NIS
GAZPROM NEFT

FUTURE
AT WORK

ANNUAL REPORT 2016

FUTURE
AT WORK

The Annual Report for 2016 presents a factual overview of the activities, development and performance of NIS Group in 2016. The Report covers NIS Group, which comprises NIS j.s.c. Novi Sad and its subsidiaries. If specific reference is made 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 "the Company" denote the parent company NIS j.s.c. Novi Sad, whereas the terms "NIS" and "NIS Group" denote NIS j.s.c. Novi Sad with its subsidiaries.

The Annual Report summarises how the Group's strategic goals, corporate governance, performance and realised potential, in conjunction with the external environment, help to generate value in the short, medium and long term.
The Annual Report is compiled in Serbian, English and Russian. In case of any discrepancy, the Serbian version shall be given precedence.

The Annual Report for 2016 is also available for download from the corporate website. For more information on NIS Group, visit the corporate website *www.nis.eu.*

CONTENTS

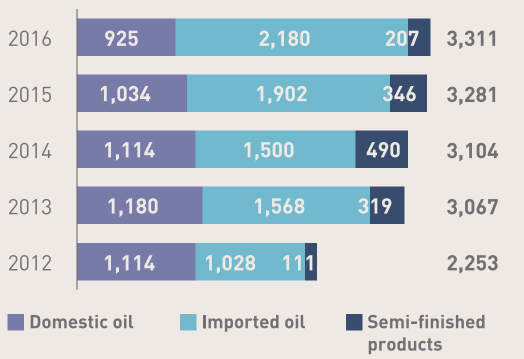
Financial Statements

Estimated increase of hydrocarbon reserves reached 3.4% in 2016.

NIS's share at retail market of motor fuels of the Republic of Serbia amounted to 43%.

Volume of refining,
thousand tonnes

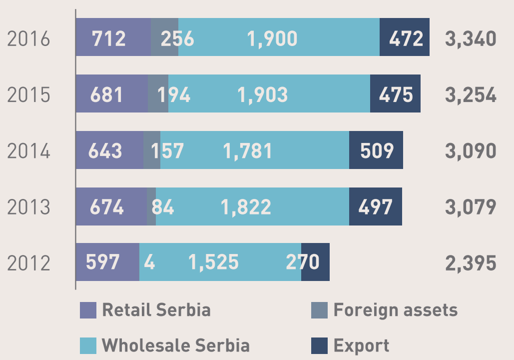
+1%



Optimization of basket of raw materials – refining of new types of crude oil

Volume of sales,
thousand tonnes

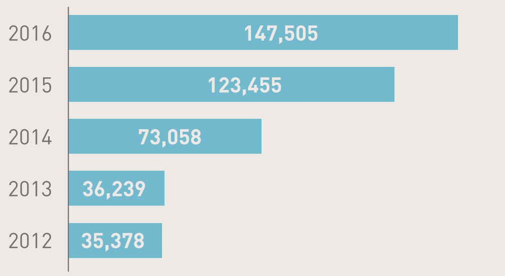
+3%



Drilling unit completed drilling of 42 wells, instead of planned 31.

Electricity output,
MWh

+19%



Volume of electricity trade exceeded 2 TWh.

Total economic effect of realized measures for increasing operational efficiency to EBITDA indicator in 2016 is RSD 8.6 billion.

NET PROFIT

15.0 RSD billion

CAPEX

26.1 RSD billion

Indicator of lost time injury frequency (LTIF) – 46% lower when compared with 2015.


DA-4303
FA-4305
FA-4304

„We did not let the crisis take control -
we responded to it with great determination
and successfully countered all the challenges it
presented by creating a resilient business model."

LETTER FROM CHAIRMAN OF BOARD OF DIRECTORS AND GENERAL DIRECTOR

Determined response to crisis

Management of the NIS Group in 2016 was, in fact, management under the circumstances of a global oil crisis. We did not let the crisis take control - we responded to it with great determination and successfully countered all the challenges it presented by creating a resilient business model that rests on two main pillars. The first one is based on the constant increase in efficiency and cost reduction in all segments of our business. The second one is the focus on key investment projects that allow us to develop and ensure a sustainable and secure future. This combination has enabled us to keep NIS among the profitable oil companies. At the same time, our management team showed leadership and great professionalism, proving that it is ready to respond to any challenge and to run a successful business even in times as challenging as these.

Improved efficiency leads to profitability

This is specifically the business model that in 2016 made it possible for us to deliver financial results similar to our 2015 performance. It is with great pleasure that we can confirm that we have succeeded in maintaining the profitability of NIS despite adverse macroeconomic trends, such as the drop in crude oil prices which marked the greater part of 2016. We have generated a profit of RSD 15 billion, and EBITDA amounted to RSD 39.8 billion. We have managed to preserve jobs, and to keep the salaries and important benefits unchanged for our employees. We owe this primarily to the measures aimed at increasing operational efficiency which we strictly adhered to, with an effect of RSD 8.6 billion on EBITDA last year. Savings were achieved by means of rational use of capacities, reduction of administrative costs as well as through arrangements with suppliers who agreed to lower the prices of their goods and services. This was a great effort of NIS as a whole, and we are very proud of the fact that a significant contribution to improved operational efficiency also came from our employees who in 2016, as part of the program "I have an idea", put forward more than 1,000 suggestions and helped us remain stable in the face of the crisis.

Leader in investments

In the course of 2016, we have invested a total of RSD 26.1 billion and again confirmed our position as the leading investor in the Republic of Serbia. The largest investments were made in exploration and production of oil and gas, and keeping the growth rate of hydrocarbon reserves, which were estimated at 3.4 percent in 2016. In the field of refining, we have additionally modernized our plants and continued preparations for the start of construction of the "Bottom of the Barrel" project which will help increase our refining capacities to one of the largest in the region. In the trade segment, we have continued to increase the volume of sales in the markets of Serbia and the region, reaching the share of nearly 43 percent of the retail market of motor fuels in Serbia. Outstanding results were also achieved in foreign assets with a 31% increase in sales volume in 2016. We also continued to introduce top-quality branded fuels such as G-Drive Diesel and G-Drive 100. We continued to improve the quality of services at our fuel stations and expand the sales network of compressed natural gas, environmentally-friendly fuel regarded as the fuel of the future. Significant results were also achieved in the energy sector. In 2016, we have completed the final stage of investment in the program of small cogeneration modules. Our 14th mini power plant is now in operation, and we have achieved 95% of gas utilization. We have drawn around EUR 300 million in new investments, both from NIS and our partners, which will be used to build CHPP Pančevo and "Plandište" wind farm. For the time being, NIS sells electricity to five countries in the region, and the trade is planned to expand to a total of 12 countries. The production of electricity reached 147,505 MWh, which is a 19% increase compared to 2015.

Secure source of income for shareholders

Despite the crisis, we did not change our dividend policy, nor do we intend to. In 2016, for the fourth consecutive year, we paid our shareholders 25% of net profit from the previous year, which amounted to more than four billion dinars. At the same time, we continued to fill the state budget of Serbia. The total liabilities of NIS Group for taxes and other public revenues exceeded RSD 163 billion in 2016, which is 7% more than in 2015. Also, owing to the excellent cooperation of our shareholders and the support of the Serbian Government, we have succeeded in solving the problem of state-owned companies' overdue liabilities to NIS. These funds will be invested in the future development of NIS.

Commitment to people, environment, community

NIS declared last year "The Year of HSE", to demonstrate our commitment to improving the workplace health and safety of our employees and partners, as well as environmental protection. These are not just words on paper – the lost time injury frequency (LTIF) rate has dropped by 46% compared to 2015. But we do not intend to stop there and we have set ourselves an ambitious plan in line with our business management philosophy – to reach the maximum "Target Zero", work process without any injuries, professional diseases and adverse environmental impact. Strict observance of HSE rules does not only entail improved safety but also a more efficient and profitable business.

Another reason for us to feel proud is our investment in the local community. Still the largest socially responsible investor in Serbia, NIS continues to support science, education, culture, sports, humanitarian projects and youth development programs. In the course of 2016, we have invested a total of approximately RSD 380 million in CSR activities.

2017 – Year of efficiency and safety

NIS has started 2017 as a stable system that knows exactly where it is heading. We have adopted a business plan for 2017 and planned a safe future for the NIS Group, its employees and shareholders. We have set some ambitious plans, and their realization will strengthen our regional leadership in terms of efficiency. We intend to invest over RSD 28 billion in strategic projects in 2017, followed by around RSD 80 billion in 2018 and 2019.

First of all, we will continue to invest in the exploration and production of oil and gas, and to increase the resource base as a guarantee of safety not only for NIS but for the energy system of Serbia as well. The key investment projects include "Bottom of the Barrel", a project worth an estimated EUR 300 million. In the energy sector, we will continue the realization of large-scale projects such as CHPP Pančevo and "Plandište" wind farm, and keep increasing the usage of geothermal energy. We also intend to continue improving our sales, by investing in further development of the retail network, improving the quality of products and services, developing new branded products, as well as modernizing our fuel stations.

In order to achieve these goals and continue our development, we remain committed to all aspects of workplace safety and health, as well as environmental protection. Our best efforts will focus on the implementation of additional measures to increase operating efficiency. With this in mind, 2017 in NIS will be the year of efficiency and safety. This is the only way for us to remain a reliable supplier in the energy market in years to come, a stable source of income for our shareholders and employees, as well as the biggest socially responsible investor in the country.

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

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

„NIS has started 2017 as a stable system that knows exactly where it is heading. We have adopted a business plan for 2017 and planned a safe future for the NIS Group, its employees and shareholders."

BUSINESS
REPORT

INDEPENDENT AUDITOR'S REPORT ON THE COMPLIANCE OF THE BUSINESS REPORT WITH FINANCIAL STATEMENTS

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 2016 disclosed in the Annual Report on pages 148 to 203, and issued the Auditor's opinion on 28 February 2017, which has been disclosed on page 147. We have also audited the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2016 disclosed in the Annual Report on pages 206 to 264, and issued the Auditor's opinion on 28 February 2017, which has been disclosed in the Annual Report on page 205 (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 2016 is consistent with the abovementioned financial statements. The Board of Directors is responsible for the accuracy of the information contained in the Company's Annual Report. Our responsibility is to express, based on our verification procedures, an opinion on the consistency of the Annual Report with the financial statements.

Auditor's responsibility

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

Opinion

In our opinion, other information included in the Annual Report of Naftna Industrija Srbije a.d., Novi Sad for the year ended 31 December 2016 is consistent, in all material respects, with the information contained in the financial statements.

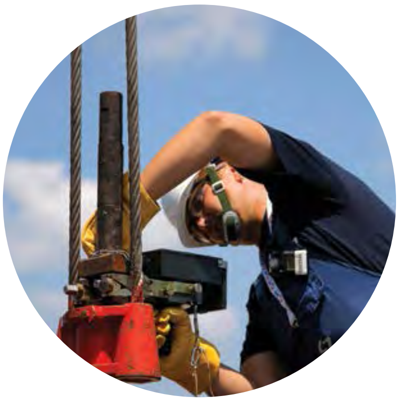
Milivoje Nešović
Licensed auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 7 April 2017

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

HIGHLIGHTS



January

- 3D seismic exploration in the exploration area *Turija II* successfully completed.
- A new generation of "NIS Chance" programme participants signed their employment contracts.
- A language laboratory opened at the *"Jovan Popović"* Primary School in Novi Sad with the assistance of NIS.
- NIS supported the International Mini Basket Festival "*Rajko Žižić*" in Belgrade for the seventh year in a row.

February

- NIS released revised consolidated financial statements for 2015.
- Following investment work on increasing bitumen mixing facilities, bitumen production at *Pančevo* Oil Refinery (POR) was successfully continued.
- New loyalty programme "On the Road with Us" in all retail sites of NIS.
- NIS General Director participated in the Balkan Partnerships – Strengthening the Region's Ties Summit in Brussels.
- Kirill Kravchenko, General Director of NIS j.s.c. Novi Sad, declared the most powerful foreigner in Serbia by the *Blic* daily for the seventh year in a row.

March

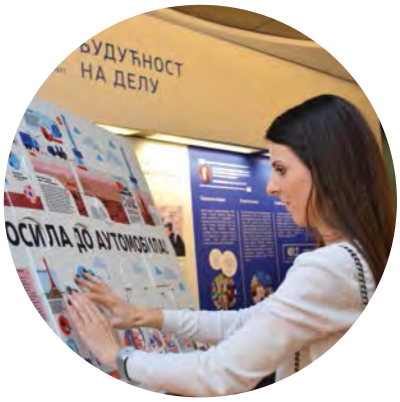
- Cooperation agreements signed with representatives of Belgrade and ten other towns and municipalities in Serbia as part of the "Together for the Community" corporate programme.
- NIS presented advantages of using compressed natural gas in a panel discussion entitled "Energy Technologies of the Future" held as part of the International Days of Energy and Investment in Novi Sad.
- General Director of NIS j.s.c. Novi Sad, Mr Kirill Kravchenko, held a lecture to the students at the Faculty of Technical Science of Novi Sad University, many of which have expressed an interest in a career in NIS.
- NIS presented the "On the Road with Us" loyalty programme and advantages of using CNG at Belgrade Car Show.
- Two modern Physics and Chemistry laboratories opened at the *Mihajlo Pupin* Technical Faculty in *Zrenjanin* with the support of NIS.
- In their visit to Serbia for the purpose of studying the most efficient and the most successful companies in the country, the students of Yale University, USA, attended a lecture held by the General Director of NIS j.s.c. Novi Sad. During their visit to NIS, they learned of operation of POR and one of NIS Petrol petrol stations.

April

- NIS Board of Directors adopted the Annual Report on the Analysis of Business Operations in 2015.
- NIS j.s.c. Novi Sad supported the tenth Festival of Culture and Arts of Balkan Countries, Balkan Trafik, held in Brussels.
- The tenth Serbian Mathematical Olympiad held in Belgrade with the support of NIS.
- The Agro Weekend campaign was organised in nearly 200 NIS Petrol and GAZPROM petrol stations featuring fuel purchase benefits for farmers.
- NIS and the Serbian Tennis Association organised Open School of Tennis for children as part of the FED Cup match between Serbia and Belgium in Belgrade.
- General Director of NIS j.s.c. Novi Sad held a motivational lecture on leadership to 300 of NIS' young experts.

May

- Consolidated business results of the NIS Group for first quarter of 2016 released.
- Board of Directors of NIS j.s.c. Novi Sad held a meeting and formulated a Draft Decision of the Shareholders' Assembly on the distribution of profits in 2015, payment of dividends and identification of the total amount of retained earnings.
- The General Director of NIS j.s.c. Novi Sad, Mr Kirill Kravchenko, took part in the conference for young professionals Energy Security and Challenges in the Light of COP21: Comparative Experience in an Era of Energy Transition at the knowledge centre of the Energy Charter Secretariat in Krakow.
- Refurbished Museum of NIS in Novi Sad formally opened with the exhibition entitled "From Fossils to Cars" as part of the "Night of Museums" event.
- Science and Education Festival held in Novi Sad with the assistance of NIS.
- NIS and the Road Traffic Safety Agency started a campaign aimed at increasing the safety of farmers in traffic.
- Specialised website *Infostud* released results of a survey ranking NIS as the second most desirable employer in Serbia.



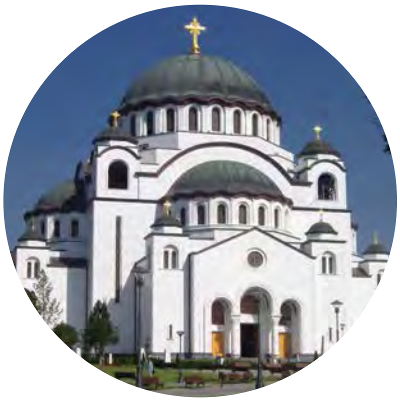
June

- A decision was taken at the eighth ordinary meeting of the Shareholders' Assembly of NIS j.s.c. Novi Sad about the distribution of profits for 2015, payment of dividends and identification of the total amount of the Company's retained earnings.
- NIS presented the Sustainable Development Report for 2015 in conformity with the standards of the leading global organisation in the field of sustainable business Global Reporting Initiative (GRI).

- NIS and EXIT Foundation gave awards to winners of the Youth Heroes competition in a ceremony held at the lobby of the Serbian Broadcasting Corporation (RTS).
- NIS j.s.c. Novi Sad was awarded with the Winner Number 1 prize in the Energy category of Corporate Superbrands Serbia 2015/2016 rewards.
- Pyatnitsky Chorus, one of the best known Russian artistic ensembles, performed in Belgrade for the very first time, with the patronage of NIS j.s.c. Novi Sad.
- NIS supported the conference entitled Better Future for the Youth in the Western Balkans held at the European Parliament in Brussels.

July

- NIS and *Petnica* Science Centre signed a Memorandum of Cooperation.
- NIS representatives took part in the Europe Energy Dialogue forum in Thessaloniki.
- NIS and the Road Traffic Safety Agency conducted a campaign to increase the safety of motorcyclists.
- Young Serbian physicists supported by NIS took part in the 47th International Physics Olympiad in Zurich and won five medals.
- Presentation of NIS in the European Parliament in Strasbourg – successful business operations of NIS and its contribution to the European integration of the Republic of Serbia presented under the auspices of the Europe Energy Forum association.
- Fourth festival of classical music "Bolshoi" held with support of NIS j.s.c. Novi Sad majority shareholder PJSC "Gazprom Neft".



August

- NIS released consolidated business results in the first half of 2016.
- Results of the public competition within the framework of the "Together for the Community" corporate programme released, NIS to support 106 projects in 11 municipalities where the company does business.
- NIS compressed natural gas retail network extended to include NIS Petrol petrol station *Čačak* 1.
- International jazz festival Nisville held with the assistance of NIS.
- NIS and the Road Traffic Safety Agency conducted a campaign entitled "Drive Fresh" aimed at increasing the safety of traffic participants during the summer season.
- The team of young chemists from Serbia who participated in the 48th International Chemistry Olympiad in Georgia with the support of NIS won four medals.
- Small power plant *Majdan* with a capacity of 2.4 MW put into operation.
- An agreement on support of making mosaic interior of the dome of St. Sava Temple in Belgrade was signed with PJSC "Gazprom Neft", the majority shareholder of NIS j.s.c. Novi Sad.

September

- NIS j.s.c. Novi Sad paid 4.03 billion dinars or 25 per cent of last year's net profit to shareholders as dividend from the 2015 earnings.
- Amine Natural Gas Treatment Unit, in which NIS invested over 30 million euros, presented to the media.
- Sale of premium diesel fuel G-Drive Diesel started in GAZPROM petrol stations in Serbia.
- NIS j.s.c. Novi Sad the best ranked company from Serbia in the list of 500 leading companies from Central and Eastern Europe published by Coface, a French credit insurance group, based on the volume of turnover in 2015.
- NIS Archive Depository opened in Novi Sad; its area and modern design standards make it the largest and most modern facility of this type in Serbia.
- Funds collected by NIS employees and the company itself in a campaign entitled "Future is written with a Heart" used to purchase modern ultrasound diagnostic devices for the *Betanija* Maternity Hospital in Novi Sad.

- A modern classroom for teaching about oil and gas production and drilling techniques opened in a ceremony at the Technical School in *Zrenjanin*, as part of the NIS corporate social responsibility programme entitled "Energy of Knowledge".
- For the second consecutive year, NIS and the Road Traffic Safety Agency organised "The Week of Road Traffic Safety" in Novi Sad.
- NIS participated at XI Gas Forum of the Energy Community.
- Ambassadors of the countries in which NIS conducts its operations visited POR.
- Representatives of the Energy Community visited NIS during VIII Gas Forum in Belgrade.
- Representatives of NIS participated in the panel discussion "Energy and environment roundtable at the French-Serbian Conference" in Paris.

October

- NIS and Chinese company "Betec" signed a cooperation agreement in Belgrade on the development of geothermal energy in Serbia.
- NIS presented its Amine Unit, programme of electricity generation in small power plants and new environmental protection projects at the energy and environmental protection fairs.
- For the eighth year in a row, NIS supported the "Joy of Europe" event.
- A two-day NISOTEC distributor conference was held in *Vrdnik*, gathering numerous regional distributors and partners of NIS.
- The Timisoara branch of Naftagas - Naftni servisi d.o.o. Novi Sad got the first award of the *Timis* Chamber of Commerce, Industry and Agriculture in the category of small enterprises in the sector of oil and gas.
- NIS participated in the panel "Energy Security and Energy Efficiency" within the XVI Economic Summit of the Republic of Serbia in Belgrade.

November

- NIS released consolidated business results in the first nine months of 2016.
- The fifth consecutive "Investor Day" held in *Zrenjanin*.
- Kirill Kravchenko, General Director of NIS j.s.c. Novi Sad, gave a lecture to students of the Master's Programme of the IEDC Bled School of Management entitled "History of NIS and Its Strategic Development".
- General overhaul in POR that included virtually all process plants – primary refining facilities, atmospheric and vacuum distillation, as well as mild hydrocracking and hydrotreating (MHC/DHT) complex and hydrogen plant successfully implemented.
- NIS presented gas preparation innovations at the Belgrade Stock Exchange International Conference.
- Serbian Association of Mathematicians presented a letter of appreciation to NIS in recognition of long-term cooperation.
- NIS supported Emir Kusturica's first Autumn Theatre Festival and *Pančevo* Jazz Festival.
- Top prize in the Grand NIS Agro Prize Draw - fuel card worth 9,000 litres of fuel – presented.
- NIS signed a cooperation agreement with Lobachevsky University from the Russian Federation.
- Museum of NIS in *Kikinda*, which showcases the company's rich history, opened in an official ceremony.
- NIS and the Road Traffic Safety Agency organised a joint campaign dedicated to traffic safety in winter driving conditions.
- NIS supported "The Vivaldi Forum" of the Mokra Gora Management School Female Leadership.

December

- A model of the interior decoration of the dome of the Church of Saint Sava, the painting of which is funded by PJSC "Gazprom Neft", presented at the Russian Centre of Science and Culture in Belgrade in the presence of the highest-ranking state and church officials, as well as representatives of PJSC "Gazprom Neft" and NIS.
- NIS Board of Directors adopted the 2017 Business Plan.
- Kirill Tyurdenev was appointed as a new member of the Board of Directors of NIS j.s.c. Novi Sad, instead of Alexander Bobkov.
- NIS won the first prize in Talent Management in Serbia in 2016 in a competition organised by Stanton Chase International.
- In the process of modernising its retail network, NIS opened a total of six modernised petrol stations in Serbia in December.
- NIS was the general sponsor of the Science Festival in Belgrade for the fourth consecutive year.
- NIS j.s.c. Novi Sad recognised for its results in Corporate Social Responsibility and included in the list of the CSR Index - the first national platform for assessing corporate social responsibility in Serbia.
- A major humanitarian campaign entitled "Festive Magic is in Our Hands" was organized for the purpose of purchasing medical devices for the University Children's Hospital *"Tiršova"*, Belgrade.
- Parliament of the Republic of Serbia adopted the Law on liabilities HIP Petrohemija a.d. Pančevo to NIS and conversion of these liabilities into public debt.

Important Events Following the Date of Reporting

January

- NIS j.s.c. Novi Sad won "St. Sava Award" awarded by Ministry of Education, Science and Technological Development for its contribution to education in Republic of Serbia in 2016 through corporate program "Energy of Knowledge".
- NIS j.s.c. Novi Sad was announced as the "National Champion" in the category "Environmental Protection and Sustainable Development" in the competition for the European Business Awards, an award that values business ethics and modern business practices.
- NIS and EXIT foundation launched "Youth Heroes" try-out for the second consecutive year with basic idea to promote young, successful and humane individuals who represent positive example in society.
- "Smart classroom" of Russian language opened in Grammar School *"Svetozar Marković"* from Niš with the support from NIS' corporate program "Together for the Community".
- NIS Petrol s.r.l. Bucharest started exploration drilling in borehole Teremia 1000 in order to explore oil and natural gas reserves Ex-7 block in Periam in Timis area in west Romania.

February

- NIS won two awards in the framework of the "Best from Serbia" award given by Serbian Chamber of Commerce – in category of "Goods and Services" for the best corporate brand and for the best goods brand for NIS Petrol.
- NIS supported opening of "Sensory Room" in Primary and Grammar School "9th May" in *Zrenjanin* within framework of "Together for the Community" program.
- NIS together with Serbian Tennis Federation organized a three-day free tennis school for children in *Niš* during the Davis Cup match between the national teams of Serbia and Russia.
- NIS organized a conference in the field of compensation and benefits for third consecutive year.

March

- Board of Directors of NIS j.s.c. Novi Sad appointed Kirill Tyurdenev to the position of the General Director of the Company.
- Agreement on strategic partnership signed between NIS and BASF.
- At the Belgrade Motor Show, NIS presented advantages of G-Drive premium fuel.
- Students of Yale University visited NIS.

GROUP'S PROFILE

NIS Group is one of the largest vertically-integrated energy systems in South East Europe. The main activities of NIS Group are the exploration, production and refining of oil and natural gas, the sales and distribution of a wide range of petroleum and gas products and the implementation of petrochemicals and energy projects. The Group has operations in 10 countries around the globe and hires an international team of experts.

Business activities

NIS Group delivers its main business activities through five Blocks: Exploration and Production, Services, Refining, Sales and Distribution, and Energy.

The activities of **Exploration and Production** cover 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.

The majority of NIS' oil deposits are in Serbia, but NIS has also expanded into the region, conducting exploration activities in Bosnia and Herzegovina, Hungary and Romania. NIS has been operating in Angola since 1980 and launched oil exploitation in that country in 1985.

This Block operates an Elemir-based plant for processing of natural gas, production of LPG and natural gasoline and CO^2 capture, which has a design capacity of 65,000 tonnes of LPG and natural gasoline per year. In 2016 a new Amine Plant was added to the complex, which enhanced gas quality and output and had positive environmental impact reflected in the prevention of carbon dioxide emissions into the air.

Through its subsidiary NTC NIS Naftagas d.o.o. Novi Sad, NIS provides scientific and technical support to the main activities of the parent company and brings development and innovation into its operations.

Services provide services in oil and gas exploration and production through geophysical surveying, well construction, completion and workover, and performance of special operations and measurement on wells. The Block also delivers equipment maintenance services and the construction and maintenance of oil and gas systems and facilities. Apart from carriage of goods and truck services, it also provides passenger transportation and vehicle rental services. NIS has its own servicing capacities, which are able to fully meet Group's demand and to provide services to third parties. All this is delivered through subsidiaries Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad. Services have expanded the business into foreign markets: Bosnia and Herzegovina, Romania and Russia.

Refining is responsible for refining crude oil and other raw materials and for producing petroleum products. It produces a broad range of petroleum products: from motor and energy fuels to feedstock for the petrochemicals industry, and other petroleum products. Block's refining complex includes a production plant in Pančevo[1]. Maximum designed capacity of the refining plants in Pančevo equals 4.8 million tons per year. Following the construction of the Mild Hydrocracking and Hydrotreating Unit (MHC/DHT) in 2012, NIS now produces fuel that meets EU quality standards and plans to continue to modernise its refining assets and to construct a delayed coking unit.

Sales and Distribution cover foreign and domestic trading and the wholesale and retail of petroleum and non-fuel products.

NIS operates the largest retail network in Serbia and develops the sales and distribution business in regional countries also - Bosnia and Herzegovina, Bulgaria and Romania. In the markets of Serbia and the region, NIS operates two brands: NIS Petrol and GAZPROM.

As separate businesses, NIS develops aviation fuel supply, bunkering, lubricants and bitumen sale and distribution.

All fuel types are subject to regular, rigorous laboratory testing and comply with national and international standards. The introduction of state-of-the-art technologies has increased the network's operational efficiency.

Energy produces electricity and thermal energy from conventional and renewable sources, markets gas and electricity, sets up and carries out strategic energy projects, and develops and implements projects that aim to improve energy efficiency.

This Block develops and implements energy projects within NIS Group, performs analysis and evaluation of investment projects in the energy sector of Serbia under strategic partnership projects.

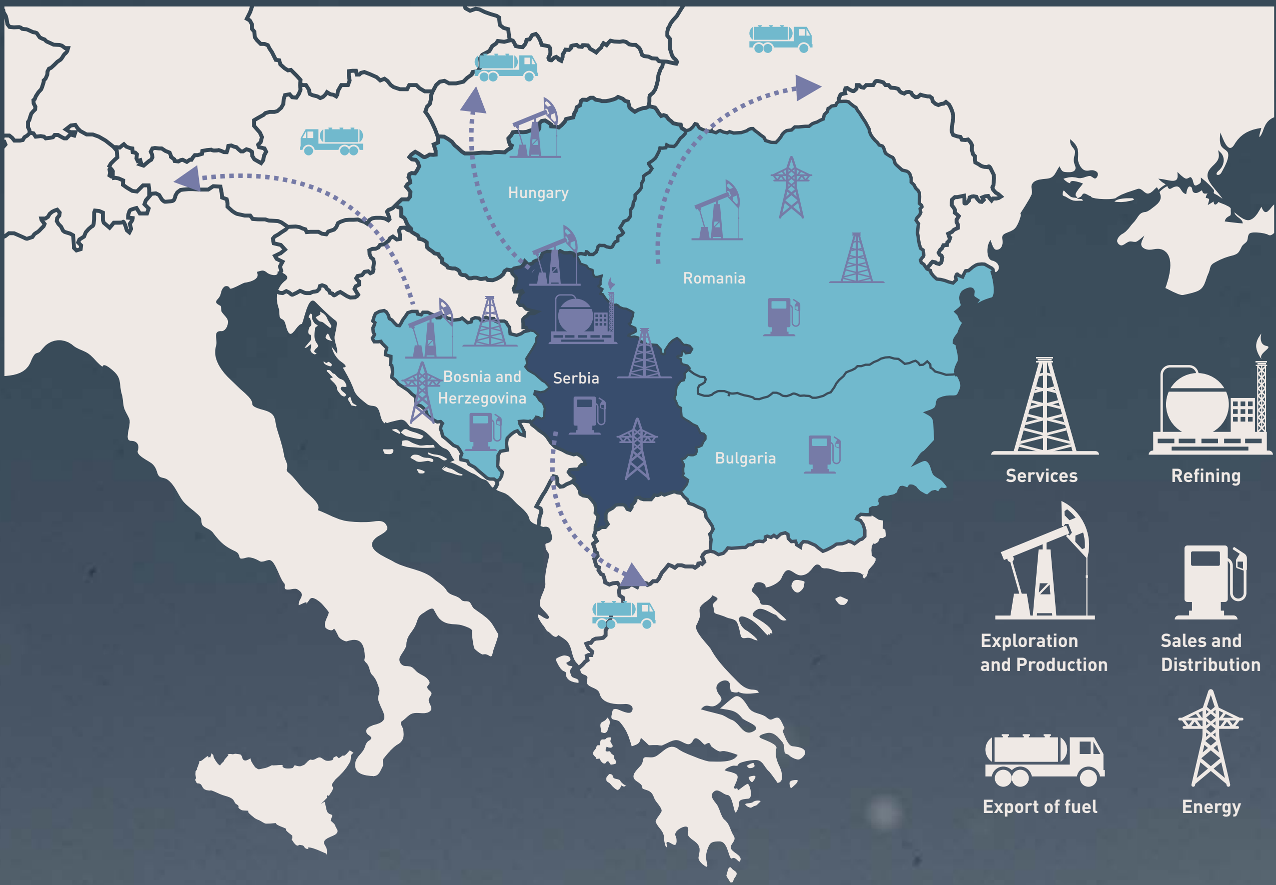
The implementation of project for construction of CHHP *"Pančevo"* and building of *"Plandište"* wind farm in joint-venture with partners are in progress.

On its oil and gas fields, NIS has 14 small power plants with the total power of 13,8 MW. Most of small power plants also generate thermal energy, meeting the consumption requirements of its own facilities. The electricity output is marketed as well. NIS became the only producer supplying electricity to the free market along with Electric Power Industry of Serbia ("EPS"). In addition to small power plants, NIS produces electrical and thermal energy at the Energy Plant *Pančevo* having a generator power of 10.7 MWe. Electrical and thermal energy at the Energy Plant are fully used at the *Pančevo* Oil Refinery.

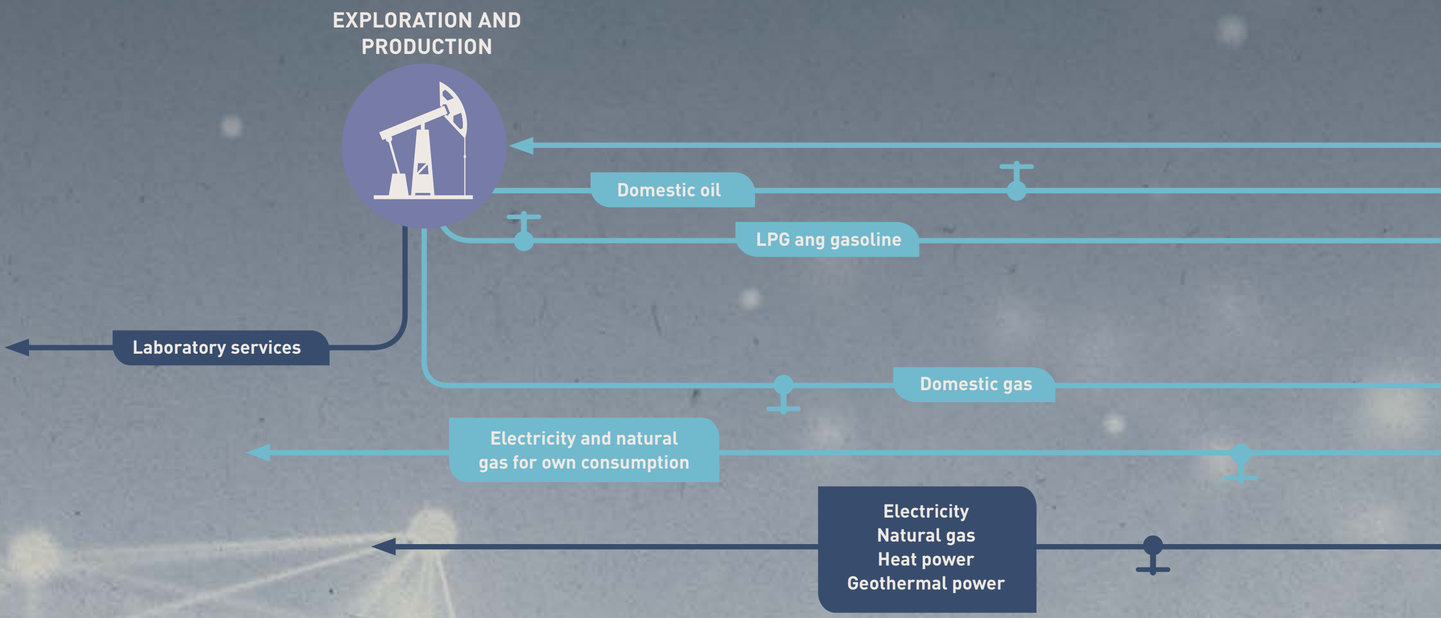
The main activities are supported by ten Functions of the parent company - NIS j.s.c. Novi Sad. Five of the ten supporting Functions are partially de-centralised and have functionally subordinate departments within Blocks[2] , while other functions are centralised[3] . One of the General Director's Deputy is in charge of petrochemicals operations.

[1] Novi Sad Oil Refinery is closed and its design capacity of 2.5 million tons per year is currently not being used. Upon decision of the General Director dated March 1st, 2016, this facility was assigned for the management and responsibility of the Sales and Distribution Block.
[2] Finance, Economics, Planning and Accounting, Strategy and Investments, Material and Technical and Service Support and Capital Investments, Organisational Affairs and HSE.
[3] Legal and Corporate Affairs, Corporate Security, External and Governmental Relations, Public Relations and Communication, and Internal Audit. Internal Audit is organisationally subordinate to the Chief Executive Office, whereas the person responsible for internal audit reports to the Audit Committee of the Board of Directors.

NIS Worldwide



Business Model



Products:

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

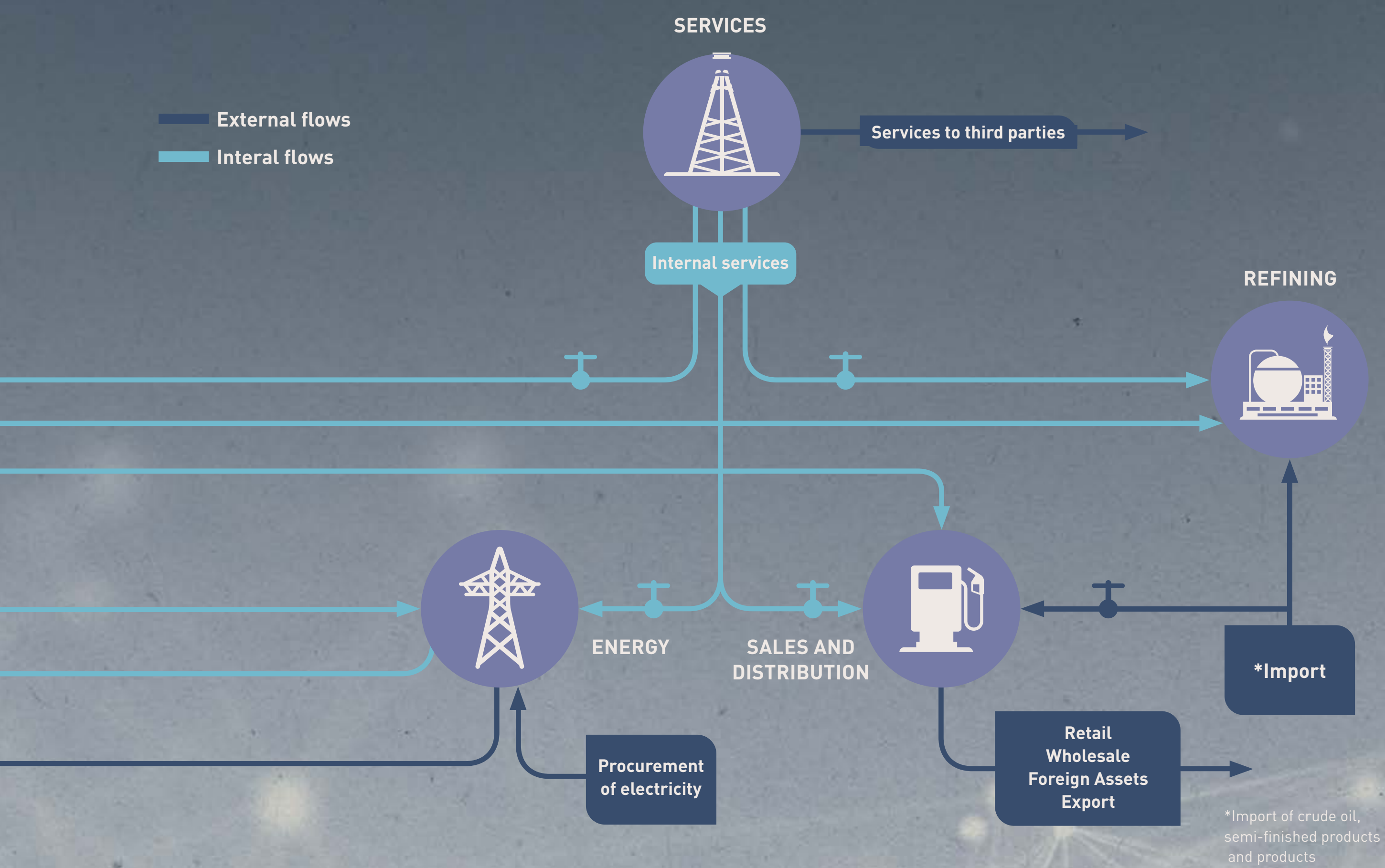
Intersegment Pricing

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

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

Intersegment prices serve for generating internal revenues among NIS' operating segments and are set so as to reflect the market position of each operating segment.

- Intersegment price of domestic oil is set according to the so-called export parity price.
- Intersegment price of natural gas corresponds with the selling price of natural gas at which NIS sells natural gas to PE Srbijagas.
- Intersegment prices of petroleum products and natural gas products are set according to the following principles:
  - Import parity price - the principle used for calculating the transfer prices of products which can be freely imported and the products which are their direct substitutes,
  - Export parity price is used for products which are exported only or exported in certain quantity,
  - Other petroleum products - those which do not fall into either of the above two groups (import parity price, export parity price) according to their specific properties – are characterised by the fact that they are sold to a small number of known buyers for which the selling prices are stipulated by annual or long-term contracts, or they represent an alternative to other products (straight-run gasoline, jet fuel, propylene).



NIS Group Business Structure

Representative and Branch Offices

- Turkmenistan Branch Office
- Branch Offices in Serbia [4]
- 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

- O Zone 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. St. Petersburg
- NIS Petrol EOOD Sofia
- NIS Petrol SRL Bucharest
- NIS Petrol d.o.o. Banja Luka
  - G – Petrol d.o.o. Sarajevo
- Pannon Naftagas kft Budapest
- Jadran Naftagas d.o.o. Banja Luka
- NIS-Svetlost d.o.o. Bujanovac

[4] Under the Law on Tourism of the Republic of Serbia, if a company does not operate in hospitality as its core activity, the company is obliged to form a branch, i.e. premises outside its registered seat, and register it accordingly or otherwise establish an organisational unit that is registered in the Tourism Registry. To this end, the Company registered all petrol stations where it provides hospitality services as separate branches. The list of petrol stations which are registered as branches is available at *http://ir.nis.rs/o-nama/grupa/#c88.*

NIS j.s.c. Novi Sad Business Structure

NIS
GAZPROM NEFT

Corporate Centre

Representative and Branch

Exploration and Production

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

Services

- Oilfield Services Management Centre
- PEC Department
- Sector for MT and SS
- HR Sector
- HSE Sector

Refining

- Production Department
- Technical Department
- PEC Department
- Department for Development and Investment
- 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
- Department for quality, PS operations and warehouses control
- HSE Sector

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
- Sector for MT and SS
- Project Office Pančevo

MISSION, VISION
AND VALUE STATEMENTS

Mission

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

Vision

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

Value Statements

Professionalism

Acquiring up-to-date knowledge with a view to building on professional expertise continually; ability to implement it in specific business processes.

Positive Approach and Cooperation

Readiness to join multifunctional groups and projects and to respond to requests from colleagues from other organisational units; readiness for knowledge exchange and team work.

Initiative and Responsibility

Finding and proposing new solutions, both in terms of work duties and, more broadly, the Company's interests.

Shared Results

Working together to achieve tangible and outstanding results, striving towards success with prerequisite mutual assistance and cooperation from employees.

STRATEGY

Strategic Goals

Amid high volatility in the global oil markets, caused by a surge in oil production in the United States resulting from new technologies and the OPEC response to that production, the entire industry is exposed to uncertainty and low oil prices. Globally, a proper balance in oil supply and demand has yet to be achieved and NIS will face a longer period of volatility in oil prices and their unlikely rebound to the levels they had maintained for years preceding the market disturbance.

So far NIS has been successful in responding to the challenges of the business environment and managed to keep a satisfactory level of profitability, while preserving the main course of strategic development, and plans to take a series of actions in order to strengthen its performance in the future, adapt to the new realities of the oil business while maximising returns for shareholders.

Top business priorities for the upcoming period are:

- Increasing the depth and efficiency of refining at the Pančevo Oil Refinery
- Conducting geological research at oil fields in Serbia
- Formatting and modernising the retail network

The strategic targets also include further business diversification by investing into electricity generation and efficiency leadership in the region, with maximum optimisation of operating performance across the board.

Exploration and production will concentrate on resource base development and implementation of drilling programme and geological and technical activities. The focus is on profitable investment projects, both in Serbia and in the region, which have maximum effect on the business.

Further development of **Services** Block is intended to support implementation of the plans of Exploration and production Block. Improvement of the quality of services rendered, increase in use of facilities, increase in operational efficiency and workplace safety of employees are the key priorities for development in the future period.

The strategic targets of **Refining** include energy efficiency improvements and steady growth in refining efficiency. The top priority project will still be the modernisation of refinery assets through the depth of refining increase project for the *Pančevo* Oil Refinery. This is one the largest forthcoming investments in Serbia, which is expected to increase production of motor fuels and thus bring to long-term stability of the supply of these petroleum products.

Sales and Distribution will continue with its efforts to modernise and improve the efficiency of retail network and market share in Serbia and the region. Through loyalty programmes and by building a uniform offer, the petrol stations operating under the mass brand NIS Petrol and the premium brand GAZPROM will expand the scope of supply. Another development area that NIS sees as important is the business of specialised products – aviation fuel, bitumen, lubricants and bunker fuel, which will be developed by upgrading specialised logistics and improving the quality of products and associated services.

With respect to **Energy**, NIS strives to diversify the business by investing into electricity production and trading. Strategic goals in this segment include compliance with EU requirements through generation of renewable energy.

Across-the-board operational efficiency programmes will continue to be the key source for improving the operating performance and one of the fundamental strategic goals pursued in the hostile business climate.

CHPP PANČEVO

140MW	in 2019
Designed power of the gas turbine	CHPP is expected to be put into operation

BOTTOM OF THE BARREL

The increase of refining depth to 92%
Expansion of product range and increase in production of more profitable petroleum products

Strategic Projects

The project of CHPP *Pančevo* entails construction of a combined heat and power plant with a gas turbine with a capacity of 140 MW for the generation of electric power for the market and electric and heat power for *Pančevo* Oil Refinery, with the possibility of increasing the capacity up to 208 MW.

The building of CHHP *Pančevo* is a joint project of NIS j.s.c. Novi Sad and PJSC "Centroenergoholding", the subsidiary of "Gazprom Energoholding". The project was included in the Urban Plan of *Pančevo*, a contract was signed for preparing a study on connecting to the electric power system of *EMS* (depending on the selection of equipment). The tender procedure for the selection of contractors by EPC model, as well as technical and commercial negotiations were carried out and share capital was paid.

CHPP *Pančevo* is expected to be put into operation in 2019.

The "Bottom of the Barrel" project involves construction of a Delayed Coker Unit (DCU) and represents the next stage in modernisation of *Pančevo* Oil Refinery.

In 2016, final version of the extended base project (FEED) of the delayed coking unit was made, agreements on supply of equipment requirement requiring longer manufacture were signed, EPCm contractor for design and construction of operating package 1[5] was selected. Tendering procedure for the selection of EPCm contractor for operating package 2[6] was initiated.

The construction permit is expected to be obtained in May 2017, and the construction is expected to begin in July 2017. The start of operation is planned for third quarter of 2019.

[5] Construction of delayed coking plant and its auxiliary plants: amine regeneration, sour water stripper with phenol removal unit.
[6] Reconstruction of existing plants connected to the delayed coking plant such as MHC/DHT, LPG, SRU.

RISK MANAGEMENT

Integrated Risk Management System

NIS has set its objectives in relation to risk management and established an integrated risk management system (IRMS).

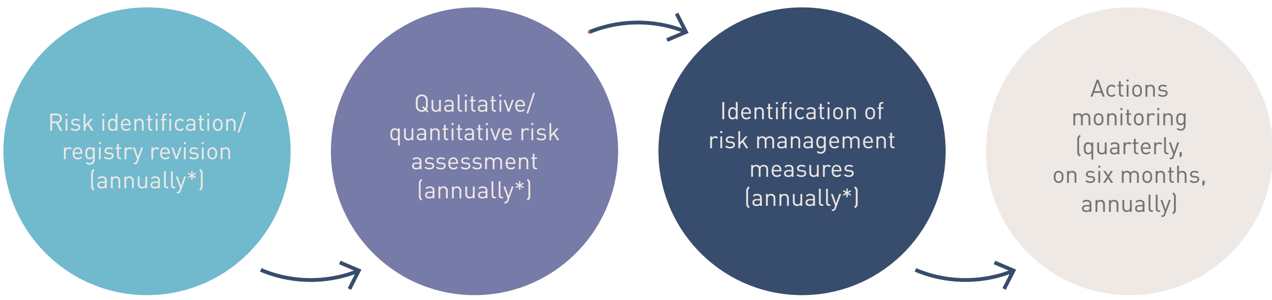
The objective of risk management is to ensure additional guarantees that strategic and operational targets will be delivered through timely identification and prevention of risks, identification of effective measures and provision of maximum efficiency of risk management actions.

The IRMS is a systematic, structured, consistent and continuous process of risk identification and assessment, identification of risk management actions and monitoring of their implementation. It provides a consistent and clear framework for managing and reporting on risks from the operations to the management of NIS j.s.c. *Novi Sad*.

Risk management has become incorporated into NIS' environment through the following activities:

- Adoption of the risk-oriented approach in all aspects of production and governance;
- Systematic analysis of identified risks;
- Setting up of a risk management system and monitoring of the effectiveness of the management of risks;
- Familiarisation of all employees with main risk management principles and approaches adopted;
- Required normative and methodological support;
- Distribution of risk management powers and responsibilities between organisational units.

IRMS Process Flow at NIS



*Or as needed.

The system is founded on the principle that different management levels have different risks assigned to them to manage depending on projected financial impact of those risks. Such approach allows for identifying the areas of responsibility for risk governance and oversight at all management levels and for ensuring that suitable action plans are prepared for managing key risks, at the level of organisational units and NIS as a whole.

The parent company has set up the Risk Assessment Section, which coordinates the process and ensures its continuous development.

Furthermore, management systems, organisational structure, processes, standards and other internal regulations, the Code of Corporate Governance and the Code of Business Ethics all together form an internal control system which provides guidance on how to conduct NIS' operations and manage associated risks in an effective manner.

