68 million was invested in the well logging equipment, RSD 40 million was invested in the tubing diagnostics equipment, while RSD 24 million was invested in the mud pit modernization in Novo Miloševo.

In the *Energy Block*, the implementation of a gas and steam turbine power plant construction project started at CHPP Pančevo. The amount of RSD 181 million was invested in this project in 2015. RSD 241 million was allocated for the continuation of the investments in cogeneration projects. In comparison with the previous years in the *Energy Block*, it is the first time to invest to CNG (compressed natural gas) development projects. Investments in these projects amount to RSD 109 million.

The biggest investments in 2015 in headquarters administration i.e. Corporate centre were directed to the projects with an IT component – RSD 311 million, where the most important investments were made in the modernisation of CORE network devices, implementation of new protective IT systems in business centres, as well as the implementation of a Backup solution.

The Function of Strategy and Investments allocated RSD 65 million for the implementation of the project of material balance system Enterprise Historian.

The Function of Material, Technical and Service Support and Capital Construction made the biggest investments in the projects of MRP (Material Requirement Planning) functionality centralization and implementation of MDM (Material Data Management) solution for material and service basic data management.

The Function for Finance, Planning, Economics and Accounting realized in 2015 the projects of implementation of information system Hyperion Planning for the automation of the process of business planning and management reporting, and the project of chart of accounts conversion. RSD 29 million in total was allocated for these projects.

This year a significant contribution was also made in the sphere of the maintenance of business processes and support to the implementation of the projects of the Scientific and Technical Centre in which RSD 106 million was invested for IT component.

"I HAVE AN IDEA"

We have been perceiving the efficacy as a primary path to the future, which is why in 2015 it became a motto of the Company. At the end of 2014, we launched the program "I have an idea" which has been accessible to employees, in order to improve operational efficiency within NIS, whereby our colleagues have assured us once again that they are the Company's most valuable resource. Almost 900 ideas have been submitted, of which 82 were approved for implementation with the overall output of over EUR 29 million which helped us to look at the improved business processes from a fresh, new and more efficient angle. That is why the authors of the best ideas were awarded valuable prizes that have reached an amount of up to RSD one million.

NIS GAZPROM NEFT

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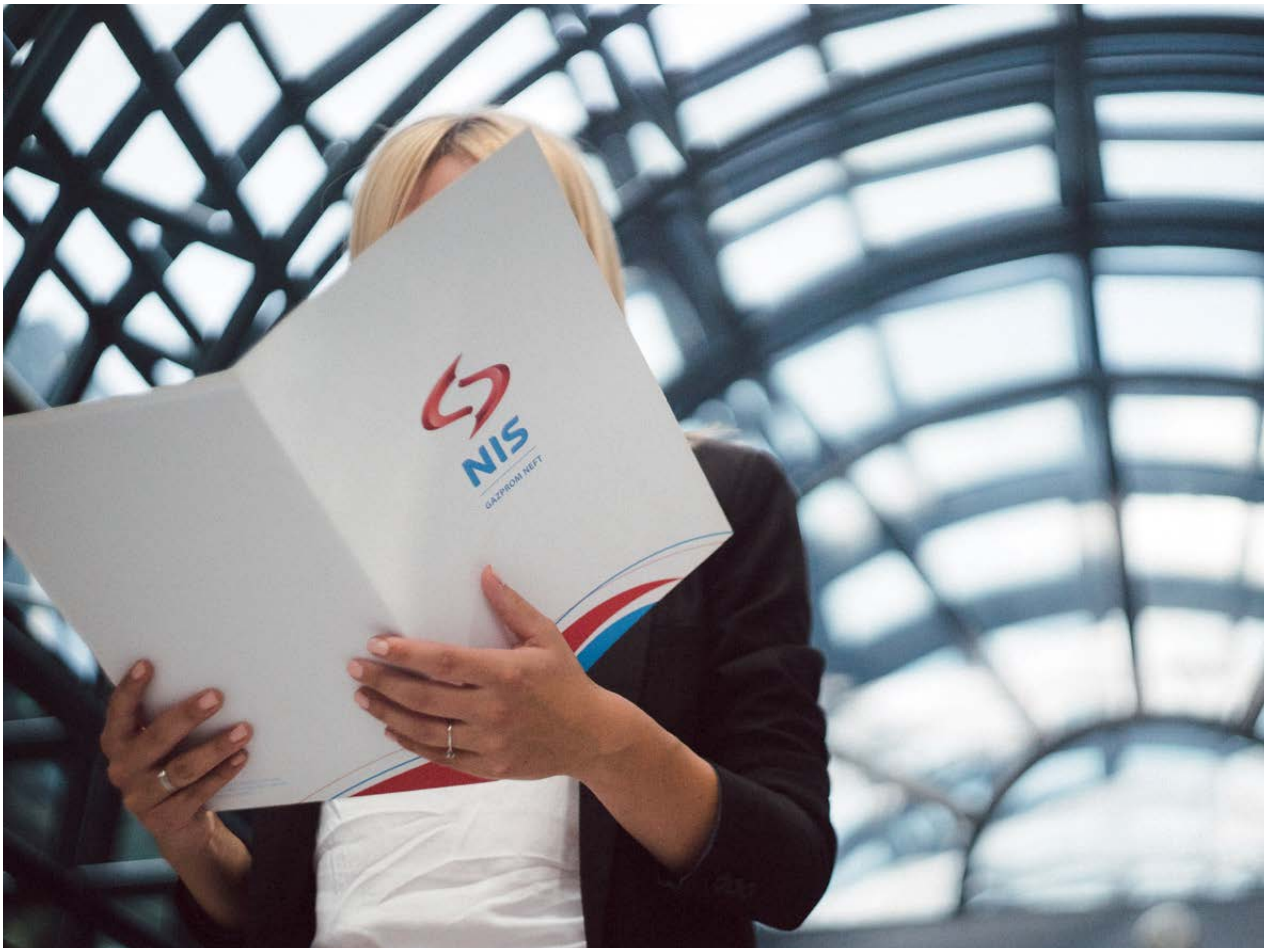
INDEBTEDNESS

The increase in the indebtedness towards the banks results from an early withdrawal of the available bank lines (agreed upon before the sanctions, the availability period expired in the third quarter of 2015), for the purposes of setting up the reserves of the resources necessary to finance investments in the fourth quarter of 2015 and in 2016. Even though the total indebtedness towards the banks has been increased, the share of documentary securities (letters of credit, guarantees, letters of intent, etc.) in the total indebtedness was significantly reduced. Through negotiations with partners, the bank documentary instruments were replaced by corporate guarantees, which resulted in savings in bank costs and maintaining the bank limits for other purposes, which is exceptionally important in the sanctions environment.

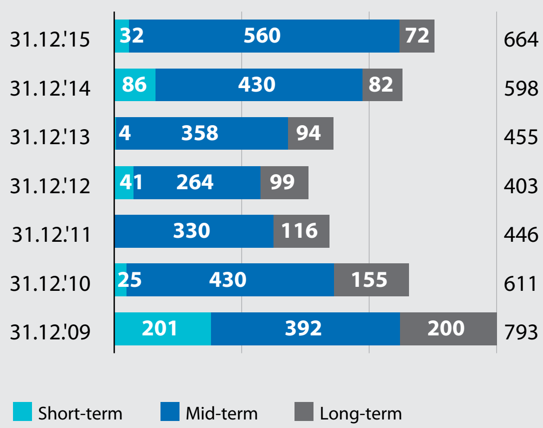
In 2015, the share of mid-term credits in the credit portfolio was increased, resulting in a better portfolio term structure. In addition, the foreign currency structure of the credit portfolio was changed – the share of USD-based credits in the total indebtedness towards the banks was reduced compared to 31 December 2014 (from 85% to 72%), and the share of EUR-based credits in the total indebtedness towards the banks was increased (from 14% to 27%), mitigating in this way the negative effects of the changes in the USD/RSD exchange rate, which was considerably more volatile than the EUR/RSD exchange rate in 2015.



Total bank debt trends[32]

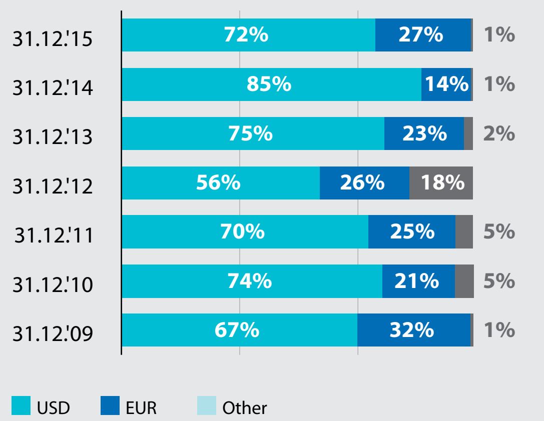
million USD

+11%



Total bank debt structure

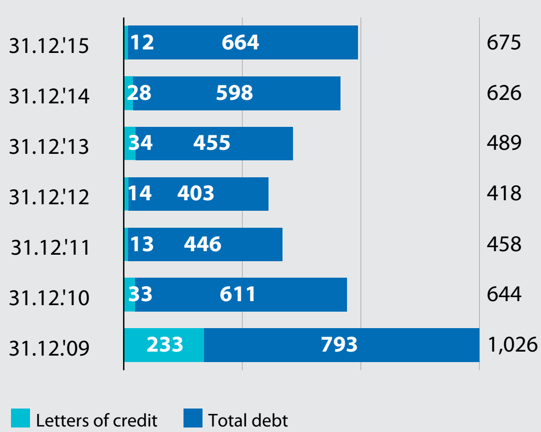
by currency, in percentage



Trends in total bank debt[33]

million USD

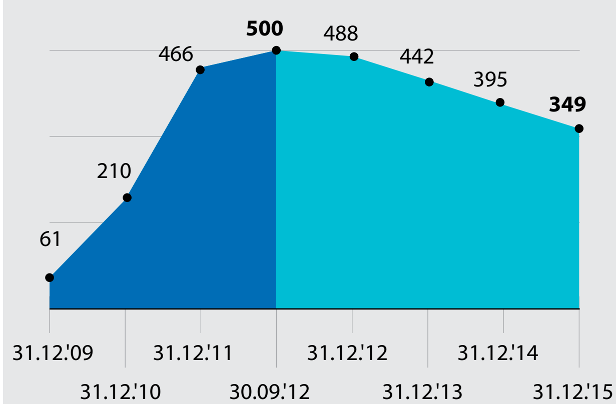
+8%



GPN loan

million EUR

-12%



[32] Term structure of debt is shown according to contracts signed with banks and not by maturity of the debt as at 31 December 2015.

[33] In addition to debt to banks and Letters of Credit, as at 31 December 2015, NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of 57.7million USD, corporate guarantees in the amount of 43.5,million USD and signed Letters of Intent in the amount of 0.8 million USD.

TAXES AND OTHER PUBLIC REVENUES

Analytical review of accrued liabilities from taxes and other public revenues[34]

NIS j.s.c. Novi Sad	2015	2014	$\Delta\frac{2015}{2014}$(%)
Social insurance contributions paid by employer	1.4	1.5	-7%
Corporate tax	2.7	2.9	-6%
Value-added tax	21.4	16.6	29%
Excise duties	104.2	100.0	4%
Commodity reserves fee	6.4	1.5	326%
Customs duties	0.4	0.6	-39%
Royalty	1.4	2.2	-36%
Other taxes	1.3	1.2	9%
Total	**139.3**	**126.5**	**10%**
NIS subsidiaries in Serbia[35]			
Social insurance contributions paid by employer	0.5	0.5	-3%
Corporate tax	0.1	0.0	271%
Value-added tax	1.1	0.7	50%
Excise duties	0.0	0.0	-
Customs duties	0.1	0.1	-20%
Royalty	0.0	0.0	-
Other taxes	0.1	0.1	-26%
Total	**1.9**	**1.5**	**24%**
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	**141.2**	**128.1**	**10%**
NIS regional subsidiaries and Angola and Turkmenistan			
Social insurance contributions paid by employer	0.1	0.2	-26%
Corporate tax	1.0	0.6	87%
Value-added tax	0.9	0.1	1,080%
Excise duties	7.4	4.7	57%
Customs duties	0.6	0.0	-
Royalty	0.0	0.0	-
Other taxes	0.1	0.1	16%
Total	**10.2**	**5.6**	**81%**
Deferred taxes (total for Group)	0.6	2.5	-77%
Total NIS Group[36]	**151.9**	**136.2**	**12%**

[34] in billion dinars
[35] Subsidiaries include: NTC NIS – Naftagas d.o.o., Naftagas – Transport d.o.o., Naftagas – Tehnički servisi d.o.o. and Naftagas - Naftni servisi d.o.o., and exclude O Zone a.d and NIS-Svetlost d.o.o.
[36] Including taxes and other liabilities from public revenues for regional subsidiaries, profit tax in Angola and deferred tax assets.

The accrued liabilities from public revenues paid by *NIS j.s.c. Novi Sad* with its subsidiaries established from NIS, organisational structure[37] in Serbia for 2015 total RSD 141.2 billion, which represents an increase of RSD 13.1 billion i.e. 10% on the same period last year.

The accrued liabilities from public revenues paid by NIS Group for 2015 total RSD 151.9 billion, which represents an increase of RSD 15.7 billion i.e. 12% on the same period in 2014.

[37] Subsidiaries include: NTC NIS – Naftagas d.o.o., Naftagas – Transport d.o.o., Naftagas – Tehnički servisi d.o.o. and Naftagas - Naftni servisi d.o.o., and exclude O Zone a.d. and NIS-Svetlost d.o.o.

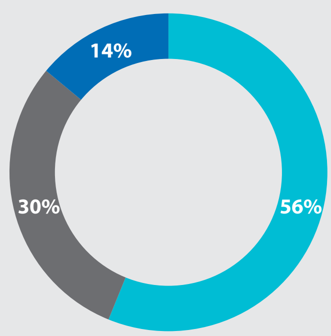
SECURITIES

Share Capital Structure

NIS j.s.c. Novi Sad share capital is RSD 81.53 billion and is divided into a total of 163,060,400 shares with a nominal value of 500.00 RSD. Shares have been dematerialised and registered with the Central Securities Depository and Clearing House of the Republic of Serbia, under CFI code ESVUFR and ISIN number RSNISHE79420. All issued shares are common stock, which grants the following rights to their holders:

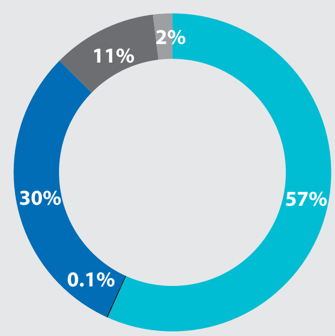
- Right to participate and vote at the shareholders' assembly sessions, according to one-share-one vote rule;
- Right to dividend in compliance with applicable regulations;
- Right to a share in the distribution of the liquidation stock or bankruptcy estate in compliance with the bankruptcy law;
- Pre-emption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

Share capital structure based on % in share capital



PJSC "Gazprom Neft" Republic of Serbia Other shareholders

Share capital structure based on entity type



Foreign, legal Foreign, physical Domestic, legal Domestic, physical Custody and collective accounts

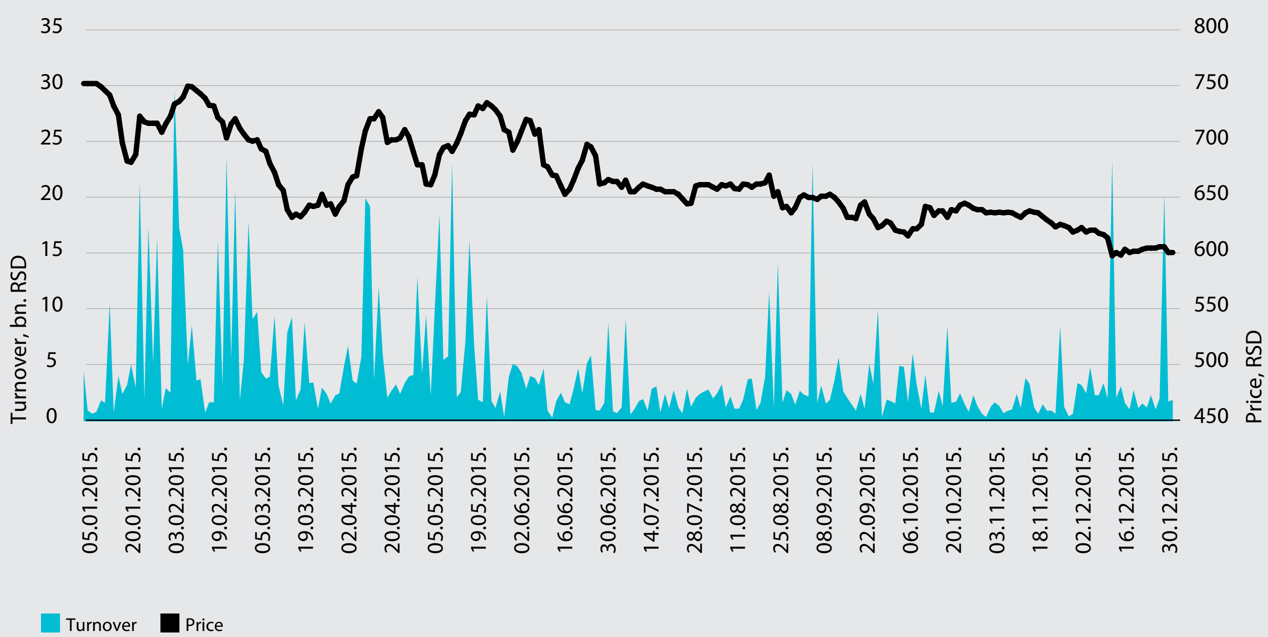
Top 10 shareholders with the largest percentage in share capital are custody accounts:

Shareholder	Number of shares	% in share capital
PJSC "Gazprom Neft"	91,565,887	56.15%
Republic of Serbia	48,712,074	29.87%
UniCredit Bank Srbija a.d. – custody account	585,412	0.36%
Societe Generale banka Srbija – custody account	480,923	0.29%
Raiffeisen banka a.d. Beograd – custody account	331,237	0.20%
East Capital (Lux) - Balkan fund	281,268	0.17%
UniCredit Bank Srbija a.d. – collective account	225,301	0.14%
Global Macro Capital Opportunities	216,465	0.13%
AWLL communications d.o.o	213,000	0.13%
Keramika Jovanović d.o.o. Zrenjanin	203,824	0.12%
Other shareholders	20,245,009	12.42%
	Total number of shareholders as at 31 December 2015	**2,171,935**

Share Trading and Indicators per Share

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

Price and turnover trends in 2015



Overview of trading in NIS shares at Belgrade Stock Exchange in 2015	
Last price (31 December 2015)	600.00 RSD
Highest price (5 January 2015)	770.00 RSD
Lowest price (15 December 2015)	595.00 RSD
Total turnover	1,091,783,192.00 RSD
Total volume (number of shares)	1,615,470 shares
Total number of transactions	53,025 transactions
Market cap as at 31 December 2015	97,836,240,000.00 RSD
EPS	98.76 RSD
Consolidated EPS	89.78 RSD
P/E ratio	6.08
Consolidated P/E ratio	6.68
Book value as at 31 December 2015	1,245.03 RSD
Consolidated book value as at 31 December 2015	1,168.35 RSD
P/BV ratio	0.48
Consolidated P/BV ratio	0.51

In 2015, there were no acquisitions of treasury shares by the Company.

Dividends

NIS j.s.c. Novi Sad dividend policy is based on a balanced approach which takes into account the necessity of profit retention for investment funding purposes, the rate of return of the 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 the form of dividends.

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

	2009	2010	2011	2012	2013	2014
Net profit (loss), million RSD[38]	(4.4)	16.5[39]	40.6[40]	49.5	52.3	30.6
Total amount of dividend, million RSD	0.00	0.00	0.00	12.4	13.1	7.6
Payment ratio	-	-	-	25%	25%	25%
Earnings per share, in RSD	-	101.1	249.0	303.3	320.9	187.4
Dividend per share, gross, in RSD	0.00	0.00	0.00	75.83	80.22	46.85
Share price as at 31 December, in RSD	-	475	605	736	927	775
Shareholders' dividend yield, in %[41]	-	-	-	10.3	8.7	6.0

Investor Relations

NIS j.s.c. Novi Sad actively communicates with investors through regular quarterly presentations on the performance, which enables stakeholders to communicate directly with the Company's management. In addition, the Company communicates with stakeholders by holding one-to-one meetings with investors and by attending investor conferences. Any information intended for investors is published in the section of the corporate website dedicated to investors and shareholders – https://ir.nis.eu.

By applying the principle of transparency in business and establishing new standards of corporate governance in Serbia, this year again *NIS j.s.c. Novi Sad* continued its practice of "opening its doors" to officials from banks, brokerage companies, investment funds and financial analysts, thereby keeping investors informed on all relevant aspects of its business. Two projects were presented to investors this year: the construction of a combined heating and power plant in Pančevo and the "Bottom of the Barrel Project". Guests had an opportunity to visit a *GAZPROM*-branded petrol station and hear more about the performances of *G-Drive,* a new fuel type launched by NIS.

This year *NIS j.s.c. Novi Sad* received its fourth Gold Plaque from the Belgrade Stock Exchange for best investor relations, which had a regional character this year.

Overview of Financial Instruments Used by the Group

Due to its exposure to foreign exchange risk, NIS Group practises forward transactions on the foreign exchange market as the instrument to manage this type of risk.

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

Rating

Rating assigned by	Member of Group	Previous rating		Rating	
		Rating	Date	Rating	Date
Business Registry Agency - Republic of Serbia	-	BB Very good	29 Jan 2015	BB Very good	8 Dec 2015
Rating d.o.o. Belgrade Serbia	*Dun&Breadstreet Short Hills New Jersey, USA*	5A2 Good Up	10 Nov 2014	5A2 Good Even	4 Nov 2015
Bisnode d.o.o. Belgrade, Serbia	*Bisnode AB, Stockholm, Sweden*	A1	26 Jan 2015	B1	15 Dec 2015

[38] Net profit of NIS j.s.c. Novi Sad
[39] Net profit used for covering accumulated losses
[40] Net profit used for covering accumulated losses
[41] Calculated as the ratio of gross dividend and year-end share price


NIS
GAZPROM NEFT

INVESTORS AND SHAREHOLDERS

The future is in safe hands means that all the information users are provided with an even, safe and efficient flow of relevant data. Only with the highest standards it is also possible to achieve top results, a branched information network, customized to levels and priorities of communication which has proved to be an efficient way to secure the objective. Office of Minority Shareholders in Novi Sad and Belgrade, the Call Center, e-mail contacts and the Internet sites are all a quick way to establish communication with minority shareholders, while relations with investors are kept through regular quarterly presentations of results and plans, and through participation in investor conferences, meetings 1: 1, and the Investor Days and websites.

FUTURE AT WORK

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CORPORATE GOVERNANCE

Statement on the application of Code of Corporate Governance

In line with Article 368 of the Company Law (hereinafter the "Law") *NIS j.s.c. Novi Sad* declares that it applies the Code of Corporate Governance of *NIS j.s.c. Novi Sad* (hereinafter referred to as: the "Code") which is available on the Company's website[42]. This Statement contains a detailed and comprehensive review of corporate governance practices implemented by the Company.

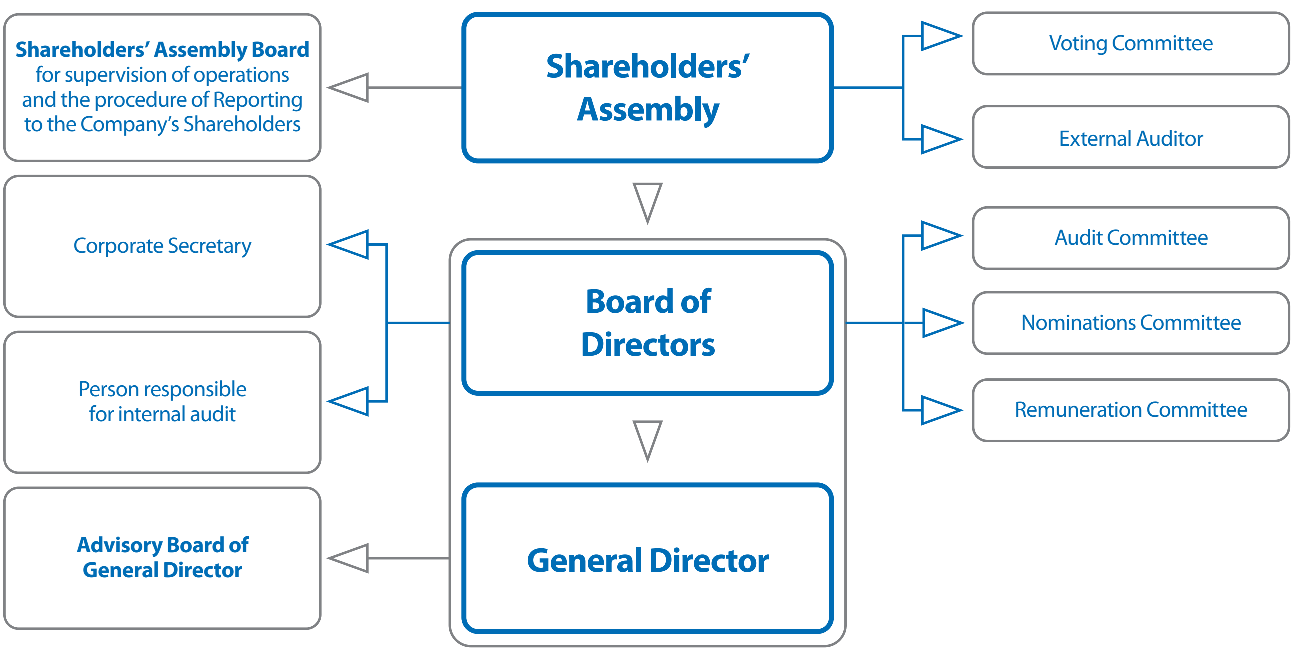
The Code supplements the rules contained in the Law and the Article of Associations of *NIS j.s.c. Novi Sad* (hereinafter referred to as: the "Article of Associations"), in accordance with which holders of the Company's corporate governance should behave. The Board of Directors of the Company ensures the application of principles established under the Code, monitors its implementation and compliance of the organization and operation of the Company with the Code and the Law.

NIS is committed to the application of high corporate governance standards which are based on internationally accepted standards and best global practice experience.

Company Governance System

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

The provisions of the Article of Association make a full and distinct delineation between the scope of operations of the Board of Directors and the scope of work of the Shareholders' Assembly, the General Director of the Company and the bodies appointed by corporate governance bodies.



[42] http://ir.nis.eu/corporate-governance/code-of-corporate-governance/

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 regular shares that give owners the same rights, wherein one share carries one vote. The Company Acts do not impose restrictions that would apply to the number of shares or votes that a person may have at the Shareholders' Assembly.

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 relating to the method of convening meetings, the operation and decision making of the Shareholders' Assembly, and in particular the issues related to the manner of exercising the rights of shareholders in connection with the Shareholders' Assembly, are prescribed in advance and listed in the Company's Rules of Procedure of the Shareholders' Assembly[43], which is published and available to all shareholders.

Call for a Meeting of the Shareholders' Assembly is posted on the Company's website (www.nis.eu), the Business Entity Registry website (www.apr.gov.rs) and the regulated market website (www.belex.rs) at least 30 days before the date of an ordinary meeting and 21 days before an extraordinary meeting. Simultaneously with the publication of the call for a meeting of the Shareholders' Assembly on the Company's website, the materials for the Shareholders' Assembly meeting are also published and made available for inspection to each shareholder or his/her representative at the Company's registered office pending the date of the meeting.

In addition to information about the time and venue of the meeting and the agenda, the call for a meeting of the Shareholders' Assembly also comprises information on the manner in which the materials for the meeting are available to the shareholders, explanations of shareholders' rights, manner and deadlines for their exercise as well as information on the Shareholders' Day i.e. record date. Furthermore, the forms for proxy letter and the ballot forms for voting in absentia, which are also available at the Company's registered office, as well as the electronic ballots are also published with the call.

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

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

[43] available at http://ir.nis.eu/corporate-governance/shareholders-assembly/#c41

Shareholders' Special Rights

The sale and purchase agreement for *NIS j.s.c. Novi Sad* shares, which was concluded on 24 December 2008 between PJSC "Gazprom Neft" and the Republic of Serbia, stipulates that, as long as the contracting parties are shareholders of *NIS j.s.c. Novi Sad*, neither party shall sell, transfer or otherwise dispose of ownership of the shares 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 shares package in accordance with the same terms as offered by the third party.
In accordance with Article 4.4.1 of the Agreement, as long as the Republic of Serbia is the shareholder of the Company holding no less than a 10% equity share, it shall be entitled to a number of members on the Board of Directors proportional to its share in the equity share.

The Right to Participate in the Shareholders' Assembly

The right to participate and vote in the Shareholders' Assembly is held by all shareholders who own *NIS j.s.c. Novi Sad* shares on the Shareholders' Day (record date), 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 Shareholders' Assembly implies the right of shareholders to vote, the right to participate in the discussions of issues listed in the agenda of the Shareholders' Assembly, 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 Shareholders' Assembly, which specifically establishes the procedures for exercising these rights.
According to the Articles of Association, the right to personally participate in the Shareholders' Assembly is held by a Company shareholder with at least 0.1% of the shares of the total number of Company shares, and/or his/her proxy representing at least 0.1% of the total number of Company shares. The Company shareholders who individually hold less than 0.1% of the total number of Company shares are eligible to participate in the Shareholders' Assembly's work through a joint proxy, to vote in absentia or to vote electronically, regardless of the number of shares held, in which case all of the above voting methods have the same effect. The stipulation of a threshold for personal participation is conditioned by the fact that the Company has a very large number of shareholders (about 2.2 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 allows the shareholders to grant a proxy electronically and vote electronically prior to the meeting, wherein the proxy, and/or a ballot form must be signed by a qualified electronic signature in accordance with the law governing electronic signatures.

Proposing Amendments to the Agenda

In accordance with the Articles of Association and the Law, one or more of the Company's shareholders holding at least 5% of voting shares may put forward a motion to the Board of Directors which contains additional items to the agenda of the Shareholders' Assembly meeting which is put forward for discussion, as well as additional items in relation to which it is proposed that the Shareholders' Assembly adopt a decision.

Right to raise questions, obtain answers and put forward motions

The Company's shareholder who holds the right to participate in the Shareholders' Assembly may raise questions related to the agenda items to be discussed at the Shareholders' Assembly meeting as well as other issues related to the Company to the extent the answers to these questions are necessary for adequate assessment of issues related to the agenda items to be discussed at the Shareholders' Assembly meeting. The members of the Board of Directors answer to the raised questions.

Voting Majority

Shareholders' Assembly Decisions are adopted, as a rule, by a simple majority of votes of attending Company shareholders entitled to vote on the issue concerned, unless the Law, the Articles of Association or other regulations require more votes for certain issues.
Exceptionally, as long as the Republic of Serbia holds at least 10% of the Company's share capital, the affirmative vote of the Republic of Serbia is required for the decisions of Shareholders' Assembly concerning the following issues: adoption of financial statements and the auditor's report, amendments to the Articles of Association, capital decrease and increase, status change, acquisition and disposal of major assets of the Company, changes in core activities, registered office and the dissolution of the Company.

Shareholders' Assembly Activities in 2015

In 2015, the 42nd Extraordinary Shareholders' Assembly Meeting (28 January 2015) and the 7th Ordinary Shareholders' Assembly Meeting (23 June 2015) were held. Both meetings were held in Belgrade, at the NIS Business Centre, in Milentija Popovića Street No. 1.
At the 42nd *NIS j.s.c. Novi Sad* Extraordinary Shareholders' Assembly meeting, the Decision to Re-Elect the Auditor of the Company's Financial and Consolidated Financial Statements for 2014 was adopted, due to the inability of the previously elected auditor *Ernst & Young d.o.o. Belgrade* to audit the Company's financial statements for 2014. In line with that, *KPMG d.o.o. Beograd* was elected as the new auditor at the meeting.
At the 7th ordinary meeting, the Shareholders' Assembly adopted the financial and consolidated financial statements of the Company for the year 2014 with the auditor's opinion and appointed the auditor for 2015 (*PricewaterhouseCoopers d.o.o. Beograd*). In addition, it also adopted the Company's Annual Report for 2014 and the Report on Audit of the Annual Report, the Report on the Analysis of the Work of the Board of Directors and Committees of the Board of Directors and the Report of the Committee of the Shareholders' Assembly. The Shareholders' Assembly also adopted the Report on Compliance of the Composition of the Board of Directors and the Number of Members of the Board of Directors with the Needs of the Company, which was prepared with the assistance of external experts. In addition, the Shareholders Assembly adopted the Decision on Profit Distribution for 2014, Payment of Dividends and the Determination of the Total Amount of Retained Earnings of the Company by virtue of which it was established to allocate 25 % of net profit earned in 2014, i.e. to pay a total of 7.64 billion dinars to the shareholders of the Company. More information on paid dividends for the year 2014 is presented in the relevant section of the Annual Report: Annual Report> Securities> Dividend.
Shareholders' Assembly Meeting appointed members of the Board of Directors as well as the Chairman and members of the Shareholders' Assembly Board for the supervision of Operations and the Procedure for Reporting to the Company's Shareholders the respective mandate period, adopted decision on the approval of related party transactions and adopted amendments to the Rules of Procedure of the Shareholders' Assembly.

Shareholder Relations and Information Sharing

The Company has developed a two-way communication with shareholders and investors, who are able to obtain all the necessary information about the Company and their rights through the Office for Minority Shareholders Relations in Novi Sad and Belgrade, a separate call centre, an e-mail service through which each shareholder may put questions and receive answers electronically, as well as through Investor Relations Service. In addition, the Company gives special presentations for shareholders and investors in connection with the most important events and participates in the meetings with investment community representatives. Quarterly presentations of results of the Company's operations are regularly attended by representatives of the Company's top management and both the results of the previous period and future plans and strategies of the Company are discussed in these presentations. More information about the Company's relations with investors is available in the relevant section of the Annual Report: Annual Report > Securities > Investor Relations
NIS j.s.c. Novi Sad strives to apply the highest standards in terms of information sharing, while respecting the principles of equal treatment of all users of information and ensuring that the information published is equally and easily available to all stakeholders in the shortest time possible. As a result, the Company's website is used mostly to this end. A special segment of the website, which is in-

The highest standards of providing information to shareholders and investors - information is equally and easily available to all interested parties in the shortest possible time.

tended for shareholders and investors, contains the most important news, company bodies' decisions, and responses to the most common questions posed by the shareholders in the previous period as well as all relevant information on shares, shareholders' rights and dividends. All information and documents published on the website are available in Serbian, Russian and English. The statutory reporting procedure is defined by special Company's acts governing the method and process of publishing information and submitting information to the competent authorities.

The Company also has a mechanism for preventing and resolving potential conflicts between minority shareholders and the Company. The Company has a five-member committee to resolve complaints by minority shareholders which works on the basis of the Rules of Procedure of the Committee. The present Rules govern the procedures of minority shareholders addressing the Committee, work at its meetings, duties and responsibilities of its members and other relevant issues, and the Rules of Procedure is available on the Company's website[44].

Board of Directors

The Board of Directors has a central role in the management of the Company and it is collectively responsible for the long-term success of the Company and for setting up basic business goals and guiding the directions of the Company's further development, as well as identification and control of the effectiveness of the Company's business strategy.

Composition of the Board of Directors

The Board of Directors consists of 11 members appointed by the Shareholders' Assembly. The members elect the Board of Directors' Chairperson, while the functions of the Board of Directors' Chairperson and the General Director are separated. Members of the Board of Directors possess the appropriate combination of necessary knowledge and experience relevant to the type and scope of business activities conducted by *NIS j.s.c. Novi Sad*.

Candidates for members of the Board of Directors may be proposed by the Nomination Committee or shareholders of the Company who individually or jointly own 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 and ten non-executive members, of which two non-executive directors are also independent members of the Board of Directors.

A considerable number of the Board of Directors' members are foreign members who bring international experience and understand challenges faced by the Company. Of the 11 members of the Board of Directors, six are Russian nationals, three are nationals of the Republic of Serbia, one director is a national of France, and one is an Austrian national.

The Board of Directors members must meet the requirements prescribed by the Law, as well as special conditions prescribed by the Article of Association of which they make Statements at the beginning of the term of office and have an obligation to inform the Company of any changes in their status, especially those changes which would render them potentially no longer eligible for election to the Board of Directors, or which could indicate the existence of a conflict of interest or violation of the prohibition of competition.

The term of office of the Board of Directors' members terminates at the next regular meeting of the Shareholders' Assembly, except in the case of co-optation, when the term of office of co-opted members of the Board of Directors lasts until the first next Shareholders' Assembly meeting. After expiry of the mandate, every member of the Board of Directors may be reappointed without any restrictions to the number of mandates.

Board of Directors' Rules of Procedure and Sessions

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 of the Board of Directors and Committees of the Board of Directors of the Company, including the procedure for convening and holding meetings.

At the beginning of the business year, the Board of Directors adopts the annual operation plan which includes all issues to be considered in line with the laws, the Company's business needs and establishes the deadlines for consideration of these issues at the sessions of the Board of Directors. Besides its planned issues, the Board of Directors shall also discuss other issues under its competence, as required.

The Board of Directors decide 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 for which the Law and/or the Articles of Association requires a different majority of votes. Each member of the Board of Directors has one vote.

Remuneration to the Board of Directors and the Committees' members

Remuneration Policy – The applicable remuneration policy for the members of the Board of Directors and the members of the Board of Directors Committees, adopted by the Shareholders' Assembly in 2013, is drafted on the basis of the external consultant's reports on the analysis of market remunerations to non-executive members of the Board of Directors in the selected reference group. The Policy provides that the remunerations should be desirable and competitive to attract and retain persons as members of the Board of Directors and members of the Committees of the Board of Directors who meet professional and other criteria necessary for the Company. At the same time, the remunerations should not significantly deviate from 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 and size and scope of operations.

The remuneration policy envisages that remunerations for executive directors are determined in an employment contract, i.e. contract of engagement of each of the executive directors of the

[44] Available at http://ir.nis.eu/faq-questions-and-answers/#c889

Company, whereby the latter do not receive fees for membership on the Board of Directors and Committees of the Board of Directors, except for the portion relating to the compensation of costs and liabilities in connection with the membership and the work of the Board of Directors and its Committees.

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

- a fixed portion;
- reimbursement of expenses; and
- liability insurance of members of the Board of Directors and Committees of the Board of Directors.

Induction and Training of the Board of Directors' Members

Members of the Board of Directors, upon their appointment, are introduced to the Company's operations, allowing them greater insight into the Company's way of doing business, strategy and plans, the key risks that the Company faces, and their expedited active involvement in the work of the Board of Directors.
The Company also organizes special programs for additional training and development and provides special funds for these purposes in cases where members of the Board of Directors express the need for this.

The Board of Directors conducts the analysis of its work and the work of the Board of Directors Committees once a year, and the Analysis Report is submitted to the Shareholders' Assembly.

A fixed (permanent) portion of the remuneration to members consists of a fixed portion of the annual fee for membership of the Board of Directors and the fixed annual fee for participation in the work of the Committees of the Board of Directors.
Reimbursement of expenses – The members of the Board of Directors and Committees of the Board of Directors are entitled to receive 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 the in-house Company documents.
Liability insurance of members of the Board of Directors - The members of the Board of Directors have the right to liability insurance (Directors & Officers Liability Insurance) in accordance with the internal documents of the Company.
Amendments to the Remuneration Policy – In order to maintain the remuneration at an appropriate level, it is provided that the Remuneration Policy is subject to periodic reviews and analysis, and in this respect it should comply with the needs, abilities and interests of the Company and other changes in the relevant criteria. Recommendations made by the Remuneration Committee related to the remuneration policy shall be submitted to the Company's Shareholders' Assembly.

