



NIS

GAZPROM NEFT

Naftna industrija Srbije A.D.

**Interim Condensed Financial Statements
(Unaudited)**

31 March 2017

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

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Interim Condensed Statement of Financial Position

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

Assets	Note	31 March 2017	31 December 2016
		<i>(unaudited)</i>	
Current assets			
Cash and cash equivalents	6	17,226,206	20,053,651
Short-term financial assets	7	6,301,608	4,536,841
Trade and other receivables	8	35,162,417	39,126,567
Inventories	9	27,455,074	23,479,232
Current income tax prepayments		-	128,703
Other current assets	10	5,507,696	5,217,095
Total current assets		91,653,001	92,542,089
Non-current assets			
Property, plant and equipment	11	226,405,949	224,558,949
Investment property		1,556,509	1,549,663
Intangible assets		3,525,767	3,705,857
Investments in subsidiaries and joint venture		14,464,386	14,481,431
Trade and other non-current receivables		9,450,407	9,294,969
Long-term financial assets		31,000,111	32,576,641
Deferred tax assets		3,714,770	4,059,076
Other non-current assets	12	3,763,577	3,891,821
Total non-current assets		293,881,476	294,118,407
Total assets		385,534,477	386,660,496
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	13	20,429,586	23,014,915
Trade and other payables	14	25,666,628	30,262,793
Other current liabilities	15	4,628,438	4,213,154
Current income tax payable		651,282	-
Other taxes payable	16	8,406,933	9,349,638
Provisions for liabilities and charges		1,931,772	1,956,120
Total current liabilities		61,714,639	68,796,620
Non-current liabilities			
Long-term debt	17	93,498,270	93,321,921
Long-term trade and other payables		1,866	1,859
Provisions for liabilities and charges		9,371,228	9,365,454
Total non-current liabilities		102,871,364	102,689,234
Equity			
Share capital		81,530,200	81,530,200
Reserves		15,618	14,088
Retained earnings		139,402,656	133,630,354
Total equity		220,948,474	215,174,642
Total liabilities and shareholder's equity		385,534,477	386,660,496


 Kirill Tyurdenev
 Chief Executive Officer
 28 April 2017




 Anton Tyodorov
 Chief Financial Officer

The accompanying notes are an integral part of these Interim Condensed Financial Statements.

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Interim Condensed Statement of Profit and Loss and Other Comprehensive Income

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

	Note	Three month period ended	
		31 March 2017	2016
		(unaudited)	(unaudited)
Sales of petroleum products and oil and gas sales		42,887,712	29,852,083
Other revenues		3,124,860	2,790,842
Total revenue from sales	5	46,012,572	32,642,925
Purchases of oil, gas and petroleum products	18	(23,294,620)	(17,713,705)
Production and manufacturing expenses	19	(5,964,451)	(5,873,768)
Selling, general and administrative expenses	20	(4,679,517)	(4,728,171)
Transportation expenses		(225,928)	(222,174)
Depreciation, depletion and amortization		(3,574,242)	(3,288,249)
Taxes other than income tax		(1,005,738)	(885,988)
Exploration expenses		(7,452)	-
Total operating expenses		(38,751,948)	(32,712,055)
Other (expenses) income, net		(185,701)	237,214
Operating profit		7,074,923	168,084
Net foreign exchange gain	21	246,622	1,179,967
Finance income	22	314,770	285,822
Finance expenses	23	(733,466)	(825,092)
Total other expense		(172,074)	640,697
Profit before income tax		6,902,849	808,781
Current income tax expense		(786,240)	(165,784)
Deferred tax expense		(344,307)	(51,306)
Total income tax expense		(1,130,547)	(217,090)
Profit for the period		5,772,302	591,691
Other comprehensive profit (loss):			
Components of other comprehensive income that will not be reclassified to profit or loss, net of tax			
Revaluation of intangible assets, property, plant and equipment transferred to investment property		1,399	-
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		131	(3,494)
Other comprehensive profit (loss) for the period		1,530	(3,494)
Total comprehensive profit for the period		5,773,832	588,197
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		35.41	3.61
Weighted average number of ordinary shares in issue (in millions)		163	163

The accompanying notes are an integral part of these Interim Condensed Financial Statements.