IRMS Integration into Business Planning Process

Key risks, associated with corporate targets, are identified by the management and adopted by the Board of Directors through adoption of the Company's business plans. Risk assessment is a part of the business planning process and information on key risks - estimated financial effect of the risks, management strategies, risk management actions and the funds needed for realising the actions - are incorporated into the adopted business plans.

Through its operations, the Group is exposed to industrial (operational), financial and other risks.

Operational Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
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 research activities aiming to increase the number of active wells in the country and abroad. The main risk in oil and gas exploration and production ensues from failure to prove estimated reserves and, consequently, failure to achieve planned resource base growth.	Actions applied in order 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 from the largest shareholder and selection of most prospective wells, application of latest exploration methods, experience in geological research, all of which reduces the probability of risks arising.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Market Risks	
Foreign Exchange Risk – NIS Group operates in an international setting and is thus exposed to the risk of volatile foreign currency exchange rates arising from business transactions in different currencies, primarily USD and EUR.	The risks relating to changes in the national currency exchange rate against the US dollar is partly neutralised through natural hedging of petroleum product selling prices, which are adjusted to these changes. Risk management instruments are also used, such as forward transactions on the foreign exchange market, which help reduce the impact of foreign currency losses in the event of depreciation of the national currency against the US dollar or euro. Other actions include 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 ACTIONS
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 affect the value of stock 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. The need to apply some of the commodity hedging instruments in 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 multiple scenarios, plan follow-up and timely adjustment of operating plans for crude oil procurement; • Regular sessions of NIS j.s.c. Novi Sad Committee in charge of crude oil purchase/sale to discuss all major subjects related both to crude oil purchase and sale (sale of Angola-Palanca crude oil); • Tendency to enter into long-term crude oil purchase contracts at optimal commercial terms, with longer payment terms on an open account basis and sales contracts which would exempt NIS j.s.c. Novi Sad, in line with current governmental agreements, from paying customs clearance fees at import based on preferential status; • Expansion of the supplier portfolio, successful cooperation with EU companies, growing competition in tenders for importing and more prominent progress regarding purchase prices; • Expansion/diversification of the crude oil basket for prospective import, provision of samples of the crude oil types that have not been processed by the *Pančevo* Oil Refinery; • Continuous effort to optimise processes and striving to achieve optimal economic effects and indicators; • Occasional benchmarking to survey the market and price trends, that is, to analyse the 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 new crude oil types which have not been used in NIS refining plants, analysis and consideration of potential commercial terms of procurement.
Interest Rate Risk – NIS Group is exposed to the interest rate risk both in terms of its bank loans and placement of deposits.	NIS j.s.c. Novi Sad takes out loans with commercial banks at floating interest rates and performs sensitivity analysis against interest rate changes and assesses if raising a loan at a flat interest rate is required to a certain extent. Placing of funds in the form of intercompany loans/credits to third parties follows floating interest rates whereas placing of funds in the form of tied or a vista deposits follows flat interest rates. The funds are placed as deposits in line with the credit limit methodologies of commercial banks (the funds are reciprocally placed only with major commercial banks from which NIS j.s.c. Novi Sad takes out loans and/or credit/documentary lines). Consequently, revenues and cash flows from bank deposits are substantially independent of any changes in market interest rates on deposited funds, whereas for placing in the form of granted loans/credits, exposure to the risk of changes in basic interest rates is greater (EURIBOR).
Credit Risk	
Arises in relation to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans extended to third parties, and exposure to wholesale and retail risks, including unrecoverable debt and assumed liabilities.	Credit risk management is established at the level of NIS Group. With respect to credit limits, banks are ranked based on the adopted methodologies applicable to major and other banks, in order to determine the maximum extent of exposure of NIS j.s.c. Novi Sad to the bank at any given time (through documentary instruments: bank guarantees, Letters of Credit, etc. – issued to NIS j.s.c. Novi Sad). Regarding accounts receivable, there is a credit limit methodology in place which serves for defining the level of exposure in relation to individual customers, depending on their financial indicators.

Liquidity Risk	
Liquidity risk denotes a risk that the Company will encounter difficulty in meeting its liabilities. It is the risk of not having suitable sources to finance the Group's business operations.	NIS Group continually monitors liquidity in order to provide sufficient cash to meet its operational, investment and financial performance requirements. To this end, it is continually contracting 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). This type of projection takes into account the Group's debt repayment schedules, compliance with contractual terms and compliance with internally-set goals, and it is based on daily cash flow projections for the entire NIS Group, which form a basis for making decisions regarding raising external loans, in which case adequate bank financing sources are secured within 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, the cash pooling system was introduced on January 1st, 2014 for the purpose of liquidity management, which involves centralised management of liquidity and financing of the part of NIS Group in the Republic of Serbia[7]. Since mid-September 2014, NIS j.s.c. Novi Sad Novi Sad has been exposed to the risk of limited external financing capacities due to the imposition of sectorial sanctions by the EU and the U.S.A. on the largest Russian-owned energy companies incorporated outside the EU. With its continuous monitoring of geopolitical situation and capital market trends, timely response and extension of credit lines 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 and 2016. Furthermore, with the aim of acquiring necessary funds for future transactions, in 2016 NIS negotiated/contracted new credit lines with Serbian and Arabian banks for general purposes funding and with Serbia-based European banks for funding imports from the EU (financing for a period longer than 30 days is allowed if the subject of financing is import of goods or services from the EU), thus ensuring the necessary funds for 2016 and in part for 2017. During the fourth quarter of 2016, a tender was conducted for restructuring NIS' credit portfolio with the aim of securing sufficient credit limits (in excess of 400 million euro) to take out favourable loans from EU banks for a period of 5 years for the purpose of importing from the EU. These sources of funding will be available in 2017 and will be used for payment for imported goods and services from the EU, which will enable NIS to use liquidity surpluses from loans granted under better terms to repay the loans under more unfavourable terms from their portfolio before their maturity and thereby practically restructure maturity of its loan portfolio (greater share of long-term loans in the portfolio, average credit portfolio term is extended), with a smaller share of dollar-denominated loans which carry a risk of increased base rate (USD LIBOR) and a risk of exchange losses, new loans will be taken out at more favourable interest rates, all within the allowed loan limits, and in the next 3 years the company's cash flow will be unburdened for investments in this period (especially the "Bottom of the Barrel" Project).

Other Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Risk of Economic Restrictions from the EU and the U.S.A. on Gazprom Neft Group	
The economic restrictions imposed by the EU and the U.S.A. on Gazprom Neft Group brought about risks to the prospects for long-term development because of the limitation of loan arrangements with commercial banks from some of the EU- and USA-based bank groups.	NIS continuously follows international developments, assessing consequences to the business and undertaking appropriate actions to have NIS exempted from the EU sanctions. In addition, in accordance with allowed exceptions from the imposed sanctions (long-term loans are possible only if they are intended for funding import of goods and services from the EU); NIS' operations continuously adjust to this option by increasing the volume of imported goods and services from EU suppliers. This ensures sufficient funding for long term development of NIS despite of the limitations of the sanctions.

[7] NIS j.s.c. Novi Sad and subsidiaries 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.

BUSINESS ENVIRONMENT

The World

After nearly two-year deadlock in negotiations, 2016 saw two unsuccessful attempts at negotiation of crude oil producing countries (in Doha in April and in Algiers in September) and a successful one, in Vienna on November 30th, when the OPEC formally decided to reduce its output in the first half of 2017. The agreement itself involves compromises that are required to reach consensus, but the need to end long negotiations and break the impasse of prices and producers' profits ultimately resulted in agreement. Libya and Nigeria were excluded from the agreement, while Indonesia suspended its membership, which additionally complicated the final numbers. Nevertheless, reduction of output by 1.2 million barrels a day marks the OPEC's return to supply management, with the help of non-OPEC countries, such as Russia (the greatest oil producer apart from Saudi Arabia and the U.S.A.). The OPEC is going to meet again in Vienna on May 25th, 2017 and consider the need to extend the output agreement by further six months. Eleven non-OPEC countries, including Russia, joined in the agreement and an output reduction by almost 1.8 million barrels a day was arranged. The agreement resulted in a stable increase in the price of oil at the year's end. PricewaterhouseCoopers believe that oil prices will not reach the level of 100 dollars a barrel, but that they will have a limited increase up to the level of 60-70 dollars a barrel in the next few years. Despite the fact that oil price can never be fully predicted, nor can it be said that oil will never reach a certain price again, going back to the prices from the first half of 2014 is not very likely.

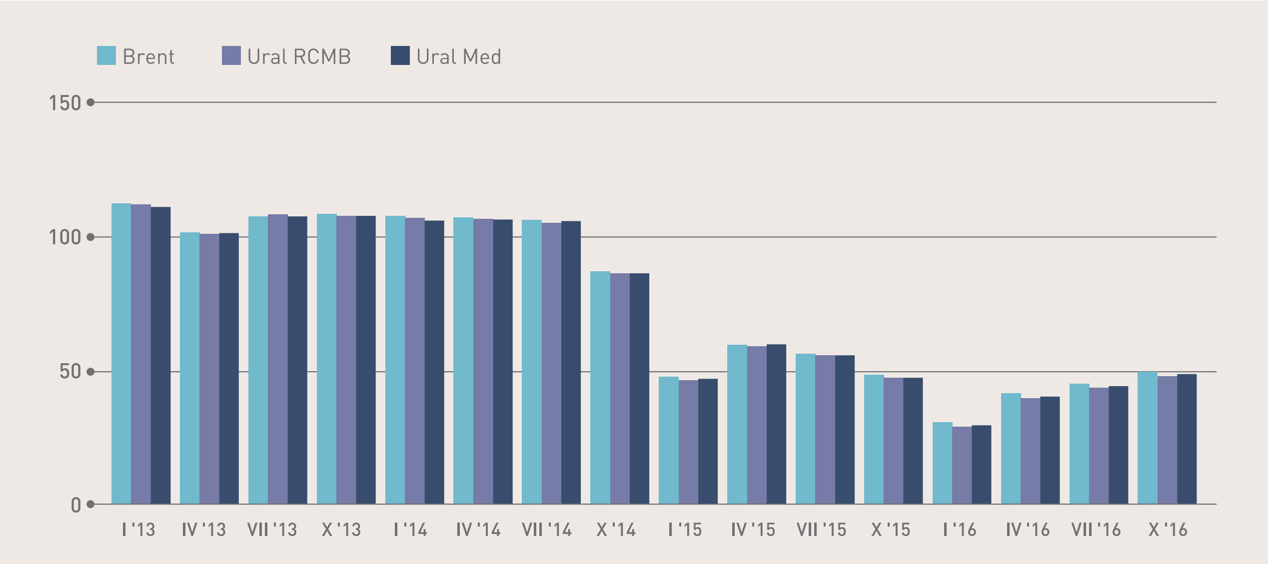


Chart no. 1: Crude oil price trends in the period 2013-2016, USD/bbl

In its latest report (October 2016), the IMF revised global growth to 3.1 per cent in 2016 and 3.4 per cent in 2017, which is a decrease of 0.1 percentage point for both years compared to the April forecast.

This estimate reflects decreased expectations for advanced economies due to Great Britain's leaving the European Union (Brexit) and lower growth than expected in the United States of America. These events put an additional pressure on global interest rates. Financial institutions improved their estimates for growing market economies in the expectation of lower interest rates in advanced economies, reduction in concerns over China's short-term growth perspectives, and stabilisation of prices of certain raw materials.

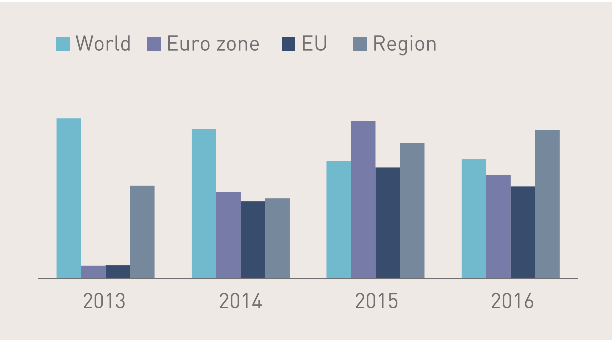


Chart no. 2: GDP growth, %[8]

[8] Source: IMF World Outlook (WEO), October 2016. Region: Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Macedonia, Montenegro, Romania, Serbia, Slovenia.

The Paris Climate Agreement, reached in November 2015 as a tool for slowing down global warming, became effective in November 2016. This is the first agreement that binds all countries in the world to limit global warming by reducing greenhouse gas emissions, and has been ratified by 94 out of 197 participants in the UN Climate Convention so far.

Major oil companies are investing a billion dollars in lower emission technologies. The Climate Initiative (OGCI) is the initiative of the CEOs of the following ten major oil and gas companies: BP, CNPC, ENI, Pemex, Reliance Industries, Repsol, Royal Dutch Shell, Saudi Aramco, Statoil and Total. They have declared an intention to invest a billion dollars in the next 10 years so as to develop and accelerate commercial implementation of low-emission technologies and reduce production emissions, particularly of natural gas. In addition to that, the OGCI is going to support investment in projects aimed at improving energy and operational efficiency in energy intensive industries (for instance, all forms of transport).

Serbia

The positive trend in Serbia's economic activity continued in the last months of 2016, as well. The IMF Mission visited Belgrade from October 20th to November 1st for the sixth review of the Stand-By Arrangement. The Executive Board of the IMF positively evaluated the sixth review of the Arrangement of 1.2 billion euros, indicating that Serbia has achieved notable improvement in business environment and that a further growth of the economic activity is expected in the coming period.

During the year, domestic and international financial institutions have upgraded the realistic growth of Serbia's GDP in 2016 on several occasions. Weather conditions suitable for agriculture and growth in foreign trade in 2016 were conducive to positive expectations in terms of a higher rate of economic growth. Local demand, i.e. consumer spending and investments to be specific, continued to recover. Further, increase in retail turnover, growth of employment in the private sector, and significant increase in newly granted retail loans are indicative of a recovery in private consumption. The loan activity recovery is primarily the result of a continued decrease in interest rates since the beginning of the year, combined with an increase in household income. In 2016, borrowed funds, mainly dinar and foreign currency deposits, got increased, whereas external sources of funding got decreased.

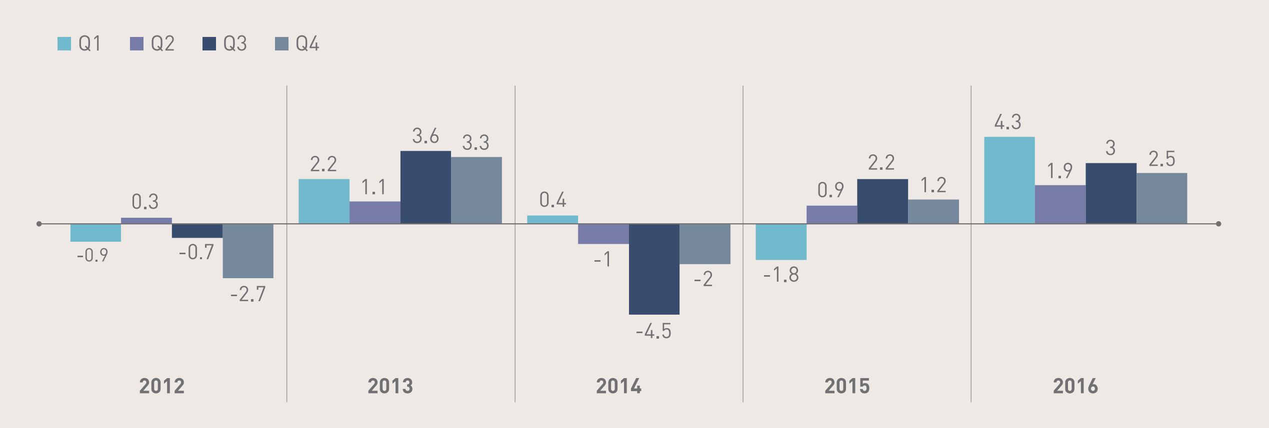


Chart no. 3: Chart no. 3: GDP trends in Serbia by quarter compared to the same quarter in the year before, %[9]

In the report entitled "Macroeconomic Trends in Serbia" and published in December, the National Bank of Serbia noted that inflation continued to be low and stable in 2016, that macroeconomic fundamentals were considerably improved and that inflation expectations had been within the limits of the new goal for quite some time.

Information of the Statistical Office of the Republic of Serbia shows that economic activity is growing with great acceleration in export, while import growth has slowed down by more than a half along with a deficit decrease.

[9] Source: Statistical Office of the Republic of Serbia.

Reduction in external imbalance is the outcome of diversified and robust growth in export. There is a year-to-year growth of 11.5% in export and 6.1% in import, which led to a decrease in deficit of 8.9%. The coverage of imports by exports is 77.3% and exceeds the coverage in the same period in the year before, when it was 73.5%.

Compared to the average salary paid in the period January-December 2015, the average net salary paid in the period January-December 2016 is nominally higher by 3.7% and actually by 2.5%.

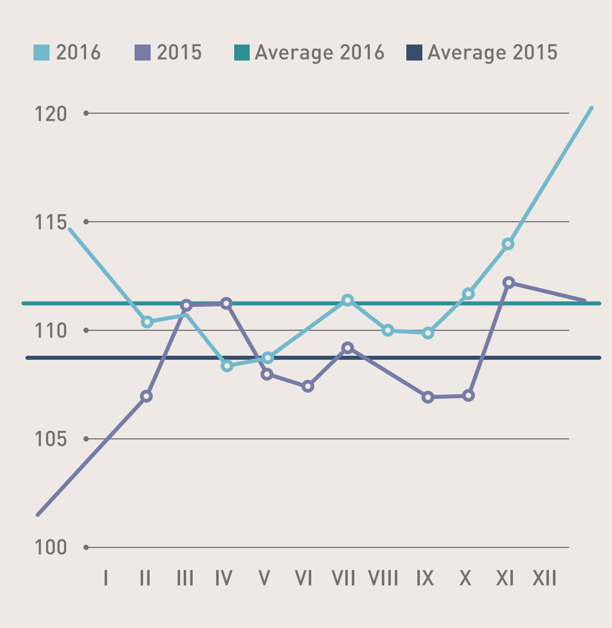


Chart No.4: USD/RSD exchange rate changes[10]

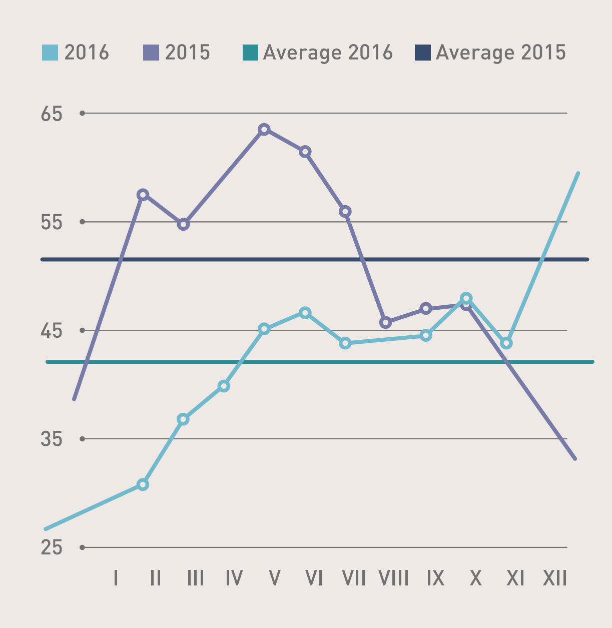


Chart No.5: Urals RCMB oil price, $/bbl[11]

- Average USD/RSD exchange rate in 2016 is higher by RSD 2.51, i.e. 2% of the 2015 average.
- In 2016, the USD/RSD exchange rate grew by RSD 5.89, i.e. 5%.
- In 2015, the USD/RSD exchange rate grew by RSD 11.78, i.e. 12%.

- Average Urals RCMB oil price in 2016 is lower by 9.44 $/bbl, i.e. -18% of the 2015 average price.
- In 2016, Urals RCMB oil price grew by 18.32 $/bbl, i.e. +52%.
- In 2015, Urals RCMB oil price is lower by 18.85 $/bbl, i.e. -35%.

[10] Data source: NBS
[11] Data source: Platts

Legislative Changes

In 2016, the legislative activity followed an unsteady pace in consequence of the parliamentary elections in the Republic of Serbia. The legislative activity was oriented on further harmonisation of domestic regulations with EU regulations, with a special focus on environmental protection and strengthening of the public service. In the reporting period, the Parliament passed a series of important laws:

- Law on General Administrative Procedure, aiming to modernise administrative procedures through efficiency and simplification and to unburden the administrative procedures in order to increase the level of legal security and improve the business climate and the quality of public service. The law will come into full force as of June 1st, 2017.
- Law Amending the Environmental Protection Law, the aim of which is to ensure harmonisation with the regulations on state aid, alignment with the actual status following the termination of the Environmental Protection Fund, provision of funds for environmental protection and improvements and functioning of the economic instruments system and legal harmonisation with relevant international treaties and EU regulations and provision of a more efficient enforcement of the laws.
- Law Amending the Nature Conservation Law, which ensures harmonisation with the international commitments under verified international treaties in the field of biodiversity conservation and overseas wildlife trade, harmonisation with EU legislation on nature conservation, harmonisation with other system laws governing the budgeting system and proposed amendments of the Environmental Protection Law requiring the establishment of the Republic of Serbia's Green Fund.
- Law Amending the Waste Management Law, ensuring harmonisation with some relevant EU Directives governing this field. In addition, one of the key changes is harmonisation with other environmental regulations that are currently in place and provision of a more efficient regulatory enforcement.
- Law Amending the Law on Inland Waterways and Ports, aiming, among other things, to harmonise the Law on Inland Waterways and Ports with the Law on Private Security, Law on Investigation in Air, Railway and Water Transport Incidents, and to regulate certain yet unregulated areas or areas observed as such in practice, the resolution of which had required finding better legal solutions, primarily in terms of delineating the concept of potential status changes concerning port operators-holders of port permit.

The year 2016 saw the adoption of by-laws stipulated by the Energy Law, which are related to renewable electricity generation and purchase and petroleum product quality monitoring. These regulations, along with other RES regulations should allow for investments in this field and help achieve the binding RES targets of 27% in the gross final energy consumption set forth in the National Renewable Energy Action Plan from 2013 and the 2012 Decision of the Ministerial Council of the Energy Community.

NIS has analysed all of the above regulations through its working body – Regulations Board - in the course of adoption, providing input with the aim of bringing the regulations closer to the needs and requirements of energy businesses operating in the Republic of Serbia.

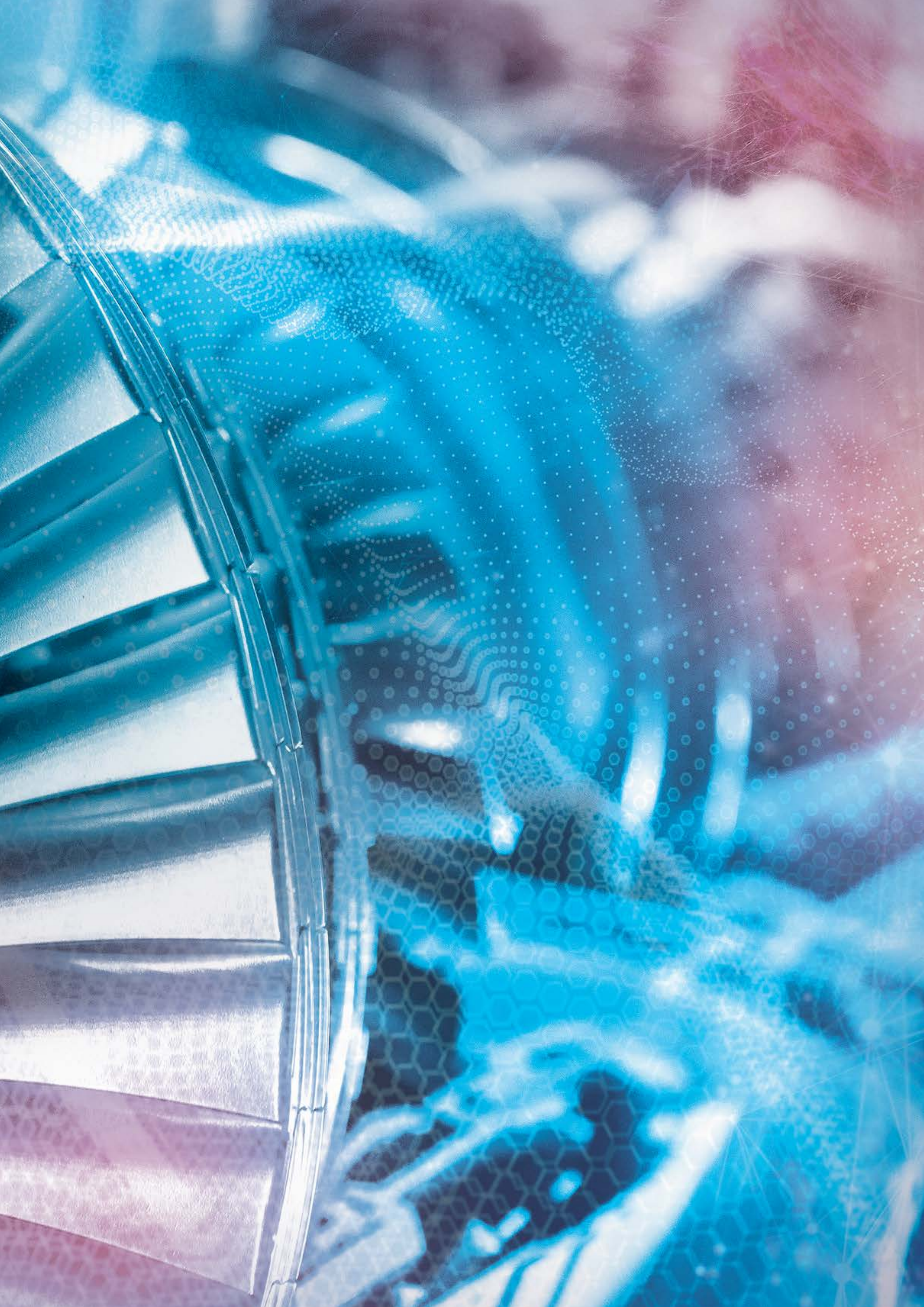
In addition to the new regulations, a series of draft laws and by-laws were in preparation and consideration in the course of 2016 and they are slated for adoption in 2017. This primarily refers to the Draft Law on Carriage of Dangerous Goods, Draft Civil Code, Draft Law Amending the Bankruptcy Law, Draft Law Amending the Law on Waterways, Draft Law on Services and by-laws related to the Law on Mining and Geological Research.

NIS will continue to put maximum effort to help create 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.

At the end of 2016, National Assembly of the Republic of Serbia adopted the "Law on Assumption of Liabilities of Joint Stock Company for Production of Petrochemical Products, Raw Materials and Chemicals "HIP Petrohemija" *Pančevo* to "Naftna industrija Srbije" j.s.c. Novi Sad and on Conversion of such Liabilities into Public Debt of the Republic of Serbia". This law provides for payment of debts in the amount of 105 million euros in six instalments, with payment date of the whole debt by June 15th, 2019.

ENERGY OF TRUST

The shareholders, partners and clients of NIS can be pleased with the Group's performance in 2016. For the fourth consecutive year, the shareholders received 25% of the net profit in 2015, which is more than four billion dinars in dividends. The confidence of our shareholders and partners is also earned by the transparency and free access to the business, financial and audit reports posted on the internet pages of NIS, intended to keep the investors and shareholders fully informed.



MARKET SHARE[12]

Demand for motor fuel[13] in the region's market has grown compared to 2015, due to macroeconomic trends positively affecting the consumption. Fuel consumption has grown in transportation, processing industries and construction development.

Serbia's diesel fuel consumption growth has been positively affected by infrastructure operations along with improved processing industries performance, favourable season in agriculture, as well as transportation expansion.

Diesel fuel consumption has partially entered a shadow economy zone due to the blending of non-excise duty base oils imports which has grown by more than 60%. Bosnia-Herzegovina and Macedonia have continued their practice of trans border fuel procurement due to significantly lower duties on fuel.

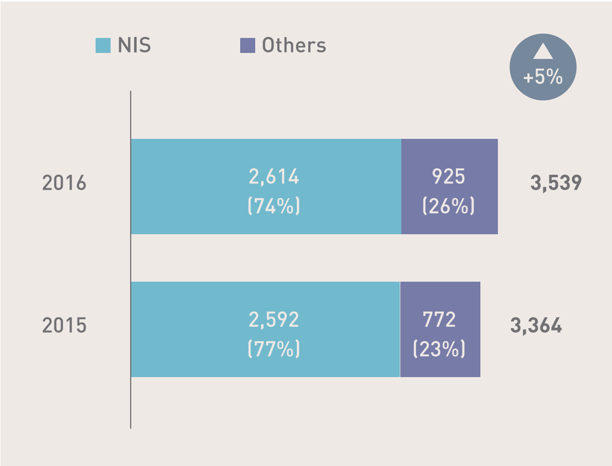


Chart no. 6: The volume of overall petroleum products market[14] , thousand tonnes

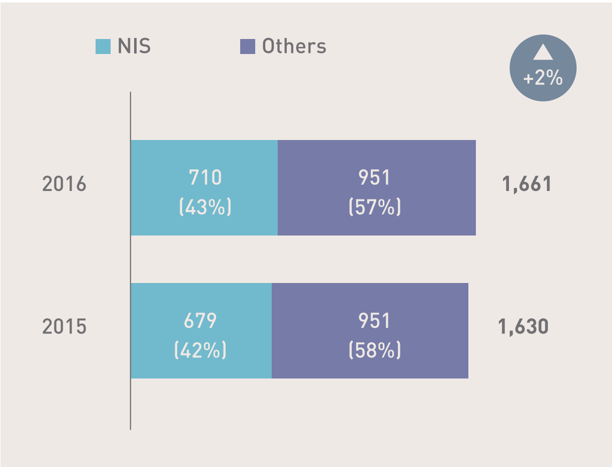


Chart no. 7: Retail market of motor fuels in the Republic of Serbia[15], thousand tonnes

Market Share on Serbian Market

In 2016, the total consumption of petroleum products in Serbia grew comparing to 2015, which was mainly a result of the growing consumption of naphtha and motor gasoline, diesel fuels, jet fuel, bitumen and heavy oil, which was all mainly caused by the lower prices of petroleum products and significant infrastructure works. LPG and heating oil consumption has been lower in the same comparative period.

Reasons for somewhat lower market share of NIS are the growing oil products volumes in the so- called shadow economy zone, a segment beyond access of legal market players.

Retail market was enlarged by 1.9% in 2016, compared to 2015. NIS increased its total market share in the Serbian retail marker, by growth in the sale of gasoline and diesel, as well as auto gas.

Fuel consumption growth is the result of lower prices, transportation expansion, growing car fleets and transit traffic.

NIS's share at retail market of motor fuels of the Republic of Serbia amounted to

43%

[12] Data sources for projections: for Serbia – Sales and Distribution internal analyses and estimates; for Bulgaria and Romania – PFC and Eurostat; For Bosnia-Herzegovina – PFC and internal estimates.
[13] Motor fuel market: motor gasoline, diesel fuel and LPG.
[14] Data for 2016 were given based on estimates. Following the published NOCS market assessment for 2015 minor corrections have been made for 2015.
[15] The sales of NIS and other competitors includes motor fuel (auto gas, gasoline, diesel). LPG cylinders were not included. Data for 2016 were given based on estimates.

Market Share in Bosnia and Herzegovina, Bulgaria and Romania

Bosnia and Herzegovina

Due to low excise duties and VAT rate motor fuel prices in Bosnia-Herzegovina are significantly lower than in the region, which in 2016, positively affected the consumption growth. The Council of Ministers in Bosnia-Herzegovina endorsed a Bill on Changes and Amendments to the Law on excise duties in Bosnia-Herzegovina stipulating excise duties on oil and oil products, specifically 10 pfennigs per litre of fuel for the construction of highways and 5 pfennigs for the construction of primary and regional roads, however the endorsement has still not been adopted.

Rulebook on Terms for Retail Sales of heating oil became effective on May 17th, 2016. The Rulebook is expected to settle the problem of a long-term substitution of diesel fuel with heating oil, both in the local market and for the trans-border supplies to agricultural workers residing in borderline areas in Serbia and Croatia. The Refinery in the town of Brod has resumed the output of heating oil, but with reduced volume.

35[16] NIS petrol stations are active in Bosnia and Herzegovina.

NIS' share[17] in the total motor fuel market is 11%, and in the retail market 10.4%.

Bulgaria

The Bulgarian market has seen a reduced import due to growing refining volumes in the revamped refinery in the town of Burgas.

In 2016, Bulgaria's retail market came up with various loyalty programmes, campaigns and a fierce competition of the market players. The emergence of smaller private chains has been noticed and they have been quickly developing their networks and corporate clients segment.

In 2016, Bulgaria's wholesale prices were somewhat lower compared to other markets due to strong competition as well as due to Lukoil's pricing policy.

35 petrol stations are active in Bulgaria.

NIS' share in the total motor fuel market is 4.3%, and in the retail market 4.3%.

Romania

Motor fuel market was on a rebound in 2016, compared to the previous year predominantly due to lower prices and reduced fuel duties, which had a positive impact on the fuel consumption growth.

The MOL Group has further expanded its regional network, including the retail and wholesale in Romania. The increased output of the refinery in the town of Burgas has brought about additional import volumes to Romania's market, which exerts pressure on domestic output and premiums.

18 NIS petrol stations are active in Romania.

NIS' share in the total motor fuel market is 0.6%, and in the retail market 0.9%.

[16] In addition to this number there are two more petrol stations in Bosnia-Herzegovina operating as DODO (Dealer Owned Dealer Operated).
[17] NIS' market shares calculated for 37 petrol stations (35 NIS-owned petrol stations and two petrol stations operating as DODO (Dealer Owned Dealer Operated).

PERFORMANCE ANALYSIS

Key Performance Indicators

Indicator	Unit of measure	2016	2015	Δ 2016/2015 (%)[18]
Urals RCMB	$/bbl	42.1	51.5	-18%
Net profit	RSD billion	15.0	14.6	+3%
EBITDA[19]	RSD billion	39.8	46.5	-14%
OCF	RSD billion	41.2	51.0	-19%
CAPEX[20]	RSD billion	26.1	30.3	-14%
Accrued liabilities for taxes and other public revenue[21]	RSD billion	163.3	151.9	+7%
Total bank indebtedness[22]	USD million	666	675	-1.5%
LTIF[23]	%	1.63	3.03	-46%

In line with forecasts, 2016 was a year of challenges and difficult circumstances in the global market. Despite the continuation of crisis in the oil sector, NIS managed to achieve its business plan, make profit and, at the same time, continue to invest in strategic projects. The results achieved serve as another confirmation that the business model created is sound and that it ensures performance effectiveness improvement and numerous savings.

The central connecting threads in 2016 include: health, safety and caring about the environment, given the fact that the year was declared the "Year of HSE". HSE system is an integral part of the business process and caring about the health and safety of our employees, caring about the assets and equipment, and being dedicated to environmental protection are instrumental in the long-term sustainable development of NIS.

Notwithstanding difficult operating conditions, NIS has remained a secure source of income for its shareholders, so this has been the fourth consecutive year that it has paid dividend in the total amount exceeding four billion dinars.

Operating Indicators

Exploration and Production

Indicator	Unit of measure	2016	2015	Δ 2016/2015 (%)[24]
EBITDA	RSD billion	21.3	38.3	-44%
Oil and gas production[25]	Thousand t.o.e.	1,463	1,577	-7%
Domestic oil production[26]	Thousand tonnes	967	1,058	-9%
CAPEX	RSD billion	17.7	23.2	-24%

[18] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[19] EBITDA = Sales revenues (exclusive of excise duties) – costs of inventories (oil, petroleum products and other products) – Operating Expenses (OPEX) – other costs that may be controlled by the management.
[20] CAPEX amounts are exclusive of VAT.
[21] Taxes, fees, charges and other public revenue calculated for the reporting period. The overview is inclusive of the liabilities of NIS for taxes and other public revenue in Serbia and other countries of operation.
[22] Total bank indebtedness =Total debt to banks + Letters of Credit. As at 31.12.2016, this was USD 662.3 million of total debt + USD 3.2 million in Letters of Credit. .
[23] Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The indicator shown refers to NIS j.s.c. Novi Sad with its subsidiaries: Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad.
[24] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[25] Due to change in methodology, domestic oil production includes gasoline and light condensate, whereas gas production takes into account commercial production of gas.
[26] With gasoline and light condensate.

In 2016, the main focus at the Exploration and Production was on achieving planned hydrocarbons output, implementing projects and improving the efficiency of geological exploration, as well as improving production and technological efficiency by implementing operational effectiveness improvement measures. Further, in the "Year of HSE" emphasis was placed on increasing the level of safety and reducing injuries at work, where an excellent result was achieved with LTIF equalling 0.

In 2016, the Exploration and Production managed to realise the planned volume of hydrocarbon production, while increasing hydrocarbon reserves by 3.4% at the same time. In the last three years, the success of exploration and development drilling has remained at the highest level not only in the region, but also among production assets of PJSC "Gazprom Neft". The exploration drilling success coefficient is 75%.

As to geology and reservoir engineering, the focus was on improving the effectiveness of all GTAs, reducing the cost of operations and experimenting with inexpensive methods aimed at increasing the production of oil and applying new technologies and innovative solutions - multiphase fracturing, horizontal drilling, etc.

Exploration

As part of geological exploration at the Exploration and Production in 2016, five exploration wells were drilled, two of them are producing wells, one was preserved, while two are subject to testing. Iđoš oil reservoir was discovered, while the existing gas reservoir in Begejci was confirmed and another one was discovered. The estimated increase in reserves by the end of 2016 was 3.4%.

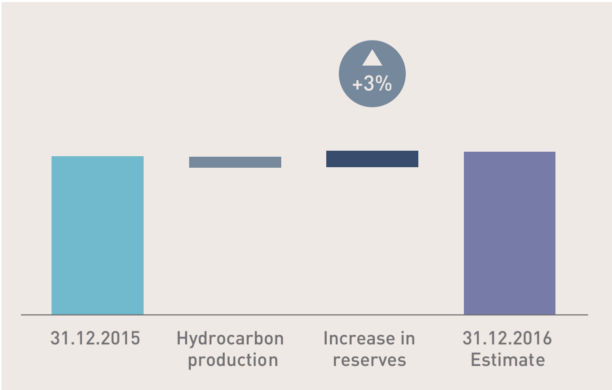


Chart No. 8: Estimated increase in reserves of hydrocarbon in 2016

3D Seismic

The year 2016 saw completion of processing and interpretation of 3D seismic data from the exploration area *Turija I*, and acquisition and processing of 3D seismic data from the exploration area *Turija II.* The interpretation of *Turija II* 3D seismic data is underway. The acquisition of 3D seismic data from the exploration area *South Banat I* is at the final stage. The Regional Model of the Pannonian Basin was finalised and presented.

Foreign Projects

The drilling of Well RAG Kiha-004 in the exploration block Kiskunhalas in Hungary was completed. Oil was recovered during brief testing, so preparatory and major workover for the purpose of extended testing by bottom-hole pump is in progress.

Experts of NTC NIS Naftagas d.o.o. Novi Sad completed interpreting the data acquired in blocks Ex-7 and Ex-8 (Stages 1 and 2 – joint venture with East West Petroleum). The interpretxation results were integrated into the geological model and resource base estimation. There are on-going preparations for drilling Well Teremia-1000 in Block Ex-7 and access roads are being built. The testing of Well Jimbolia-6 was finished, gas flowed, the process of seismic work and access road construction permitting is underway.

Geochemical activities were undertaken in the fields within the East Herzegovina Block in Bosnia and Herzegovina. The data is in the process of being analysed and complemented, and a strategy for further works in the entire Block is being prepared.

Authorisations for Exploration and Production of Mineral Resources and Raw Materials

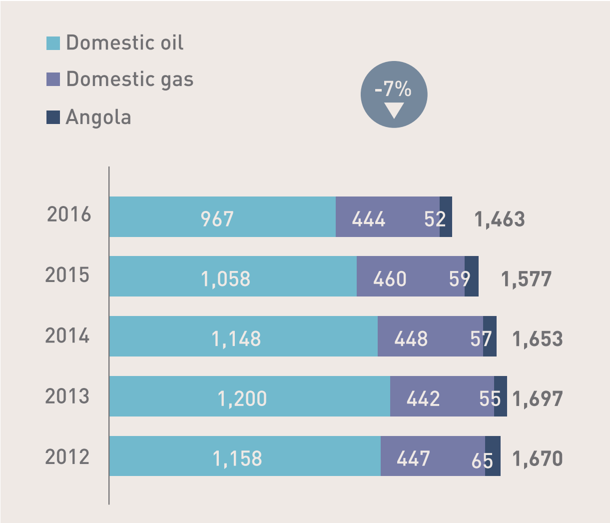
In 2016, three exploitation authorisations in the Republic of Serbia (*Kasidol, Ostrovo and Majdan* Reservoir Pz-1) and two authorisations for utilisation of constructed mining facilities (*Torda plitko* and *Rusanda plitko*) were granted.

In addition, an application was filed with the competent government authority for granting an authorisation for the construction of mining facilities and performance of mining works (*Ostrovo*), which is subject to consideration.

Concerning the process of geological exploration of groundwater in the Republic of Serbia in 2016, two authorisations were obtained for extending geological exploration of groundwater (*Sečanj* and *Plandište)* and groundwater supplies in the water sources of Oil and Gas Preparation and Transport Unit (*Elemir*), Gathering Stations *Kelebija* I and II and *Palić* (*Subotica*) and Gathering Station *Čantavir* (*Senta*) were subject to certification.

With regard to foreign assets, the time frame for oil and gas exploitation in Block *Kelebija* was extended until 10.09.2017, and the time frame for geological exploration of oil and gas in Block *Kiskunhalas* was extended until 26.11.2018 by virtue of decisions of the Hungarian Ministry of Mining.

Operating Indicators



The volume of production of domestic oil in 2016 exceeded the planned volume by 18.5 thousand tonnes. Viewed by planned activity, new drilling production, application of GTA was above the plan, while the production of the base stock was lower than planned (-3.6 thousand tonnes) as a result of suspending the operation of the unprofitable stock in accordance with current macroeconomic conditions. Total effectiveness of GTA with new drilling was 125 thousand tonnes, i.e. 22 thousand tonnes more than planned. The output of domestic gas was higher than planned (+0.1%), while the oil output in Angola was lower than planned (-15%).

Chart No. 9: Oil and gas output, thousand t.o.e.

"Year of HSE"

LTIF - 0

of Exploration and Production Block

502 days without occupational injuriesof employees with sick leave

1,077 days without occupational injuries of contractors' employees

The project "Improving Working Conditions from the HSE Perspective" was launched; the Block's SEVESO documents were updated to reflect current organisational and technical modifications and measures imposed by the competent authority; several plans and assessments of vulnerability were also updated. The project involving closing down two pits at the landfill of Novo Miloševo was finalised, as well as the construction of a water treatment unit at this site.

Services

Key indicators	Unit of measure	2016	2015	Δ 2016/2015 (%)[27]
EBITDA	RSD billion	1.1	1.5	-25%
Wells finished	Number of wells	42	48	-13%
CAPEX	RSD billion	1.1	0.8	+33%

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

In the year behind us, the Services managed to achieve the plan and even go above it in some activities. Instead of the planned EBITDA of 0.5 billion dinars, the actual amount was more than doubled and reached 1.1 billion dinars.

Following an increase in the price of oil, planned activities of the Drilling Department were intensified, and instead of planned 31 wells, the drilling of 42 wells was completed. By purchasing new equipment, the Seismic Department continued its work on 3D exploration, and is finalising the *South Banat* project. *Pančevo* Oil Refinery was subject to major overhaul. By procuring new water treatment equipment for Novo *Miloševo* Landfill, we are demonstrating a higher degree of responsibility in the coming year of Ecology at NIS.

Oilfield Services

Naftagas – Naftni servisi d.o.o. Novi Sad carried out works at 5 drilling rigs on average, on the account of a restrictive Gantt chart and variable oil prices in the market. Forty-two new wells were drilled (5 complicated ones from the engineering point of view, particularly wells *Tus-138* and *Majdan-2*, where additional holes were drilled). Drilling in exploration wells *Is-h-5* and *Km-h-1* was successfully completed, the rate of penetration and efficiency were increased by applying the Tech Landscape strategy, and a tender for drilling in Romania was won.

On average, 15 workover rigs were engaged and 435 wells were worked over with a larger share of major workovers. The Workover Department was engaged in the major workover of Well Jimbolia-006 in Romania, and on Mirecol project on Well *Bčj-2*.

Apart from its scheduled activities, the Well Services Department carried out the works of tank/reservoir inertisation, pushing in-pigging oil pipelines by gaseous nitrogen, installation of coiled tubing as production tubing in gas wells *It23* and *Mkh3*, as well as EL measurements for Underground Gas Storage Facility *Banatski Dvor*.

When it comes to 3D seismic works, a total of 899 km^2 was done on the following projects: *South Banat 1, Turija 2* and a project in Romania (blocks Ex-7 and Ex-8).

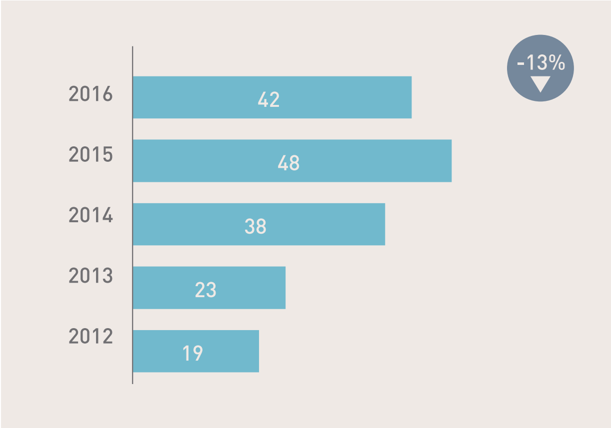


Chart No. 10: Number of completed wells

Technical Services

Naftagas – Tehnički servisi d.o.o. Zrenjanin successfully carried out works as part of the major overhaul in *Pančevo* Oil Refinery on groups of plants GU1[28] and GU2[29]. Maintenance of 6 cogeneration units for the Energy was taken over from third parties and carried out successfully; major overhaul and rebranding of 28 pump jacks were performed, as well as repair of threads on 11,775 pieces of tubing for the Exploration and Production. In addition, the Tubing Centre headquartered in Kikinda was established with a view to good-quality servicing of production tubing, which resulted in considerable savings.

Transport

In support of activities of all Blocks, Naftagas – Transport d.o.o. Novi Sad provided transport services by passenger, goods and special vehicles and coaches. The total distance travelled was 28.82 million kilometres, and a project for procuring 14 tank trailers for the transport of crude oil and 2 mobile steamer units (MSU) for the Exploration and Production was implemented. Moreover, significant results were achieved in the field of traffic safety. A system of continuous monitoring of vehicles and driving styles was implemented following the trends of leading global companies (RAG and RAG+).

[28] 1st Group of Units: Platforming, HDS jet fuels, Atmospheric distillation, Vacuum distillation, Sulfolane.
[29] 2nd Group of Units: FCC plant, alkylation, HDS diesels, Merox, MHC / DHT, hydrogen, Klaus, SARU.

“Year of HSE”

Decrease in LTIF from 7.81 to 3.28. Worksite monitoring was improved, as well as the quality of incident investigation. The following was implemented: standards in cargo lifting, instructions for high-pressure and well control operations, a new HSE case for drilling activities in Romania, and the STOP Card system.

Refining

Key indicators	Unit of measure	2016	2015	Δ 2016/2015 (%)[30]
EBITDA	RSD billion	9.9	-4.6	3x
Volume of refining of crude oil and semifinished products	Thousand tonnes	3,311	3,281	+1%
CAPEX	RSD billion	3.8	2.8	+36%

Among numerous activities successfully undertaken by the Refining in 2016, particularly worth mentioning is signing of the contract for implementing the “Bottom of the Barrel” project by use of the technology of delayed coking, which paves the way for a new cycle of development and further modernisation of refinery processing of *Pančevo* Oil Refinery.

In 2016, technological facilities for refining a broad range of new oil types – Kirkuk and Forcados were improved. Another big business challenge involved the major overhaul in September 2016, most notably activities on the first overhaul of units on the newly constructed Mild Hydrocracking and Distillate Hydrotreating Unit (MHC/DHT). The year 2016 saw the start of activities towards implementing elements of the new operational management system – OMS, which is to be piloted at *Pančevo* Oil Refinery.

The operations of the Refining in 2016 are best reflected in the financial result of 9.9 billion dinars and financial effects of the operational effectiveness improvement programme in the amount of 2.9 billion dinars.

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

"Bottom of the Barrel" Project

Within the framework of the "Bottom of the Barrel" project, the final version of the extended Front End Engineering Design (FEED) for the Delayed Coker Unit (DCU) was obtained along with a tendering package for auxiliary units. EPCM Contractor was selected for the main package – construction of the DCU. Long Lead Item (LLI) contracts for the purchase of equipment were signed.

Overhaul

The major overhaul was successfully completed in September 2016 and involved replacing the hydrocracking catalyst to ensure a higher yield of medium distillates.

At the beginning of the year, the unit for producing bitumen and polymer bitumen S-0250/0290 was subject to overhaul. Following de-preservation and overhaul, there was a successful start-up of the unit of "Small" Atmospheric Distillation (S-100) with a view to increasing the volume of refining and efficiency of production.

Optimisation of the Basket of Raw Materials

Plans to optimise the basket of raw materials were implemented along with refining of new oil types Kirkuk and Forcados. The ambitious 2016 production plan was also i mplemented and costs were optimised.