Analysis of the Board of Directors' Work

The Board of Directors conducts an analysis of their work and the work of the Committees on an annual basis for the purpose of identifying potential problems and proposing measures to improve the work of the Board of Directors.
The analysis of the work is carried out on the basis of a survey that members of the Board of Directors fill out and which contains two groups of key questions to evaluate the work of the Board of Directors. The first group comprises evaluation criteria of the work of the Board of Directors with respect to the objectives, tasks and responsibilities of the Board of Directors, while the second group comprises evaluation criteria of procedures applied in the work of the Board of Directors.
The evaluation results based on the responses of members of the Board of Directors received as a result of completing the surveys are presented at Shareholders' Assembly in a special report.

Strategic Meetings

Members of the Board of Directors participate in strategic meetings, which allow members of the Board to have a better overview of the Company's operations, to consider and reconsider both the priority developmental objectives of the Company, and the forecasts of key performance indicators, with assumptions for the long term development of the Company. During 2015, work continued on the development and harmonization of the updated Development Strategy of the Company by 2030. Members of the Board of Directors at the meeting held on 5 October 2015 discussed once again the conditions for defining long-term objectives of the Company in terms of the deterioration of macroeconomic parameters and the business environment, taking into account also the expectations of shareholders, the financial condition of the Company, key challenges in the further development of the Company and other factors affecting the financial and economic operations of the Company. Members of the Board of Directors therefore discussed several possible scenarios for the further development of NIS, which have been provided in order to determine the final version of the Company's Development Strategy by 2030.

Changes in the composition of the Board of Directors in 2015

At the 7th Regular meeting of *NIS j.s.c. Novi Sad* Shareholders' Assembly, held on 23 June 2015, all the members of the Board of Directors were re-elected, so that in 2015 there were no changes in the composition of the Board of Directors.

Members of the Board of Directors as of 31 December 2015

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 on September 30, 1970 in Sharkan, Udmurtskaya ASSR.

In 1993, Mr. Yakovlev graduated from the Moscow Engineering Physics Institute, Department of Applied Nuclear Physics. Mr. Yakovlev graduated from the Faculty of Finance at the International University in Moscow in 1995. Since 1999, he has been a qualified member of the ACCA (Chartered Association of Certified Accountants). In 2009, he earned a degree from the British Institute of Directors (IoD). During his employment with PricewaterhouseCoopers from 1995 to 2000, Mr. Yakovlev held various positions, starting from a Consultant to being promoted to Audit Manager. In the period from 2001 to 2002, he served as Deputy Head of Financial and Economics Department, YUKOS EP c.j.s.c. From 2003 to 2004, he was Financial Director of Yugansk Neftegaz, NK Yukos. From 2005 to 2006, Mr. Yakovlev held the position of Deputy General Director in charge of economy and finance at SIBUR-Russian Tyres.

Mr. Yakovlev was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of 10.02.2009 and he was elected Chairman of the *NIS j.s.c. Novi Sad* Board of Directors as of 31.07.2009.

Kirill Kravchenko

General Director of NIS j.s.c. Novi Sad

Member of Nominations Committee

Deputy CEO for Foreign Asset Management at PJSC "Gazprom Neft"

Born on May 13, 1976 in Moscow, USSR.

In 1998, Mr. Kravchenko graduated with honours from Lomonosov Moscow State University with a degree in Sociology. He completed postgraduate studies at the same university. He continued his studies at the Open British University (Financial Management) and IMD Business School. He holds a PhD in Economics. Mr. Kravchenko worked in consulting until 2000, and from 2000 to 2004 he held various positions in YUKOS in Moscow and Western Siberia and with Schlumberger (under partnership program with NK Yukos) in Europe and Latin America. In the period 2004 to 2007 he was Administrative Director at JSC MHK EuroChem Mineral and Chemical Company. Mr. Kravchenko was elected member to the Board of Directors several times in major Russian and international companies. In April 2007, he was appointed Vice-Chairman, PJSC "Gazprom Neft", and in January 2008 he was made Deputy Chairman of Management Board of PJSC "Gazprom Neft", as well as Deputy General Director for Organizational Affairs. Since February 2009, he was appointed General Director of the Serbian petroleum company *NIS j.s.c. Novi Sad*, and member of the Company's Board of Directors. As of March 2009, he holds the position of Deputy CEO for Foreign Assets Management in PJSC "Gazprom Neft".

Mr. Kravchenko was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of 10.02.2009.

Alexander Bobkov

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

Advisor to the CEO of PJSC "Gazprom Neft"

Executive Director of MFC "Lakhta Center" j.s.c.

Born on October 18, 1966 in Vinnica, USSR.

Mr. Bobkov graduated from "Zhdanov" Leningrad State University, Department of politic economy, in 1988. On 16.06.2006, Mr. Bobkov received his Master's Degree in Economics and attained his PhD in Economics on 17.06.2011. From 1991 to 2010 he held various positions in the following fields: civil engineering, production, real estate and sales with the Leningrad Centre of Business Co-operation "Perekryostok", "Proxima" j.s.c. and "General Civil Engineering Corporation" Ltd. Since 2010, Mr. Bobkov has served as Executive Director of "Okhta" c.j.s.c. Public Business Centre (presently "Lakhta Center" Multifunctional complex j.s.c.) and in 2012, he was appointed Advisor to the CEO of PJSC "Gazprom Neft".

Mr. Bobkov was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of 22.07.2013.

Danica Drašković

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

Born on November 14, 1945 in Kolašin, Montenegro.
Ms Drašković graduated from the Faculty of Law, University of Belgrade in 1968. From 1968 to 1990, she worked in the field of finance in the banking sector, and in the field of law and commerce within the economy sector, and as a Belgrade City Magistrate. Ms Drašković is the owner of the publishing house "Srpska reč", founded in 1990. She is the author of two books written in the opinion journalism style.
From 01.04.2009 to 18.06.2013, Ms Danica Drašković was a member of the *NIS j.s.c. Novi Sad* Board of Directors, being re-elected on 30.06.2014.

Alexey Yankevich

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

Born on December 19, 1973 in Leningrad, USSR.
In 1997, Mr. Yankevich graduated from Saint-Petersburg State Electrical Engineering University ("LETI"), majoring in optical and electronic instruments and systems. In 1998, he completed a course at LETI-Lovanium International School of Management in Saint-Petersburg. Mr. Yankevich was employed with CARANA, a consulting company from 1998 to 2001. In the period from 2001 to 2005 he served as Deputy Head of Planning, Budgeting and Controlling Department at YUKOS RM c.j.s.c. (business unit responsible for logistics and downstream operations). In 2004, he became a Certified Management Accountant (CMA). From 2005 to 2007 he worked as deputy CFO at LLK-International (production and sale of lubricants and special petroleum products; part of the LUKOIL group). From 2007 to 2011 he held the post of Head of the Planning and Budgeting Department, and was Head of Economics and Corporate Planning Department at PJSC "Gazprom Neft". Since August 2011 he has served as acting Deputy CEO for Economics and Finance at PJSC "Gazprom Neft". Mr. Yankevich has been a member of the Management Board of PJSC "Gazprom Neft" and Deputy CEO" for Economics and Finance at PJSC "Gazprom Neft since March 2012.
Mr. Yankevich was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of 18.06.2013.

Goran Knežević

Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Nominations Committee

Born on May 12, 1957 in Banatski Karlovac, Serbia.
Mr. Knežević graduated from the Faculty of Economics, University of Belgrade. He worked at "Servo Mihalj" in Zrenjanin from 1983 to 1990. Mr. Knežević served as General Manager at "Servo Mihalj Turist" from 1990 to 2000. Since 2000, he has been the Executive Committee Chairman of the city of Zrenjanin and the City Mayor holding office for three consecutive terms. Mr. Knežević was appointed Minister of Agriculture of the Republic of Serbia in 2012. From 01 October 2013 to 30 June 2014, he was Advisor to the General Director of *NIS j.s.c. Novi Sad* .
Mr. Knežević was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of 30.06.2014.

Alexander Krilov

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

Born on March 17, 1971 in Leningrad, USSR.
In 1992, Mr. Krylov graduated from LMU (Leningrad) and graduated from the Faculty of Law of Saint Petersburg State University in 2004. In 2007, he earned MBA degree from Moscow International Business School MIRBIS, specializing in Strategic management and Entrepreneurship. From 1994 to 2005 Mr. Krylov held managerial positions in the field of real estate sales (Chief Executive Officer, Chairman) in the following companies: Russian-Canadian SP "Petrobild"; c.j.s.c. "Alpol". From 2005 – 2007 he was deputy director in the Division for implementation in "Sibur" Ltd. In April 2007, Mr. Krylov was appointed Head of the Division for Petroleum Product Supply, head of the Regional Sales Division and Director of the Regional Sales Department at PJSC "Gazprom Neft".
Mr. Krylov was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of 29.11.2010.

Nikola Martinović

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

Born on December 3, 1947 in Feketić, Serbia.
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 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 Assistant Minister of the Interior of the Republic of Serbia. From 1992 to 2000, Mr. Martinović held the position of Assistant CEO of the Serbian Petroleum Industry in charge of financial affairs, and was CEO of "Naftagas promet" from 1996 to 2000. From 2005 until 31.08.2013, Mr Martinović worked as a Special Advisor at *NIS j.s.c. Novi Sad*. On 01.09.2013, he was appointed Special Advisor to the CEO of O Zone j.s.c. Belgrade, and from 15.12.2013 to 17.11.2014, he was performing the duties of the Advisor to the Director of STC NIS-Naftagas Ltd. Novi Sad. Furthermore, he currently serves as member of the National Bank of Serbia Governor Council.
Mr. Martinović was a member of *NIS j.s.c. Novi Sad* BoD from 2004 to 2008, and he was re-elected on 10.02.2009.

Wolfgang Ruttenstorfer

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

Born on October 15, 1950 in Vienna, Austria.
In 1976, he graduated from the Economics and Business Administration at the Vienna University of Economics and business, and 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 Executive Board, when he was appointed Deputy Minister of Finance. On 01.01.2000, he was re-appointed a member of the OMV Executive Board in charge of finance, a function he performed by April 2002. He was in charge of gas affairs by December 2006. In the period from 01.01.2002 to 31.03.2011, Mr. Ruttenstorfer was the Chairman of the Executive Board of the OMV Group.
He was elected Independent member of the *NIS j.s.c. Novi Sad* Board of Directors as of 20.04.2012.

Anatoly Cherner

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

Born on August 27, 1954 in Grozny, USSR.
Mr. Cherner graduated from Grozny Oil Institute in 1976 with a degree in chemical oil and gas engineering. In period from 1976 to 1993 he was employed at the "Sheripov Grozny Refinery", starting as an operator to become refinery director. In 1996, he joined "SlavNeft" as Head of the Oil and Oil Products Trading Department and was later appointed Vice-Chairman of "NGK SlavNeft". He joined SibNeft (from June 2006 – "Gazprom Neft") as Vice-Chairman for refining and marketing in April 2006.
Mr. Cherner was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of 10.02.2009.

Stanislav Shekshnia

Independent Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Remuneration Committee
Member of Nominations Committee
Professor at the International Business School INSEAD

He was born on May 29, 1964 in Moscow, USSR.
Mr. Shekshnia serves as the Chief of practice in the Talent Performance and Leadership Development Consulting Department. Director of Talent Equity Institute and a senior partner at Ward Howell. He teaches the course "Entrepreneur Leadership" at the International Business School INSEAD. Mr. Shekshnia has more than 15 years of practical experience in management. He held the following positions: CEO of Alfa Telecom, chairman and CEO of Millicom International Cellular, Russia and CIS, Chief Operational Director of Vimpelkom, Director of Personnel Management in OTIS Elevator, Central and East Europe. He has been a member of o.j.s.c. SUEK and c.j.s.c. Vimpelkom-R Boards of Directors.
Mr. Sheknia was elected Independent member of the *NIS j.s.c. Novi Sad* Board of Directors as of 21.06.2010.

Composition of the BoD and BoD's Committees

Position	Name and surname	Date of first election to the BoD	Executive Director	Non-Executive Director	Independent Director	Audit Committee	Nominations Committee	Remuneration Committee	Citizenship
BoD Chairman	Vadim Yakovlev	10 Feb 2009		X					Russian
General Director	Kirill Kravchenko	10 Feb 2009	X				Member		Russian
BoD Member	Alexander Bobkov	22 July 2013		X					Russian
BoD Member	Alexey Yankevich	18 June 2013		X					Russian
BoD Member	Alexander Krilov	21 June 2011		X					Russian
BoD Member	Nikola Martinović	24 Sep 2005[45]		X		Member			Serbian
BoD Member	Goran Knežević	30 June 2014		X			Chairman		Serbian
BoD Member	Danica Drašković	01 April 2009[46]		X					Serbian
BoD Member	Wolfgang Ruttenstorfer	20 April 2012		X	X	Chairman			Austrian
BoD Member	Anatoly Cherner	10 Feb 2009		X				Member	Russian
BoD Member	Stanislav Shekshnia	21 June 2010		X	X		Member	Chairman	French
Members of the BoD's Committees who are not members of the BoD									
Member of Audit Committee	Alexey Urusov					Member			Russian
Member of Remuneration Committee	Zoran Grujičić							Member	Serbian

[45] Nikola Martinovic was a member of the NIS j.s.c. Novi Sad Management Board (today known as the Board of Directors) from 24 September 2005 to 29 February 2008, and was re-elected member as of 30 September 2008. Prior to his appointment to the Management Board of NIS j.s.c. Novi Sad, he was a member of the Management Board of the Public Company NIS – Petroleum Industry of Serbia from 1 April 2004 to 23 September 2005.

[46] Danica Drašković was a member of the NIS j.s.c. Novi Sad Board of Directors (previously Management Board) from 1 April 2009 to 18 June 2013, and was reappointed as a member of the Board of Directors on 30 June 2014.

Membership of the Board of Directors or Supervisory Boards of other Companies	
Vadim Yakovlev	• OJSC NGK "Slavneft" • OJSC "SN-MNG" • LTD "GPN Development"(Chairman of BoD) • OJSC "Gazprom Neft-NNG" (Chairman of BoD) • LTD "Gazprom Neft-East" (Chairman of BoD) • LTD "Gazprom Neft-Hantos" (Chairman of BoD) • LTD "Gazprom Neft-NTC" (Chairman of BoD) • CJSC "Gazprom Neft-Orenburg" (Chairman of BoD) • LTD "Gazprom Neft-Sahalin" • Salim Petroleum Development N.V. (Supervisory Board member) • OJSC "Tomskneft" VNK (Chairman of BoD) • LTD "Gazprom neft Shelf" (Chairman of BoD)
Kirill Kravchenko	• Vice-Chairman of the National Oil Committee of the Republic of Serbia • Serbian Tennis Federation BoD Member • SAM – Serbian Association of Managers BoD Member
Alexander Bobkov	• "Lakhta Center" Multifunctional Complex JSC
Alexey Yankevich	• OJSC "NGK Slavneft" • CJSC "Gazprom Neft – Aero" • LTD "Gazprom Neft – SM" • LTD "Gazprom Neft Biznis-Servis" • "Gazprom Neft Lubricants" Italy • LTD "Gazprom Neft Marin Bunker" • CJSC "Gazprom Neft – Orenburg" • LTD "Gazprom Neft Shelf"
Alexander Krilov	• JSC "Gazprom Neft-Kuzbas" • JSC "Gazprom Neft-Novosibirsk" • OJSC "Gazprom Neft-Omsk" • OJSC "Gazprom Neft-Tumen" • JSC "Gazprom Neft-Ural" • OJSC "Gazprom Neft-Yaroslavlye" • JSC "Gazprom Neft-Northwest" • LTD "Gazprom Neft Asia" • LTD "Gazprom Neft - Tajikistan" • LTD "Gazprom Neft - Kazakhstan" • LTD "Gazprom Neft - Centre" • JSC "Gazprom Neft - Terminal" • LTD "Gazprom Neft - Chelyabinsk" • LTD "Gazprom Neft – Regional sales" • JSC "Gazprom Neft – Transport" • LTD "Gazprom Neft – South" • LTD "Gazprom Neft – Krasnoyarsk" • LTD "Gazprom Neft – Corporate Sales" • LTD "Gazprom Neft – Belnefteprodukt" • JSC "Gazprom Neft – Alternative Fuels" • LTD "ITSK"
Nikola Martinović	
Goran Knežević	
Danica Drašković	
Wolfgang Ruttenstorfer	• "CA Immobilien"AG, Vienna, Chairman of the Supervisory Board • "Flughafen Wien" AG, Vienna, Member of the Supervisory Board • "RHI" AG, Vienna, Member of the Supervisory Board • Telekom Austria, Chairman of the Supervisory Board
Anatoly Cherner	• OJSC NGK "Slavneft" • JSC "Gazprom Neft-ONPZ" • OJSC "Slavneft-JANOS" • JSC "Gazprom Neft –MNPZ" • CJSC "Gazprom Neft-Aero" • CJSC "St. Petersburg'International Commodities and resources Exchange" • LTD "Gazprom Neft –SM" • LTD "Gazprom Neft Marin Bunker" • LTD "Gazprom Neft – Logistics" (Chairman of BoD) • OJSC "Mozirski NPZ"
Stanislav Shekshnia	• Dentsu Aegis Network Russia (Member of BoD) • NLMK (Member of BoD) • LTD "Russian Fishery Company" (Member of BoD)

Total amount of remunerations paid out to BoD members in 2015, RSD net	
General Director	24,506,404
Members of the BoD	65,491,058

Board of Directors' Activities in 2015

Board of Directors held 3 meetings with personal presence of the members and 16 correspondence meetings. All meetings of the Board of Directors were attended by all members, and the average attendance was maximal, of up to 100%.

Agenda of the Board of Directors, in addition to the regular activities relating to the consideration of the annual report of *NIS j.s.c. Novi Sad*, the Financial Statements and Consolidated Financial Statements of the Company for 2014, also included the adoption of periodic (quarterly) reports of the Company in 2015, the convening of a regular Annual Shareholders Assembly Meeting, the adoption of the Business Plan of the Company, the decisions approving the share capital increase in subsidiary companies of *NIS j.s.c. Novi Sad*: *Naftagas - Naftni Servisi d.o.o. Novi Sad, Naftagas - Tehnički Servisi d.o.o. Zrenjanin, Naftagas - Transport d.o.o. Novi Sad, and NTC NIS - Naftagas d.o.o. Novi Sad*, i.e. the increase of capital reserves in *Pannon Naftagas Kft*. Hungary, and additional contributions in the capital of *RAG Kiha Kft Hungary*. The Board of Directors also approved several proposals for dismissal and appointment of the Company's representatives in the bodies of subsidiaries of *NIS j.s.c. Novi Sad*, and appointed members of the Company's Board of Directors' committees for the current mandate period. Purporting to achieve the projected goals of the Company, to examine Company's performance and the corporate management quality, the Board of Directors used its quarterly reports to review the business analysis for the reporting period with estimates of *NIS j.s.c. Novi Sad* business operations by the end of 2015, as well as its Annual Report on the Post-investment *NIS j.s.c. Novi Sad* Project Monitoring in Serbia and abroad. For the purpose of over viewing its own performance, the Board of Directors analysed its own work too, and to this end it submitted an appropriate Report for the VII Regular Session of the Shareholders Assembly Meeting. The Board also reviewed the results of the fulfilment of key performance indicators for 2014, as well as the system of the key performance indicators evaluation for 2015. Board of Directors established innovated accounting policies in the Company, and decided to establish some new NIS branches (3 branches were formed for the registration of hospitality activities in retail stores - petrol stations of *NIS j.s.c. Novi Sad*), also rendering the decided to approve the sale of shares of Komercijalna Banka a.d. Beograd owned by *NIS j.s.c. Novi Sad*.

In 2015, the Board of Directors rendered 78 decisions, and the execution of the decisions was monitored through periodic reports on the implementation of decisions and orders of the Board of Directors.

Attendance at the meetings of the Board of Directors and Board of Directors' Committees

BoD Member	Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee	
	% attendance	Number of sessions	% attendance	Number of sessions	% attendance	Number of sessions	% attendance	Number of sessions
Vadim Yakovlev *BoD Chairman*	100%	19/19	-	-	-	-	-	-
Kirill Kravchenko *General Director*	100%	19/19	-	-	-	-	100%	5/5
Alexander Bobkov	100%	19/19	-	-	-	-	-	-
Alexey Yankevich	100%	19/19	-	-	-	-	-	-
Alexander Krilov	100%	19/19	-	-	-	-	-	-
Nikola Martinović	100%	19/19	100%	9/9	-	-	-	-
Goran Knežević	100%	19/19	-	-	-	-	100%	5/5
Danica Drašković	100%	19/19	-	-	-	-	-	-
Wolfgang Ruttenstorfer	100%	19/19	100%	9/9	-	-	-	-
Anatoly Cherner	100%	19/19	-	-	100%	6/6	-	-
Stanislav Shekshnia	100%	19/19	-	-	100%	6/6	100%	5/5
Members of the BoD's Committees who are not members of the BoD								
Alexey Urusov	-	-	100%	9/9	-	-	-	-
Nenad Mijailović[47]	-	-	-	-	100%	5/5	-	-
Zoran Grujičić[48]	-	-	-	-	100%	1/1	-	-

[47] Member of the Remuneration Committee for the period until 23/06/2015
[48] Member of the Remuneration Committee for the period until 27/08/2015

Board of Directors' Committees

With a view to ensuring the efficient performance of its activities, the Board of Directors has established three standing committees as its advisory and expert bodies providing assistance to its activities, especially in terms of deliberating on issues within its scope of competence, preparation and monitoring of the enforcement of decisions and adopting and performing certain specialized tasks to meet the Board of Directors' needs.

The Board of Directors has established the following committees:

- Audit Committee
- Remuneration Committee and
- Nominations Committee.

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

Each of the present three committees consists of three members, appointed and relieved of duty by the Board of Directors. The Board of Directors appoints one of its members as a Chairperson to manage the activities of a Committee, prepare, convene and chair its meetings and perform other activities required for performing the activities within its scope of competence.

Most of the members of each committee are non-executive directors and at least one member must be an independent director of the Company. The Board of Directors may appoint persons who do not hold managerial positions at the Company but who have relevant skills and competencies and work experience to perform the Committee's activities.

The role, scope of competence and responsibilities of the Committees are defined by the Law and the Rules of Procedure of the Board of Directors, which also regulate the composition, appointment criteria and the number of members, term of office, dismissal, work method and other relevant issues related to the activities of the Board of Directors' committees.

At least once a year, the Board of Directors' Committees should prepare and submit reports to the Board of Directors on the issues falling within their scope of competence, and the Board of Directors may request that the reports on all or certain issues within their area of competence be submitted in a shorter period of time.

The Board of Directors and its Committees may require the professional advice of independent experts when necessary to carry out their obligations efficiently.

Audit Committee

In addition to the general requirements regarding the composition of the Board of Directors' Committees, the position of the Chairperson of the Audit Committee must be held by an independent director of the Company, while at least one member must be a certified auditor or a person possessing relevant knowledge and work experience in the field of finance and accounting, who is not employed by the Company.

The Audit Committee's members are as follows:

- Wolfgang Ruttenstorfer, Chairman of the Audit Committee,
- Alexey Urusov, Member of the Audit Committee, and
- Nikola Martinović, Member of the Audit Committee.

The Chairman and members of the Audit Committee were appointed under the Decision of the Board of Directors dated 27 August 2015, and all the three members held the same positions in the Audit Committee in the previous term.

In 2015, the Audit Committee held 4 meetings with the personal presence of the members, and five correspondence meetings. Among other things, the Committee analysed the contents of the Quarterly Report, Financial Statements and the Consolidated Financial Statements for the first, second and third quarter of 2015, giving appropriate recommendations thereof to the Board of Directors of Directors. Also, the Audit Committee examined the Annual Report, Financial Statements and Consolidated Financial Statements for 2014, as well as the report of the independent auditor *KPMG d.o.o. Beograd* on the audit of these reports. The Committee gave its opinion on the competence and independence of the auditor *PricewaterhouseCoopers d.o.o. Beograd* relating to the Company, as well as its opinion about the draft contract concluded with the Company's auditor. Likewise, the Audit Committee established a Plan for Conducting the Audit Procedure and for the Identification of the Key Issues to be Audited in *NIS j.s.c. Novi Sad* in 2015, at the same time monitoring the status of the implementation of auditor's recommendations as surrendered in the letter to the management ("Letter Management Points") *NIS j.s.c. Novi Sad* for 2014. Audit Committee endorsed the proposal of innovative Accounting Policies of *NIS j.s.c. Novi Sad* and it delivered a relevant report on its activities to the Board of Directors.

Remuneration Committee

The Remuneration Committee members are as follows:

- Stanislav Shekshnia, Chairman of the Remuneration Committee,
- Anatoly Cherner, Member of the Remuneration Committee, and
- Zoran Grujčić, Member of the Remuneration Committee.

The Chairman and members of the Remuneration Committee were appointed by the Decision of the Board of Directors adopted on 27 August 2015, while Stanislav Shekshnia and Anatoly Cherner held the same position in the Remuneration Committee in the previous term. Mr Zoran Grujičić was appointed as a member by the aforesaid Decision instead of Nenad Mihajlović who held the specified position in the previous term.

In 2015, the Remuneration Committee had 2 meetings with personal attendance of members and 4 correspondence meetings. Committee elaborated the results of the fulfilment of key performance indicators for 2014, the Evaluation System and Indicators for 2015, as well as results of the Programme for Long-term Incentive of *NIS j.s.c. Novi Sad* employees in 2014. Remuneration Committee also set up a proposal for the fees of the auditor of financial and consolidated financial statements of *NIS j.s.c. Novi Sad* for 2015, and it further prepared the Assessment Report on the Amount and Structure of Remunerations for Members of the Board of Directors of *NIS j.s.c. Novi Sad* which was submitted for consideration to the Board of Directors by the Shareholders' Meeting, at the session held on 23 June 2015, along with the relevant Report on Committee's activities.

Nominations Committee

The Nominations Committee members are as follows:

- Goran Knežević, Chairman of the Nominations Committee,
- Kirill Kravchenko, Member of the Nominations Committee and,
- Stanislav Shekshnia, Member of the Nominations Committee.

The Chairman and members of the Nominations Committee were appointed by the Decision of the Board of Directors, adopted on 27 August 2015, and all the three held the same position in the Nominations Committee in the previous term.

In 2015, the Nominations Committee held five correspondence meetings where it reviewed proposals for dismissal and appointment of the Company's representatives in the bodies of subsidiaries at home and abroad. Nominations Committee prepared a Report on the aptness of the composition of the Board of Directors of Directors and a number of members of the Board of Directors of *NIS j.s.c. Novi Sad* to meet the *NIS j.s.c. Novi Sad* needs, which was submitted for consideration to the Shareholders Assembly Meeting at the session held on 23 June 2015; the Committee also submitted a report on its activities to the Board of Directors.

Shareholders' Assembly Board

The Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to Company's Shareholders (hereinafter the Shareholders' Assembly Board) is an advisory and expert body of the *NIS j.s.c. Novi Sad* Shareholders' Assembly which provides assistance to the Shareholders' Assembly in its activities and deliberation on issues falling within their scope of competence. The members of the Shareholders' Assembly Board are accountable to the Shareholders' Assembly which appoints them to and relieves them of their duty.

In accordance with the powers under the Articles of Association, the Shareholders' Assembly Board provides its opinion, among other things, on the following matters: reporting to the Shareholders' Assembly on the application of accounting practices; financial reporting practices at the Company and its subsidiaries; reporting to the Shareholders' Assembly concerning the credibility and completeness of reports to the Company's shareholders on relevant facts; proposed methods for profit distribution and other payments to Company's shareholders; procedures for performing an independent audit of the Company's financial statements; internal audit activities within the Company and assessment of internal audit activities in the Company; proposals for the establishment or liquidation of companies in which the Company holds a share in equity, and the Company's branches; proposals for acquisition and sale of shares, stakes and/or other interests the Company holds in other companies, and the assessment of handling complaints filed by Company's shareholders.

The efficient operation of the corporate bodies ensures a steady development of the Company and instills confidence in shareholders, investors and partners.

Members of the Shareholders' Assembly Board as of 31 December 2015

At the 7th Regular Meeting of the *NIS j.s.c. Novi Sad* Shareholders' Assembly held on 23 June 2015, all the members of the Shareholders' Assembly Board, whose term of office ceased, were re-elected. Therefore, in 2015 there were no changes in the composition of the Shareholders' Board Assembly and the Board consists of the following members:

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

Members of the Shareholders' Assembly Board as of 31 December 2015

Nenad Mijailović

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

Born on October 14, 1980 in Čačak, Serbia.
Mr. Mijailović graduated from the Faculty of Economics, University of Belgrade in 2003. In 2007, he obtained an MBA degree from the University of Lausanne, Switzerland. In 2010, he started his PhD studies at the Faculty of Economics, University of Belgrade. As from 2011, he has held an international CFA license in the field of Finance. From 2003 to 2009, he worked as a consultant and manager in finance and banking in the following companies: Deloitte Belgrade, AVS Fund de Compensation Geneve, JP Morgan London, 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 Privatization. Since August 2012, he has held the position of Deputy Minister of Finance of the Republic of Serbia. As of August 2014, he served as the Secretary of State in the Ministry of Finance of the Republic of Serbia.
Mr. Mijailović was a member of *NIS j.s.c. Novi Sad* BoD from 18.06.2013 to 30.06.2014. He was appointed Chairman of the *NIS j.s.c. Novi Sad* Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to Company's Shareholders as of 30.06.2014.

Zoran Grujičić

Member of Shareholder Assembly Board for Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders
Member of Remuneration Committee

Born on July 28, 1955 in Čačak, Serbia.
Mr. Grujičić graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994, he was employed with Heat Transfer Appliances Plant "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 the Company MNG Group d.o.o., Čačak. From June 2004 to February 2007, he was Director of the Trading Company Agrostroj j.s.c. Čačak, Director of the limited partnership company Leonardo from Čačak and Director of the Vojvodina Highway Centre. Since February 2007, Mr. Grujičić has been employed with *NIS j.s.c. Novi Sad* and has held the following positions: Deputy Director of the Logistics Department, Jugopetrol; Head of RC Čačak at the Retail Department – Čačak Region; Manager of the Retail Network Development of the Development Department, Sales and Distribution Block. Since 01.10.2012, he has served as Advisor to the *Sales and Distribution Block's* Director.
He was appointed member of the *NIS j.s.c. Novi Sad* Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to Company's Shareholders as of 30.06.2014.

Alexey Urusov

Member of Shareholder Assembly Board for Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders
Member of Audit Commission
Director of Economics and Corporate Planning Department in PJSC "Gazprom Neft"

Born on November 17, 1974 in Tyumen, USSR.
Mr. Urusov graduated from the Tyumen University (specialist in finance) and the University of Wolverhampton in the United Kingdom (BA (Hons) Business Administration). Mr. Urusov holds and MSc degree in Sociology.
From 2006 to 2008 worked as executive vice-president for planning and performance management in the Integra Group. From 2002 to 2006 worked in TNK-VR. From 2002 to 2003 member of TNK BoD's Group for monitoring and , and in period from 2004 to 2006 worked as CFO in TNK-VR Ukraine. From 2009 to 2012, Mr. Urusov was employed with *NIS j.s.c. Novi Sad* as Chief Finance Officer.
He was appointed member of the *NIS j.s.c. Novi Sad* Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to Company's Shareholders as of 25.06.2012.

Membership of the Board of Directors or Supervisory Boards of other Companies	
Nenad Mijailović	-
Zoran Grujičić	-
Alexey Urusov	• Member of the Supervisory Board of Gazprom Neft Marine Bunker Balkan S.A.

A total amount of fees paid to SAB members in 2015, net RSD	
SAB Members	18,663,313

Activities of the Shareholders' Assembly Board in 2015

In 2015, the Shareholders' Assembly Board held 3 meetings with personal attendance of members and 7 correspondence meetings. Shareholders' Assembly Board reviewed the Company's periodic reports: quarterly reports, quarterly financial and consolidated financial statements for the first, second and third quarter of 2015, the General Director's quarterly reports on all concluded contracts whose value exceeded five million euros for the first and second quarter of 2015, as well as the 2016 Business Plan. In addition, the Shareholders' Assembly Board examined the proposals for the increase of the capital in subsidiary companies *NIS j.s.c. Novi Sad*, Naftagas – *Naftni Servisi d.o.o. Novi Sad, Naftagas - Tehnički servisi d.o.o. Zrenjanin, Naftagas - Transport d.o.o. Novi Sad and NTC NIS - Naftagas d.o.o. Novi Sad*, as well as the increase of capital reserves in *Pannon Naftagas Kft. Hungary*, and additional contributions to the capital of RAG Kiha Kft. Hungary, with the proposal for approval of the sale of shares of *Komercijalna Banka a.d. Beograd* owned by *NIS j.s.c. Novi Sad* and the proposal for the formation of 3 new branches of *NIS j.s.c. Novi Sad* (for registration of hospitality activities in retail stores – the *NIS j.s.c. Novi Sad* petrol stations). Shareholders' Assembly Board rendered 44 conclusions.

Corporate governance system provides professional and responsible management, efficient operation of the corporate bodies, who act in the best interests of the Company and its shareholders, and a high level of business transparency.

General Director

The Board of Directors appoints one of its executive members to act as the General Director. The General Director coordinates the activities of the executive members of the Board of Directors and organizes the Company's activities. In addition to this, the General Director performs daily management activities and decides on matters which do not fall within the competence of the Shareholders' Assembly and the Board of Directors. The General Director is a legal representative of NIS.
Mr Kirill Kravchenko is the General Director of *NIS j.s.c Novi Sad*.

The Advisory Board of General Director

The Advisory Board of General Director as an expert body that provides assistance to the General Director in his activities and consideration of issues within its scope of competence. The composition of the Advisory Board of General Director has been determined by the General Director's Decision and it is composed of the Directors of all Blocks and Functions within the Company, the General Director's Deputy for petrochemical operations and Regional Directors of *NIS j.s.c. Novi Sad* for Romania and the Adriatic. The Advisory Board has a Council composed of Block Directors and the General Director's Deputy in charge of petrochemical operations. The Advisory Board of General Director is managed by the General Director and provides him assistance in relation to the issues concerning the Company's business operations management. In addition to issues concerning the Company's current operations (monthly and quarterly operating results, annual business plans, monthly investment plans), the Advisory Board deals with issues related to strategy and development policy, whose basic principles are established by the Shareholders' Assembly and the Company's Board of Directors.

Members of Council of Advisory Board of General Director
as of 31 December 2015 are as follows:

Vladimir Paltsev

First Deputy of General Director

Born on 19 January 1956 in Primorsky Krai, Russian Federation.
Mr Paltsev graduated from Ufa Petroleum Institute in 1978, majoring in Drilling of Oil and Gas Wells. He continued his studies at the Academy under the Government of Russian Federation (1992 - 1994 - company management in the crisis) and the Russian Presidential Academy of Public Administration under the President of the Russian Federation (2008 - Master of Business Administration). After his studies he served the army (1978 - 1980). In 1980, Mr Paltsev started his thirty-year career in oil industry at the Pravdinsk Neft Administration with the Yuganskneftegaz Production Complex. He occupied the position of crew head, senior engineer, production unit manager, department director and administration lead engineer. In the period from 2002 to 2006, he managed the Production and Services Block at YUKOS oil company as its vice-president responsible for oil and gas production, new technologies and company supervision. In 2006, he was the Chief Executive Officer of Tomskneft JSC, joint venture of PJSC "Gazprom Neft" and Rosneft oil company.
In August 2014, he started to work at *NIS j.s.c. Novi Sad* where he holds the position of the First Deputy of *NIS j.s.c. Novi Sad* General Director and is competent for production, services, material and technical service procurement and energy.

Irek Khabipov

Director of Exploration and Production Block

Born on 13 June 1971 in Aznakayevo, Russian Federation.
Mr Khabipov graduated from the Gubkin Russian State University of Oil and Gas in 1993, majoring in Engineering and Exploitation of Oil and Gas Fields, and in 2007 he obtained a degree in Finance and Credit from the Tyumen State University. He started his career in the oil industry in 1993 as an operator with Nizhnevartovsk Neft, which he left in 1999 as the Deputy Head of the Oil and Gas Production Unit. In 2000 he became the deputy manager of the Production and Technology Sector and in 2003 he was appointed Director of the Oil Production Department, Deputy Director for Production Planning and Technologies with Samotlorskoe NGDU №2 Samotlorneftegaz j.s.c. He subsequently became Deputy CEO in charge of Infrastructure and Operational Support Management – Lead Engineer with the same company. In 2010 he started working at TNK-Uvat Ltd. as the Deputy Chief Executive Officer in charge of Infrastructure and Operational Support – Lead Engineer.
Since May 2014. Mr Khabipov has been working with *NIS j.s.c. Novi Sad* occupying the position of the General Director's Deputy – Director of *Exploration and Production Block*.

Vladimir Gagić

Director of Refining Block

Born on 23 September 1969 in Zadar, Croatia.
Mr Gagić graduated from the Facility of Technology and Metallurgy, University of Belgrade in 1993. He gained his first experience in process engineering at the Atmospheric Distillation Unit at Pančevo Oil Refinery in 1996. The logical progress in his career was the appointment to the position of Head of the Atmospheric Distillation Unit, where he successfully performed the duties under extremely difficult conditions of economic sanctions. He constantly expanded and broadened his extensive theoretical knowledge by testing it in practise or exchanging experiences with colleagues from different professions at all other refinery units. Having gained excellent practical knowledge of all the segments of the refinery production process, Mr Gagić took considerable part in the Modernization of Refining at the Development and Investment Sector. This was followed by the appointment to the Director of Pančevo Oil Refinery and then Deputy Director of Pančevo Oil Refinery.
He was appointed to the position of Director of *Refining Block* after he successfully performed the duties of the Director of the Technical Department within the Block.

Alexey Chernikov

Director of Sales and Distribution Block

Born on 1 September 1975 in Yekaterinburg, Russian Federation.
In 1997, Mr Chernikov graduated from the Ural State Academy of Transport. A year later, he started working for Instrument Uralsnabkomplekt, a Trade and Industrial Enterprise, as a Commercial Department Manager. While he was building his professional career he also continued his professional development. In 2002 he earned a diploma from the International Finance and Banking School in Moscow, and then in 2012 a diploma from the INSEAD the Business School for the World, and in 2013 a diploma from the Stockholm School of Economics. In 2000 he started working for Sverdlovsknefteprodukt as a Deputy Head of the Department of Sale of Petroleum Products, and less than a year later he became the Head of this Department. He joined the *Yekaterinburg Petroleum Products Company* in 2002 as the Commercial Director. In 2005 he started working at the same position but this time for *Sverdlovsnefteprodukt*. He came to PJSC "Gazprom Neft" in 2008 as the General Director of the subsidiary *Gazpromneft – Chelyabinsk*. From 2013 to March 2015 he was the General Director of *Gazpromneft – Ural*.
He became the Director of *Sales and Distribution Block* at *NIS j.s.c. Novi Sad* in March 2015.

Valery Proskurin

Director of Services Block

He was born on 19 August 1968 in Neftekumsk, Russia.
Mr Proskurin graduated from the Ufa Petroleum Institute in 1992 and became a mining engineer. After completing undergraduate studies, he continued to improve his professional capabilities and was awarded the title of PhD in Technical Sciences. In addition to formal education, he underwent a number of training sessions in the field of drilling, environmental protection etc. He started his career in 1992 in *Megionneftegas*. In *Slavneft – Megionneftegas*, he occupied the position of Director of Oilfield Services. In addition to extensive technical knowledge, he has many years of working experience on managerial positions.
He has joined *NIS j.s.c. Novi Sad* in May 2015 and holds the position of the Director of *Services Block*.