NIS a.d.**Interim Condensed Statement of Changes in Shareholders' Equity**

Three month period ended 31 March 2017 and 2016

*(All amounts are in 000 RSD, unless otherwise stated)**(unaudited)***Balance as at 1 January 2016**

Profit / (loss) for the period

Other comprehensive income / (loss)

Change in value of available-for-sale financial assets

Total comprehensive income (loss) for the period**Balance as at 31 March 2016**

	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2016	81,530,200	(79,564)	121,564,458	203,015,094
Profit / (loss) for the period	-	-	591,691	591,691
Other comprehensive income / (loss)				
Change in value of available-for-sale financial assets	-	(3,494)	-	(3,494)
Total comprehensive income (loss) for the period	-	(3,494)	591,691	588,197
Balance as at 31 March 2016	81,530,200	(83,058)	122,156,149	203,603,291

*(unaudited)***Balance as at 1 January 2017**

Profit / (loss) for the period

Other comprehensive income / (loss)

Change in value of available-for-sale financial assets

Revaluation of intangible assets, property, plant and equipment transferred to investment property

Total comprehensive income / (loss) for the period**Balance as at 31 March 2017**

	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2017	81,530,200	14,088	133,630,354	215,174,642
Profit / (loss) for the period	-	-	5,772,302	5,772,302
Other comprehensive income / (loss)				
Change in value of available-for-sale financial assets	-	131	-	131
Revaluation of intangible assets, property, plant and equipment transferred to investment property	-	1,399	-	1,399
Total comprehensive income / (loss) for the period	-	1,530	5,772,302	5,773,832
Balance as at 31 March 2017	81,530,200	15,618	139,402,656	220,948,474

The accompanying notes are an integral part of these Interim Condensed Financial Statements.

NIS a.d.
Interim Condensed Statement of Cash Flows
(All amounts are in 000 RSD, unless otherwise stated)

	Note	Three month period ended	
		31 March	
		2017	2016
		<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities			
Profit before income tax		6,902,849	808,781
Adjustments for:			
Finance costs	23	733,467	825,092
Finance income	22	(314,770)	(285,822)
Depreciation, depletion and amortization		3,574,242	3,288,249
Adjustments for other provisions		(27,851)	72,963
Allowance for doubtful accounts		9,530	258,820
Net unrealised foreign exchange losses (gain)		16,553	(243,204)
Other non-cash items		74,610	426
		4,065,781	3,916,524
Changes in working capital:			
Trade and other receivables		3,852,770	4,029,149
Inventories		(4,007,829)	1,347,433
Other current assets		(349,593)	(234,076)
Trade payables and other current liabilities		(4,571,485)	(4,531,016)
Other taxes payable		(947,556)	(122,123)
		(6,023,693)	489,367
Income taxes paid		(6)	(73,831)
Interest paid		(789,425)	(759,036)
Interest received		305,002	190,880
		(484,429)	(641,987)
Net cash generated by operating activities		4,460,508	4,572,685
Cash flows from investing activities			
Loans issued		(860,529)	(2,937,891)
Loan proceeds received		819,714	2,096,904
Capital expenditures		(4,826,942)	(5,100,152)
Proceeds from sale of property, plant and equipment		23,500	78,884
		(4,844,257)	(5,862,255)
Cash flows from financing activities			
Proceeds from borrowings	17	4,209,440	2,606,096
Repayment of borrowings	17	(6,644,210)	(9,789,484)
		(2,434,770)	(7,183,388)
Net decrease in cash and cash equivalents		(2,818,519)	(8,472,958)
Effect of foreign exchange on cash and cash equivalents		(8,926)	3,231
Cash and cash equivalents as of the beginning of the period		20,053,651	16,729,893
Cash and cash equivalents as of the end of the period		17,226,206	8,260,166

The accompanying notes are an integral part of these Interim Condensed Financial Statements.