Other Projects

The in-line petrol blending project was completed and the exploitation permit was granted.

Packinox heat exchanger, which will ensure a higher degree of energy efficiency at the Platforming Unit (S-300), was put into operation.

Operational effectiveness measures are implemented to a great extent. A package of measures to improve the efficiency of technological processes was put into effect. Moreover, emphasis was placed on implementing additional, Quick Wins measures in order to reduce the consumption of energy carriers and increase energy efficiency. This resulted in the energy efficiency indicator per Solomon methodology going above the plan.

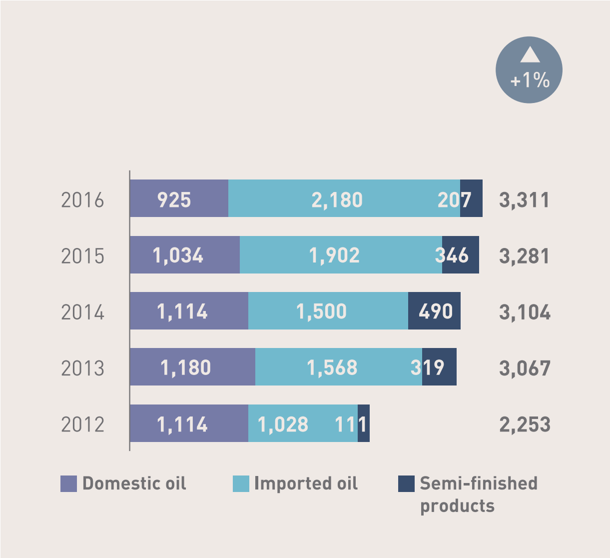
Certification and Legalisation

The second scheduled supervisory check of the occupational health and safety management system was successfully conducted in compliance with the requirements of SRPS OHSAS 18001:2008.

The Refining was presented with the certificate of conformity of the quality management system with the requirements of ISO 9001:2008 by the Company for Certification and Supervision of Quality Systems (JUQS).

The procedure for legalising facilities at *Pančevo* Oil Refinery was successfully finalised.

Operating Indicators



The volume of refining was the outcome of satisfying market needs and optimising the refining of types of oil and other raw materials (reducing imported VGO, abandoning the refining of Gas Oil 1.1%, increasing the refining of products in UCO[31] reserves).

Oil refining was above the Business Plan (+126.7 thousand tonnes or +4.3%) as a result of improving the efficiency of oil refining, extending the endpoints of VGO distillation, and refining of new types of oil Kirkuk and Forcados.

Chart No. 11: Volume of refining, thousand tonnes

"Year of HSE"

For the first time since the beginning of operations of POR, there are no oily deposits stored

Implementation of preventative HSE measures and controlling performance of high-risk work tasks in the major overhaul in September 2016

A series of preventative activities were undertaken, such as: improving the Work Permit system, repairing fire extinguishers and procuring new equipment for testing fire extinguishers, project of horizontal and vertical signage, theoretical and practical training at the HSE Training Centre, specialist medical examinations of employees, educational HSE campaigns on employee health improvement, etc.

Sales and Distribution

Key indicators	Unit of measure	2016	2015	Δ 2016/2015 (%)[32]
EBITDA	RSD billion	10.3	12.3	-16%
Total sales volume of petroleum products[33]	Thousand tonnes	3,340	3,254	+3%
Sales volume – foreign assets[34]	Thousand tonnes	256	195	+31%
Sales volume of petroleum products in the domestic market	Thousand tonnes	3,084	3,060	+1%
Motor fuels	Thousand tonnes	2,090	1,990	+5%
Retail	Thousand tonnes	907	846	+7%
CAPEX	RSD billion	1.3	2.4	-46%

[31] Unconverted oil.
[32] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[33] Including the internal sales volume.
[34] The sales volume of foreign assets includes sales generated by the subsidiaries of NIS abroad (retail and wholesale).

It may be said that the Sales and Distribution operated successfully in the circumstances of the 2015 oil crisis and continued to do so in 2016, as well. The volume of production in the Balkans in 2016 was considerably larger than consumption, which led to increased competition and partly to margin reduction in premium sales channels. In these adverse macroeconomic circumstances, NIS increased the volume of sales and kept its leading position in the Serbian market, which is considered a success.

In comparison to the year before, we managed to increase our market share in the retail market of petroleum products in Serbia by 1.9%. In 2016, we achieved an increase of 3% in the volume of sales compared to the same period in 2015.

Retail Sites and Logistics

NIS Group has over 400 active retail sites. Most of them, i.e. 336, are located in the Republic of Serbia. Apart from 2 LPG cylinder stores and 10 internal petrol stations, NIS owns 324 public petrol stations (16 of which under the GAZPROM brand).

In the countries of the region, NIS owns[35] 35 petrol stations in Bosnia and Herzegovina (27 under the GAZPROM brand), 35 petrol stations in Bulgaria (all of them under the GAZPROM brand) and 18 petrol stations in Romania (all of them under the GAZPROM brand).

In 2016, 6 petrol stations in Serbia were subject to total reconstruction.

NIS uses 6 operating warehouses for petroleum products and five active warehouses for Liquefied Petroleum Gas.

Eight new tank trucks for jet fuel, two sets of tank trucks (tractor and trailer) for transporting white petroleum products, and six semi-trailers for transporting LPG were put into operation in 2016.

A new engine was purchased for the marshalling yard in *Pančevo* and handed over to the Refining to be operated along with the marshalling yard.

Loyalty Programme and Marketing Activities

The loyalty programme "On the Road with Us" offers a series of special benefits for the purchase of fuel, goods and services at all NIS Petrol and GAZPROM petrol stations. This programme has been developed since late 2015 with over 410 thousand cards issued as at December 31st, 2016, and participation of 44% in sales to natural persons.

Further, a special loyalty programme for farmers is being developed.

In 2016, there were 245 marketing activities in Serbia, 101 in Bosnia and Herzegovina, 59 in Romania, and 37 in Bulgaria.

The process of developing and introducing new types of branded fuels and projects was also intense. A new type of G-Drive 100 fuel was introduced in Romania; in Bosnia and Herzegovina, Ultra D was introduced in the petrol station network under the NIS Petrol brand and G-Drive 100 was introduced in the petrol station network under the GAZPROM brand. G-Drive Diesel was introduced in Bulgaria, as well as in the petrol station network under the GAZPROM brand in Serbia.

Quality Control

Department for Controlling the Quality and Operation of Petrol Stations and Warehouses was set up within the Sales and Distribution as a result of changes in requirements laid down by the legislation of the Republic of Serbia governing the organisation of quality control for petroleum products in the market.

Oil Import

With a view to optimising the basket of raw materials, new types of oil – Kirkuk and Forcados were imported, while lower import premiums were arranged for the types of oil already in use (REB and CPC).

[35] In addition to 35 filling stations owned by NIS, there are also two active Dealer Owned Dealer Operated (DODO) filling stations in Bosnia and Herzegovina.

Operating Indicators[36]

In 2016, the sales volume increased by 3% compared to 2015, so the total sales volume was 3,340 thousand tonnes.

- Retail in Serbia – increase of 5% in the volume of retail can be attributed to an increase in the sales of diesel, as well as petrol.
- Wholesale in Serbia – decrease of 0.14% - increased sales of motor and non-energy fuels failed to eliminate the effect of a decrease in the sales of heavy fuel oil and diesel.
- Export – decrease of 1% as a result of a decrease in the export of motor and energy fuels (mostly heavy fuel oil – on the account of higher profitability in selling bitumen and using heavy fuel oil to heat the refinery).
- Foreign assets – increase of 31% in the volume of sales as a result of an increase in the sales of motor fuels (diesel - 31% and petrol - 41%).

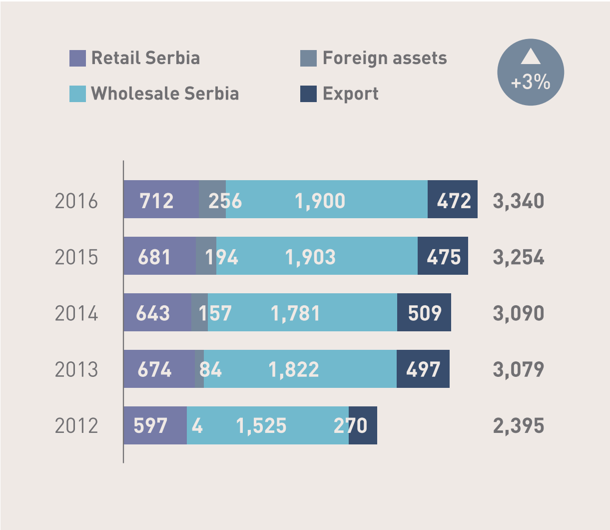


Chart No. 12: Volume of sales[37], thousand tonnes

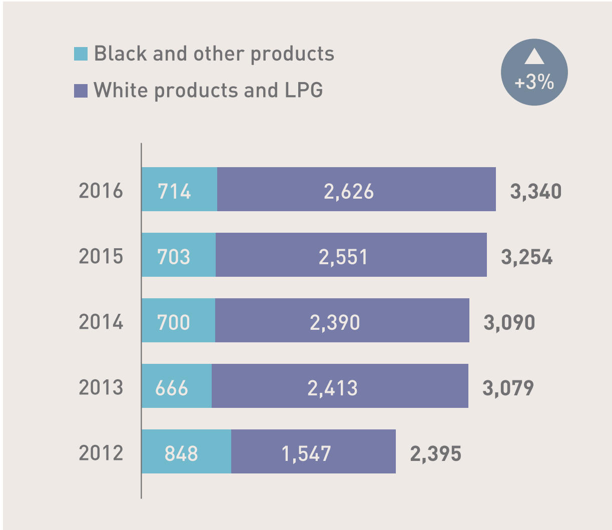


Chart No. 13: Structure of sales[38], thousand tonnes

"Year of HSE"

-29% Number of occupational injuries with shift loss

-81% Number of traffic accidents with important consequences

-67% Number of major events

The Sales and Distribution was designated as the agent of improvement in the HSE Leadership and Culture element in the Year of HSE.

The Sales and Distribution faced a big challenge in 2016: addressing and identifying systemic solutions in terms of new legal requirements for the education of employees pertaining to fire protection. Two educational traineeships were introduced:

- Fire Protection School – training was organised for employees to get them qualified to pass a professional examination in fire protection, which is a new legal requirement for employees handling fuel and flammable liquid and gases. In the period from August to the end of the year, 20 groups were set up in 10 sites with a total of 513 participants, 231 of whom passed the professional examination.
- HSE Days – 16 HSE days were organised and gathered over 70 managers of NIS j.s.c. Novi Sad. During these days, more than 2,500 employees were trained on different HSE topics.

[36] Including internal sales volume (2016: 14 thousand tonnes; 2015: 13 thousand tonnes).
[37] Including internal sales volume (2016: 14 thousand tonnes; 2015: 13 thousand tonnes).
[38] Including internal sales volume (2016: 14 thousand tonnes; 2015: 13 thousand tonnes).

Energy

Key indicators	Unit of measure	2016	2015	Δ 2016/2015 (%)[39]
EBITDA	RSD billion	7.0[40]	5.6[41]	+24%
Production of electric power	MWh	147,505	123,455	+19%
CAPEX	RSD billion	1.8	0.7	+163%

The year 2016 was very successful for the Energy. The EBITDA from regular operations in 2016 was 9.2 million dollars and exceeded the 2016 business plan by 4.4 million dollars.

The volume of trading in electric power exceeded 2 TWh. Further activities in terms of business development and operational effectiveness improvement were continued.

Business Development

With regard to the CHPP *Pančevo* project, a tender for the selection of EPC contractor was conducted, as well as technical and commercial negotiations and share capital was paid. When it comes to the project of *Plandište* Wind Farm, the status of a privileged power producer was obtained, allowing for feed-in tariff and signing of a Power Purchase Agreement, approved by the state.

Documents were prepared for talks with representatives of the Ministry of Energy about criteria for acquiring the right to use shale resources in the *Aleksinac* deposit and the project implementation scheme. As to *Kovin* Project (power plant, coal exploitation), the confirmation of coal reserves was received. Memorandum of Understanding has been signed with Chinese partners. Feasibility Study funded by Chinese partner has been completed and its coordination with the Chinese partner is in its final stage.

[39] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[40] The EBITDA from regular operations of the Energy in 2016 was 1.0 billion dinars. In December 2016, outstanding accounts receivable from PE Srbijagas were collected, so the effect of the collection on the EBITDA of the Energy was 6.0 billion dinars.
[41] The EBITDA from regular operations of the Energy in 2015 was 1.4 billion dinars. In December 2015, outstanding accounts receivable from PE Srbijagas were collected, so the effect of the collection on the EBITDA of the Energy was 4.2 billion dinars.

Gas Monetisation

Construction of the small power plant of *Majdan* (2.4 MW) was completed and it was commissioned in August 2016. With reference to the reconstruction of the small power plant of *Velebit* 3 in order to acquire the right to incentive (higher) price of electric power, a positive opinion of the Ministry of Mining and Energy was obtained, a technical and economic analysis was contracted and performed, and preparation of project documentation began.

The possibility of constructing a small power plant of *Turija 2* at the Gathering and Dispatch Station *Turija* with a capacity of 1 MWe was identified, so preparation of documentation for the approval of the investment project began.

For the purpose of increasing efficiency and reducing costs for supplying heat energy to loads at *Novi Sad* Oil Refinery, a technical and economic analysis of possible solutions was contracted and performed, and preparation of documentation for the approval of the investment project began.

In order to implement a project of utilising *Novo Miloševo* deposit gas with a very high content of carbon dioxide, technically feasible options for the construction of a small power plant on the deposit itself were considered, and other economically viable solutions are being examined.

Construction of a CNG supply station at *Čačak* 1 petrol station was completed and it was commissioned On July 27th, 2016. The project of constructing a CNG supply station at *Žarkovo* 2 petrol stations (Belgrade) was approved, the delivery of basic equipment and building of connecting pipeline was contracted and preparation of project documentation began.

Gas exploitation was approved on the project of CNG station construction in the *Ostrovo* deposit, the Main Mining Design was prepared, an expert opinion on the interaction of the facilities and activities of NIS and water springs was provided and then approved by the Town of *Požarevac*, an access road was built from the village of Ostrovo and construction is in its final phase.

Electricity Trading

NIS is a participant in electricity trading in the Serbian market, but it also cooperates with its partners in cross-border trading at the Serbian borders with Bosnia and Herzegovina, Republic of Macedonia, Hungary and Romania. Since mid-April NIS j.s.c. Novi Sad has been supplying part of its own consumption (up to 25%) within NIS balance group. Activity was initiated in the retail market in Serbia. Consumers provided with electricity by the way of public tendering were targeted as the initial market during the year. Since November 2015, NIS Petrol s.r.l. Bucharest has been trading in electricity in the Romanian OPCOM market and at the border with Serbia. In August, NIS Petrol s.r.l. Bucharest traded in its first quantities in Slovenia. In the last quarter of 2016, NIS Petrol s.r.l. Bucharest got registered for trading in Hungary and is continuing partner network expansion, which is a prerequisite for accessing the OTC market in Romania.

Operating Indicators

Electricity output totalled at 147,505 MWh in 2016. 31.3 million m^3 of non-commercial gas was used for electricity generation at cogeneration plants.

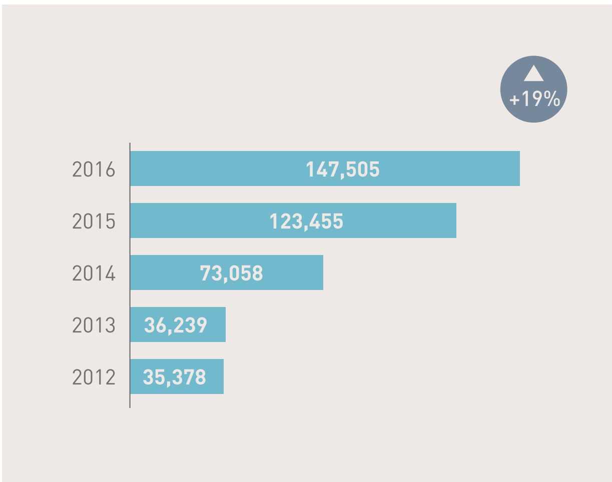


Chart No. 14: Electricity output, MWh[42]

"Year of HSE"

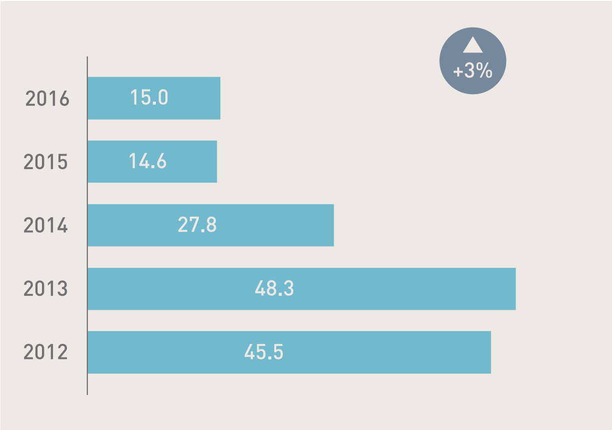
The fire detection systems in 15 substations at the Energy Plant in Pančevo were upgraded in 2016. In addition, fire protection plans were drawn up for the Energy Plants in Novi Sad and Pančevo, and they started being prepared for cogeneration plants. The software for the systems of continuous measurement of pollutants emitted to the air at the Energy Plant in Pančevo was updated in compliance with new bylaws pertaining to air.

[42] Including Power Plant Pančevo (10.7 MWe).

EFFICIENCY MEASURE OF SUCCESS

Improving operational efficiency has always been a priority for NIS, and the focus on this business objective will continue in years to come through the Operational Management System, or OMS, while the effects of measures aimed at increasing operational efficiency on EBITDA amounted to RSD 8.6 billion in 2016. Along with the rational use of capacities and cost reduction, the employees of NIS made their contribution as well, by putting forward more than 1,000 suggestions through the program "I Have an Idea", on how to boost the efficiency of our company.

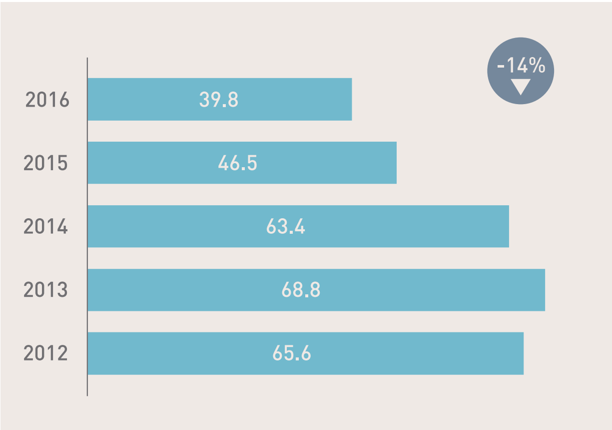
Financial Indicators



Net Profit

The net profit in 2016 was 15 billion dinars, which is 3% higher than the net profit in 2015. The effect of decrease in the price of oil and petroleum products in the market was partially cushioned by the effects of operational effectiveness improvement measures. The amount of negative foreign exchange differences is by more than double lower than in 2015.

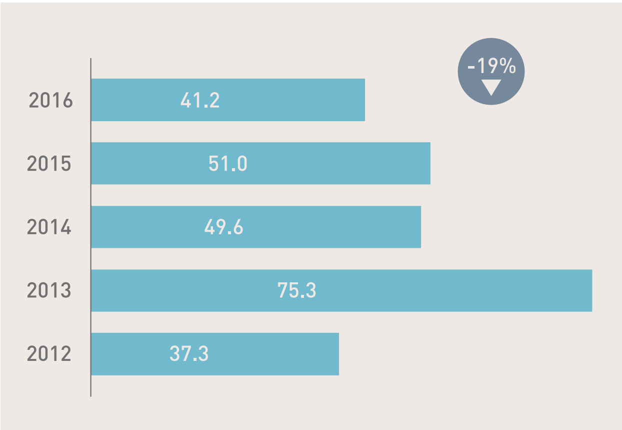
Chart No.15: Net Profit, in bn RSD



EBITDA

In 2016, the EBITDA was nearly 40 billion dinars, which is 14% less than in the year before. Just like last year, this trend was mostly influenced by the price of oil, which is 18%[43] lower than in 2015 on average.

Chart No 16.: EBITDA, bn RSD



OCF

In 2016, the OCF was 41.2 billion dinars, which is 19% lower than in 2015:

- Lower inflows, as result of lower prices of petroleum products, and
- Larger commitments payable to the state.

Chart No.17: OCF, in bn RSD

[43] Urals type of crude oil.

Net Profit

15 bn RSD

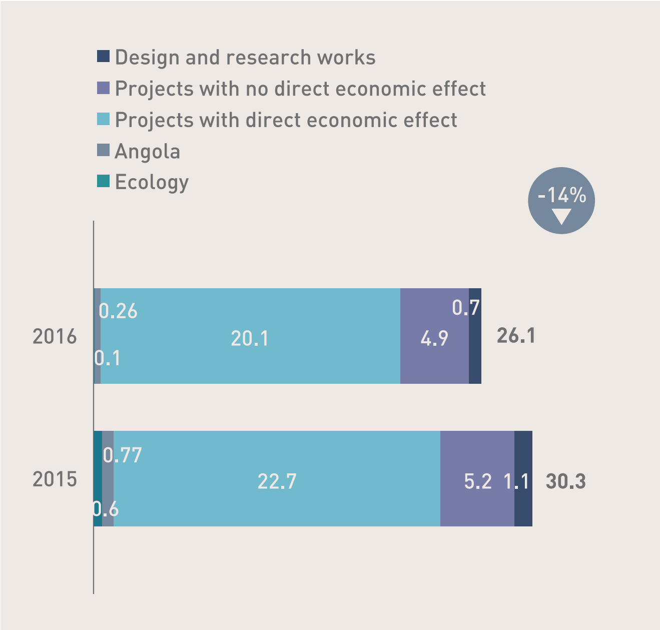
EBITDA

39.8 bn RSD

OCF

41.2 bn RSD

CAPEX[44]



During 2016, the investment portfolio of NIS was subject to prioritisation. This resulted in selecting highly profitable projects, those with a quick return on investments, as well as those whose delay would have a negative effect on the profit generated.

In 2016, 26.09 billion dinars was earmarked to fund investments, which is 14% less than the amount earmarked in 2015.

Chart no. 18: Investment Funding per Type of Project[45], bn RSD

[44] Financing, excluding VAT.
[45] Amounts shown in RSD billion VAT exclusive.

Organisational unit	Major projects
Exploration and Production	• Drilling of development wells • Investment in geological and technical activities • Programme of 3D seismic exploration and drilling of exploration wells in the Republic of Serbia • Investment in concession rights • Investment in base infrastructure
Services	• Purchase of a wireless system for 3D seismic acquisition • Project of capacity extension, water treatment and modernisation of the mud landfill of Novo Miloševo • Purchase of cementation agents and equipment, as well as cementation generators
Refining	• Modernisation of refinery processing - starting to implement the "Bottom of the Barrel" project • Production effectiveness improvement programme and investment maintenance programme • Capital investments concerning environmental protection (Project of Ejector Gas Scrubbing on S-2200 (Reduction of SO_x Emission) Remediation and Separation of Oily Sewage and Surface Water Sewer, Separator Installation on the SLOP Line, Reduction of NO_x Emission in Flue Gases at the Energy Plant)
Sales and Distribution	• Reconstruction of petrol stations in Serbia • Purchase of an engine for the marshalling yard
Energy	• Implementation of the project of constructing an energy plant with a gas and steam turbine, CHPP *Pančevo* • Cogeneration projects • Project of energy balance monitoring • Projects of developing CNG
Corporate Headquarters	• IT-component projects (software legalisation, projects of enhancing WAN communication devices) • Continuation of the implementation of the Enterprise Historian project of the material balance system • Project entitled "SRM Sourcing Solution" (electronic system for supplier selection on the SAP platform) • Project of Adaptation of the Space for Storing Archive Material • Projects of reconstruction of the business centres in Belgrade and Novi Sad • Purchase of new fire engines and revamping of the existing ones

Indebtedness

In 2016, the level of bank indebtedness slightly decreased to USD 662 million. The debt in the first three quarters of 2016 rose to USD 702 million as at 30.09.2016 as a result of drawing down favourable loans from banks belonging to EU banking groups for import from the EU, in line with the exceptions provided for by the applicable sanctions of the EU, as well as drawing down loans from Serbian banks. The pace of loan drawdown is primarily influenced by the pace of import from the EU.

The drawdown of the subject loans ensures funds required to repay loans payable by the end of 2016 and during 2017, as well as to finance regular operations to the level of allowed indebtedness. During the fourth quarter, expensive loans equivalent to USD 101 million, which were payable in 2017 as per the regular repayment plan, were repaid early.

The trend of diversifying the currency structure of the loan portfolio has continued by increasing the participation of loans in EUR and decreasing the participation of loans in USD. Besides, there has been a continuous effort to negotiate and identify long-term funding sources as well as such funding sources that are not limited by the sanctions.

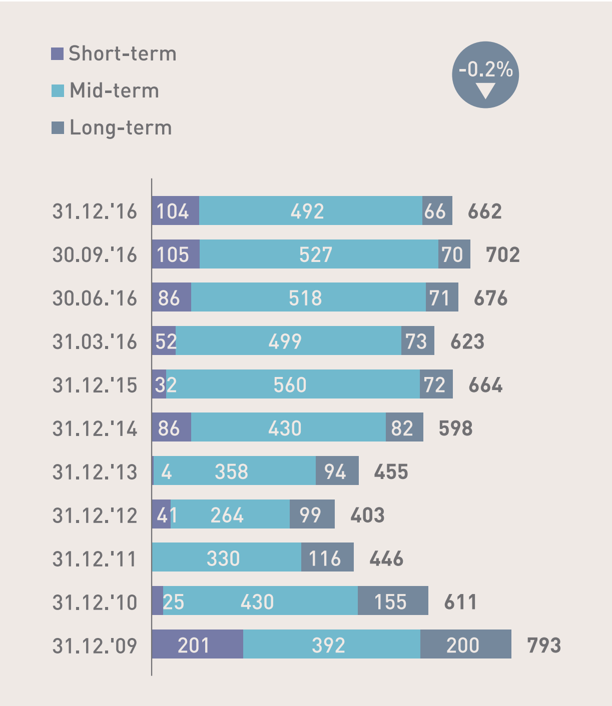


Chart No.19: Total bank debt trends, mn USD[46]

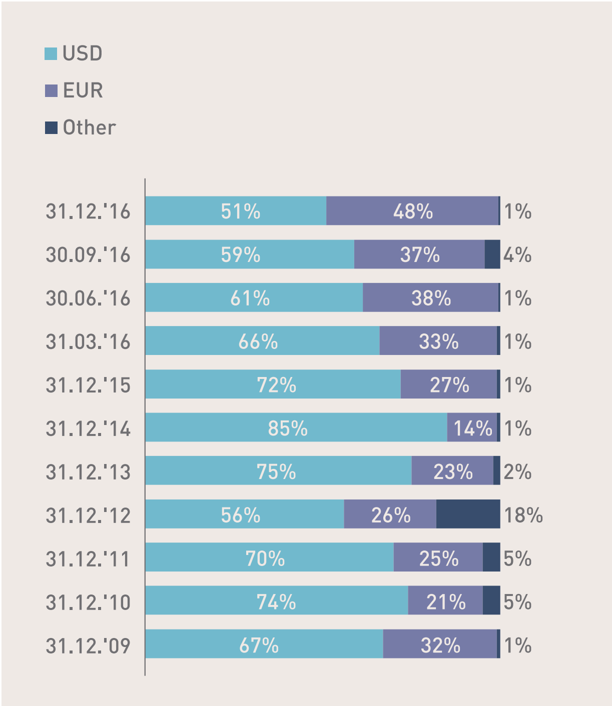


Chart No. 20: Total bank debt structure, by currency, in percentage

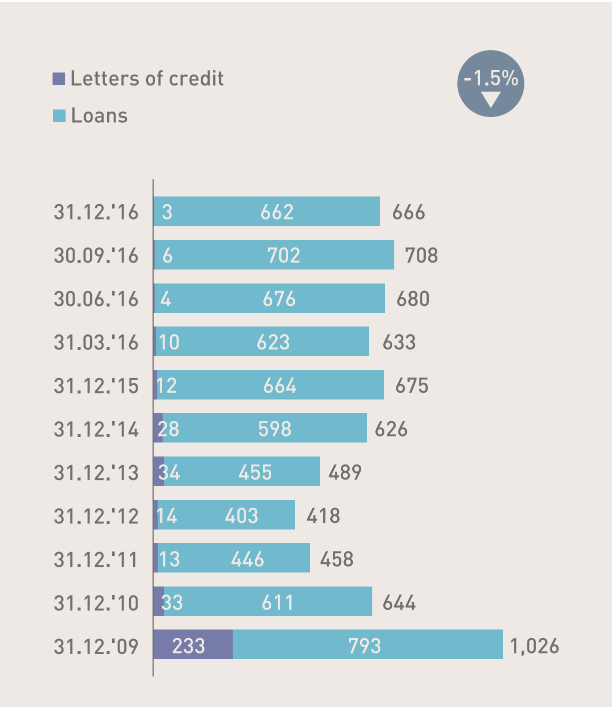


Chart No. 21: Trends in total bank debt[47], mn USD

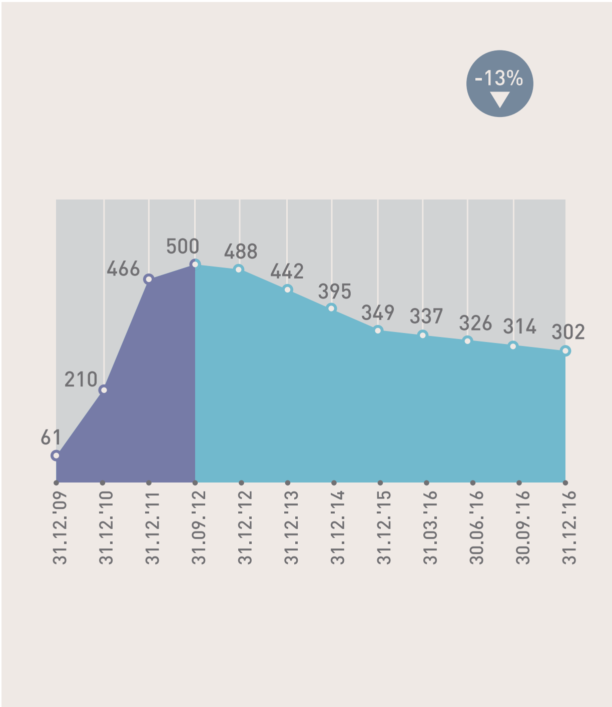


Chart No. 22: GPN loan, mn EUR

[46] Term structure of debt is shown according to contracts signed with banks and not by maturity of the debt as at December 31st, 2016.

[47] In addition to debt to banks and Letters of Credit, as at December 31st, 2016 NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of USD 25.4 million, corporate guarantees in the amount of USD 48.3 million and signed Letters of Intent in the amount of USD 1.9 million and financial leasing in the amount of USD 2.9 million.

Taxes and Other Public Revenue[48]

NIS j.s.c. Novi Sad	2016	2015	%[49]
Social insurance contributions paid by employer	1.48	1.43	+3%
Corporate tax	1.81	2.74	-34%
Value-added tax	22.26	21.38	+4%
Excise duties	108.75	104.24	+4%
Commodity reserves fee	6.25	6.36	-2%
Customs duties	0.48	0.38	+25%
Royalty	1.01	1.42	-29%
Other taxes	1.26	1.30	-3%
Total	143.30	139.26	+3%
NIS subsidiaries in Serbia[50]			
Social insurance contributions paid by employer	0.48	0.52	-8%
Corporate tax	0.06	0.08	-31%
Value-added tax	1.03	1.12	-8%
Excise duties	0.00	0.00	/
Customs duties	0.06	0.09	-33%
Royalty	0.00	0.00	/
Other taxes	0.09	0.08	+6%
Total	1.71	1.89	-10%
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	**145.01**	**141.15**	**+3%**
NIS regional subsidiaries and Angola and Turkmenistan			
Social insurance contributions paid by employer	0.06	0.11	-46%
Corporate tax	0.26	1.04	-75%
Value-added tax	1.25	0.87	+43%
Excise duties	10.23	7.39	+38%
Customs duties	5.85	0.62	+9x
Royalty	0.00	0.00	/
Other taxes	0.12	0.14	-15%
Total	17.78	10.18	+75%
Deferred taxes (total for Group)	0.50	0.58	-15%
Total NIS Group[51]	**163.28**	**151.92**	**+7%**

The total amount of calculated liabilities for public revenue payable by NIS j.s.c. Novi Sad along with the subsidiaries deriving from its organisational structure[52] in Serbia for 2016 is 145 billion dinars, which is 3% higher than in 2015.

The total amount of calculated liabilities for public revenue payable by NIS Group for 2016 is 163 billion dinars, which 7% higher than in 2015.

[48] In RSD billion.
[49] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[50] 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.
[51] Including taxes and other liabilities based on public revenues for subsidiaries in the region, income tax expense in Angola and deferred tax assets.
[52] 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.

Ratio Indicators

Indicator	2016	2015
Return on total capital (Gross profit/total capital)	9%	10%
Net return on equity (Net profit/shareholders equity)	18%	18%
Operating net profit (operating profit/net sales income)[53]	10%	12%
Degree of leverage (short term and long term liabilities/equity)	86%	92%
Degree of leverage (short term and long term liabilities/ shareholders equity)	212%	215%
1st degree liquidity (cash and cash equivalents/short term liabilities)	33%	29%
2nd degree liquidity ((current assets – inventories)/short term liabilities))	98%	96%
Net working fund ratio ((current assets – current liabilities)/total assets)	7%	6%

Operational Efficiency Improvement

The year 2016 has been another one to show that effects of operational efficiency improvement measures were a good response to the challenges presented by the market to NIS Group. Throughout the year, business operations were marked by implementation of operational efficiency improvement measures with a new element in the form of implementation of the Operational Management System (OMS). Full implementation of the system is expected in the coming years and will principally ensure improvement in operational efficiency and HSE risk management efficiency, cost cutting and business process optimisation, as well as more reliable operation of the equipment.

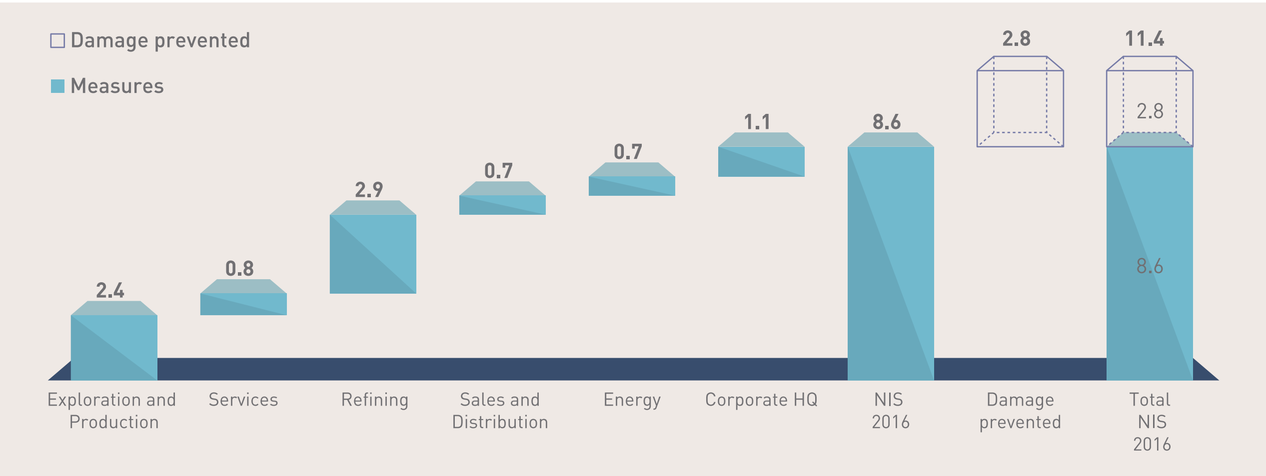


Chart no. 23: Effect of operational efficiency improvement measures on the EBITDA indicator

Incentive programme "I HAVE AN IDEA!" encourages each staff member to come forward with ideas they think would bring about better company operation and directly boost efficiency. For approved ideas, we prepared both non-cash and cash prises, which may reach up to RSD 1,800,000 in total.

Within "I HAVE AN IDEA!" programme, 1,101 ideas were put forward in 2016, which generated about 2[54] billion dinars.

[53] Net sales income = Income from sales of goods and services – Costs of goods sold.
[54] Effect on EBITDA equals 1.9 billion dinars and the effect on Cash Flow equals 0.1 billion dinars.

SECURITIES

Share Capital Structure

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

- Right to participate and vote at the shareholders' assembly meetings, 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, out of new issuance;
- other rights in accordance with the Company Law and Company documents.

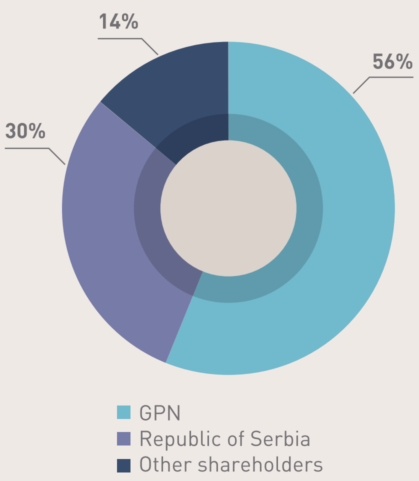


Chart no. 24: Share capital structure based on % in share capital

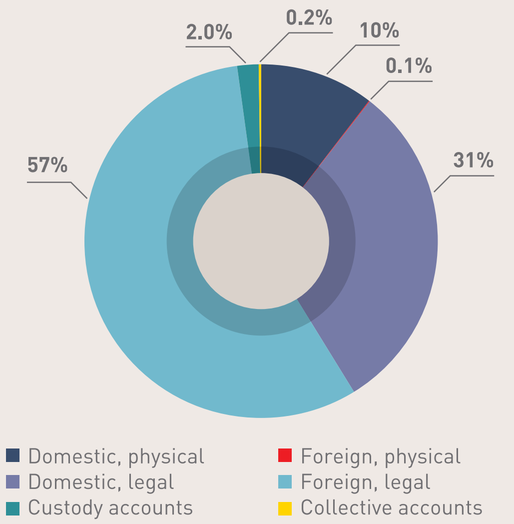


Chart no. 25: Share capital structure based on entity type

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	48,712,084	29.87%
Societe Generale banka Srbija a.d. – custody account - fund	1,066,666	0.65%
Unicredit Bank Serbia a.d. – custody account	557,040	0.34%
Raiffeisen bank a.d. Belgrade – custody account	331,815	0.20%
Aktiv-fond d.o.o.	236,330	0.14%
Unicredit Bank Serbia a.d. – collective account	229,801	0.14%
AWLL Communications d.o.o. Belgrade	227,352	0.14%
Global Macro Capital Opportunities	216,465	0.13%
Keramika Jovanović d.o.o. Zrenjanin	203,824	0.12%
Other shareholders	19,713,136	12.09%
Total number of shareholders as at December 31st, 2016:		2,137,493

Share Trading and Indicators per Share

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

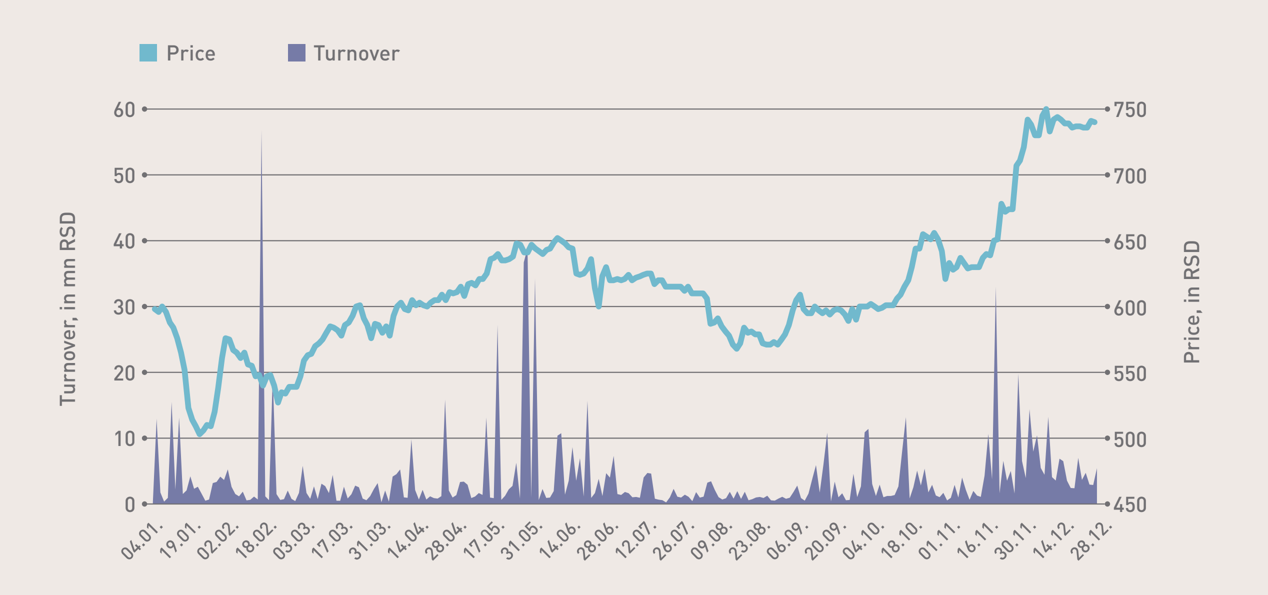


Chart no. 26: Price and turnover trends in 2016

Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in 2016,	
Last price (December 31st, 2016)	740 RSD
Highest price (December 13th, 2016)	757 RSD
Lowest price (January 21st, 2016)	500 RSD
Total turnover	982,405,190 RSD
Total volume (number of shares)	1,582,287 shares
Total number of transactions	34,072 transactions
Market capitalization as at December 31st, 2016	120,664,696,000 RSD
EPS	98.62 RSD
Consolidated EPS	92.07 RSD
P/E ratio	7.5
Consolidated P/E ratio	8.0
Book value as at December 31st, 2016	1,319.60 RSD
Consolidated book value as at December 31st, 2016	1,235.62 RSD
P/BV ratio	0.6
Consolidated P/BV ratio	0.6

In 2016, 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	2015
Net profit (loss), bn RSD[55]	(4.4)	16.5[56]	40.6[57]	49.5	52.3	30.6	16.1
Total amount of dividend, bn RSD	0.00	0.00	0.00	12.4	13.1	7.6	4.0
Payment ratio	-	-	-	25%	25%	25%	25%
Earnings per share, RSD	-	101.1	249.0	303.3	320.9	187.4	98.8
Dividend per share, gross, RSD	0.00	0.00	0.00	75.83	80.22	46.85	24.69
Share price as at December 31st, RSD	-	475	605	736	927	775	600
Shareholders' dividend yield, in %[58]	-	-	-	10.3	8.7	6.0	4.1

Investor Relations

NIS j.s.c. Novi Sad has been maintaining a long-term relationship with investors' community based on trust, by transparently distributing information and otherwise communicating. Being a public company trading its shares in the market regulated by the Belgrade Stock Exchange, NIS j.s.c. Novi Sad at the end of each quarter regularly distributes quarterly presentations on the performance. NIS j.s.c. Novi Sad communicates with investors' community as well as with all stakeholders by holding one-to-one meetings with investors and by attending investor conferences on Company premises.

Another reliable source of information for all stakeholders is a special section of the corporate website dedicated to investors and shareholders – *https://ir.nis.eu*. This section of the corporate website is regularly updated with latest presentations on the performance, financial statements, auditors' statements, financial calendar, as well as various other presentations and content.

NIS j.s.c. Novi Sad each year organises Investors' Day, taking place on Company premises when it invariably publishes its important and major projects. This year the visitors had an opportunity to get a closer look at the activities of NTC NIS Naftagas d.o.o. Novi Sad, go on a tour of Amine Plant for Gas Purification and logistics compound of warehouses located in the town of Elemir.

NIS j.s.c. Novi Sad received the Silver Plaque from the Belgrade Stock Exchange for best investor relations in 2016. The number of gold and silver plaques (four gold ones and a silver) which the Belgrade Stock Exchange has so far granted to NIS j.s.c. Novi Sad makes our company the best in the region in terms of investor relations.

[55] Net profit of NIS j.s.c. Novi Sad.
[56] Net profit used for covering accumulated losses.
[57] Net profit used for covering accumulated losses.
[58] Calculated as the ratio of gross dividend and year-end share price.

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" PJSC 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 score	
		Rating	Date	Rating	Date
Business Registry Agency - Republic of Serbia	-	BB Very good	8.12.2015	BB Very good	12.07.2016
Bisnode d.o.o., Belgrade, Serbia	Dun&Breadstreet	5A2 Good Even	4.11.2015	5A3 Fair Down	25.01.2017
	Bisnode AB, Stockholm, Sweden	B1	15.12.2015	C2	25.01.2017

STANDARDS FOR SUCCESS

After the successfully completed modernization, Pančevo Oil Refinery has found its place among the leaders in this part of Europe both owing to the quality of its products and to the strict compliance with environmental standards for oil processing. The Euro-5 quality fuel it produces is a part of the environmental policy of NIS, which, along with the modernization of the fuel station network in Serbia, increases its market share and attracts new consumers.

CORPORATE GOVERNANCE

Statement of Application of Code of Corporate Governance

In accordance with Article 368 of the Law on Companies (hereinafter "Law"), NIS j.s.c. Novi Sad hereby states that it applies the Code of Corporate Governance of NIS j.s.c. Novi Sad (hereinafter "Code") which is available at Company's website[59]. This Statement contains a detailed and comprehensive outline of corporate governance practices implemented by the Company.

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

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 implementation of set goals and achievement of results, while shareholders exercise their rights and control primarily through the Shareholders' Assembly.

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

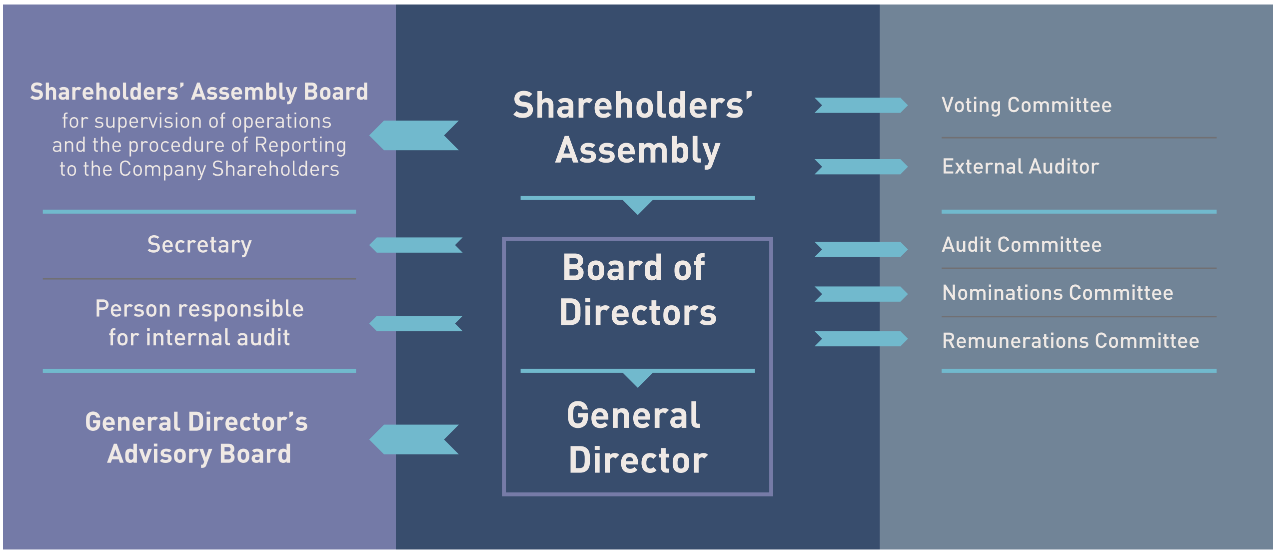
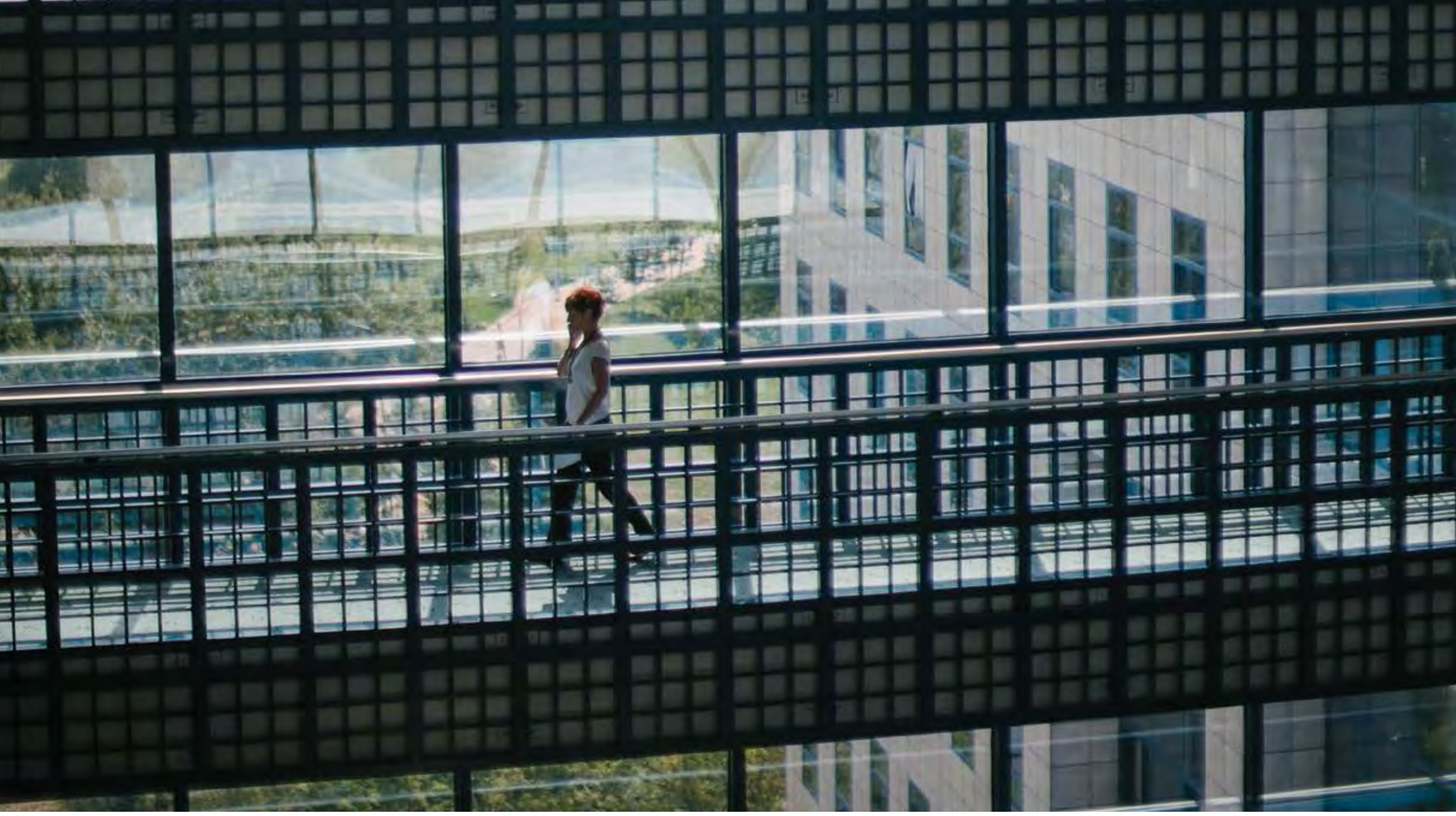


Chart no. 27: Corporate Bodies of NIS j.s.c. Novi Sad

[59] http://ir.nis.rs/korporativno-upravae/kodeks-korporativnog-upravaa/.