Alexey Belov

Director of Energy Block

Born on 18 March 1972 in the town of Kstovo in the Gorkovski region.
Mr Belov holds two university degrees: in 1995, he graduated from Nizhniy Novgorod State Technical University, majoring in Nuclear Power Plants and Installations. In 2001, he graduated from Tolyatin Management Academy, majoring in State Management. In December 2007, Mr Belov was awarded the academic title of Master of Technical Sciences at NPO CKTI in Saint Petersburg. From 1994 to 1997, he worked as a boiler operator at *AOOT Nizhegorodnefteorgsintez, Neftekhim NHZ CJSC*, and *NORSI OJSC*. From 1997 to 2007, he worked as Deputy Chief Engineer for thermal energy, i.e. energy facilities engineer for thermal energy supply, as well as Deputy Chief Engineer for thermal energy supply management in *LUKOIL- Nizhegorodnefteorgsintez o.j.s.c*. In 2007, Mr Belov worked as the Head of the Gas Legislation Sector at *LUKOIL-ENERGOGAS LTD*. From January 2008 to September 2010, he served as the General Manager of *LUKOIL Energy and Gas Bulgaria*. From October 2010 until assuming a new position at *NIS j.s.c. Novi Sad*, he was the General Manager of *LUKOIL-EKOENERGO LTD*, which was known as *JGK TGK-8 LTD* until 6 December 2010.
He assumed the position of Director of *Energy Block* at *NIS j.s.c. Novi Sad* in September 2011.

Goran Stojilković

General Director's Deputy for Petrochemical Operations

Born on 13 September 1968, in Leskovac, Republic of Serbia.
Mr Stojilković graduated from the Faculty of Technology and Metallurgy, University of Belgrade. At the beginning of his career he worked as the chemical engineer for organic synthesis at the semi-industrial plant, the technical director of the business unit and the director of the Chemistry Business Unit within *FHI Zdravlje* from Leskovac. In 2003, he was appointed Deputy CEO at *FHI Zdravlje* Leskovac and in December 2004 he assumed the position of the Company CEO of *Zdravlje Actavis* Leskovac. He held this position until April 2009 when he went to the UK. In the period from April 2009 to October 2012 he was the CEO of operations at *Actavis UK LTD*. Living and working in London have had a strong influence on the development of his managerial and personal skills and abilities. In 2007, he received the award for the best manager in Serbia from the Serbian Chamber of Commerce and the Association of Economic Journalists of Serbia. In the period from 2004 to 2007 he was the Chairman of the BoD of *Zdravlje* Basketball Association. He is a member of the Assembly of Basketball Association of Serbia. He actively supports local economy as a member of the Association of Centres for Development of Jablanica and Pcinja Region. He is active in the Serbian Chamber of Commerce and is a representative of private business in Brussels since 2008.
Since October 2012 he has been holding the position of the General Director's Deputy for Petrochemical Operations at *NIS j.s.c. Novi Sad*.

Other members of the Advisory Board of General Director as of December 31, 2015 are as follows:

Srđan Bošnjaković

General Director's Deputy, Director of Strategy and Investments

Born on 7 July 1969 in Novi Sad.
Mr Bošnjaković graduated from the Faculty of Technical Sciences in Novi Sad, where he also earned his MSc degree in Mechanical Engineering. He began his career in 1995 at *NIS – Gas*, as an engineer for transport and distribution of natural gas. Having served as Manager of the Department for Natural Gas Transportation and Distribution, he was appointed Managing Director of this company in 2002. Three years later, he became the Executive Director of *NIS LPG*, and in 2006, he was elected Executive Director of *NIS–Petrol* and CEO of *NIS j.s.c. Novi Sad*. After spending two years on these positions, he was elected Chairman of the Board of Directors. In 2008, he was appointed Regional Director of Development, Sales and Distribution at PJSC "Gazprom Neft". Since 2010, he was Director of the Project Office in Sofia, Bulgaria, and he later became the CEO of *NIS Petrol EOOD* in Bulgaria.
Since January 2013, he has served as General Director's Deputy at *NIS j.s.c. Novi Sad*, as well as Director for Strategy and Investments.

Igor Tarasov

General Director's Deputy, Director of Corporate Security

Born on 2 July 1952 in Moscow.
He has 38 years of work experience in state security services. He was on the staff of the Embassy of the Russian Federation in Belgrade from 1994 to 1999 and from 2001 to 2006.
He has been holding the position of General Director's Deputy, Director of Corporate Security Function with *NIS j.s.c. Novi Sad* since 2009.

Anton Fedorov

General Director's Deputy, Director of Finance, Economics, Planning and Accounting

Born on 9 December 1973 in Saratovo region, Russian Federation.
Mr Fedorov graduated from the State Academy for Economics in Samara, specializing in national economy. In 2001, he acquired a degree in law, and in 2011, he earned the MBA degree in Finance from the Academy of National Economics under the Government of the Russian Federation. From 1997 to 2005, he worked at *Yuganskneftegas* OJSC holding various positions including the position of CFO at NGDU *Yuganskneft*. From 2005 to 2007, he worked at *Sibur* as the CFO of *Yaroslavl Tire Factory* in Yaroslavl. In 2007, he joined PJSC "Gazprom Neft" as Project Manager for the Development of Sites in Western Siberia and he managed the implementation of the Novoport's Oil and Gas Deposit Project. Mr Fyodorov served as the CFO of Moscow Refinery from 2009 to 2012.
Since April 2012 he has held the position of General Director's Deputy, Director of Finance, Economics, Planning and Accounting Function.

Serguei Fominykh

General Director's Deputy, Director of Legal and Corporate Affairs

Born on 4 January 1979 in Russian Federation.
Mr Fominykh graduated from the Faculty of Law at the Mari State University and Central European University in Budapest and in the field of jurisprudence and graduate studies at the Moscow Academy of Finance and Law. Afterwards, he completed management programs at the Moscow School of Management *Skolkovo* and Cambridge Business School. For over seven years, he worked as an associate in international law and consulting companies. In 2009, he joined the *NIS j.s.c. Novi Sad* management team as the Director of the Legal Monitoring Department.
In November 2010, he was appointed Director of Legal and Corporate Affairs Function at *NIS j.s.c. Novi Sad*. Mr Fominykh is responsible for managing a team in charge of the company's legal support, corporate governance and real estate management.

Andrey Shibanov

General Director's Deputy, Director of Organizational Affairs

Born on 5 April 1965 in Ulyanovsk, Russia.
Mr Shibanov graduated from the Gorky Institute of Foreign Languages in Nizhny Novgorod in 1989, receiving the title of Translator/Interpreter. In 1993 he completed the Copernicus Management Programme in Paris, France. In 2001 he received the title of Human Resources Expert at the Human Resource Management Certification Institute in the USA, and in 2014 he obtained a Master's degree from Stockholm School of Economics. In a professional career extending for over 20 years, he has gained comprehensive experience in human resource management as a human resource director in numerous companies - *UniCredit Bank, Alpha Bank, Renaissance Capital* and *Pricewaterhouse Coopers*, Russia.
Since the beginning of 2014 he has been General Director's Deputy – Director of Organizational Affairs Function with *NIS j.s.c. Novi Sad*.

Evgeny Kudinov

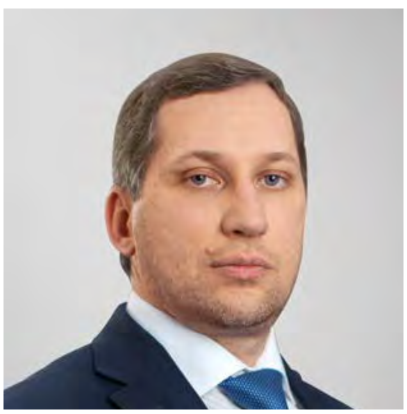
General Director's Deputy, Director of External and Governmental Relations

Born on 7 October 1958 in Kuybyshev, USSR.
Mr Kudinov graduated from Moscow State University M.V Lomonosov, Department of Economics, as a regular student and gained the title: BSc in Economics. He completed additional courses at the Russian Foreign Trade Academy. He started his career in 1981 at the USSR State Committee for foreign economic relations, after which until 2000 he held a number of positions in trade representative offices of the USSR and the RF in SFRY and Serbia. In the period from 1993 to 1994, he served as Commercial Director at *Interslavia*. From 2000 to 2001, he worked at the Ministry of Economic Development and Trade of the Russian Federation as the leading specialist for European countries. He serves as Commercial Director at *Server CJSC* from 2001 to 2006. From April 2006 to May 2009 Mr Kudinov served as Deputy Trade Representative of the RF in Serbia, and in 2009, pursuant to the Decree of the Government of the Russian Federation, he was appointed to the position of Trade Representative of the RF in the Republic of Serbia.
Since 2011, he has been serving as the General Director's Deputy of *NIS j.s.c. Novi Sad*, Director of External and Governmental Relations Function.

Sanja Lubardić

Director of Public Relations and Communication

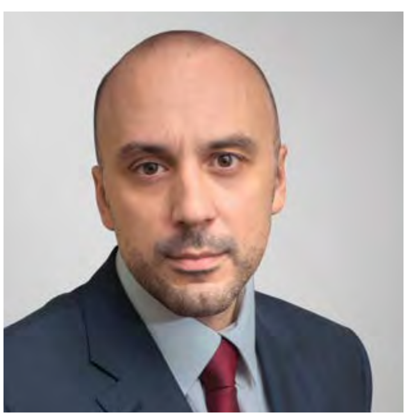
Born on 17 September 1970, in Vukovar, Croatia.
She graduated from the Faculty of Political Sciences in the University of Belgrade, in the Department of Journalism. As a professional journalist, she has ten years of experience in print and electronic media. In 2001, she became involved in PR, first as a media adviser to the Director of the Tax Administration with the Ministry of Finance of the Republic of Srpska, where she was in charge of tax reform media promotion. Two year later, she became the Director of the Information Office with the Republic of Srpska's Ministry of Finance Tax Administration. She was on the project team of the Government of Serbia for the introduction of VAT, in charge of project promotion. In the six years that she has been at NIS, she held the post of the External Communications Department Director.
In April 2015, she was appointed Director of Public Relations and Communication.



Maxim Kozlovski

General Director's Deputy, Director of Material and Technical and Service Support and Capital Development

Born on 3 April 1976 in Nizhnevartovsk, Russia.
He graduated from the Tyumen State University in 1998 in economics (Finance and Crediting), and in 2007 he graduated from the Tyumen State Oil University, specializing in Exploration and Production of Oil and Gas Fields. Prior to his engagement at the *NIS j.s.c. Novi Sad*, he had stints at Rosatom in the post of Deputy CEO for General Issues, as well as at TNK-BP (Tyumen Oil Company British Petrol) in the post of Director of the MT and SS Division.
Since November 2013, he has held the post of General Director's Deputy of *NIS j.s.c. Novi Sad* and the Director of MTSS and CC Function.



Ognjen Trbuk

Director of Internal Audit

Born on 26 July 1977 in Belgrade, Serbia.
He graduated from the Faculty of Economics in the University of Belgrade. A year after graduation, he started his career at *NIS j.s.c. Novi Sad* spanning twelve years. In his professional work at *NIS j.s.c. Novi Sad*, he has held numerous posts in the area of audit, and became in 2013 the Director of the Turnover Audit Department. He has obtained a CAC (Certified Auditor Certificate) and CFE (Certified Fraud Examiner).
In November 2015, he was appointed Acting Director of Internal Audit Function.

Ulrich Poeball

Director of HSE

Born on 30 June 1961 in Vienna, Austria.
He graduated in 1988, obtaining a degree of civil engineer, and worked at the outset of his career in construction companies in Vienna and Germany.
He spent 22 years with OMV, being in charge of environmental projects at the refinery, in marketing, and exploration and production. In 1999 he moved to international exploration and production, and worked at OM as the Director of HSE in several countries, e.g. Australia, New Zealand, and Romania.
Since August 2014, he has held the post of Director of HSE Function at *NIS j.s.c. Novi Sad*.

Vadim Smirnov

NIS j.s.c. Novi Sad Regional Director for Romania

Born on 10 October 1963 in Kazakhstan.
In 1985, he obtained a university degree in Finance and Audit. In addition, he graduated from the Diplomatic Academy (1994, Moscow) and Higher Vocational Commercial School (1999, Moscow). From 1985 until 1991 he held posts at Far East (Russia) companies. Between 1991 and 1998, he worked at the Ministry of Foreign Affairs of the Russian Federation, including long-term official trips to Balkan countries. From 1998 until 2009 he held various posts at *Aeroflot j.s.c.*, including the post of company representative for the Balkans (6 years), and the post of Head of the Unit for Controlling Foreign Currency Operations of Representative Offices Abroad (2 years). From 2010 he has been active in economic security at the companies of the Gazprom Group, and since 2012 has held the post of Director of Internal Audit Function at *NIS j.s.c. Novi Sad*.
He currently holds the position of the *NIS j.s.c. Novi Sad* Regional Director for Romania.

Srđan Pešević

CEO of G-PETROL d.o.o. Sarajevo

Born on 17 May 1985 in Banja Luka, Republic of Srpska, Bosnia and Herzegovina.
He obtained a BA degree in economics from the Karl Francenz University in Graz, Austria. After graduation, he worked at a Deloitte Office in Banjaluka. He took up the post of Director of PEC (financial director) at NIS Petrol d.o.o. Banjaluka in March 2013; in November of the same year he took up the post of Financial Director, i.e. the Director of Finance, Economics, Planning and Accounting at the subsidiary G Petrol d.o.o. Sarajevo.
Since November 2015, he has held the post of Director of all subsidiaries of *NIS j.s.c. Novi Sad* in Bosnia and Herzegovina.

Advisory Board Activities in 2015

The Advisory Board of General Director held 38 meetings in 2015. According to the Advisory Board's plan of work, the mandatory item on the agenda of each meeting was a discussion of reports on HSE events and initiatives, as well as the operational reports of directors of blocks and functions.
Activities on a monthly basis included discussions on operational plans based on key business indicators for the following month, an overview of the achieved results in the previous period from the beginning of the year, progress in investments, reports on the progress in operational efficiency , results and plans of activities of foreign subsidiaries.
Apart from regular reports, various business strategies were discussed, as well as project reports of various organizational units, and reports of Company committees. Over the course of the year, the Board was presented with the physical inventory results of property and obligations of the Company, procurement management systems, the Procurement Committee report, the report on the implementation of audit recommendations, energy management system, report on key risk management activities, etc.
In 2015, three extended meetings of the Board of Directors were held for a wider management team, having as a topic the summary of results from the previous period.

The Company Manager Succession Plan

With a view to reducing potential Company risks an increasing operational efficiency, there are processes and systems at the Company aimed to ensure filling up empty highest Company operational management posts. This includes the implementation of specific training programmes such that by continuously investing in the development of knowledge, ability, and skills the potential risks related to key management positions at the Company are reduced in the long term.
Additionally, potential successors are assessed, and special successor lists drawn up specifying the full names of these persons, their current posts, and plans for their development.

Acquisition and Disposal of Company shares by managers and related parties

In line with Article 84 of the Law on Capital Market and the Rulebook on Handling Insider Information at *NIS j.s.c. Novi Sad*, all persons in managerial positions at the Company as well as the related persons (as defined under said Law), must report within 5 days any acquisition or sale for their own account of Company shares to the Securities Commission and the Company in the event that the value of the individual acquisitions or sales exceeds RSD 100,000, as well as when the sum of individual acquisitions or sales in the course of one calendar year exceeds RSD 500,000.
In 2015, the Company was not informed about either the acquisition of the sale of Company stocks by Company body members or persons related thereto.

The number and % of *NIS j.s.c. Novi Sad* shares owned by BoD members		
Name	**No of stocks**	**% share in the total No of stocks**
Nikola Martinović	224	0,0001%
The number and % of *NIS j.s.c. Novi Sad* shares owned by SAB members		
Name	**No of stocks**	**% share in the total No of stocks**
Nenad Mijailović	5	0,000003066%

Supervision and Control Activities

As the basic form of internal supervision, the Company establishes internal controls over key processes, activities, and actions, integrated into the system with the aim of ensuring a greater efficiency of business processes and risk control.
In addition to the internal control system, the Company has established the following forms of oversight and control:

- The Audit Committee
- Internal Audit
- The integrated risk management system
- Internal audit of business processes and established management systems
- Implementation of occupational health and safety measures monitoring.

The Audit Committee was set up by the Company Board of Directors pursuant to the Company Law. The Audit Committee is concerned with issues of internal supervision, primarily the assessment of the internal control system, risk management process, and business compliance, assessment of financial reporting adequacy, and issues of external audit.
The Company has set up a separate Internal Audit Function, with the aim of ensuring an unbiased and objective assurance of the appropriacy of corporate governance processes, risk management, and internal control, thus adding value and contributing to the increase in overall efficiency and progress of the Company. Internal Audit acts in line with the International Framework of Professional Internal Audit Practice, and the internal audit normative-methodological documents, adopted at Company level.
The Company has set up an integrated risk management system (IRMS), which is a systematic, ordered, unified, continuous, and permanent process of discovering, assessing, development, and monitoring of the implementation of risk management measures. Risks are managed by the management per business process, whereas the Risk Assessment Section, as part of Internal Audit, coordinates this process. Risk management process is regulated by special internal Company bylaw. Key risks are related to Company goals, the identification is conducted by the management, and the Board of Directors adopts them by adopting Company business plans, whose integral part is the assessment of key risks, management strategies, and the resources needed to implement the planned risk management measures. The Company also has a risk register which is defined at Company level for each year.
Within the Company, an integrated management system (IMS) has been established in line with the requirements of the management system international standards (ISO 9001, ISO 14001, OHSAS 18001, ISO 50001, ISO 17025, etc.), at Company level or at the level of its organizational parts.
Within the integrated management system, which is regulated via the Company normative-methodological documents, Company business processes are identified, classified, process implementation is described using appropriate documents, and KPIs are defined (key performance indicators), which are regularly measured and monitored, analysed and used as a basis for defining programmes and measures for process improvement.
Compliance with the above standards is audited by accredited certified bodies, which issue certificates based on checks conducted.
In addition to external audits, the Company has undertaken to implement internal audits of the established management systems, which are performed per business process, in line with the annual internal audit programme. The internal audit is performed in a planned fashion, once per year for each business process, while unscheduled internal audits are performed if it is determined that significant non-conformances exist in the process.
The results of these controls are formalized through reports, based on which Company business process owners defined corrective

measures aimed to remove the causes of identified non-conformances, with a view to preventing them from occurring.

The external auditor

Audit of Financial Statements

In line with the Law and the Articles of Association, the Company auditor is appointed by the Shareholders Assembly at the proposal of the Board of Directors. The Company Auditor is selected at each regular Shareholders Assembly meeting; in accordance with the Law on Capital Market, and bearing in mind the fact that *NIS j.s.c. Novi Sad* is a public joint-stock company, a legal entity conducting the audit may only conduct five successive audits of annual financial statements.

The reports on the audit of financial statements and consolidated financial statements of the Company for 2014 by the auditing company were adopted on 23 June 2015 at the 7th Regular Shareholders Assembly meeting, attended by the auditor *KPMG d.o.o. Belgrade*, which must be invited to the regular Shareholders Assembly meeting as a matter of the law. In the same Shareholders Assembly meeting, *PricewaterhouseCoopers d.o.o. Belgrade* was selected for auditing the 2015 financial statements.

Other services of the auditor

In addition to auditing financial statements and consolidated financial statements for 2015, PricewaterhouseCoopers d.o.o. Belgrade provided NIS an additional service in 2015. In providing said service, and bearing in mind the knowledge and experience required, it was deemed more efficient to engage PricewaterhouseCoopers d.o.o. Belgrade than a third party. The additional service (apart from the auditing service) related to the analysis of the non-executive Company director compensation. Rendering said service did not impact on the independence of the auditor, and the amount paid for this service was 7,7% of the total aggregate fees paid to external auditor.

Transactions Involving Personal Interest and Transactions with Related Parties

A person entrusted with special duties at the Company must notify the Board of Directors without delay of the personal interest (or the interest of a related party) in a legal transaction concluded by the Company, or a legal action undertaken by the Company.

By the conclusion of the Contract on regulating the mutual rights and obligations with the Company, the members of the Board of Directors are additionally informed about the obligation to notify the Company due to a possible conclusion of a legal transaction with the Company, as well as with the obligation to not represent competition to the Company and other special duties of the members of the Board of Directors.

The unified standard of behaviour, values, principles of lawful behaviour and basic anti-corruption and anti-fraud rules must be complied by all persons.

The Company identifies legal transactions and legal actions with related parties to ensure that their conclusion only takes places if they are not damaging to Company operations. Legal transactions and legal actions with related parties are authorized by the Board of Directors in line with the Law. Once per year, the Board of Directors submits to the regular Shareholders Assembly the information on the approval of the conclusion of personal interest transactions. In addition, with the aim of monitoring potential competition, the Company has the practice of quarterly surveys of members of the Board of Directors about the circumstances of their current engagement, as well as about memberships in Boards of Directors and Steering Committees at other companies.

In 2015, NIS has entered into business transactions with its related legal entities. The most important transactions with related legal entities occurred based on procurement/delivery of crude oil, petroleum products and energy. An overview of transactions with related parties is provided in the notes accompanying the financial statements.

Insider information

Trading shares using insider information is strictly prohibited under penalty prescribed by the Law on Capital Market. Due to this, the Company requires that all persons with constant or intermittent access to such information to fully adhere to the provisions of the Laws, bylaws, as well as Company bylaws relating to insider information and confidential data.

The criteria based on which certain persons have the characteristics of insiders, their rights and duties, the obligations of the Company aimed to ensure the confidentiality of insider information, the procedure of announcing insider information, as well as the rules relating to compiling, keeping, and updating the list of insiders, are contained in the Rulebook on Dealing with Insider Information at *NIS j.s.c. Novi Sad*.

The Code of Conduct

The Code of Conduct regulates the ethical norms of *NIS j.s.c. Novi Sad* in all areas of business operations, and lays down the ground rules and norms of behaviour which define relationships with colleagues, clients, business partners, state authorities and local self-government bodies, the general public, and competitors.

The principles contained in the Code provide clear recommendations for making ethically balanced decisions in various situations, and the Code defines the norms and rules of behaviour based on corporate values, which the Company expects all employees to adhere to.

The *NIS j.s.c. Novi Sad* Code of Conduct must be adhered to by all employees and members of management bodies of *NIS j.s.c. Novi Sad*, as well as persons which, based on contracts, are engaged at *NIS j.s.c. Novi Sad*; these persons must report on all and any illegal or unethical actions related to the Company and representing a violation of the Code.

The Code of Conduct is available on the Company web page[49].

Corruption and Fraud Prevention Policies

The Company has adopted the Corruption and Fraud Prevention Policy with a view to preventing and prohibiting the participation in any form of corruptive behaviour or fraudulent actions.

The Policy ensures conditions for a timely discovery, prevention, and minimization of the risk of illegal, unethical, and corruptive behaviour, based on a unified standard of behaviour, values, the principles of legal business operations and basic rules of the fight against corruption and fraud.

The Policy envisages the obligation of all persons, in the event of argumented suspicions regarding the perpetration or preparation of corruptive or fraudulent actions, or in their discovery, to submit the relevant information via the defined and protected communication channels, with confidentiality guaranteed, and the Policy defined the measures of protection of the person submitting this information and the manner in which they are implemented, ensuring that the position of the person pointing in this way to corruptive or fraudulent actions is no way jeopardized.

Relationship with the Stakeholders and Corporate Social Responsibility

Information on identifying and developing relationships with key stakeholders, as well as the application of the principles relating to corporate social responsibility, are available in the section of the Annual Report: Annual Report > Corporate Social Responsibility and Local Development.

[49] http://www.nis.eu/en/about-us/company-information/code-conduct

FOR SAFE FUTURE

Safe work environment provides a secure future, while the work conditions which will allow all employees and business partners to feel protected at all times are one of the strategic goals of NIS. The highest standards in the field of HSE was in focus throughout 2015 as evidenced by the excellent results we have achieved in this field. In addition to the facts that the number of injuries with lost days decreased by 46%, the number of traffic accidents by 43%, and the ratio of traffic accidents RAR (Road Accident Rate) by 50%, of particular significance is the fact that in refining Block we achieved a record of 365 days without an injury at work.

NIS GAZPROM NEFT FUTURE AT WORK

NIS.EU

ENVIRONMENTAL PROTECTION, INDUSTRIAL SAFETY, AND OCCUPATIONAL SAFETY

Safe working conditions for all employees and business partners are one of the Company's strategic goals; we strive to increasingly reduce the number of workplace injuries and professional illnesses. NIS continuously applies the principles of prevention with the aim of improving workplace conditions and reducing the number of adverse HSE Events. As regards occupational health and safety, the standards applied at NIS and practices in place extend beyond current legal obligations. Business decisions are resting on the requirements of national legislation and even more than what is prescribed as the legal minimum in order to ensure efficient risk management. Contractor safety is successfully managed and contractors are required to comply with NIS standards.

627

million RSD invested in environmental projects

Sustainable environmental management at NIS means commitment to environmental protection through the implementation of projects for reduction of noxious emissions into the air, water and soil, minimisation of waste generation, increased energy efficiency and greater use of renewable energy resources, remediation of historical and post-accident contamination, and application of technical and technological measures in line with best available techniques.

Environmental Protection

The complex macroeconomic conditions notwithstanding, we continued allocating funds during 2015 for the implementation of environmental protection projects aiming to modernise equipment and to reduce noxious emissions into the air and water, as well as the amount of generated waste, and to ensure remediation and recultivation of contaminated sites, environmental monitoring, etc. A total of 627 million dinars was invested in environmental projects in 2015.

Air

- **Construction of Fluid Collection and Flaring System (LPG) -** This system will provide for the flaring of separated gas stream, which will in turn prevent emissions of volatile hydrocarbons.
- **Construction of Closed Drainage System (**S-100/ 300/ 400/ 500/ 2100/ 2300/ 2400/ 2500/ 2600) - provided for direct collection of hydrocarbons into the slop tank, whereby noxious emissions into the air are reduced.

Water

- **Remediation and Separation of Oily and Storm Sewage (phases 1 and 2)** - reducing the amount of collected oily waste water in the API separator and cutting the costs of secondary processing of oily waste water.

Soil

- **Remediation and Separation of Oily and Storm Sewage (phases 1 and 2) -** provides for the prevention and control of environmental pollution (water and soil) by oily substances by restoring the oily and storm sewage system into a functional state.
- **Remediation of historical contamination sites -** total of 13 primary mud pits were remediated. The acreage restored to previous condition in this year alone was around 5,500 m2.

The completion of "Biocomponent Blending with Diesel Fuel" project at the Pančevo Oil Refinery allows NIS to fully meet the requirements as soon as prospective biofuel regulation enters into force.

In view of the EU accession process and the opening of negotiations for Chapter 27 – Environmental Protection, NIS established the Standing Work Group to analyse relevant EU directives and review upcoming obligations, differences and possibilities arising from their application.

Indicator LTIF lower by

47%

NIS j.s.c. Novi Sad participated in the IPA project (2012) for establishing the system for monitoring and reporting on GHG emissions in the Republic of Serbia and in the preparation of the Draft Law on GHG Emissions Reduction. At the Company level, CO_2 Monitoring Plans were drafted for the organisational units which were recognised as participants in the CO_2 emissions trading system (EU ETS).

NIS is allocating considerable funds for paying statutory fees for environmental impact on water, air and soil.

The plants for which integral permits are required (Pančevo Oil Refinery, Novi Sad Oil Refinery and Production Unit for Oil and Gas Preparation and Transport, Elemir) are subject to payment of fees for the emissions of SO_2, NO_x and particulate matter and for disposal of hazardous and non-hazardous waste.

In 2015, allocations for environmental protection amounted to 295 million dinars.

Industrial Safety

The Industrial Safety Management System covers the key processes of hazard identification, risk assessment and risk management. With modernised production, application of advanced technologies and staff training, such system allows for adequate prevention, monitoring and timely and efficient emergency response.

In 2015 we continued with the across-the-board development of the industrial safety management system in place.

Fire Protection

- Classification of *NIS j.s.c. Novi Sad* facilities in terms of fire risks was completed in 2015 by the Serbian Ministry of Interior - Sector for Emergency Response. Based on the category assigned, *NIS j.s.c. Novi Sad* as a legal entity is obligated to operate in line with the obligations arising from applicable fire protection laws.
- CAPEX project entitled "Fire Trucks Repair and Purchase of Accompanying Equipment" was started up in 2015, with the completion date projected for first quarter of 2016.
- A total of 168 HSE drills were conducted, whereas 132 were planned, whereby the Annual HSE Drill Plan for 2015 was exceeded by 28%.

- In 2015, two competitions for industrial fire units were successfully conducted. The first competition was held in May 2015; this was an in-house competition of industrial fire units of *NIS j.s.c. Novi Sad*. The second one in August 2015 was held as an external competition of industrial fire units, with participation of the industrial fire unit of *Petrohemija*.

Process Safety

- In 2015 competent state authorities approved six SEVESO documents, and another four documents were prepared and are undergoing approval procedure.
- In 2015 we initiated the process of putting best industrial practice in place at *NIS j.s.c. Novi Sad* plants – isolation and locking of the equipment (LOTO – lock out, tag out).
- Two revamp activities were successfully completed at the Pančevo Oil Refinery and the Production Unit for Oil and Gas Transportation and Preparation in Elemir.

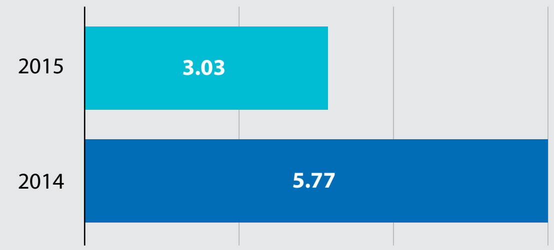
Emergencies

- New emergency-related documents were prepared and existing ones were revised based on the experience from working under harsh conditions.
- 2014 – 2016 Action Plan for Emergency Response Improvement (part for 2015) was implemented, which envisaged the procurement of resources and services recognised as necessary for NIS to operate in emergency situations.
- In accord with the Responsibility Matrices and emergency plans, we conducted educational and training courses for emergency response teams and crews.
- In 2015, the system for electronic notification on HSE events was upgraded by launching a system called *HSEnet*. Along with the HSE SMS Notification on HSE Events already in place, *HSEnet* allowed for a more reliable, comprehensive and easier procedure for sending notifications on HSE events.

Occupational Safety

Running a business in the oil industry requires a high degree of commitment to safety and to the protection of health, employees, contractors, third parties and local population. This is the top priority for NIS and it is the top management and other managers at all levels who give a lead in occupational health and safety. The goal is to ensure workplace safety to NIS employees, contractors, third parties and all stakeholders participating in the NIS operations and to raise the bar in this area for the entire region and for NIS partner companies.
In 2015, LTIF (Lost-time Injury Frequency) indicator was reduced by 47%, which directly helped cut the costs arising from employee injuries.

LTIF[50] -47%



Management of Occupational Safety Risks

Regular activities of updating and amending the Workplace and Work Environment Risk Assessment Act continued in 2015. We worked to improve the management of job-related risks in terms of developing the concept of generic risk assessment for administrative positions and this process was finished at some organisational units, while the development is still on-going at others, all with the aim of ensuring a more efficient application of measures and facilitation of monitoring of regulatory compliance. The focus of the activity was shifted from creating a system to on-site monitoring and upgrading of risk management tools. We improved the systems for immediate risk assessment, permit-to-work and high-risk activities.

[50] Ratio of the number of lost-time injuries and the number of work hours multiplies by 1 million (total for NIS j.s.c. Novi Sad with subsidiaries Naftagas – Tehnički servisi d.o.o., Naftagas – Naftni servisi d.o.o., Naftagas – Transport d.o.o.)

Contractors and Third Parties Management

In line with NIS' commitment to social responsibility, only the contractors (and their subcontractors) which meet minimum statutory requirements of the Republic of Serbia are eligible to participate in tenders and procurement procedures.

1,805 pre-qualified companies

NIS has a contractor pre-qualification process in place which is aimed at improving HSE practices, and many of the contractors have thus raised the level of safety in their respective companies.

14 in-the-field contractor audits

The audits entailed an assessment of introduction and application of risk management tools in contractor companies, then suggestions and direct help as well as support from expert teams in charge of the audit.

3 Contractor Forums

Forums were held at NIS facilities and the aim was to raise HSE awareness of contractors and third parties. Forums were attended by contractors from various fields of industry including maintenance, mechanical and assembly works and construction.

Contractor evaluations

By revising the NIS' normative documents, the number of evaluations performed by HSE officers and auditors increased. This value-add provided the procurement department with additional input for future contractor selection processes.

Employee Health Care

In order to ensure continuous healthcare to employees, in 2015 general check-ups and specialized medical examinations, eye examinations, and mandatory examinations for high-risk workplaces were organised. With the same goal, a series of health-related campaigns were run (campaign on cardiovascular diseases, thyroid gland and metabolism, healthy diet awareness, options for sports and recreational activities). At the end of 2015 we launched the Health Leader programme, focused primarily on fire fighters. The goal is to improve health over the course of 90 days through continuous expert support from 24alife along with individual training plan, diet plan, etc. All this involves using cutting-edge tracking devices. Defibrillators were purchased and distributed and people were trained to use them. Blood pressure meters were installed in a number of locations.

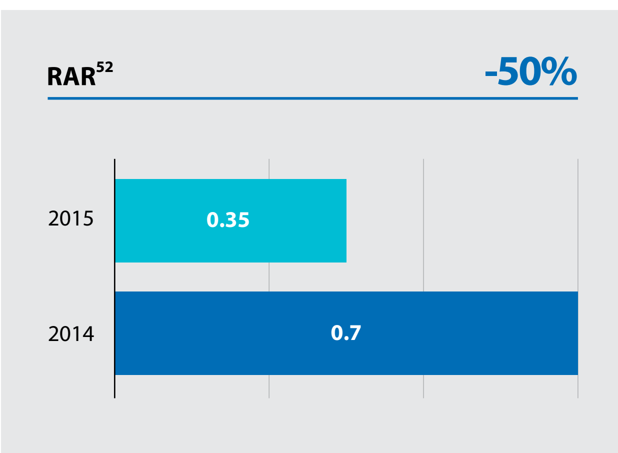
[51] Except for suppliers of administrative services (translation, consultancy, legal, software, designing, freight forwarding/logistics services(excluding transportation),printing, banking, assets evaluation services, etc.), medical institutions in the public sector.

Traffic Safety

The employees of NIS are exposed to traffic risks on a daily basis so a huge attention is paid to traffic safety and reducing these risks to the minimum.
To this end, in 2015 numerous preventive actions were taken, including:

- Signing of the Contract on Business and Technical Cooperation between *NIS j.s.c. Novi Sad* and the Ministry of Defence-Serbian Armed Forces on the provision of traffic safety training services.
- Signing of the Memorandum of Cooperation between *NIS j.s.c. Novi Sad* and the Traffic Safety Agency of the Republic of Serbia, which envisages the participation of NIS in upcoming activities and campaigns carried out by the Agency and education and training of NIS employees, primarily drivers, but also knowledge exchange, joint projects, studies and research and publication of magazines on traffic safety.
- Completion of various forms of training courses for professional drivers and ECO and Safe Driving training for users of passenger cars.
- In mid-September NIS and the Traffic Safety Agency organised the NIS Traffic Safety Week (each day covering a different topic, lectures, simulators, educational materials, driving competitions). It was aimed at raising the overall safety in traffic, education of young and future drivers, promotion of NIS social responsibility, providing informing and raising staff awareness.
- Development and implementation of Driver Database software.
- Preparation of the Standard on road transport.
- Implementation of the In-Vehicle Monitoring System (IVMS).
- Educational videos were made - Traffic Safety at NIS and Defence Driving.
- Contractor Forum was held, covering the topic of Carriage of Hazardous Cargo etc.

The across-the-board commitment to the safety of employees in traffic resulted in less traffic accidents and injuries in 2015 compared with 2014 and less registered offences, reduced average driving speed and lower RAR coefficient – the number of traffic accidents compared to the total mileage (HSE indicators).



Personal Protective Equipment (PPE)

At the end of 2015, the PPE Catalogue was updated to include new items while technical properties of certain items were modernised based on market research results and the practice. The list of manufacturers and materials was periodically updated and extended if testing confirmed a satisfactory quality of certain materials. The process of PPE quality improvement is slow and efforts are put into its streamlining, which resulted in the Action Plan for PPE Quality Improvement and Purchase for 2016.
In 2015, data on PPE (codebooks) were entered into the IPR (individual personal record) module of HSEnet with the aim of developing a PPE Matrix. Import of NIS Corporate Centre data into the test environment was finished (normatives were added).

HSE Motivation

With a view of expanding the knowledge and raising employees' awareness of the importance of HSE, the HSE motivational system was put in place to reward best achievements in HSE improvements. The active promotion of HSE motivation system as well as the involvement of line managers and HSE officers at operational level raised significantly the number of proposed improvements and the number of employees rewarded through the system. The HSE motivation program involved 883 employees in 2015.
In 2015 the project for HSE motivation automation project was launched. Phase 1 covering the implementation of SAP portal and the trial period was finished. The next step is the go-live of the programme. As of the first quarter of 2016, applications for HSE motivation will be received through togetHeR portal.

HSE sings

As part of the process of HSE visualisation in 2015, road markings were set up and/or renewed at the Pančevo Oil Refinery and other locations within *NIS j.s.c. Novi Sad*.

HSE Indicators	2015	2014	% variation
Injuries	**153**	214	29%
Lost-Time Injuries	**55**	110	50%
Fire incidents	**23**	41	44%
Traffic accidents	**14**	27	48%
Environmental accidents	**55**	67	18%
Inspection coefficient	**0,39**	0,42	6%
Inspection visits	**902**	1.090	17%
Inspection orders	**354**	453	22%

[52] Ratio of the number of traffic accidents and the distance travelled in km multiplied by 1 million.

ENERGY OF KNOWLEDGE

The future is safe in new hands. Therefore NIS pays special attention to the coming generations, through the program called “Energy of Knowledge”, designed to increase the base of high-quality young professionals, thus proving that the knowledge which is in good hands is really priceless. We invest in a better future for us all, thereby underpinning not only exceptional successes of our students in all scientific fields, but also confirming that we invest in real values. Encouraged by the energy of youth, over the past year we made our maximum by opening computer classrooms in elementary and secondary schools across Serbia, we also supported the national and international Olympiads in natural sciences (mathematics, physics, chemistry) and the NIS Olympiad in the Russian language, we accredited and opened bilingual Russian-Serbian departments, signed strategic cooperation agreements with universities in Novi Sad and Belgrade, accredited the new interdisciplinary program of study at the Technical University in Zrenjanin and concluded scholarship contracts.

NIS GAZPROM NEFT FUTURE AT WORK

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HUMAN RESOURCES

Employee professional development

By continually investing in human resources development NIS tries to ensure its employees are able to respond to all challenges in their everyday operations. In 2015, over 200 million dinars were invested in the development of employee skills and collaboration with universities. The focus was on providing all legally prescribed training programmes, as well as the training providing licences/certificates necessary for work.

1,800
internal training programmes

700
training programmes implemented by external collaborators and consultants, at which over

3,700
employees took part

In addition to the above training, in the course of the year upwards of 1,800 internal training programmes were organized, as well as 700 training programmes implemented by external collaborators and consultants, at which over 3,700 employees took part. Help in expanding their professional expertise was received by our employees from leading global companies in the following areas: economics (*Euromoney Training*), refinery production process planning (*Aspen Tech*), management (*Ward Howell*), work with new technologies (*MegaMax*), innovations in exploration and research (*Schlumberger*), but also the best domestic advisory companies in the area of human resources: *Pricewaterhouse-Coopers, GI Group, Proconsulting*, the Mokra Gora School of Management, The Project Management Centre, *ACEE*, the Ministry of Economy, and many more. These training programmes helped the development of professional and personal skills as well as those needed in successful team management.

The employees improved on their expertise and experiences through the rotation programme with PJSC "Gazprom Neft". Sixteen employees from Exploration and Production Block was assigned to the rotation programme at PJSC "Gazprom Neft", and one colleague from PJSC "Gazprom Neft" developed this competences at NIS. Two STC employees were assigned to the one-year professional development programme at the Centre for Training and Re-qualification at the Heriot-Watt University in Tomsk, and three employees successfully completed the same training in 2015.

As part of the collaboration with the Technical School in Zrenjanin, as many as 493 employees from *Exploration and Production Block* and *Services Block* completed the professional development programme necessary for obtaining the certificate for the Operator of Oil and Gas Recovery Plants. One of the objectives is to continue with this sort of employee development in 2016 as well.