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 related to the method of convening meetings, operation and decision making process of the Shareholders' Assembly, and specifically the issues related to the manner of exercising the rights of shareholders in connection with the Shareholders' Assembly, have been provided for previously and collected in the Company's Rules of Procedure of the Shareholders' Assembly[60], which are published and available to all shareholders.

Call for a meeting of the Shareholders' Assembly is posted on the Company website (www.nis.eu), Serbian Business Registers Agency's website (www.apr.gov.rs) and the regulated market website (www.belex.rs) no later than 30 days before the date of an ordinary meeting and 21 days before an extraordinary meeting.

Upon publication of the invitation to the meeting of the Shareholders' Assembly on the Company website, materials for the Shareholders' Assembly 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 have been made available to the shareholders, explanations of shareholders' rights, manner and deadlines for the exercise of such rights, 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.

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

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

[60] Available at *http://ir.nis.rs/korporativno-upravae/skupshtina-akcionara/#c130.*

Shareholders' Special Rights

The sale and purchase agreement for the shares of NIS j.s.c. Novi Sad, which was entered into as of December 24th, 2008 between PJSC "Gazprom Neft" and the Republic of Serbia, stipulates that, as long as the parties to such agreement 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 interest, it shall be entitled to such number of members on the Board of Directors which is proportional to its equity interest.

Right to Participate in Shareholders' Assembly meeting

The right to participate in and vote at the Shareholders' Assembly meeting is held by all shareholders who own NIS j.s.c. Novi Sad shares at 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 meeting includes the right of shareholders to vote, the right to participate in the discussions of issues listed in the agenda of the Shareholders' Assembly meeting, including the right to put forward motions, ask agenda-related questions and receive answers in accordance with the Law, Articles of Association and Rules of Procedure of Shareholders' Assembly, which specifically establishes the procedures for exercising such rights.

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

The Company 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 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

Company shareholder who holds the right to participate in the Shareholders' Assembly meeting 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 that the answers to such questions are necessary for adequate assessment of issues related to the agenda items to be discussed at the Shareholders' Assembly meeting. Members of the Board of Directors answer to any questions raised.

Voting Majority

Decisions of the Shareholders' Assembly 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 equity interest, 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, decrease and increase of capital, business combinations, acquisition and disposal of major assets of the Company, changes to core activity, registered office and dissolution of the Company.

Shareholders' Assembly Activities in 2016

In 2016, 8th Ordinary Shareholders' Assembly meeting (June 28th, 2016) was held in Belgrade, at the NIS Business Centre, in *Milentija Popovića* Street No. 1, whereas no Extraordinary Meetings were held.

At the 8th ordinary meeting, the Shareholders' Assembly adopted the financial and consolidated financial statements of the Company for the year 2015 with the auditor's opinion and appointed the auditor for 2016 (PricewaterhouseCoopers d.o.o. Beograd). In addition, it also adopted the Company's 2015 Annual Report 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 Shareholders' Assembly Board. 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, and the Report on Assessment of Amount and Structure of Remunerations of the Board of Directors of NIS j.s.c. Novi Sad, which were prepared with the assistance of external experts, including the Rules on the Long Term Incentive Programme for Non-Executive Directors and Members of Governing Bodies, and the Policy for Remunerations of Members of Board of Directors and Members of Committees of Board of Directors. In addition, the Shareholders Assembly adopted the Decision on Profit Distribution for 2015, Payment of Dividends and the Establishment 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 2015, i.e. to pay a total of 4.025 billion dinars to the shareholders of the Company. More information on paid dividends for the year 2015 is presented in the relevant section of the Annual Report: Annual Report > Securities > Dividend.

Shareholders' Assembly also 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 during their current period in office, adopted information on the approval of transactions having personal interests and 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 on the Company and on 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 provides 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, and therefore, Company website is used mostly to this end. A special segment of the website, which is intended for shareholders and investors, contains the most important news, decisions of company bodies, 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 acts governing the method and process of publishing information and submitting information to the relevant authorities mostly to this end.

The Company also has a mechanism for preventing and resolving potential conflicts between minority shareholders and the Company. 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. Such Rules govern the procedures of minority shareholders addressing the Committee, operation of its meetings, duties and responsibilities of its members and other relevant issues, and the Rules of Procedure is available on the Company's website[61].

Board of Directors

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.

Members 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 Nominations 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. Until December 7th, 2016, the Board of Directors consisted of one executive and 10 non-executive members, whereas, as of December 8th, 2016, it comprised 2 executive and 9 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, 6 are Russian nationals, three are nationals of the Republic of Serbia, one member is a national of France, and one is an Austrian national.

Members of the Board of Directors must meet the requirements provided by the Law, as well as special conditions provided by Articles of Association, of which they make Statements at the beginning of their term of office and have an obligation to inform the Company of any changes in their status, especially such 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 ordinary meeting of the Shareholders' Assembly, except in the case of co-optation, when the term of office of co-opted members of the Board of Directors lasts until the first following 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.

[61] Available at *http://ir.nis.rs/pitaa-i-odgovori/#c887.*

Board of Directors' Rules of Procedure and Meetings

Rules of Procedure of the Board of Directors and Committees of the Board of Directors of the Company (hereinafter "Rules of Procedure of the Board of Directors") govern the operation and decision-making process 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 accordance with the relevant laws, Company's business needs and establishes the deadlines for consideration of these issues at the meetings of the Board of Directors. In addition to its planned issues, Board of Directors shall also discuss other issues under its competence, as required.

Board of Directors makes decisions by a simple majority of votes of all members of the Board of Directors, except for the decision to co-opt, which is made by a simple majority of votes of attending members, and decisions 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.

Board of Directors and Committee Members Remunerations

Remuneration Policy – At its 8th Ordinary Meeting held at June 28th, 2016, Shareholders' Assembly adopted the Policy for Remunerations of Members of Board of Directors and Members of Committees of Board of Directors. 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 provides that remunerations for executive directors are defined under employment agreements or agreement of engagement of each of the executive directors of the Company for other reasons, 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.

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

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

Fixed (permanent) portion of the remuneration to members consists of a fixed portion of the annual membership fee for the Board of Directors and the fixed annual fee for participation in the Committees of the Board of Directors. Such type of remuneration includes the fee for the time and effort of the members of the Board of Directors or members of the Committees of the Board of Directors, with respect to their function and is related to preparation and active participation at the meetings of the Board of Directors or Committees of the Board of Directors, which shall require the members to study the documents in advance, be present and actively participate at the meetings.

Reimbursement of expenses – 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 – 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. Remunerations Committee, at least once a year, prepares report on the assessment of amount and structure of remunerations for the Shareholder' Meeting.
In accordance with the recommendation of the Remunerations Committee, as of June 28th, 2016, Shareholder' Meeting adopted the current Remuneration Policy for the members of the Board of Directors and Committees of the Board of Directors, upon which the previous version of such policy, as of June 18th, 2013, ceased to be valid.

Long Term Incentive Programme

Programme for long term incentives for non-executive directors and members of governing bodies is provided for under separate Rules on the Long Term Incentive Programme for Non-Executive Directors and Members of Governing Bodies which provides for the basic principles and parameters of such programme.

The programme is one of the key elements of the system for incentives of non-executive directors and members of governing bodies of the Company, with an aim to create incentive for non-executive directors and members of governing bodies for the purpose of implementing long term goals of the Company.

The purpose of the long term incentive programme is to connect interests of programme participants with the long term interests of the Company and Company Shareholders, ensure incentives for programme participants enabling long term sustainable development of the Company and implementation of its strategic goals, which has been appropriately coordinated with the possibilities and needs of the Company, and to connect incentive for programme participants with the positive results of the Company for a period which is sufficient to establish that an added value has been made for Company Shareholders.

Long term incentive programme is divided into consecutive cycles. Programme parameters and method of inclusion into the programme have been defined in advance in the foregoing Rules, whereas the premiums are paid following completion of a full cycle.

Analysis of the Board of Directors' Activities

The Board of Directors conducts an analysis of its 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 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.

Evaluation results based on the responses of members of the Board of Directors resulting from completed surveys are presented at Shareholders' Assembly in a special report.

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. This includes, inter alia, becoming familiarized with the contents of internal documents of the Company, providing basic information to the Company, Company governance, persons appointed for managerial positions, information on Company's operations, business strategy, business plan, goals, and other information necessary for performance of such members' duties.

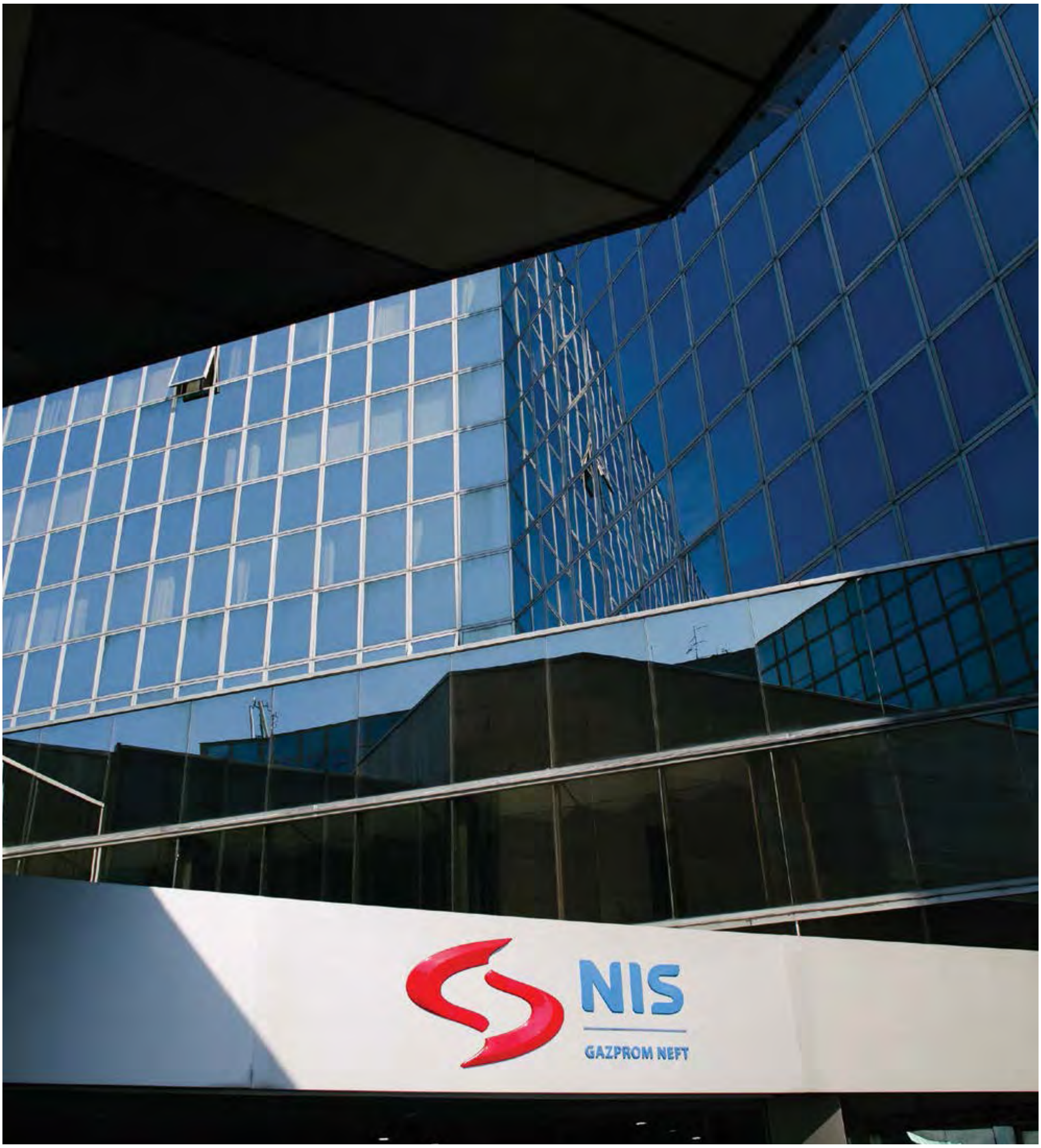
The Company also organizes special programs for additional training and development and provides special funds for these purposes in cases where members of the Board of Directors express the need for this.

Strategic Meetings

Members of the Board of Directors participate in strategic meetings, which allow members of the Board to have a better insight into 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. In 2016, work continued on the development and harmonization of the updated Development Strategy of the Company by 2025. Members of the Board of Directors at the meeting held on May 13th, 2016 discussed the Strategy preparation status by 2025, while at the Strategic Meeting held at June 27th, 2016, discussed once again the conditions for defining long-term objectives of the Company such as: current macroeconomic parameters and business environment, opinions and expectations of the shareholders, 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, for the purpose of defining the final version of the Strategy for Company Development by 2025.

Changes in the composition of the Board of Directors in 2016

At the 8th Ordinary Meeting of NIS j.s.c. Novi Sad held at June 28th, 2016, all members of the Board of Directors were re-elected. As of December 7th, 2016, following resignation, membership of member of the Board of Directors, Mr Alexander Bobkov has ceased, and on December 8th, 2016, Mr Kirill Tyurdenev was appointed to the vacant position in the Board of Directors by co-optation.



Board of Directors' Members as of December 31st, 2016

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 30th, 1970 in Sharkan, USSR.

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 13th, 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 NIS Board of Directors. As of March 2009, he holds the position of Deputy CEO for Overseas 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.

Kirill Tyurdenev

Member of NIS j.s.c. Novi Sad Board of Directors
First Deputy of General Director for Refining and Sales and Distribution,
Member of the General Director's Advisory Board of NIS j.s.c. Novi Sad

Born on April 19th, 1977 in USSR.

Graduated with Bachelor's degree in International Affairs (with honours) and a Master's degree in International Law (with honours) from Moscow State Institute of International Relations (MGIMO). Also obtained a Master of Law (LL.M) degree from the University of Manchester. Completed executive education programmes at international business school INSEAD and London Business School. From 2000 through 2004, worked for A.T. Kearney and Unilever. In 2004 joined McKinsey & Co. From 2007 through 2012, worked as Deputy CEO for Strategy and Corporate Development with SIBUR – Fertilizers. In 2012 joined JSFC Sistema, as Executive Vice-President and Executive Board Member. Before his arrival at NIS, Mr Tyrdenev held the position of the President and Chairman of the Executive Board at United Petrochemical Company, which was part of JSFC Sistema, and as Chairman of the Board of Directors of Ufaorgsintez. He took the position of First Deputy of General Director for Refining, Sales and Distribution at NIS j.s.c. Novi Sad in May 2016.

Mr Tyurdenev was elected member of the NIS j.s.c. Novi Sad Board of Directors as of December 8th, 2016.[62]

Danica Drašković

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

Born on November 14th, 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.

[62] Mr Tyurdenev was appointed General Director of NIS j.s.c. Novi Sad in March 2017.

Alexey Yankevich

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

Born on December 19th, 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 o.j.s.c. (business unit responsible for logistics and downstream operations). In 2004, he became a Certified Management Accountant (CMA). From 2005 to 2007 he worked as deputy CFO at LLK-International (production and sale of lubricants and special petroleum products; part of the LUKOIL group). From 2007 to 2011 he held the post of Head of the Planning and Budgeting Department, and was Head of Economics and Corporate Planning Department at 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 PJSC "Gazprom Neft" for Economics and Finance Since March 2012.

Mr. Yankevich was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 18.06.2013.

Goran Knežević

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

Born on May 12th, 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 member of parliament in National Assembly of Republic of Serbia. He was a president of *Zrenjanin* municipality from 2004 to 2009 and the City Mayor afterwards, holding office for three consecutive terms. He was the President of the Basketball Federation of Serbia and Montenegro from 2005 until 2006. Mr. Knežević was appointed Minister of Agriculture, Forestry and Water Management in the Republic of Serbia's Government from July 2012 until Spetember 2013. From October 2013 to the end of June 2014, he was Advisor to the NIS j.s.c. Novi Sad General Director.

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 17th,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

Born on December 3rd, 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 until his retirement on 17.11.2014, he was performing the duties of the Advisor to the Director of NTC NIS Naftagas d.o.o. Novi Sad. From 22.11.2011 he serves as member of the National Bank of Serbia Governor Council.

Mr. Martinović was a member of NIS j.s.c. Novi Sad Board of Directors 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 15th, 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 EB, when he was appointed Deputy Minister of Finance. On 01.01.2000, he was re-appointed a member of the OMV EB 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. Mr. Ruttenstorfer was or still is member of Board of Directors of companies such as VIG, Roche, RHI AG and Telekom Austria.

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 27th, 1954 in Groznyy, USSR.

Mr. Cherner graduated from Groznyy Oil Institute in 1976 with a degree in chemical oil and gas engineering. In the same year he was employed at the Sheripov Groznyy Refinery, starting as an operator to become refinery director in 1993. In 1996, he joined SlavNeft as Head of the Oil and Oil Products Trading Department and was later appointed Vice-Chairman of the company. He joined SibNeft (from June 2006 – "Gazprom Neft") 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

Born on May 29th, 1964 in Moscow, USSR.

Mr. Sheknia 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 ZND, Chief Operational Director of Vimpelkom, Director of Personnel Management in OTIS Elevator, Central and East Europe. He has been a member of LLC 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.

Members of the BoD and BoD's Committees as of December 31st, 2016

Position	Name and surname	Date of first appointment for BoD	Executive Director	Non-Executive Director
Chairman of BoD	Vadim Yakovlev	10 Feb 2009		X
General Director	Kirill Kravchenko	10 Feb 2009	X	
BoD Member	Kirill Tyurdenev	08 Dec 2016	X	
BoD Member	Alexey Yankevich	18 Jun 2013		X
BoD Member	Alexander Krilov	21 Jun 2011		X
BoD Member	Nikola Martinović	24 Sep 2005 [63]		X
BoD Member	Goran Knežević	30 Jun 2014		X
BoD Member	Danica Drašković	01 Apr 2009 [64]		X
BoD Member	Wolfgang Ruttenstorfer	20 Apr 2012		X
BoD Member	Anatoly Cherner	10 Feb 2009		X
BoD Member	Stanislav Shekshnia	21 Jun 2010		X
Members of the BoD's Committees who are not members of the BoD				
Member of Audit Committee	Nenad Mijailović			
Member of Remunerations Committee	Zoran Grujičić			

[63] Nikola Martinovic was a member of the NIS j.s.c. Novi Sad Management Board (today known as the Board of Directors) from September 24th, 2005 to February 29th, 2008, and was re-elected member as of September 30th, 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 April 1st, 2004 to September 23rd, 2005.

[64] Danica Drašković was a member of the NIS a.d. Novi Sad Board of Directors (previously Management Board) from April 1st, 2009 to June 18th, 2013, and was reappointed as a member of the Board of Directors as of June 30th, 2014.

Independent Director	Audit Committee	Nominations Committee	Remunerations Committee	Citizenship
				Russian
		Member		Russian
				Russian
	Member			Russian
				Russian
				Serbian
		Chairman		Serbian
				Serbian
X	Chairman			Austrian
			Member	Russian
X		Member	Chairman	French
	Member			Serbian
			Member	Serbian

Membership of the Board of Directors or Supervisory Boards of other Companies	
Vadim Yakovlev	• JSC NGK "Slavneft" • JSC "SN-MNG" • LTD "GPN Development"(Chairman of BoD) • JSC "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) • FLLC "Gazprom Neft-Orenburg" (Chairman of BoD) • LTD "Gazprom Neft-Sahalin" • Salim Petroleum Development N.V. (Supervisory Board member) • JSC "Tomskneft" VNK (Chairman of BoD) • LLC "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 BoD Member – Serbian Association of Managers
Kirill Tyurdenev	-
Alexey Yankevich	• JSC "NGK Slavneft" • JSC "Gazprom Neft – Aero" • LTD "Gazprom Neft – SM" • LTD "Gazprom Neft Biznis-Servis" • "Gazprom Neft Lubricants" Italy • LTD "Gazprom Neft Marin Bunker" • LLC "Gazprom Neft Shelf"
Alexander Krilov	• JSC "Gazprom Neft-Novosibirsk" • JSC "Gazprom Neft-Omsk" • JSC "Gazprom Neft-Tumen" • JSC "Gazprom Neft-Ural" • JSC "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 – Regional sales" • JSC "Gazprom Neft – Transport" • LTD "Gazprom Neft – South" • LTD "Gazprom Neft – Krasnoyarsk" • LTD "Gazprom Neft – Corporate Sales" • LLC "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	• JSC NGK "Slavneft" • JSC "Gazprom Neft-ONPZ" • JSC "Slavneft-JANOS" • JSC "Gazprom Neft –MNPZ" • JSC "Gazprom Neft - Aero" (Chairman of BoD) • CJSC "St. Petersburg'International Commodities and resources Exchange" • LTD "Gazprom Neft –SM" • LTD "Gazprom Neft Marin Bunker" (Chairman of BoD) • LTD "Gazprom Neft – Logistics" (Chairman of BoD) • JSC "Mozirski NPZ" • „Gazprom Neft Lubrikants Italy" • LTD "Gazprom Neft - Catalytic Systems" (Chairman of BoD)
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 2016, RSD net	
General Director	27,390,326
Other BoD Members	65,167,951

Board of Directors' Activities in 2016

Board of Directors held 3 meetings with personal presence of the members and 18 correspondence meetings. Average attendance of members at the meetings of the Board of Directors was 98,7%, while the lowest percentage of attendance at one meeting of the Board of Directors was 90.9%.

Agenda of the Board of Directors, in addition to the regular activities related to review of the Annual Report of NIS j.s.c. Novi Sad, the Financial Statements and Consolidated Financial Statements of the Company for 2015, adoption of periodic (quarterly) reports of the Company in 2016, convening of a regular Annual Shareholders Meeting, adoption of the Business Plan of the Company, also included adoption of decision to implement a Project called "Development of Refinery Processing at NIS j.s.c. Novi Sad (Increasing Processing Depth)" including an alternative for construction of Delayed Coking Unit (DCU) at the premises of the Pančevo Oil Refinery, approving the termination of membership in company PROKONS Ltd. from Subotica and approving the issuance of corporate guarantee in favor of Banca Romaneasca S.A. from Romania. 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 term of office. For the purpose of achieving projected goals of the Company, overviewing Company's performance and quality of corporate governance, 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 2016, 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 reviewing its own performance, the Board of Directors analysed its own work as well, and to this end it submitted an appropriate Report for the 8th Ordinary Meeting of the Shareholders' Assembly. The Board also reviewed the results of the fulfilment of key performance indicators for 2015, as well as the system of the key performance indicators evaluation for 2016. Board of Directors made the Company's Risk Management Policy and issued a decision on establishing new branch offices of NIS (9 branch offices were established for the registration of hospitality activities in retail stores – fuelling stations of NIS j.s.c. Novi Sad), and appointed the person in charge of internal audit of operations at NIS j.s.c. Novi Sad.

In 2016, the Board of Directors rendered 68 decisions, and the execution of 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
	% of attendance	Number of meetings	% of attendance
Vadim Yakovlev *BoD Chairman*	100%	21/21	-
Kirill Kravchenko *General Director*	100%	21/21	-
Kirill Tyurdenev[65]	100%	2/2	-
Alexey Yankevich[66]	100%	21/21	100%
Alexander Krilov	95.24%	20/21	-
Nikola Martinović[67]	100%	21/21	100%
Goran Knežević	95.24%	20/21	-
Danica Drašković	100%	21/21	-
Wolfgang Ruttenstorfer	100%	21/21	100%
Anatoly Cherner	100%	21/21	-
Stanislav Shekshnia	100%	21/21	-
Alexander Bobkov[68]	100%	19/19	-
Members of the BoD's Committees who are not members of the BoD			
Alexey Urusov[69]	-	-	100%
Nenad Mijailović[70]	-	-	100%
Zoran Grujičić	-	-	-

[65] Member of the Board of Directors as of 08 Dec 2016.
[66] Member of the Audit Committee as of 29 July 2016.
[67] Member of the Audit Committee until 28 June 2016.
[68] Member of the Board of Directors until 07 Dec 2016.
[69] Member of the Audit Committee until 28 June 2016.
[70] Member of the Audit Committee as of 29 July 2016.

	Remunerations Committee		Nominations Committee	
Number of meetings	% of attendance	Number of meetings	% of attendance	Number of meetings
-	-	-	-	-
-	-	-	100%	3/3
-	-	-	-	-
3/3	-	-	-	-
-	-	-	-	-
6/6	-	-	-	-
-	-	-	100%	3/3
-	-	-	-	-
9/9	-	-	-	-
-	100%	4/4	-	-
-	100%	4/4	100%	3/3
-	-	-	-	-
6/6	-	-	-	-
3/3	-	-	-	-
-	100%	4/4	-	-

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
- Remunerations 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 also 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 provide for 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 having 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 Yankevich, Member of the Audit Committee, and
- Nenad Mijailović, Member of the Audit Committee.

The Chairman and members of the Audit Committee were appointed under the Decision of the Board of Directors dated July 29th, 2016, whereas Wolfgang Ruttenstorfer held the same position in the Audit Committee in the previous term, while Alexey Yankevich and Nenad Mijailović were appointed under the foregoing decision at the position of Alexey Urusov and Nikola Martinović, who held such function in the previous term (until June 28th, 2016).

In 2016, the Audit Committee held 4 meetings with the personal presence of the members, and 5 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 2016, 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 2015, as well as the report of the independent auditor PricewaterhouseCoopers 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 in relation to the Company, as well as its opinion about the draft agreement entered into with the Company's auditor.

In addition, 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 2016, discussed the audit findings and significant audit issues for 2015 and monitored the status of the implementation of auditor's recommendations provided in the letter to the management ("Management Letter Points") NIS j.s.c. Novi Sad in 2015.

Audit Committee reviewed the Report on Internal Audit of NIS j.s.c. Novi Sad for 2015 and first half of 2016 and then provided the proposal for Risk Management Policy, as well as the proposals for appointment of the person in charge of internal audit of operations at NIS j.s.c. Novi Sad, and submitted an appropriate report on its activities to the Board of Directors.

Remunerations Committee

Remunerations Committee members are as follows:

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

The Chairman and members of the Remunerations Committee were appointed by the Decision of the Board of Directors dated July 29th, 2016, and all three members held the same position in the Remunerations Committee in the previous term.

In 2016, the Remunerations Committee held 2 meeting with personal attendance of members and 2 correspondence meetings. Committee reviewed the results of fulfilment of key performance indicators for 2015, the system of evaluation and indicators for 2017 and the Standard on the Long Term Incentive Programme at NIS j.s.c. Novi Sad for 2015-2017. Remunerations Committee prepared a proposal for the fees for auditor of Financial and Consolidated Financial Statements of NIS j.s.c. Novi Sad for 2016, proposal for Rules on Long Term Incentive Programme for Non-Executive and Members of Governing Bodies at NIS j.s.c. Novi Sad and proposal for Policy for Remunerations of Members of Board of Directors and Members of Committees of Board of Directors at NIS j.s.c. Novi Sad, 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' Assembly, at the meeting held at June 28th, 2016, along with the relevant Report on Committee's activities.

Nominations Committee

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 dated July 29th 2016, and all three members held the same position in the Nominations Committee in the previous term.

In 2016, Nominations Committee held 3 correspondence meetings where it reviewed proposals for dismissal and appointment of the Company's representatives in the bodies of subsidiaries at home and abroad, as well as the results of long term development of personnel at NIS j.s.c. Novi Sad. Nominations Committee prepared a Report on Compliance of the Composition of the Board of Directors and the Number of Members of the Board of Directors of NIS j.s.c. Novi Sad with the needs of NIS j.s.c. Novi Sad, which was submitted for consideration to the Shareholders' Assembly at the meeting held on June 28th, 2016, and the Committee also submitted the relevant report on its activities to the Board of Directors.

Shareholders' Assembly Board

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 Shareholders' Assembly of the Company, which provides assistance to the Shareholder's Assembly with respect to its activities and consideration of issues within its scope of competence. Members of the Shareholders' Assembly Board are responsible for their own work to the Shareholders' Assembly, which appoints them to and relieves them from their duty.

In accordance with the powers provided by 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 shareholders on relevant facts; proposed methods for profit distribution and other payments to Company shareholders; procedures for performing 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 branch offices; 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 shareholders.

Members of the Shareholders' Assembly Board as of December 31st, 2016

At the 8th Ordinary Shareholders' Assembly held at June 28th, 2016, all members of the Shareholders' Assembly Board whose term of office ceased were re-elected, and therefore, in 2016 there were no changes in the composition of the Shareholders' Assembly Board and its members are as follows:

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

Nenad Mihajlović

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

Born on October 14th, 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 and Economy 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 Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 30.06.2014.

Zoran Grujičić

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

Born on July 28th, 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 Ferbuary 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. Since 01.10.2012, he has served as Advisor to the Sales and Distribution Director.

He was appointed member of the NIS j.s.c. Novi Sad Board for the Super

Alexey Urusov

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

Born on November 17th, 1974 in Tyumen, USSR.

Mr. Urusov graduated from the Tyumen State 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 control, 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 Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. 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 Gazpromneft Marine Bunker Balkan S.A.

A total amount of fees paid to SAB members in 2016, net RSD	
SAB members	19,581,778

Activities of the Shareholders' Assembly Board in 2016

In 2016, Shareholders' Assembly Board held 8 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 2016, as well as General Director's quarterly reports on all signed agreements whose value exceeded five million euros for the first and second quarter of 2016. In addition to the foregoing, Shareholders' Assembly Board also considered the proposal for increase of limit for entry into agreements on subordinated and financial loans between NIS j.s.c. Novi Sad and NIS PETROL S.R.L. Romania, issuance of corporate guarantee in favor of Banca Romaneasca S.A. form Romania, proposal for termination of memebrship in company PROKONS Ltd. from Subotica and proposals for establishment of 9 new branch offices of NIS j.s.c. Novi Sad (for registration of hospitality activities in retail stores – petrol stations of NIS j.s.c. Novi Sad). In 2016, Shareholders' Assembly Board has made 40 conclusions.

General Director

The Board of Directors appoints one of its executive members to act as the General Director. General Director coordinates the activities of the executive members of the Board of Directors and organizes the Company's activities. In addition to this, 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 j.s.c. Novi Sad.

Advisory Board of General Director

Advisory Board of General Director is an expert body that provides assistance to the General Director in the performance of his activities and in consideration of issues within General Director's scope of competence. Composition of the Advisory Board of General Director has been determined by the General Director's Decision and it is comprised by the General Director's First Deputies, Heads of all Blocks and Functions within the Company, General Director's Deputy for petrochemical operations and Regional Director of NIS j.s.c. Novi Sad for Romania. Advisory Board is managed by the General Director and provides him with 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), Advisory Board addresses issues related to strategy and development policy, the basic principles of which are established by the Shareholders' Assembly and the Company's Board of Directors.

Members of Advisory Board of General Director as of December 31st, 2016 are as follows:

Vladimir Paltsev

First Deputy of General Director

Born on January 19th, 1956 in Primorsky Krai, USSR

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 completed his military service (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 in charge of production, services, material and technical service procurement and energy.

Kirill Tyurdenev

First Deputy of General Director
in charge of refining and sales and distribution

Born on April 19th,1977 in USSR.

Graduated with Bachelor's degree in International Affairs (with honours) and a Master's degree in International Law (with honours) from Moscow State Institute of International Relations (MGIMO). Also obtained a Master of Law (LL.M) degree from the University of Manchester. Completed executive education programmes at international business school INSEAD and London Business School. From 2000 through 2004, worked for A.T. Kearney and Unilever. In 2004 joined McKinsey & Co. From 2007 through 2012, worked as Deputy CEO for Strategy and Corporate Development with SIBUR – Fertilizers. In 2012 joined JSFC Sistema, as Executive Vice-President and Executive Board Member. Before his arrival at NIS, Mr Tyrdenev held the position of the President and Chairman of the Executive Board at United Petrochemical Company, which was part of JSFC Sistema, and as Chairman of the Board of Directors of Ufaorgsintez.

He took the position of First Deputy of General Director for Refining, Sales and Distribution at NIS j.s.c. Novi Sad in May 2016. Mr Tyurdenev was elected member of the NIS j.s.c. Novi Sad Board of Directors as of December 8th, 2016[71].

[71] Mr. Tyurdenev was appointed General Director of NIS j.s.c. Novi Sad in March 2017.

Irek Habipov

Director of Exploration and Production Block

Born on June 13th, 1971 in Aznakayevo, USSR.

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.

Valery Proskurin

Director of Services Block

Born on August 19th, 1968 in Neftekumsk, USSR

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.

Vladimir Gagić

Director of Refining Block

Born on September 23rd.,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.

In October 2015, 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 September 1st, 1975 in Yekaterinburg, USSR

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.

Alexey Belov

Director of Energy Block

Born on March 18th, 1972 in the town of Kstovo in USSR.

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 December 6th, 2010.

He assumed the position of Director of Energy Block at NIS j.s.c. Novi Sad in September 2011.

Goran Stojilković

Deputy of General Director for Petrochemical Operations

Born on September 13th,1968, in *Leskovac*, 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 Board of Directors of *Zdravlje* Basketball Association. He is a member of the Assembly of Basketball Association of Serbia.

Since October 2012 he has been holding the position of Deputy of General Director for Petrochemical Operations at NIS j.s.c. Novi Sad, as of May 2013 he is the chair of Supervisory Board HIP Petrohemija a.d. Pančevo.

Srđan Bošnjaković

Deputy of General Director, Director of Strategy and Investments

Born on July 7th,1969 in *Novi Sad*, Serbia.

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 Deputy of General Director at NIS j.s.c. Novi Sad, as well as Director for Strategy and Investments.

Igor Tarasov

Deputy of General Director, Director of Corporate Security

Born on July 2nd, 1952 in Moscow, USSR.

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 Deputy of General Director, Director of Corporate Security Function with NIS j.s.c. Novi Sad since 2009.

Anton Fyodorov

Deputy of General Director, Director of Function for Finance, Economy, Planning and Accounting

Born on December 9th, 1973 in Saratovo region, USSR

Mr Fyodorov 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 Deputy of General Director, Director of Finance, Economics, Planning and Accounting Function.

Sergei Fominyh

Deputy of General Director, Director of Legal and Corporate Affairs

Born on January 4th, 1979 in USSR.

Mr Fominyh 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. Following that, 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 Fominyh is responsible for managing a team in charge of the company's legal support, corporate governance and real estate management.

Andrey Shibanov

Deputy of General Director, Director of Organisational Affairs

Born April 5th, 1965 in Ulyanovsk,USSR

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 Deputy of General Director – Director of Organizational Affairs Function with NIS j.s.c. Novi Sad.

Evgeny Kudinov

Deputy of General Director,
Director of External and Governmental Relations

Born on October 7th, 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 Deputy of General Director of NIS j.s.c. Novi Sad, Director of External and Governmental Relations.

Sanja Lubardić

Deputy of General Director, Director of Public Relations and Communication

Born on September 17th, 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 Serbia'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. Since 2008 untill 2015 she held the post of the External Communications Department Director at NIS.

In April 2015, she was appointed Director of Public Relations and Communication.

She is a member of the European Association of Communication Directors.

Maksim Kozlovsky

Deputy of General Director, Director of Material and Technical and Service Support and Capital Construction

Born on April 3rd, 1976 in Nizhnevartovsk, USSR

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 Deputy of General Director of NIS j.s.c. Novi Sad and the Director of MTSS and CC Function.

Jelena Popara

Director of Internal Audit

Born on April 19th, 1980 in Belgrade, Serbia.

She graduated in 2004 from Belgrade School of Economics, majoring in finance, accounting and audit. In 2012, she gained ACCA, an international accounting and audit licence, as well as Serbia's Certified Auditors Chamber internal auditor certificate and external quality assessment expert certificate. For more than 6 years she worked in an international consultancy as an external auditor. In 2010, she joined NIS team of executives as Sales and Distribution's Deputy Director of Planning, Economics and Control, and since 2013, she was CFO of NIS subsidiary in Romania, NIS Petrol srl.

In March 2016, she was appointed Director of Internal Audit in NIS j.s.c. Novi Sad.

Ulrich Poeball

Director of HSE

Born on June 30th, 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 OMV 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

Regional Director of NIS j.s.c. Novi Sad in Romania

Born on October 10th, 1963 in Kazakhstan, USSR.

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 Regional Director of NIS j.s.c. Novi Sad in Romania.

Activities of the Advisory Board in 2016

A total of 27 sessions of the Advisory Board of General Director of NIS j.s.c. Novi Sad were held in 2016. Reports on HSE incidents and initiatives from the previous period, and operating reports of the directors of Blocks and Functions were discussed at each session.

Operating plans and forecast by key operating indicators for the current month, overview of cumulative results in the previous period, investment realisation, progress reports on corporate operational efficiency, status of activities, and business results in petrochemicals were considered once a month.

Statuses of foreign projects, results and operating plans of subsidiaries abroad were considered at the sessions of the Advisory Board of General Director of NIS j.s.c. Novi Sad every other month in 2016.

Apart from regular reports, the business strategy, reports on projects of various organisational units and reports of corporate committees were took into consideration. In the course of the year, the Board was presented with results of the inventory of assets and liabilities of the Company, procurement management systems, a report on the implementation of recommendations as part of audits performed, a report on the implementation of key risk management activities, etc.

Three extended sessions of the Advisory Board were held in 2016 to summarise results from the previous period for a wider circle of managers.

NIS
GAZPROM NEFT

FUTURE
AT WORK

Company Management 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 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 accordance with Article 84 of the Law on Capital Market and Company Standard Ensuring Compliance with Legal Obligations for Insider Information and Maintaining Insider List, all persons at managerial positions within the Company, as well as their related persons (as defined under such 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 2016, Company was not informed of either the acquisition of the sale of Company shares by members of Company bodies or persons related thereto.

Number and % of NIS j.s.c. Novi Sad shares owned by BoD members

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

Number and % of NIS j.s.c. Novi Sad shares owned by SAB members

Name and surname	Number of shares	% of interest in total number of shares
Nenad Mijailović	5	0.000003066%

Supervision and Control Activities

Board of Directors performs the oversight of risk management process and internal controls system across the board in the Company.

Internal controls system ensures Company's appropriate response to all risks that might emerge and comprises organisational measures, procedures, standards and activities the management undertakes so as to ensure Company's financial stability by way of appropriate correlation of growth and profitability, as well as effective activities completion, property protection and prompt financial statements drafting.

The Board of Directors' Audit Committee continuously evaluates the effectiveness of the risk management system and internal controls system and submits statements Shareholders Assembly and Board of Directors.

The General Director and Company management ensure an adequate functioning of internal controls system and risk management system and determine responsibility for the implementation of decisions made by Board of Directors and Audit Committee.

NIS j.s.c. Novi Sad has adopted a Risk management Policy and developed risk management measures, and continuously follows their implementation. The management annually reviews reports on risks, risk register, as well as a list of measures to minimise risks in the coming period, including and information on the damage incurred in the aftermath of the materialised risks and results of the measures taken in the past year.

Once in six months, Audit Committee is being briefed of the existing risks and measures taken within their management.

Internal Audit Function ensures an unbiased and objective assurance of adequacy of corporate governance processes, risk management and internal controls system with the aim of adding value and contributing to the increase in overall efficiency and progress of the Company.

Internal Audit Function's Director is appointed in coordination with Board of Directors' Audit Committee. Internal Audit Director submits a report to Audit Committee twice a year on the results of Function's operation within the reporting period and about the evaluation of the internal controls system and risk management in the Company. Internal Audit Function functionally reports to Audit Committee, and administratively and directly to the Company's General Director.

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. As part of its activities, internal audit makes the assessment and comes forward with suggestions aimed at the improvement of the corporate governance system, risk management and internal controls system at NIS j.s.c. and its subsidiaries. Other than that, Internal audit provides an advisory support the t management pursuant to principles of independence and impartiality.

External Auditor

Audit of Financial Statements

In accordance with the Law and Articles of Association, Company Auditor is appointed by the Shareholders' Assembly at the proposal of the Board of Directors. Company Auditor is selected at each ordinary 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.

Reports on audit of financial statements and consolidated financial statements of the Company for 2015 by the auditing company were adopted as of June 28th, 2016 at the 8th Ordinary Shareholders' Assembly meeting, attended by the auditor PricewaterhouseCoopers d.o.o. Belgrade, which must be invited to the ordinary Shareholders' Assembly meeting in accordance with the Law. At the same Shareholders' Assembly meeting, PricewaterhouseCoopers d.o.o. Belgrade was selected for auditing the 2016 financial statements.

Other Services of the Auditor

In addition to auditing financial statements and consolidated financial statements for 2016, PricewaterhouseCoopers d.o.o. Belgrade or its affiliated companies provided NIS with other additional services in 2016. With respect to provision of such services and bearing in mind the knowledge and experience required, it was deemed more efficient to engage PricewaterhouseCoopers d.o.o. Belgrade rather than a third party. Other services (in addition to auditing services) included consultancy services related to the amount of remunerations for independent members of the Board of Directors, limitations of period for performing duties of independent director and improvements of specific internal processes.

Provision of such services did not affect the independence of the auditor, and the amount of the fee for such services equalled 24% of the total aggregate fees paid to the foregoing company or its affiliated companies.

Integrated Management System

Company has in place an Integrated Management System (IMS), in line with the requirements of the management system international standards (ISO 9001, ISO 14001, OHSAS 18001, ISO 50001, HACCP). IMS is implemented and developed in accordance with the Certification Strategy, performance of which is monitored by the IMS Board.

Within the integrated management system, which is defined by the Company's normative-methodological documents, Company business processes are identified and classified, process implementation is described using appropriate documents, and KPIs are defined (Key Performance Indicators).

Compliance with the above standards is reviewed by certified bodies, which issue relevant certificates based on checks conducted.
In addition to external audits, Company also conducts internal audits of the business process and established management systems, in line with the annual internal audit programme. The internal audit is scheduled once a year, and if necessary, unscheduled internal audits can also be performed.

The results of these controls are made official through reports, based on which Company's business process owners define corrective and preventive measures aimed to remove the causes of identified potential noncompliance, for the purpose of ensuring constant improvement of IMS and overall business.

Transactions Involving Personal Interest and Non-Competition

Transactions Involving Personal Interest - A person entrusted with special duties at the Company, in accordance with the Law, must notify the Board of Directors without delay of any personal interest (or interests of its related parties) in a legal transaction concluded by the Company, or a legal action undertaken by the Company.

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 accordance with the Law.

Once a year, the Board of Directors submits to the ordinary Shareholders Meeting information on the approval of conclusion of transactions involving personal interest.

Non-Competition - 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. Information on membership in governing bodies of other companies is regularly published in the Company's Annual and Quarterly Reports.

By entering into Agreement on Providing for Mutual Rights and Obligations with the Company, members of the Board of Directors become additionally informed of their obligation to notify the Company in the event of entry into legal transactions with the Company, as well as non-competition obligation with respect to the Company and other specific duties of the members of the Board of Directors.

Related Party Transactions

In 2016, NIS Group entered into business partnerships with its related legal entities. The most important related party transactions were made based on supply/delivery of crude oil, petroleum products and electric energy. An outline of related party transactions is shown in the Notes to the Financial Statements.

Insider information

Trading shares using insider information is strictly prohibited under penalty provided by the Law on Capital Market. Therefore, the Company requires that all persons with constant or occasional access to such information to fully adhere to the provisions of the laws, subordinate legislation, as well as Company regulations related to insider information and confidential information.

The criteria based on which certain persons are deemed 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, have been specifically provided by internal regulations of the Company.

Code of Conduct

Code of Conduct of NIS provides for detailed rules and ethical norms 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.

Code of Conduct of NIS j.s.c. Novi Sad must be adhered to by all employees and members of governance 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, and such persons must report on any illegal or unethical actions related to the Company and representing a violation of the Code[70].

[72] More information on Code of Conduct is available at the following webpage: *http://www.nis.eu/o-nama/informacije-o-kompaniji/kodeks-poslovne-etike.*

Corruption and Fraud Prevention Policies

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

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.

Under this Policy, all persons are under obligation, in the event of any reasonable suspicions with respect to performance or preparation of corruptive or fraudulent practices, or in the event of discovery thereof, to submit appropriate information via previously defined and protected communication channels, with confidentiality guaranteed, and the Policy defines the measures for protection of the person submitting such information and the manner in which they are implemented, ensuring that the position of the person indicating via such channels the existence of corruptive or fraudulent practices is not in any way jeopardized. Relationship with the Stakeholders and Corporate Social Responsibility.

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 related to corporate social responsibility, are available in the following section of the Annual Report: Annual Report > Corporate Social Responsibility and Local Community Development.

MOTIVATION FOR SAFETY

Ensuring workplace health and safety and protecting the environment have marked 2016 as the year of HSE. The only goal where NIS strives to reach zero is "Target 0" – zero workplace injuries, zero occupational diseases, zero accidents. The HSE policy of NIS focuses on occupational health and safety, industrial safety and environmental protection in compliance with legal requirements, internal regulations, best practices and standards of modern business.


-INTERNET
-LIVE CHAT
-MEDIA
-PHOTOS
-VIDEOS
-INTERNET

ENVIRONMENTAL PROTECTION, INDUSTRIAL AND OCCUPATIONAL SAFETY

Safe working conditions for all employees and business partners are among strategic objectives of NIS in an effort to constantly reduce the number of occupational injuries and diseases. The company continuously applies principles of prevention with a view to improving working conditions and reducing the number of adverse HSE events. The standards that NIS applies in the area of occupational safety and health and the established practice go beyond applicable legal obligations. Business decisions are made in compliance with the requirements of the national legislation and beyond the statutory minimum in order to ensure efficient risk management. A system of contractor management is in place and contractors are required to meet the standards of NIS.

Sustainable management of the environment at NIS involves caring about environmental protection by implementing projects aimed at reducing pollutants emitted to the air, water and soil, minimising waste, increasing energy efficiency and using renewable sources, remediating historical and accident pollution, as well as applying engineering controls in line with the best available technologies.

2016

YEAR OF

HSE

The fact that 2016 was declared the "Year of HSE" at NIS goes to prove that the HSE system is an integral part of business processes and that compliance with rules and standards is a precondition for successful dealings. This best demonstrates the fact that caring about employee health and safety and being dedicated to environmental protection are priorities of NIS.

Environmental Protection

We demonstrate our responsibility to the environment in various projects and major investments concerning environmental protection. We have modernised our equipment and considerably reduced emissions of harmful substances, and we have dedicated ourselves to soil remediation, waste and wastewater treatment by investing in modern technologies. Despite the on-going crisis in the oil industry, NIS has continued earmarking funds in order to implement environmental protection projects, investing RSD 150 million in these projects in 2016.

In the course of 2016, in environmental protection projects NIS invested

150,000,000 RSD

A unit for treating waste water from the mud pit at the Waste Mud Landfill in Novo Miloševo was built at the Services in 2016. The objective of the Project is to provide free space for the disposal of mud material by channelling water via the treatment unit to the effluent stream, in accordance with the permits issued. This will ensure an increase in the capacity of waste mud reception and maximum utilisation of the existing pits.

Separators for treating oily storm water were installed in 7 petrol stations, the number of separators thus reaching 284, i.e. which means that they are available in 88% of public petrol stations in Serbia.

Fully aware that the environment is the most demanding negotiating area in the process of European integration since more than 2/3 EU regulations pertain to the wider field of agriculture and the environment, NIS j.s.c. has been involved in the activities of the Negotiating Group 27 (for the Chapter on Environmental Protection) of the Ministry of Agriculture and Environmental Protection. We have concentrated our efforts on understanding our future obligations which derive from the requirements laid down by EU regulations, i.e. figuring out the funds required to harmonise the operations with the requirements of EU regulations.

In 2016, 3 studies were prepared that presented a detailed overview of the state of affairs in the following blocks: Refining, Sales and Distribution, and Exploration and Production.
The studies showed the required investments in projects that will ensure full harmonisation of the operation of the facilities in the blocks with the requirements of the legislation of the Republic of Serbia and EU in terms of air pollutant emissions, compliance with requirements for the emission of Volatile Organic Compounds (VOCs) and treatment of waste water.

With a view to improving employee competencies and environmental protection processes, renowned consultancies from Slovenia (Bens Consulting), Croatia (Ekoenerg Institute), and the Faculty of Sciences in Novi Sad delivered in-house training in chemicals management, calculation of air pollutant emissions, and monitoring and remediation of soil and groundwater.

The process of waste management was significantly improved by introducing a new concept of permanent waste disposal through the signing of the Framework Agreement for Permanent Disposal of Certain Types of Waste.
This method of contracting considerably accelerated the process of waste management – facilitating a shorter time for procuring the service of permanent disposal, lower costs of disposal, and more efficient and quicker removal of waste from sites.

Nearly 303 million dinars was earmarked in 2016 for environmental protection charges and fees and water charges.

Overview of charges and fees in 2016	Water charges (mn RSD)	Environmental protection charges and fees (mn RSD)	Total (mn RSD)
NIS j.s.c. Novi Sad	76.2	223.8	300.0
Subsidiaries[73]	0.4	2.3	2.7
Total	**76.6**	**226.1**	**302.7**

Industrial Safety

The system of industrial safety management encompasses key processes of identifying hazards, assessing and managing risks related to processes and process equipment. Along with production modernisation, application of advanced technological solutions and employee training, this system enables appropriate prevention, monitoring, as well as timely and efficient emergency response.

In 2016, we continued developing the industrial safety system in place.

Fire Protection

- Categorisation of fire hazards in the facilities of NIS j.s.c. Novi Sad was supplemented by the Ministry of the Interior of the Republic of Serbia - Emergency Management Sector. Based on the category allocated, NIS j.s.c. Novi Sad, as a legal entity, must conform its operations to the obligations arising from fire protection legislation.
- Procedure for procuring two fire engines for FU *Kikinda* and FU *Velebit*, worth RSD 33 million, was initiated. The project is expected to be completed in the second quarter of 2017.
- The FU *Kikinda* was formed of 13 members and became operational on October 17th, 2016.
- The FU *Velebit* is in the process of being formed.
- Fire Protection Sector took over preventative fire protection for the Business Centres in Novi Sad and Belgrade, and *Jazak* Water Factory.
- Civil Protection commissioners were designated (the number of commissioners was increased by over 50%) and improvements were effected in the system of preventative fire protection.
- Drills of evacuation from the business centres were successfully done.

[73] 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.

Process Safety

- Gap Analysis of the process safety status was performed at three sites: *Pančevo* Oil Refinery, *Elemir* Oil and Gas Preparation and Transport Unit,[74] and *Ovča* LPG Warehouse. The objective of the analysis was to examine the process safety status, identify weak points and formulate an action plan to improve the status of process safety.
- HSE-related project entitled "SmartResilience" of a European consortium in which NIS is a partner won a competition within the framework of the EU programme "Horizon 2020" for the allocation of European Union grants. The project is aimed at enhancing industrial safety and responding in the event of a chemical accident.
- New acts pertaining to process safety were adopted and the existing ones were revised.
- Approval has been granted by competent government authorities to seven SEVESO documents so far, and three documents have been drawn up and are in the process of being approved.
- There was a major overhaul at *Pančevo* Oil Refinery and an overhaul at *Elemir* Oil and Gas Preparation and Transport Unit without any significant equipment-related events registered.
- There were no major disruptions in the operation of technological equipment in 2016, owing to preventative action and implementation of corrective actions and also delivery of planned training.

Emergency Situations

- New acts pertaining to emergency situations at NIS j.s.c. Novi Sad were adopted and the existing ones were revised in line with operational experiences gained in emergency situations and planning solutions of Emergency Management Groups in the Republic of Serbia. Procedures were specified for certain hazards that are encountered in the event of deterioration in working conditions at NIS j.s.c. Novi Sad.
- Improvement in cooperation with neighbouring SEVESO operators of some facilities of NIS j.s.c. Novi Sad with regard to notification and assistance in the event of technical and technological accidents. Several joint exercises were done with the participation of competent government authorities.
- Improvement in cooperation with representatives of local self-governments and competent government authorities regarding natural disasters.
- Regime of practical exercises of emergency response teams and crews continued to be followed (to a greater extent than in previous years). There were four joint command post exercises at NIS j.s.c. Novi Sad, in which the Crisis-Disaster Management Team, Emergency Preparedness and Response Teams of Blocks and Block OUs handled the most complex situations in the event of emergencies and disruption in the continuity of operations.
- PJSC "Gazprom Neft" was also included in the system of electronic notification of HSE events.

[74] Including the LPG Warehouse in Elemir.

Occupational Safety

Caring about safety and protection of the health of our employees, contractors, third parties and local population is a priority for our company and 2016 was declared the "Year of HSE".

It is by the programme of Improving HSE Culture that the top management of NIS take an active part in occupational safety and health as initiative leaders. The top management is also actively involved in Management Walkarounds (MWA) of operational sites. In 2016, there were 235 MWAs, 400 actions were imposed, 85% of which were carried out.

In 2016, the LTIF indicator (Lost Time Injury Frequency) was decreased by 46%, which had a direct effect on reducing corporate expenses resulting from employee injuries.

Chart No. 28: LTIF[75] indicator

Occupational Safety Risk Management

The year saw intensification of operational cooperation between the HSE Function and HSE organizational units in blocks in the form of a programme of support and control of HSE action carrying out at sites of the Services (March-August 2016), and in the form of providing operational HSE support during overhaul activities at *Pančevo* Oil Refinery (September 2016).

In addition, regulatory documents on HSE risk management were subject to optimisation and streamlining. New risk assessment tools were incorporated into the system and employee training was provided.

In the second half of the year, the focus was on managing HSE risks in the preparation of project passports, so as to ensure timely and preventative action as early as at the stage of project planning and development and avoid the need for later interventions and corrective action at the exploitation stage.

Timely identification of HSE risks, formulation of appropriate controls and monitoring of their implementation are instrumental in proactive and preventative action in the area of the HSE, i.e. elimination of the risk of human injury and damage to equipment, processes, the environment and corporate reputation.

Contractor and Third Party Management

Contractors are companies or individuals that do not constitute part of NIS but have been hired by NIS to perform various activities. From the HSE perspective, high-risk activities that may be fatal are also among the activities performed by contractors, and statistics shows that the most serious injuries and the greatest number of fatal accidents across the globe tend to occur precisely in the course of the activities of contractors or their sub-contractors. To prevent undesirable events such as injuries, material damage and ecological accidents, the process of contractor and third party management ought to be put into effect appropriately.

The contractor management process may be divided into four stages:

- Pre-qualification – compliance with statutory provisions is checked;
- Contractor selection and signing of HSE Annex – defining general contractor obligations;
- Contractor management during the activities – constant monitoring;
- Contractor analysis and assessment upon completion of the activities – evaluation.

[75] Ratio between the number of employee injuries with sick leave and total number of working hours multiplied by 1 million (total NIS j.s.c. Novi Sad with subsidiaries Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Naftni servisi d.o.o.Novi Sad, Naftagas - Transport d.o.o. NoviSad).

By the end of 2016, a total of **1,333 various contractor companies were found eligible from the HSE perspective** and it was precisely owing to their cooperation with NIS that they raised security in their own companies.

The contractor management process was revised in 2016 via the programme of HSE culture improvement led by top managers and other levels of management at NIS j.s.c. Novi Sad. There was a comprehensive analysis of the situation at the beginning of the year that identified gaps, based on which actions for improvement were formulated. Four initiatives were finalised and their outcomes resulted in hiring safer contractors at the sites of NIS.

Employee Health Protection

As a socially responsible company, NIS j.s.c. Novi Sad aims to increase efficiency and productivity through a culture that values, supports and enhances employee health and welfare.
Caring about healthy lifestyle habits of the employees and teamwork is part of our corporate culture. Having in mind constant care about employee health and prevention of occupational diseases and other illnesses and injuries, mandatory health checks were organised and conducted in 2016 for positions at risk, eye and sanitary examinations. With a view to early illness detection and implementation of appropriate corrective action, regardless of austerity measures, employees in positions that are not at risk were able to control their health via general health checks and examinations performed by specialists.

By analysing health condition and absence from work due to sick leaves, NIS has been continuously identifying risks to employee health, developing measures for elimination or alleviation of such risks, informing employees and working towards raising awareness of them. A number of health education and awareness campaigns were run in 2016 - campaign for preventing development and measures of prevention of liver and kidney diseases, providing information about the principles of a healthy and chrono diet; campaign for the prevention of alcoholism and abuse of narcotic drugs at several sites. An unscheduled campaign was also organised for the prevention of heart diseases and diabetes at the Services, at the drilling rig sites, to be more precise. Two cycles of lectures entitled "Disease-Free Life" (a series of 8 lectures) and "How to Improve Brain Functions" (a series of 6 lectures) were given at several sites.

Throughout the year, employees willing to quit smoking were able to "Break the Precious Habit" with the assistance of specialists and by using Allen Carr's Easyway to Stop Smoking as part of the campaign entitled "Life without Tobacco Smoke". After several years, the campaign of blood donation was re-launched in Belgrade and *Zrenjanin* in 2016.

NIS offers all employees an opportunity to improve their health by developing measures and organising preventative physical exercises, recreational and competitive activities. These activities promote strengthening of corporate values among the participants, as well as team effectiveness and productivity in line with the Vision and Mission, which plays a part in the overall corporate image, too.

Traffic Safety

NIS employees travel around 110,000 km on a daily basis, which puts them at a number of risks in traffic. NIS pays a lot of attention to the safety of its employees in traffic, so as to minimise the risks. Many activities were undertaken in 2016 towards proactive and preventative action, and raising overall traffic safety:

- Starting to implement the In-Vehicle Monitoring System (IVMS) and Red/Amber/Green (RAG) reporting of the management and employees on their driving styles.
- Implementing RAG+ system of monitoring vehicles and employee driving styles, i.e. improving RAG reporting. This method of reporting encompasses recording the following parameters: sudden slowing down/speeding up and overspeeding, as well as the possibility of recognising and rewarding the best drivers.
- Implementing and upgrading the corporate software application "Driver's File", in which each employee may check their data and current status of their personal driving style.
- Drafting documents pertaining to traffic safety: Traffic Safety Policy at NIS, Traffic Safety Instructions from the HSE perspective and Transport of Dangerous Cargo, as well as the Decision on Implementing RAG+ system of monitoring vehicles and employee driving styles.
- The validity of the Agreement on Business and Technical Cooperation between NIS and the Ministry of Defence - Serbian Armed Forces for providing the services of employee training in traffic safety, was extended.
- Several different training events were organised and delivered for several hundred employed professional drivers, as well as for service vehicle users on Ecological and Safe Driving of Passenger Vehicles.
- According to the Protocol of Cooperation between NIS and the Road Traffic Safety Agency of the Republic of Serbia, a joint campaign entitled "We Care about You" was run in 2016. It covered the following topics on a quarterly basis: Tractor on the Road, Safe Motorcyclist, Drive Fresh, and Advice for Winter Driving, which were accompanied by promotional materials and distribution of leaflets at NIS petrol stations.
- NIS and the Road Traffic Safety Agency organised "Week of Traffic Safety 2" in the last week of September (different daily topics: General Principles behind Traffic Safety, Children in Traffic, Pedestrians and People with Disabilities in Traffic, Lecture - Basics of Traffic Safety and System of Traffic Safety at NIS, Transport of Dangerous Cargo, simulators, educational materials and driver competition "Driving Challenge 5"). The purpose of organising the traffic safety week is proactivity, raising the level of general traffic safety, education of employees, young people and future drivers, promotion of the company's corporate social responsibility, providing information to and raising awareness of employees.

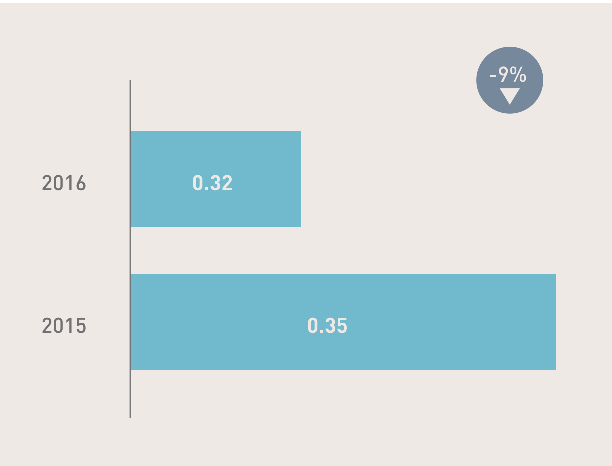


Chart No. 29: RAR[76]

The long-term company dedication to employee traffic safety improvement resulted in fewer traffic accidents, less material damage, fewer recorded offences, less employee responsibility for traffic accidents, fewer injuries, and improvement in the employee driving style in 2016 compared to 2015. Furthermore, there was a decrease in registered offences, average road speed and RAR coefficient, as one of key HSE indicators.

[76] Ratio between traffic accidents and distance travelled (km) multiplied by 1 million

Personal Protective Equipment (PPE)

In late 2016, the PPE Catalogue was revised: new items were added and technical characteristics of some items were modernised and updated based on market research and practice. The list of manufacturers and materials was extended and revised, so our employees could have PPE of satisfactory quality. The process of improving the quality of PPE is on-going, and we expect higher PPE customer satisfaction in 2017 following a successful procurement procedure.

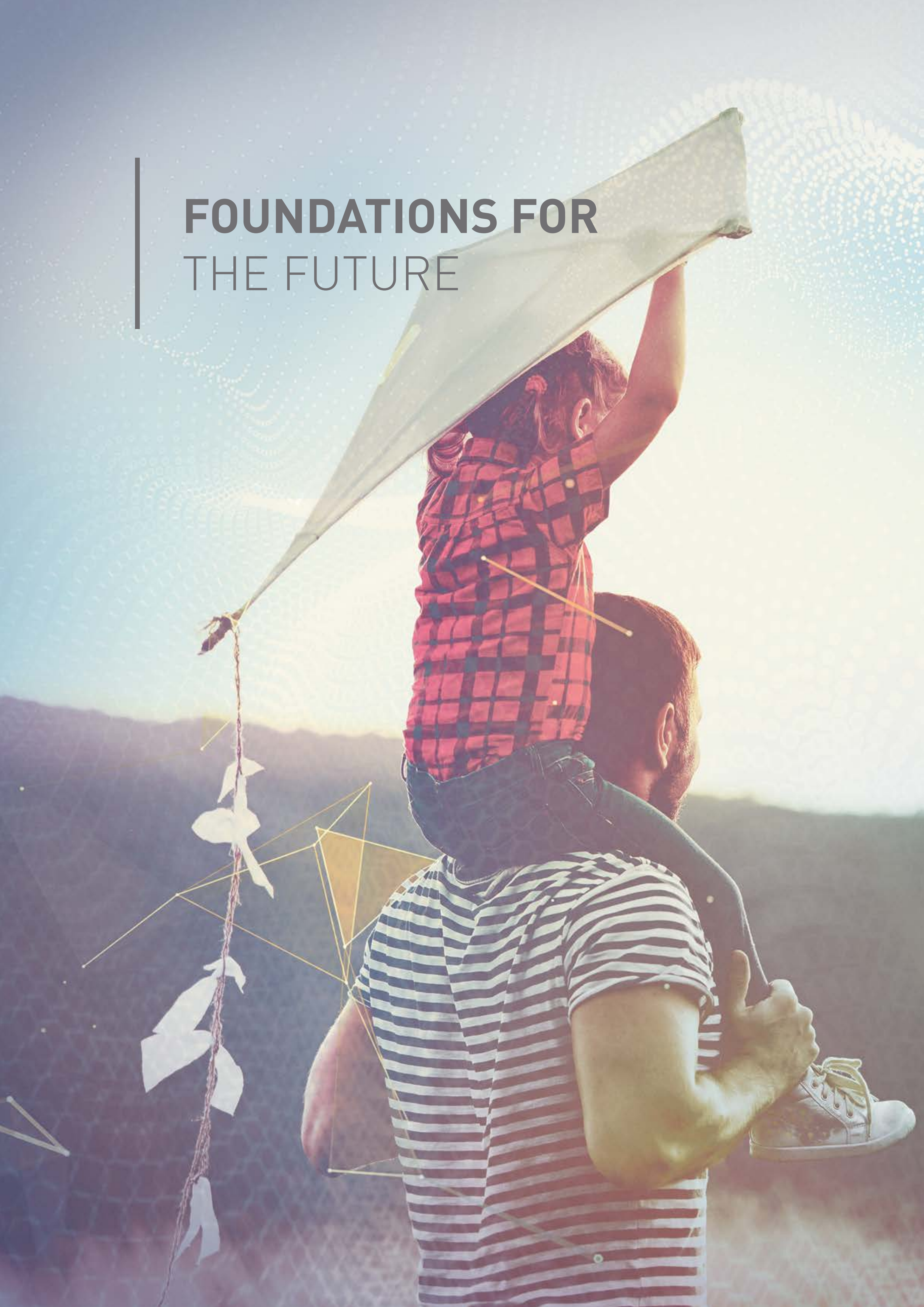
HSE Motivation

Being one of non-material motivation programmes at NIS, the system of HSE motivation is aimed at rewarding and promoting all individual employees or teams that contribute towards constant improvement of the HSE. The system of HSE motivation was set up in 2012 and there has been an increasing number of employees taking part in it and being rewarded every year. Since its launch in 2012 to Quarter 4, 2016 inclusive, 4,893 employees were rewarded within the system.

An HSE motivation application started operating in 2016 HSE motivation requests have been entered via the HSE motivation application on the corporate intranet portal as of Quarter 4, 2016.

HSE indicators	2016	2015	% change
Injuries	99	153	35%
Lost Time Injury Frequency	30	55	45%
Fires	26	23	13%
Road Accidents	13	14	7%
Environmental pollution	16	55	71%
Coefficient of inspectorates	0.36	0.39	8%
Site visits of inspectorates	770	902	15%
Actions imposed as part of inspection	275	354	22%

FOUNDATIONS FOR THE FUTURE



NIS offers as many as nine levels of career advancement, an opportunity to work in 10 countries in which it operates, and it is ranked as the second most attractive employer in Serbia. In accordance with the corporate slogan “Future at Work“, the company’s strategic goal is to support young talents and encourage them to realize their potential in NIS and to constantly improve their knowledge and skills.

HUMAN RESOURCES

NIS employees are the energy that drives us and the key to our success. NIS ensures that each member of its team can realise their potentials and to vouch for an environment where employee rights guaranteed by the Labour Law, Collective Agreement/Work Regulations, Employer's internal acts, as well as the United Nations Universal Declaration of Human Rights and the International Labour Organisation Declaration on Fundamental Principles and Rights at Work are fully respected.

The Policy of Labour and Human Rights was adopted in 2016. NIS insists on application of high standards for fair and safe working environment for all employees and seeks to encourage its suppliers and customers to do business in accordance with the principles set forth in this Policy.

This year, an independent agency conducted a survey on the reputation of NIS as an employer and it included both internal and external audiences. The results showed that our company is among the top-positioned in terms of reputation and attractiveness. These findings were corroborated by the survey conducted by *Infostud* and involving over 10,000 respondents, in which our company was second-ranked in the list of the most desirable employers in the Republic of Serbia.

NIS won the first award in Talent Management in Serbia in 2016, as part of a competition organised by Stanton Chase International. This year's competition gathered a record number of domestic and international companies recognised in the market for quality talent development programmes at all levels and fine collaboration with universities. In a unanimous vote of a jury of experts, our company's concept of Corporate University was declared the best practice in the entire competition. This award is of great significance as it confirms that NIS is developing in the right direction and that its efforts and expertise are recognised by external audiences, too.

Professional Development of Employees

By making continuous investment in the development of human resources, NIS is trying to ensure the readiness of its employees to respond to challenges in day-to-day operations, while at the same time contributing to their advancement. During 2016, 245 million dinars was invested in the development of employee knowledge, skills and abilities.

In addition to the primary focus on providing all statutory training events required for work licensing and certification, over 1,000 internal training events were organised in 2016 with more than 6,000 participants, and over 2,046 training events were delivered by external experts and consultants and involved more than 6,647 participants. Our employees were supported in broadening their professional knowledge by major world companies in the following areas: exploration and production (NExT Schlumberger), primary and secondary oil refining and optimisation of the refining process (IFP Training), management (Ward Howell). Support was also provided by the finest domestic HR consultancies: PricewaterhouseCoopers, KPMG, GI Group, Proconsulting, Mokra Gora School of Management, Project Management Centre, Chamber of Commerce and Industry of Serbia, and many others. These training courses promoted the development of both professional and personal skills, and the ones essential in effective team management. Employees had an opportunity to advance their knowledge and experience by a secondment programme with PJSC "Gazprom Neft". Three employees of the Exploration and Production were seconded to PJSC "Gazprom Neft". Two employees of NTC NIS Naftagas d.o.o. Novi Sad came back after one-year training at the Petroleum Learning Centre of Heriot-Watt University in Tomsk.

Cooperation with the Technical School in Zrenjanin made it possible for 563 employees of the Exploration and Production and Services to complete a professional development programme required for the profile: Operator of Oil and Gas Facilities. The aim is to have this form of employee development continue in 2017, too.

In 2016, 267 operators of the Refining underwent 7,000 hours of training designed to improve the knowledge and skills of external operators and control panel operators.

This year, operators of the Refining participated in the competition "Best in Their Profession" at the Omsk Refinery, while specialists represented the block in the competition "Young Specialists" in Saint Petersburg, where a diploma was awarded in Implementation of New Approaches in Evaluation of Oil Refining Facility Efficiency. A competition "Best in Their Profession" was held and was modelled on the one held at PJSC "Gazprom neft".

In cooperation with IFP Training, workshops were held for young engineers for the purpose of production process integration in terms of various limitations laid down by product specifications, analysis of operating parameters and their impact on the operation of the facility.

For the Sales and Distribution, this was the year of continuous development. Great emphasis was placed on improving technical competencies of the employees. The best employees of the Sales and Distribution took part in two prestigious interregional competitions this year:

- "Best in Their Profession" – for the employees of Retail and Logistics Departments
- "Tournament of Negotiators".

Qualifications for the "Best in Their Profession" competition gathered 676 employees from Serbia and Bosnia and Herzegovina. The company's best representatives took part in the finals in Barnaul, Russia and had excellent results (2nd position in the category Best Driver AC, Best Local Manager – 4th position, "Best Petrol Station Cashier" – 3rd position, and "Best Petrol Station Manager" – 11th position). An internal programme of special Fire Protection training with internal lecturers has been implemented and completed by 500 employees so far.

More than 3,000 employees were trained by the Retail Department in various internal programmes and courses taught by the Mobile Crew. A direct consequence of intensive work with retail site employees at all levels is an increase in effective promotional sales of non-fuel products of 6% in fuel attendants and of 12% in cashiers, whereas the effectiveness of promotional campaigns (loyalty cards, etc.) has risen by 20%.

The Sales and Distribution has traditionally organised GEMBA, which provided the block management with an opportunity to find out all about petrol station trade requirements and risks in the actual work environment.

NIS Corporate University

As part of the NIS Corporate University concept, we have developed cooperation with leading business schools from the country and region, renowned training and development partners, as well as universities and scientific institutions. The Corporate University gives support to employees in developing skills, competencies and knowledge towards more efficient and better-quality performance at work in the form of best available practice, methodologies and lectures of renowned lecturers.

Programmes within the NIS Corporate University have been designed in accordance with the needs and specifics of our company's business and adjusted to the organisational structure (top/senior/lower management, specialists). Leadership programmes follow the career development of employees from their current level to the next level within the organisation. With a view to providing continuous employee development, the programmes have been designed and created for a period of 3 to 5 years. The subject matter of each training event is the result of cooperation with renowned business schools from the country and region, training and development partners and leading lecturers designated by the providers.

More than 1,000 employees in positions ranging from Department Director to Expert Coordinator followed programmes of the NIS Corporate University in 2016.

E-learning Programmes

In concert with a leading global e-learning provider, the Training and Development Sector prepared some programmes for senior and middle management designed to develop leadership skills. The programmes comprise eight modules and focus on business coaching skills, influential and efficient communication, and importance of emotional intelligence in the work environment.

Onboarding Programme

At the beginning of their employment, each newly employed undergoes induction training to get basic information about the company and adjust to future work activities as easier as possible. The Corporate University takes pride in the latest efficient technologies utilised to make the training as appealing and effective as possible for our new co-workers. In keeping with trends across the world, a modern electronic type of training has been developed for this purpose, whereby the subject matter is presented in an engaging and interactive way.

Leader 2016:
22 employees
5 educational modules

Project DigitalNISation – Culture of Innovation at NIS was proclaimed the best project.

Apart from the activities listed, a developmental programme entitled "*Leader 2016*" and designed to improve employee leadership potential was successfully completed. This year, 22 employees successfully completed the programme. After 5 educational modules, programme participants successfully defended their projects before a panel composed of the General Director and representatives of the top management. The following projects were assessed as very important for the company: Mentoring Programme for Young Specialists; Improvement of the Non-Material Incentive System in Place; Preparation of the Onboarding Application; DigitalNISation – Culture of Innovation at NIS, which was also declared the best among them.

The programme of Foreign Language Learning is designed to improve employees' fluency in the English, Russian, or Serbian language to help them do their work more efficiently. In 2016, group and individual lessons involved 395 employees.

To the end of creating and improving a corporate culture, workshops were organised for managers on how to give feedback in the process of competency-based evaluation of employees, in cooperation with ProConsulting. The concept of Career Path of employees was developed this year to present the possibilities of career growth and development of employees at the company, from the start of their employment onwards. The concept of a Development Centre for employee competency assessment was formulated with a view to detailed and objective recognition of their strengths and areas for development.

Training costs[77] (in RSD million)	2016	2015
Costs of vocational education	232	211
Costs of consultancy	2	2
Membership fees in professional associations	4	5
Total:	**238**	**218**
Costs of training organisation	7	5
TOTAL:	**245**	**223**

[77] NIS j.s.c. Novi Sad with subsidiaries established in 2012 from the organisational structure of NIS j.s.c. Novi Sad (NTC NIS – Naftagas d.o.o. Novi Sad, Naftagas – Transport d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Naftni servisi d.o.o. Novi Sad); The costs of training are exclusive of the costs of the "Energy of Knowledge" project.

ENERGY OF KNOWLEDGE

NIS pays special attention to young people joining NIS and the ones who might apply their knowledge in NIS in the future. Therefore, several projects in support of the development of secondary-school and university students' potentials were launched as part of the "Energy of Knowledge" programme this year, too.

4 gold

12 silver

16 bronze

medals at international Olympiads

Within the framework of cooperation with the Technical School in Zrenjanin, students of the second grade (28 of them) and the third grade (26 of them) had their professional practice at the Training Centre in the New Complex in Zrenjanin, as well as production facilities and drilling and workover rig sites. A "petroleum" classroom, which our company equipped with all necessary equipment and tools, was opened in an official ceremony in late September. The Ministry of Education selected our approach to the organisation of professional practice for secondary-school students as one of initial models of dual education to be introduced in the system of secondary education and presented it at its stand at the Education Fair.

In order to promote sciences in secondary education, NIS supported and organised three national science Olympiads in 2016, namely Mathematics, Physics and Chemistry Olympiads, in cooperation with relevant associations. We were also partners to talented secondary-school students who represented our country in prestigious international Mathematics, IT, Physics and Chemistry Olympiads and achieved impressive results: 4 gold, 12 silver and 16 bronze medals.

Particular emphasis was placed on activities and projects playing a part in re-affirming and popularising the Russian language in our country. The fourth NIS Russian Language Olympiad was organised in cooperation with the Serbian Slavic Association, Russian Centre of the Russian Peace Fund, and Russian Centre of Science and Culture Russian House, gathering a lot more students and schools than in previous years. We continued supporting bilingual lessons and creating bilingual Serbian-Russian classes in Serbia. In addition to 4 bilingual classes at the Jovan Popović Primary School in Novi Sad, lessons in Russian and Serbian languages are also provided to 3 other classes at the Grammar School in Aleksinac and 2 classes of the *Jovan Jovanović Zmaj* Grammar School in Novi Sad. In view of the need for strengthening and professional development of teaching staff and on the initiative of three other primary schools for opening Serbian-Russian bilingual classes (*Stari Grad* Primary School from *Užice*, *Kralj Petar* Primary School from *Niš*, and *Žarko Zrenjanin* Primary School from *Zrenjanin*), NIS continued its active cooperation with the Teacher-Training College in Sombor, which is part of the University of Novi Sad, and Russian Centre of Science and Culture Russian House.

As previously, one of this year's objectives of the "Energy of Knowledge" programme included improving working conditions in educational institutions in the country, by adaptation and provision of equipment and teaching aids for IT classrooms and laboratories. In addition to the newly opened "Petroleum Classroom" at the Technical School in *Zrenjanin*, this year we also equipped a Chemistry laboratory and a Physics laboratory. We donated IT equipment to the Faculty of Political Science at Belgrade University. The laboratory at the Department of Oil and Petrochemical Engineering of the Faculty of Technology, Novi Sad University, which was refurbished with the assistance of NIS, will be opened in late December.

For some years now, NIS' "Energy of Knowledge" has been focusing on collaborating with universities. In November 2016, a Memorandum of Strategic Cooperation was signed with Lobachevsky National Research State University of Nizhny Novgorod. In addition, we concluded a new strategic cooperation agreement with the Faculty of Economics at Belgrade University, and continued cooperating with our partner faculties at Novi Sad and Belgrade Universities. With the aim of improving partner relations in the sphere of delivering training and courses for employees and implementing joint projects, we have intensified cooperation in knowledge exchange with the Faculties. Accordingly, professors of the Faculty of Mechanical Engineering at Belgrade University held a seminar for mechanical engineers of the blocks: Exploration and Production, Refining, Services and Energy as part of the Programme of Continuous Professional Development of Members of the Serbian Chamber of Engineers. Apart from that, lecturers of the Faculty of Mechanical Engineering held three other professional training courses for the employees of Exploration and Production, Refining, and Energy. Professors of the Faculty of Civil Engineering at Belgrade University held a seminar as part of the Programme of Continuous Professional Development of Members of the Serbian Chamber of Engineers and professional training for civil engineers employed at the Exploration and Production.

In order to supplement the curriculum, NIS organised a series of visiting lectures of university staff, as well as numerous student visits to NIS, which included a presentation of NIS Group and business processes and a tour of facilities. General Director held a lecture about NIS for 30 students of MBA studies at Yale University. They also visited *Pančevo* Oil Refinery and "Dunav" petrol station. In the period from June to October 2016, student traineeship for 131 students of Belgrade, Novi Sad, Niš and Kragujevac Universities was conducted, while on-site teaching was organised for 177 students of the so-called petroleum faculties from Serbia and Bosnia and Herzegovina. A two-week summer traineeship with the training in "Basics of the Profession of Oil and Gas Production Operator" was organised at our production facilities and complexes for 25 scholarship fellows of NIS studying at the finest most prestigious oil and gas faculties in the Russian Federation, as well as for 2 students of the partner Ukhta State Technical University. Among the examples that illustrate how our company and employees support student development are workshops for active job search, CV writing, and development of personal and professional competencies organised and conducted in the period from November 2014 to November 2016 by NIS as a partner in TEMPUS SIPUS project (Strengthening of Internationalisation Policies at Universities in Serbia).

In school year 2016/2017, NIS has 43 agreements in place for awarding scholarships to the most successful students in target faculties at Belgrade and Novi Sad Universities, but also at universities abroad (25 scholarship fellows – Undergraduate Academic Studies, 2 scholarship fellows – Master Academic Studies at oil and gas universities in the Russian Federation and 1 scholarship fellow at Cambridge University). For the duration of the programme, NIS invests in scholarship fellows through annual programmes of professional practice, participation in summer schools, site visits, and foreign language learning. At the end of the scholarship period, scholarship fellows will get jobs at NIS.

In 2016, NIS employed 16 of its scholarship fellows who successfully graduated from the Faculty of Mining and Geology at Belgrade University or some technical faculties at the University in Novi Sad.

Taking Care of Employee Social Status

For its employees NIS provides a degree of social protection higher than required by law, which is regulated by the Collective Agreement and internal acts.

The benefits provided for by the Collective Agreement and internal acts include:

- Special protection for people with disabilities and in the event of occupational diseases, as well as preventative recovery of employees doing jobs with special working conditions and jobs for which pensionable service is subject to accelerated retirement scheme, for the purpose of preventing occupational diseases and disability,
- Solidarity assistance entitlement,
- Compensation of damage suffered by the employees as a result of destruction of or damage to residential buildings due to natural disasters and other emergencies,
- Scholarships during full-time education for the children of killed and deceased workers,
- Collective health insurance of employees in the event of major illnesses and surgeries,
- Collective insurance of employees in the event of accidents,
- Addressing employee housing needs by giving housing loan subsidies,
- Voluntary pension insurance.

Material and Non-Material Incentives

In order to improve its performance, NIS continues to improve the system of rewarding employees and ensures conditions that will make it possible for it to remain one of the most attractive employers in the region.

Three main systems are in place for rewarding employees: variable remuneration in production and technical organisational units, variable remuneration in sales and variable remuneration and annual bonus in administration. Moreover, there is a system of premiums for special achievements at our company, as well as a system of project premiums to reward successful performance in projects.

In today's business environment, non-material incentives are becoming far more important than material ones as part of overall employee motivation. The aim of non-material incentives is to create the sense of self-achievement, respect and being part of the company and thus give employees social and professional recognition. By creating a favourable work climate in the form of open communication and within the framework of corporate culture, a manager motivates employees and contributes towards better performance.

Non-material motivation comprises the following programmes: Well Done Rewarding, Discount System, Best Employee of the Month/Year, I Have an Idea, Open Doors, which provide employees with an opportunity to take an active part in the company's dealings, and show creativity and initiative.

Recruitment and Selection of Candidates

The underlying principles of our human resource policy make it possible for NIS to guarantee equal opportunities to all employees and potential employees regardless of their gender, religion, political opinion, national or social background, and to eliminate the possibility of any discrimination in all processes.

Each candidate decision must be based on objective and relevant criteria, i.e. a candidate's ability to meet requirements and standards of a post.

In 2016, the team of the Recruitment and Selection Sector engaged nearly 1,400 candidates of various profiles.

"NIS Chanc"e Employment Programme is oriented to profiles that fit our core business with a focus on candidates who have graduated from technical faculties. A new generation of "NIS Chance" programme participants signed their employment contracts in January. Thirty-two engineers without any professional experience got an opportunity to become a part of the NIS team, including engineers of mining, geology, technology, mechanical and environmental protection engineers.

Under the slogan "We Are Growing Together", this year the HR Department organised the first gathering of all "NIS Chance" participants who joined the company as part of the programme from 2012 to 2016. Over 300 employees recalled the launch of this programme, strategic reasons for which we started developing it to ensure the safety of the company and demonstrate its success so far, which is corroborated by the fact that 486 employees are still with the company, and as many as 86 programme participants have been promoted to managerial positions in the meantime.

This has been another year for NIS to continue the tradition of professional practice for the most talented and ambitious students of educational institutions of the Republic of Serbia and internationally accredited educational institutions. One hundred and thirty-one final-year students or fresh graduates were chosen in a detailed selection process. The candidates mostly include future graduate engineers of mining and geology, mechanical engineers, engineers of technology and electrical engineering, and economists.

NIS has strengthened its position as a desirable employer by its effective presentation at several job fairs, conferences, workshops and round tables, including Virtual Career and Knowledge Days and JobFair 2016.

Our company's HR representatives ran workshops at Belgrade Academy of Entrepreneurship and University of Niš; they also took part in several panel discussions, including the ones at the Faculty of Economics in Belgrade attended by over 500 students of the Universities in Belgrade, Novi Sad and Niš.

We also organised an HR gathering entitled "Employer Branding", the topic that was given special attention throughout the year. Representatives of domestic and international companies took part with one common goal: to exchange experience and good practice in this area.

By setting ambitious objectives in the field of human capital management, we achieve results that deservedly position us among the very best companies, with our good practices becoming role models for other companies.

Number of Employees and Employee Structure

Organizational Unit	December 31st, 2016			December 31st, 2015		
	Employees	Leasing	Total	Employees	Leasing	Total
NIS j.s.c. Novi Sad	**3,964**	**3,552**	**7,516**	**3,938**	**3,432**	**7,370**
Exploration and Production Block	782	222	1,004	764	217	981
Refining Block	775	30	805	799	40	839
Sales and Distribution Block	964	2,796	3,760	941	2,677	3,618
Services Block	84	24	108	100	22	122
Energy Block	245	20	265	234	19	253
The Corporate Centre	1,048	460	1,508	1,036	453	1,489
Representative offices and branches	66	0	66	64	4	68
Subsidiaries in the country	**1,392**	**1,544**	**2,936**	**1,384**	**1,538**	**2,922**
Naftagas – Naftni servisi	600	770	1,370	591	783	1,374
Naftagas – Tehnički servisi	396	479	875	396	469	865
Naftagas – Transport	96	272	368	104	257	361
NTC NIS Naftagas	300	23	323	293	29	322
Subsidiaries abroad	**90**	**1**	**91**	**110**	**1**	**111**
NIS Petrol, Bulgaria	40	0	40	57	0	57
NIS Petrol, Romania	27	0	27	29	0	29
NIS Petrol, B&H	16	0	16	16	0	16
Jadran Naftagas, B&H	6	0	6	6	0	6
Panon Naftagas, Hungary	1	1	2	2	1	3
Other subsidiaries	**527**	**102**	**629**	**343**	**101**	**444**
O Zone a.d. Beograd	7	102	109	6	98	104
NIS Overseas o.o.o. Saint Petersburg	113	0	113	122	0	122
NIS Svetlost d.o.o. Bujanovac	0	0	0	15	0	15
G Petrol d.o.o. Sarajevo	407	0	407	200	3	203
TOTAL:	**5,973**	**5,199**	**11,172**	**5,775**	**5,072**	**10,847**

Employee structure in terms of qualifications, gender and age[78]

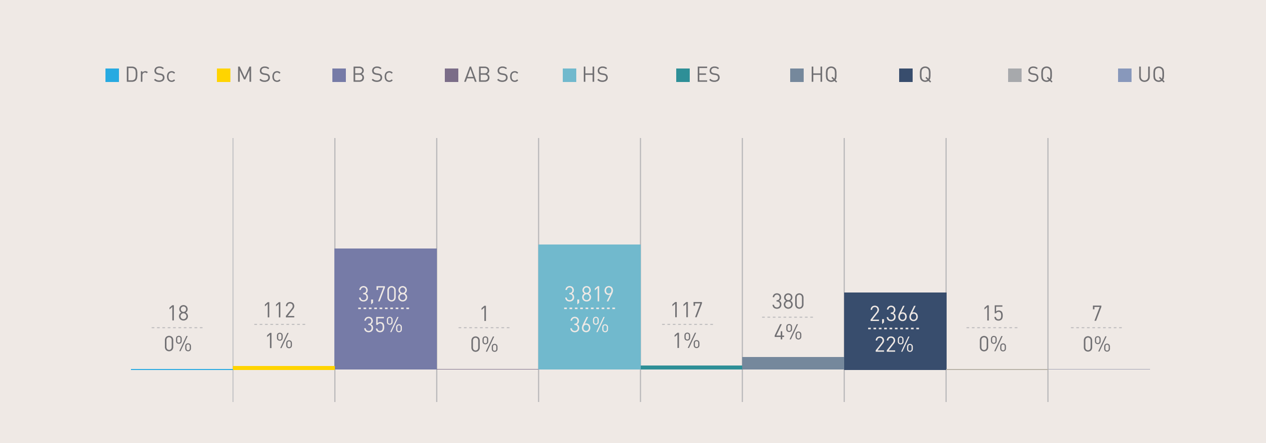


Chart no. 30: Employee qualification structure

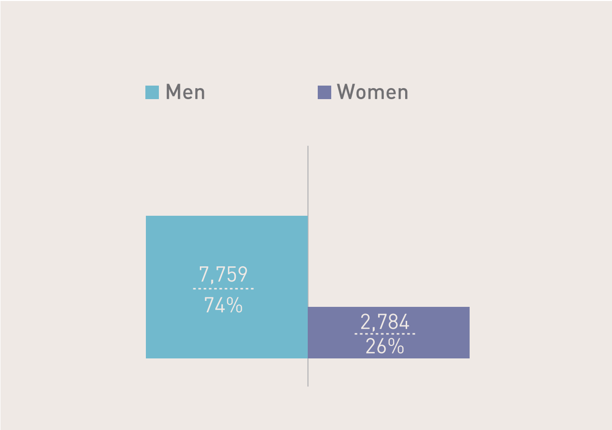


Chart no. 31: Employee gender structure

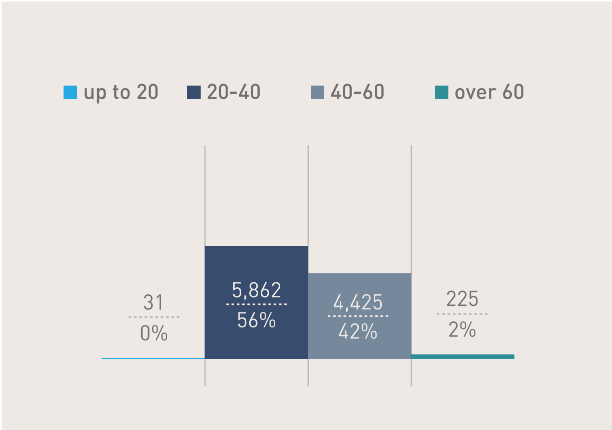


Chart no. 32: Employee age structure

Causes of Employment Termination

In 2016, a total of 246 employees left NIS[79]: 19 employees retired, 71 employees left NIS after termination of employment by mutual agreement, while the employment of 156 people was terminated on other grounds (involuntary termination, voluntary termination, redundancy, death etc.).

Cause of employment termination	NIS j.s.c. Novi Sad	Subsidiaries[80]
Retirement	15	4
Termination by mutual agreement	50	21
Other	115	41
Total	**180**	**66**

[78] Includes employees and leased employees at NIS a.d. Novi Sad including offices and branches, subsidiaries in the country and subsidiaries abroad, except for employees at other subsidiaries being part of consolidation.
[79] NIS j.s.c. Novi Sad with subsidiaries 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.
[80] 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.

PARTNERSHIP
FOR DEVELOPMENT

For a number of years, NIS has been leading in investing into the socially responsible business within Serbia, providing support to science, education, culture, sports, humanitarian projects and youth development through five corporate programs: "Energy of Sports", "Culture without Borders", "Energy of Knowledge", "Philanthropy and Voluntarism" and "Together for the Community". In the long-term perspective, these programs are intended to encourage new generations to make their own contribution to a better future and development of their community.

SOCIAL RESPONSIBILITY AND LOCAL DEVELOPMENT

Social responsibility is a part of NIS' strategic operations and under the slogan "Future at Work" it is directed at young people as well as supporting development of the entire social community within which NIS conducts its business.

Corporate social responsibility is implemented through five programmes:

"Culture without Borders", "Energy of Sports", "Energy of Knowledge", "Philanthropy and Voluntarism " and "Together for the Community".

“Culture without Borders”

NIS supports institutions and events of national and international significance through its programme “Culture without Borders”. This programme is also focused on affirming cultural values and supporting young talent.

This programme provided support to Nisville, the biggest jazz festival at the south of Serbia, and for a fourth year running, NIS, as the main sponsor supports the international cultural and music festival in Brussels called “Balkan Trafik”. In 2016, Teatar Fest, a festival promoting theatre and theatrical arts, was organized for the first time at Mokra Gora and it was sponsored by NIS.

“Energy of Sports”

NIS places a special focus on its programme “Energy of Sports” which promotes healthy lifestyle, sports values and supports professional and children sports, as well new talent development.

Basketball

NIS has been a partner of Partizan basketball club for many years, and the main sponsor of the club for the last four years. Partizan NIS is the most successful basketball club in the country having a great number fans and followers making it one of the most famous sports brands in Serbia.

Tennis

NIS is also the main sponsor of the Serbian Tennis Association and supports Serbia’s top male and female tennis players in the Davis Cup and FED Cup. Within this cooperation, for the fifth year in a row, NIS and Serbian Tennis Association organized in 2016 “Open Tennis School” for children across Serbia. More than 4,000 children were given an opportunity to learn their first tennis steps for free from professional coaches.

NIS and Serbian Tennis Association, in cooperation with the Ministry of Education, Science and Technological Development, initiated a campaign called “Sports against Violence”, with the aim of promoting sports values and culture of nonviolence in sports, as an extremely important element of healthy children’s growth. “Sports against Violence” campaign would be organized across Serbia in over 300 elementary schools, and in school years 2014/15 and 2015/16, 60 schools and more than 30,000 children participated in the campaign. The campaign will also continue in 2016/17.

Auto Sports

Support to auto sports and achievement of top sports results has been ensured through cooperation with the European champion Dusan Borković, member of NIS Petrol Racing Team, who has proven that he deserved the trust placed in him with his results, fair play and team spirit.

“Energy of Knowledge”

Corporate social responsibility of NIS places a special focus on investing in education and early recruiting of young individuals who could apply their knowledge in NIS. “Energy of Knowledge” is a corporate programme of cooperation with education and science institutions in Serbia and abroad in the area of science and research, the aim of which is to improve the curriculum, create modern working conditions and adjust study programmes with job market needs. In addition, through investments in the education system and support to the most successful pupils and students, NIS endeavours to provide its key staff potential for its long term development.

Philanthropy and Voluntarism

NIS j.s.c. Novi Sad, as a socially responsible company, dedicates much attention to philanthropic activities and development of voluntarism in its employees.

For the purpose of supporting initiative and promoting positive values, in 2016 the Company conducted a series of philanthropic and volunteering campaigns.

Corporate Voluntarism Development

In 2016, corporate voluntarism strategy was adopted as an integral part of philanthropy and corporate social responsibility of the Company. Under the slogan “Be the Change You Wish”, employees donated their time or knowledge, while focusing on activities directed to socially vulnerable groups, young talents and environment.

Within one of these campaigns, during New Year and Christmas Holidays, Company employees prepared New Year presents for children of the Home for Children and Youth with Developmental Disabilities “*Veternik*”. The employees gave presents and spent some time with the children of “*Veternik*” Children’s Home.

Through its corporate voluntarism campaigns, the Company motivates its employees, encourages engagement and develops a sense of community by enabling them to become involved in the activities which contribute to achievement of greater social goals.

Philanthropic Activities

Philanthropic activities in 2016 were focused on children.

This year, some innovations were made for the purpose of ensuring a more active employee involvement by providing the employees a chance to vote for the institution to which they wish to donate funds through the corporate website. Children's University Hospital "*Tiršova*" in Belgrade was chosen as this year's recipient of the donation within the traditional New Year's philanthropic campaign.

Company employees donated funds for "*Tiršova*" Hospital, and NIS j.s.c. Novi Sad traditionally joined this campaign by donating, in addition to the funds collected by the employees, an amount equal to such funds.

This year, the philanthropic campaign was also extended to customers across Serbia which, by purchasing 25 or more litres of any type of fuel, each donated RSD 25 for "*Tiršova*" Hospital.

The campaign collected about EUR 136,000 which was used to purchase state-of-the-art medical equipment for the Children's University Hospital "*Tiršova*".

In addition, employees traditionally took part in the philanthropic campaign organized for the celebration of the Company Day. Within this campaign, more than two thousands of various items, among which are school supplies, toys and clothing, were collected for the children staying at Children's Village in *Sremska Kamenica*.

"Together for the Community"

"Together for the Community" programme has been present for eight years and its main goal is to improve the quality of living in local communities where NIS conducts its business operations. This programme is performed in co-operation with 11 local self-governments: Belgrade, *Novi Sad, Niš*, *Pančevo, Zrenjanin, Kikinda, Novi Bečej, Žitište, Kanjiža, Srbobran and Čačak*. In 2016, this programme supported 106 projects whose implementation improves operation of cultural, educational and sports institutions.

Sports

- “Children’s playgrounds in local communities *Tanasko Rajić* and *Ljubić Selo*” – construction and furnishing the first children’s playground in both communities in the town of *Čačak*;
- “Baby friendly children’s playground” – expansion of playground in day-care centre “Gnezdo” in the town of *Kanjiža* and its furnishing with additional playground equipment for early physical development;
- “Reconstruction of basketball court in *Novo Miloševo*” – reconstruction and furnishing basketball court and thereby improving sports facilities in the town of *Novi Bečej*;
- “Reconstruction of physical education gymnasium” – reconstruction of gymnasium at Primary School “*Đura Jakšić*” for the purpose of ensuring conditions for playing sports to the pupils and young people of the town of *Kikinda*.