In *Refining Block*, an internal trainer programme was initiated. At the end of the year, 9 colleagues from *Refining Block* were appointed as technical training instructors entrusted with training and developing external operators.

In *Sales and Distribution Block*, the Retail Manager Academy was successfully implemented, improving the manager competences of 43 petrol station managers. The programme was based on creating and implementing action plans for increasing efficiency of petrol stations in the period of three months. As part of the programme, attendees received support from regional and local managers as well as the trainers from the Training and Development Section. Also, through the programme intended to improve leadership and sales competences of employees in sales departments, managerial and sales methodology was worked on and developed. After the module training and workshops, the manager competence level rose by 32% and that of salespersons by 28%. As many as 51 managers and 110 salespersons took part in the programme.

The colleagues in the region were not neglected. During the year, over 420 employees at retail facilities in Bosnia and Herzegovina completed the necessary training.

With the aim of creating and improving corporate culture, and in collaboration with the British Academy of Executive Coaching UK, great efforts were put in this year introducing coaching as a management style. As part of the programme "Coaching Skills Certificate", NIS employees attended training sessions after which they received the internationally recognized certificate. In addition to these programmes, efforts were put in to raise awareness of employees of their rights and obligations in workshops on the topic of mobbing, led by Olga Kićanović from the State Agency for the Peaceful Resolution of Conflicts.

An array of internal workshops on the subject of Leadership and Communication, held by Nataša Ristić, PR Advisor to the General Director, focused closely on the improvement of communication of line managers with employees, and building the culture of feedback.

Investments in and work with talents were recognized by the professional public – on 23 December 2015 we received a prestigious "Talent Management Award" organized by the Stanton Chase company. This award sets NIS apart from other companies in its approach to talents and the development of their potentials.

In addition to said activities, the existing corporate programmes were improved upon; some of the highlights are:

"Leader 2016" intended for the improvement of employee leader potential. This year, 24 employees take part in the programme. The programme participants are included in the implementation of the projects: The mentoring programme for young specialists; Improving the existing system of non-material motivation; Development of the Onboarding application; DigitalNISation – the culture of innovation at NIS. The aim of these projects is to improve corporate culture and develop programmes which could help improve motivation, encourage employee innovation, and develop simple yet very useful technical solutions which might help the newly-employed to adapt more easily.

"NIS Leadership Ability Development Programme" organized by the Mokra Gora School of Management, is intended for the participants of the Succession Pool programme. The programme is intended for employees with a potential for taking up higher managerial positions at the Company, within one year. It was implemented through a series of group training sessions in 2015. The programme was attended by 100 employees. The totals of 394 participants are included in the Succession Pool programme.

"The Energy of Knowledge"

NIS pays special attention to the young people coming to NIS, as well as those who in the future could apply their knowledge at our company. With this goal in mind, this year again the "Energy of Knowledge" programme started many projects of support for the development of potential of secondary school and university students.
In the secondary school education, and with the aim of promoting natural sciences, in 2015 NIS supported, and in collaboration with the competent associations, organized, three national Olympiads of knowledge in natural sciences: mathematics, physics, and chemistry. Further, we were partners with talented secondary school students who represented our country at prestigious international Olympiads in mathematics, physics, and chemistry, achieving great results: 2 gold medals, 3 silver medals, and 6 bronze medals.
Special attention was paid to the activities and projects contributing to the re-affirmation of and popularization of the Russian language in our country. With the collaboration with the Serbian Slavistic Society,

NIS is always committed to people through its employee benefits, investment in their professional development and various programs of support to the young.

The "Foreign Language Learning" programme is intended for employees whose work requires them to improve their English, Russian, or Serbian. The programme is implemented through group and individual classes. In 2015, 284 employees took part in the programme.

The Onboarding Programme aimed to transfer basic information on NIS operations and internal processes has enabled the newly-employed to adapt to the system more easily.

In addition to investing in employees, NIS invests in early recruitment programmes. As part of this idea, "Summer Practice" for the best students of the Belgrade and Novi Sad universities was implemented. The aim of this program was for best students to obtain an insight into the workings of a system as complex as NIS, and to gain their first professional experiences necessary for further work. In 2015, The Summer Practice programme included 102 students.
In addition to the practice programmes, 564 university and secondary school students came to NIS on a one-day professional visit.

Training expenditures[53], (in m RSD)	2014	2015
Professional development expenditures	240	211
Consulting expenditures	11	2
Business association membership expenditures	3	5
Total:	**254**	**218**
Training organization expenditures	11	5
TOTAL:	**265**	**223**

the Russian Centre of the Russian Peace Fund, and the Russian Cultural Centre, NIS organized the third Olympiad in the Russian language, which had a far greater turn-out of students and participating schools compared to the previous years. Also, we supported the opening of bilingual Serbian-Russian classes in three schools: The Elementary School "Jovan Popović", The Aleksinac Grammar School, and the Grammar School "Jovan Jovanović Zmaj" in Novi Sad.
This year as well, one of the goals of the "Energy of Knowledge" programme was to improve the work conditions in the schools in the country, by adapting and equipping computer classrooms and laboratories. In the course of the year, 9 computer classrooms were opened in elementary and secondary schools throughout Serbia: the grammar schools in Valjevo, Zrenjanin, and Mladenovac, The First Grammar School in Obrenovac, The Krupanj Secondary School, the Svilajnac Secondary School, the Užice Grammar School, Elementary School "Dule Karaklajić" in Lazarevac, Elementary School "Vuk Karadžić" in Žitkovac. In cooperation with PJSC "Gazprom Neft" and the "Novak Đoković" Foundation, an array of physics and chemistry laboratories were equipped at elementary and secondary schools in the flood-affected regions, which was a step in the development of the infrastructure necessary to study natural sciences at schools throughout Serbia.
In addition to the activities intended for students, NIS' "Energy of Knowledge" aims to cooperate with universities as well. In 2015, new Contracts were signed on strategic cooperation with the Novi Sad and Belgrade Universities, collaboration continued with partner faculties, and three new partnerships were established – with the Faculties of Mechanical Engineering, Civil Engineering, and Chemistry in Belgrade. In May, presentations of 8 faculties of the Belgrade and Novi Sad Universities were organized with the aim of improving partnership relations in the implementation of training and courses for employees and implementing joint projects. Collaboration intensified in the exchange of topical knowledge with

[53] NIS j.s.c. Novi Sad with the subsidiaries set up in 2012 from the NIS j.s.c. Novi Sad organizational structure (NTC NIS – Naftagas d.o.o., Naftagas – Transport d.o.o., Naftagas – Technical Services d.o.o. and Naftagas – Oilfield Services d.o.o.);The training expenditures shown do not include the expenditures of the project "Energy of Knowlegde".

the faculties, so from September until December the Faculty of Mechanical Engineering held a seminar for employees in all Blocks, and the Faculty of Mining and Geology, the Faculty of Mechanical Engineering, and the Faculty of Technical Sciences held 5 professional training programmes for the employees of the *Energy Block*.

In the academic 2014/2015, at the Technical Faculty "Mihajlo Pupin" in Zrenjanin, at NIS' initiative, a new interdisciplinary study programme "Industrial Engineering in Oil and Gas Exploitation" was accredited, and is implemented in collaboration with the Ukhta State Technical University from the Russian Federation, with the support of NIS.

With a view to supplementing the study programme, NIS organizes a range of guest lectures of faculty staff, as well as numerous student visits to the Company, including company and business process presentations, and plant visits. For instance, in March, 30 MBA students of Stanford University visited the Pančevo Oil Refinery following the lecture by the General Director; over 150 students of the Belgrade and Novi Sad Universities as well as out scholarship holders from the Russian Federation visited over the summer our production plants and units. An illustration of the support our employees provide for the development of students are the workshops in active job seeking, writing CV's, and developing personal and professional competences.

In the academic 2014/2015, NIS has 47 concluded Contracts on scholarships with the most successful students of the targeted faculties in the University of Belgrade and Novi Sad, as well as the universities abroad (25 students in oil and gas universities in the Russian Federation, and 1 scholarship holder at Cambridge University). For the duration of the programme, NIS invests in scholarship holders through the annual programmes of professional internships, participation in summer schools, field visits, learning foreign languages, and when the scholarship period is over, employment at NIS awaits scholarship holders.

Yet another example of the promotion of successful young people representing positive role models in the society is the open competition "Youth Heroes" in cooperation with the EXIT Foundation, in which young heroes were selected in 5 categories: education and science, entrepreneurship, social activism, culture and arts, and creative industries.

As one of the biggest energy groups in the region, relying on scientific and technical activities, the application of new technologies and innovation in all areas of business operations, NIS is the general sponsor of the Festival of Science for the third time in a row. This year, NIS presented its activities in an educational-interactive set-up "Natural gas", with experiments, interactive workshops, exhibits tropicalizing natural gas – it composition, purpose, and importance, as well as the method of exploitation of this important energy carrier to the user. This year as well, the set-up was created in collaboration with the School of Hydrogeology and Hydrometeorology "Milutin Milanković", as well as the Faculty of Mining and Geology. The photo-competition on social networks, titled "The Science Selfie", has attracted much interest.

Social protection

NIS provides its employees with a level of social protection that exceeds the level prescribed by law, and which is regulated by the Collective Agreement and the internal bylaws. The benefits that the Collective Agreement and the internal bylaws offer include:

- Special protection for persons with disabilities and in cases of occupational diseases, as well as a preventive recovery of employees in special work condition posts and in posts where the years of service are calculated with benefits, with the aim of preventing occupational diseases and disability,
- The right to solidarity aid,
- The compensation for the damage sustained by employees resulting from the destruction or damage to housing facilities, due to natural disasters and other extraordinary events,
- Scholarships during the schooling of the children of workers killed or dead,
- Collective health insurance of employees for more severe illnesses and surgical interventions,
- Collective insurance of employees for accidents,
- Resolving housing needs of employees by subsidizing housing loans,
- Voluntary pension insurance.

Material and non-material motivation

There are over 20 employee motivation schemes at NIS, depending on the organizational unit and the specificity of the employee's job. The motivation schemes are related to the achievement of the strategic Company goals and key efficiency indicators for organizational units, and employees may directly affect their salary through a better work performance.

For a proactive attitude and recognition of special achievements of employees non-material motivation programmes have been developed (the best in the profession, instant prizes, etc.).

Recruitment and candidate selection

Our human resource policy is based on the principles according to which NIS guarantees equal opportunities for all employees and potential employees irrespective of gender, religion, political opinion, national or social background, and removes in all processes starting from recruitment to engagement termination the possibility of any form of discrimination.

Every decision on a candidate must be based on objective and relevant criteria, i.e. the ability of the candidate to meet the job position requirements and standards.

The candidate recruitment process in 2015 was primarily oriented to internal sources, while we turned to external candidates for specific positions which were in deficit at NIS. In 2015, the Recruitment and Selection Sector team engaged nearly 1,500 candidates.

The position of NIS as a desirable employer was strengthened through successful participation in several job fairs, conferences, workshops, and round tables; the Recruitment Conference 2015, the first conference in Serbia to deal solely with issues of recruitment and selection, gathering in excess of 280 participants, stands out in terms of organizational success.

The early recruitment programme "NIS Chance" is oriented to professional backgrounds meeting the principal activity of the company, putting focus on candidates with degrees from technical faculties. Recruitment and candidate selection for this programme was conducted during 2015 while employing engineers is planned for January 2016.

We set high standards in our human resources management to recruit best candidates as the future staff members of our company. Once they are employed we strive to create for them an atmosphere conducive to full development of their potential leading to good results. With a view to recognise, value and improve employee performance we introduced training and development programme, as well as material and non-material incentives system.

The number of structure of employees

Organizational Unit	31 December 2015			31 December 2014		
	Employees[54]	Leasing	Total	Employees[55]	Leasing	Total
NIS j.s.c. Novi Sad	**3,874**	**3,428**	**7,302**	**4,275**	**3,382**	**7,657**
Exploration and Production Block	764	217	981	727	185	912
Refining Block	799	40	839	870	45	915
Sales and Distribution Block	941	2,677	3,618	959	2,618	3,577
Services Block	100	22	122	134	13	147
Energy Block	234	19	253	235	14	249
The Corporate Centre	1,036	453	1,489	1,350	507	1,857
Representative offices and branches	**64**	**4**	**68**	**58**	**5**	**63**
Subsidiaries in the country	**1,384**	**1,538**	**2,922**	**1,459**	**1,374**	**2,833**
Naftagas – Oilfield Services[56]	591	783	1,374	608	589	1,197
Naftagas – Technical Services	396	469	865	423	495	918
Naftagas - Transport	104	257	361	112	257	369
STC NIS Naftagas	293	29	322	316	33	349
Subsidiaries abroad	**110**	**1**	**111**	**229**	**2**	**231**
NIS Petrol, Bulgaria	57	0	57	161	0	161
NIS Petrol, Romania	29	0	29	40	0	40
NIS Petrol, B&H	16	0	16	15	1	16
Jadran Naftagas, B&H	6	0	6	8	0	8
Panon Naftagas, Hungary	2	1	3	5	1	6
Other subsidiaries	**343**	**101**	**444**	**260**	**158**	**418**
O Zone a.d. Beograd	6	98	104	4	91	95
NIS Overseas o.o.o. Saint Petersburg	122	0	122	119	0	119
NIS Svetlost d.o.o. Bujanovac	15	0	15	15	7	22
G Petrol d.o.o. Sarajevo	200	3	203	122	60	182
TOTAL:	**5,775**	**5,072**	**10,847**	**6,281**	**4,921**	**11,202**

The basis for employment termination

In 2015, a total of 617 employees left *NIS j.s.c. Novi Sad* and local subsidiaries: 9 employees were retired, 85 employees left *NIS j.s.c. Novi Sad* by mutual agreement, and for 523 of employees the basis for the termination of employment was different in nature (termination of employment contract, termination of employment at the request of the employee, redundancy program, death of the employee etc.).

	NIS j.s.c. Novi Sad[57]	NIS' subsidiaries in the country
Retirement	4	5
Termination of employment by mutual agreement	72	13
Other	456	67
TOTAL:	**532**	**85**

[54] The headcount includes employees through the "NIS Chance" programme.
[55] The headcount includes employees through the "NIS Chance" programme.
[56] Inclusive of the employees in branches.
[57] Not inclusive of employees in representative offices.

CORPORATE SOCIAL RESPONSIBILITY AND THE DEVELOPMENT OF THE LOCAL COMMUNITY

Sponsorships and donations

NIS has a Sponsorships and Donations Committee, which meets four times per year. The tasks of the Committee include planning and control of implementation of the programmes of social and economic cooperation with the cities and municipalities in Serbia, reviewing and approving sponsorship and donation projects, control of spending resources and analysis of results achieved. Special attention is paid to control implemented from defining the budget to individual project implementation.
In project selection we follow these principles:

The regional principle – Donations are provided to the regions of NIS' operational, commercial or other interests related to business development.

Anticipation – NIS deems sponsorships and donations an investment in the future of those regions that in NIS' view have a great potential for its business development.

Efficiency – sponsorships and donation projects ought to achieve a maximum effect, both from the point of view of recipient spending the allocated funds and positive impact on the corporate image with the population of the particular region and communication with their authorities. One of the important results is the creation of a positive environment for the implementation of innovative projects and those related to business development.

Accessibility and transparency – Charitable activities are the necessary condition to ensure the efficient spending of allocated funds. Projects implemented shall satisfy the current needs of the local population. Other than that, a transparent and efficient monitoring of the appropriate expenditure shall be put in place.

Uniqueness – To avoid conflict of interests NIS avoids participation in projects involving competition companies.

Corporate social responsibility and the development of the local community

The slogan "Future at Work" defines the activity platform in the domain of corporate social responsibility with the main strategic orientation to young people, via offering support and encouraging young people to realize their potential, improve their knowledge and skills, and supporting the development of the entire social community in which the Company conducts business.
Corporate social responsibility is part of NIS' strategic operations, and is conducted through five programmes: *Culture without Borders, The Energy of Sports, The Energy of Knowledge, Philanthropy and Voluntarism, and Together for the Community.*

Culture without Borders

The *Culture without Borders* programme is aimed to support cultural institutions and festivals of national and international relevance, as well as to affirm cultural values and support to talented young people.

Five programs of corporate social responsibility: Culture without limits, The Energy of Sports, The Energy of Knowledge, Humanitarian projects and Together to the Community.

The aim of the support is to affirm art and top art values, as well as cultural projects of national and international relevance.
This year as well, for the sixth year running, NIS is the general sponsor of the 43rd International Film Festival FEST, held under the slogan "Here we are - in the constellation of winners".
This programme offers support to the biggest jazz festival in the south of Serbia with the aim of promoting cultural values and art development. This year NIS offered a chance to the best young unrecognized musicians to perform at the prestigious festival through an open music competition "Vote for Nišvil".
For the third time in a row, NIS supports the international cultural and musical festival in Brussels – Balkan Trafik -- as a general sponsor.

The Energy of Sport

The *Energy of Sport* programme focuses on supporting professional and children's sport, as well as promoting a healthy life style. Special attention is paid to the development of children and young people, their proper development, and promoting new talents.
NIS is a long-standing partner of the basketball club "Partizan", and in the past three years it has been the general sponsor of the club as well. *Partizan NIS* is the most successful basketball club in a country with a great many admirers and fans of the club, making it one of the most recognized sports brands in Serbia. In collaboration with the BC "Partizan", NIS organizes the traditional action *Three-pointers to the Seasonal Ticket*.
As part of the support for the Basketball Association of Serbia, ahead of the European Basketball Championship, NIS has organized a basketball tournament for the youngest categories titled "The Pretend European Championship 2015".
NIS is also the general sponsor of the Tennis Association of Serbia, and supports the best tennis players from Serbia competing in the Davis and FED Cups. As part of this collaboration, NIS and the Tennis Association of Serbia organized for the fourth time in a row the "Open School of Tennis" for children throughout Serbia. Over 15,000 youngsters had the opportunity to make their first tennis steps for free with the help of expert trainers in 2015.
NIS and the Tennis Association of Serbia, in collaboration with the Ministry of Education, Science, and Technological Development started the action "Sport Against Violence", aimed to popularize sports values, the culture of non-violence, and fair play in sports as an exceptionally important element in the healthy development of children. The action "Sports Against Violence" will take place across Serbia, at over 20 elementary schools during the academic year 2015/2016. Up until now over 20,000 youngsters have had a chance to learn true sports values through tennis.
Support for the automotive sport and top sports results was implemented through the collaboration with the European champion Dušan Borković, member of the *NIS Petrol Racing Team*, which has justified the trust placed in him by the results he achieved, fair play, and team spirit.

The Energy of Knowledge

NIS pays special attention to the young people who come to NIS, so with the aim of building a database of young high-quality experts, it started the project *The Energy of Knowledge*.
The project concept includes partnership with educational institutions in the country for the purposes of educating the highly-qualified staff for work at NIS. The collaboration includes supporting the most successful students with scholarships, an internship programme, additional professional development of employees, acquiring new knowledge and the implementation of joint research projects. In this way, NIS invests in the educational system, and the secondary school and university students with the best results during their schooling, creating thus highly-qualified experts.

Together for the Community

The *Together for the Community* programme was created to strengthen partnership relations with the local communities in which our company conducts business. As part of the programme, an open competition *Together for the Community* has been organized for the fourth year in a row, and which is implemented this year in cooperation with 11 local governments: Belgrade, Novi Sad, Niš, Pančevo, Zrenjanin, Kikinda, Novi Bečej, Žitište, Kanjiža, Srbobran, and Čačak. In the open competition, 152 projects were selected whose implementation will contribute to the development of local communities, and facilitate and improve the operation of many cultural, educational, and sports institutions.

TOGETHER FOR THE COMMUNITY

For eighth year in a row we have been reassured that when future comes from the heart, we successfully bypasses obstacles and delete constraints. “Together for the Community” is a program designed to strengthen partnership with 11 local communities, once again creating an opportunity for residents of Belgrade, Novi Sad, Nis, Pancevo, Zrenjanin, Kikinda, Novi Becej, Zitiste, Kanjiza, Srbobran and Cacak to place the common benefit as the priority and to improve the quality of life for themselves and their fellow citizens. A total of RSD 800 million have been invested to support more than 750 projects, and only in the last year 152 initiatives were implemented in the field of sports, culture, environmental protection, and science, as well as for the support of socially vulnerable groups, thus proving that when we have a common cause for the community, the changes we could only dream about become a reality.

NIS GAZPROM NEFT FUTURE AT WORK

NIS.EU

The most important projects by area

Sport	• The construction of the volleyball court at the Elementary School "Tanasko Rajić" in Čačak • *Health, Joy, Play* - Installing safe playing equipment, multipurpose climbers, and swings for children in the yards of three pre-school institutions in Srbobran • The Synergy of Sports and the Environment- cleaning and design of the Nišava Quay, installing the public space movables for children, cleaning and design of the jogging path in Niš • Construction of the Children's Playground and Playground for Developmentally Challenged Children in the LC Kisač, Novi Sad
Culture	• Revitalizing the Congress Hall of the People's Museum of Pančevo • Adaptation and Equipping of the Selo Gallery in Novi Bečej • *The Theatre Stage* – Heart of the Theatre – repair of the theatre stage of the Puppet Theatre in Niš • The International Carnival Pančevo 2015 • Equipping the "Boško Buha" Theatre in Belgrade with the new audio and video equipment
Environment	• *Together for the Green Island* – creating a "green island" with the installation of the creative construction for the collection of paper and cardboard waste and promotion of recycling in Horgoš, Kanjiža • Adaptation and reconstruction of existing space for storing dangerous, non-dangerous, and other waste of the Pančevo Health Centre • *The Green Pockets of Obrenovac*— volunteer action of repair and rearrangement of four wild landfills in the wider city centre, and creating mini "pocket" parks in Obrenovac, Belgrade • *The Novi Sad Park of Renewable Energy Sources*" – equipping the Novi Sad Park in the yard of the ETS "Mihajlo Pupin" with photovoltaic panels/enabling the production of electricity by the use of renewable sources of energy in Novi Sad
Science and Education	• The Reconstruction and Equipping of the Modern Laboratory for Atomic and Plasma Physics - enabling modern experiments and research in the Belgrade • *The Travelling Laboratory "Science Is No Boogie Man"* – presenting different popular scientific experiments and interactive set-ups to elementary and special schools/learning about scientific phenomena and theories in Niš • Equipping the computer classroom for the needs of the seventh-grade mathematical talents for elementary school in Čačak • *The Science Park* – construction and equipping of the open-air classroom: Meteorological Station, Solar Panel, Gyroscope, Newton's Pendulum, Electricity Generator in Kikinda
Humanitarian Activities	• Adaptation of part of premises at the institution for the education of developmentally challenged students at the Elementary School for Developmentally Challenged Students "6th October" in Kikinda • equipping the Educational and Work Centre for the purposes of training autistic young people in Novi Sad • *Crystal Clear – We Can All Go Near* – promoting a healthy life style through work with the young people from the general population and the developmentally challenged young people in Zrenjanin • *A Healthy Child is a Happy Child* – procurement of 3 ECG devices for children with the aim of improving the quality of services provided in paediatrics and emergency services at the Kanjiža Health Centre • *Classroom without Walls* – equipping the classroom for developmentally challenged children, continuous classes with developmentally challenged children at the Elementary School "Dr Đorđe Jovanović" in Novi Bečej

Philanthropy and Voluntarism

Many important projects were implemented in 2015 as part of the programme aimed to help and support the vulnerable population groups.

In their joint project with the "Novak Đoković" Foundation, NIS and PJSC "Gazprom Neft" renovated and restored ten school classrooms for physics and chemistry at elementary and secondary schools across Serbia in areas affected by last year's floods. As a sign of solidarity and support for the population in the areas affected by floods, PJSC "Gazprom Neft" and NIS j.s.c. Novi Sad, as well as these two companies' employees, collected 30 million dinars, directed to the reconstruction of school laboratories. Schools in the municipalities of Obrenovac, Svilajnac, Lazarevac, Krupanj, Ub, Petrovac on the Mlava, Vajevo, Šabac, Paraćin, and Smederevska Palanka received new and modern physics and chemistry classrooms. The classroom modernization project is a significant contribution to the education of the young, which is one of the main priorities in the corporate social responsibility at NIS and PJSC "Gazprom Neft".

Further, as part of the corporate humanitarian action, NIS employees donated school equipment, toys, and garments to the Shelter for Children and Young People in Novi Sad. Through this donation, NIS aims to help their integration in the educational system and thus contribute to their better social integration.

EXTERNAL AND INTERNAL COMMUNICATION

Public Relations

Public relations and especially the communication between NIS and the media are conducted in a transparent fashion as all the information relevant to NIS business operations are published in a timely manner in the form of press releases, which are published at the same time on the corporate website in Serbian, Russian, and English. The corporate website www.nis.eu is adapted to use on all devices and is the source of information on NIS, its operation, products, and services.

A rule in place at NIS states that media queries are responded to in a timely manner, by offering high-quality, useful, and complete information in the shortest terms possible. The NIS Press Service continually supports business and projects in the area of corporate social responsibility. NIS is open to any form of collaboration, so that reporters and journalists have the opportunity to offer their suggestions regarding further improvement of relations.
NIS is present on social networks *Facebook, LinkedIn, Twitter, Instagram*, and *YouTube*, and has an active communication with consumers.

Governmental Relations

Adopting and amending the legislation

In 2015, NIS has closely monitored the processes of adopting new and amending existing legislation, and by providing comments in said processes contributed to a further improvement of the business climate in the Republic of Serbia.
In addition to regulations in the oil and gas sector passed or amended during 2015, NIS processed the proposed amendments to the legislation of a wider significance for the business community in the Republic of Serbia. Comments have been provided on regulations in the area of planning and construction, legalization of facilities, privatization, labour and social law, industrial safety, environmental protection, etc.

Cooperation with business associations

In 2015, NIS continued to cooperate with numerous business associations in the country with the aim of continually improving the business climate in the Republic of Serbia. The most intensive cooperation took place with the following organizations:

- Foreign Investors Council (FIC)
- American Chamber of Commerce (AMCHAM)
- The National Alliance for Local Economic Development (NALED)
- The Serbian Chamber of Commerce (SCC)
- The National Oil Committee of Serbia – The World Petroleum Council (NNKS-WPC).

NIS representatives took an active part in the operation of the committee and the working groups within the FIC and AMCHAM, with special emphasis on the activities geared towards fighting illegal trade.
As part of the collaboration with NALED, NIS representatives took part in the operation of the Expert Group of the Coordination Body for directing activities aimed towards fighting shadow economy, set up by the Government of the Republic of Serbia. The Expert Group has prepared for the needs of the Coordination Body the Draft National Programme to Fight Shadow Economy. The National Programme to Fight Shadow Economy was adopted by the Government of the Republic of Serbia in December 2015.
NIS is a member of the Serbian Chamber of Commerce, and has an active role in its operation through the membership of its representatives in the numerous bodies and groups of the SCC with a view to improving the business operations of energy industry entities in the Republic of Serbia.
NIS and National Oil Committee of Serbia had an intensive cooperation via the participation of NIS representatives in the NNKS management bodies and in the Working Group for Market Analysis. Further, NIS was an active participant in workshops, seminars, and conferences organized by the National Oil Committee of Serbia in 2015; we would like to give special emphasis to the Conference of the World Petroleum Council in Budapest on the topic of "European downstream: refined future of the industry" and the regional conferences of the national oil committees in Slovenia, Hungary, and Croatia.
NIS intends to continue to actively collaborate with business associations in 2016 as well, offering its expert support in further developing the wider business climate of the country.

Fighting the Grey Market

In 2015, the Government of the Republic of Serbia undertook a range of activities in its fight against illegal trade. The Law on Inspection Oversight was passed as a framework legislation to regulate the procedure and collaboration of various inspection bodies, whose promulgation NIS actively supported.
Further, with the support of NIS and other oil sector companies, the Regulation on Marking Petroleum Products was amended. The Regulation on Monitoring the Quality of Petroleum Products and Biofuels was passed, and its implementation is expected to have a positive effect on the maintenance of petroleum product quality and subsequent reduction of the shadow economy in this area.
In 2015, NIS actively collaborated with state bodies, primarily with the Police Directorate, the Customs Directorate, and the inspection bodies, and exchanged information on identified cases of illegal trade.

Internal communication

An active development of corporate culture and the level of information employees have are key for business improvement and achieving the set company goals. To this end, NIS internal communications make use of great many tools and diverse communication channels. Some of the tools are promoting corporate values through internal campaigns and corporate events, as well as cascading topical information to each employee through an open dialogue with the management. Further, there is also work aimed to develop the feedback such as the SOS line for the prevention of violation of the Code of Conduct, and the rubric *Questions for the Management* in the corporate media.
The main priority is making information available in a timely fashion, openly, and accurately regarding all topical issues – business results, company development plans, staff development and training, occupational protection, the social package and other benefits. Print corporate media are used at NIS to ensure employees are informed e.g. the monthly and quarterly magazines in Serbian and English for employees in Serbia and the region. In addition to print media information channels, use is made as well of the public announcement system and bulletin boards at over 400 locations in Serbia, as well as electronic media such as the intranet portal, infomail, and various types of email notifications. The results of the annual sociological survey show that year after year employee information is on the rise and that corporate culture develops in line with the company development phase and the set strategy.

RESEARCH AND DEVELOPMENT

System of Managing Research and Development

The introduction and efficient use of new technologies is one of the priorities of NIS development in all business areas, from production and refining to human resources. Equipment modernization, innovative approach and preparation of up-to-date technologies are the prerequisite for advancement, competitiveness and taking on the regional leadership. NIS constantly modernizes its operations in the field of oil and gas business, introduces and upgrades new methods of oil and gas exploitation, constructs new refining units, automates its operations, and develops and modernizes the retail network.

In the field of exploration and development, the Rulebook on Planning, Execution, and Control of Innovative, Scientific, Research, Development and Technological Studies (SRDW) in *NIS j.s.c. Novi Sad*, in the Science and Technology Council, has been formed under the competence of *NIS j.s.c. Novi Sad* General Director, which convenes sessions on a quarterly basis; whereas the Research and Development Section has been formed within the Science and Technology Center, which performs tasks of science and research project coordination and execution.

In the NIS Group, the research and development activity is organized within subsidiary "STC NIS Naftagas" d.o.o. Novi Sad, which, in synergy with PJSC "Gazprom Neft", uses resources and technology of the parent company, and performs two functions:

- Coordinator of science and research activities, and
- Executor of science and research activities.

FURTHER DEVELOPMENT

Our efforts in the coming year will be fully concentrated on maintaining profitability and avoiding negative external macroeconomic factors, which are certain to continue through 2016 as well. For NIS, 2016 will be another year of implementing the Operational Efficiency Increase Programme, whereby it will attempt to mitigate the impact of the global oil price fall.

Despite the crisis in the energy sector, NIS is not making cutbacks on investments but is investing primarily in the further modernisation of the Pančevo Oil Refinery and the "Bottom of the Barrel" Project, and a project for the construction of a combined heat and power plant in Pančevo.

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STAND-ALONE FINANCIAL STATEMENTS

Independent Auditor's Report on Stand-alone Financial Statements

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INDEPENDENT AUDITOR'S REPORT

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

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 2015 and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement 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 accounting regulations 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 International Standards on Auditing. Those Standards 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 the Company as of 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with accounting regulations effective in the Republic of Serbia.

Other Matters

The financial statements of the Company for the year ended 31 December 2014 were audited by another firm of auditors whose report, dated 4 March 2015, expressed an unmodified opinion on those statements.

Milivoje Nesovic
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 29 February 2016

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Balance Sheet

		Note	31 December 2015	31 December 2014
A.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
B.	**NON-CURRENT ASSETS**		**287,880,166**	**250,847,819**
I.	**Intangible assets**	**6**	**16,303,592**	**15,401,347**
1.	Development investments		6,153,717	3,833,140
2.	Concessions, licenses, software and other rights		3,108,561	3,066,380
3.	Goodwill		-	-
4.	Other intangible assets		879,583	875,234
5.	Intangible assets under development		6,161,731	7,626,593
6.	Advances for intangible assets		-	-
II.	**Property, plant and equipment**	**7**	**208,385,605**	**193,919,656**
1.	Land		10,446,971	10,635,294
2.	Buildings		107,307,311	91,686,297
3.	Machinery and equipment		60,680,381	57,094,932
4.	Investment property		1,336,060	1,381,832
5.	Other property, plant and equipment		74,877	74,918
6.	Construction in progress		26,877,361	31,077,657
7.	Investments in leased PP&E		330,035	368,703
8.	Advances for PP&E		1,332,609	1,600,023
III.	**Biological assets**		**-**	**-**
1.	Forest farming		-	-
2.	Livestock		-	-
3.	Biological assets in production		-	-
4.	Advances for biological assets		-	-
IV.	**Long-term financial investments**		**48,601,981**	**41,514,772**
1.	Investments in subsidiary	8	13,442,631	7,556,021
2.	Investments in joint ventures		180,438	-
3.	Investments in other legal entities and other available for sales financial assets		167,358	222,686
4.	Long term investments in parent and subsidiaries	9	33,502,197	32,574,154
5.	Long-term investments in other related parties		-	-
6.	Long-term investments - domestic		138,633	-
7.	Long-term investments - foreign		-	-
8.	Securities held to maturity		-	-
9.	Other long-term financial investments	10	1,170,724	1,161,911
V.	**Long-term receivables**	**11**	**14,588,988**	**12,044**
1.	Receivables from parent company and subsidiaries		-	-
2.	Receivables from other related parties		4,010,546	-
3.	Receivables from sale of goods on credit		-	-
4.	Receivables arising out of finance lease contracts		8,339	12,044
5.	Claims arising from guarantees		-	-
6.	Bad and doubtful receivables		10,570,103	-
7.	Other long-term receivables		-	-

Balance Sheet

	Note	31 December 2015	31 December 2014
C. Deferred tax assets	**12**	**4,521,729**	**7,834,155**
D. Current assets		**84,266,054**	**113,529,097**
I. Inventory	**13**	**20,967,604**	**36,162,167**
1. Materials, spare parts and tools		9,220,049	20,137,930
2. Work in progress		4,050,154	5,755,021
3. Finished goods		5,540,706	7,121,091
4. Merchandise		1,949,490	2,760,262
5. Assets held for sale		21,703	-
6. Advances for inventory and services		185,502	387,863
II. Trade receivables	**14**	**35,328,663**	**54,093,160**
1. Domestic trade receivables - parents and subsidiaries		1,526,533	4,196,125
2. Foreign trade receivables - parents and subsidiaries		1,350,735	1,394,526
3. Domestic trade receivables – other related parties		10,799,575	13,004,338
4. Foreign trade receivables - other related parties		148,105	36,398
5. Trade receivables - domestic		20,850,547	34,232,201
6. Trade receivables - foreign		653,168	1,229,572
7. Other trade receivables		-	-
III. Receivables from specific operations		**661,724**	**445,596**
IV. Other receivables	**15**	**2,633,057**	**3,784,621**
V. Financial assets at fair value through profit or loss		**-**	**-**
VI. Short term financial investments	**16**	**1,255,935**	**6,545,472**
1. Short-term loans and investments - parent companies and subsidiaries		847,638	4,337,886
2. Short-term loans and investments – other related parties		-	-
3. Short-term loans and investments - domestic		-	2,019
4. Short-term loans and investments - foreign		-	-
5. Other short-term loans and investments		408,297	2,205,567
VII. Cash and cash equivalents	**17**	**16,729,893**	**5,338,023**
VIII. Value added tax		**-**	**-**
IX. Prepayments and accrued income	**18**	**6,689,178**	**7,160,058**
E. TOTAL ASSETS		**376,667,949**	**372,211,071**
F. Off-balance sheet assets	**19**	**129,976,675**	**118,774,144**

Balance Sheet

		Note	31 December 2015	31 December 2014
A.	**Equity**		**203,015,095**	**194,586,302**
I.	**Equity**		**81,530,200**	**81,530,200**
1.	Share capital	20	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**		**-**	**-**
VI.	**Unrealised gains from securities and other components of other comprehensive income**		**112,925**	**112,132**
VII.	**Unrealized losses from securities and other components of other comprehensive income**		**79,564**	**42,277**
VIII.	**Retained earnings**		**121,451,534**	**112,986,247**
1.	Retained earnings from previous years		105,346,867	82,427,010
2.	Retained earnings from current year		16,104,667	30,559,237
IX.	**Non-controlling interest**		**-**	**-**
X.	**Loss**		**-**	**-**
1.	Loss from previous years		-	-
2.	Loss from current year		-	-
B.	**Long-term provisions and liabilities**		**108,463,513**	**101,303,211**
I.	**Long-term provisions**	**21**	**9,154,267**	**8,690,515**
1.	Provisions for warranty claims		-	-
2.	Provision for environmental rehabilitation		7,918,238	7,454,505
3.	Provisions for restructuring costs		-	-
4.	Provisions for employee benefits		850,813	639,717
5.	Provisions for litigations		385,216	596,293
6.	Other long term provisions		-	-
II.	**Long-term liabilities**	**22**	**99,309,246**	**92,612,696**
1.	Liabilities convertible to equity		-	-
2.	Liabilities to parent and subsidiaries		36,770,682	42,194,756
3.	Liabilities to other related parties		-	-
4.	Liabilities for issued long-term securities		-	-
5.	Long term borrowings - domestic		18,240,935	6,761,523
6.	Long-term borrowings - foreign		44,297,629	43,655,208
7.	Finance lease liabilities		-	-
8.	Other long-term liabilities		-	1,209

Balance Sheet

		Note	31 December 2015	31 December 2014
C.	**DEFERRED TAX LIABILITIES**	**12**	**-**	**2,724,064**
D.	**Short-term liabilities**		**65,189,341**	**73,597,494**
I.	**Short-term financial liabilities**	**23**	**17,700,395**	**14,700,586**
1.	Short term borrowings from parent and subsidiaries		729,883	-
2.	Short term borrowings from other related parties		-	-
3.	Short-term loans and borrowings - domestic		3,553,091	8,600,082
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		13,417,421	6,100,504
II.	**Advances received**		**3,131,988**	**1,551,337**
III.	**Trade payables**	**24**	**25,172,093**	**38,433,183**
1.	Trade payables - parent and subsidiaries - domestic		2,418,644	2,845,130
2.	Trade payables - parent and subsidiaries - foreign		11,015,359	20,144,858
3.	Trade payables - other related parties - domestic		800,455	830,355
4.	Trade payables - other related parties - foreign		166,005	50,923
5.	Trade payables - domestic		5,492,502	5,654,892
6.	Trade payables - foreign		5,201,953	8,837,079
7.	Other operating liabilities		77,175	69,946
IV.	**Other short-term liabilities**	**25**	**8,425,924**	**8,700,483**
V.	**Liabilities for VAT**		**1,227,765**	**51,974**
VI.	**Liabilities for other taxes**	**26**	**7,241,150**	**7,113,998**
VII.	**Accrued expenses**	**27**	**2,290,026**	**3,045,933**
E.	**LOSS EXCEEDING EQUITY**		**-**	**-**
F.	**TOTAL EQUITY AND LIABILITIES**		**376,667,949**	**372,211,071**
G.	**Off-balance sheet liabilities**	**19**	**129,976,675**	**118,774,144**

in thousand RSD

The accompanying notes are an integral part of these financial statements.