Culture

- Refurbishment and reconstruction of Academic Cultural and Artistic Society “*Ivo Lola Ribar*” in Belgrade;
- Refurbishment of the flat roof of the Puppet Theatre in *Niš* for the purpose of improving safety of theatre audience and staff;
- 19th Pančevo Jazz Festival – affirmation of jazz culture in young people through performances of music high school students, getting together and exchanging knowledge with international performers in the town of *Pančevo*;
- Converting old army barracks into museum “TERRA” – army barracks restoration and conversion into a museum in the town of *Kikinda*;
- “Nikolaj Krasnov Remembrance Book” – publishing remembrance book dedicated to the life and work of Nikolai (Nikola) Krasnov, architect of the Court of the Russian Tsar, and organizing and conducting a show dedicated to this artist and related lectures in Belgrade.

Environment

- “Microbiology Laboratory of the Public Health Institute in *Pančevo*” – supply of equipment for the purpose of ensuring better conditions for increasing the scope and type of environmental testing in the town of *Pančevo*;
- Hardware and software concept for collection of metal cans and plastic bottles – waste collection competition among the citizen by using metal can and plastic bottle press and with the aid of hardware and software for counting delivered cans and plastic bottles in the city of *Niš*;
- “For a Cleaner Future” – in all populated areas, a campaign involving planting over 1,500 plantings and placing five trash bins at most frequented areas in the town of *Žitište*;
- “Making our Park More Beautiful” – landscaping and furnishing the park in *Banatsko Višnjićevo* in the town of *Žitište*.

Science and Education

- "Reconstruction of Modern Physics Laboratory" – ensuring a functional physics laboratory for conducting modern experiments and practice in the First Belgrade Gymnasium;
- "Science – Light as Music" – supply of equipment intended for attendants of the Regional Talent Centre "*Mihajlo Pupin*" in *Pančevo*;
- "Russian Language Smart Classroom" – reconstruction and conversion of the existing Russian language classroom at "*Svetozar Marković*" Gymnasium in *Niš* into a multimedia classroom;
- "Knowledge Park – Science in Nature" – refurbishing planted area and installing three-dimensional figures for the Science Park to be used for practical and theoretic science classes in *Čačak*.

Humanitarian Activities

- "A Warm Meal in a Warm Home" – distribution of warm meals to the Soup Kitchen's visitors in most need to their homes in their villages in *Kikinda*;
- "I Have the Right to Live Healthy" – setting up the first sports and recreational area for outdoor workouts for disabled persons and strengthening inclusion in *Srbobran*;
- "Together to Sensory Room" – furnishing a specialized room primarily intended for psychomotor treatment of children and young people with developmental problems in the primary school and high school "9th May" in *Zrenjanin*;
- "Furnishing Relaxation Room for Adults with Autism" in the primary school and high school "*Milan Petrović*" and student dorm in Novi Sad;
- "Meet the World by Touch and Movement" – furnishing a specialized room primarily intended for psychomotor treatment of children and young people with developmental problems in the School for the Deaf and Hard-of-Hearing "*Stefan Dečanski*" in Belgrade;
- "Smart Traffic Lights" – improving traffic safety for the blind and hard-of-hearing by installing audible signalling at junctions in the city of *Niš*.

INTERNAL AND EXTERNAL COMMUNICATIONS

Internal Communications

Providing relevant information to employees and active corporate culture development are key aspects for improving business and achieving business goals. In order to achieve this goal, Department of Internal Communications uses various information channels and a great number of tools. This is primarily a series of PR practices for promoting corporate values and key issues for business development.

NIS employees in Serbia and the region are informed through print corporate media, such as monthly and quarterly magazines in both Serbian and English language. Employees are also informed through electronic media such as intranet portal, informational mail and various e-mail notices. Information boards are also used which are placed at more than 400 locations across Serbia. Provision of timely, open and true information to employees on all current issues, ranging from operating results, development plans, staff development and training, workplace safety, to social packages and other employee benefits, is the priority of the Department of Internal Communications and directly affects the development of the Company's corporate culture.

Communication feedback between management and employees is the key aspect of development of corporate culture and achievement of proper and transparent communications. For development of feedback, various tools are used: information cascade programme through lice meetings of employees and the management, and "Questions to the Management" section in the corporate media, as well as existence and operation of the "Business Ethics Hotline" which prevents breaches of the Code of Business Ethics.

Year after year, the results of sociological research indicate that employees are more informed and that the corporate culture evolves with Company development and in accordance with the strategy in place.

Public Relations

Public relations and communication with the media are of crucial importance for NIS Group. We inform the media, experts and the general public about NIS' major activities in a timely, transparent and comprehensive manner through press releases. Such information is also published on the corporate website in three languages: Serbian, Russian, and English. The corporate website has a responsive design and its homepage was revamped in 2016 in line with the latest trends in this field. This significantly improved NIS' online presence. The Company has social media presence and on-going customer engagement. NIS' PR Service responds to media requests duly, by offering valuable, useful and complete information as soon as possible. The communication with the media is a two-way process so the media have a chance to propose areas for strengthening the relations. In addition, NIS Press Service provides continual support to the business and corporate social responsibility projects.

Government Relations

Improving and amending the legislations

In view of the 2016 parliamentary elections, the legislative activity in the Republic of Serbia was not as comprehensive as last year. Despite a decrease in the scope of the legislative activity regarding amendments and new legislation, NIS continued to cooperate with representatives of relevant ministries with the aim of upgrading the regulatory framework for the oil and gas sector and the overall business environment.

Various bills were analysed and initiative taken to amend current regulations and pass new regulations in various areas. The most significant areas considered in this period are corporate governance, civil law relations, process safety, environmental protection, fire safety, e-Business and other.

Cooperation with Trade Associations

In 2016, NIS maintained active collaboration with trade associations in the Republic of Serbia. As in previous years, NIS' officials most frequently cooperated with the Foreign Investors Council (FIC), American Chamber of Commerce (AMCHAM), National Alliance for Local Economic Development (NALED), Chamber of Commerce and Industry of Serbia (PKS), and National Oil Committee of Serbia – World Petroleum Council (NOCS-WPC).

The cooperation with the FIC and AMCHAM goes through the Committee and working groups and includes analyses of the regulations reviewed by the above associations. Like every year, NIS took part in preparing the section which concerns the oil and gas sector in the FIC issue of the White Book for 2016.

As for the collaboration with NALED, NIS primarily continued to assist authorities in their implementation of the National Programme to Fight Shadow Economy.

Excellent cooperation aiming to improve the conditions in the energy sector was also achieved with the Chamber of Commerce and Industry of Serbia.

Joint efforts of NIS and the NOCS resulted in a successful international expert workshop entitled "Perspectives of the Petroleum Industry in the Future Energy Mix" of June 16th, 2016 in Belgrade, run by the NOCS under the auspices of the World Petroleum Council. Also, the NOCS organised the project "Capacity Building for Improved Mineral Fuels Monitoring System – Transfer of Best Practices Against Grey Economy – FUELPAGE" with NIS support, which included the preparation of studies proposing how to boost the capacity of the bodies in charge of fuels quality monitoring based on experience and best practices in this field in the European Union.

NIS plans to continue to cooperate with business organisations next year as well with the aim of contributing, through partnership, to building up a more favourable business climate in the Republic of Serbia.

Combating the Grey Market

The year 2016 saw the beginning of full enforcement of the Law on Inspection Supervision, aiming to upgrade the efficiency of inspection bodies and increase supervision of businesses. Changes in the procedures of state bodies, which are planned under the full implementation of the Law, are expected to significantly weaken the grey market in the Republic of Serbia.

The grey economy is evidently declining in the oil and gas sector as a result of a very successful implementation of the Fuel Marking Regulation. Also, late in 2016 the in-line Ministry conducted public debate on amendments regarding the quality of petroleum products and biofuels and fuel marking. These amendments will also help further reduce the scope of the grey market in the country.

However, the emergence of heavy imports of base oil and its blending with euro diesel suggests that new ways are being discovered to avoid taxation by some businesses, so continuous efforts must be made in order to combat the grey economy. NIS will continue with intensive cooperation with national authorities in identifying the grey economy in oil and gas, proposing potential solutions to reduce it.

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 NTC 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

The 2017 Investment Programme of NIS amounts to 28.6 billion dinars, which is six per cent more than in 2016. Investing in key development projects, improving operational effectiveness, and maintaining business profitability, despite complex macroeconomic and market conditions, remain the priorities of NIS.

Pertaining to Exploration and Production, the 2017 plan envisages an increase in the resource base, improvement in the effectiveness of geological exploration, implementation of geological exploration projects concerning hard-to-recover reserves and unconventional resources, and improvement in production and technological efficiency by implementing operational effectiveness improvement measures.

In 2017, there will be business optimisation at the Services by way of implementing the OMS and improving operational effectiveness, continuation of project works in Romania and the project of Gazprom Neft Shelf, 3D seismic works within the framework of the projects of *South Banat 2, Turija 3 and Morović*, expansion of the activities and roles of the Services Training Centre, and continuation of the HSE process improvement.

The year 2017 will see continuation of activities within the framework of the "Bottom of the Barrel" project aimed at expanding the product range and maximising the output of highly profitable petroleum products. Apart from that, projects and measures focused on improving operational effectiveness will continue, along with putting the OMS implementation plan into effect.

With reference to sales, there are plans for further development of premium branded fuels in the market of Serbia and the region, retail network development, development of the Drive Cafe concept, increase in sales in the segment of end buyers, and increase in the motor fuel market share.

The 2017 plans of the Energy involve business development and gas utilisation projects. The focus in business development will be on starting to implement the project of EPC-based construction of CHPP *Pančevo* and activities surrounding the construction of *Plandište* Wind Farm. As for gas utilisation, the focus will be on further development of projects in the field of Compressed Natural Gas, as well as on analysing the potential and identifying new sites for constructing small power plants in oil and gas fields.

In addition, NIS is going to remain committed to the implementation of operational effectiveness measures as a key response to adverse market trends.

“The implementation of the adopted Business Plan will make it possible for NIS to maintain its profitability next year and continue implementing key investment projects, which are of great significance to the economy of Serbia and the Balkans as a whole. We take pride in the fact that NIS has had a good performance, showing resilience to the impact of the volatile macro environment. In 2017, NIS is going to continue implementing its business strategy, the main objective of which is – to become a regional leader in field of energy.”

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

FINANCIAL STATEMENTS

STAND-ALONE FINANCIAL STATEMENTS

pwc

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Naftna Industrija Srbije a.d. Novi Sad (the „Company") which comprise the balance sheet as of 31 December 2016 and the income statement, statement of other comprehensive income, statement of changes 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 the requirements of the Law on Accounting and accounting regulation effective in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Naftna Industrija Srbije a.d. Novi Sad as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on Accounting and accounting regulation effective in the Republic of Serbia.

Milivoje Nešović
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 February 2017

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

Balance Sheet

		Note	31 December 2016	31 December 2015
A.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
B.	**NON-CURRENT ASSETS**		**289,265,136**	**287,880,166**
I.	**INTANGIBLE ASSETS**	**8**	**15,766,633**	**16,303,592**
1.	Development investments		5,473,418	6,153,717
2.	Concessions, licenses, software and other rights		2,720,533	3,108,561
3.	Goodwill		-	-
4.	Other intangible assets		874,016	879,583
5.	Intangible assets under development		6,698,666	6,161,731
6.	Advances for intangible assets		-	-
II.	**PROPERTY, PLANT AND EQUIPMENT**	**9**	**216,068,737**	**208,385,605**
1.	Land		10,468,243	10,446,971
2.	Buildings		118,094,110	107,307,311
3.	Machinery and equipment		60,403,194	60,680,381
4.	Investment property		1,549,663	1,336,060
5.	Other property, plant and equipment		74,400	74,877
6.	Construction in progress		23,186,943	26,877,361
7.	Investments in leased PP&E		271,339	330,035
8.	Advances for PP&E		2,020,845	1,332,609
III.	**BIOLOGICAL ASSETS**		**-**	**-**
1.	Forest farming		-	-
2.	Livestock		-	-
3.	Biological assets in production		-	-
4.	Advances for biological assets		-	-
IV.	**LONG-TERM FINANCIAL INVESTMENTS**		**48,129,888**	**48,601,981**
1.	Investments in subsidiary	10	13,442,631	13,442,631
2.	Investments in joint ventures	11	1,038,800	180,438
3.	Investments in other legal entities and other available for sales financial assets		148,665	167,358
4.	Long term investments in parent and subsidiaries	12	32,413,076	33,502,197
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	13	1,086,716	1,170,724
V.	**LONG-TERM RECEIVABLES**	**14**	**9,299,878**	**14,588,988**
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		7,872	8,339
5.	Claims arising from guarantees		-	-
6.	Bad and doubtful receivables		-	-
7.	Other long-term receivables		9,292,006	10,570,103
C.	**DEFFERED TAX ASSETS**	**15**	**4,059,076**	**4,521,729**
D.	**CURRENT ASSETS**		**93,336,342**	**84,266,054**
I.	**INVENTORY**	**16**	**23,541,276**	**20,967,604**
1.	Materials, spare parts and tools		13,198,507	9,220,049
2.	Work in progress		3,119,239	4,050,154
3.	Finished goods		5,638,221	5,540,706
4.	Merchandise		1,523,265	1,949,490
5.	Assets held for sale		-	21,703
6.	Advances for inventory and services		62,044	185,502

Balance Sheet

	Note	31 December 2016	31 December 2015
II. TRADE RECEIVABLES	**17**	**38,430,002**	**35,328,663**
1. Domestic trade receivables - parents and subsidiaries		1,399,483	1,526,533
2. Foreign trade receivables - parents and subsidiaries		1,620,612	1,350,735
3. Domestic trade receivables - other related parties		675,178	10,799,575
4. Foreign trade receivables - other related parties		994,853	148,105
5. Trade receivables - domestic		32,800,095	20,850,547
6. Trade receivables - foreign		939,781	653,168
7. Other trade receivbles		-	-
III. RECEIVABLES FROM SPECIFIC OPERATIONS		**666,552**	**661,724**
IV. OTHER RECEIVABLES	**18**	**3,526,414**	**2,633,057**
V. FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS		**-**	**-**
VI. SHORT TERM FINANCIAL INVESTMENTS	**19**	**3,519,702**	**1,255,935**
1. Short-term loans and investments - parent companies and subsidiaries		364,481	847,638
2. Short-term loans and investments – other related parties		-	-
3. Short-term loans and investments - domestic		-	-
4. Short-term loans and investments - foreign		-	-
5. Other short-term loans and investments		3,155,221	408,297
VII. CASH AND CASH EQUIVALENTS	**20**	**20,053,651**	**16,729,893**
VIII. VALUE ADDED TAX		**-**	**-**
IX. PREPAYMENTS AND ACCRUED INCOME	**21**	**3,598,745**	**6,689,178**
E. TOTAL ASSETS		**386,660,554**	**376,667,949**
F. OFF-BALANCE SHEET ASSETS	**22**	**117,893,750**	**129,976,675**

	Note	31 December 2016	31 December 2015
A. EQUITY		**215,174,642**	**203,015,095**
I. EQUITY		**81,530,200**	**81,530,200**
1. Share capital	23	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		**80,607**	**-**
VI. UNREALISED GAINS FROM SECURITAS AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME		**122,912**	**112,925**
VII. UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME		**66,519**	**79,564**
VIII. RETAINED EARNINGS		**133,507,442**	**121,451,534**
1. Retained earnings from previous years		117,425,573	105,346,867
2. Retained earnings from current year		16,081,869	16,104,667

Balance Sheet

	Note	31 December 2016	31 December 2015
IX. NON-CONTROLLING INTEREST		**-**	**-**
X. LOSS		**-**	**-**
1. Loss from previous years		-	-
2. Loss from current year		-	-
B. LONG-TERM PROVISIONS AND LIABILITIES		**102,689,234**	**108,463,513**
I. LONG-TERM PROVISIONS	**24**	**9,365,454**	**9,154,267**
1. Provisions for warranty claims			-
2. Provision for environmental rehabilitation		7,801,828	7,918,238
3. Provisions for restructuring costs		-	-
4. Provisions for employee benefits		1,178,642	850,813
5. Provisions for litigations		384,984	385,216
6. Other long term provisions		-	-
II. LONG-TERM LIABILITIES	**25**	**93,323,780**	**99,309,246**
1. Liabilities convertible to equity		-	-
2. Liabilities to parent and subsidiaries		31,585,938	36,770,682
3. Liabilities to other related parties		-	-
4. Liabilities for issued long-term securities		-	-
5. Long term borrowings - domestic		23,842,201	18,240,935
6. Long-term borrowings - foreign		37,776,368	44,297,629
7. Finance lease liabilities		117,414	-
8. Other long-term liabilities		1,859	-
C. DEFFERED TAX LIABILITIES	**15**	**-**	**-**
D. SHORT-TERM LIABILITIES		**68,796,678**	**65,189,341**
I. SHORT-TERM FINANCIAL LIABILITIES	**26**	**22,841,082**	**17,700,395**
1. Short term borrowings from parent and subsidiaries		1,109,630	729,883
2. Short term borrowings from other related parties		-	-
3. Short-term loans and borrowings - domestic		10,468,337	3,553,091
4. Short-term loans and borrowings - foreign		1,721,579	-
5. Liabilities relating to current assets and held-for-sale assets attributable to discounted operations			-
6. Other short term liabilities		9,541,536	13,417,421
II. ADVANCES RECEIVED		**1,228,944**	**3,131,988**
III. TRADE PAYABLES	**27**	**24,861,519**	**25,172,093**
1. Trade payables - parent and subsidiaries - domestic		3,163,156	2,418,644
2. Trade payables - parent and subsidiaries - foreign		5,862,793	11,015,359
3. Trade payables - other related parties - domestic		675,393	800,455
4. Trade payables - other related parties - foreign		1,058,865	166,005
5. Trade payables - domestic		5,169,842	5,492,502
6. Trade payables - foreign		8,919,567	5,201,953
7. Other operating liabilities		11,903	77,175
IV. OTHER SHORT-TERM LIABILITIES	**28**	**8,068,314**	**8,425,924**
V. LIABILITIES FOR VAT		**1,383,017**	**1,227,765**
VI. LIABILITIES FOR OTHER TAXES	**29**	**6,989,668**	**7,241,150**
VII. ACCRUED EXPENSES	**30**	**3,424,134**	**2,290,026**
E. LOSS EXCEEDING EQUITY		**-**	**-**
F. TOTAL EQUITY AND LIABILITIES		**386,660,554**	**376,667,949**
G. OFF-BALANCE SHEET LIABILITIES	**22**	**117,893,750**	**129,976,675**

The accompanying notes are an integral part of these financial statements

in RSD 000

Income Statement

		Note	Year ended 31 December 2016	2015
INCOME FROM REGULAR OPERATING ACTIVITIES				
A.	**OPERATING INCOME**	**7**	**177,913,601**	**199,861,276**
I.	**INCOME FROM THE SALE OF GOODS**		**17,604,116**	**11,371,895**
1.	Income from sales of goods to parent and subsidiaries on domestic market		104,341	220,251
2.	Income from sales of goods to parent and subsidiaries on foreign market		130,677	5,649
3.	Income from the sale of goods to other related parties on domestic market		579	-
4.	Income from the sale of goods to other related parties on foreign market		8,408,639	554,085
5.	Income from sale of goods on domestic market		8,461,623	10,572,062
6.	Income from sale of goods on foreign market		498,257	19,848
II.	**INCOME FROM SALES OF PRODUCTS AND SERVICES**		**159,965,290**	**188,275,933**
1.	Income from sales of products and services to parent and subsidiaries on domestic market		865,469	1,123,270
2.	Income from sales of products and services to parent and subsidiaries on foreign market		7,896,816	8,217,634
3.	Income from sales of products and services to other related parties on domestic market		13,809,239	17,570,375
4.	Income from sales of products and services to other related parties on foreign market		710,618	256,269
5.	Income from sales of products and services – domestic		118,567,760	137,270,539
6.	Income from sales of products and services – foreign		18,115,388	23,837,846
III.	**INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS**		**4,239**	**3,169**
IV.	**OTHER OPERATING INCOME**		**339,956**	**210,279**
B.	**OPERATING EXPENSES**		**161,310,384**	**175,937,047**
I.	**COST OF GOODS SOLD**		**16,584,345**	**10,086,127**
II.	**WORK PERFORMED BY THE ENTITY AND CAPITALIZED**		**2,091,986**	**972,678**
III.	**INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES**		**-**	**-**
IV.	**DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES**		**833,400**	**3,285,252**
V.	**COST OF MATERIAL**		**87,048,696**	**107,736,687**
VI.	**COST OF FUEL AND ENERGY**		**3,864,723**	**3,474,079**
VII.	**COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES**		**13,919,752**	**13,864,222**
VIII.	**COST OF PRODUCTION SERVICES**	**31**	**16,319,955**	**13,986,539**
IX.	**DEPRECIATION, DEPLETION AND AMORTIZATION**	**8, 9**	**13,578,551**	**12,101,263**
X.	**COST OF LONG-TERM PROVISIONING**		**712,472**	**771,994**
XI.	**NON-PRODUCTION COSTS**	**32**	**10,540,476**	**11,603,562**
C.	**OPERATING GAIN**		**16,603,217**	**23,924,229**
D.	**OPERATING LOSS**		**-**	**-**
E.	**FINANCE INCOME**	**33**	**4,153,094**	**4,437,415**
I.	**FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME**		**1,836,082**	**2,336,657**
1.	Finance income - parent company and subsidiaries		1,816,340	2,259,332
2.	Finance income - other related parties		16,522	8,805
3.	Share of profit of associates and joint ventures		-	-
4.	Other financial income		3,220	68,520

Income Statement

		Note	2016	2015
			Year ended 31 December	
II.	INTEREST INCOME (from third parties)		1,033,686	650,898
III.	FOREIGN EXCHANGE GAINS (third parties)		1,283,326	1,449,860
F.	FINANCE EXPENSES	34	8,796,821	14,671,061
I.	FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES		2,060,116	3,633,441
1.	Finance expense - parent company and subsidiaries		2,031,235	3,618,789
2.	Finance expense - other related parties		20,577	10,227
3.	Share of loss of associates and joint ventures		-	-
4.	Other financial expense		8,304	4,425
II.	INTEREST EXPENSE (from third parties)		2,958,264	3,357,792
III.	FOREIGN EXCHANGE LOSSES (third parties)		3,778,441	7,679,828
G.	PROFIT FROM FINANCING OPERATIONS		-	-
H.	LOSS FROM FINANCING OPERATIONS		4,643,727	10,233,646
I.	INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	35	6,517,073	7,102,453
J.	LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		273,186	416,034
K.	OTHER INCOME	36	1,772,257	2,341,163
L.	OTHER EXPENSES	37	1,374,090	2,262,281
M.	OPERATING PROFIT BEFORE TAX		18,601,544	20,455,884
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		18,601,544	20,455,884
R.	LOSS BEFORE TAX		-	-
S.	INCOME TAX			
I.	CURRENT INCOME TAX	38	2,061,271	3,762,995
II.	DEFERRED TAX EXPENSE FOR THE PERIOD	38	1,098,923	588,222
III.	DEFERRED TAX INCOME FOR THE PERIOD	38	640,519	-
T.	PERSONAL INCOME PAID TO EMPLOYER		-	-
U.	NET PROFIT		16,081,869	16,104,667
V.	NET LOSS			
I.	NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS			-
II.	NET INCOME ATTRIBUTABLE TO THE OWNER		16,081,869	16,104,667
III.	NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		-	-
IV.	NET LOSS ATTRIBUTABLE TO THE OWNER		-	-
V.	EARNINGS PER SHARE			
1.	Basic earnings per share		0,099	0,099
2.	Diluted earnings per share		-	-

The accompanying notes are an integral part of these financial statements

in RSD 000

Statement of Other Comprehensive Income

		Note	Year ended 31 December 2016	2015
A.	NET PROFIT/(LOSS)			
I.	PROFIT, NET		16,081,869	16,104,667
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		80,607	-
b)	decrease in revaluation reserves		-	-
2.	**Actuarial gains (losses) of post employment benefit obligations**			
a)	gains		9,987	793
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		13,045	-
b)	losses		-	37,287
I.	OTHER COMPREHENSIVE PROFIT BEFORE TAX		103,639	-
II.	OTHER COMPREHENSIVE LOSS BEFORE TAX		-	36,494
III.	TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD		-	-
IV.	TOTAL NET COMPREHENSIVE PROFIT		103,639	-
V.	TOTAL NET COMPREHENSIVE LOSS		-	36,494
C.	TOTAL NET COMPREHENSIVE PROFIT			
I.	TOTAL COMPREHENSIVE PROFIT, NET		16,185,508	16,068,173
II.	TOTAL COMPREHENSIVE LOSS, NET		-	-
D.	TOTAL NET COMPREHENSIVE PROFIT / (LOSS)		16,185,508	16,068,173
1.	Attributable to shareholders		16,185,508	16,068,173
2.	Attributable to non-controling interest		-	-

The accompanying notes are an integral part of these financial statements

in RSD 000

Cash Flow Statement

		Note	Year ended 31 December 2016	2015
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**CASH INFLOW FROM OPERATING ACTIVITIES**		**354,711,125**	**376,963,023**
1.	Sales and advances received		354,203,517	375,199,602
2.	Interest from operating activities		167,652	1,553,142
3.	Other inflow from operating activities		339,956	210,279
II.	**CASH OUTFLOW FROM OPERATING ACTIVITIES**		**315,578,401**	**327,312,640**
1.	Payments and prepayments to suppliers		140,608,837	156,576,208
2.	Salaries, benefits and other personal expenses		13,572,040	14,179,455
3.	Interest paid		3,088,203	2,998,698
4.	Income tax paid		608,298	2,792,016
5.	Payments for other public revenues		157,701,023	150,766,263
III.	**NET CASH INFLOW FROM OPERATING ACTIVITIES**		**39,132,724**	**49,650,383**
IV.	**NET CASH OUTFLOW FROM OPERATING ACTIVITIES**		**-**	**-**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I.	**CASH FLOWS FROM INVESTING ACTIVITIES**		**12,366,002**	**14,879,363**
1.	Sale of shares (net inflow)		-	77,056
2.	Proceeds from sale of intangible assets, property, plant and equipment		493,930	174,446
3.	Other financial investments (net inflow)		11,872,007	14,561,694
4.	Interest from investing activities		-	-
5.	Dividend received		65	66,167
II.	**CASH OUTFLOW FROM INVESTING ACTIVITIES**		**39,781,878**	**48,741,505**
1.	Acquisition of subsidiaries or other business (net outflow)		-	-
2.	Purchase of intangible assets, property, plant and equipment		26,525,504	32,717,010
3.	Other financial investments (net outflow)		13,256,374	16,024,495
III.	**NET CASH INFLOW FROM INVESTING ACTIVITIES**		**-**	**-**
IV.	**NET CASH OUTFLOW FROM INVESTING ACTIVITIES**		**27,415,876**	**33,862,142**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**CASH INFLOW FROM FINANCING ACTIVITIES**		**26,744,150**	**29,956,428**
1.	Increase in share capital		-	-
2.	Proceeds from long-term borrowings (net inflow)		8,904,810	13,134,218
3.	Proceeds from short-term borrowings (net inflow)		17,839,340	16,822,210
4.	Other long-term liabilities		-	-
5.	Other short-term liabilities		-	-
II.	**CASH OUTFLOW FROM FINANCING ACTIVITIES**		**34,998,343**	**34,359,895**
1.	Purchase of own shares		-	-
2.	Repayment of long-term borrowings (net outflow)		22,064,580	7,231,990
3.	Repayment of short-term borrowings (net outflow)		8,907,802	19,488,525
4.	Repayment of other liabilities (net outflow)		-	-
5.	Financial lease		-	-
6.	Dividend distribution	23	4,025,961	7,639,380
III.	**NET CASH INFLOW FROM FINANCING ACTIVITIES**		**-**	**-**
IV.	**NET CASH OUTFLOW FROM FINANCING ACTIVITIES**		**8,254,193**	**4,403,467**
D.	**TOTAL CASH INFLOW**		**393,821,277**	**421,798,814**
E.	**TOTAL CASH OUTFLOW**		**390,358,622**	**410,414,040**
F.	**NET CASH INFLOW**		**3,462,655**	**11,384,774**
G.	**NET CASH OUTFLOW**		**-**	**-**
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**		**16,729,893**	**5,338,023**

Cash Flow Statement

		Note	Year ended 31 December 2016	2015
I.	CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS		239,069	794,189
J.	CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS		377,966	787,093
K.	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		20,053,651	16,729,893

The accompanying notes are an integral part of these financial statemen

in RSD 000

Statement of Changes in Equity

	Equity components		
	Share capital	Reserves	Loss
Balance as at 1 January 2015			
a) debit	-	-	-
b) credit	**81,530,200**	-	-
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**	-	-
Changes in period			
a) debit	-	-	-
b) credit	-	-	-
Balance as at 31 December 2015			
a) debit	-	-	-
b) credit	**81,530,200**	-	-
Adjustments of material errors and changes in accounting policies			
a) debit	-	-	-
b) credit	-	-	-
Restated opening balance as at 1 January 2016			
a) debit	-	-	-
b) credit	**81,530,200**	-	-
Changes in period			
a) debit	-	-	-
b) credit	-	-	-
Balance as at 31 December 2016			
a) debit	-	-	-
b) credit	**81,530,200**	-	-

The accompanying notes are an integral part of these financial statements

	Other comprehensive income components			
Retained earnings	Revaluation reserves	Acturial gain/(loss)	Gains (losses) from change in value of available-for-sale financial assets	Total Equity
-	**-**	**-**	**42,277**	**-**
112,986,247	**-**	**112,132**	**-**	**194,586,302**
-	-	-	-	
-	-	-	-	-
-	**-**	**-**	**42,277**	**-**
112,986,247	**-**	**112,132**	**-**	**194,586,302**
7,639,380	-	-	37,287	-
16,104,667	-	793	-	8,428,793
-	**-**	**-**	**79,564**	**-**
121,451,534	**-**	**112,925**	**-**	**203,015,095**
-	-	-	-	-
-	-	-	-	-
-	**-**	**-**	**79,564**	**-**
121,451,534	**-**	**112,925**	**-**	**203,015,095**
4,025,961	-	-	-	-
16,081,869	80,607	9,987	13,045	12,159,547
-	**-**	**-**	**66,519**	**-**
133,507,442	**80,607**	**122,912**	**-**	**215,174,642**

in RSD 000

NOTES TO FINANCIAL STATEMENTS[81]

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") is a vertically integrated oil company operating predominantly in Serbia. The Company's principal activities include:

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

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

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005 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

2.1. Basis of preparation

These financial statements for the year ended 31 December 2016 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

- The financial statements are prepared in the format prescribed by the Ministry of Finance of the Republic of Serbia,
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

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

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

At the date of signing financial statements, crude oil price increased since 31 December 2016 to 55.27 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any major fluctuation of crude oil prices.

---

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

Subsequent events occurring after 31 December 2016 were evaluated through 28 February 2017, the date these Financial Statements were authorised for issue.

2.2. 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.

2.3. Seasonality of Operations

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

2.4. 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'.

2.5. 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).

2.6. 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.

2.7. 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 36 and 37).

2.8. 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.

2.9. 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 36 and 37).

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.

2.10. 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.

2.10.1. 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.

2.10.2. 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 income statement (note 31).

2.10.3. 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.

2.11. 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 37).

2.12. 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'. 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).

2.13. 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.

2.14. Off-balance sheet assets and liabilities

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

2.15. Share capital

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

2.16. Earnings per share

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

2.17. Provisions

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

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

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

2.18. 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.

2.19. 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.

2.20. 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.

2.21. 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 Company's managers which will be settle based on the Key Performance Indicators ("KPI") reached during the program (note 24).

2.22. 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'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 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) Sales of electricity

The Company sells electricity on a short and long term basis with a contract terms generally accepted in the energy industry. Majority of sales are made on a wholesale market without structured trades.

(e) 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.

2.23. Leases

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

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

2.24. 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.

2.25. Capitalisation of borrowing costs

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

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

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

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

3.1. Estimation of Oil and Gas Reserves

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

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

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

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

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

3.2. Useful Lives of Property, Plant and Equipment

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

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2016 would be to increase/decrease it by RSD 1,188,513 (2015: RSD 1,079,717).

3.3. 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.

3.4. Employee benefits

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

The 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 8.15% (rather than 7.15%) per year, the past service liability (DBO) for the Company would decrease by about 9.1% for retirement indemnity and 5.8% for jubilee benefit. If pay increased by 0.5% higher than assumed on an annual basic, than the past service liability (DBO) for the whole NIS Company would increase by amount 10.4% for the retirement indemnity and 6.2% for the jubilee benefit.

3.5. Decommissioning and environmental protection provisions

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 8.15% (rather than 7.15%) per year, the present liability would have increased by approx. RSD 263,562 (2015: decreased RSD 339,439).

3.6. Contingencies

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

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 40).

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

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

The Company assessed crude oil price volatility as main impairment indicator. If the actual crude oil price decrease for 10$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Company's PPE by 172.1 bln RSD.

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

4. APPLICATION OF NEW IFRS

The following amended standards became effective for the Company from 1 January 2016, but did not have any material impact on the Company:

- **IFRS 14, Regulatory Deferral Accounts** (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- **Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11** (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- **Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38** (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- **Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41** (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- **Equity Method in Separate Financial Statements - Amendments to IAS 27** (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- **Annual Improvements to IFRSs 2014** (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- **Disclosure Initiative Amendments to IAS 1** (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- **Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28** (issued in December 2014 and effective for annual periods on or after 1 January 2016).

5. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and that the Company has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- 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.
- 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.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or 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.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Company will present this disclosure in its 2017 financial statements.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

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

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

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

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

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

(a) market risk (including 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 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 Company functional currency.

The Company has borrowings denominated in foreign currency mainly in EUR and USD which predominantly expose Company 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.

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

As of 31 December 2016	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Long-term investments in subsidiaries	-	32,413,076	-	-	32,413,076
Other long-term investments	77,304	1,002,384	7,028	-	1,086,716
Long term receivables	7,872	9,292,006	-	-	9,299,878
Current					
Trade receivables	25,220,003	12,702,034	507,965	-	38,430,002
Receivables from specific operations	400,780	82,162	183,610	-	666,552
Other receivables	302,452	3,223,629	322	11	3,526,414
Short term financial investments	376,777	3,142,925	-	-	3,519,702
Cash and cash equivalents	10,611,235	4,737,144	4,681,654	23,618	20,053,651
Other assets	3,017,569	557,836	22,997	343	3,598,745
Financial liabilities					
Non-current					
Long-term liabilities	(815)	(53,597,820)	(39,371,390)	(353,755)	(93,323,780)
Current					
Short-term financial liabilities	(1,109,799)	(21,462,958)	(236,526)	(31,799)	(22,841,082)
Trade payables	(9,032,098)	(9,527,421)	(6,226,962)	(75,038)	(24,861,519)
Other short-term liabilities	(7,656,452)	(76,079)	(319,154)	(16,629)	(8,068,314)
Other liabilities	(10,097,391)	(8,962)	(1,690,223)	(243)	(11,796,819)
Net exposure	**12,117,437**	**(17,520,044)**	**(42,440,679)**	**(453,492)**	**(48,296,778)**

As of 31 December 2015	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Long-term investmens in subsidiaries	-	33,502,197	-	-	33,502,197
Other long-term investments	70,937	1,093,112	6,675	-	1,170,724
Long term receivables	2,440,501	12,148,487	-	-	14,588,988
Other non-current assets	-	138,633	-	-	138,633
Current					
Trade receivables	15,380,535	19,571,995	376,133	-	35,328,663
Receivables from specific operations	443,323	44,022	174,379	-	661,724
Other receivables	1,804,763	827,801	276	217	2,633,057
Short term financial investments	861,028	394,907	-		1,255,935
Cash and cash equivalents	9,546,305	501,122	6,622,074	60,392	16,729,893
Other assets	5,369,765	721,414	597,629	370	6,689,178
Financial liabilities					
Non-current					
Long-term liabilities	(978)	(52,993,282)	(45,960,298)	(354,688)	(99,309,246)
Current					
Short-term financial liabilities	(730,081)	(9,517,023)	(7,427,780)	(25,511)	(17,700,395)
Trade payables	(9,772,132)	(4,790,547)	(10,541,327)	(68,087)	(25,172,093)
Other short-term liabilities	(8,036,122)	(50,121)	(325,383)	(14,298)	(8,425,924)
Other liabilities	(9,630,899)	(8,564)	(1,119,478)	-	(10,758,941)
Net exposure	**7,746,945**	**1,584,153**	**(57,597,100)**	**(401,605)**	**(48,667,607)**

The following exchange rates applied during the period:

Reporting date spot rate:

	31 December 2016	31 December 2015
EUR	123.4723	121.6261
USD	117.1353	111.2468

Sensitivity analysis

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

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

As at 31 December 2016, 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 876,002 (2015: RSD 79,208) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2016, 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 4,244,068 (2015: RSD 5,759,710) 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 2016 would have been RSD 1,087,907 (2015: RSD 1,097,184) 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 Company 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 time so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

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

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

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

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
As at 31 December 2016					
Borrowings	116,164,862	124,223,454	25,584,802	83,766,782	14,871,870
Trade payables (less dividends payable)	21,091,070	21,091,070	21,089,211	1,859	-
	137,255,932	**145,314,524**	**46,674,013**	**83,768,641**	**14,871,870**
As at 31 December 2015					
Borrowings	117,009,641	127,416,009	20,565,882	86,807,690	20,042,437
Trade payables (less dividends payable)	21,399,785	21,399,785	21,399,785	-	-
	138,409,426	**148,815,794**	**41,965,667**	**86,807,690**	**20,042,437**

6.2. Capital risk management

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

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

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

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

	31 December 2016	31 December 2015
Total borrowings (notes 25 and 26)	116,164,862	117,009,641
Less: cash and cash equivalents (note 20)	(20,053,651)	(16,729,893)
Net debt	**96,111,211**	**100,279,748**
EBITDA	37,143,408	44,109,439
Net debt to EBITDA	**2.59**	**2.27**

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

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

6.3. Fair value estimation

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

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

7. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the years ended 31 December 2016 and 2015. Operating segments are components that are engaged in business activities which may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Company manages its operations in two operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Company operations: exploration, development and production of crude oil and natural gas and oil field services. Downstream segment (refining and marketing) processes crude oil into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre and Energy business activities expenses are presented within the Downstream segment.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealized profits, mainly from the sale of crude oil and products, and other adjustments. Intersegment revenues are based upon estimated market prices.

EBITDA represents the Company's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Company's on-going operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the year ended 31 December 2016 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	36,311,772	178,010,012	(36,408,183)	177,913,601
Intersegment	34,048,352	2,359,831	(36,408,183)	-
External	2,263,420	175,650,181	-	177,913,601
EBITDA (Segment results)	**21,303,104**	**15,840,304**	**-**	**37,143,408**
Depreciation, depletion and amortization	(5,231,586)	(8,346,965)		(13,578,551)
Impairment losses/Revaluation surpluses (note 36 and 37)	(4,595)	11,109	-	6,514
Impairment of exploration works (note 9)	(1,204,851)	-	-	(1,204,851)
Finance expenses, net	(252,962)	(4,390,765)	-	(4,643,727)
Income tax	(273,282)	(2,246,393)	-	(2,519,675)
Segment profit (loss)	**15,479,505**	**602,364**	**-**	**16,081,869**

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	196,053,840	-	199,861,276
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 36 and 37)	(10,965)	(16,750)	-	(27,715)
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**

EBITDA for the year ended 31 December 2016 and 2015 is reconciled below:

	Year ended 31 December	
	2016	2015
Profit for the year	16,081,869	16,104,667
Income tax expenses	2,519,675	4,351,217
Other expenses	1,374,090	2,262,281
Other income	(1,772,257)	(2,341,163)
Loss from valuation of assets at fair value through profit and loss	273,186	416,034
Income from valuation of assets at fair value through profit and loss	(6,517,073)	(7,102,453)
Finance expense	8,796,821	14,671,061
Finance income	(4,153,094)	(4,437,415)
Depreciation, depletion and amortization	13,578,551	12,101,263
Other non operating expenses, net*	6,961,640	8,083,947
EBITDA	**37,143,408**	**44,109,439**

*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 2016		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	2,021,495	2,021,495
Sale of gas	3,059,894	-	3,059,894
Through a retail network	35,810	-	35,810
Wholesale activities	3,024,084	-	3,024,084
Sale of petroleum products	132,452,903	24,885,138	157,338,041
Through a retail network	44,481,288	-	44,481,288
Wholesale activities	87,971,615	24,885,138	112,856,753
Sales of electricity	467,822	8,690,443	9,158,265
Other sales	6,168,348	163,319	6,331,667
Total sales	**142,148,967**	**35,760,395**	**177,909,362**

	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
Sales of electricity	370,157	716,582	1,086,739
Other sales	5,768,594	303,621	6,072,215
Total sales	**166,966,776**	**32,891,331**	**199,858,107**

Out of the amount of RSD 112,856,753 (2015: RSD 133,183,791) revenue from sale of petroleum products (wholesale), the amount of RSD 13,844,962 (2015: RSD 23,222,832) are derived from a single domestic customer, HIP Petrohemija (2015: Knez Petrol). These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Gazprom Marketing & Trading Co., Ltd. in the amount of RSD 8,415,713 (2015: RSD 644,591).

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 142,148,967 (2015: RSD 166,966,776), and the total of revenue from external customer from other countries is RSD 35,760,395 (2015: RSD 32,891,331).

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

	Year ended 31 December	
	2016	**2015**
Sale of crude oil	2,021,495	3,022,528
Sale of petroleum products (retail and wholeasle)		
Bulgaria	5,540,887	7,430,785
Bosnia and Herzegovina	5,206,259	5,583,102
Romania	3,817,547	3,122,727
All other markets	10,320,445	12,711,986
	24,885,138	28,848,600
Sales of electricity	8,690,443	716,582
Other sales	163,319	303,621
	35,760,395	**32,891,331**

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

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Other intangibles	Intangible assets under development	Total
At 1 January 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	-	-	-	2,137,190	2,137,190
Transfer from assets under development	2,744,618	924,762	1,281	(3,670,661)	-
Impairment (note 37)	-	(72)	-	-	(72)
Amortization	(402,257)	(883,622)	(18,208)	-	(1,304,087)
Transfer from PP&E (note 9)	-	-	-	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 amortization 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**
At 1 January 2016					
Cost	6,617,839	7,420,522	972,536	6,249,829	21,260,726
Accumulated amortization 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**
Year ended 31 December 2016					
Additions	-	-	-	2,058,076	2,058,076
Transfer from assets under development	-	606,776	17,620	(624,396)	-
Amortization	(680,299)	(994,804)	(18,316)	-	(1,693,419)
Transfer from PP&E (note 9)	-	-	-	5,458	5,458
Disposals and write-off	-	-	(4,871)	(902,203)	(907,074)
Closing net book amount	**5,473,418**	**2,720,533**	**874,016**	**6,698,666**	**15,766,633**
As at 31 December 2016					
Cost	6,617,839	7,812,985	951,010	6,728,622	22,110,456
Accumulated amortization and impairment	(1,144,421)	(5,092,452)	(76,994)	(29,956)	(6,343,823)
Net book amount	**5,473,418**	**2,720,533**	**874,016**	**6,698,666**	**15,766,633**

Intangible assets under development as at 31 December 2016 amounting to RSD 6,698,666 (31 December 2015: RSD 6,161,731) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 5,245,337 (31 December 2015: RSD 4,941,068).

9. PROPERTY, PLANT AND EQUIPMENT

(a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment
At 1 January 2015			
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	-	100,888	-
Transfer from assets under development	16,823	20,826,750	9,446,258
Impairment charge (note 37)	-	(206,567)	(8,874)
Depreciation	-	(5,004,485)	(5,730,008)
Transfer to intangible assets (note 8)	-	-	-
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	(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**
Year ended 31 December 2016			
Additions	-	-	-
Transfer from assets under development	60,238	16,836,013	5,938,414
Appraisal effects	-	94,832	-
Impairment charge (note 37)	-	(1,602)	(3,543)
Depreciation	-	(5,765,500)	(6,054,385)
Transfer to intangible assets (note 8)	-	-	-
Transfer to investment property	(5,554)	(131,685)	741
Disposals and write-off	(25,802)	(240,697)	(134,360)
Other transfers	(7,610)	(4,562)	(24,054)
Closing net book amount	**10,468,243**	**118,094,110**	**60,403,194**
At 31 December 2016			
Cost	10,769,717	166,064,135	106,150,666
Accumulated depreciation and impairment	(301,474)	(47,970,025)	(45,747,472)
Net book amount	**10,468,243**	**118,094,110**	**60,403,194**

Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
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**
26,475,221	-	-	5,005,254	31,581,363
(30,305,122)	-	15,291	-	-
(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**
19,604,356	-	-	3,350,598	22,954,954
(22,841,216)	-	6,551	-	-
-	-	-	-	94,832
(25,696)	-	-	(11,213)	(42,054)
-	-	(65,247)	-	(11,885,132)
(5,458)	-	-	-	(5,458)
-	-	-	-	(136,498)
(437,000)	(477)	-	(2,651,149)	(3,489,485)
14,596	-	-	-	(21,630)
23,186,943	**74,400**	**271,339**	**2,020,845**	**214,519,074**
25,290,900	75,543	431,292	2,062,604	310,844,857
(2,103,957)	(1,143)	(159,953)	(41,759)	(96,325,783)
23,186,943	**74,400**	**271,339**	**2,020,845**	**214,519,074**

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 2016, the Company assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.8 for details. In addition Company has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 42,054 (2015: RSD 323,629).

(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:

	2016	2015
As at 1 January	**1,336,060**	**1,381,832**
Fair value gains (loss) (note 36 and 37)	79,957	(124,003)
Transfer from PP&E carried at cost	136,498	87,383
Disposals	(4,432)	(17,554)
Other	1,580	8,402
As at 31 December	**1,549,663**	**1,336,060**

As at 31 December 2016, investment properties amounting to RSD 1,549,663 (31 December 2015: RSD 1,336,060) 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 2016 and 2015. The revaluation gain 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 2016 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	-	917,985	-
– Gas stations	-	-	631,678
Total	**-**	**917,985**	**631,678**

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**

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:

	2016	2015
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:

	2016	2015
Assets as at 1 January	**541,624**	**569,808**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	68,043	54,431
Transfer from (to) PPE	17,740	(88,469)
Other	4,271	5,854
Total increase (desrease) in fair value measurement, assets	90,054	(28,184)
Assets as at 31 December	**631,678**	**541,624**

(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 2.6.).

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure
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 asset 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**
As at 1 January 2016		
Cost	16,744,369	7,644,244
Depreciation and impairment	-	(248,771)
Net book amount	**16,744,369**	**7,395,473**
Year ended 31 December 2016		
Additions	3,467,461	12,281,926
Transfer from asset under construction	(337,919)	(17,751,224)
Other transfers	(2,252,534)	2,517,708
Impairment	-	(4,595)
Unsuccessful exploration expenditures derecognised	(1,204,851)	-
Depreciation and depletion	-	-
Disposals and write-off	(6,542)	(54,648)
	16,409,984	**4,384,640**
As at 31 December 2016		
Cost	16,409,984	4,385,516
Depreciation and impairment	-	(876)
Net book amount	**16,409,984**	**4,384,640**

Unsuccessful exploration expenditures derecognised in the amount of RSD 1,204,851 mainly relate to exploration assets located in Hungary in the amount of RSD 1,188,909, due to uncertain viability of commercial production.

Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
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**
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**
15,749,387	(9,379)	-	15,740,008
(18,089,143)	18,089,143	-	-
265,174	(20,199)	(15)	244,960
(4,595)	-	-	(4,595)
(1,204,851)	-	-	(1,204,851)
-	(4,970,589)	-	(4,970,589)
(61,190)	(121,388)	(7)	(182,585)
20,794,624	**88,442,311**	**1,820**	**109,238,755**
20,795,500	115,864,815	22,129	136,682,444
(876)	(27,422,504)	(20,309)	(27,443,689)
20,794,624	**88,442,311**	**1,820**	**109,238,755**

10. INVESTMENT IN SUBSIDIARY

	31 December 2016	31 December 2015
Investments in subsidiaries:		
- In shares	3,457,576	3,457,576
- In stakes	13,368,335	12,868,227
	16,825,911	**16,325,803**
Less: Provision	(3,383,280)	(2,883,172)
	13,442,631	**13,442,631**

Investments in subsidiaries as at 31 December 2016 relate to the following companies:

Company	Share %	Investment	Impairment	Net book value
O Zone a.d. Belgrade, Serbia	100%	3,457,576	(1,172,263)	2,285,313
NIS Petrol e.o.o.d. Sofija, Bulgaria	100%	28,938	-	28,938
NIS Petrol SRL, Bucharest, Romania	100%	997	-	997
NIS Petrol doo, Banja Luka, BiH	100%	1,030	-	1,030
Pannon Naftagas Kft, Budapest, Hungary	100%	2,211,017	(2,211,017)	-
NTC NIS-Naftagas d.o.o. Novi Sad, Serbia	100%	905,000	-	905,000
Naftagas-Tehnicki servisi d.o.o. Zrenjanin, Serbia	100%	1,177,032	-	1,177,032
Naftagas-Naftni servisi d.o.o. Novi Sad, Serbia	100%	7,300,000	-	7,300,000
Naftagas-Transport d.o.o. Novi Sad, Serbia	100%	1,717,349	-	1,717,349
NIS Oversiz, Moscow, Russia	100%	9,856	-	9,856
Jadran-Naftagas d.o.o. Banja Luka, BiH	66%	71	-	71
Svetlost, Bujanovac, Serbia	51%	17,045	-	17,045
		16,825,911	**(3,383,280)**	**13,442,631**

11. INVESTMENTS IN JOINT VENTURES

The carrying value of the investments in joint venture as of 31 December 2016 and 2015 is presented below:

	Ownership percentage	31 December 2016	31 December 2015
Serbskaya Generaciya	49%	1,038,800	180,438
		1,038,800	**180,438**

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

There are no contingent liabilities relating to the Company's interest in the joint venture, and no contingent liabilities of the venture itself.

Serbskaya Generaciya

In 2015 the Company and Centrenergoholding OAO Russian Federation established 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 Financial Statements there have been no significant business activities. During 2016 the Company increased their investment in Serbskaya Generaciya in the amount of RSD 858,362.

12. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES

	31 December 2016	31 December 2015
LT loans - Subsidiaries - Domestic	3,086,461	2,904,867
LT loans - Subsidiaries - Foregin	29,343,549	31,270,666
Less: Impairment	(16,934)	(673,336)
	32,413,076	**33,502,197**

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

	Currency	31 December 2016	31 December 2015
Domestic			
O Zone a.d., Belgrade, Serbia	EUR	3,086,461	2,904,867
		3,086,461	**2,904,867**
Foregin			
NIS Petrol e.o.o.d. Sofija, Bulgaria	EUR	9,504,391	11,355,192
NIS Petrol SRL, Bucharest, Romania	EUR	10,961,059	10,131,378
NIS Petrol d.o.o. Banja Luka, BiH	EUR	7,357,698	7,490,872
Jadran - Naftagas d.o.o. Banja Luka, BiH	EUR	1,503,467	1,813,389
Pannon Naftagas Kft, Budapest, Hungary	EUR	16,934	479,835
		29,343,549	**31,270,666**
		32,430,010	**34,175,533**

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.

13. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2016	31 December 2015
Other LT investments	10,050	1,032,339
LT loans given to employees	1,076,725	1,161,130
Less: Impairment	(59)	(1,022,745)
	1,086,716	**1,170,724**

Loans to employees as at 31 December 2016 amounting to RSD 1,076,725 (31 December 2015: RSD 1,161,130) 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 installments.

14. LONG-TERM RECEIVABLES

	31 December 2016	31 December 2015
LT receivables - state owned companies	10,020,549	15,493,616
LT receivables - finacial lease	20,620	29,311
Less: Impairment	(741,291)	(933,939)
	9,299,878	**14,588,988**

Long-term receivables – state owned companies amounting to RSD 10,020,549 mainly relate to the long-term receivables from the Republic of Serbia in the amount of RSD 9,292,006 according to the debt of Srbijagas and HIP Petrohemija owed to Naftna industrija Srbije takeover and its conversion into public debt (Short-term part of the receivables: note 17).

These receivables were denominated in EUR on the date of the debt takeover.

15. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2016	31 December 2015
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	6,671,740	7,257,405
	6,671,740	**7,257,405**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(2,612,664)	(2,735,676)
	(2,612,664)	**(2,735,676)**
Deferred tax assets (net)	**4,059,076**	**4,521,729**

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

	2016	2015
At 1 January	**4,521,729**	**5,110,091**
Charged to the income statement	(458,404)	(588,222)
Charged to other comprehensive income	(4,247)	(140)
Other	(2)	-
31 December	**4,059,076**	**4,521,729**

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

	Provisions	Carrying value of PP&E vs Tax base	Revaluation reserve	Total
Deferred tax liabilities				
As at 1 January 2015	**(36,613)**	**(2,687,451)**	**-**	**(2,724,064)**
Charged to the income statement (note 38)	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)**
Charged to the income statement (note 38)	-	117,308	-	117,308
Charged to other comprehensive income	-	-	(14,224)	(14,224)
Other	19,928	-	-	19,928
As at 31 December 2016	**-**	**(2,598,440)**	**(14,224)**	**(2,612,664)**

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
Deferred tax assets					
As at 1 January 2015	**25,531**	**680,659**	**7,127,965**	**-**	**7,834,155**
Charged to the income statement (note 38)	933,478	183,363	(1,693,591)	-	(576,750)
As at 31 December 2015	**959,009**	**864,022**	**5,434,374**	**-**	**7,257,405**
Charged to the income statement (note 38)	30,239	66,171	(672,122)	-	(575,712)
Charged to other comprehensive income	(1,762)	-	-	11,739	9,977
Other	(19,930)	-	-	-	(19,930)
As at 31 December 2016	**967,556**	**930,193**	**4,762,252**	**11,739**	**6,671,740**

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.

16. INVENTORY

	31 December 2016	31 December 2015
Materials, spare parts and tools	18,227,757	14,331,033
Work in progress	3,119,239	4,050,154
Finished goods	5,638,221	5,540,706
Goods for sale	1,532,478	1,956,161
Advances	319,986	453,621
Less: impairment of inventory	(5,038,463)	(5,117,655)
Less: impairment of advances	(257,942)	(268,119)
	23,541,276	**20,945,901**
Non-current assets held for sale	-	207,485
Less: impairment of assets held for sale	-	(185,782)
	-	**21,703**
	23,541,276	**20,967,604**

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 2015	**5,613,846**	**239,846**	**-**	**5,853,692**
Provision for inventories and advances (note 37)	89,439	39,215	-	128,654
Unused amounts reversed (note 36)	(406,016)	(4,439)	-	(410,455)
Transfer from non-current part	-	-	185,782	185,782
Receivables written off during the year as uncollectible	-	(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**
Provision for inventories and advances (note 37)	41,204	2,237	-	43,441
Unused amounts reversed (note 36)	(3,249)	(8,544)	-	(11,793)
Other	(117,147)	(3,870)	(185,782)	(306,799)
Balance as of 31 December 2016	**5,038,463**	**257,942**	**-**	**5,296,405**

17. TRADE RECEIVABLES

	31 December 2016	31 December 2015
Parents and subsidiaries - domestic	1,399,483	1,530,043
Parents and subsidiaries - foreign	1,620,612	1,350,735
Other related parties - domestic	10,380,560	19,016,180
Other related parties - foreign	994,853	148,105
Trade receivables domestic - third parties	40,487,522	32,107,417
Trade receivables foreign - third parties	968,128	755,895
	55,851,158	**54,908,375**
Less: Impairment	(17,421,156)	(19,579,712)
	38,430,002	**35,328,663**

The ageing of trade receivables is as follows:

	31 December 2016	31 December 2015
Neither impaired nor past due	35,075,350	27,210,041
Past due but not impaired:		
within 30 days	1,351,752	1,671,356
1 to 3 months	932,456	3,245,737
3 months to 1 year	15,801	118,533
over 1 year	1,054,643	3,082,996
Total	**38,430,002**	**35,328,663**

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 2016	31 December 2015
RSD	25,220,003	15,380,535
EUR	12,702,034	19,571,995
USD	507,965	376,133
	38,430,002	**35,328,663**

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 2015	**8,318,085**	**4,183,439**	**12,501,524**
Provision for receivables impairment	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 (note 18)	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**
Provision for receivables impairment	5,974	93,167	99,141
Unused amounts reversed (note 35)	(4,339,261)	(88,702)	(4,427,963)
Receivables written off during the year as uncollectible	-	(204,124)	(204,124)
Transfer from receivables from specific operations	2,247,190	-	2,247,190
Other	-	127,200	127,200
As at 31 December 2016	**3,894,367**	**13,526,789**	**17,421,156**

Release of provision during 2016, in the amount of RSD 4,427,963 mainly relate to positive outcome of negotiations between the Company and Serbian Government for collection of receivables from HIP Petrohemija a.d. Pancevo. The negotiations ended in adoption of the Law on taking over the receivables from HIP Petrohemija by the Government. According to the Law, NIS will collect the amount of EUR 105,000,000 in following two years, with the last installment on 15 June 2019. On 30 Dec 2016, the Company received the first installment in the amount of EUR 21,000,000. In addition, the Company reclassified non-current portion in the amount of RSD 9,292,006 (note 14) with proper discounting effect.

18. OTHER RECEIVABLES

	31 December 2016	31 December 2015
Interest receivables	7,587,354	7,203,310
Receivables from employees	85,195	86,293
Income tax prepayment	128,703	1,618,126
Other receivables	7,475,320	7,514,636
Less: Impairment	(11,750,158)	(13,789,308)
	3,526,414	**2,633,057**

Movements on the provision for other receivables :

	Interest receivables	Other receivables	Total
As at 1 January 2015	**13,422,657**	**7,328,560**	**20,751,217**
Provision for other receivables impairment	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 (note 17)	(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**
Provision for other receivables impairment	87,087	603	87,690
Unused amounts reversed (note 35)	(2,086,047)	(715)	(2,086,762)
Receivables written off during the year as uncollectible	(38,291)	(1,787)	(40,078)
As at 31 December 2016	**4,318,670**	**7,431,488**	**11,750,158**

19. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2016	31 December 2015
ST loans and placements - Parent and subsidiaries	560,880	847,638
ST loans and placements - Domestic	2,019	2,019
Other ST financial placements	3,155,221	408,297
Less: Impairment	(198,418)	(2,019)
	3,519,702	**1,255,935**

20. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in bank and in hand	13,010,884	10,725,749
Deposits with original maturity of less than three months	7,000,000	6,000,000
Cash with restriction	41,783	3,184
Cash equivalents	984	960
	20,053,651	**16,729,893**

21. PREPAYMENTS AND ACCRUED INCOME

	31 December 2016	31 December 2015
Deferred input VAT	1,004,151	1,029,121
Prepaid expenses	75,971	84,499
Accrued revenue	11,229	618,765
Prepaid excise duty	1,475,539	2,943,879
Housing loans and other prepayments	1,031,855	2,012,914
	3,598,745	**6,689,178**

Deferred input VAT as at 31 December 2016 amounting to RSD 1,004,151 (31 December 2015: RSD 1,029,121) 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 1,475,539 (31 December 2015: RSD 2,943,879) 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.

22. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2016	31 December 2015
Issued warranties and bills of exchange	81,813,447	86,246,018
Received warranties and bills of exchange	15,769,653	24,236,941
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	7,191,930	6,830,396
Third party merchandise in NIS warehouses	6,294,877	6,117,283
Assets for oil fields liquidation in Angola	1,179,546	990,870
Other off-balance sheet assets and liabilities	286,607	197,477
	117,893,750	**129,976,675**

23. SHARE CAPITAL

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

Share capital as of 31 December 2016 and 31 December 2015 comprise of 163,060,400 of ordinary shares.

A dividend in respect of the year ended 31 December 2015 of RSD 24.69 per share, amounting to a total dividend of RSD 4,025,961 was approved by the General Assembly Meeting held on 28 June 2016 and paid on 21 September 2016.

24. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2015	**9,025,612**	**557,657**	**597,868**	**101,846**	**868,545**	**11,151,528**
Charged to the income statement	268,070	307,036	73,976	244,309	-	893,391
New obligation incurred and change in estimates	100,888	-	-	-	-	100,888
Release of provision	(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**
As at 1 January 2016	**9,152,366**	**687,705**	**615,538**	**296,783**	**630,759**	**11,383,151**
Charged to the income statement	118,944	244,000	22,375	364,159	81,938	831,416
New obligation incurred and change in estimates	(9,332)	-	-	-	-	(9,332)
Release of provision	(433,085)	(42,517)	-	-	-	(475,602)
Actuarial gain charged to other comprehensive income	-	-	(11,749)	-	-	(11,749)
Settlement	(187,591)	(50,533)	(61,274)	-	(96,911)	(396,309)
As at 31 December 2016	**8,641,302**	**838,655**	**564,890**	**660,942**	**615,786**	**11,321,575**

Analysis of total provisions:

	31 December 2016	31 December 2015
Non-current	9,365,454	9,154,267
Current	1,956,121	2,228,884
	11,321,575	**11,383,151**

(a) Decommissioning

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

(b) Environmental protection

The Company has to comply with environmental protection regulations. At the reporting date Company recorded provision for environmental protection of RSD 838,655 (31 December 2015: RSD 687,705) 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 2016 the management made an assessment of present value of liabilities related to new three-year employee incentives (2015-2017) in amount of RSD 660,942 (2015: RSD 296,783).

(d) Legal claims provisions

As at 31 December 2016, the Company assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Company charged provision for litigation amounting to RSD 81,938 (release of provision in 2015: RSD 107,650) for proceedings which were assessed to have negative outcome. The Company estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2016.

(e) Provision for employee benefits

Employee benefits:

	31 December 2016	31 December 2015
Retirement allowances	71,573	75,802
Jubilee awards	493,317	539,736
	564,890	**615,538**

The principal actuarial assumptions used were as follows:

	31 December 2016	31 December 2015
Discount rate	7.5%	6.6%
Future salary increases	2.0%	2.5%
Future average years of service	15.2	15.7

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2015	**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**
Benefits paid directly	(3,251)	(58,023)	(61,274)
Actuarial gain charged to other comprehensive income	(11,749)	-	(11,749)
Credited to the income statement	10,771	11,604	22,375
Balances as at 31 December 2016	**71,573**	**493,317**	**564,890**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December	
	2016	2015
Current service cost	46,539	49,830
Interest cost	38,420	38,752
Curtailment gain	(3,149)	(5,051)
Actuarial gains (jubilee awards)	(59,435)	(9,555)
	22,375	**73,976**

25. LONG-TERM LIABILITIES

	31 December 2016	31 December 2015
Long-term loan - Gazprom Neft	37,328,836	42,427,710
Bank loans	65,392,093	70,298,957
Finance lease liabilities	142,528	-
Long-term trade payables	1,859	-
Less Current portion	(9,541,536)	(13,417,421)
	93,323,780	**99,309,246**

(a) Long-term loan - Gazprom Neft

As at 31 December 2016 long-term loan - Gazprom Neft amounting to RSD 37,328,836 (2015: RSD 42,427,710), with current portion of RSD 5,742,898 (2015: RSD 5,657,028), 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 2016	31 December 2015
Domestic	27,522,763	18,693,335
Foreign	37,869,330	51,605,622
	65,392,093	70,298,957
Current portion of long-term loans (note 26)	(3,773,524)	(7,760,393)
	61,618,569	**62,538,564**

The maturity of non-current loans was as follows:

	31 December 2016	31 December 2015
Between 1 and 2 years	13,323,750	11,829,773
Between 2 and 5 years	44,038,904	45,785,596
Over 5 years	4,255,915	4,923,195
	61,618,569	**62,538,564**

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

	31 December 2016	31 December 2015
USD	39,607,915	53,388,078
EUR	25,397,647	16,529,506
RSD	977	1,174
JPY	385,554	380,199
	65,392,093	**70,298,957**

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 2016 and 31 December 2015 respectively.

26. SHORT-TERM FINANCE LIABILITIES

	31 December 2016	31 December 2015
Short-term loans from subsidiaries	1,109,630	729,883
Short-term loans	12,189,916	3,553,091
Current portion of long-term loans (note 25)	9,541,536	13,417,421
	22,841,082	**17,700,395**

27. TRADE PAYABLES

As at 31 December 2016 payables in a amount of RSD 24,861,519 (31 December 2015: RSD 25,172,093) including payables to parents and subsidiaries-foreign amounting to RSD 5,862,793 (31 December 2015: RSD 11,015,359) mainly relate to payables to the supplier Gazprom Neft, St Petersburg, for the purchase of crude oil.

28. OTHER SHORT-TERM LIABILITIES

	31 December 2016	31 December 2015
Specific liabilities	277,728	359,162
Liabilities for unpaid wages and salaries, gross	812,019	811,581
Interest liabilities	718,671	810,405
Dividends payable	3,772,308	3,772,308
Other payables to employees	475,775	433,281
Decommissioning and site restoration costs	1,385,645	1,609,928
Environmental provision	292,484	311,905
Litigation and claims	230,802	245,543
Other current liabilities	102,882	71,811
	8,068,314	**8,425,924**

29. LIABILITIES FOR OTHER TAXES

	31 December 2016	31 December 2015
Excise tax	5,009,938	5,707,561
Contribution for buffer stocks	601,357	350,301
Other taxes payables	1,378,373	1,183,288
	6,989,668	**7,241,150**

30. ACCRUED EXPENSES

Accrued expenses as at 31 December 2016 amounting to RSD 3,424,134 (31 December 2015: RSD 2,290,026) mainly relate to accrued employee bonuses of RSD 1,627,264 (31 December 2015: RSD 1,401,438).

31. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2016	2015
Cost of production services	3,146,363	3,101,503
Transportation services	3,339,230	3,317,450
Maintenance	5,277,845	4,216,545
Rental costs	1,201,047	1,180,355
Fairs	7,196	3,323
Advertising costs	861,607	821,973
Exploration expenses	1,247,077	463,888
Cost of other services	1,239,590	881,502
	16,319,955	**13,986,539**

32. NON-PRODUCTION COSTS

	Year ended 31 December	
	2016	2015
Costs of non-production services	6,732,701	7,336,307
Representation costs	91,863	89,518
Insurance premium	357,749	383,059
Bank charges	231,656	227,776
Cost of taxes	1,009,281	1,055,209
Mineral extraction tax	1,014,164	1,424,183
Other non-production expenses	1,103,062	1,087,510
	10,540,476	**11,603,562**

Cost of non-production services for the year ended 31 December 2016 amounting to RSD 6,732,701 (2015: RSD 7,336,307) mainly relate to costs of service organizations of RSD 3,793,903, project management costs of RSD 1,317,665 and consulting service cost of RSD 613,064.

33. FINANCE INCOME

	Year ended 31 December	
	2016	2015
Finance income - related parties		
- foreign exchange differences	864,859	1,141,289
- other finance income	968,003	1,126,848
Interest income	1,033,686	650,898
Foreign exchange gains	1,283,326	1,449,860
Other finance income	3,220	68,520
	4,153,094	**4,437,415**

34. FINANCE EXPENSE

	Year ended 31 December	
	2016	2015
Finance expenses – related parties		
- foreign exchange differences	1,277,893	2,680,138
- other finance expense	773,919	948,878
Interest expenses	2,542,891	2,323,427
Decommissioning provision: unwinding of the present value discount	118,944	121,397
Provision of trade and other non-current receivables: discount	296,429	912,968
Foreign exchange losses	3,778,441	7,679,828
Other finance expense	8,303	4,425
	8,796,821	**14,671,061**

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

	Year ended 31 December	
	2016	2015
Reversal of impairment of LT financial investments	827	495
Income from valuation:		
- trade and specific receivables (note 17)	4,429,484	5,785,037
- other receivables (note 18)	2,086,762	1,316,921
	6,517,073	**7,102,453**

36. OTHER INCOME

	Year ended 31 December	
	2016	2015
Gains on disposal - PPE	355,823	148,438
Gains on disposal - materials	36,886	33,467
Gains on disposal - equity instruments and securities	-	61,696
Surpluses from stock count	371,085	231,448
Payables written off	61,024	486,139
Release of long-term provisions (note 24)	475,602	161,211
Release of impairment:		
- Investment property	79,957	-
- Inventory	3,249	406,016
- Other property	8,808	4,438
Penalty interest	106,199	138,190
Other income	273,624	670,120
	1,772,257	**2,341,163**

37. OTHER EXPENSES

	Year ended 31 December	
	2016	2015
Loss on disposal - PPE	243,100	226,496
Shortages from stock count	503,234	348,893
Write-off receivables	57,464	14,853
Write-off inventories	56,672	147,712
Impairment:		
- Intangible assets	-	72
- PPE	42,054	323,629
- Investment property	-	124,003
- Inventory	41,204	89,439
- Other property	2,242	39,216
Other expenses	428,120	947,968
	1,374,090	**2,262,281**

38. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2016	2015
Income tax for the year	2,061,271	3,762,995
Deferred income tax for the period (note 15)		
Origination and reversal of temporary differences	458,404	588,222
	2,519,675	**4,351,217**

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	
	2016	2015
Profit before tax	**18,601,544**	**20,455,884**
Tax calculated at domestic tax rates applicable to profits in the respective countries	2,790,232	3,068,383
Tax effect on:		
Revenues exempt from taxation	(20,311)	(60,630)
Expenses not deductible for tax purposes	200,393	1,043,733
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	672,122	1,693,591
Other tax effects for reconciliation between accounting profit and tax expense	(1,095,914)	(1,393,860)
	2,546,522	**4,351,217**
Adjustment in respect of prior years	(26,847)	-
	2,519,675	**4,351,217**
Effective income tax rate	13.55%	21.27%

39. OPERATING LEASES

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

	31 December 2016	31 December 2015
Less than one year	273,367	195,160
1-5 years	343,303	157,309
Over 5 years	138,121	143,738
	754,791	**496,207**

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

	31 December 2016	31 December 2015
Less than one year	1,137,744	1,030,413
1-5 years	40,972	1,068,617
Over 5 years	34,799	-
	1,213,515	**2,099,030**

The Company rents mainly O&G equipment and petrol stations.

40. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

As of 31 December 2016 the Company has entered into contracts to purchase property, plant and equipment for RSD 5,324,487 (31 December 2015: RSD 611,417) and drilling and exploration works estimated to USD 40.17 million (31 December 2015: USD 45 million).

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 838,655 (31 December 2015: RSD 687,705).

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

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Company has paid all tax liabilities as of 31 December 2016.

Other contingent liabilities

As at 31 December 2016, 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 66 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 2016 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.

41. RELATED PARTIES TRANSACTIONS

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

During 2016 and 2015, 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 2016 and 31 December 2015 the outstanding balances with related parties were as follows:

	Subsidiary	Parent	Parent's subsidiaries and associates	Total
As at 31 December 2016				
Advances for PPE	220,956	-	-	220,956
Investments in subsidiaries	13,442,631	-	-	13,442,631
Long-term loans	32,413,076	-	-	32,413,076
Trade receivables	3,020,095	-	1,670,031	4,690,126
Receivables from specific operations	224,295	-	-	224,295
Other receivables	1,076,085	-	-	1,076,085
Shor-term investments	364,481	-	-	364,481
Other current assets	2,897,787	-	-	2,897,787
Long-term liabilities	-	(31,585,938)	-	(31,585,938)
Short-term financial liabilities	(1,109,630)	(5,742,898)	-	(6,852,528)
Advances received	(2,142)	-	(24,658)	(26,800)
Trade payables	(3,207,752)	(5,818,197)	(1,734,258)	(10,760,207)
Other short-term liabilities	(41,950)	-	-	(41,950)
	49,297,932	**(43,147,033)**	**(88,885)**	**6,062,014**
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	3,025,373
Other receivables	984,485	-	-	984,485
Short-term investments	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)**

For the year ended 31 December 2016 and 2015 the following transaction occurred with related parties:

	Subsidiary	Parent	Parent's subsidiaries and associates	Total
Year ended 31 December 2016				
Sales revenue	9,016,182	-	9,079,413	18,095,595
Other operating income	34,020	-	-	34,020
Cost of goods sold	(183,208)	-	(8,474,101)	(8,657,309)
Cost of material	(10,254)	(36,864,735)	-	(36,874,989)
Fuel and energy expenses	(2,358)	-	-	(2,358)
Employee benefits expenses	(74,206)	-	-	(74,206)
Production services	(3,905,866)	-	(167,524)	(4,073,390)
Non-material expense	(1,031,648)	-	(45,094)	(1,076,742)
Finance income	1,832,862	-	-	1,832,862
Finance expense	(1,290,742)	(761,070)	-	(2,051,812)
Fair value measurement losses	(35,350)	-	-	(35,350)
Other income	1,113	133,073	-	134,186
Other expenses	(70)	(148,657)	(260)	(148,987)
	4,350,475	**(37,641,389)**	**392,434**	**(32,898,480)**
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
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)
	4,518,770	**(80,730,887)**	**(815,153)**	**(77,027,270)**

Main balances and transactions with state and mayor state owned companies

	31 December 2016	31 December 2015
Receivables – gross		
HIP Petrohemija	10,349,446	23,268,304
Srbijagas	34,142	101,306
Republic of Serbia	21,764,308	18,703,814
	32,147,896	**42,073,424**
Liabilities		
HIP Petrohemija	(675,393)	(800,455)
Srbijagas	(141,195)	(372,985)
	(816,588)	**(1,173,440)**
Advances received		
HIP Petrohemija	(1,567)	(12,470)
	(1,567)	**(12,470)**

	Year ended 31 December	
	2016	2015
Operating income		
HIP Petrohemija	13,847,087	17,580,877
Srbijagas	1,284,610	3,927,429
	15,131,697	**21,508,306**
Operating expenses		
HIP Petrohemija	(195,479)	(169,108)
Srbijagas	(1,123,794)	(933,151)
	(1,319,273)	**(1,102,259)**

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

Transactions with Key Management Personnel

In the year ended 31 December 2016 and 2015 the Company recognized RSD 864,392 and RSD 425,613, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

CONSOLIDATED FINANCIAL STATEMENTS

pwc

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Naftna Industrija Srbije a.d. Novi Sad (the „Parent") and its subsidiaries (the „Group") which comprise the consolidated balance sheet as of 31 December 2016 and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes 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 the requirements of the Law on Accounting and accounting regulation effective in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on Accounting and accounting regulation effective in the Republic of Serbia.

Milivoje Nešović
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 February 2017

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

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

Consolidated Balance Sheet

		Note	31 December 2016	31 December 2015
A.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
B.	**NON-CURRENT ASSETS**		**276,234,033**	**274,361,963**
I.	**INTANGIBLE ASSETS**	**8**	**21,845,039**	**21,824,790**
1.	Development investments		5,473,418	6,153,717
2.	Concessions, licenses, software and other rights		3,252,535	3,662,863
3.	Goodwill		1,844,850	1,818,376
4.	Other intangible assets		1,249,276	1,288,869
5.	Intangible assets under development		10,024,960	8,900,965
6.	Advances for intangible assets		-	-
II.	**PROPERTY, PLANT AND EQUIPMENT**	**9**	**241,732,526**	**235,209,730**
1.	Land		17,283,666	17,187,278
2.	Buildings		126,587,960	116,089,115
3.	Machinery and equipment		70,472,014	71,000,947
4.	Investment property		1,549,663	1,336,060
5.	Other property, plant and equipment		86,696	87,704
6.	Construction in progress		23,663,299	27,837,831
7.	Investments in leased PP&E		279,562	341,039
8.	Advances for PP&E		1,809,666	1,329,756
III.	**BIOLOGICAL ASSETS**		**-**	**-**
1.	Forest farming		-	-
2.	Livestock		-	-
3.	Biological assets in production		-	-
4.	Advances for biological assets		-	-
IV.	**LONG-TERM FINANCIAL INVESTMENTS**		**3,356,590**	**2,738,455**
1.	Investments in subsidiary		-	-
2.	Investments in joint ventures	10	2,047,021	1,188,659
3.	Investments in other legal entities and other available for sales financial assets		148,665	167,358
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		1,160,904	1,243,805
V.	**LONG-TERM RECEIVABLES**	**11**	**9,299,878**	**14,588,988**
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		7,872	8,339
5.	Claims arising from guarantees		-	-
6.	Bad and doubtful receivables		-	-
7.	Other long-term receivables		9,292,006	10,570,103
C.	**DEFFERED TAX ASSETS**	**12**	**3,771,354**	**4,268,741**
D.	**CURRENT ASSETS**		**94,311,133**	**87,400,047**
I.	**INVENTORY**	**13**	**27,011,407**	**24,466,023**
1.	Materials, spare parts and tools		15,303,086	11,501,467
2.	Work in progress		3,119,239	4,050,154
3.	Finished goods		6,014,045	5,873,077
4.	Merchandise		2,399,695	2,753,546
5.	Assets held for sale		-	21,703
6.	Advances for inventory and services		175,342	266,076

Consolidated Balance Sheet

		Note	31 December 2016	31 December 2015
II.	**TRADE RECEIVABLES**	**14**	**36,717,678**	**33,567,302**
1.	Domestic trade receivables - parents and subsidiaries		-	-
2.	Foreign trade receivables - parents and subsidiaries		-	-
3.	Domestic trade receivables – other related parties		675,178	10,799,575
4.	Foreign trade receivables - other related parties		1,047,541	251,708
5.	Trade receivables - domestic		34,046,147	21,858,872
6.	Trade receivables - foreign		948,812	657,147
7.	Other trade receivbles		-	-
III.	**RECEIVABLES FROM SPECIFIC OPERATIONS**		**677,079**	**721,009**
IV.	**OTHER RECEIVABLES**	**15**	**2,500,557**	**1,877,225**
V.	**FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS**		**-**	**-**
VI.	**SHORT TERM FINANCIAL INVESTMENTS**		**306,828**	**284,586**
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		-	-
4.	Short-term loans and investments - foreign		-	-
5.	Other short-term loans and investments		306,828	284,586
VII.	**CASH AND CASH EQUIVALENTS**	**16**	**22,899,342**	**19,271,435**
VIII.	**VALUE ADDED TAX**		**274,292**	**227,121**
IX.	**PREPAYMENTS AND ACCRUED INCOME**	**17**	**3,923,950**	**6,985,346**
E.	**TOTAL ASSETS**		**374,316,520**	**366,030,751**
F.	**OFF-BALANCE SHEET ASSETS**	**18**	**118,058,312**	**130,389,980**

		Note	31 December 2016	31 December 2015
A.	**EQUITY**		**201,480,512**	**190,511,680**
I.	**EQUITY**	**19**	**81,548,930**	**81,548,930**
1.	Share capital	19.1	81,548,930	81,548,930
2.	Stakes of limited liability companies		-	-
3.	Stakes		-	-
4.	State owned capital		-	-
5.	Socially owned capital		-	-
6.	Stakes in cooperatives		-	-
7.	Share premium		-	-
8.	Other capital		-	-
II.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
III.	**OWN SHARES**		**-**	**-**
IV.	**RESERVES**		**-**	**-**
V.	**REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT**		**80,607**	**-**
VI.	**UNREALISED GAINS FROM SECURITAS AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**183,035**	**161,489**
VII.	**UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**662,464**	**541,678**
VIII.	**RETAINED EARNINGS**		**120,330,404**	**109,342,939**
1.	Retained earnings from previous years		105,316,978	94,735,234
2.	Retained earnings from current year		15,013,426	14,607,705
IX.	**NON-CONTROLLING INTEREST**		**-**	**-**

Consolidated Balance Sheet

		Note	31 December 2016	31 December 2015
X.	**LOSS**		**-**	**-**
1.	Loss from previous years		-	-
2.	Loss from current year		-	-
B.	**LONG-TERM PROVISIONS AND LIABILITIES**		**103,914,491**	**109,764,751**
I.	**LONG-TERM PROVISIONS**	**20**	**9,617,973**	**9,451,111**
1.	Provisions for warranty claims		-	-
2.	Provision for environmental rehabilitation		7,801,828	7,918,238
3.	Provisions for restructuring costs		-	-
4.	Provisions for employee benefits		1,370,285	1,068,315
5.	Provisions for litigations		445,860	464,558
6.	Other long term provisions		-	-
II.	**LONG-TERM LIABILITIES**	**21**	**94,296,518**	**100,313,640**
1.	Liabilities convertible to equity		-	-
2.	Liabilities to parent and subsidiaries		31,585,938	36,770,682
3.	Liabilities to other related parties		-	-
4.	Liabilities for issued long-term securities		-	-
5.	Long term borrowings - domestic		23,842,201	18,240,935
6.	Long-term borrowings - foreign		38,504,763	45,015,134
7.	Finance lease liabilities		316,790	198,277
8.	Other long-term liabilities		46,826	88,612
C.	**DEFFERED TAX LIABILITIES**	**12**	**-**	**-**
D.	**SHORT-TERM LIABILITIES**		**68,921,517**	**65,754,320**
I.	**SHORT-TERM FINANCIAL LIABILITIES**	**22**	**21,732,658**	**16,971,551**
1.	Short term borrowings from parent and subsidiaries		-	-
2.	Short term borrowings from other related parties		-	-
3.	Short-term loans and borrowings - domestic		10,468,337	3,553,091
4.	Short-term loans and borrowings - foreign		1,721,608	29
5.	Liabilities relating to current assets and held-for-sale assets attributable to discounted operations		-	-
6.	Other short term liabilities		9,542,713	13,418,431
II.	**ADVANCES RECEIVED**		**1,325,012**	**3,207,205**
III.	**TRADE PAYABLES**	**23**	**24,465,282**	**24,713,307**
1.	Trade payables - parent and subsidiaries - domestic		-	-
2.	Trade payables - parent and subsidiaries - foreign		5,818,200	10,004,805
3.	Trade payables - other related parties - domestic		675,393	800,455
4.	Trade payables - other related parties - foreign		1,079,842	172,515
5.	Trade payables - domestic		7,511,772	7,854,205
6.	Trade payables - foreign		9,367,285	5,799,950
7.	Other operating liabilities		12,790	81,377
IV.	**OTHER SHORT-TERM LIABILITIES**	**24**	**8,599,455**	**8,897,926**
V.	**LIABILITIES FOR VAT**		**1,538,157**	**1,567,861**
VI.	**LIABILITIES FOR OTHER TAXES**	**25**	**7,479,910**	**7,711,354**
VII.	**ACCRUED EXPENSES**	**26**	**3,781,043**	**2,685,116**
E.	**LOSS EXCEEDING EQUITY**		**-**	**-**
F.	**TOTAL EQUITY AND LIABILITIES**		**374,316,520**	**366,030,751**
G.	**OFF-BALANCE SHEET LIABILITIES**	**18**	**118,058,312**	**130,389,980**

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

in RSD 000

Consolidated Income Statement

		Note	Year ended 31 December 2016	2015
INCOME FROM REGULAR OPERATING ACTIVITIES				
A.	**OPERATING INCOME**	7	192,104,367	210,691,253
I.	**INCOME FROM THE SALE OF GOODS**		**34,033,041**	**25,833,207**
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		577	-
4.	Income from the sale of goods to other related parties on foreign market		8,376,140	546,259
5.	Income from sale of goods on domestic market		8,452,437	10,499,022
6.	Income from sale of goods on foreign market		17,203,887	14,787,926
II.	**INCOME FROM SALES OF PRODUCTS AND SERVICES**		**157,615,308**	**184,539,222**
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		13,809,239	17,570,375
4.	Income from sales of products and services to other related parties on foreign market		839,061	343,461
5.	Income from sales of products and services – domestic		118,885,115	137,741,208
6.	Income from sales of products and services – foreign		24,081,893	28,884,178
III.	**INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS**		**4,239**	**3,169**
IV.	**OTHER OPERATING INCOME**		451,779	315,655
B.	**OPERATING EXPENSES**		175,066,413	186,547,430
I.	**COST OF GOODS SOLD**		**25,284,968**	**16,924,030**
II.	**WORK PERFORMED BY THE ENTITY AND CAPITALIZED**		**11,184,068**	**13,047,351**
III.	**INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES**		**-**	**-**
IV.	**DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES**		**812,321**	**3,309,360**
V.	**COST OF MATERIAL**		**91,195,090**	**111,787,513**
VI.	**COST OF FUEL AND ENERGY**		**4,966,247**	**4,852,088**
VII.	**COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES**		**18,301,051**	**18,505,343**
VIII.	**COST OF PRODUCTION SERVICES**	27	**15,791,400**	**14,655,936**
IX.	**DEPRECIATION, DEPLETION AND AMORTIZATION**	8, 9	**15,889,177**	**14,281,849**
X.	**COST OF LONG-TERM PROVISIONING**		**727,608**	**794,060**
XI.	**NON-PRODUCTION COSTS**	28	**13,282,619**	**14,484,602**
C.	**OPERATING GAIN**		17,037,954	24,143,823
D.	**OPERATING LOSS**		-	-
E.	**FINANCE INCOME**	29	3,281,762	3,690,992
I.	**FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME**		**883,490**	**1,293,127**
1.	Finance income - parent company and subsidiaries		859,641	1,202,790
2.	Finance income - other related parties		20,291	21,213
3.	Share of profit of associates and joint ventures		-	-
4.	Other financial income		3,558	69,124

Consolidated Income Statement

		Note	Year ended 31 December 2016	2015
II.	INTEREST INCOME (from third parties)		1,040,015	706,445
III.	FOREIGN EXCHANGE GAINS (third parties)		1,358,257	1,691,420
F.	FINANCE EXPENSES	30	9,090,676	15,422,488
I.	FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES		2,098,554	3,894,105
1.	Finance expense - parent company and subsidiaries		2,064,063	3,777,652
2.	Finance expense - other related parties		24,673	112,028
3.	Share of loss of associates and joint ventures		-	-
4.	Other financial expense		9,818	4,425
II.	INTEREST EXPENSE (from third parties)		3,093,080	3,496,431
III.	FOREIGN EXCHANGE LOSSES (third parties)		3,899,042	8,031,952
G.	PROFIT FROM FINANCING OPERATIONS		-	-
H.	LOSS FROM FINANCING OPERATIONS		5,808,914	11,731,496
I.	INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	31	6,524,108	7,117,464
J.	LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		283,173	330,967
K.	OTHER INCOME	32	1,997,398	2,766,045
L.	OTHER EXPENSES	33	1,825,734	2,909,067
M.	OPERATING PROFIT BEFORE TAX		17,641,639	19,055,802
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		17,641,639	19,055,802
R.	LOSS BEFORE TAX		-	-
S.	INCOME TAX			
I.	CURRENT INCOME TAX	34	2,132,078	3,864,403
II.	DEFERRED TAX EXPENSE FOR THE PERIOD	34	1,153,890	583,694
III.	DEFERRED TAX INCOME FOR THE PERIOD	34	657,755	-
U.	NET PROFIT		15,013,426	14,607,705
V.	NET LOSS		-	-
I.	NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		-	-
II.	NET INCOME ATTRIBUTABLE TO THE OWNER		15,037,973	14,638,790
III.	NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		24,547	31,085
IV.	NET LOSS ATTRIBUTABLE TO THE OWNER		-	-
V.	EARNINGS PER SHARE			
1.	Basic earnings per share		0.092	0.090
2.	Diluted earnings per share		-	-

The accompanying notes are an integral part of these consolidated financial statements in RSD 000

Consolidated Statement of Other Income

	Note	Year ended 31 December 2016	2015
A. NET PROFIT/(LOSS)			
I. PROFIT, NET		**15,013,426**	**14,607,705**
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		80,607	-
b) decrease in revaluation reserves		-	-
2. Actuarial gains (losses) of post employment benefit obligations			
a) gains		21,546	2,819
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		133,833	40,936
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		13,047	-
b) losses		-	37,288
I. OTHER COMPREHENSIVE PROFIT BEFORE TAX		**-**	**-**
II. OTHER COMPREHENSIVE LOSS BEFORE TAX		**18,633**	**75,405**
III. TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD		**-**	**-**
IV. TOTAL NET COMPREHENSIVE PROFIT		**-**	**-**
V. TOTAL NET COMPREHENSIVE LOSS		**18,633**	**75,405**
C. TOTAL NET COMPREHENSIVE PROFIT			
I. TOTAL COMPREHENSIVE PROFIT, NET		**14,994,793**	**14,532,300**
II. TOTAL COMPREHENSIVE LOSS, NET		**-**	**-**
D. TOTAL NET COMPREHENSIVE PROFIT / (LOSS)		**14,994,793**	**14,532,300**
1. Attributable to shareholders		14,994,793	14,532,300
2. Attributable to non-controling interest		-	-

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

in RSD 000

Consolidated Cash Flow Statement

		Note	Year ended 31 December 2016	2015
A.	CASH FLOWS FROM OPERATING ACTIVITIES			
I.	CASH INFLOW FROM OPERATING ACTIVITIES		382,762,574	397,357,006
1.	Sales and advances received		382,057,884	395,488,209
2.	Interest from operating activities		252,911	1,553,142
3.	Other inflow from operating activities		451,779	315,655
II.	CASH OUTFLOW FROM OPERATING ACTIVITIES		341,585,783	346,366,085
1.	Payments and prepayments to suppliers		147,657,733	159,686,819
2.	Salaries, benefits and other personal expenses		18,128,411	18,987,784
3.	Interest paid		3,074,876	2,996,133
4.	Income tax paid		660,175	2,871,709
5.	Payments for other public revenues		172,064,588	161,823,640
III.	NET CASH INFLOW FROM OPERATING ACTIVITIES		41,176,791	50,990,921
IV.	NET CASH OUTFLOW FROM OPERATING ACTIVITIES		-	-
B.	CASH FLOWS FROM INVESTING ACTIVITIES			
I.	CASH FLOWS FROM INVESTING ACTIVITIES		1,008,030	834,231
1.	Sale of shares (net inflow)		-	77,056
2.	Proceeds from sale of property, plant and equipment		832,619	634,338
3.	Other financial investments (net inflow)		175,346	56,670
4.	Interest from investing activities		-	-
5.	Dividend received		65	66,167
II.	CASH OUTFLOW FROM INVESTING ACTIVITIES		29,806,063	35,746,866
1.	Acquisition of subsidiaries or other business (net outflow)			-
2.	Purchase of intangible assets, property, plant and equipment		28,880,458	35,178,875
3.	Other financial investments (net outflow)		925,605	567,991
III.	NET CASH INFLOW FROM INVESTING ACTIVITIES		-	-
IV.	NET CASH OUTFLOW FROM INVESTING ACTIVITIES		28,798,033	34,912,635
C.	CASH FLOWS FROM FINANCING ACTIVITIES			
I.	CASH INFLOW FROM FINANCING ACTIVITIES		24,059,274	28,081,912
1.	Increase in share capital		-	-
2.	Proceeds from long-term borrowings (net inflow)		8,904,810	11,259,702
3.	Proceeds from short-term borrowings (net inflow)		15,154,464	16,822,210
4.	Other long-term liabilities		-	-
5.	Other short-term liabilities		-	-
II.	CASH OUTFLOW FROM FINANCING ACTIVITIES		32,693,214	33,215,262
1.	Purchase of own shares		-	-
2.	Repayment of long-term borrowings (net outflow)		22,064,579	6,087,356
3.	Repayment of short-term borrowings (net outflow)		6,602,674	19,488,526
4.	Repayment of other liabilities (net outflow)		-	-
5.	Financial lease		-	-
6.	Dividend distribution	19	4,025,961	7,639,380
III.	NET CASH INFLOW FROM FINANCING ACTIVITIES		-	-
IV.	NET CASH OUTFLOW FROM FINANCING ACTIVITIES		8,633,940	5,133,350
D.	TOTAL CASH INFLOW		407,829,878	426,273,149
E.	TOTAL CASH OUTFLOW		404,085,060	415,328,213
F.	NET CASH INFLOW		3,744,818	10,944,936
G.	NET CASH OUTFLOW		-	-
H.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		19,271,435	8,326,704

Consolidated Cash Flow Statement

		Note	Year ended 31 December 2016	2015
I.	CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS		280,901	815,239
J.	CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS		397,812	815,444
K.	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		22,899,342	19,271,435

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

in RSD 000

Consolidated Statement of Changes in Equity

	Equity components		
	Share capital	Loss	Retained earnings
Balance as at 1 January 2015			
a) debit	**-**	**-**	**-**
b) credit	**81,550,674**	**-**	**102,374,614**
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	**81,550,674**	**-**	**102,374,614**
Changes in period			
a) debit	1,744	-	7,639,380
b) credit	-	-	14,607,705
Balance as at 31 December 2015			
a) debit	**-**	**-**	**-**
b) credit	**81,548,930**	**-**	**109,342,939**
Adjustments of material errors and changes in accounting policies			
a) debit	-	-	-
b) credit	-	-	-
Restated opening balance as at 1 January 2016			
a) debit	**-**	**-**	**-**
b) credit	**81,548,930**	**-**	**109,342,939**
Changes in period			
a) debit	-	-	4,025,961
b) credit	-	-	15,013,426
Balance as at 31 December 2016			
a) debit	**-**	**-**	**-**
b) credit	**81,548,930**	**-**	**120,330,404**

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

	Other comprehensive income components				
	Revaluation reserves	Acturial gain/ (loss)	Gains (losses) from currency translation differences	Gains (losses) from change in value of available-for-sale financial assets	Total Equity
	-	**-**	**421,177**	**42,277**	
	-	**158,670**	**-**	**-**	**183,620,504**
	-	-	-	-	
	-	-	-	-	-
	-	**-**	**421,177**	**42,277**	
	-	**158,670**	**-**	**-**	**183,620,504**
	-	-	40,936	37,288	
	-	2,819	-	-	6,891,176
	-	**-**	**462,113**	**79,565**	
	-	**161,489**	**-**	**-**	**190,511,680**
	-	-	-	-	
	-	-	-	-	-
	-	**-**	**462,113**	**79,565**	
	-	**161,489**	**-**	**-**	**190,511,680**
	-	-	133,833	-	
	80,607	21,546	-	13,047	10,968,832
	-	**-**	**595,946**	**66,518**	
	80,607	**183,035**	**-**	**-**	**201,480,512**

in RSD 000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS[82]

1. GENERAL INFORMATION

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

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

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

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005 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

2.1. Basis of preparation

These consolidated financial statements for the year ended 31 December 2016 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.

[82] 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.

At the date of signing consolidated financial statements, crude oil price increased since 31 December 2016 to 55.27 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any major fluctuation of crude oil prices.

Subsequent events occurring after 31 December 2016 were evaluated through 28 February 2017, the date these Consolidated Financial Statements were authorised for issue.

2.2. 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.

2.3. Seasonality of Operations

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

2.4. Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.5. 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 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.

2.6. Business combinations

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group and recognised goodwill or a gain from a bargain purchase. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

2.7. Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ('bargain purchase') is recognized in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated profit or loss. Transaction costs, that the Group incurs in connection with a business combination are expensed as incurred.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed (note 8).

2.8. 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 and Production 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).

2.9. 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.

2.10. Property, plant and equipment

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

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

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

Description	Useful lives
Buildings	10 - 50
Machinery and Equipment:	
- Production equipment	7 - 25
- Furniture	5 - 10
- Vehicles	7 - 20
- Computers	5 - 10
Other PP&E	3 - 10

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

An 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 32 and 33).

2.11. 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.

2.12. 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 32 and 33).

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.

2.13. 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.

2.13.1. 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.

2.13.2. 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 Consolidated income statement (note 31).

2.13.3. 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.

2.14. 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 33).

2.15. 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 consolidated income statement within 'loss from valuation of assets at fair value through consolidated profit and loss'. 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 31).

2.16. 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.

2.17. Off-balance sheet assets and liabilities

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

2.18. Share capital

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

2.19. Earnings per share

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

2.20. 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.

2.21. 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 rate 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.

2.22. 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 rate method.

2.23. 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.

2.24. Employee benefits

(a) Pension obligations

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid.

The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Employee benefits provided by the Collective Agreement

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

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

(c) Bonus plans

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

In 2014, the Group has made decision to introduce new three-year (2015-2017) program for Group's managers which will be based on the Key Performance Indicators ("KPI") reached during the program (note 20).

2.25. 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 presented 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. The amount of the revenue is not considered to be reliably measurable until all contingency 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 sales. 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) Sales of services

The Group sells oil and gas 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 direct expenses 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) Sales of electricity

The Group sells electricity on a short and long term basis with a contract terms generally accepted in the energy industry. Majority of sales are made on a wholesale market without structured trades.

(e) 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.

2.26. Leases

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

Other leases are operating leases and the leased assets are not recognised on the Group's Consolidated Balance Sheet. The total lease payments are charged to consolidated income statement on a straight-line basis over the lease term.

2.27. 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.

2.28. 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 Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

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

3.1. Estimation of Oil and Gas Reserves

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

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

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

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

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

3.2. Useful Lives of Property, Plant and Equipment

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

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2016 would be to increase/decrease it by RSD 1,399,849 (2015: RSD 1,279,588).

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 Group 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 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 8.15% (rather than 7.15%) per year, the past service liability (DBO) for the whole NIS Group would decrease by about 9.1% for retirement indemnity and 5.8% for jubilee benefit. If pay increased by 0.5% higher than assumed on an annual basic, than the past service liability (DBO) for the whole NIS Group would increase by amount 10.4% for the retirement indemnity and 6.2% for the jubilee benefit.

3.6. Decommissioning and environmental protection provision

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

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

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the 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 8.15% (rather than 7.15%) per year, the present liability would have increased by approx. RSD 263,562 (2015: decreased RSD 339,439).

3.7. Contingencies

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

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 36).

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

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

The Group assessed crude oil price volatility as main impairment indicator. If the actual crude oil price decrease for 10$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Group's PPE by 138.3 bln RSD.

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

4. APPLICATION OF NEW IFRS

The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group:

- **IFRS 14, Regulatory Deferral Accounts** (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- **Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11** (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- **Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38** (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- **Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41** (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- **Equity Method in Separate Financial Statements - Amendments to IAS 27** (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- **Annual Improvements to IFRSs 2014** (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- **Disclosure Initiative Amendments to IAS 1** (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- **Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28** (issued in December 2014 and effective for annual periods on or after 1 January 2016).

5. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and that the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- 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.
- FRS 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.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or 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 financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

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

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

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

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

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

a) market risk (including foreign exchange risk and interest rate risk);
b) credit risk and
c) liquidity risk.

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.