Income Statement

	Note	Year ended 31 December 2015	2014
INCOME FROM REGULAR OPERATING ACTIVITIES			
A. OPERATING INCOME	**5**	**199,861,276**	**247,620,582**
I. Income from the sale of goods		**11,371,895**	**7,951,525**
1. Income from sales of goods to parent and subsidiaries on domestic market		220,251	115,822
2. Income from sales of goods to parent and subsidiaries on foreign market		5,649	11,969
3. Income from the sale of goods to other related parties on domestic market		-	-
4. Income from the sale of goods to other related parties on foreign market		554,085	66,250
5. Income from sale of goods on domestic market		10,572,062	7,645,677
6. Income from sale of goods on foreign market		19,848	111,807
II. Income from sales of products and services		**188,275,933**	**239,523,009**
1. Income from sales of products and services to parent and subsidiaries on domestic market		1,123,270	1,312,669
2. Income from sales of products and services to parent and subsidiaries on foreign market		8,217,634	8,902,506
3. Income from sales of products and services to other related parties on domestic market		17,570,375	23,382,492
4. Income from sales of products and services to other related parties on foreign market		256,269	2,142,288
5. Income from sales of products and services - domestic		137,270,539	171,361,848
6. Income from sales of products and services - foreign		23,837,846	32,421,206
III. Income from premiums, subventions and donations		**3,169**	**7,646**
IV. Other operating income		**210,279**	**138,402**
B. OPERATING EXPENSES		**175,937,047**	**196,879,506**
I. Cost of goods sold		**10,086,127**	**7,050,529**
II. Work performed by the entity and capitalized		**972,678**	**695,171**
III. Increase in inventories of unfinished and finished goods and ongoing services		**-**	**-**
IV. Decrease in inventories of unfinished and finished goods and ongoing services		**3,285,252**	**37,064**
V. Cost of material	**28**	**107,736,687**	**137,510,676**
VI. Cost of fuel and energy		**3,474,079**	**2,894,032**
VII. Cost of salaries, fringe benefits and other personal expenses	**29**	**13,864,222**	**14,083,619**
VIII. Cost of production services	**30**	**13,986,539**	**13,867,297**
IX. Depreciation, depletion and amortization		**12,101,263**	**10,717,178**
X. Cost of long-term provisioning	**31**	**771,994**	**277,786**
XI. Non-material costs	**32**	**11,603,562**	**11,136,496**
C. OPERATING GAIN		**23,924,229**	**50,741,076**
D. OPERATING LOSS		**-**	**-**
E. FINANCE INCOME	**33**	**4,437,415**	**8,728,147**
I. Financial income from related parties and other financial income		**2,336,657**	**3,278,191**
1. Finance income - parent company and subsidiaries		2,259,332	3,140,393
2. Finance income - other related parties		8,805	121,643
3. Share of profit of associates and joint ventures		-	-
4. Other financial income		68,520	16,155

Income Statement

	Note	Year ended 31 December 2015	2014
II. Interest income (from third parties)		**650,898**	**4,196,347**
III. Foreign exchange gains (third parties)		**1,449,860**	**1,253,609**
F. FINANCE EXPENSES	**34**	**14,671,061**	**19,751,540**
I. Financial expenses from related parties and other financial expenses		**3,633,441**	**7,295,912**
1. Finance expense - parent company and subsidiaries		3,618,789	4,458,188
2. Finance expense - other related parties		10,227	2,837,377
3. Share of loss of associates and joint ventures		-	-
4. Other financial expense		4,425	347
II. Interest expense (from third parties)		3,357,792	2,327,011
III. Foreign exchange losses (third parties)		7,679,828	10,128,617
G. PROFIT FROM FINANCING OPERATIONS		**-**	**-**
H. LOSS FROM FINANCING OPERATIONS		**10,233,646**	**11,023,393**
I. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**35**	**7,102,453**	**969,640**
J. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**36**	**416,034**	**5,850,648**
K. OTHER INCOME	**37**	**2,341,163**	**4,243,334**
L. OTHER EXPENSES	**38**	**2,262,281**	**2,623,125**
M. OPERATING PROFIT BEFORE TAX		**20,455,884**	**36,456,884**
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		**20,455,884**	**36,456,884**
R. LOSS BEFORE TAX		**-**	**-**
P. INCOME TAX			
I. Current income tax	**39**	**3,762,995**	**3,421,124**
II. Deferred tax expense for the period	**39**	**588,222**	**2,476,523**
III. Deferred tax income for the period		**-**	**-**
S. PERSONAL INCOME PAID TO EMPLOYER		-	-
T. NET PROFIT		**16,104,667**	**30,559,237**
U. NET LOSS		-	-
I. **Net income attributable to non-controlling interests**		**-**	-
II. **Net income attributable to the owner**		**16,104,667**	**30,559,237**
III. **Net loss attributable to non-controlling interests**		**-**	**-**
IV. **Net loss attributable to the owner**		**-**	**-**
V. **Earnings per share**		**-**	**-**
1. Basic earnings per share	40	0.099	0.187
2. Diluted earnings per share		-	-

in thousand RSD

The accompanying notes are an integral part of these financial statements

Statement of Other Comprehensive Income

		Note	Year ended 31 December 2015	2014
A.	**NET PROFIT/(LOSS)**			
I.	**Profit, net**		**16,104,667**	**30,559,237**
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		-	-
b)	decrease in revaluation reserves		-	-
2.	**Actuarial gains (losses) of post employment benefit obligations**			
a)	gains		793	207,471
b)	losses		-	-
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		-	20,904
b)	losses		37,287	3,296
I.	**OTHER COMPREHENSIVE PROFIT BEFORE TAX**		-	**225,079**
II.	**OTHER COMPREHENSIVE LOSS BEFORE TAX**		**36,494**	-
III.	**TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD**		-	-
IV.	**TOTAL NET COMPREHENSIVE PROFIT**		**-**	**225,079**
V.	**TOTAL NET COMPREHENSIVE LOSS**		**36,494**	**-**

Statement of Other Comprehensive Income

		Note	Year ended 31 December 2015	2014
C.	**TOTAL NET COMPREHENSIVE PROFIT**			
I.	Total comprehensive profit, net		**16,068,173**	**30,784,316**
II.	Total comprehensive loss, net		-	-
D.	**TOTAL NET COMPREHENSIVE PROFIT / (LOSS)**		**16,068,173**	**30,784,316**
1.	Attributable to shareholders		16,068,173	30,784,316
2.	Attributable to non-controlling interest		-	-

in thousand RSD

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

	Note	Year ended 31 December 2015	2014
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflow from operating activities (1 to 3)		**376,963,023**	**410,573,246**
1. Sales and advances received		375,199,602	409,472,731
2. Interest from operating activities		1,553,142	962,113
3. Other inflow from operating activities		210,279	138,402
II. Cash outflow from operating activities (1 to 5)		**327,312,640**	**361,276,646**
1. Payments and prepayments to suppliers		156,576,208	192,056,661
2. Salaries, benefits and other personal expenses		14,179,455	13,368,470
3. Interest paid		2,998,698	3,093,168
4. Income tax paid		2,792,016	8,677,046
5. Payments for other public revenues		150,766,263	144,081,301
III. Net cash inflow from operating activities (I - II)		**49,650,383**	**49,296,600**
IV. Net cash outflow from operating activities (II - I)		**-**	**-**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash flows from investing activities (1 to 5)		**14,879,363**	**12,390,584**
1. Sale of shares (net inflow)		77,056	-
2. Proceeds from sale of property, plant and equipment		174,446	259,590
3. Other financial investments (net inflow)		14,561,694	12,130,994
4. Interest from investing activities		-	-
5. Dividend received		66,167	-
II. Cash outflow from investing activities (1 to 3)		**48,741,505**	**56,261,417**
1. Acquisition of subsidiaries or other business (net outflow)		-	-
2. Purchase of intangible assets, property, plant and equipment		32,717,010	39,690,306
3. Other financial investments (net outflow)		16,024,495	16,571,111
III. Net cash inflow from investing activities (I - II)		**-**	**-**
IV. Net cash outflow from investing activities (II - I)		**33,862,142**	**43,870,833**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflow from financing activities (1 to 5)		**29,956,428**	**40,702,390**
1. Increase in share capital		-	-
2. Proceeds from long-term borrowings (net inflow)		13,134,218	23,824,820
3. Proceeds from short-term borrowings (net inflow)		16,822,210	16,877,570
4. Other long-term liabilities		-	-
5. Other short-term liabilities		-	-
II. Cash outflow from financing activities (1 to 6)		**34,359,895**	**46,445,739**
1. Purchase of own shares		-	-
2. Repayment of long-term borrowings (net outflow)		7,231,990	24,397,660
3. Repayment of short-term borrowings (net outflow)		19,488,525	8,967,374
4. Repayment of other liabilities (net outflow)		-	-
5. Financial lease		-	-

Statement of Cash Flows

	Note	Year ended 31 December 2015	2014
6. Dividend distribution		7,639,380	13,080,705
III. Net cash inflow from financing activities (I - II)		**-**	**-**
IV. Net cash outflow from financing activities (II - I)		**4,403,467**	**5,743,349**
D. TOTAL CASH INFLOW		**421,798,814**	**463,666,220**
E. TOTAL CASH OUTFLOW		**410,414,040**	**463,983,802**
F. NET CASH INFLOW		**11,384,774**	**-**
G. NET CASH OUTFLOW		**-**	**317,582**
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**5,338,023**	**5,180,154**
I. CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS		**794,189**	**879,335**
J. CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS		**787,093**	**403,884**
K. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**16,729,893**	**5,338,023**

in thousand RSD

The accompanying notes are an integral part of these financial statements

Statement of Changes in Equity

		Equity components			
		Share capital	Reserves	Loss	Retained earnings
Balance as at 1 January 2014					
a)	debit	**-**	**-**	**-**	**-**
b)	credit	**81,530,200**	**-**	**-**	**95,507,715**
Adjustments of material errors and changes in accounting policies					
a)	debit	-	-	-	-
b)	credit	-	-	-	-
Restated opening balance as at 1 January 2014					
a)	debit	-	**-**	**-**	**-**
b)	credit	**81,530,200**	**-**	**-**	**95,507,715**
Changes in period					
a)	debit	-	-	-	13,080,705
b)	credit	-	-	-	30,559,237
Balance as at 31 December 2014					
a)	debit	-	**-**	**-**	**-**
b)	credit	**81,530,200**	**-**	**-**	**112,986,247**
Adjustments of material errors and changes in accounting policies					
a)	debit	-	-	-	-
b)	credit	-	-	-	-
Restated opening balance as at 1 January 2015					
a)	debit	**-**	**-**	**-**	**-**
b)	credit	**81,530,200**	**-**	**-**	**112,986,247**
Changes in period					
a)	debit	-	-	-	7,639,380
b)	credit	-	-	-	16,104,667
Balance as at 31 December 2015					
a)	debit	**-**	-	-	**-**
b)	credit	**81,530,200**	-	-	**121,451,534**

in thousand RSD

The accompanying notes are an integral part of these financial statements

Statement of Changes in Equity

		Other comprehensive income components			
		Revaluation reserves	Actuarial gain (loss)	Gains (losses) from change in value of available-for-sale financial assets	TOTAL EQUITY
Balance as at 1 January 2014					
a)	debit	**-**	**95,339**	**59,885**	-
b)	credit	**-**	**-**	**-**	**176,882,691**
Adjustments of material errors and changes in accounting policies					
a)	debit	-	-	-	-
b)	credit	-	-	-	-
Restated opening balance as at 1 January 2014					
a)	debit	-	**95,339**	**59,885**	-
b)	credit	**-**	**-**	**-**	**176,882,691**
Changes in period					
a)	debit	-	-	3,296	-
b)	credit	-	207,471	20,904	**17,703,611**
Balance as at 31 December 2014					
a)	debit	-	**-**	**42,277**	-
b)	credit	**-**	**112,132**	**-**	**194,586,302**
Adjustments of material errors and changes in accounting policies					
a)	debit	-	-	-	-
b)	credit	-	-	-	-
Restated opening balance as at 1 January 2015					
a)	debit	**-**	**-**	**42,277**	-
b)	credit	**-**	**112,132**	**-**	**194,586,302**
Changes in period					
a)	debit	-	-	37,287	-
b)	credit	-	793	-	**8,428,793**
Balance as at 31 December 2015					
a)	debit	**-**	-	**79,564**	-
b)	credit	**-**	**112,925**	-	**203,015,095**

in thousand RSD

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS[58]

1. GENERAL INFORMATION

NIS a.d. – Naftna Industrija Srbije, Novi Sad (hereinafter 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.

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005 as a successor of five state owned companies of Javno Preduzece Naftna Industrija Srbije. 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%.

The Company is an open joint stock company listed on the Belgrade Stock Exchange, Listing A (Prime Market). The address of the Company's registered office is in Novi Sad, 12 Narodnog fronta Street.

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 AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the financial statements for the year ended 31 December 2014.

2.1. Basis of preparation

These financial statements for the year ended 31 December 2015 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.

[85] All amounts are in RSD 000 unless otherwise stated

As a result, the accompanying financial statements cannot be considered as financial statements prepared in full compliance with IFRS. The preparation of financial statements in conformity with the Law on Accounting of the Republic of Serbia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.2. New accounting standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and that the Company has not early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010, November 2013 and July 2014 to address the classification and measurement of financial liabilities. Key features of the standard:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (either through Profit and loss or through Other comprehensive income), and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The amendment made to IFRS 9 in November 2013 allows an entity to continue to measure its financial instruments in accordance with IAS 39 but at the same time to benefit from the improved accounting for own credit in IFRS 9.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- A substantial overhaul of hedge accounting was introduced that will enable entities to better reflect their risk management activities in their financial statements. In particular amendments to IFRS 9 increase the scope of hedged items eligible for hedge accounting (risk components of non-financial items may be designated provided they are separately identifiable and reliably measurable; derivatives may be included as part of the hedged item; groups and net positions may be designated hedged items, etc). The amendments to IFRS 9 also increase eligibility of hedging instruments allowing financial instruments at fair value through profit or loss to be designated as hedging instruments. A fundamental difference to the IAS 39 hedge accounting model is the lack of the 80-125 per cent bright line threshold for effective hedges and the requirement to perform retrospective hedge effectiveness testing. Under the IFRS 9 model, it is necessary for there to be an economic relationship between the hedged item and hedging instrument, with no quantitative threshold.
- Increased disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the financial statements.

The mandatory effective date of IFRS 9 is January 1, 2018. IFRS 9 (2014) supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013), but these standards remain available for application if the relevant date of initial application is before February 1, 2015. The Company does not plan to adopt the standard before the mandatory effective date and is currently assessing the impact of the new standard on its Financial Statements.

Amendments to IFRS 11 – Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on clarification of acceptable methods of depreciation and amortisation. In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Company is currently assessing the impact of the amendments on its Financial Statements.

IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after January 1, 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Company is currently assessing the impact of the new standard on its Financial Statements.

Amendments to IFRS 10 Financial Statements and IAS 28 Investments in Associates and Joint ventures (issued in September 2014 and December 2014 and effective for annual periods beginning on or after a date to be determined by the IASB) on the accounting for acquisitions of an interest in a joint venture. Full gain or loss will be recognised by the investor where the non-monetary assets constitute a 'business'. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor to the extent of the other investors' interests. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture, not to a joint operation. The December 2014 amendments was made to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's Financial Statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains needs of the Company in disclosure preparation. The Standard also provides new guidance on subtotals in financial statements and add additional examples of possible ways of ordering the notes. The amendments also introduce a clarification that the list of line items to be presented in Statement of financial position, Statement of profit or loss and Other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

The Company is currently assessing the impact of the initiative on its Financial Statements.

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after January 1, 2019). A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers. IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations.

Key features of the standard:

- IFRS 16 defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.
- IFRS 16 changes the lessees accounting requirements given in IAS 17 and 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. Applying that model, a lessee is 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 income statement.
- IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

IFRS 16 does not change the accounting for services. Although leases and services are often combined in a single contract, amounts related to services are not required to be reported on the balance sheet. IFRS 16 is required to be applied only to leases, or lease components of a contract.

The Company is currently assessing the impact of the IFRS 16 on its Financial Statements.

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

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) Computer software

Costs associated with computer software primarily include the cost of the implementation of SAP software. 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. Exploration for and evaluation of mineral resources

a) Exploration and evaluation expenditure

During the exploration period, costs of exploration and evaluation of oil and natural gas are capitalized until it is proven that oil and gas reserves will not suffice to justify exploration costs. Geological and geophysical costs as well as costs directly associated with exploration are capitalized as incurred. The costs of obtaining exploration rights are capitalised either as part of property, plant and equipment or intangible assets depending on the type of cost. When commercial reserves have been discovered, subsequent to exploration and development investment impairment testing, they are transferred to development of assets either within property, plant and equipment or intangible assets. No depreciation and/or amortisation are charged during the exploration and evaluation phase.

b) Development costs of fixed and intangible assets

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 tangible 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 37 and 38).

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, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the income statement as part of Other income/expenses (notes 37 and 38).
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. Investments in subsidiaries

Investments in subsidiaries are measured using the cost method, whereby these investments are recognized at cost without any changes in the value of investments originating from results. If there are indications that the value of investment has decreased at the reporting date, the assessment of the recoverable value of investment is being performed.
If the recoverable value is less than the book value, the book value is reduced to its recoverable value and impairment loss of investment is recognized as expense.

2.12. Joint arrangements

The Company has applied IFRS 11 to all joint arrangements from 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. Company has assessed the nature of its joint arrangements and determined them to be joint operations where joint operator accounts for its share of the assets, liabilities, revenue and expenses.

2.13. Business combinations

The Company accounts for its business combinations according to IFRS 3 Business Combinations. The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company 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.

2.14. Long–term financial assets

The Company classifies its financial assets in the following categories: long-term loans and receivables and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2.14.1. Financial assets classification

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets.

b) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date, in which case they are classified as current assets.

2.14.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.
The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.
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 finance 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 equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to fair value measurement gains (losses) in profit or loss for the year (notes 35 and 36).

2.14.3. Impairment of financial assets

a) Assets carried at amortised cost

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.
A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is 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) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - Adverse changes in the payment status of borrowers in the portfolio; and
  - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.
For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the

current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the Income Statement.

b) Assets classified as available for sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria referred to (a) above. 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 is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

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 38).

2.16. Trade receivables

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.
Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. 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 'loss from valuation of assets at fair value through profit and loss (note 36). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to 'income from valuation of assets at fair value through profit and loss' in the income statement (note 35).

2.17. Cash and cash equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value.

2.18. 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.

2.19. Share capital

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

2.20. 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 (note 40).

2.21. 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.

2.22. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.
Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.
Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.23. Trade payables

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. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.24. 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.

2.25. 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 2014, the Company has made decision to introduce new three-year (2015-2017) program for Group's managers which will be settle based on the Key Performance Indicators ("KPI") reached during the program (note 21).

2.26. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Company.
The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company activities as describe below. The amount of the revenue is not considered to be reliably measurable until all contingences relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

a) Sales of goods – wholesale

The Company manufactures and sells oil, petrochemical products and liquified natural gas in the wholesale market. Sales of goods are recognised when the Company has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.
Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term consistent with the market practice.

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.

c) Sales of services

The Company sells oil engineering services. These services are provided on a time and material basis or as a fixed price contract, with contract terms generally accepted in the industry.
Revenue from time and material contracts, typically from delivering engineering services, is recognised under the percentage of completion method. Revenue is generally recognized at the contractual rates. For time contracts, the stage of completion is measured on the basis of labour hours determined as a percentage of total hours to be delivered. For material contracts, the stage of completion is measured on the basis of, and direct expenses are incurred as, a percentage of the total expenses to be incurred.
Revenue from fixed-price contracts for delivering engineering services is also recognised under the percentage-of-completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.
If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.27. 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 Statement of Financial Position. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

2.28. 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.

2.29. 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 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 2015 would be to increase/decrease it by RSD 1,079,717 (2014: RSD 984,249).

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.

3.4. Impairment of Non-Derivative Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.
The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.
An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

3.5. 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 high-quality corporate 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 7.6% (rather than 6.6%) per year, the past service liability (DBO) would decrease by about 10.3% for retirement indemnity and 6.1% for jubilee awards. If pay increased by 0.5% higher than the past service liability (DBO) would increase by amount 12% for the retirement indemnity and 6.6% for the jubilee benefit.

3.6. Decommissioning Obligations

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 7.6% (rather than 6.6%) per year, the present liability would have decreased by approx. RSD 339,439 (2014: RSD 481,611).

3.7. 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 43).

3.8. Impact of recent crude oil volatility

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 assets 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 assets exceed its carrying value.
The Company's 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 Company's non-current non-financial assets by 14.7 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. FINANCIAL RISK MANAGEMENT

4.1. 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. The Company uses financial instruments to hedge certain risk exposures.
Risk management is carried out by the finance and finance control department within the Function for Economics, Finance and Accounting (further „FEPA") which under 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 foreign exchange risk and interest rate risk);
b) credit risk and
c) liquidity risk.

Foreign exchange risk

The Company 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 and recognised assets and liabilities.
Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign ex-

change 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 Company functional currency.

The Company 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 Company in the total credit portfolio.

As at 31 December 2015, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit for the year would have been RSD 79,208 (2014: RSD 889,822) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2015, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit for the year would have been RSD 5,759,710 (2014: RSD 7,314,109) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated borrowings and trade payables.

Cash flow and fair value interest rate risk

Borrowings withdrawn at variable interest rates expose the Company to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Company 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 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 for 2015 would have been RSD 1,097,184 (2014: RSD 1,048,789) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Credit risk is managed on the Company's level basis. 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. Banks are rated only in the case of collateralised receivables on various grounds, as well as based on the banks total exposure to the Company. For domestic banks, if it is bank with who the Company has passive activities the second criterion is applied and if it is a bank with who Group doesn't have cooperation, credit limits are determined based on the defined methodology.

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 times 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 balance required for working capital management are 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.

As at 31 December 2015	**Less than 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Borrowings (short-term, current portion and long-term debt)	20,565,882	86,807,690	20,042,437	127,416,009
Trade payables (note 24)	25,172,093	-	-	25,172,093
	45,737,975	**86,807,690**	**20,042,437**	**152,588,102**

As at 31 December 2014	**Less than 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Borrowings (short-term, current portion and long-term debt)	17,143,534	74,506,758	26,112,192	117,762,484
Trade payables (note 24)	38,433,183	-	-	38,433,183
	55,576,717	**74,506,758**	**26,112,192**	**156,195,667**

4.2. 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 2015	31 December 2014
Total borrowings (notes 22 and 23)	117,009,641	107,313,282
Less: cash and cash equivalents (note 17)	(16,729,893)	(5,338,023)
Net debt	**100,279,748**	**101,975,259**
EBITDA	44,109,439	64,391,138
Net debt to EBITDA	**2.27**	**1.58**

The Company (at the level of Gazprom Neft Group) has commited 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.

4.3. 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.

5. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the years ended 31 December 2015 and 2014. 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 Company manages its operations in 2 operating segments: Upstream and Downstream.
Upstream segment (exploration and production) includes the following Company operations: exploration, development and production of crude oil and natural gas and oil field services. Downstream segment (refining and marketing) processes crude oil into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre 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 2015 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	51,355,327	197,408,632	(48,902,683)	199,861,276
Intersegment	47,547,891	1,354,792	(48,902,683)	-
External	3,807,436	186,420,537	-	190,227,973
EBITDA (Segment results)	38,284,468	5,824,971	-	44,109,439
Depreciation, depletion and amortization	(3,649,779)	(8,451,484)	-	(12,101,263)
Impairment losses (note 37 and 38)	(10,965)	(154,940)	-	(165,905)
Finance expenses, net	(154,959)	(10,078,687)	-	(10,233,646)
Income tax	(1,023,893)	(3,327,324)	-	(4,351,217)
Segment profit (loss)	**32,744,433**	**(16,639,766)**	**-**	**16,104,667**

Reportable segment results for the year ended 31 December 2014 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	80,403,331	244,940,926	(77,723,675)	247,620,582
Intersegment	76,539,271	1,184,404	(77,723,675)	-
External	3,864,060	243,756,522	-	247,620,582
EBITDA (Segment results)	66,929,689	(2,538,551)	-	64,391,138
Depreciation, depletion and amortization	(3,028,837)	(7,688,341)	-	(10,717,178)
Impairment (losses) reversal (note 37 and 38)	(25,798)	127,017	-	101,219
Finance expenses, net	(103,288)	(10,920,105)	-	(11,023,393)
Income tax	(501,736)	(5,395,911)	-	(5,897,647)
Segment profit (loss)	**62,621,462**	**(32,062,225)**	**-**	**30,559,237**

EBITDA for the year ended 31 December 2015 and 2014 is reconciled below:

	Year ended 31 December	
	2015	2014
Profit for the year	16,104,667	30,559,237
Income tax expenses	4,351,217	5,897,647
Other expenses	2,262,281	2,623,125
Other income	(2,341,163)	(4,243,334)
Loss from valuation of assets at fair value through profit and loss	416,034	5,850,648
Income from valuation of assets at fair value through profit and loss	(7,102,453)	(969,640)
Finance expense	14,671,061	19,751,540
Finance income	(4,437,415)	(8,728,147)
Depreciation, depletion and amortization	12,101,263	10,717,178
Other non operating expenses	8,083,947	2,932,884
EBITDA	**44,109,439**	**64,391,138**

*Other non-operating expense, net mainly relate to reversal of impairment, fines, penalties and other.

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

	Year ended 31 December 2015		
	Domestic market	Export and international sales	Total
Sale of crude oil	638,494	3,022,528	3,661,022
Sale of gas	6,190,132	-	6,190,132
Through a retail network	-	-	-
Wholesale activities	6,190,132	-	6,190,132
Sale of petroleum products	153,999,399	28,848,600	182,847,999
Through a retail network	49,664,208	-	49,664,208
Wholesale activities	104,335,191	28,848,600	133,183,791
Other sales	6,141,920	1,020,203	7,162,123
Total sales	**166,969,945**	**32,891,331**	**199,861,276**

	Year ended 31 December 2014		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	3,605,885	3,605,885
Sale of gas	3,757,787	-	3,757,787
Through a retail network	-	-	-
Wholesale activities	3,757,787	-	3,757,787
Sale of petroleum products	195,001,420	39,842,087	234,843,507
Sale of petroleum products	61,771,841	-	61,771,841
Wholesale activities	133,229,579	39,842,087	173,071,666
Other sales	5,197,704	215,699	5,413,403
Total sales	**203,956,911**	**43,663,671**	**247,620,582**

Out of the amount of RSD 133,183,791 (2014: RSD 173,071,666) revenue from sale of petroleum products (wholesale), the amount of RSD 23,222,832 (2014: RSD 23,382,492) are derived from a single domestic customer, Knez Petrol (2014: HIP Petrohemija). These revenues are attributable to wholesale activities within Downstream segment.

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 166,969,945 (2014: RSD 203,956,911), and the total of revenue from external customer from other countries is RSD 32,891,331 (2014: RSD 43,663,671). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2015	2014
Sale of crude oil	3,022,528	3,605,885
Sale of petroleum products (retail and wholeasle)		
Bulgaria	7,430,785	6,820,153
Bosnia and Herzegovina	5,583,102	5,142,090
Romania	3,122,727	4,562,293
All other markets	12,711,986	23,317,551
	28,848,600	39,842,087
Other sales	1,020,203	215,699
	32,891,331	**43,663,671**

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

6. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Other intangibles	Intangible assets under development	Total
At 1 January 2014					
Cost	-	6,000,613	333,465	7,799,147	14,133,225
Accumulated amortisation and impairment	-	(2,626,151)	(112,025)	(88,098)	(2,826,274)
Net book amount	**-**	**3,374,462**	**221,440**	**7,711,049**	**11,306,951**
Year ended 31 December 2014					
Additions	3,873,220	542,491	637,828	(1,238,552)	3,814,987
Amortisation	(40,079)	(798,078)	(36,530)	-	(874,687)
Transfer from PP&E (note 7)	-	-	-	1,213,430	1,213,430
Disposals and write-off	-	-	-	(59,334)	(59,334)
Other transfer	(1)	(52,495)	52,496	-	-
Closing net book amount	**3,833,140**	**3,066,380**	**875,234**	**7,626,593**	**15,401,347**
As at 31 December 2014					
Cost	3,873,219	6,494,640	971,770	7,714,691	19,054,320
Accumulated amortisation and impairment	(40,079)	(3,428,260)	(96,536)	(88,098)	(3,652,973)
Net book amount	**3,833,140**	**3,066,380**	**875,234**	**7,626,593**	**15,401,347**
At 1 January 2015					
Cost	3,873,219	6,494,640	971,770	7,714,691	19,054,320
Accumulated amortisation and impairment	(40,079)	(3,428,260)	(96,536)	(88,098)	(3,652,973)
Net book amount	**3,833,140**	**3,066,380**	**875,234**	**7,626,593**	**15,401,347**
Year ended 31 December 2015					
Additions	2,744,618	924,762	1,281	(1,533,471)	2,137,190
Impairment (note 37 and 38)	-	(72)	-	-	(72)
Amortisation	(402,257)	(883,622)	(18,208)	-	(1,304,087)
Transfer from PP&E (note 7)	-	-	-	68,609	68,609
Other transfers	(21,784)	1,113	21,276	-	605
Closing net book amount	**6,153,717**	**3,108,561**	**879,583**	**6,161,731**	**16,303,592**
As at 31 December 2015					
Cost	6,617,839	7,420,522	972,536	6,249,829	21,260,726
Accumulated amortisation and impairment	(464,122)	(4,311,961)	(92,953)	(88,098)	(4,957,134)
Net book amount	**6,153,717**	**3,108,561**	**879,583**	**6,161,731**	**16,303,592**

Development investments as at 31 December 2015 in the amount of RSD 6,153,717 mostly relate to investments in geological, 2D and 3D seismic explorations on the territory of the Republic of Serbia (2014: RSD 3,833,140).

Concessions, patents, licenses, software and other rights as at 31 December 2015 amounting to RSD 3,108,561 mostly relate to investments in the SAP system of RSD 1,519,764 (2014: RSD 2,011,495).

Intangible assets under development as at 31 December 2015 amounting to RSD 6,161,731 (31 December 2014: RSD 7,626,593) mostly relate to investments in explorations (unproved reserves) in amount of RSD 4,941,068 (31 December 2014: RSD 6,009,662).

Amortisation amounting to RSD 1,304,087 (2014: RSD 874,687) is included in Operating expenses.

7. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment
At 1 January 2014			
Cost	11,000,724	110,567,629	84,882,738
Accumulated depreciation and impairment	(304,222)	(32,993,150)	(31,111,921)
Net book amount	**10,696,502**	**77,574,479**	**53,770,817**
Year ended 31 December 2014			
Additions	15,507	18,819,254	8,564,557
Acquisitions through business combinations	-	-	-
Impairment charge (note 37 and 38)	(29,907)	54,028	(25,210)
Depreciation	-	(4,837,403)	(4,995,419)
Transfer to intangible assets (note 6)	-	-	-
Transfer from investment property	(8,190)	61,445	-
Disposals and write-off	(39,494)	(129,794)	(74,954)
Other transfers	876	144,288	(144,859)
Closing net book amount	**10,635,294**	**91,686,297**	**57,094,932**
At 31 December 2014			
Cost	10,969,423	129,367,760	92,244,112
Accumulated depreciation and impairment	(334,129)	(37,681,463)	(35,149,180)
Net book amount	**10,635,294**	**91,686,297**	**57,094,932**
Year ended 31 December 2015			
Additions	16,823	20,927,638	9,446,258
Impairment charge (note 37 and 38)	-	(206,567)	(8,874)
Depreciation	-	(5,004,485)	(5,730,008)
Transfer to intangible assets (note 6)	-	-	-
Transfer to investment property	(101,916)	14,533	-
Transfer to non-current assets held for sale (note 12)	(19,626)	(2,053)	(24)
Disposals and write-off	(97,730)	(78,158)	(128,341)
Other transfers	14,126	(29,894)	6,438
Closing net book amount	**10,446,971**	**107,307,311**	**60,680,381**
At 31 December 2015			
Cost	10,748,445	150,010,082	100,887,394
Accumulated depreciation and impairment	(301,474)	(42,702,771)	(40,207,013)
Net book amount	**10,446,971**	**107,307,311**	**60,680,381**

Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
32,480,853	76,135	56,038	4,160,931	243,225,048
(4,044,148)	(1,212)	(22,054)	(29,899)	(68,506,606)
28,436,705	**74,923**	**33,984**	**4,131,032**	**174,718,442**
3,270,469	-	344,388	4,815,603	35,829,778
788,129	-	-	-	788,129
(33,294)	(49)	-	-	(34,432)
-	-	(9,669)	-	(9,842,491)
(1,213,430)	-	-	-	(1,213,430)
-	-	-	-	53,255
(170,922)	(32)	-	(7,346,612)	(7,761,808)
-	76	-	-	381
31,077,657	**74,918**	**368,703**	**1,600,023**	**192,537,824**
33,860,460	76,768	400,426	1,629,280	268,548,229
(2,782,803)	(1,850)	(31,723)	(29,257)	(76,010,405)
31,077,657	**74,918**	**368,703**	**1,600,023**	**192,537,824**
(3,829,901)	-	15,291	5,005,254	31,581,363
(106,555)	(2)	-	(1,631)	(323,629)
-	-	(62,683)	-	(10,797,176)
(68,609)	-	-	-	(68,609)
-	-	-	-	(87,383)
-	-	-	-	(21,703)
(195,231)	(39)	-	(5,271,037)	(5,770,536)
-	-	8,724	-	(606)
26,877,361	**74,877**	**330,035**	**1,332,609**	**207,049,545**
29,253,159	76,604	424,741	1,363,418	292,763,843
(2,375,798)	(1,727)	(94,706)	(30,809)	(85,714,298)
26,877,361	**74,877**	**330,035**	**1,332,609**	**207,049,545**

In 2015, the Company capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 33,227 (2014: RSD 69,900).
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 2015, the Company assessed impairment indicators of cash generating units ("CGU") and concluded that general indications of impairment does not exist. 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 317,521 (2014: RSD 34,432).

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:

	2015	2014
As at 1 January	**1,381,832**	**1,363,353**
Additions	-	817
Fair value gains (note 37 and 38)	(124,003)	164,761
Transfer to/from PP&E carried at cost	87,383	(53,255)
Disposals	(17,554)	(93,463)
Other	8,402	(381)
As at 31 December	**1,336,060**	**1,381,832**

As at 31 December 2015, investment properties amounting to RSD 1,336,060 (31 December 2014: RSD 1,381,832) 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 2015 and 2014. The revaluation loss was credited to other income (note 36).
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 2015 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	-	794,436	-
- Gas stations	-	-	541,624
Total	**-**	**794,436**	**541,624**

Fair value measurements at 31 December 2014 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	-	812,023	-
- Gas stations	-	-	569,808
Total	**-**	**812,023**	**569,808**

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:

	2015	2014
Long term growth rate	0%	0%
Discount rate	12%	12%

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

	2015	2014
Assets as at 1 January	**569,808**	**509,899**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	54,431	59,909
Transfer to PPE	(88,469)	-
Other	5,854	-
Total (decrease) increase in fair value measurement, assets	(28,184)	59,909
Assets as at 31 December	**541,624**	**569,808**

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 2014		
Cost	10,248,631	11,674,429
Depreciation and impairment	-	(238,059)
Net book amount	**10,248,631**	**11,436,370**
Year ended 31 December 2014		
Additions	6,860,465	18,757,565
Transfer from asset under construction	(3,923,922)	(18,528,311)
Other transfers	2,013,886	(312,733)
Impairment	-	(15,526)
Depreciation and depletion	-	-
Transfer from investment property	-	-
Disposals and write-off	(197,690)	(12,672)
	15,001,370	**11,324,693**
As at 31 December 2014		
Cost	15,001,370	11,578,278
Depreciation and impairment	-	(253,585)
Net book amount	**15,001,370**	**11,324,693**
As at 1 January 2015		
Cost	15,001,370	11,578,278
Depreciation and impairment	-	(253,585)
Net book amount	**15,001,370**	**11,324,693**
Year ended 31 December 2015		
Additions	4,662,200	17,897,017
Transfer from assets under construction	(3,239,841)	(21,798,085)
Impairment	-	(10,332)
Depreciation and depletion	-	-
Disposals and write-off	(143,302)	-
Other transfers	463,942	(17,820)
	16,744,369	**7,395,473**
As at 31 December 2015		
Cost	16,744,369	7,644,244
Depreciation and impairment	-	(248,771)
Net book amount	**16,744,369**	**7,395,473**

Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
21,923,060	51,949,129	22,241	73,894,430
(238,059)	(16,356,850)	(20,266)	(16,615,175)
21,685,001	**35,592,279**	**1,975**	**57,279,255**
25,618,030	-	-	25,618,030
(22,452,233)	22,452,233	-	-
1,701,153	(805,588)	(81)	895,484
(15,526)	(10,222)	(49)	(25,797)
-	(2,990,069)	-	(2,990,069)
-	35,121	-	35,121
(210,362)	(29,252)	-	(239,614)
26,326,063	**54,244,502**	**1,845**	**80,572,410**
26,579,648	73,455,119	22,203	100,056,970
(253,585)	(19,210,617)	(20,358)	(19,484,560)
26,326,063	**54,244,502**	**1,845**	**80,572,410**
26,579,648	73,455,119	22,203	100,056,970
(253,585)	(19,210,617)	(20,358)	(19,484,560)
26,326,063	**54,244,502**	**1,845**	**80,572,410**
22,559,217	100,269	-	22,659,486
(25,037,926)	25,037,926	-	-
(10,332)	(634)	(2)	(10,968)
-	(3,618,330)	(1)	(3,618,331)
(143,302)	(56,321)	-	(199,623)
446,122	(232,689)	-	213,433
24,139,842	**75,474,723**	**1,842**	**99,616,407**
24,388,613	98,224,109	22,153	122,634,875
(248,771)	(22,749,386)	(20,311)	(23,018,468)
24,139,842	**75,474,723**	**1,842**	**99,616,407**

8. INVESTMENTS IN SUBSIDIARIES

	31 December 2015	31 December 2014
Investments in subsidiaries:		
in shares	3,457,576	3,457,576
In stakes	12,868,227	5,271,612
	16,325,803	8,729,188
Less: Provision	(2,883,172)	(1,173,167)
	13,442,631	**7,556,021**

Investments in subsidiaries as at 31 December 2015 relate to the following companies:

Company	Investment	Impairment	Net book value	Share %
O Zone a.d. Belgrade, Serbia	3,457,576	(1,172,263)	2,285,313	100%
NIS Petrol e.o.o.d., Sofija, Bulgaria	28,938	-	28,938	100%
NIS Petrol SRL, Bucharest, Romania	997	-	997	100%
NIS Petrol doo, Banja Luka, BiH	1,030	-	1,030	100%
Pannon naftagas Kft, Budapest, Hungary	1,710,909	(1,710,909)	-	100%
NTC NIS-Naftagas d.o.o., Novi Sad, Serbia	905,000	-	905,000	100%
Naftagas-Tehnicki servisi d.o.o., Zrenjanin, Serbia	1,177,032	-	1,177,032	100%
Naftagas-Naftni servisi d.o.o., Novi Sad, Serbia	7,300,000	-	7,300,000	100%
Naftagas-Transport d.o.o., Novi Sad, Serbia	1,717,349	-	1,717,349	100%
NIS Oversiz, Moscow, Russia	9,856	-	9,856	100%
Jadran-Naftagas d.o.o. Banja Luka, BiH	71	-	71	66%
Svetlost, Bujanovac, Serbia	17,045	-	17,045	51%
	16,325,803	**(2,883,172)**	**13,442,631**	

In 2015, Company has increased investments in following subsidiaries:

- Naftagas-naftni servisi d.o.o., Novi Sad in amount of RSD 3,720,017. The increase is registered on 24 June 2015.
- NTC NIS-Naftagas d.o.o., Novi Sad in amount of RSD 583,500. The increase is registered on 24 June 2015;
- Naftagas-tehnicki servisi d.o.o., Zrenjanin in amount of RSD 193,679. The increase is registered on 24 June 2015.
- Naftagas-Transport d.o.o., Novi Sad in amount of RSD 1,389,598. The increase is registered on 24 June 2015
- Pannon naftagas Kft, Budapest in amount of RSD 1,710,726. The increase is registered on 14 May 2015. The investment is totally impaired.

9. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES

	31 December 2015	31 December 2014
LT loans - Subsidiaries - Domestic	2,904,867	2,842,520
LT loans - Subsidiaries - Foregin	31,270,666	31,674,870
Less: Impairment	(673,336)	(1,943,236)
	33,502,197	**32,574,154**

Long-term loans to subsidiaries denominated in RSD as at 31 December 2014 relate to:

	Currency	31 December 2015	31 December 2014
Domestic			
O Zone a.d., Belgrade, Serbia	EUR	2,904,867	2,842,520
		2,904,867	2,842,520
Foreign			
NIS Petrol e.o.o.d., Sofija, Bulgaria	EUR	11,355,192	11,348,122
NIS Petrol SRL, Bucharest, Romania	EUR	10,131,378	9,258,906
NIS Petrol d.o.o., Banja Luka, BiH	EUR	7,490,872	7,484,821
Jadran - Naftagas d.o.o., Banja Luka, BiH	EUR	1,813,389	1,852,285
Pannon naftagas Kft, Budapest, Hungary	EUR	479,835	1,730,736
		31,270,666	31,674,870
		34,175,533	**34,517,390**

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

10. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2015	31 December 2014
Other LT placements	1,032,339	925,696
LT loans given to employees	1,161,130	1,155,943
Less: Impairment	(1,022,745)	(919,728)
	1,170,724	**1,161,911**

Loans to employees as at 31 December 2015 amounting to RSD 1,161,130 (31 December 2014: RSD 1,155,943) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly instalments.

The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Company could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 4,85% for loans denominated in EUR, and 15.26% for loans denominated in RSD (2014: 4.99% for loans denominated in EUR, and 15.85% for loans denominated in RSD).

11. LONG-TERM RECEIVABLES

	31 December 2015	31 December 2014
LT receivables – state owned companies	15,493,616	-
LT receivables - financial lease	29,311	36,603
Less: Impairment	(933,939)	(24,559)
	14,588,988	**12,044**

Long-term receivables – state owned companies amounting to RSD 15,493,616 mainly relate to the long-term receivables from the Republic of Serbia in the amount of RSD 11,222,228 according to the debt of Srbijagas owed to Naftna industrija Srbije takeover and its conversion into public debt. (Short-term part of the receivables: note 14 and 15).
These receivables were denominated in EUR on the date of the debt takeover.
As at 31 December 2015, the first instalment was paid in accordance with the repayment schedule defined by the Law.

12. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2015	31 December 2014
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	7,521,729	7,834,155
	7,521,729	**7,834,155**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(2,735,676)	(2,724,064)
	(2,735,676)	**(2,724,064)**
Deferred tax assets (net)	**4,521,729**	**5,110,091**

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

	2015	2014
At 1 January	**5,110,091**	**7,623,227**
Charged to the income statement	(588,222)	(2,476,523)
Charged to other comprehensive income	(140)	(36,613)
31 December	**4,521,729**	**5,110,091**

	Provisions	Carrying value of PP&E vs Tax base	Total
Deferred tax liabilities			
As at 1 January 2014	**-**	**(2,153,482)**	**(2,153,482)**
Origination and reversal of temporary differences:			
- charged to the income statement (note 39)	-	(533,969)	(533,969)
- charged to other comprehensive income	(36,613)	-	(36,613)
As at 31 December 2014	**(36,613)**	**(2,687,451)**	**(2,724,064)**
Origination and reversal of temporary differences:			
- charged to the income statement (note 39)	16,825	(28,297)	(11,472)
- charged to other comprehensive income	(140)	-	(140)
As at 31 December 2015	**(19,928)**	**(2,715,748)**	**(2,735,676)**

	Provisions	Impairment loss	Investment credit	Total
Deferred tax assets				
As at 1 January 2014	**308,289**	**762,878**	**8,705,542**	**9,776,709**
Origination and reversal of temporary differences (note 39)	(282,758)	(82,219)	(1,577,577)	(1,942,554)
As at 31 December 2014	**25,531**	**680,659**	**7,127,965**	**7,834,155**
Origination and reversal of temporary differences (note 39)	933,478	183,363	(1,693,591)	(576,750)
As at 31 December 2015	**959,009**	**864,022**	**5,434,374**	**7,257,405**

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.
Investment credits in the amount of RSD 282,119 was not recognised as deferred tax assets as its considered as non-recoverable. These investments credits expired gradually up to 2023.

13. INVENTORY

	31 December 2015	31 December 2014
Materials, spare parts and tools	14,331,033	25,741,314
Work in progress	4,050,154	5,755,021
Finished goods	5,540,706	7,121,091
Goods for sale	1,956,161	2,770,724
Advances	453,621	627,709
Less: impairment of inventory	(5,117,655)	(5,613,846)
Less: impairment of advances	(268,119)	(239,846)
	20,945,901	**36,162,167**
Non current assets held for sale	207,485	-
Less: impairment of assets held for sale	(185,782)	-
	21,703	**-**
	20,967,604	**36,162,167**

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 2014	**6,136,250**	**248,347**	**-**	**6,384,597**
Provision for inventories and advances (note 38)	9,025	5,688	-	14,713
Unused amounts reversed (note 37)	(216,837)	(13,116)	-	(229,953)
Other	(314,592)	(1,073)	-	(315,665)
Balance as of 31 December 2014	**5,613,846**	**239,846**	**-**	**5,853,692**
Provision for inventories and advances (note 38)	89,439	39,215	-	128,654
Unused amounts reversed (note 37)	(406,016)	(4,439)	-	(410,455)
Transfer from non-current part	-	-	185,782	185,782
Write-off	-	(6,503)	-	(6,503)
Other	(179,614)	-	-	(179,614)
Balance as of 31 December 2015	**5,117,655**	**268,119**	**185,782**	**5,571,556**

14. TRADE RECEIVABLES

	31 December 2015	31 December 2014
Parents and subsidiaries - domestic	1,530,043	4,199,731
Parents and subsidiaries - foreign	1,350,735	1,394,526
Other related parties - domestic	19,016,180	13,023,542
Other related parties - foreign	148,105	36,398
Trade receivables domestic – third parties	32,107,417	46,603,719
Trade receivables foreign – third parties	755,895	1,336,768
	54,908,375	**66,594,684**
Less: Impairment	(19,579,712)	(12,501,524)
	35,328,663	**54,093,160**

The ageing of trade receivables is as follows:

	31 December 2015	31 December 2014
Neither impaired nor past due	27,210,041	25,690,121
Past due but not impaired:		
- within 30 days	1,671,356	3,813,902
- 1 to 3 months	3,245,737	2,052,271
- 3 months to 1 year	118,533	10,978,994
- over 1 year	3,082,996	11,557,872
Total	**35,328,663**	**54,093,160**

Due to unfavourable macroeconomic conditions in the recent years, the Company was faced with slowdown in collection from state owned companies. However, the Company management is working closely with major debtors on recovery of these debts and believes that net receivables included in the ageing table above are fully recoverable.

The carrying amounts of the Company's trade receivables are denominated in the following currencies:

	31 December 2015	31 December 2014
RSD	36,928,600	63,826,066
EUR	17,563,123	550,793
USD	416,631	2,217,804
Other	21	21
	54,908,375	**66,594,684**

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

	Trade receivables		
	Individually impaired	Collectively impaired	Total
As at 1 January 2014	**8,237,040**	**4,301,928**	**12,538,968**
Provision for receivables impairment (note 36)	81,045	206,348	287,393
Unused amounts reversed (note 35)	-	(287,868)	(287,868)
Receivables written off during the year as uncollectible	-	(264,395)	(264,395)
Other	-	227,426	227,426
As at 31 December 2014	**8,318,085**	**4,183,439**	**12,501,524**
Provision for receivables impairment (note 36)	118	114,367	114,485
Unused amounts reversed (note 35)	(5,653,229)	(127,963)	(5,781,192)
Receivables written off during the year as uncollectible	-	(188,529)	(188,529)
Transfer from other receivables	3,105,067	-	3,105,067
Transfer from ST financial assets	-	8,152,392	8,152,392
Other	210,423	1,420,533	1,630,956
Exchange differences	-	45,009	45,009
As at 31 December 2015	**5,980,464**	**13,599,248**	**19,579,712**

Release of provision and receivable written off as uncollectable in the amount of RSD 5,781,192 respectively mainly relate to positive outcome of negotiations between the Company and Serbian Government for collection of receivables from Srbijagas. The negotiations ended in adoption of the Law on taking over the receivables from Srbijagas by the Government. According to the Law, NIS will collect the amount of RSD 23,379,767 in following two years, with the last instalment on 31 May 2018. On 31 Dec 2015, the Company received the first instalment in the amount of RSD 4,675,953. In addition, the Company reclassified non-current portion in the amount of RSD 11,222,228 (note 11) with proper discounting effect.

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement (note 36). 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.

15. OTHER RECEIVABLES

	31 December 2015	31 December 2014
Interest receivables	7,203,310	14,308,224
Receivables from employees	86,293	85,892
Income tax prepayment	1,618,126	2,627,622
Other receivables	7,514,636	7,514,100
Less: Impairment	(13,789,308)	(20,751,217)
	2,633,057	**3,784,621**

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2014	**10,368,846**	**7,330,368**	**17,699,214**
Provision for other receivables impairment (note 36)	3,604,591	1,543	3,606,134
Unused amounts reversed (note 35)	(391,242)	(2,258)	(393,500)
Receivables written off during the year as uncollectible	(159,538)	(1,093)	(160,631)
As at 31 December 2014	**13,422,657**	**7,328,560**	**20,751,217**
Provision for other receivables impairment (note 36)	93,583	97,586	191,169
Unused amounts reversed (note 35)	(1,315,670)	(1,251)	(1,316,921)
Receivables written off during the year as uncollectible	(2,759,805)	(471)	(2,760,276)
Transfer to trade receivables	(3,105,067)	-	(3,105,067)
Other	20,223	8,963	29,186
As at 31 December 2015	**6,355,921**	**7,433,387**	**13,789,308**

16. SHORT-TERM FINANCIAL INVESTMENS

	31 December 2015	31 December 2014
ST loans and placements - Parent and subsidiaries	847,638	4,337,886
ST loans and placements - Domestic	2,019	2,019
Other ST financial placements	408,297	10,357,959
Less: Impairment	(2,019)	(8,152,392)
	1,255,935	**6,545,472**

During 2015, current portion of rescheduled receivables in the amount of RSD 10,353,617 with impairment in amount of RSD 8,152,392 are transferred to trade receivables.

Movements on the provision for short-term financial assets:

	Short-term financial loans- Parent and subsidiaries	Other ST financial placement- Rescheduled receivables	Total
As at 1 January 2014	**126**	**7,827,615**	**7,827,741**
Provision for financial investments impairment (note 36)	-	(106,562)	(106,562)
Receivables written off during the year as uncollectible	(126)	-	(126)
Exchange differences	-	431,339	431,339
As at 31 December 2014	**-**	**8,152,392**	**8,152,392**
Provision for financial investments impairment (note 36)	-	2,019	2,019
Transfer to trade receivables (note 14)	-	(8,152,392)	(8,152,392)
As at 31 December 2015	**-**	**2,019**	**2,019**

17. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Cash in bank and in hand	10,713,556	4,338,300
Deposits with original maturity of less than three months	6,012,193	725,814
Cash equivalents	4,144	273,909
	16,729,893	**5,338,023**

18. PREPAYMENTS AND ACCRUED INCOME

	31 December 2015	31 December 2014
Deferred input VAT	1,029,121	1,184,270
Prepaid expenses	84,499	108,427
Accrued revenue	618,765	2,750
Prepaid excise duty	2,943,879	4,256,200
Housing loans and other prepayments	2,012,914	1,608,411
	6,689,178	**7,160,058**

Deferred input VAT as at 31 December 2015 amounting to RSD 1,029,121 (31 December 2014: RSD 1,184,270) 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 amounting to RSD 2,943,879 (31 December 2014: RSD 4,256,200) 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 2015	31 December 2014
Issued warranties and bills of exchange	86,246,018	74,389,497
Received warranties and bills of exchange	24,236,941	27,511,645
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	6,830,396	6,329,184
Third party merchandise in NIS warehouses	6,117,283	4,414,343
Assets for oil fields liquidation in Angola	990,870	771,785
Other off-balance sheet assets and liabilities	197,477	-
	129,976,675	**118,774,144**

20. SHARE CAPITAL

Share capital represents share capital of the Company, which is listed on Belgrade Stock Exchange. Par value per share is 500 RSD.
Share capital as of 31 December 2015 and 31 December 2014 comprise of 163,060,400 of ordinary shares.
A dividend in respect of the year ended 31 December 2014 of 46.85 RSD per share, amounting to a total dividend of RSD 7,639,380 was approved by the General Assembly Meeting held on 23 June 2015 and paid on 31 August 2015.

21. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommissioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2014	**9,063,038**	**690,094**	**1,900,757**	**1,522,079**	**1,091,375**	**14,267,343**
Charged to the income statement (note 31 and 34)	52,371	20,000	253,786	-	-	326,157
New obligation incurred and change in estimates	(14,377)	-	-	-	-	(14,377)
Release of provision (note 37)	-	-	(1,237,653)	(812,189)	(55,306)	(2,105,148)
Actuarial gain charged to other comprehensive income	-	-	(244,084)	-	-	(244,084)
Settlement	(75,420)	(152,437)	(74,938)	(608,044)	(167,524)	(1,078,363)
As at 31 December 2014	**9,025,612**	**557,657**	**597,868**	**101,846**	**868,545**	**11,151,528**
As at 1 January 2015						
Charged to the income statement (note 31 and 34)	268,070	307,036	73,976	244,309	-	893,391
New obligation incurred and change in estimates	100,888	-	-	-	-	100,888
Release of provision (note 37)	(49,261)	(4,300)	-	-	(107,650)	(161,211)
Actuarial gain charged to other comprehensive income	-	-	(932)	-	-	(932)
Settlement	(192,943)	(172,688)	(55,374)	(49,372)	(130,136)	(600,513)
As at 31 December 2015	**9,152,366**	**687,705**	**615,538**	**296,783**	**630,759**	**11,383,151**

Analysis of total provisions:

	31 December 2015	31 December 2014
Non-current	9,154,267	8,690,515
Current	2,228,884	2,461,013
	11,383,151	**11,151,528**

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 Group recorded provision for environmental protection of RSD 687,705 (31 December 2014: RSD 557,657) 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 2015 the management made an assessment of present value of liabilities related to new three-year employee incentives (2015-2017) in amount of RSD 296,783 (2014: RSD 101,846).

d) Legal claims provisions

As at 31 December 2015, the Company assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Company released provision for litigation amounting to RSD 107,660 (2014: RSD 55,307 reversed) for proceedings which were assessed that won't 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 2015.

e) Provision for employee benefits

Employee benefits:

	31 December 2015	31 December 2014
Retirement allowances	75,802	68,359
Jubilee awards	539,736	529,509
	615,538	**597,868**

The principal actuarial assumptions used were as follows:

	31 December 2015	31 December 2014
Discount rate	6.6%	6.75%
Future salary increases	2.5%	2.5%
Future average years of service	15.7	12.4

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2014	**533,180**	**1,367,577**	**1,900,757**
Benefits paid directly	(16,264)	(58,674)	(74,938)
Actuarial gain charged to other comprehensive income	(244,084)	-	(244,084)
Credited to the income statement	(204,473)	(779,394)	(983,867)
Balances as at 31 December 2014	**68,359**	**529,509**	**597,868**
Benefits paid directly	(2,368)	(53,006)	(55,374)
Actuarial gain charged to other comprehensive income	(932)	-	(932)
Credited to the income statement	10,743	63,233	73,976
Balances as at 31 December 2015	**75,802**	**539,736**	**615,538**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December	
	2015	**2014**
Current service cost	66,664	202,422
Interest cost	56,751	156,808
Curtailment gain	(5,432)	(265,082)
Actuarial gains (jubilee awards)	(24,012)	(557,749)
Amortisation of past service cost	(33,566)	(772,828)
	60,405	**(1,236,429)**

22. LONG-TERM LIABILITIES

	31 December 2015	31 December 2014
Long-term loan - Gazprom Neft	42,427,710	47,820,723
Bank loans	70,298,957	50,891,268
Other long-term borrowings	-	1,209
Less Current portion	(13,417,421)	(6,100,504)
	99,309,246	**92,612,696**

a) Long-term loan - Gazprom Neft

As at 31 December 2015 long-term loan - Gazprom Neft amounting to RSD 42,427,710 (2014: RSD 47,820,723), with current portion of RSD 5,657,028 (2014: RSD 5,625,967), 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 2015	31 December 2014
Domestic	18,693,335	7,175,318
Foreign	51,605,622	43,715,950
	70,298,957	50,891,268
Current portion of long-term loans (note 23)	(7,760,393)	(474,537)
	62,538,564	**50,416,731**

The maturity of non-current loans was as follows:

	31 December 2015	31 December 2014
Between 1 and 2 years	11,829,773	6,969,316
Between 2 and 5 years	45,785,596	38,044,029
Over 5 years	4,923,195	5,403,386
	62,538,564	**50,416,731**

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

	31 December 2015	31 December 2014
USD	53,388,078	45,401,219
EUR	16,529,506	5,126,540
RSD	1,174	1,520
JPY	380,199	361,989
	70,298,957	**50,891,268**

The Company repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Company has both fixed and floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor. Management expects that the Company will be able to 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 2015 and 31 December 2014 respectively.

23. SHORT-TERM FINANCE LIABILITIES

	31 December 2015	31 December 2014
Short-term loans from subsidiaries	729,883	-
Short-term loans	3,553,091	8,600,082
Current portion of long-term loans (note 22)	13,417,421	6,100,504
	17,700,395	**14,700,586**

24. TRADE PAYABLES

	31 December 2015	31 December 2014
Parents and subsidiaries - domestic	2,418,644	2,845,130
Parents and subsidiaries - foreign	11,015,359	20,144,858
Other related parties - domestic	800,455	830,355
Other related parties - foreign	166,005	50,923
Trade payables domestic – third parties	5,492,502	5,654,892
Trade payables foreign – third parties	5,201,953	8,837,079
Other trade payables	77,175	69,946
	25,172,093	**38,433,183**

As at 31 December 2015 payables to parents and subsidiaries-foreign amounting to RSD 11,015,359 (31 December 2014: RSD 20,144,858) mainly relate to payables to the supplier Gazprom Neft, St Petersburg, for the purchase of crude oil.

25. OTHER SHORT-TERM LIABILITIES

	31 December 2015	31 December 2014
Specific liabilities	359,162	493,913
Liabilities for unpaid wages and salaries, gross	811,581	821,286
Interest liabilities	810,405	657,526
Dividends payable	3,772,308	3,772,308
Payables to employees	433,281	446,262
Decommissioning and site restoration costs	1,609,928	1,638,178
Environmental provision	311,905	490,586
Litigation and claims	245,543	272,252
Other current liabilities	71,811	108,172
	8,425,924	**8,700,483**

26. LIABILITIES FOR OTHER TAXES

	31 December 2015	31 December 2014
Excise tax	6,057,861	5,294,046
Other taxes payables	1,183,289	1,819,952
	7,241,150	**7,113,998**

27. ACCRUED EXPENSES

Accrued expenses as at 31 December 2015 amounting to RSD 2,290,026 (31 December 2014: RSD 3,045,933) mainly relate to accrued employee bonuses of RSD 1,401,438 (31 December 2014: RSD 1,548,802).

28. COST OF MATERIAL

	Year ended 31 December	
	2015	2014
Costs of raw materials	107,085,169	136,850,946
Overheads costs	221,311	155,109
Other costs	430,207	504,621
	107,736,687	**137,510,676**

29. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December	
	2015	2014
Wages and salaries (gross)	10,871,917	10,995,544
Taxes and contributions on wages and salaries paid by employer	1,429,584	1,541,382
Cost of service agreement	298,955	540,286
Cost of other personal wages	53,660	59,568
Fees paid to board of directors and general assembly board	128,011	126,569
Termination costs	340,737	303,545
Other personal expenses	741,358	516,725
	13,864,222	**14,083,619**

30. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2015	2014
Cost of production services	3,101,503	3,295,560
Transportation services	3,317,450	3,077,529
Maintenance	4,216,545	4,073,119
Rental costs	1,180,355	1,266,705
Fairs	3,323	11,148
Advertising costs	821,973	905,831
Exploration expenses	463,888	542,985
Cost of other services	881,502	694,420
	13,986,539	**13,867,297**

31. LONG-TERM PROVISION EXPENSE

	Year ended 31 December	
	2015	2014
Decommissioning and site restoration costs	453,709	24,000
Employee benefits costs	318,285	253,786
	771,994	**277,786**

32. NON-MATERIAL EXPENSES

	Year ended 31 December	
	2015	2014
Costs of non-production services	7,336,307	6,357,806
Representation costs	89,518	110,283
Insurance premium	383,059	493,047
Bank charges	227,776	202,766
Cost of taxes	1,055,209	945,242
Mineral extraction tax	1,424,183	2,234,572
Other non-production expenses	1,087,510	792,780
	11,603,562	**11,136,496**

Cost of non-production services for the year ended 31 December 2015 amounting to RSD 7,336,307 (2014: RSD 6,357,806) mainly relate to costs of service organizations of RSD 3,824,498; project management costs of RSD 1,330,055 and consulting service costs of RSD 911,473.

33. FINANCE INCOME

	Year ended 31 December	
	2015	2014
Finance income - related parties		
- foreign exchange differences	1,141,289	2,061,493
- other finance income	1,126,848	1,200,544
Interest income	650,898	4,196,347
Foreign exchange gains	1,449,860	1,253,608
Other finance income	68,520	16,155
	4,437,415	**8,728,147**

34. FINANCE EXPENSE

	Year ended 31 December	
	2015	2014
Finance expenses – related parties		
- foreign exchange differences	2,680,138	3,312,413
- other finance expense	948,878	3,983,152
Interest expenses	2,323,427	2,278,640
Decommissioning provision: unwinding of the present value discount	121,397	48,371
Provision of trade and other non-current receivables: discount	912,968	-
Foreign exchange losses	7,679,828	10,128,617
Other finance expenses	4,425	347
	14,671,061	**19,751,540**

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

	Year ended 31 December	
	2015	**2014**
Reversal of impairment of LT financial investments	495	17,263
Income from valuation:		
- trade and specific receivables	5,785,037	452,315
- short-term investments	-	106,562
- other receivables	1,316,921	393,500
	7,102,453	**969,640**

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

	Year ended 31 December	
	2015	**2014**
Loss from valuation:		
- LT financial investments	98,577	1,943,262
- trade and specific receivables	124,269	298,084
- other receivables	191,169	3,606,134
- other	2,019	3,168
	416,034	**5,850,648**

37. OTHER INCOME

	Year ended 31 December	
	2015	**2014**
Gains on disposal - Intangible assets and PPE	148,438	164,180
Gains on disposal - materials	33,467	41,619
Gains on disposal - equity instruments and securities	61,696	-
Surpluses from stock count	231,448	346,806
Payables written off	486,139	33,661
Release of long-term provisions	161,211	2,105,148
Gain on bargain purchase (note 41)	-	455,776
Release of impairment:		
- PPE	-	79,589
- investment property	-	164,761
- inventory	406,016	216,837
- other property	4,438	13,115
Penalty interest	138,190	98,858
Other income	670,120	522,984
	2,341,163	**4,243,334**

38. OTHER EXPENSES

	Year ended 31 December	
	2015	**2014**
Loss on disposal - Intangible assets and PPE	226,496	159,401
Shortages from stock count	348,893	766,429
Write-off receivables	14,853	2,081
Write-off inventories	147,712	41,642
Impairment:		
- IA	72	-
- PPE	323,629	114,021
- Investment property	124,003	-
- inventory	89,439	9,025
- other property	39,216	5,687
Other expenses	947,968	1,524,839
	2,262,281	**2,623,125**

39. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2015	**2014**
Income tax for the year	3,762,995	3,421,124
Deferred income tax for the period (note 12)		
Origination and reversal of temporary differences	588,222	2,476,523
	4,351,217	**5,897,647**

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	
	2015	**2014**
Profit before tax	20,455,884	36,456,884
Tax calculated at domestic tax rates applicable to profits in the respective countries	3,068,383	5,468,533
Tax effect on:		
Revenues exempt from taxation	(60,630)	(277,761)
Expenses not deductible for tax purposes	1,043,733	1,339,758
Tax losses for which no deferred income tax asset was recognised	1,693,591	1,577,576
Utilized tax credits	(1,363,955)	(1,858,423)
Other	(29,905)	(285,250)
	4,351,217	**5,964,433**
Tax reassessment	-	(66,786)
	4,351,217	**5,897,647**
Effective income tax rate	21.27%	16.18%

40. EARNINGS PER SHARE

	Year ended 31 December	
	2015	**2014**
Profit attributable to shareholders of Naftna Industrija Srbije	16,104,667	30,559,237
Weighted average number of ordinary shares issued	163,060,400	163,060,400
Basic Earnings per share	**0.099**	**0.187**

41. BUSINESS COMBINATIONS

During 2015 there were no business combinations of the Company.
In 2014, the Company acquired five petrol stations, four in Bulgaria and one in Serbia. The total consideration paid for above acquisitions amounted to RSD 874,367. The fair value of net identifiable asset acquired amounted to RSD 1,245,216 and remaining amount was recognised as goodwill.

42. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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 2015 and 2014, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

As of 31 December 2015 and 31 December 2014 the outstanding balances with related parties were as follows:

	Subsidiaries	Parent	Entities under common control	Total
As at 31 December 2015				
Advances for PPE	68,269	-	-	68,269
Investments in subsidiaries	13,442,631	-	-	13,442,631
Long-term loans	33,502,197	-	-	33,502,197
Trade receivables	2,877,268	-	148,105	3,02 5,373
Other receivables	984,485	-	-	984,485
Short-term investment	847,638	-	-	847,638
Other current assets	51,810	-	-	51,810
Long-term liabilities	-	(36,770,682)	-	(36,770,682)
Short-term financial liabilities	(729,883)	(5,657,028)	-	(6,386,911)
Advances received	(6,607)	-	(12,470)	(19,077)
Trade payables	(3,429,198)	(10,004,805)	(966,460)	(14,400,463)
Other short-term liabilities	(42,428)	-	-	(42,428)
	47,566,182	**(52,432,515)**	**(830,825)**	**(5,697,158)**
As at 31 December 2014				-
Advances to PPE	35,055	-	-	35,055
Investments in subsidiaries	7,556,021	-	-	7,556,021
Long-term loans	32,574,154	-	-	32,574,154
Trade receivables	5,590,651	-	36,398	5,627,049
Other receivables	1,068,527	-	-	1,068,527
Short-term investments	4,337,886	-	-	4,337,886
Other current assets	53,933	-	-	53,933
Long-term liabilities	-	(42,194,756)	-	(42,194,756)
Short-term financial liabilities	-	(5,625,967)	-	(5,625,967)
Advances received	(142)	-	(12,831)	(12,973)
Trade payables	(2,867,745)	(20,122,243)	(50,923)	(23,040,911)
Other short-term liabilities	(197,786)	-	-	(197,786)
Other current liabilities	(6,006)	-	-	(6,006)
	48,144,548	**(67,942,966)**	**(27,356)**	**(19,825,774)**

For the year ended 31 December 2015 and 2014 the following transaction occurred with related parties:

	Subsidiaries	Parent	Entities under common control	Total
Year ended 31 December 2015				
Sales revenue	9,566,804	-	811,395	10,378,199
Other operating income	33,067	-	-	33,067
Cost of goods sold	228,234	-	553,999	782,233
Decrease in inventories of finished goods and work in progress	(8,876,836)	-	(85,607)	(8,962,443)
Cost of material	(16,748)	(79,766,583)	(1,952,153)	(81,735,484)
Fuel and energy expenses	(2,641)	-	-	(2,641)
Employee benefits expenses	(75,189)	-	-	(75,189)
Production services	(3,724,162)	-	(169,108)	(3,893,270)
Non-material expense	(988,430)	(39,619)	(29,234)	(1,057,283)
Finance income	2,327,852	8,805	-	2,336,657
Finance expense	(2,678,123)	(945,091)	(10,227)	(3,633,441)
Fair value measurement losses	(100,474)	-	-	(100,474)
Other income	1,971	107,223	11	109,205
Other expenses	(53,391)	(95,622)	(19,836)	(168,849)
	14,908,250	**(80,730,887)**	**(900,760)**	**(85,989,713)**
Year ended 31 December 2014				
Sales revenue	10,342,966	-	2,208,538	12,551,504
Other operating income	34,501	-	-	34,501
Cost of goods sold	(127,787)	-	(65,868)	(193,655)
Decrease in inventories of finished goods and work in progress	(9,800,339)	-	(1,627,639)	(11,427,978)
Cost of material	(13,003)	(109,522)	(94,590,847)	(94,713,372)
Fuel and energy expenses	(437)	-	-	(437)
Employee benefits expenses	(27,215)	-	-	(27,215)
Production services	(3,877,420)	-	-	(3,877,420)
Non-material expense	(550,441)	(51,132)	(12,974)	(614,547)
Finance income	1,086,526	-	-	1,086,526
Finance expense	(3,384)	(1,150,071)	-	(1,153,455)
Fair value measurement losses	(1,943,236)	-	-	(1,943,236)
Other income	-	52,602	202,046	254,648
Other expenses	(5,205)	(68,318)	(410,518)	(484,041)
	(4,884,474)	**(1,326,441)**	**(94,297,262)**	**(100,508,177)**

Key management compensation

Management compensation paid in 2015 and 2014 is shown in the table below:

	Year ended 31 December	
	2015	**2014**
Salaries and other short-term benefits	425,613	685,322
	425,613	**685,322**

Main balances and transactions with state and mayor state owned companies

	31 December 2015	31 December 2014
Receivables – gross		
HIP Petrohemija	23,268,304	13,004,338
Srbijagas	101,306	29,289,917
Republic of Serbia	18,703,814	-
	42,073,424	**42,294,255**
Liabilities		
HIP Petrohemija	(800,455)	(830,355)
Srbijagas	(372,985)	(226,896)
	(1,173,440)	**(1,057,251)**
Advances received		
HIP Petrohemija	(12,470)	(7,109)
Srbijagas	-	(12,806)
	(12,470)	**(19,915)**

	Year ended 31 December	
	2015	**2014**
Operating income		
HIP Petrohemija	17,580,877	23,382,492
Srbijagas	3,927,429	2,926,879
	21,508,306	**26,309,371**
Operating expenses		
HIP Petrohemija	(169,108)	(174,117)
Srbijagas	(933,151)	(751,452)
	(1,102,259)	**(925,569)**

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.

43. CONTINGENT LIABILITIES

Transfer of property ownership

As at 31 December 2015, the Company had ownership and the right to use and possess of 7,932 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

Finance Guarantees

As at 31 December 2015 the total amount of outstanding finance guarantees provided by the Company amounted to RSD 5,950,324, mostly related to guaranties for customs duties in the amount of RSD 1,913,740 (2014: RSD 3,145,363).

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 687,705 (31 December 2014: RSD 557,657).
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.

Other contingent liabilities

As at 31 December 2015, the Company did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Company has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Company's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Company's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed four years ago. Taking all of the above into consideration, the Company's Management is of the view that as at 31 December 2015 outflow of resources embodying economic benefits is not probable due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

44. TAX RISKS

Tax laws of Republic of Serbia 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. The tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years from the transaction date. As at 31 December 2015, Management assessed that the Company had paid all tax liabilities.

45. COMMITMENTS

Leases

Minimum lease payments under non-cancellable operating lease by lessor:

	31 December 2015	31 December 2014
Less than one year	195,160	168,359
1-5 years	157,309	206,160
Over five years	143,738	139,743
	496,207	**514,262**

Minimum lease payments under non-cancellable operating lease by lessee:

	31 December 2015	31 December 2014
Less than one year	1,030,413	817,691
1-5 years	1,068,617	1,534,726
	2,099,030	**2,352,417**

There were no other material commitments of the Company.

46. EVENTS AFTER THE REPORTING PERIOD

At the date of signing financial statements, crude oil price decreased since 31 December 2015 to 36.125 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any further decrease.
Subsequent events occurring after 31 December 2015 were evaluated through 29 February 2016, the date these financial statements were authorised for issue.

CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report on Consolidated Financial Statements

pwc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and 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 2015 and the consolidated income statement, statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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 accounting regulations 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 International Standards on Auditing. Those Standards 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 2015, and its financial performance and cash flows for the year then ended in accordance with accounting regulations effective in the Republic of Serbia.

Other Matters

The consolidated financial statements of the Group for the year ended 31 December 2014 were audited by another firm of auditors whose report, dated 4 March 2015, expressed an unmodified opinion on those statements.

Milivoje Nesovic
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 29 February 2016

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Consolidated Balance Sheet

		Note	31 December 2015	31 December 2014
A.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
B.	**NON-CURRENT ASSETS**		**274,361,963**	**246,183,088**
I.	**Intangible assets**	**6**	**21,824,790**	**21,687,631**
1.	Development investments		6,153,717	3,833,142
2.	Concessions, licenses, software and other rights		3,662,863	3,450,505
3.	Goodwill		1,818,376	1,957,895
4.	Other intangible assets		1,288,869	1,316,121
5.	Intangible assets under development		8,900,965	11,129,968
6.	Advances for intangible assets		-	-
II.	**Property, plant and equipment**	**7**	**235,209,730**	**222,017,915**
1.	Land		17,187,278	17,580,286
2.	Buildings		116,089,115	100,525,669
3.	Machinery and equipment		71,000,947	66,499,520
4.	Investment property		1,336,060	1,381,832
5.	Other property, plant and equipment		87,704	89,380
6.	Construction in progress		27,837,831	33,128,517
7.	Investments in leased PP&E		341,039	373,188
8.	Advances for PP&E		1,329,756	2,439,523
III.	**Biological assets**		**-**	**-**
1.	Forest farming		-	-
2.	Livestock		-	-
3.	Biological assets in production		-	-
4.	Advances for biological assets		-	-
IV.	**Long-term financial investments**		**2,738,455**	**2,465,498**
1.	Investments in subsidiary		-	-
2.	Investments in joint ventures	8	1,188,659	1,008,221
3.	Investments in other legal entities and other available for sales financial assets		167,358	222,686
4.	Long term investments in parent and subsidiaries		-	-
5.	Long-term investments in other related parties		-	-
6.	Long-term investments - domestic		138,633	-
7.	Long-term investments - foreign		-	-
8.	Securities held to maturity		-	-
9.	Other long-term financial investments	9	1,243,805	1,234,591
V.	**Long-term receivables**	**10**	**14,588,988**	**12,044**
1.	Receivables from parent company and subsidiaries		-	-
2.	Receivables from other related parties		4,010,546	-
3.	Receivables from sale of goods on credit		-	-
4.	Receivables arising out of finance lease contracts		8,339	12,044
5.	Claims arising from guarantees		-	-
6.	Bad and doubtful receivables		-	-
7.	Other long-term receivables		10,570,103	-

Consolidated Balance Sheet

		Note	31 December 2015	31 December 2014
C.	**Deferred tax assets**	**11**	**4,268,741**	**4,853,601**
D.	**Current assets**		**87,400,047**	**110,645,943**
I.	**Inventory**	**12**	**24,466,023**	**39,554,349**
1.	Materials, spare parts and tools		11,501,467	22,414,418
2.	Work in progress		4,050,154	5,755,021
3.	Finished goods		5,873,077	7,477,570
4.	Merchandise		2,753,546	3,483,957
5.	Assets held for sale		21,703	-
6.	Advances for inventory and services		266,076	423,383
II.	**Trade receivables**	**13**	**33,567,302**	**49,244,871**
1.	Domestic trade receivables - parents and subsidiaries		-	-
2.	Foreign trade receivables - parents and subsidiaries		-	-
3.	Domestic trade receivables – other related parties		10,799,575	13,004,338
4.	Foreign trade receivables - other related parties		251,708	36,398
5.	Trade receivables - domestic		21,858,872	34,970,060
6.	Trade receivables - foreign		657,147	1,234,075
7.	Other trade receivables		-	-
III.	**Receivables from specific operations**		**721,009**	**323,954**
IV.	**Other receivables**	**14**	**1,877,225**	**3,046,977**
V.	**Financial assets at fair value through profit or loss**		**-**	**-**
VI.	**Short term financial investments**		**284,586**	**2,207,637**
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		-	2,021
4.	Short-term loans and investments - foreign		-	-
5.	Other short-term loans and investments		284,586	2,205,616
VII.	**Cash and cash equivalents**	**15**	**19,271,435**	**8,326,704**
VIII.	**Value added tax**		**227,121**	**163,230**
IX.	**Prepayments and accrued income**	**16**	**6,985,346**	**7,778,221**
E.	**TOTAL ASSETS**		**366,030,751**	**361,682,632**
F.	**Off-balance sheet assets**	**17**	**130,389,980**	**120,440,876**

Consolidated Balance Sheet

		Note	31 December 2015	31 December 2014
A.	**Equity**		**190,511,680**	**183,620,504**
I.	**Equity**	**18**	**81,548,930**	**81,550,674**
1.	Share capital	18.1	81,548,930	81,550,674
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**		**-**	**-**
VI.	**Unrealised gains from securities and other components of other comprehensive income**		**161,489**	**312,137**
VII.	**Unrealized losses from securities and other components of other comprehensive income**		**541,678**	**616,921**
VIII.	**Retained earnings**		**109,342,939**	**102,374,614**
1.	Retained earnings from previous years		94,735,234	74,536,170
2.	Retained earnings from current year		14,607,705	27,838,444
IX.	**Non-controlling interest**		**-**	**-**
X.	**Loss**		**-**	**-**
1.	Loss from previous years		-	-
2.	Loss from current year		-	-
B.	**Long-term provisions and liabilities**		**109,764,751**	**102,600,628**
I.	**Long-term provisions**	**19**	**9,451,111**	**9,012,584**
1.	Provisions for warranty claims		-	-
2.	Provision for environmental rehabilitation		7,918,238	7,454,505
3.	Provisions for restructuring costs		-	-
4.	Provisions for employee benefits		1,068,315	892,488
5.	Provisions for litigations		464,558	665,591
6.	Other long term provisions		-	-
II.	**Long-term liabilities**	**20**	**100,313,640**	**93,588,044**
1.	Liabilities convertible to equity		-	-
2.	Liabilities to parent and subsidiaries		36,770,682	42,194,756
3.	Liabilities to other related parties		-	-
4.	Liabilities for issued long-term securities		-	-
5.	Long term borrowings - domestic		18,240,935	6,761,523
6.	Long-term borrowings - foreign		45,015,134	44,368,774
7.	Finance lease liabilities		198,277	198,914
8.	Other long-term liabilities		88,612	64,077

Consolidated Balance Sheet

		Note	31 December 2015	31 December 2014
C.	**DEFERRED TAX LIABILITIES**	**11**	**-**	**-**
D.	**Short-term liabilities**		**65,754,320**	**75,461,500**
I.	**Short-term financial liabilities**	**21**	**16,971,551**	**14,701,438**
1.	Short term borrowings from parent and subsidiaries		-	-
2.	Short term borrowings from other related parties		-	-
3.	Short-term loans and borrowings - domestic		3,553,091	8,600,083
4.	Short-term loans and borrowings - foreign		29	29
5.	Liabilities relating to current assets and held-for-sale assets attributable to discounted operations		-	-
6.	Other short term liabilities		13,418,431	6,101,326
II.	**Advances received**		**3,207,205**	**1,589,530**
III.	**Trade payables**	**22**	**24,713,307**	**36,815,739**
1.	Trade payables - parent and subsidiaries - domestic		-	-
2.	Trade payables - parent and subsidiaries - foreign		10,004,805	20,122,243
3.	Trade payables - other related parties - domestic		800,455	830,355
4.	Trade payables - other related parties - foreign		172,515	131,258
5.	Trade payables - domestic		7,854,205	6,312,351
6.	Trade payables - foreign		5,799,950	9,343,872
7.	Other operating liabilities		81,377	75,660
IV.	**Other short-term liabilities**	**23**	**8,897,926**	**9,137,662**
V.	**Liabilities for vat**		**1,567,861**	**187,050**
VI.	**Liabilities for other taxes**	**24**	**7,711,354**	**7,513,714**
VII.	**Accrued expenses**	**25**	**2,685,116**	**5,516,367**
E.	**LOSS EXCEEDING EQUITY**		**-**	**-**
F.	**TOTAL EQUITY AND LIABILITIES**		**366,030,751**	**361,682,632**
G.	**Off-balance sheet liabilities**	**17**	**130,389,980**	**120,440,876**

in thousand RSD

The accompanying notes are an integral part of these financial statements.