The carrying values of the Group's financial instruments by currencies they are denominated are as follows:

As of 31 December 2016	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Other long-term investments	77,303	1,002,384	7,028	74,189	1,160,904
Long term receivables	7,872	9,292,006	-	-	9,299,878
Other non-current assets	111,679	1,614,894	74,900	8,193	1,809,666
Current assets					
Trade receivables	23,960,950	11,088,796	507,965	1,159,967	36,717,678
Receivables from specific operations	455,394	37,474	183,610	601	677,079
Other receivables	359,306	2,121,074	342	19,835	2,500,557
Short term financial investments	12,250	294,527	-	51	306,828
Cash and cash equivalents	11,063,921	6,470,898	4,681,789	682,734	22,899,342
Other assets	3,271,805	557,694	22,997	345,746	4,198,242
Financial liabilities					
Non-current					
Long-term liabilities	(4,166)	(54,367,769)	(39,371,390)	(553,193)	(94,296,518)
Current liabilies					
Short-term financial liabilities	(198)	(21,462,959)	(236,526)	(32,975)	(21,732,658)
Trade payables	(6,845,162)	(9,848,305)	(6,328,574)	(1,443,241)	(24,465,282)
Other short-term liabilities	(8,039,813)	(95,410)	(319,193)	(145,039)	(8,599,455)
Other liabilities	(10,214,243)	(81,781)	(1,073,795)	(594,512)	(11,964,331)
Net exposure	**14,216,898**	**(53,376,477)**	**(41,850,847)**	**(477,644)**	**(81,488,070)**

As of 31 December 2015	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Other long-term investments	70,937	1,093,112	6,675	73,081	1,243,805
Long term receivables	8,339	14,580,649	-	-	14,588,988
Other non-current assets	661,842	608,912	51,174	7,828	1,329,756
Current assets					
Trade receivables	13,962,673	18,310,704	375,721	918,204	33,567,302
Receivables from specific operations	511,301	16,668	174,379	18,661	721,009
Other receivables	1,859,464	3,703	983	13,075	1,877,225
Short term financial investments	13,319	271,215	-	52	284,586
Cash and cash equivalents	9,585,989	2,333,625	6,626,525	725,296	19,271,435
Other assets	5,625,164	669,206	597,629	320,468	7,212,467
Financial liabilities					
Non-current					
Long-term liabilities	(977)	(53,799,399)	(45,960,298)	(552,966)	(100,313,640)
Current liabiles					
Short-term financial liabilities	(227)	(9,517,023)	(7,427,780)	(26,521)	(16,971,551)
Trade payables	(7,345,775)	(5,133,767)	(10,784,301)	(1,449,464)	(24,713,307)
Other short-term liabilities	(8,458,989)	(51,090)	(305,879)	(81,968)	(8,897,926)
Other liabilities	(11,088,310)	182,273	(416,733)	(641,561)	(11,964,331)
Net exposure	**5,404,750**	**(30,431,212)**	**(57,061,905)**	**(675,815)**	**(82,764,182)**

The following exchange rates applied during the period:

Reporting date spot rate:

	31 December 2016	31 December 2015
EUR	123.4723	121.6261
USD	117.1353	111.2468

Sensitivity analysis

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

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

As at 31 December 2016, 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 2,668,824 (2015: RSD 1,521,561) higher/lower, mainly as a result of foreign exchange gains/ losses on translation of EUR – denominated borrowings.

As at 31 December 2016, 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 4,185,085 (2015: RSD 5,706,190) 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 2016 would have been RSD 1,087,907 (2015: RSD 1,097,184) 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.

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
As at 31 December 2016					
Borrowings	116,029,176	124,087,764	24,478,234	84,519,151	15,090,379
Trade and other payables (less dividends payable)	29,292,429	29,292,429	29,257,530	34,899	-
	145,321,605	**153,380,193**	**53,735,764**	**84,554,050**	**15,090,379**
As at 31 December 2015					
Borrowings	117,285,191	127,691,560	19,837,039	87,459,313	20,395,208
Trade and other payables (less dividends payable)	29,838,925	29,838,925	29,815,897	23,028	-
	147,124,116	**157,530,485**	**49,652,936**	**87,482,341**	**20,395,208**

6.2. Capital risk management

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

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

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

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

	31 December 2016	31 December 2015
Total borrowings (notes 21 and 22)	116,029,176	117,285,191
Less: cash and cash equivalents (note 16)	(22,899,342)	(19,271,435)
Net debt	**93,129,834**	**98,013,756**
EBITDA	39,776,634	46,454,755
Net debt to EBITDA	**2.35**	**2.11**

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

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

6.3. Fair value estimation

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

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

7. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the years ended 31 December 2016 and 2015. Operating segments are components that engaged in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas and oil field services. Downstream segment (refining and marketing) processes crude oil into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre and Energy business activities expenses are presented within the Downstream segment.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealized profits, mainly from the sale of crude oil and products, and other adjustments. Intersegment revenues are based upon estimated market prices.

EBITDA represents the Group's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Group's on-going operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the year ended 31 December 2016 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	36,353,306	192,442,703	(36,691,642)	192,104,367
Intersegment	34,048,352	2,643,290	(36,691,642)	-
External	2,304,954	189,799,413	-	192,104,367
EBITDA (Segment results)	**22,392,045**	**17,384,589**	**-**	**39,776,634**
Depreciation, depletion and amortization	(6,351,069)	(9,538,108)	-	(15,889,177)
Impairment losses/Revaluation surpluses (note 32 and 33)	(4,640)	52,943	-	48,303
Impairment of exploration works (note 9)	(1,204,851)	-	-	(1,204,851)
Finance expenses, net	(262,423)	(5,546,491)	-	(5,808,914)
Income tax	(273,282)	(2,354,931)	-	(2,628,213)
Segment profit (loss)	**15,197,681**	**(184,255)**	**-**	**15,013,426**

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 33)	(13,111)	(311,660)	-	(324,771)
Impairment of exploration works	(55,050)	-	-	(55,050)
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**

EBITDA for the year ended 31 December 2016 and 2015 is reconciled below:

	Year ended 31 December	
	2016	2015
Profit for the year	15,013,426	14,607,705
Income tax expenses	2,628,213	4,448,097
Other expenses	1,825,734	2,909,067
Other income	(1,997,398)	(2,766,045)
Loss from valuation of assets at fair value through profit and loss	283,173	330,967
Income from valuation of assets at fair value through profit and loss	(6,524,108)	(7,117,464)
Finance expense	9,090,676	15,422,488
Finance income	(3,281,762)	(3,690,992)
Depreciation, depletion and amortization	15,889,177	14,281,849
Other non operating expenses, net	6,849,503	8,029,083
EBITDA	**39,776,634**	**46,454,755**

*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 2016		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	2,021,495	2,021,495
Sale of gas	3,052,867	-	3,052,867
Through a retail network	-	-	-
Wholesale activities	3,052,867	-	3,052,867
Sale of petroleum products	131,768,030	36,596,892	168,364,922
Through a retail network	44,481,288	-	44,481,288
Wholesale activities	87,286,742	36,596,892	123,883,634
Sales of electricity	474,398	8,690,443	9,164,841
Other sales	6,303,852	3,192,151	9,496,003
Total sales	**141,599,147**	**50,500,981**	**192,100,128**

	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
Sales of electricity	370,157	724,403	1,094,560
Other sales	5,637,134	3,302,985	8,940,119
Total sales	**166,126,260**	**44,561,824**	**210,688,084**

Out of the amount of RSD 123,883,634 (2015: RSD 141,144,826) revenue from sale of petroleum products (wholesale), the amount of RSD 13,844,962 (2015: RSD 23,222,832) are derived from a single domestic customer, HIP Petrohemija (2015: Knez Petrol). These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Gazprom Marketing & Trading Co., Ltd. in the amount of RSD 8,415,713 (2015: RSD 644,591).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of RSD 7,143,831 (2015: RSD 6,275,159).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 141,599,147 (2015: RSD 166,126,260), and the total of revenue from external customer from other countries is RSD 50,500,981 (2015: RSD 44,561,824).

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

	Year ended 31 December	
	2016	2015
Sale of crude oil	2,021,495	3,022,528
Sale of petroleum products (retail and wholeasle)		
Bulgaria	10,290,270	10,848,089
Bosnia and Herzegovina	7,769,234	7,213,882
Romania	8,612,276	7,052,440
All other markets	9,925,112	12,397,497
	36,596,892	37,511,908
Sales of electricity	8,690,443	724,403
Other sales	3,192,151	3,302,985
	50,500,981	**44,561,824**

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 2016	31 December 2015
Serbia	238,780,066	232,868,823
Bulgaria	7,966,581	8,246,434
Bosnia and Herzegovina	8,052,241	8,152,524
Romania	6,968,931	6,436,983
Hungary	80	-
	261,767,899	**255,704,764**

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Goodwill	Other intangibles	Intangible assets under development	Total
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	-	-	-	-	2,626,533	2,626,533
Transfer from assets under development	2,744,618	1,240,101	-	995	(3,985,714)	-
Impairment (note 32 and 33)	-	(76)	(147,054)	(1,911)	-	(149,041)
Amortization	(402,257)	(1,025,815)	-	(52,892)	(5,001)	(1,485,965)
Transfer to PP&E (note 9)	-	-	-	-	(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	(140,968)	(131,325)
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 amortization 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**
At 1 January 2016						
Cost	6,617,839	8,291,324	2,339,301	1,496,540	9,006,680	27,751,684
Accumulated amortization 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**
Year ended 31 December 2016						
Additions	-	-	-	-	2,784,203	2,784,203
Transfer from assets under development	-	735,268	-	19,669	(754,937)	-
Amortization	(680,299)	(1,146,914)	-	(58,407)	(5,066)	(1,890,686)
Transfer to PP&E (note 9)	-	-	-	-	(20,227)	(20,227)
Disposals and write-off	-	(5)	-	(4,869)	(902,203)	(907,077)
Other transfers	-	1,032	-	(1,421)	(14,081)	(14,470)
Translation differences	-	291	26,474	5,435	36,306	68,506
Closing net book amount	**5,473,418**	**3,252,535**	**1,844,850**	**1,249,276**	**10,024,960**	**21,845,039**
As at 31 December 2016						
Cost	6,617,839	8,810,629	2,371,943	1,483,996	10,077,842	29,362,249
Accumulated amortization and impairment	(1,144,421)	(5,558,094)	(527,093)	(234,720)	(52,882)	(7,517,210)
Net book amount	**5,473,418**	**3,252,535**	**1,844,850**	**1,249,276**	**10,024,960**	**21,845,039**

Intangible assets under development as at 31 December 2016 amounting to RSD 10,024,960 (31 December 2015: RSD 8,900,965) mostly relate to investments in explorations (unproved reserves) in amount of RSD 9,096,426 (31 December 2015: RSD 7,664,019).

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:

	2016	2015
Average gross margin	22.0%	24.8%
Growth rate	1%	1%
Discount rate		
Romania market	7.06%	7.25%
Bulgaria market	7.05%	7.98%
Bosnia and Herzegovina market	12.61%	10.94%

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
2016					
Bosnia and Herzegovina	486,349	-	-	7,666	494,015
Romania	304,895	-	-	2,936	307,831
Bulgaria	1,027,132	-	-	15,872	1,043,004
	1,818,376	**-**	**-**	**26,474**	**1,844,850**
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**

Impairment test in Romania, Bulgaria and Bosnia and Herzegovina shows that the recoverable amount calculated based on value in use exceed carrying value.

9. PROPERTY, PLANT AND EQUIPMENT

(a) Property, plant and equipment carried at cost

	Land	Buildings
At 1 January 2015		
Cost	17,914,415	139,332,185
Accumulated depreciation and impairment	(334,129)	(38,806,516)
Net book amount	**17,580,286**	**100,525,669**
Year ended 31 December 2015		
Additions	-	100,888
Transfer from assets under development	16,823	21,273,358
Impairment charge (note 32 and 33)	(2,785)	(189,952)
Depreciation	-	(5,513,157)
Transfer from intangible assets (note 8)	-	-
Transfer to investment property	(101,916)	14,533
Transfer to non-current assets held for sale	(19,626)	(2,053)
Disposals and write-off	(148,984)	(311,163)
Other transfers	(162,758)	169,678
Translation differences	26,238	21,314
Closing net book amount	**17,187,278**	**116,089,115**
At 31 December 2015		
Cost	17,491,508	160,380,190
Accumulated depreciation and impairment	(304,230)	(44,291,075)
Net book amount	**17,187,278**	**116,089,115**
Year ended 31 December 2016		
Additions	-	-
Transfer from assets under development	60,649	16,946,912
Appraisal effects	-	94,832
Impairment charge (note 32 and 33)	-	(1,603)
Depreciation	-	(6,278,201)
Transfer from intangible assets (note 8)	-	-
Transfer to investment property	(5,554)	(131,685)
Transfer to non-current assets held for sale	(7,515)	624
Disposals and write-off	(25,802)	(247,312)
Other transfers	(20,916)	32,425
Translation differences	95,526	82,853
Closing net book amount	**17,283,666**	**126,587,960**
At 31 December 2016		
Cost	17,587,928	176,704,641
Accumulated depreciation and impairment	(304,262)	(50,116,681)
Net book amount	**17,283,666**	**126,587,960**

Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
104,654,098	35,928,308	91,230	426,130	2,468,780	300,815,146
(38,154,578)	(2,799,791)	(1,850)	(52,942)	(29,257)	(80,179,063)
66,499,520	**33,128,517**	**89,380**	**373,188**	**2,439,523**	**220,636,083**
-	27,354,389	-	-	5,312,162	32,767,439
12,094,242	(33,387,161)	-	2,738		-
(10,362)	(111,808)	(1,982)	-	-	(316,889)
(7,218,563)	-	-	(64,164)	-	(12,795,884)
-	692,506	-	-	-	692,506
-	-	-	-	-	(87,383)
(24)	-	-	-	-	(21,703)
(175,401)	(179,640)	(109)	(509)	(6,420,676)	(7,236,482)
(196,371)	208,597	-	29,724	-	48,870
7,906	132,431	415	62	(1,253)	187,113
71,000,947	**27,837,831**	**87,704**	**341,039**	**1,329,756**	**233,873,670**
115,619,407	30,220,489	91,412	457,949	1,360,565	325,621,520
(44,618,460)	(2,382,658)	(3,708)	(116,910)	(30,809)	(91,747,850)
71,000,947	**27,837,831**	**87,704**	**341,039**	**1,329,756**	**233,873,670**
1,212	20,588,227	-	-	3,612,037	24,201,476
7,366,792	(24,380,904)	-	6,551	-	-
-	-	-	-	-	94,832
(4,356)	(25,695)	-	-	(11,213)	(42,867)
(7,652,103)	-	-	(68,187)	-	(13,998,491)
102	20,125	-	-	-	20,227
741	-	-	-	-	(136,498)
169	-	-	-	-	(6,722)
(209,027)	(469,961)	(477)	-	(2,968,348)	(3,920,927)
(63,724)	73,478	-	-	(152,686)	(131,423)
31,261	20,198	(531)	159	120	229,586
70,472,014	**23,663,299**	**86,696**	**279,562**	**1,809,666**	**240,182,863**
122,136,460	25,744,166	87,839	464,720	1,851,425	344,607,179
(51,664,446)	(2,110,867)	(1,143)	(185,158)	(41,759)	(104,424,316)
70,472,014	**23,663,299**	**86,696**	**279,562**	**1,809,666**	**240,182,863**

In 2016, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 22,278 (2015: RSD 33,227).

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 2016, the Group assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.8 for details. 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 31,654 (2015: RSD 314,151).

(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:

	2016	2015
As at 1 January	**1,336,060**	**1,381,832**
Fair value gains (loss) (note 32 and 33)	79,957	(124,003)
Transfer from PP&E carried at cost	136,498	87,383
Disposals	(4,432)	(17,554)
Other	1,580	8,402
As at 31 December	**1,549,663**	**1,336,060**

As at 31 December 2016, investment properties amounting to RSD 1,549,663 (31 December 2015: RSD 1,336,060) 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 2016 and 2015. The revaluation gain was credited to other income (note 32).

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 2016 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	-	917,985	-
– Gas stations	-	-	631,678
Total	**-**	**917,985**	**631,678**

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**

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:

	2016	2015
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:

	2016	2015
Assets as at 1 January	**541,624**	**569,808**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	68,043	54,431
Transfer from (to) PPE	17,740	(88,469)
Other	4,271	5,854
Total increase (desrease) in fair value measurement, assets	90,054	(28,184)
Assets as at 31 December	**631,678**	**541,624**

(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 2.9).

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure
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	4,757,320	18,708,726
Changes in decommissioning obligations	-	-
Transfer from asset under construction	(3,207,817)	(23,902,242)
Other transfers	502,994	(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**
As at 1 January 2016		
Cost	19,971,794	7,942,643
Depreciation and impairment	(21,185)	(248,771)
Net book amount	**19,950,609**	**7,693,872**
Year ended 31 December 2016		
Additions	5,334,874	11,995,609
Changes in decommissioning obligations	-	-
Transfer from asset under construction	(366,515)	(19,154,857)
Other transfers	(3,640,647)	3,831,149
Impairment	-	(4,595)
Unsuccessful exploration expenditures derecognised	(1,204,851)	-
Depreciation and depletion	(5,066)	-
Disposals and write-off	(6,543)	(87,602)
Translation differences	51,550	-
	20,113,411	**4,273,576**
As at 31 December 2016		
Cost	20,139,905	4,274,452
Depreciation and impairment	(26,494)	(876)
Net book amount	**20,113,411**	**4,273,576**

Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
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**
23,466,046	-	-	23,466,046
-	100,269	-	100,269
(27,110,059)	27,110,059	-	-
176,938	(24,468)	-	152,470
(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**
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**
17,330,483	-	-	17,330,483
-	(9,379)	-	(9,379)
(19,521,372)	19,521,372	-	-
190,502	(112,738)	(15)	77,749
(4,595)	(45)	-	(4,640)
(1,204,851)	-	-	(1,204,851)
(5,066)	(5,953,801)	-	(5,958,867)
(94,145)	(158,220)	(7)	(252,372)
51,550	6	-	51,556
24,386,987	**96,869,863**	**11,094**	**121,267,944**
24,414,357	127,806,623	31,406	152,252,386
(27,370)	(30,936,760)	(20,312)	(30,984,442)
24,386,987	**96,869,863**	**11,094**	**121,267,944**

Unsuccessful exploration expenditures derecognised in the amount of RSD 1,204,851 mainly relate to exploration assets located in Hungary in the amount of RSD 1,188,909, due to uncertain viability of commercial production.

10. INVESTMENTS IN JOINT VENTURE

The carrying value of the investments in joint ventures as of 31 December 2016 and 2015 is summarised below:

	Ownership percentage	31 December 2016	31 December 2015
Energowind	50%	1,008,221	1,008,221
Serbskaya Generaciya	49%	1,038,800	180,438
Total investments		**2,047,021**	**1,188,659**

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.

Energowind

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.

Serbskaya Generaciya

In 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. During 2016 the Group increased their investment in Serbskaya Generaciya in the amount of RSD 858,362.

11. LONG-TERM RECEIVABLES

	31 December 2016	31 December 2015
LT receivables - state owned companies	10,020,549	15,493,616
LT receivables - finacial lease	20,620	29,311
Less: Impairment	(741,291)	(933,939)
	9,299,878	**14,588,988**

Long-term receivables – state owned companies amounting to RSD 10,020,549 mainly relate to the long-term receivables from the Republic of Serbia in the amount of RSD 9,292,006 according to the debt of Srbijagas and HIP Petrohemija owed to Naftna industrija Srbije takeover and its conversion into public debt. (Short-term part of the receivables: note 14).

These receivables were denominated in EUR on the date of the debt takeover.

12. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2016	31 December 2015
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	5,693,395	6,036,318
- Deferred tax assets to be recovered within 12 months	977,854	1,220,593
	6,671,249	**7,256,911**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(2,899,895)	(2,988,170)
	(2,899,895)	**(2,988,170)**
Deferred tax assets (net)	**3,771,354**	**4,268,741**

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

	2016	2015
At 1 January	**4,268,741**	**4,853,600**
Charged to the income statement	(496,135)	(583,694)
Charged to other comprehensive income	4,449	(623)
Translation difference	(5,701)	(542)
31 December	**3,771,354**	**4,268,741**

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

	Provisions	Carrying value of PP&E vs Tax base	Revaluation reserve	Total
Deferred tax liabilities				
As at 1 January 2015	**(48,192)**	**(2,932,410)**	**-**	**(2,980,602)**
Charged to the income statement (note 34)	20,190	(27,135)	-	(6,945)
harged to other comprehensive income	(623)	-	-	(623)
As at 31 December 2015	**(28,625)**	**(2,959,545)**	**-**	**(2,988,170)**
Charged to the income statement (note 34)	-	79,576	-	79,576
Charged to other comprehensive income	8,697	-	(14,225)	(5,528)
Other	19,928	-	-	19,928
Translation difference	-	(5,701)	-	(5,701)
As at 31 December 2016	**-**	**(2,885,670)**	**(14,225)**	**(2,899,895)**

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
Deferred tax assets					
As at 1 January 2015	**25,531**	**680,659**	**7,128,012**	**-**	**7,834,202**
Charged to the income statement (note 34)	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**
Charged to the income statement (note 34)	30,239	66,171	(672,121)	-	(575,711)
Charged to other comprehensive income	(1,762)	-	-	11,739	9,977
Other	(19,928)	-	-	-	(19,928)
As at 31 December 2016	**967,017**	**930,193**	**4,762,300**	**11,739**	**6,671,249**

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.

13. INVENTORY

	31 December 2016	31 December 2015
Materials, spare parts and tools	20,619,950	17,083,302
Work in progress	3,119,239	4,050,154
Finished goods	6,014,045	5,873,077
Goods for sale	2,408,908	2,760,217
Advances	437,325	536,372
Less: impairment of inventory	(5,326,077)	(5,588,504)
Less: impairment of advances	(261,983)	(270,298)
	27,011,407	**24,444,320**
Non-current assets held for sale	-	207,485
Less: impairment of assets held for sale	-	(185,782)
	-	**21,703**
	27,011,407	**24,466,023**

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 2015	**6,155,660**	**244,828**	**-**	**6,400,488**
Provision for inventories and advances (note 33)	106,372	41,373	185,782	333,527
Unused amounts reversed (note 32)	(406,016)	(4,439)	-	(410,455)
Receivables written off during the year as uncollectible	-	(6,503)	-	(6,503)
Other	(267,512)	(4,961)	-	(272,473)
Balance as of 31 December 2015	**5,588,504**	**270,298**	**185,782**	**6,044,584**
Provision for inventories and advances (note 33)	54,051	7,837	-	61,888
Unused amounts reversed (note 32)	(12,505)	(8,544)	-	(21,049)
Receivables written off during the year as uncollectible	-	(3,732)	(185,782)	(189,514)
Other	(303,973)	(3,876)	-	(307,849)
Balance as of 31 December 2016	**5,326,077**	**261,983**	**-**	**5,588,060**

14. TRADE RECEIVABLES

	31 December 2016	31 December 2015
Other related parties - domestic	10,349,738	18,996,976
Other related parties - foreign	1,047,541	251,708
Trade receivables domestic – third parties	41,832,190	33,209,057
Trade receivables foreign – third parties	978,397	761,028
	54,207,866	**53,218,769**
Less: Impairment	(17,490,188)	(19,651,467)
	36,717,678	**33,567,302**

The ageing of trade receivables is as follows:

	31 December 2016	31 December 2015
Neither impaired nor past due	33,491,655	26,446,171
Past due but not impaired:		
within 30 days	1,722,906	1,568,007
1 to 3 months	1,206,067	3,188,881
3 months to 1 year	232,269	59,404
over 1 year	64,781	2,304,839
Total	**36,717,678**	**33,567,302**

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 2016	31 December 2015
RSD	23,960,950	16,036,196
EUR	11,088,796	16,240,661
USD	507,965	375,721
Other	1,159,967	914,724
	36,717,678	**33,567,302**

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 2015	**8,504,216**	**4,069,092**	**12,573,308**
Provision for receivables impairment	12,305	119,546	131,851
Unused amounts reversed (note 31)	(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 15)	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**
Provision for receivables impairment	12,149	106,073	118,222
Unused amounts reversed (note 31)	(4,345,232)	(89,800)	(4,435,032)
Receivables written off during the year as uncollectible	(4,220)	(204,174)	(208,394)
Transfer from receivables from specific operations	2,247,189	-	2,247,189
Other	12,382	104,354	116,736
As at 31 December 2016	**4,087,667**	**13,402,521**	**17,490,188**

Release of provision during 2016, in the amount of RSD 4,435,032 mainly relate to positive outcome of negotiations between the Company and Serbian Government for collection of receivables from HIP Petrohemija a.d. Pancevo. The negotiations ended in adoption of the Law on taking over the receivables from HIP Petrohemija by the Government. According to the Law, NIS will collect the amount of EUR 105,000,000 in following two years, with the last installment on 15 June 2019. On 30 Dec 2016, the Company received the first installment in the amount of EUR 21,000,000. In addition, the Company reclassified non-current portion in the amount of RSD 9,292,006 (note 11) with proper discounting effect.

15. OTHER RECEIVABLES

	31 December 2016	31 December 2015
Interest receivables	6,480,562	6,368,027
Receivables from employees	90,356	91,130
Income tax prepayment	141,764	1,644,731
Other receivables	7,524,655	7,545,751
Less: Impairment	(11,736,780)	(13,772,414)
	2,500,557	**1,877,225**

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2015	**13,423,256**	**7,335,679**	**20,758,935**
Provision for other receivables impairment	89,122	97,632	186,754
Unused amounts reversed (note 31)	(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 14)	(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**
Provision for other receivables impairment	35,721	55,800	91,521
Unused amounts reversed (note 31)	(715)	(2,086,052)	(2,086,767)
Receivables written off during the year as uncollectible	(2,922)	(38,291)	(41,213)
Other	128	697	825
As at 31 December 2016	**6,364,050**	**5,372,730**	**11,736,780**

16. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in bank and in hand	14,101,298	11,302,285
Deposits with original maturity of less than three months	7,197,776	6,385,304
Cash with restriction	1,599,284	1,562,453
Cash equivalents	984	21,393
	22,899,342	**19,271,435**

Cash with restriction as of 31 December 2016 amounting to RSD 1,599,284 (31 December 2015: RSD 1,562,453) 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.

17. PREPAYMENTS AND ACCRUED INCOME

	31 December 2016	31 December 2015
Deferred input VAT	1,251,278	2,014,262
Prepaid expenses	115,146	120,106
Prepaid excise duty	1,478,182	2,943,879
Housing loans and other prepayments	1,079,344	1,907,099
	3,923,950	**6,985,346**

Deferred input VAT as at 31 December 2016 amounting to RSD 1,251,278 (31 December 2015: RSD 2,014,262) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty as at 31 december 2016 amounting to RSD 1,478,182 (31 December 2015: RSD 2,943,879) 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.

18. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2016	31 December 2015
Issued warranties and bills of exchange	81,020,116	85,848,939
Received warranties and bills of exchange	16,611,577	24,896,899
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	7,191,930	6,830,396
Third party merchandise in NIS warehouses	6,410,848	6,267,709
Assets for oil fields liquidation in Angola	1,179,546	990,870
Other off-balance sheet assets and liabilities	286,605	197,477
	118,058,312	**130,389,980**

19. EQUITY

	Equity attributable to			
	Share capital	Other capital	Reserves	Retained earnings (loss)
Balance as at 1 January 2015	**81,530,200**	**-**	**-**	**102,537,487**
Profit (loss) for the year	-	-	-	14,638,790
Gains from securities	-	-	-	-
Dividend distribution	-	-	-	(7,639,380)
Actuarial gain	-	-	-	-
Other	-	-	-	(1)
Balance as at 31 December 2015	**81,530,200**	**-**	**-**	**109,536,896**
Balance as at 1 January 2016	**81,530,200**	**-**	**-**	**109,536,896**
Profit (loss) for the year	-	-	-	15,037,973
Gains from securities	-	-	-	-
Dividend distribution	-	-	-	(4,025,961)
Actuarial gain	-	-	-	-
Revaluation reserves	-	-	80,607	-
Other	-	-	-	2
Balance as at 31 December 2016	**81,530,200**	**-**	**80,607**	**120,548,910**

owners of the Group					
Translation reservas	Unrealised gains (losses) from securities	Actuarial gain (loss)	Total	Non-controlling interest	Total equity
(410,537)	**(42,277)**	**158,670**	**183,773,543**	**(153,039)**	**183,620,504**
-	-	-	14,638,790	(31,085)	14,607,705
-	(37,288)	-	(37,288)	-	(37,288)
-	-	-	(7,639,380)	-	(7,639,380)
-	-	2,819	2,819	-	2,819
(40,426)	-	(244)	(40,670)	(2,010)	(42,680)
(450,963)	**(79,565)**	**161,245**	**190,697,814**	**(186,134)**	**190,511,680**
(450,963)	**(79,565)**	**161,245**	**190,697,814**	**(186,134)**	**190,511,680**
-	-	-	15,037,973	(24,547)	15,013,426
-	13,046	-	13,046	-	13,046
-	-	-	(4,025,961)	-	(4,025,961)
-	-	21,547	21,547	-	21,547
-	-	-	80,607	-	80,607
(130,208)	-	(535)	(130,741)	(3,092)	(133,833)
(581,171)	**(66,518)**	**182,257**	**201,694,285**	**(213,773)**	**201,480,512**

19.1. Share Capital

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

Share capital as of 31 December 2016 and 31 December 2015 comprise of 163,060,400 of ordinary shares.

A dividend in respect of the year ended 31 December 2015 of RSD 24.69 per share, amounting to a total dividend of RSD 4,025,961 was approved by the General Assembly Meeting held on 28 June 2016 and paid on 21 September 2016.

20. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2015	**9,025,611**	**570,359**	**878,740**	**101,846**	**944,580**	**11,521,136**
Charged to the income statement	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	(49,261)	(4,300)	(20,252)	-	(111,045)	(184,858)
Actuarial gain charged to other comprehensive income	-	-	(3,977)	-	-	(3,977)
Settlement	(192,943)	(185,432)	(79,010)	(49,372)	(135,631)	(642,388)
Other	-	42	10	-	712	764
As at 31 December 2015	**9,152,369**	**687,702**	**856,168**	**296,783**	**714,001**	**11,707,023**
As at 1 January 2016						
Charged to the income statement	118,943	243,999	28,337	364,159	95,444	850,882
New obligation incurred and change in estimates	(9,332)	-	-	-	-	(9,332)
Release of provision	(433,086)	(42,517)	(9,116)	-	(24,427)	(509,146)
Actuarial gain charged to other comprehensive income	-	-	(14,077)	-	-	(14,077)
Settlement	(187,593)	(50,531)	(85,915)	-	(104,697)	(428,736)
Other	1	2	17	-	651	671
As at 31 December 2016	**8,641,302**	**838,655**	**775,414**	**660,942**	**680,972**	**11,597,285**

Analysis of total provisions:

	31 December 2016	31 December 2015
Non-current	9,617,973	9,451,111
Current	1,979,312	2,255,912
	11,597,285	**11,707,023**

(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 838,655 (31 December 2015: RSD 687,702) 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 2016 the management made an assessment of present value of liabilities related to new three-year employee incentives (2015-2017) in amount of RSD 660,942 (2015: RSD 296,783).

(d) Legal claims provisions

As at 31 December 2016, 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 24,427 (2015: RSD 111,045 reversed) for proceedings which were assessed that won't have negative outcome and charged provision for litigation amounting to RSD 95,444 (2015: 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 2016.

(e) Provision for employee benefits

Employee benefits:

	31 December 2016	31 December 2015
Retirement allowances	106,143	109,132
Jubilee awards	669,271	747,036
	775,414	**856,168**

The principal actuarial assumptions used were as follows:

	31 December 2016	31 December 2015
Discount rate	7.15%	6.6%
Future salary increases	2.0%	2.5%
Future average years of service	14.9	15.7

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2015	**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)
Credited 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**
Benefits paid directly	(3,981)	(81,934)	(85,915)
Actuarial gain charged to other comprehensive income	(14,077)	-	(14,077)
Credited to the income statement	15,052	4,169	19,221
Translation difference	17	-	17
Balances as at 31 December 2016	**106,143**	**669,271**	**775,414**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December	
	2016	2015
Current service cost	62,084	66,664
Interest cost	53,611	56,751
Curtailment gain	(5,673)	(5,432)
Actuarial gains (jubilee awards)	(87,414)	(24,012)
Amortisation of past service cost	(3,387)	(33,566)
	19,221	**60,405**

21. LONG-TERM LIABILITIES

	31 December 2016	31 December 2015
Long-term loan - Gazprom Neft	37,328,836	42,427,710
Bank and other long-term loans	66,120,490	71,016,462
Finance lease liabilities	343,080	199,287
Other long-term borrowings	46,825	88,612
Less: Current portion	(9,542,713)	(13,418,431)
	94,296,518	**100,313,640**

(a) Long-term loan - Gazprom Neft

As at 31 December 2016 long-term loan - Gazprom Neft amounting to RSD 37,328,836 (2015: RSD 42,427,710), with current portion of RSD 5,742,898 (2015: RSD 5,657,028), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) Bank and other long-term loans

	31 December 2016	31 December 2015
Domestic	27,522,764	18,693,335
Foreign	38,597,726	52,323,127
	66,120,490	71,016,462
Current portion of long-term loans (note 22)	(3,773,525)	(7,760,393)
	62,346,965	**63,256,069**

The maturity of non-current loans was as follows:

	31 December 2016	31 December 2015
Between 1 and 2 years	13,481,072	11,829,773
Between 2 and 5 years	44,609,978	46,347,221
Over 5 years	4,255,915	5,079,075
	62,346,965	**63,256,069**

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

	31 December 2016	31 December 2015
USD	39,607,916	53,388,078
EUR	26,126,044	17,247,010
RSD	976	1,174
JPY	385,554	380,200
	66,120,490	**71,016,462**

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 2016 and 31 December 2015 respectively.

(c) Financial lease liabilities

Minimum finance lease payments:

	31 December 2016	31 December 2015
Less than one year	72,779	41,677
1-5 years	326,305	205,380
Over 5 years	623,996	707,604
Future finance charges on finance leases	(680,000)	(755,374)
Present value of finance lease liabilities	**343,080**	**199,287**

	31 December 2016	31 December 2015
Less than one year	26,290	1,010
1-5 years	124,217	5,832
Over 5 years	192,573	192,445
Present value of finance lease liabilities	**343,080**	**199,287**

22. SHORT-TERM FINANCE LIABILITIES

	31 December 2016	31 December 2015
Short-term loans	12,189,945	3,553,120
Current portion of long-term loans (note 21)	9,516,423	13,417,421
Current portion of finance lease liabilities (note 21)	26,290	1,010
	21,732,658	**16,971,551**

23. TRADE PAYABLES

As at 31 December 2016 payables in a amount of RSD 24,465,282 (31 December 2015: RSD 24,713,307) including payables to parents and subsidiaries-foreign amounting to RSD 5,818,200 (31 December 2015: RSD 10,004,805) fully relate to payables to the supplier Gazprom Neft, St Petersburg, for the purchase of crude oil.

24. OTHER SHORT-TERM LIABILITIES

	31 December 2016	31 December 2015
Specific liabilities	263,705	346,080
Liabilities for unpaid wages and salaries, gross	1,073,870	1,100,559
Interest liabilities	807,213	820,006
Dividends payable	3,772,308	3,772,308
Other payables to employees	646,704	594,443
Decommissioning and site restoration costs	1,385,645	1,609,928
Environmental provision	292,484	311,905
Litigation and claims	235,112	250,000
Other current liabilities	122,414	92,697
	8,599,455	**8,897,926**

25. LIABILITIES FOR OTHER TAXES

	31 December 2016	31 December 2015
Excise tax	5,395,623	6,066,530
Contribution for buffer stocks	601,357	350,301
Income tax	15,661	14,970
Other taxes payables	1,467,269	1,279,553
	7,479,910	**7,711,354**

26. ACCRUED EXPENSES

Accrued expenses as at 31 December 2016 amounting to RSD 3,781,043 (31 December 2015: RSD 2,685,116) mainly relate to accrued employee bonuses of RSD 1,639,987 (31 December 2015: RSD 1,568,343).

27. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2016	2015
Cost of production services	2,812,406	3,629,788
Transportation services	3,444,162	3,570,178
Maintenance	4,070,590	3,107,701
Rental costs	1,971,522	2,143,510
Fairs	7,196	3,323
Advertising costs	917,554	893,394
Exploration expenses	1,247,296	64,883
Cost of other services	1,320,674	1,243,159
	15,791,400	**14,655,936**

28. NON-PRODUCTION EXPENSES

	Year ended 31 December	
	2016	2015
Costs of non-production services	8,231,868	8,972,537
Representation costs	79,456	78,206
Insurance premium	387,625	411,731
Bank charges	289,472	287,708
Cost of taxes	1,206,296	1,266,187
Mineral extraction tax	1,014,164	1,424,183
Other non-production expenses	2,073,738	2,044,050
	13,282,619	**14,484,602**

Cost of non-production services for the year ended 31 December 2016 amounting to RSD 8,231,868 (2015: RSD 8,972,537) mainly relate to costs of service organizations of RSD 5,705,116; consulting service costs of RSD 627,362; security cost of RSD 477,972 and project management costs of RSD 431,237.

29. FINANCE INCOME

	Year ended 31 December	
	2016	2015
Finance income - related parties		
- foreign exchange differences	879,932	1,224,003
Interest income	1,040,015	706,445
Foreign exchange gains	1,358,257	1,691,420
Other finance income	3,558	69,124
	3,281,762	**3,690,992**

30. FINANCE EXPENSE

	Year ended 31 December	
	2016	2015
Finance expenses – related parties		
- foreign exchange differences	1,327,780	2,901,488
- other finance expense	760,956	988,192
Interest expenses	2,677,708	2,462,066
Decommissioning provision: unwinding of the present value discount	118,943	121,398
Provision of trade and other non-current receivables: discount	296,429	912,967
Foreign exchange losses	3,899,042	8,031,952
Other finance expenses	9,818	4,425
	9,090,676	**15,422,488**

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

	Year ended 31 December	
	2016	2015
Reversal of impairment of LT financial investments	788	496
Income from valuation:		
- trade and specific receivables (note 14)	4,436,553	5,800,048
- other receivables (note 15)	2,086,767	1,316,920
	6,524,108	**7,117,464**

32. OTHER INCOME

	Year ended 31 December	
	2016	**2015**
Gains on disposal - PPE	379,232	274,012
Gains on disposal - materials	59,794	33,580
Gains on disposal - equity instruments and securities	-	61,696
Surpluses from stock count	420,439	277,612
Payables written off	104,158	565,958
Release of long-term provisions	504,682	184,858
Release of impairment:		
- Intangible assets	-	1,631
- PPE	-	25,596
- Investment property	79,957	-
- Inventory	12,505	406,016
- Other property	8,807	4,438
Penalty interest	125,672	146,581
Other income	302,152	784,067
	1,997,398	**2,766,045**

33. OTHER EXPENSES

	Year ended 31 December	
	2016	**2015**
Loss on disposal - PPE	310,543	274,818
Shortages from stock count	605,785	392,176
Write-off receivables	58,330	16,347
Write-off inventories	85,325	170,022
Impairment:		
- Intangible assets	-	147,410
- PPE	42,867	342,485
- Investment property	-	124,003
- Inventory	54,051	106,372
- Other property	7,837	42,182
Other expenses	660,996	1,293,252
	1,825,734	**2,909,067**

34. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2016	**2015**
Income tax for the year	2,132,078	3,864,403
Deferred income tax for the period (note 12)		
Origination and reversal of temporary differences	496,135	583,694
	2,628,213	**4,448,097**

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	
	2016	2015
Profit before tax	**17,641,639**	**19,055,802**
Tax calculated at domestic tax rates applicable to profits in the respective countries	2,646,246	3,882,028
Tax effect on:		
Revenues exempt from taxation	(21,019)	(63,792)
Expenses not deductible for tax purposes	492,012	342,899
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	(434,051)	305,574
Other tax effects for reconciliation between accounting profit and tax expense	(30,736)	(18,612)
	2,652,453	**4,448,097**
Adjustment in respect of prior years	(24,240)	-
	2,628,213	**4,448,097**
Effective income tax rate	**14.90%**	**23.34%**

35. OPERATING LEASES

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

	31 December 2016	31 December 2015
Less than one year	256,812	164,962
1-5 years	349,136	157,477
Over 5 years	138,121	143,738
	744,069	**466,177**

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

	31 December 2016	31 December 2015
Less than one year	1,372,745	1,361,806
1-5 years	672,147	1,716,271
Over 5 years	213,137	358,779
	2,258,029	**3,436,856**

The Group rentals mainly O&G equipment and petrol stations.

36. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

As of 31 December 2016 the Group has entered into contracts to purchase property, plant and equipment for RSD 5,324,487 (31 December 2015: RSD 611,417) and drilling and exploration works estimated to USD 40.17 million (31 December 2015: USD 45 million).

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 838,655 (31 December 2015: RSD 687,705).

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

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Group has paid all tax liabilities as of 31 December 2016.

Other contingent liabilities

As at 31 December 2016, 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 66 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 2016 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.

37. GROUP ENTITIES

The consolidated financial statements of below listed subsidiaries are consolidated as at 31 December 2016 and 31 December 2015:

			Share %	
Subsidiary	**Country of incorporation**	**Nature of business**	**31 Dec 2016**	**31 Dec 2015**
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

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.

38. RELATED PARTIES TRANSACTIONS

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

During 2016 and 2015, 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 2016 and 31 December 2015 the outstanding balances with related parties were as follows:

	Joint venture	Parent	Parent's subsidiaries and associates
As at 31 December 2016			
Investments in joint ventures	2,047,021	-	-
rade receivables	-	-	1,047,541
Other receivables	220,243	-	-
Long-term liabilities	-	(31,585,938)	-
Short-term financial liabilities	-	(5,742,898)	-
Advances received	-	-	(23,091)
Trade payables	-	(5,818,200)	(1,079,842)
	2,267,264	**(43,147,036)**	**(55,392)**
As at 31 December 2015			
Investments in joint ventures	1,188,659	-	-
Trade receivables	-	-	251,708
Other receivables	195,656	-	-
Long-term liabilities	-	(36,770,682)	-
Short-term financial liabilities	-	(5,657,028)	-
Advances received	-	-	(6,609)
Trade payables	-	(10,004,805)	(172,515)
	1,384,315	**(52,432,515)**	**(72,584)**

For the year ended 31 December 2016 and 2015 the following transaction occurred with related parties:

	Joint venture	Parent	Parent's subsidiaries and associates
Year ended 31 December 2016			
Sales revenue	-	-	9,215,201
Cost of goods sold	-	-	(8,473,522)
Cost of material	-	(36,864,735)	-
Cost of production services	-	-	(113,594)
Non-material expense	-	(10)	(141,857)
Finance expense	-	(2,088,736)	-
Finance income	-	879,932	-
Other income	-	133,073	-
Other expenses	-	(148,657)	(260)
	-	**(38,089,133)**	**485,968**
Year ended 31 December 2015			
Sales revenue	-	-	889,720
Cost of goods sold	-	-	(553,999)
Cost of material	-	(79,766,583)	(1,952,154)
Cost of production services	-	-	(169,108)
Non-material expense	-	(39,619)	(105,330)
Finance expense	-	(3,777,652)	(116,453)
Finance income	-	1,202,790	90,337
Other income	-	107,223	11
Other expenses	-	(95,622)	(19,836)
	-	**(82,369,463)**	**(1,936,812)**

Main balances and transactions with state and mayor state owned companies

	31 December 2016	31 December 2015
Receivables – gross		
HIP Petrohemija	10,349,446	23,268,304
Srbijagas	34,142	101,306
Republic of Serbia	21,764,308	18,703,814
	32,147,896	**42,073,424**
Liabilities		
HIP Petrohemija	(675,393)	(800,455)
Srbijagas	(141,195)	(372,985)
	(816,588)	**(1,173,440)**
Advances received		
HIP Petrohemija	(1,567)	(12,470)
	(1,567)	**(12,470)**

		Year ended 31 December
	2016	2015
Operating income		
HIP Petrohemija	13,847,087	17,580,877
Srbijagas	1,284,610	3,927,429
	15,131,697	**21,508,306**
Operating expenses		
HIP Petrohemija	(195,479)	(169,108)
Srbijagas	(1,123,794)	(933,151)
	(1,319,273)	**(1,102,259)**

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

Transactions with Key Management Personnel

In the year ended 31 December 2016 and 2015 the Group recognized RSD 864,392 and RSD 425,613, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

STATEMENT OF INDIVIDUALS RESPONSIBLE FOR THE PREPARATION OF FINANCIAL STATEMENTS

We hereby declare that, to the best of our knowledge, the annual Financial Statements are compiled against relevant International Financial Reporting Standards and in compliance with the Law on Accounting of the Republic of Serbia (Official Gazette of the Republic of Serbia No. 62/2013), stipulating that financial statements be prepared in compliance with all IFRSs and regulations issued by the Ministry of Finance of the Republic of Serbia[83] and that they provide accurate and objective information on the assets and liabilities and financial standing and performance, profit and losses, cash flows and changes in equity of the public company, including the companies which are part of the consolidated statements.

Kirill Tyurdenev
General Director
NIS j.s.c. Novi Sad

[83] Considering the differences between the two regulations, these Financial Statements depart from the IFRS in the following:

- Group compiled the Financial Statements using the templates prescribed by the Ministry of Finance of the Republic of Serbia, which are not in compliance with the requirements of IAS 1 – Presentation of Financial Statements."
- Off-balance Sheet Assets and Liabilities are presented on the Balance Sheet Template. As defined by the IFRS, these items are neither assets nor liabilities.


BMB 95
BMB 98
ULTRA D
AUTOGAS
TNG

APPENDICES

GENERAL DETAILS OF NIS J.S.C. NOVI SAD

Business name:	NIS j.s.c. Novi Sad
Company ID No:	20084693
Address:	12, Narodnog fronta Str., Novi Sad
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
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

GLOSSARY

Abbreviation	Meaning
3D	three-dimensional
AB Sc	Assistant bachelor of Science
B Sc	Bachelor of Science
bn	billion
BoD	Board of Directors
c.j.s.c. or CJSC	Closed Join Stock Company
CAPEX	Capital Expenditures
CEO	Chief Executive Officer
CFA	Certified Financial Analyst
CFO	Chief Financial Officer
CHPP	Combined Heat and Power Plant
CNG	Compressed natural gas
CSR	Corporate Social Responsibility
DCU	Delayed Coking Unit
Dr Sc	Doctor of Science
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EMS	Elektormreže Srbije (Power Network of Serbia) - Public company dealing with electricity transmission
EPC	Engineering, procurement and construction
EPCm	Engineering, procurement and construction management
EPS	Earnings per share
ES	Elementary School
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offer Rate
EXIT	Music festival in Novi Sad
FCC	Fluid catalytic cracker
FEED	Front End Engineering Design
FHI	Pharmaceutical and chemical industry
FU	Fire Unit
GDP	Gross domestic product
GRI	Global Reporting Initiative
GTA	Geo-technological Activity
HACCP	Hazard analysis and critical control points
HDS	Hydrodesulphurization
HQ	Highly Qualified worker
HR	Human resources
HS	High School
HSE	Health, Security and Environment

Abbreviation	Meaning
IMF	International Monetary Fund
IMS	Integrated Management System
IRMS	Integrated Risk Management System
ISO	International Organization for standardization
j.s.c. or JSC	Joint Stock Company
LIBOR	London Interbanking Offer Rate
LLC	Limited Liability Company
LLI	Long lead item
LPG	Liquefied petroleum gas
LPG	Liquefied petroleum gas
LPG	Liquefied petroleum gas
LTD	Limited
LTIF	Lost Time Injury Frequency
MBA	Master of Business Administration
MHC/DHT	Mild hydrocracking and hydro treating
mn	million
Ms Sc	Master of Science
MT and SS	Material-technical and service support
MTSS and CC	Material-technical and service support and capital construction
MW	Megawatt, unit of power in the International System of Units (SI),
MWA	Management walk around
MWe	Electric megawatt - a measure of generated electricity
NBS	National Bank of Serbia
NOCS	National Oil Committee of Serbia
NO_x	Nitrogen oxides
OCF	Operating Cash Flow
OGCI	Oil and Gas Climate Initiative
OHSAS	Occupational Health and Safety Standard
OMS	Operating Management System
OPCOM	Romanian Electricity Exchange
OPEC	Organization of petrol export countries
OPEX	Operational Expenditure
OTC	Over-The-Counter Market
p.j.s.c. or PJSC	Public Joint Stock Company
P/BV	Price/Book Value
P/E	Price/EPS
PE	Public Enterprise
PEC	Planning, economics and controlling
POR	Pančevo Oil Refinery
PPE	Personal Protective Equipment
Q	Qualified worker
RES	Renewable Energy Sources
RSD	Serbian dinar
SAB	Shareholders' Assembly Board
SAP	The information system for business analytics, financials and resource management
SARU	Spent Acid Regeneration Unit

Abbreviation	Meaning
SEVESO	HSE Directive
SO_x	Sulphur oxides
SQ	Semi-qualified worker
SRM	Supplier Relationship Management
SRPS	Reference to standard of Serbian Institute for Standardization
SRU	Sulphur Recovery Unit
U.S.A.	United States of America
UN	United Nations
UQ	Unqualified worker
USD	US Dollar
VAT	Value added tax
VGO	Vacuum gasoil
WAN	Wide area network

CONTACT DETAILS

NIS J.S.C. NOVI SAD
e-mail: office@nis.eu

Narodnog fronta 12
21000 Novi Sad
(021) 481 1111

Milentija Popovića 1
11000 Belgrade
(011) 311 3311

INVESTOR RELATIONS
e-mail: Investor.Relations@nis.eu

Narodnog fronta 12
21000 Novi Sad, Serbia

SECTOR FOR TRANSACTIONS WITH MINORITY SHAREHOLDERS
e-mail: servis.akcionara@nis.eu

Narodnog fronta 12
21000 Novi Sad, Serbia
Info Service: (011) 22 000 55

FUTURE
AT WORK

NIS j.s.c. Novi Sad
12, Narodnog fronta Str.
Novi Sad, Serbia

www.nis.eu