Consolidated Income Statement

	Note	Year ended 31 December 2015	2014
INCOME FROM REGULAR OPERATING ACTIVITIES			
A. OPERATING INCOME	**5**	**210,691,253**	**258,557,529**
I. Income from the sale of goods		**25,833,207**	**26,886,264**
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		-	-
4. Income from the sale of goods to other related parties on foreign market		546,259	66,250
5. Income from sale of goods on domestic market		10,499,022	7,550,326
6. Income from sale of goods on foreign market		14,787,926	19,269,688
II. Income from sales of products and services		**184,539,222**	**231,432,459**
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		-	-
3. Income from sales of products and services to other related parties on domestic market		17,570,375	23,382,492
4. Income from sales of products and services to other related parties on foreign market		343,461	2,142,288
5. Income from sales of products and services - domestic		137,741,208	171,807,782
6. Income from sales of products and services - foreign		28,884,178	34,099,897
III. Income from premiums, subventions and donations		**3,169**	**7,646**
IV. Other operating income		**315,655**	**231,160**
B. OPERATING EXPENSES		**186,547,430**	**210,473,983**
I. Cost of goods sold		**16,924,030**	**15,326,614**
II. Work performed by the entity and capitalized		**13,047,351**	**10,498,510**
III. Increase in inventories of unfinished and finished goods and ongoing services		**-**	**313,347**
IV. Decrease in inventories of unfinished and finished goods and ongoing services		**3,309,360**	**-**
V. Cost of material	**26**	**111,787,513**	**140,794,695**
VI. Cost of fuel and energy		**4,852,088**	**4,052,031**
VII. Cost of salaries, fringe benefits and other personal expenses	**27**	**18,505,343**	**19,286,286**
VIII. Cost of production services	**28**	**14,655,936**	**14,506,200**
IX. Depreciation, depletion and amortization		**14,281,849**	**12,757,430**
X. Cost of long-term provisioning	**29**	**794,060**	**366,247**
XI. Non-material costs	**30**	**14,484,602**	**14,196,337**
C. OPERATING GAIN		**24,143,823**	**48,083,546**
D. OPERATING LOSS		**-**	**-**
E. FINANCE INCOME	**31**	**3,690,992**	**7,788,961**
I. Financial income from related parties and other financial income		**1,293,127**	**2,218,595**
1. Finance income - parent company and subsidiaries		1,202,790	2,076,979
2. Finance income - other related parties		21,213	123,357
3. Share of profit of associates and joint ventures		-	-
4. Other financial income		69,124	18,259

Consolidated Income Statement

	Note	Year ended 31 December 2015	2014
II. Interest income (from third parties)		**706,445**	**4,238,258**
III. Foreign exchange gains (third parties)		**1,691,420**	**1,332,108**
F. FINANCE EXPENSES	**32**	**15,422,488**	**20,401,328**
I. Financial expenses from related parties and other financial expenses		3,894,105	7,423,239
1. Finance expense - parent company and subsidiaries		3,777,652	4,557,810
2. Finance expense - other related parties		112,028	2,865,082
3. Share of loss of associates and joint ventures		-	-
4. Other financial expense		4,425	347
II. Interest expense (from third parties)		**3,496,431**	**2,497,209**
III. Foreign exchange losses (third parties)		**8,031,952**	**10,480,880**
G. PROFIT FROM FINANCING OPERATIONS		**-**	**-**
H. LOSS FROM FINANCING OPERATIONS		**11,731,496**	**12,612,367**
I. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**33**	**7,117,464**	**984,506**
J. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**34**	**330,967**	**3,938,708**
K. OTHER INCOME	**35**	**2,766,045**	**4,866,534**
L. OTHER EXPENSES	**36**	**2,909,067**	**3,513,956**
M. OPERATING PROFIT BEFORE TAX		**19,055,802**	**33,869,555**
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		**19,055,802**	**33,869,555**
R. LOSS BEFORE TAX		**-**	**-**
P. INCOME TAX			
I. Current income tax	**37**	**3,864,403**	**3,497,767**
II. Deferred tax expense for the period	**37**	**583,694**	**2,533,344**
III. Deferred tax income for the period		**-**	**-**
S. PERSONAL INCOME PAID TO EMPLOYER		**-**	**-**
T. NET PROFIT		**14,607,705**	**27,838,444**
U. NET LOSS		**-**	**-**
I. Net income attributable to non-controlling interests		**-**	**-**
II. Net income attributable to the owner		**14,638,790**	**27,939,245**
III. Net loss attributable to non-controlling interests		**31,085**	**100,801**
IV. Net loss attributable to the owner		-	-
V. Earnings per share			
1. Basic earnings per share	38	0.090	0.171
2. Diluted earnings per share		-	-

in thousand RSD

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Other Comprehensive Income

			Year ended 31 December	
		Note	**2015**	**2014**
A.	**NET PROFIT/(LOSS)**			
I.	**Profit, net**		**14,607,705**	**27,838,444**
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		-	-
b)	decrease in revaluation reserves		-	-
2.	**Actuarial gains (losses) of post employment benefit obligations**			
a)	gains		2,819	273,088
b)	losses		-	-
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		40,936	380,965
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		-	20,904
b)	losses		37,288	3,296
I.	**OTHER COMPREHENSIVE PROFIT BEFORE TAX**		-	-
II.	**OTHER COMPREHENSIVE LOSS BEFORE TAX**		**75,405**	**90,269**
III.	**TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD**		-	-
IV.	**TOTAL NET COMPREHENSIVE PROFIT**		**-**	**-**
V.	**TOTAL NET COMPREHENSIVE LOSS**		**75,405**	**90,269**

Consolidated Statement of Other Comprehensive Income

	Note	Year ended 31 December	
		2015	**2014**
C. TOTAL NET COMPREHENSIVE PROFIT			
I. Total comprehensive profit, net		**14,532,300**	**27,748,175**
II. Total comprehensive loss, net		**-**	**-**
D. TOTAL NET COMPREHENSIVE PROFIT / (LOSS)		**14,532,300**	**27,748,175**
1. Attributable to shareholders		14,532,300	27,748,175
2. Attributable to non-controlling interest		-	-

in thousand RSD

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2015	2014
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflow from operating activities (1 to 3)		**397,357,006**	**425,553,728**
1. Sales and advances received		395,488,209	424,322,314
2. Interest from operating activities		1,553,142	1,000,254
3. Other inflow from operating activities		315,655	231,160
II. Cash outflow from operating activities (1 to 5)		**346,366,085**	**375,960,284**
1. Payments and prepayments to suppliers		159,686,819	196,926,049
2. Salaries, benefits and other personal expenses		18,987,784	18,194,798
3. Interest paid		2,996,133	3,089,785
4. Income tax paid		2,871,709	8,697,928
5. Payments for other public revenues		161,823,640	149,051,724
III. Net cash inflow from operating activities (I - II)		**50,990,921**	**49,593,444**
IV. Net cash outflow from operating activities (II - I)		**-**	**-**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash flows from investing activities (1 to 5)		**834,231**	**303,492**
1. Sale of shares (net inflow)		77,056	-
2. Proceeds from sale of property, plant and equipment		634,338	303,492
3. Other financial investments (net inflow)		56,670	-
4. Interest from investing activities		-	-
5. Dividend received		66,167	-
II. Cash outflow from investing activities (1 to 3)		**35,746,866**	**45,306,096**
1. Acquisition of subsidiaries or other business (net outflow)		-	-
2. Purchase of intangible assets, property, plant and equipment		35,178,875	45,300,443
3. Other financial investments (net outflow)		567,991	5,653
III. Net cash inflow from investing activities (I - II)		**-**	**-**
IV. Net cash outflow from investing activities (II - I)		**34,912,635**	**45,002,604**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflow from financing activities (1 to 5)		**28,081,912**	**39,931,496**
1. Increase in share capital		-	-
2. Proceeds from long-term borrowings (net inflow)		11,259,702	24,121,300
3. Proceeds from short-term borrowings (net inflow)		16,822,210	15,810,196
4. Other long-term liabilities		-	-
5. Other short-term liabilities		-	-
II. Cash outflow from financing activities (1 to 6)		**33,215,262**	**45,378,365**
1. Purchase of own shares		-	-
2. Repayment of long-term borrowings (net outflow)		6,087,356	24,397,660
3. Repayment of short-term borrowings (net outflow)		19,488,526	7,900,000
4. Repayment of other liabilities (net outflow)		-	-
5. Financial lease		-	-
6. Dividend distribution		7,639,380	13,080,705

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2015	2014
III. Net cash inflow from financing activities (I - II)		-	-
IV. Net cash outflow from financing activities (II - I)		**5,133,350**	**5,446,869**
D. TOTAL CASH INFLOW		**426,273,149**	**465,788,716**
E. TOTAL CASH OUTFLOW		**415,328,213**	**466,644,745**
F. NET CASH INFLOW		**10,944,936**	**-**
G. NET CASH OUTFLOW		**-**	**856,029**
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**8,326,704**	**8,707,774**
I. CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS		**815,239**	**806,734**
J. CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS		**815,444**	**331,775**
K. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**19,271,435**	**8,326,704**

in thousand RSD

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Changes in Equity

			Equity components		
		Share capital	Reserves	Loss	Retained earnings
Balance as at 1 January 2014					
a)	debit	**-**	**-**	**-**	**-**
6)	credit	**81,550,757**	**-**	**-**	**87,616,729**
Adjustments of material errors and changes in accounting policies					
a)	debit	-	-	-	-
6)	credit	-	-	-	-
Restated opening balance as at 1 January 2014					
a)	debit	-	**-**	**-**	**-**
6)	credit	**81,550,757**	**-**	**-**	**87,616,729**
Changes in period					
a)	debit	83	-	-	13,080,705
6)	credit	-	-	-	27,838,590
Balance as at 31 December 2014					
a)	debit	-	**-**	**-**	**-**
6)	credit	**81,550,674**	**-**	**-**	**102,374,614**
Adjustments of material errors and changes in accounting policies					
a)	debit	-	-	-	-
6)	credit	-	-	-	-
Restated opening balance as at 1 January 2015					
a)	debit	**-**	**-**	**-**	**-**
6)	credit	**81,550,674**	**-**	**-**	**102,374,614**
Changes in period					
a)	debit	1,714	-	-	7,639,380
6)	credit	-	-	-	14,607,705
Balance as at 31 December 2015					
a)	debit	**-**	-	-	**-**
6)	credit	**81,548,930**	-	-	**109,342,939**

in thousand RSD

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Changes in Equity

		Other comprehensive income components			
		Actuarial gain/ (loss)	Gains (losses) from currency translation differences	Gains (losses) from change in value of available-for-sale financial assets	TOTAL EQUITY
Balance as at 1 January 2014					
a)	debit	**114,418**	**40,084**	**59,885**	-
b)	credit	**-**	**-**	**-**	**168,953,099**
Adjustments of material errors and changes in accounting policies					
a)	debit	-	-	-	-
b)	credit	-	-	-	-
Restated opening balance as at 1 January 2014					
a)	debit	**114,418**	**40,084**	**59,885**	-
b)	credit	**-**	**-**	**-**	**168,953,099**
Changes in period					
a)	debit	-	381,093	3,296	-
b)	credit	273,088	-	20,904	14,667,405
Balance as at 31 December 2014					
a)	debit	-	**421,177**	**42,277**	-
b)	credit	**158,670**	**-**	**-**	**183,620,504**
Adjustments of material errors and changes in accounting policies					
a)	debit	-	-	-	-
b)	credit	-	-	-	-
Restated opening balance as at 1 January 2015					
a)	debit	**-**	**421,177**	**42,277**	-
b)	credit	**158,670**	**-**	**-**	**183,620,504**
Changes in period					
a)	debit	-	40,936	37,288	-
b)	credit	2,819	-	-	6,891,176
Balance as at 31 December 2015					
a)	debit	**-**	**462,113**	**79,565**	-
b)	credit	**161,489**	-	-	**190,511,680**

in thousand RSD

The accompanying notes are an integral part of these financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS[59]

1. GENERAL INFORMATION

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

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

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005 as a successor of five state owned companies of Javno Preduzece Naftna Industrija Srbije. 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%.

The Company is an open joint stock company listed on the Belgrade Stock Exchange, Listing A (Prime Market). The address of the Company's registered office is in Novi Sad, 12 Narodnog fronta Street.

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 AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the consolidated financial statements for the year ended 31 December 2014.

2.1. Basis of preparation

These consolidated financial statements for the year ended 31 December 2015 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.

[59] All amounts are in RSD 000 unless otherwise stated

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.

2.2. New accounting standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and that the Group has not early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010, November 2013 and July 2014 to address the classification and measurement of financial liabilities. Key features of the standard:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (either through Profit and loss or through Other comprehensive income), and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The amendment made to IFRS 9 in November 2013 allows an entity to continue to measure its financial instruments in accordance with IAS 39 but at the same time to benefit from the improved accounting for own credit in IFRS 9.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- A substantial overhaul of hedge accounting was introduced that will enable entities to better reflect their risk management activities in their financial statements. In particular amendments to IFRS 9 increase the scope of hedged items eligible for hedge accounting (risk components of non-financial items may be designated provided they are separately identifiable and reliably measurable; derivatives may be included as part of the hedged item; groups and net positions may be designated hedged items, etc). The amendments to IFRS 9 also increase eligibility of hedging instruments allowing financial instruments at fair value through profit or loss to be designated as hedging instruments. A fundamental difference to the IAS 39 hedge accounting model is the lack of the 80-125 per cent bright line threshold for effective hedges and the requirement to perform retrospective hedge effectiveness testing. Under the IFRS 9 model, it is necessary for there to be an economic relationship between the hedged item and hedging instrument, with no quantitative threshold.
- Increased disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the financial statements.

The mandatory effective date of IFRS 9 is January 1, 2018. IFRS 9 (2014) supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013), but these standards remain available for application if the relevant date of initial application is before February 1, 2015. The Group does not plan to adopt the standard before the mandatory effective date and is currently assessing the impact of the new standard on its Consolidated Financial Statements.

Amendments to IFRS 11 – Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on clarification of acceptable methods of depreciation and amortisation. In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements.

IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after January 1, 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint ventures (issued in September 2014 and December 2014 and effective for annual periods beginning on or after a date to be determined by the IASB) on the accounting for acquisitions of an interest in a joint venture. Full gain or loss will be recognised by the investor where the non-monetary assets constitute a 'business'. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor to the extent of the other investors' interests. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture, not to a joint operation. The December 2014 amendments was made to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's Consolidated Financial Statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains needs of the Group in disclosure preparation. The Standard also provides new guidance on subtotals in financial statements and add additional examples of possible ways of ordering the notes. The amendments also introduce a clarification that the list of line items to be presented in Statement of financial position, Statement of profit or loss and Other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

The Group is currently assessing the impact of the initiative on its Consolidated Financial Statements.

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after January 1, 2019). A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers. IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations.

Key features of the standard:

- IFRS 16 defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.
- IFRS 16 changes the lessees accounting requirements given in IAS 17 and 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. Applying that model, a lessee is 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 income statement.
- IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

IFRS 16 does not change the accounting for services. Although leases and services are often combined in a single contract, amounts related to services are not required to be reported on the balance sheet. IFRS 16 is required to be applied only to leases, or lease components of a contract.

The Group is currently assessing the impact of the IFRS 16 on its Consolidated Financial Statements.

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

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 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 cost'.

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 into RSD. All resulting foreign exchange differences are recognized in reserves as separate items in equity.

2.6. Principles of consolidation

Subsidiaries are all entities over which the Company has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases.
Inter-group transactions, balances and unrealized gains on transactions between Group companies are eliminated during the preparation of Consolidated Financial Statements.
Financial statements of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

a) Joint Operations and Joint Ventures

A joint operation is a joint arrangement whereby the 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.

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 values 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 profit or loss. Transaction costs, that the Group incurs in connection with a business combination are expensed as incurred.

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 6).

2.9. 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) Computer software

Costs associated with computer software primarily include the cost of the implementation of SAP software. 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).

2.10. Exploration for and evaluation of mineral resources

a) Exploration and evaluation expenditure

During the exploration period, costs of exploration and evaluation of oil and natural gas are capitalized until it is proven that oil and gas reserves will not suffice to justify exploration costs. Geological and geophysical costs as well as costs directly associated with exploration are capitalized as incurred. The costs of obtaining exploration rights are capitalised either as part of property, plant and equipment or intangible assets depending on the type of cost. When commercial reserves have been discovered, subsequent to exploration and development investment impairment testing, they are transferred to development of assets either within property, plant and equipment or intangible assets. No depreciation and/or amortisation are charged during the exploration and evaluation phase.

b) Development costs of fixed and intangible assets

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 tangible 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 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 Consolidated income statement (notes 35 and 36).

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, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the Consolidated 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 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. Long–term financial assets

The Group classifies its financial assets in the following categories: long-term loans and receivables and available for sale financial assets.
The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2.14.1. Financial assets classification

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets.

b) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date, in which case they are classified as current assets.

2.14.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 consolidated profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in consolidated profit or loss for the year as finance income when the Group'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 equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to fair value measurement gains (losses) in profit or loss for the year (notes 33 and 34).

2.14.3. Impairment of financial assets

a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is 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) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - Adverse changes in the payment status of borrowers in the portfolio; and
    - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the Consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the Consolidated Income Statement.

b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to (a) above. 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 is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the Consolidated income statement. Impairment losses recognised in the Consolidated income statement on equity instruments are not reversed through the Consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated profit or loss, the impairment loss is reversed through the Consolidated income statement.

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 36).

2.16. Trade receivables

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.
Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. 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 'loss from valuation of assets at fair value through consolidated profit and loss (note 34). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to 'income from valuation of assets at fair value through profit and loss' in the Consolidated income statement (note 33).

2.17. Cash and cash equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value.

2.18. Off-balance sheet assets and liabilities

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

2.19. Share capital

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

2.20. 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 (note 38).

2.21. 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.

2.22. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.
Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.
Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.23. Trade payables

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. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.24. 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.

2.25. 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 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 2014, the Group has made decision to introduce new three-year (2015-2017) program for Group's managers which will be settle based on the Key Performance Indicators ("KPI") reached during the program (note 19).

2.26. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, 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 describe below. The amount of the revenue is not considered to be reliably measurable until all contingences relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

a) Sales of goods – wholesale

The Group manufactures and sells oil, petrochemical products and liquified natural gas in the wholesale market. Sales of goods are recognised when the Group has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.
Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term consistent with the market practice.

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.

c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.27. 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 Statement of Financial Position. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

2.28. 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.

2.29. 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 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 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 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 2015 would be to increase/decrease it by RSD 1,279,588 (2014: RSD 1,171,551).

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 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 high-quality corporate 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 7.6% (rather than 6.6%) per year, the past service liability (DBO) would decrease by about 10.3% for retirement indemnity and 6.1% for jubilee awards. If pay increased by 0.5% higher than the past service liability (DBO) would increase by amount 12% for the retirement indemnity and 6.6% for the jubilee benefit.

3.4. Decommissioning Obligations

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 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 7.6% (rather than 6.6%) per year, the present liability would have decreased by approx. RSD 339,439 (2014: RSD 481,611).

3.5. 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 42).

3.6. Impact of recent crude oil volatility

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 assets 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 assets 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 non-current non-financial assets by 14.7 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. FINANCIAL RISK MANAGEMENT

4.1. 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. The Group uses financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance and finance control department within the Function for Economics, Finance and Accounting (further „FEPA“) which under 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.

Foreign exchange 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 and recognised assets and liabilities.

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.

As at 31 December 2015, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit for the year would have been RSD 1,521,561 (2014: RSD 2,598,250) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2015, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit for the year would have been RSD 5,706,190 (2014: RSD 7,475,597) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated borrowings and trade payables.

Cash flow and fair value 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 for 2015 would have been RSD 1,097,184 (2014: RSD 1,048,789) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Credit risk is managed on the Group's level basis. 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.

Banks are rated only in the case of collateralised receivables on various grounds, as well as based on the banks total exposure to the Group. For domestic banks, if it is bank with who the Group has passive activities the second criterion is applied and if it is a bank with who Group doesn't have cooperation, credit limits are determined based on the defined methodology.

Liquidity risk

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

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

The table below analyses the Group's financial liabilities into relevant maturity groupings 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.

As at 31 December 2015	Less than 1 year	1 - 5 years	Over 5 years	Total
Borrowings (short-term, current portion and long-term debt)	20,001,363	87,459,313	20,395,208	127,855,884
Trade payables (note 22)	24,713,307	-	-	24,713,307
	44,714,670	**87,459,313**	**20,395,208**	**152,569,191**

As at 31 December 2014	Less than 1 year	1 - 5 years	Over 5 years	Total
Borrowings (short-term, current portion and long-term debt)	17,275,289	75,256,714	26,337,583	118,869,586
Trade payables (note 22)	36,815,739	-	-	36,815,739
	54,091,028	**75,256,714**	**26,337,583**	**155,685,325**

4.2. 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 2015	31 December 2014
Total borrowings (notes 20 and 21)	117,285,191	108,289,482
Less: cash and cash equivalents (note 15)	(19,271,435)	(8,326,704)
Net debt	**98,013,756**	**99,962,778**
EBITDA	46,454,755	63,399,048
Net debt to EBITDA	**2.11**	**1.58**

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.

4.3. 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 fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date.

5. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the years ended 31 December 2015 and 2014. 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 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 2015 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	51,812,987	207,780,949	(48,902,683)	210,691,253
Intersegment	47,547,891	1,354,792	(48,902,683)	-
External	4,265,096	206,426,157	-	210,691,253
EBITDA (Segment results)	39,202,090	7,252,665	-	46,454,755
Depreciation, depletion and amortization	(4,855,284)	(9,426,565)	-	(14,281,849)
Impairment losses (note 35 and 36)	(13,111)	(311,660)	-	(324,771)
Finance expenses, net	(159,401)	(11,572,095)	-	(11,731,496)
Income tax	(1,140,427)	(3,307,670)	-	(4,448,097)
Segment profit (loss)	**32,339,558**	**(17,731,853)**	**-**	**14,607,705**

Reportable segment results for the year ended 31 December 2014 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	80,995,753	255,285,451	(77,723,675)	258,557,529
Intersegment	76,539,271	1,184,404	(77,723,675)	-
External	4,456,482	254,101,047	-	258,557,529
EBITDA (Segment results)	65,683,172	(2,284,124)	-	63,399,048
Depreciation, depletion and amortization	(4,117,888)	(8,639,542)	-	(12,757,430)
Impairment losses (note 35 and 36)	(27,346)	(127,257)	-	(154,603)
Finance expenses, net	(227,772)	(12,384,595)	-	(12,612,367)
Income tax	(580,889)	(5,450,222)	-	(6,031,111)
Segment profit (loss)	**60,353,697**	**(32,515,253)**	**-**	**27,838,444**

EBITDA for the year ended 31 December 2015 and 2014 is reconciled below:

	Year ended 31 December	
	2015	**2014**
Profit for the year	14,607,705	27,838,444
Income tax expenses	4,448,097	6,031,111
Other expenses	2,909,067	3,513,956
Other income	(2,766,045)	(4,866,534)
Loss from valuation of assets at fair value through profit and loss	330,967	3,938,708
Income from valuation of assets at fair value through profit and loss	(7,117,464)	(984,506)
Finance expense	15,422,488	20,401,328
Finance income	(3,690,992)	(7,788,961)
Depreciation, depletion and amortization	14,281,849	12,757,430
Other non operating expenses, net	8,029,083	2,558,072
EBITDA	**46,454,755**	**63,399,048**

*Other non-operating expense, net mainly relate to reversal of impairment, fines, penalties and other.

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

	Year ended 31 December 2015		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	638,494	3,022,528	3,661,022
Sale of gas	6,183,349	-	6,183,349
Through a retail network	-	-	-
Wholesale activities	6,183,349	-	6,183,349
Sale of petroleum products	153,297,126	37,511,908	190,809,034
Through a retail network	49,664,208	-	49,664,208
Wholesale activities	103,632,918	37,511,908	141,144,826
Other sales	6,010,460	4,027,388	10,037,848
Total sales	**166,129,429**	**44,561,824**	**210,691,253**

	Year ended 31 December 2014		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	3,605,885	3,605,885
Sale of gas	3,744,856	-	3,744,856
Through a retail network	-	-	-
Wholesale activities	3,744,856	-	3,744,856
Sale of petroleum products	194,215,579	48,911,946	243,127,525
Through a retail network	61,771,841	-	61,771,841
Wholesale activities	132,443,738	48,911,946	181,355,684
Other sales	5,018,971	3,060,292	8,079,263
Total sales	**202,979,406**	**55,578,123**	**258,557,529**

Out of the amount of RSD 190,809,034 (2014: RSD 243,127,525) revenue from sale of petroleum products (wholesale), the amount of RSD 23,222,832 (2014: RSD 23,382,492) are derived from a single domestic customer, Knez Petrol (2014: HIP Petrohemija). These revenues are attributable to wholesale activities within Downstream segment.

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

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 166,129,429 (2014: RSD 202,979,406), and the total of revenue from external customer from other countries is RSD 44,561,824 (2014: RSD 55,578,123). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2015	**2014**
Sale of crude oil	3,022,528	3,605,885
Sale of petroleum products (retail and wholesale)		
Bulgaria	10,848,089	9,831,025
Bosnia and Herzegovina	7,213,882	7,948,661
Romania	7,052,440	7,833,671
All other markets	12,397,497	23,298,589
	37,511,908	48,911,946
Other sales	4,027,388	3,060,292
	44,561,824	**55,578,123**

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 2015	31 December 2014
Serbia	232,868,823	218,176,386
Bulgaria	8,246,434	8,524,519
Bosnia and Herzegovina	8,152,524	8,296,363
Romania	6,436,983	6,268,690
Hungary	-	65
	255,704,764	**241,266,023**

6. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Goodwill	Other intangibles	Intangible assets under development	Total
At 1 January 2014						
Cost	-	6,472,181	2,004,284	737,003	9,816,673	19,030,141
Accumulated amortisation and impairment	-	(2,688,281)	(42,146)	(146,507)	(95,307)	(2,972,241)
Net book amount	**-**	**3,783,900**	**1,962,138**	**590,496**	**9,721,366**	**16,057,900**
Year ended 31 December 2014						
Additions	3,873,221	808,150	170,073	100,644	(44,884)	4,907,204
Acquisitions through business combinations	-	-	42,148	-	-	42,148
Impairment (note 36)	-	(533)	(322,848)	(8,065)	(1,503)	(332,949)
Amortisation	(40,080)	(919,463)	-	(77,395)	(4,439)	(1,041,377)
Transfer from PP&E (note 7)	-	-	-	616,451	825,409	1,441,860
Disposals and write-off	-	(749)	-	(153,714)	(332,569)	(487,032)
Other transfers	1	(223,782)	-	223,781	828,398	828,398
Translation differences	-	2,982	106,384	23,923	138,190	271,479
Closing net book amount	**3,833,142**	**3,450,505**	**1,957,895**	**1,316,121**	**11,129,968**	**21,687,631**
As at 31 December 2014						
Cost	3,873,221	7,061,422	2,333,733	1,485,101	11,231,789	25,985,266
Accumulated amortisation and impairment	(40,079)	(3,610,917)	(375,838)	(168,980)	(101,821)	(4,297,635)
Net book amount	**3,833,142**	**3,450,505**	**1,957,895**	**1,316,121**	**11,129,968**	**21,687,631**
At 1 January 2015						
Cost	3,873,221	7,061,422	2,333,733	1,485,101	11,231,789	25,985,266
Accumulated amortisation and impairment	(40,079)	(3,610,917)	(375,838)	(168,980)	(101,821)	(4,297,635)
Net book amount	**3,833,142**	**3,450,505**	**1,957,895**	**1,316,121**	**11,129,968**	**21,687,631**
Year ended 31 December 2015						
Additions	2,744,618	1,240,101	-	995	(1,359,178)	2,626,536
Impairment (note 35 and 36)	-	(76)	(147,054)	(1,911)	-	(149,041)
Amortisation	(402,257)	(1,025,815)	-	(52,892)	(5,001)	(1,485,965)
Transfer to PP&E (note 7)	-	-	-	-	(692,506)	(692,506)
Disposals and write-off	-	(35)	-	(234)	(4,335)	(4,604)
Other transfers	(21,786)	(1,872)	-	24,737	(27,012)	(25,933)
Translation differences	-	55	7,535	2,053	(140,691)	(131,328)
Closing net book amount	**6,153,717**	**3,662,863**	**1,818,376**	**1,288,869**	**8,900,965**	**21,824,790**
As at 31 December 2015						
Cost	6,617,839	8,291,324	2,339,301	1,496,540	9,006,680	27,751,684
Accumulated amortisation and impairment	(464,122)	(4,628,461)	(520,925)	(207,671)	(105,715)	(5,926,894)
Net book amount	**6,153,717**	**3,662,863**	**1,818,376**	**1,288,869**	**8,900,965**	**21,824,790**

Development investments as at 31 December 2015 in the amount of RSD 6,153,717 mostly relate to investments in geological, 2D and 3D seismic explorations on the territory of the Republic of Serbia (2014: RSD 3,833,142).
Concessions, patents, licenses, software and other rights as at 31 December 2015 amounting to RSD 3,662,863 mostly relate to investments in the SAP system of RSD 1,519,764 (2014: RSD 2,011,495).
Intangible assets under development as at 31 December 2015 amounting to RSD 8,900,965 (31 December 2014: RSD 11,129,968) mostly relate to investments in explorations (unproved reserves) in amount of RSD 7,664,019 (31 December 2014: RSD 9,465,471).
Amortisation amounting to RSD 1,485,965 (2014: RSD 1,041,377) is included in Operating expenses.

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:

	2015	2014
Average gross margin	24.8%	17%
Growth rate	1%	1%
Discount rate		
- Romania market	7.25%	9.2%
- Bulgaria market	7.98%	9.7%
- Bosnia and Herzegovina market	10.94%	13.1%

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	Addition	Impairment	Translation differences	Closing
2015					
Bosnia and Herzegovina	483,957	-	-	2,392	486,349
Romania	419,804	-	(114,469)	(440)	304,895
Bulgaria	1,054,134	-	(32,585)	5,583	1,027,132
	1,957,895	**-**	**(147,054)**	**7,535**	**1,818,376**
2014					
Bosnia and Herzegovina	458,686	-	-	25,271	483,957
Romania	546,177	170,073	(322,848)	26,402	419,804
Bulgaria	957,275	42,148	-	54,711	1,054,134
	1,962,138	**212,221**	**(322,848)**	**106,384**	**1,957,895**

The impairment charge of RSD 147,054 (2014:RSD 322,848) arose in Romania and Bulgaria business activity and is recognised as expense in Profit and Loss (note 36).
In Bosnia and Herzegovina, the recoverable amount calculated based on value-in-use exceed carrying value.

7. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment
At 1 January 2014			
Cost	17,338,710	118,861,913	93,865,422
Accumulated depreciation and impairment	(304,222)	(33,478,223)	(32,739,272)
Net book amount	**17,034,488**	**85,383,690**	**61,126,150**
Year ended 31 December 2014			
Additions	311,480	20,062,264	12,009,160
Acquisitions through business combinations	-	-	-
Impairment charge (note 35 and 36)	(29,907)	(42,822)	(63,828)
Depreciation	-	(5,323,569)	(6,380,450)
Transfer to intangible assets (note 6)	-	53,404	1,330
Transfer from investment property	31,599	70,690	2,588
Disposals and write-off	(112,861)	(248,146)	(114,579)
Other transfers	6,972	194,162	(200,048)
Translation differences	338,515	375,996	119,197
Closing net book amount	**17,580,286**	**100,525,669**	**66,499,520**
At 31 December 2014			
Cost	17,914,415	139,332,185	104,654,098
Accumulated depreciation and impairment	(334,129)	(38,806,516)	(38,154,578)
Net book amount	**17,580,286**	**100,525,669**	**66,499,520**
Year ended 31 December 2015			
Additions	16,823	21,374,246	11,880,872
Impairment charge (note 35 and 36)	(2,785)	(189,952)	(10,362)
Depreciation	-	(5,513,157)	(7,218,563)
Transfer from intangible assets (note 6)	-	-	-
Transfer to investment property	(101,916)	14,533	-
Transfer to non-current assets held for sale	(19,626)	(2,053)	(24)
Disposals and write-off	(148,984)	(311,163)	(175,401)
Other transfers	(162,758)	169,678	16,999
Translation differences	26,238	21,314	7,906
Closing net book amount	**17,187,278**	**116,089,115**	**71,000,947**
At 31 December 2015			
Cost	17,491,508	160,380,190	115,619,407
Accumulated depreciation and impairment	(304,230)	(44,291,075)	(44,618,460)
Net book amount	**17,187,278**	**116,089,115**	**71,000,947**

Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
35,926,540	91,391	81,375	6,481,062	272,646,413
(4,047,806)	(1,212)	(41,348)	(29,899)	(70,641,982)
31,878,734	**90,179**	**40,027**	**6,451,163**	**202,004,431**
3,856,319	-	344,388	5,786,829	42,370,440
1,245,216	-	-	-	1,245,216
(52,462)	(49)	-	-	(189,068)
-	-	(12,034)	-	(11,716,053)
(1,496,594)	-	-	-	(1,441,860)
-	-	-	-	104,877
(1,531,011)	(47)	-	(9,830,700)	(11,837,344)
(828,398)	(703)	-	-	(828,015)
56,713	-	807	32,231	923,459
33,128,517	**89,380**	**373,188**	**2,439,523**	**220,636,083**
35,928,308	91,230	426,130	2,468,780	300,815,146
(2,799,791)	(1,850)	(52,942)	(29,257)	(80,179,063)
33,128,517	**89,380**	**373,188**	**2,439,523**	**220,636,083**
(5,850,786)	-	23,738	5,312,162	32,757,055
(111,808)	(1,982)	-	-	(316,889)
-	-	(64,164)	-	(12,795,884)
692,506	-	-	-	692,506
-	-	-	-	(87,383)
-	-	-	-	(21,703)
(179,640)	(109)	(509)	(6,420,676)	(7,236,482)
26,611	-	8,724	-	59,254
132,431	415	62	(1,253)	187,113
27,837,831	**87,704**	**341,039**	**1,329,756**	**233,873,670**
30,220,489	91,412	457,949	1,360,565	325,621,520
(2,382,658)	(3,708)	(116,910)	(30,809)	(91,747,850)
27,837,831	**87,704**	**341,039**	**1,329,756**	**233,873,670**

In 2015, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 33,227 (2014: RSD 78,399).
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 2015, the Group assessed impairment indicators of cash generating units ("CGU") and concluded that general indications of impairment does not exist. In addition Group has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 314,151 (2014: RSD 189,068).

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:

	2015	2014
As at 1 January	**1,381,832**	**1,414,364**
Fair value (loss) gains (note 35 and 36)	(124,003)	164,761
Transfer from (to) PP&E carried at cost	87,383	(104,877)
Disposals	(17,554)	(93,462)
Other	8,402	1,046
As at 31 December	**1,336,060**	**1,381,832**

As at 31 December 2015, investment properties amounting to RSD 1,336,060 (31 December 2014: RSD 1,381,832) 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 2015 and 2014. The revaluation loss 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 2015 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	-	794,436	-
– Gas stations	-	-	541,624
Total	**-**	**794,436**	**541,624**

Fair value measurements at 31 December 2014 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	-	812,023	-
- Gas stations	-	-	569,808
Total	**-**	**812,023**	**569,808**

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:

	2015	2014
Long term growth rate	0%	0%
Discount rate	12%	12%

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

	2015	2014
Assets as at 1 January	**569,808**	**509,899**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	54,431	59,909
Transfer to PPE	(88,469)	-
Other	5,854	-
Total (decrease) increase in fair value measurement, assets	(28,184)	59,909
Assets as at 31 December	**541,624**	**569,808**

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 2014		
Cost	13,222,087	13,397,107
Depreciation and impairment	(10,867)	(238,059)
Net book amount	**13,211,220**	**13,159,048**
Year ended 31 December 2014		
Additions	8,004,209	20,994,826
Transfer from asset under construction	(3,619,756)	(20,246,631)
Other transfers	2,013,886	(527,685)
Impairment	(1,503)	(15,526)
Depreciation and depletion	(4,439)	-
Disposals and write-off	(1,691,582)	(139,622)
Translation differences	157,847	-
	18,069,882	**13,224,410**
As at 31 December 2014		
Cost	18,087,173	13,477,995
Depreciation and impairment	(17,291)	(253,585)
Net book amount	**18,069,882**	**13,224,410**
As at 1 January 2015		
Cost	18,087,173	13,477,995
Depreciation and impairment	(17,291)	(253,585)
Net book amount	**18,069,882**	**13,224,410**
Year ended 31 December 2015		
Additions	4,796,772	18,708,726
Transfer from assets under construction	(3,207,817)	(23,902,242)
Other transfer	463,542	(326,056)
Impairment	-	(10,332)
Depreciation and depletion	(5,001)	-
Disposals and write-off	(158,627)	(634)
Translation differences	(8,142)	-
	19,950,609	**7,693,872**
As at 31 December 2015		
Cost	19,971,794	7,942,643
Depreciation and impairment	(21,185)	(248,771)
Net book amount	**19,950,609**	**7,693,872**

Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
26,619,194	58,161,373	33,510	84,814,077
(248,926)	(17,442,672)	(20,267)	(17,711,865)
26,370,268	**40,718,701**	**13,243**	**67,102,212**
28,999,035	-	-	28,999,035
(23,866,387)	23,866,387	-	-
1,486,201	445,480	(81)	1,931,600
(17,029)	(10,222)	(49)	(27,300)
(4,439)	(3,763,379)	-	(3,767,818)
(1,831,204)	(31,006)	(15)	(1,862,225)
157,847	174	-	158,021
31,294,292	**61,226,135**	**13,098**	**92,533,525**
31,565,168	82,284,653	33,457	113,883,278
(270,876)	(21,058,518)	(20,359)	(21,349,753)
31,294,292	**61,226,135**	**13,098**	**92,533,525**
31,565,168	82,284,653	33,457	113,883,278
(270,876)	(21,058,518)	(20,359)	(21,349,753)
31,294,292	**61,226,135**	**13,098**	**92,533,525**
23,505,498	100,269	-	23,605,767
(27,110,059)	27,110,059	-	-
137,486	(24,468)	-	113,018
(10,332)	(797)	(1,982)	(13,111)
(5,001)	(4,473,662)	-	(4,478,663)
(159,261)	(354,857)	-	(514,118)
(8,142)	(11)	-	(8,153)
27,644,481	**83,582,668**	**11,116**	**111,238,265**
27,914,437	108,928,420	33,408	136,876,265
(269,956)	(25,345,752)	(22,292)	(25,638,000)
27,644,481	**83,582,668**	**11,116**	**111,238,265**

8. INVESTMENTS IN JOINT VENTURE

The carrying value of the investments in joint ventures as of 31 December, 2015 and 2014 is summarised below:

	Ownership percentage	31 December 2015	31 December 2014
Energowind	50%	1,008,221	1,008,221
Serbskaya Generaciya	49%	180,438	-
Total investments		**1,188,659**	**1,008,221**

During 2015 the Group and Centrenergoholding OAO Russian Federation established holding company Serbskaya Generaciya, through which they will jointly operate with Thermal and Heating power plant "TETO" Pancevo with projected capacity of 140 MW. On the date of the issuance of these Consolidated Financial Statements there have been no significant business activities.
In 2013 the Group has acquired 50% of interest in a joint venture, Energowind doo 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.
The principal place of business of joint ventures disclosed above is Republic of Serbia.
There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

9. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2015	31 December 2014
Other LT placements	1,105,420	998,376
LT loans given to employees	1,161,130	1,155,943
Less: Impairment	(1,022,745)	(919,728)
	1,243,805	**1,234,591**

Loans to employees as at 31 December 2015 amounting to RSD 1,161,130 (31 December 2014: RSD 1,155,943) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly instalments.
The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Group could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 4,85% for loans denominated in EUR, and 15.26% for loans denominated in RSD (2014: 4.99% for loans denominated in EUR, and 15.85% for loans denominated in RSD).

10. LONG-TERM RECEIVABLES

	31 December 2015	31 December 2014
LT receivables – state owned companies	15.493.616	-
LT receivables - financial lease	29.311	36.603
Less: Impairment	(933.939)	(24.559)
	14.588.988	**12.044**

Long-term receivables – state owned companies amounting to RSD 15,493,616 mainly relate to the long-term receivables from the Republic of Serbia in the amount of RSD 11,222,228 according to the debt of Srbijagas owed to Naftna industrija Srbije takeover and its conversion into public debt. (Short-term part of the receivables: note 13 and 14).
These receivables were denominated in EUR on the date of the debt takeover.
As at 31 December 2015, the first instalment was paid in accordance with the repayment schedule defined by the Law.

11. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2015	31 December 2014
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	6,036,318	6,459,311
Deferred tax assets to be recovered within 12 months	1,220,593	1,374,892
	7,256,911	7,834,203
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	2,988,170	2,980,602
	2,988,170	2,980,602
Deferred tax assets (net)	**4,268,741**	**4,853,601**

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

	2015	2014
At 1 January	**4,853,600**	**7,439,476**
Charged to the income statement	(583,694)	(2,533,344)
Charged to other comprehensive income	(623)	(48,192)
Translation difference	(542)	(4,339)
31 December	**4,268,741**	**4,853,601**

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	Total
Deferred tax liabilities			
As at 1 January 2014	**-**	**(2,337,281)**	**(2,337,281)**
Origination and reversal of temporary differences:			
- charged to the income statement (note 37)	-	(590,790)	(590,790)
- charged to other comprehensive income	(48,192)	-	(48,192)
Translation difference	-	(4,339)	(4,339)
As at 31 December 2014	**(48,192)**	**(2,932,410)**	**(2,980,602)**
Origination and reversal of temporary differences:			
- charged to the income statement (note 37)	20,190	(27,135)	(6,945)
- charged to other comprehensive income	(623)	-	(623)
As at 31 December 2015	**(28,625)**	**(2,959,545)**	**(2,988,170)**

	Provisions	Impairment loss	Investment credit	Total
Deferred tax assets				
As at 1 January 2014	**308,289**	**762,878**	**8,705,589**	**9,776,756**
Origination and reversal of temporary differences (note 37)	(282,758)	(82,219)	(1,577,577)	(1,942,554)
As at 31 December 2014	**25,531**	**680,659**	**7,128,012**	**7,834,202**
Origination and reversal of temporary differences (note 37)	933,479	183,363	(1,693,591)	(576,749)
Translation difference	(542)	-	-	(542)
As at 31 December 2015	**958,468**	**864,022**	**5,434,421**	**7,256,911**

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.
Investment credits in the amount of RSD 282,119 was not recognised as deferred tax assets as its considered as non-recoverable. These investments credits expired gradually up to 2023.

12. INVENTORY

	31 December 2015	31 December 2014
Materials, spare parts and tools	17,083,302	28,559,616
Work in progress	4,050,154	5,755,021
Finished goods	5,873,077	7,477,570
Goods for sale	2,760,217	3,494,419
Advances	536,372	668,211
Less: impairment of inventory	(5,588,505)	(6,155,660)
Less: impairment of advances	(270,297)	(244,828)
	24,444,320	**39,554,349**
Non current assets held for sale	207,485	-
Less: impairment of assets held for sale	(185,782)	-
	21,703	**-**
	24,466,023	**39,554,349**

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 2014	**6,939,003**	**253,069**	**-**	**7,192,072**
Provision for inventories and advances (note 36)	9,025	5,688	-	14,713
Unused amounts reversed (note 35)	(216,837)	(13,116)	-	(229,953)
Receivables written off during the year as uncollectible	-	(989)	-	(989)
Other	(575,531)	176	-	(575,355)
Balance as of 31 December 2014	**6,155,660**	**244,828**	**-**	**6,400,488**
Provision for inventories and advances (note 36)	106,372	41,373	185,782	333,527
Unused amounts reversed (note 35)	(406,016)	(4,439)	-	(410,455)
Receivables written off during the year as uncollectible	-	(6,503)	-	(6,503)
Other	(267,511)	(4,962)	-	(272,473)
Balance as of 31 December 2015	**5,588,505**	**270,297**	**185,782**	**6,044,584**

13. TRADE RECEIVABLES

	31 December 2015	31 December 2014
Other related parties - domestic	18,996,976	13,004,338
Other related parties - foreign	251,708	36,398
Trade receivables domestic – third parties	33,209,057	47,435,227
Trade receivables foreign – third parties	761,028	1,342,216
	53,218,769	61,818,179
Less: Impairment	(19,651,467)	(12,573,308)
	33,567,302	**49,244,871**

The ageing of trade receivables is as follows:

	31 December 2015	31 December 2014
Neither impaired nor past due	26.446.171	24.034.163
Past due but not impaired:		
within 30 days	1.568.007	4.098.982
1 to 3 months	3.188.881	2.025.111
3 months to 1 year	59.404	8.338.053
over 1 year	2.304.839	10.748.562
Total	**33.567.302**	**49.244.871**

Due to unfavourable macroeconomic conditions in the recent years, the Group was faced with slowdown in collection from state owned companies. However, the Group management is working closely with major debtors on recovery of these debts and believes that net receivables included in the ageing table above are fully recoverable.
The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	31 December 2015	31 December 2014
RSD	35,468,478	59,705,725
EUR	16,303,084	465,225
USD	416,219	876,000
Other	1,030,988	771,229
	53,218,769	**61,818,179**

Movements on the Group's provision for impairment of trade receivables are as follows:

	Trade receivables		
	Individually impaired	Collectively impaired	Total
As at 1 January 2014	**8,426,645**	**4,163,143**	**12,589,788**
Provision for receivables impairment (note 34)	81,045	237,253	318,298
Unused amounts reversed (note 33)	-	(302,657)	(302,657)
Receivables written off during the year as uncollectible	-	(264,395)	(264,395)
Other	(3,474)	235,748	232,274
As at 31 December 2014	**8,504,216**	**4,069,092**	**12,573,308**
Provision for receivables impairment (note 34)	12,305	119,546	131,851
Unused amounts reversed (note 33)	(5,667,939)	(131,965)	(5,799,904)
Receivables written off during the year as uncollectible	-	(188,529)	(188,529)
Transfer from other receivables (note 14)	3,105,066	-	3,105,066
Transfer from ST financial assets	-	8,152,392	8,152,392
Other	211,751	1,465,532	1,677,283
As at 31 December 2015	**6,165,399**	**13,486,068**	**19,651,467**

Release of provision and receivable written off as uncollectable in the amount of RSD 5,799,904 respectively mainly relate to positive outcome of negotiations between the Company and Serbian Government for collection of receivables from Srbijagas. The negotiations ended in adoption of the Law on taking over the receivables from Srbijagas by the Government. According to the Law, NIS will collect the amount of RSD 23,379,767 in following two years, with the last instalment on 31 May 2018. On 31 Dec 2015, the Company received the first instalment in the amount of RSD 4,675,953. In addition, the Company reclassified non-current portion in the amount of RSD 11,222,228 (note 10) with proper discounting effect.

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement (note 34). 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.

14. OTHER RECEIVABLES

	31 December 2015	31 December 2014
Interest receivables	6.368.027	13.492.221
Receivables from employees	91.130	88.782
Income tax prepayment	1.644.731	2.672.130
Other receivables	7.545.751	7.552.779
Less: Impairment	(13.772.414)	(20.758.935)
	1.877.225	**3.046.977**

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2014	**10,369,445**	**7,337,178**	**17,706,623**
Provision for other receivables impairment (note 34)	3,604,591	1,616	3,606,207
Unused amounts reversed (note 33)	(391,242)	(2,225)	(393,467)
Receivables written off during the year as uncollectible	(159,538)	(1,106)	(160,644)
Other	-	216	216
As at 31 December 2014	**13,423,256**	**7,335,679**	**20,758,935**
Provision for other receivables impairment (note 34)	89,122	97,632	186,754
Unused amounts reversed (note 33)	(1,315,669)	(1,251)	(1,316,920)
Receivables written off during the year as uncollectible	(2,759,805)	(471)	(2,760,276)
Transfer to trade receivables (note 13)	(3,105,066)	-	(3,105,066)
Other	-	8,987	8,987
As at 31 December 2015	**6,331,838**	**7,440,576**	**13,772,414**

15. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Cash in bank and in hand	11,302,285	5,064,178
Deposits with original maturity of less than three months	6,385,304	1,351,870
Cash with restriction	1,562,453	1,655,104
Cash equivalents	21,393	255,552
	19,271,435	**8,326,704**

Cash with restriction as of 31 December 2015 amounting to RSD 1,562,453 (31 December 2014: RSD 1,655,104) mostly relates to deposited funds in accordance with the interest in a joint venture through which the operation of future wind farm ''Plandiste'' will be managed.

16. PREPAYMENTS AND ACCRUED INCOME

	31 December 2015	31 December 2014
Deferred input VAT	2,014,262	2,241,351
Prepaid expenses	120,106	137,615
Prepaid excise duty	2,943,879	4,256,208
Housing loans and other prepayments	1,907,099	1,143,047
	6,985,346	**7,778,221**

Deferred input VAT as at 31 December 2015 amounting to RSD 2,014,262 (31 December 2014: RSD 2,241,351) 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 amounting to RSD 2,943,879 (31 December 2014: RSD 4,256,208) 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.

17. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2015	31 December 2014
Issued warranties and bills of exchange	85,848,939	75,764,106
Received warranties and bills of exchange	24,896,899	27,794,515
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	6,830,396	6,329,184
Third party merchandise in NIS warehouses	6,267,709	4,423,596
Assets for oil fields liquidation in Angola	990,870	771,785
Other off-balance sheet assets and liabilities	197,477	-
	130,389,980	**120,440,876**

18. EQUITY

	Share capital	Other capital	Reserves
Balance as at 1 January 2014	**81,530,200**	**-**	**-**
Profit (loss) for the year	-	-	-
Gains from securities	-	-	-
Dividend distribution	-	-	-
Actuarial gain	-	-	-
Other	-	-	-
Balance as at 31 December 2014	**81,530,200**	**-**	**-**
Balance as at 1 January 2015	**81,530,200**	**-**	**-**
Profit (loss) for the year	-	-	-
Gains from securities	-	-	-
Dividend distribution	-	-	-
Actuarial gain	-	-	-
Other	-	-	-
Balance as at 31 December 2015	**81,530,200**	**-**	**-**

18.1. Share Capital

Share capital represents share capital of the Company, which is listed on Belgrade Stock Exchange. Par value per share is 500 RSD.
Share capital as of 31 December 2015 and 31 December 2014 comprise of 163,060,400 of ordinary shares.
A dividend in respect of the year ended 31 December 2014 of 46.85 RSD per share, amounting to a total dividend of RSD 7,639,380 was approved by the General Assembly Meeting held on 23 June 2015 and paid on 31 August 2015.

Equity attributable to owners of the Group					Non-controlling interest	Total equity
Retained earnings (loss)	Translation reserves	Unrealised gains (losses) from securities	Actuarial gain (loss)	Total		
87,678,909	**(38,290)**	**(59,885)**	**(114,418)**	**168,996,516**	**(43,417)**	**168,953,099**
27,939,245	-	-	-	27,939,245	(100,801)	27,838,444
-	-	17,608	-	17,608	-	17,608
(13,080,705)	-	-	-	(13,080,705)	-	(13,080,705)
-	-	-	273,088	273,088	-	273,088
38	(372,247)	-	-	(372,209)	(8,821)	(381,030)
102,537,487	**(410,537)**	**(42,277)**	**158,670**	**183,773,543**	**(153,039)**	**183,620,504**
102,537,487	**(410,537)**	**(42,277)**	**158,670**	**183,773,543**	**(153,039)**	**183,620,504**
14,638,790	-	-	-	14,638,790	(31,085)	14,607,705
-	-	(37,288)	-	(37,288)	-	(37,288)
(7,639,380)	-	-	-	(7,639,380)	-	(7,639,380)
-	-	-	2,819	2,819	-	2,819
-	(40,426)	-	(244)	(40,670)	(2,010)	(42,680)
109,536,897	**(450,607)**	**(79,564)**	**162,014**	**190,698,702**	**(186,134)**	**190,511,680**

19. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommissioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2014	**9,063,038**	**690,094**	**2,551,690**	**1,522,079**	**1,157,252**	**14,984,153**
Charged to the income statement (note 29 and 32)	52,371	32,947	329,300	-	-	414,618
New obligation incurred and change in estimates	(14,377)	-	-	-	-	(14,377)
Release of provision (note 35)	-	-	(1,565,729)	(812,189)	(48,009)	(2,425,927)
Actuarial gain charged to other comprehensive income	-	-	(321,281)	-	-	(321,281)
Settlement	(75,421)	(152,437)	(115,426)	(608,044)	(167,626)	(1,118,954)
Other	-	(245)	186	-	2,963	2,904
As at 31 December 2014	**9,025,611**	**570,359**	**878,740**	**101,846**	**944,580**	**11,521,136**
As at 1 January 2015						
Charged to the income statement (note 29 and 32)	268,074	307,033	80,657	244,309	15,385	915,458
New obligation incurred and change in estimates	100,888	-	-	-	-	100,888
Release of provision (note 35)	(49,261)	(4,300)	(20,252)	-	(111,045)	(184,858)
Actuarial gain charged to other comprehensive income	-	-	(3,977)	-	-	(3,978)
Settlement	(192,943)	(185,432)	(79,010)	(49,372)	(135,631)	(642,387)
Other	-	42	10	-	712	764
As at 31 December 2015	**9,152,369**	**687,702**	**856,168**	**296,783**	**714,001**	**11,707,023**

Analysis of total provisions:

	31 December 2015	31 December 2014
Non-current	9,451,111	9,012,584
Current	2,255,912	2,508,552
	11,707,023	**11,521,136**

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 687,702 (31 December 2014: RSD 570,359) 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 2015 the management made an assessment of present value of liabilities related to new three-year employee incentives (2015-2017) in amount of RSD 296,783 (2014: RSD 101,846).

d) Legal claims provisions

As at 31 December 2015, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group released provision for litigation amounting to RSD 111,045 (2014: RSD 48,009 reversed) for proceedings which were assessed that won't have negative outcome and charged provision for litigation amounting to RSD 15,385 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 2015.

e) Provision for employee benefits

Employee benefits:

	31 December 2015	31 December 2014
Retirement allowances	109,132	101,096
Jubilee awards	747,036	777,644
	856,168	**878,740**

The principal actuarial assumptions used were as follows:

	31 December 2015	31 December 2014
Discount rate	6.6%	6.75%
Future salary increases	2.5%	2.5%
Future average years of service	15.7	12.4

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2014	**703,729**	**1,847,961**	**2,551,690**
Benefits paid directly	(26,150)	(89,276)	(115,426)
Actuarial gain charged to other comprehensive income	(321,281)	-	(321,281)
Credited to the income statement	(255,388)	(981,041)	(1,236,429)
Translation difference	186	-	186
Balances as at 31 December 2014	**101,096**	**777,644**	**878,740**
Benefits paid directly	(2,881)	(76,129)	(79,010)
Actuarial gain charged to other comprehensive income	(3,977)	-	(3,977)
Debited to the income statement	14,894	45,511	60,405
Translation difference	-	10	10
Balances as at 31 December 2015	**109,132**	**747,036**	**856,168**

The amounts recognized in the Income Statement are as follows:

		Year ended 31 December
	2015	**2014**
Current service cost	66,664	202,422
Interest cost	56,751	156,808
Curtailment gain	(5,432)	(265,082)
Actuarial gains (jubilee awards)	(24,012)	(557,749)
Amortisation of past service cost	(33,566)	(772,828)
	60,405	**(1,236,429)**

20. LONG-TERM LIABILITIES

	31 December 2015	31 December 2014
Long-term loan - Gazprom Neft	42,427,710	47,820,723
Bank loans	71,016,462	51,604,833
Finance lease liabilities	199,287	199,737
Other long-term borrowings	88,612	64,078
Less Current portion	(13,418,431)	(6,101,327)
	100,313,640	**93,588,044**

a) Long-term loan - Gazprom Neft

As at 31 December 2015 long-term loan - Gazprom Neft amounting to RSD 42,427,710 (2014: RSD 47,820,723), with current portion of RSD 5,657,028 (2014: RSD 5,625,967), 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 2015	31 December 2014
Domestic	18,693,335	7,175,319
Foreign	52,323,127	44,429,514
	71,016,462	51,604,833
Current portion of long-term loans (note 21)	(7,760,393)	(474,537)
	63,256,069	**51,130,296**

The maturity of non-current loans was as follows:

	31 December 2015	31 December 2014
Between 1 and 2 years	11,829,773	6,969,316
Between 2 and 5 years	46,347,221	38,525,058
Over 5 years	5,079,075	5,635,922
	63,256,069	**51,130,296**

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

	31 December 2015	31 December 2014
USD	53,388,078	45,401,219
EUR	17,247,010	5,840,104
RSD	1,174	1,520
JPY	380,200	361,990
	71,016,462	**51,604,833**

The Group repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Group has both fixed and floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor. Management expects that the Group will be able to fulfil its obligations within agreed timeframe.
The loan agreements contain financial covenants that require the Group's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of 31 December 2015 and 31 December 2014 respectively.

c) Financial lease liabilities

Minimum finance lease payments:

	31 December 2015	31 December 2014
Less than one year	41,677	66,290
1-5 years	205,380	229,507
Over 5 years	707,604	790,393
Future finance charges on finance leases	(755,374)	(886,453)
Present value of finance lease liabilities	**199,287**	**199,737**

	31 December 2015	31 December 2014
Less than one year	1,010	823
1-5 years	5,832	15,702
Over 5 years	192,445	183,212
Present value of finance lease liabilities	**199,287**	**199,737**

21. SHORT-TERM FINANCE LIABILITIES

	31 December 2015	31 December 2014
Short-term loans	3,553,120	8,600,111
Current portion of long-term loans (note 20)	13,417,421	6,100,504
Current portion of finance lease liabilities (note 20)	1,010	823
	16,971,551	**14,701,438**

22. TRADE PAYABLES

	31 December 2015	31 December 2014
Parents and subsidiaries - foreign	10,004,805	20,122,243
Other related parties - domestic	800,455	830,355
Other related parties - foreign	172,515	131,258
Trade payables domestic – third parties	7,854,205	6,312,351
Trade payables foreign – third parties	5,799,950	9,343,872
Other trade payables	81,377	75,660
	24,713,307	**36,815,739**

As at 31 December 2015 payables to parents and subsidiaries-foreign amounting to RSD 10,004,805 (31 December 2014: RSD 20,122,243) fully relate to payables to the supplier Gazprom Neft, St Petersburg, for the purchase of crude oil.

23. OTHER SHORT-TERM LIABILITIES

	31 December 2015	31 December 2014
Specific liabilities	346,080	386,183
Liabilities for unpaid wages and salaries, gross	1,100,559	1,111,477
Interest liabilities	820,006	667,760
Dividends payable	3,772,308	3,772,308
Other payables to employees	594,443	629,953
Decommissioning and site restoration costs	1,609,928	1,638,178
Environmental provision	311,905	503,287
Litigation and claims	250,000	278,989
Other current liabilities	92,697	149,527
	8,897,926	**9,137,662**

24. LIABILITIES FOR OTHER TAXES

	31 December 2015	31 December 2014
Excise tax	6,416,831	5,492,646
Income tax	14,970	15,435
Other taxes payables	1,279,553	2,005,633
	7,711,354	**7,513,714**

25. ACCRUED EXPENSES

Accrued expenses as at 31 December 2015 amounting to RSD 2,685,116 (31 December 2014: RSD 5,516,367) mainly relate to accrued employee bonuses of RSD 1,568,343 (31 December 2014: RSD 1,875,170).

26. COST OF MATERIAL

	Year ended 31 December	
	2015	2014
Costs of raw materials	109,660,889	138,821,147
Overheads costs	369,812	265,998
Other costs	1,756,812	1,707,550
	111,787,513	**140,794,695**

27. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December	
	2015	2014
Wages and salaries (gross)	14,711,841	15,130,012
Taxes and contributions on wages and salaries paid by employer	2,067,100	2,209,554
Cost of service agreement	338,367	594,975
Cost of other personal wages	56,088	61,780
Fees paid to board of directors and general assembly board	128,471	127,144
Termination costs	376,007	395,819
Other personal expenses	827,469	767,002
	18,505,343	**19,286,286**

28. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2015	**2014**
Cost of production services	3,629,788	2,613,461
Transportation services	3,570,178	2,928,463
Maintenance	3,107,701	2,906,214
Rental costs	2,143,510	2,318,699
Fairs	3,323	11,539
Advertising costs	893,394	971,609
Exploration expenses	64,883	1,680,138
Cost of other services	1,243,159	1,076,077
	14,655,936	**14,506,200**

29. LONG-TERM PROVISION EXPENSE

	Year ended 31 December	
	2015	**2014**
Decommissioning and site restoration costs	453,709	36,947
Employee benefits costs	324,966	329,300
Other provision expense (litigation and claims)	15,385	-
	794,060	**366,247**

30. NON-MATERIAL EXPENSES

	Year ended 31 December	
	2015	**2014**
Costs of non-production services	8,972,537	8,114,893
Representation costs	78,206	115,662
Insurance premium	411,731	581,400
Bank charges	287,708	270,043
Cost of taxes	1,266,187	1,165,296
Mineral extraction tax	1,424,183	2,234,572
Other non-production expenses	2,044,050	1,714,471
	14,484,602	**14,196,337**

Cost of non-production services for the year ended 31 December 2015 amounting to RSD 8,972,537 (2014: RSD 8,114,893) mainly relate to costs of service organizations of RSD 5,231,032; consulting service costs of RSD 924,114; security cost of RSD 502,948 and project management costs of RSD 479,870.

31. FINANCE INCOME

	Year ended 31 December	
	2015	2014
Finance income - related parties		
- foreign exchange differences	1,224,003	2,197,806
- other finance income	-	2,530
Interest income	706,445	4,238,258
Foreign exchange gains	1,691,420	1,332,107
Other finance income	69,124	18,260
	3,690,992	**7,788,961**

32. FINANCE EXPENSE

	Year ended 31 December	
	2015	2014
Finance expenses – related parties		
- foreign exchange differences	2,901,488	6,285,920
- other finance expense	988,192	1,136,972
Interest expenses	2,462,066	2,448,838
Decommissioning provision: unwinding of the present value discount	121,398	48,371
Provision of trade and other non-current receivables: discount	912,967	-
Foreign exchange losses	8,031,952	10,480,880
Other finance expenses	4,425	347
	15,422,488	**20,401,328**

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

	Year ended 31 December	
	2015	2014
Reversal of impairment of LT financial investments	496	17,263
Income from valuation:		
- trade and specific receivables	5,800,048	467,104
- short-term investments	-	393,467
- other receivables (note 14)	1,316,920	106,672
	7,117,464	**984,506**

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

	Year ended 31 December	
	2015	**2014**
Loss from valuation:		
- LT financial investments	3,355	3,168
- trade and specific receivables	138,839	328,989
- other receivables (note 14)	186,754	3,606,207
- other	2,019	344
	330,967	**3,938,708**

35. OTHER INCOME

	Year ended 31 December	
	2015	**2014**
Gains on disposal - Intangible assets and PPE	274,012	202,270
Gains on disposal - materials	33,580	41,917
Gains on disposal - equity instruments and securities	61,696	-
Surpluses from stock count	277,612	394,324
Payables written off	565,958	42,257
Release of long-term provisions	184,858	2,425,927
Gain on bargain purchase (note 39)	-	455,776
Release of impairment:		
- IA	1,631	-
- PPE	25,596	79,596
- investment property	-	164,761
- inventory	406,016	216,837
- other property	4,438	13,117
Penalty interest	146,581	106,128
Other income	784,067	723,624
	2,766,045	**4,866,534**

36. OTHER EXPENSES

	Year ended 31 December	
	2015	2014
Loss on disposal - Intangible assets and PPE	274,818	288,251
Shortages from stock count	392,176	821,895
Write-off receivables	16,347	3,133
Write-off inventories	170,022	88,321
Impairment:		
- IA	147,410	332,949
- PPE	342,485	268,664
- Investment property	124,003	-
- inventory	106,372	9,025
- other property	42,182	18,276
Other expenses	1,293,252	1,683,442
	2,909,067	**3,513,956**

37. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2015	2014
Income tax for the year	3,864,403	3,497,767
Deferred income tax for the period (note 11)		
Origination and reversal of temporary differences	583,694	2,533,344
	4,448,097	**6,031,111**

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	
	2015	2014
Profit before tax	**19,055,802**	**33,869,555**
Tax calculated at domestic tax rates applicable to profits in the respective countries	3,882,028	5,990,376
Tax effect on:		
Revenues exempt from taxation	(63,792)	(315,335)
Expenses not deductible for tax purposes	342,899	985,182
Tax losses for which no deferred income tax asset was recognised	1,680,512	1,528,598
Utilized tax credits	(1,374,938)	(1,860,025)
Other	(18,612)	(285,251)
	4,448,097	**6,043,545**
Tax reassessment	-	(12,434)
	4,448,097	**6,031,111**
Effective income tax rate	23.34%	17.81%

38. EARNINGS PER SHARE

	Year ended 31 December	
	2015	**2014**
Profit attributable to shareholders of Naftna Industrija Srbije	14,638,790	27,939,245
Weighted average number of ordinary shares issued	163,060,400	163,060,400
Basic Earnings per share	**0.090**	**0.171**

39. BUSINESS COMBINATIONS

During 2015 there were no business combinations of the Group.
In 2014, the Group acquired five petrol stations, four in Bulgaria and one in Serbia. The total consideration paid for above acquisitions amounted to RSD 874,367. The fair value of net identifiable asset acquired amounted to RSD 1,245,216 and remaining amount was recognised as goodwill.

40. GROUP ENTITIES

The consolidated financial statements of below listed subsidiaries are consolidated as at 31 December 2015 and 31 December 2014:

Subsidiary	**Country of incorporation**	**Nature of business**	**Share %**	
			31-Dec 2015	**31-Dec 2014**
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
Pannon naftagas Kft, Budapest	Hungary	O&G activity	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-naftni servisi d.o.o., Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o., Novi Sad	Serbia	O&G activity	100	100
Naftagas-tehnicki servisi d.o.o., Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o., Novi Sad	Serbia	Transport	100	100
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

During 2015 subsidiary Jubos, Bor was liquidated.
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.

41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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 2015 and 2014, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.
As of 31 December 2015 and 31 December 2014 the outstanding balances with related parties were as follows:

	Joint venture	Parent	Entities under common control	Total
As at 31 December 2015				
Investments in joint ventures	1,188,659	-	-	1,188,659
Trade receivables	-	-	251,708	251,708
Other receivables	195,656	-	-	195,656
Long-term liabilities	-	(36,770,682)	-	(36,770,682)
Short-term financial liabilities	-	(5,657,028)	-	(5,657,028)
Advances received	-	-	(6,609)	(6,609)
Trade payables	-	(10,004,805)	(172,515)	(10,117,320)
	1,384,315	**(52,432,515)**	**(72,584)**	**(51,769,561)**
As at 31 December 2014				
Investments in joint ventures	1,008,221	-	-	1,008,221
Trade receivables	-	-	36,398	36,398
Other receivables	117,858	-	-	117,858
Long-term liabilities	-	(42,194,756)	-	(42,194,756)
Short-term financial liabilities	-	(5,625,967)	-	(5,625,967)
Advances received	-	-	(12,831)	(12,831)
Trade payables	-	(20,122,243)	(131,258)	(20,253,501)
	1,126,079	**(67,942,966)**	**(107,691)**	**(66,924,578)**

For the year ended 31 December 2015 and 2014 the following transaction occurred with related parties:

	Joint venture	Parent	Entities under common control	Total
Year ended 31 December 2015				
Sales revenue	-	-	889,720	889,720
Cost of goods sold	-	-	(553,999)	(553,999)
Decrease in inventories of finished goods and work in progress	-	-	(16,313,924)	(16,313,924)
Cost of material	-	(79,766,583)	(1,952,154)	(81,718,737)
Cost of production services	-	-	(169,108)	(169,108)
Non-material expense	-	(39,619)	(105,330)	(144,949)
Finance expense	-	(3,777,652)	(116,453)	(3,894,105)
Finance income		1,202,790	90,337	1,293,127
Other income	-	107,223	11	107,234
Other expenses	-	(95,622)	(19,836)	(115,458)
	-	**(82,369,463)**	**(18,250,736)**	**(100,620,199)**
Year ended 31 December 2014				
Sales revenue	-	-	2,208,538	2,208,538
Cost of goods sold	-	-	(65,868)	(65,868)
Decrease in inventories of finished goods and work in progress	-	-	(1,627,639)	(1,627,639)
Cost of material	-	(109,522)	(94,590,847)	(94,700,369)
Non-material expense	-	(51,132)	(12,974)	(64,106)
Finance expense	-	(4,557,810)	(2,865,429)	(7,423,239)
Finance income		2,076,979	141,616	2,218,595
Other income	-	52,602	202,046	254,648
Other expenses	-	(68,318)	(410,518)	(478,836)
	-	**(2,657,201)**	**(97,021,075)**	**(99,678,276)**

Key management compensation

Management compensation paid in 2015 and 2014 is shown in the table below:

	Year ended 31 December	
	2015	**2014**
Salaries and other short-term benefits	425,613	685,322
	425,613	**685,322**

Main balances and transactions with state and mayor state owned companies

	31 December 2015	31 December 2014
Receivables – gross		
HIP Petrohemija	23,268,304	13,004,338
Srbijagas	101,306	29,289,917
Republic of Serbia	18,703,814	-
	42,073,424	**42,294,255**
Liabilities		
HIP Petrohemija	(800,455)	(830,355)
Srbijagas	(372,985)	(226,896)
	(1,173,440)	**(1,057,251)**
Advances received		
HIP Petrohemija	(12,470)	(7,109)
Srbijagas	-	(12,806)
	(12,470)	**(19,915)**

		Year ended 31 December
	2015	2014
Operating income		
HIP Petrohemija	17,580,877	23,382,492
Srbijagas	3,927,429	2,926,879
	21,508,306	**26,309,371**
Operating expenses		
HIP Petrohemija	(169,108)	(174,117)
Srbijagas	(933,151)	(751,452)
	(1,102,259)	**(925,569)**

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.

42. CONTINGENT LIABILITIES

Transfer of property ownership

As at 31 December 2015, the Company had ownership and the right to use and possess of 7,932 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

Finance Guarantees

As at 31 December 2015 the total amount of outstanding finance guarantees provided by the Group amounted to RSD 6,415,857, mostly related to guaranties for customs duties in the amount of RSD 2,348,766 (2014: RSD 3,454,563).

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 687,705 (31 December 2014: RSD 570,358).
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.

Other contingent liabilities

As at 31 December 2015, the Group did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Group has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Group's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Group's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed four years ago. Taking all of the above into consideration, the Group's Management is of the view that as at 31 December 2015 outflow of resources embodying economic benefits is not probable due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

43. TAX RISKS

Tax laws of Republic of Serbia 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. The tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years from the transaction date. As at 31 December 2015, Management assessed that the Group had paid all tax liabilities.

44. COMMITMENTS

Leases

Minimum lease payments under non-cancellable operating lease by lessor:

	31 December 2015	**31 December 2014**
Less than one year	164,962	151,533
1-5 years	157,477	206,160
Over five years	143,738	148,888
	466,177	**506,581**

Minimum lease payments under non-cancellable operating lease by lessee:

	31 December 2015	31 December 2014
Less than one year	1,361,806	1,020,707
1-5 years	1,716,271	2,290,408
Over 5 years	358,779	403,808
	3,436,856	**3,714,923**

Farm-out agreement with East West Petroleum Corporation, Canada

In October 2011, the Group entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in the Timisoara region in Romania. Under the Contract, the Group shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Group will be entitled to 85% of the total production volume of hydrocarbons. Moreover, under the Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Group will act as the Operator and will be in charge of and shall conduct all Joint Operations. Exploration activities are underway. On 31 December 2015 drilling and exploration works for Block 2, 3, 7 and 8 were estimated to USD 45 million.
There were no other material commitments of the Group.

45. EVENTS AFTER THE REPORTING PERIOD

At the date of signing consolidated financial statements, crude oil price decreased since 31 December 2015 to 36.125 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any further decrease.
Subsequent events occurring after 31 December 2015 were evaluated through 29 February 2016, the date these Consolidated financial statements were authorised for issue.


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Statement of Individuals Responsible for the Preparation of Financial Statements

We hereby declare that, to the best of our knowledge, the annual financial reports have been made by applying appropriate International Financial Reporting Standards, as well as in compliance with the Law on Accounting of the Republic of Serbia (Official Gazette of the Republic of Serbia, No. 62/2013), which stipulates that financial reports be prepared in compliance with all IFRSs and regulations issued by the Ministry of Finance of the Republic of Serbia[58] and that they provide accurate and objective information on the property, liabilities, financial standing and business operations, gains and losses, cash flows and changes in capital of the public company, including the companies which are part of the consolidated financial reports.

Kirill Kravchenko
General Director
NIS j.s.c. Novi Sad

[58] Considering the differences between the two pieces of legislation, these financial reports deviate from IFRS in terms of the following:

- The Group has prepared the financial reports 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 reports.
- Off-balance Sheet Assets and Liabilities have been presented by using the balance sheet template. As defined by the IFRS, these items are neither assets nor liabilities.


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Appendices

- General information on NIS j.s.c. Novi Sad
- Historical Data 2009 – 2015
- Glossary
- Contact details

GENERAL INFORMATION ON NIS J.S.C. NOVI SAD

Business name:	NIS j.s.c. Novi Sad
Company ID No:	20084693
Address:	Novi Sad, Nardonog fronta 12
TIN:	104052135
Web site:	www.nis.eu
Email:	office@nis.eu
Activity:	0610 – Crude Oil Exploitation
Number and date of registration at the BRA:	BD 92142, 29 September 2005
Total equity as at 31 December 2015	203,015,095,000 RSD
Share capital as at 31 December 2015	81,530,200,000 RSD
Number of employees as at 31 December 2015	3,874 [59]
Audit company that audited the last financial report (dated 31 December 2015):	Pricewaterhouse d.o.o., Belgrade Omladinskih brigada br, 88 11070 Novi Beograd
Organized market where Shares of the Issuer are traded in	Belgrade Stock Exchange a.d. Omladinskih brigada 1 11070 Novi Beograd

[59] Without the employees outsourced via service companies and without the employees of subsidiary companies and representative offices

HISTORICAL DATA 2009 – 2015

(in bn RSD)	2009	2010	2011	2012	2013	2014	2015
Income, total	135.7	181.3	207.5	248.8	277.4	272.2	224.3
Expenses, total	175.4	169.0	167.8	201.3	223.0	238.3	205.2
Net profit (loss)	(37.8)	16.7	40.6	45.5	48.3	27.8	14.6
Sales	118.6	161.4	187.1	226.6	259.4	258.3	210.4
OCF	17.5	17.6	34.5	37.3	75.3	49.6	51.0
EBITDA	10.4	32.2	52.4	65.5	68.8	63.4	46.5
Non-current assets [60]	96.4	113.7	145.6	181.7	231.6	251.0	278.6
Current assets	48.3	64.4	88.0	111.2	114.0	110.6	87.4
Total assets	144.7	178.1	233.6	292.9	345.6	361.7	366.0
Total capital	32.0	47.0	87.6	133.1	169.0	183.6	190.5
Long-term provisions	16.1	18.6	10.4	11.3	15.0	9.0	9.5
Long-term liabilities [61]	43.3	51.1	83.2	83.8	63.5	96.6	110.3
Short-term liabilities	53.3	61.4	52.3	64.7	98.2	75.5	65.8
Total liabilities	144.7	178.1	233.6	292.9	345.6	361.7	366.0

[60] Non-current assets include deferred tax assets.
[61] Long-term liabilities include deferred tax liabilities.

GLOSSARY

Abbreviation	Explanation
3D	three-dimensional
ASSR	Autonomous Soviet Socialist Republic
API separator	Oil and water separator
bbl	Barrel
bn	Billion
BDP	Basic Design Package
BoD	Board of Directors
GS	Gathering Station
CAPEX	Capital expenditures
CEO	Chief Executive Officer
CFI	Classification of Financial Instruments
CFO	Chief Financial Officer
CHPP	Combined Heat and Power Plant
CIS	Commonwealth of Independent States, former Soviet Republics
CNG	Compressed Natural Gas
EB	Executive Board
EBITDA	Earnings before interest, taxes, depreciation, and amortization
ECG	Electrocardiogram
EnMS	Energy Management System
EPS	Earnings per share
ETS	Electro-technical School
EU	European Union
EU ETS	European Emissions Trading System
EUR	Euro
FCC	Fluid catalytic cracker
FED	Federal Reserve
FEED	Front End Engineering Design

Abbreviation	Explanation
FEST	Serbian Film Festival
FHI	Pharmaceutical and chemical industry
GDP	Gross domestic product
GHG	Greenhouse Gases
GPN	PJSC "Gazprom Neft"
GRI	Global Reporting Initiative
HIP	Chemical Industry Pančevo
HR	Human resources
HSE	Health, Safety and Environment
IEA	International Energy Agency
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
IRMS	Integrated Risk Management System
ISIN	International Securities Identification Number
ISO	International Organization for standardization
IT	Information technology
IVMS	In-Vehicle Monitoring System
JSC or j.s.c.	Joint-stock company
KCl	Potassium-chloride
LC	Local community
LLC	Limited Liability Company
LMU	Leningrad International University
LPG	Liquid petroleum gas
LTD	Limited
LTIF	Lost Time Injury Frequency
MBA	Master of Business Administration
MCC	Motor Control Center
MIP	Mid-term Investment Plan
mn	Million
MT and SS	Material-technical and service support

Abbreviation	Explanation
MTSS and CC	Material-technical and service support and capital construction
MW	Megawatt, unit of power in the International System of Units (SI),
MWh	Megawatt hour, unit of energy
NBS	National Bank of Serbia
NNKS	National Oil Committee of Serbia
NTC	Scientific-technological Centre (abbreviation uses in name of one of NIS subsidiaries)
OCF	Operating Cash Flow
OHSAS	Occupational Health and Safety Standard
OJSC	Open Joint Stock Company
OPCOM	Romanian Electricity Exchange
OPEX	Operating expenditures
P/BV	Price/Book Value
P/E	Price/EPS
PEC	Planning, economics and controlling
PJSC	Public Joint Stock Company
PPE	Personal Protective Equipment
RC	Regional Center
RF	Russian Federation
RS	Republic of Serbia
RSD	Serbian dinar
SAB	Shareholders' Assembly Board
SAP	The information system for business analytics, financials and resource management
SARU	Spent Acid Regeneration Unit
SEVESO	HSE Directive
SMS	Short message service
SRPS	Reference to standard of Serbian Institute for Standardization
STC	Scientific-technological Centre (abbreviation uses in name of one of NIS subsidiaries)
t.o.e.	Tonnes of oil equivalent
thou.	Thousand

Abbreviation	Explanation
UK	United Kingdom
USA	United States of America
USD	US Dollar
USSR	Union of Soviet Socialist Republics
VAT	Value added tax
VPO	Vrbica Podlokanj well

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The report contains statements on uncertain future events. Statements on uncertain future events involve statements which are not historical facts, statements with regard to the NIS Group's intentions, beliefs or current expectations related to, inter alia, the NIS Group's business results, financial standing and liquidity, prospects, growth, strategies and industrial sectors in which the NIS Group does business. For the reason that they relate to the events and depend on the circumstances which may or may not realize in the future, statements on uncertain future events by their nature involve risks and uncertainty, including, but without limitation to risks and uncertainties that the NIS Group has identified in other publicly available documents. NIS Group hereby warns that there are no guarantees that the statements on uncertain future events will be realized in the future and that actual business results, financial standing and liquidity, as well as the development of the industrial sector in which the NIS Group does business, may considerably differ from the ones represented or assumed by statements on uncertain future events. In addition, even if the NIS Group's business results, its financial standing and liquidity, and the development of the industrial sector in which the NIS Group does business happen to comply with the statements on uncertain future events contained herein, the results and development are not indicative of the results and development in upcoming periods. The information contained herein has been presented on the date of the Report and may be changed without prior announcement.

FUTURE
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