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017

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

1. GENERAL INFORMATION

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

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

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

The Company was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005. On 2 February 2009 PJSC Gazprom Neft ("Gazprom Neft") acquired a 51% of the share capital of Naftna Industrija Srbije which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired an additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%. PJSC Gazprom, Russian Federation is the ultimate owner of the Company.

The Company is an open joint stock company, listed on the A prime market on the Belgrade Stock Exchange.

These Interim Condensed 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

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by Serbian legislation. The accompanying Interim Condensed Financial Statements were primarily derived from the Company's statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (IFRS).

The Interim Condensed Financial Statements have been prepared in accordance with International Accounting Standard **IAS 34 Interim Financial Reporting**. IAS 34 for interim financial reporting does not require all disclosures that would be necessarily required by IFRS.

The Company does not disclose information which would substantially duplicate the disclosures contained in its audited Financial Statements for 2016, such as significant accounting policies, significant estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Company believes that the disclosures in these Interim Condensed Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Financial Statements are read in conjunction with the Company's Financial Statements for 2016.

At the date of signing consolidated financial statements, crude oil price decreased since 31 December 2016 to 49.485 \$/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 March 2017 were evaluated through 28 April 2017, the date these Interim Condensed Financial Statements were authorised for issue.

The results for the three month period ended 31 March 2017 are not necessarily indicative of the results expected for the full year.

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

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017

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

2.2. Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Financial Statements are consistent with those applied during the preparation of Financial Statements as of and for the year ended 31 December 2016, except for those described in Application of new IFRS paragraph.

3. APPLICATION OF NEW IFRS

The following amended standards became effective for the Company from 1 January 2017, but did not have any material impact on the Company:

- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- 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).

4. 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. The full list of such Standards and interpretations was disclosed in the Financial Statements as of and for the year ended 31 December 2016. No new documents were issued during the three months period ended 31 March 2017.

The new standards and interpretations are not expected to have significant impact on the Company's Financial Statements.

5. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the three month periods ended 31 March 2017 and 2016. Operating segments are components that engaged in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Company manages its operations in 2 operating segments: Upstream and Downstream.

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

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised 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.

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017***(All amounts are in 000 RSD, unless otherwise stated)*

Reportable segment results for the three month period ended 31 March 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	10,413,708	46,495,344	(10,896,480)	46,012,572
Intersegment	10,311,920	584,560	(10,896,480)	-
External	101,788	45,910,784	-	46,012,572
EBITDA (Segment results)	7,434,414	3,207,281	-	10,641,695
Depreciation, depletion and amortization	(1,421,232)	(2,153,010)	-	(3,574,242)
Net foreign exchange gain	25,911	220,711	-	246,622
Finance expenses, net	(33,044)	(385,652)	-	(418,696)
Income tax	(45)	(1,130,502)	-	(1,130,547)
Segment profit (loss)	5,914,265	(141,963)	-	5,772,302

Reportable segment results for the three month period ended 31 March 2016 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	7,650,333	32,684,532	(7,691,940)	32,642,925
Intersegment	7,075,717	616,223	(7,691,940)	-
External	574,616	32,068,309	-	32,642,925
EBITDA (Segment results)	4,230,781	(994,420)	-	3,236,361
Depreciation, depletion and amortization	(1,160,489)	(2,127,760)	-	(3,288,249)
Net foreign exchange gain	15,924	1,164,043	-	1,179,967
Finance expenses, net	(25,045)	(514,225)	-	(539,270)
Income tax	(73,663)	(143,427)	-	(217,090)
Segment profit (loss)	2,970,893	(2,379,202)	-	591,691

EBITDA for the three month period ended 31 March 2017 and 2016 is reconciled below:

	Three month period ended	
	31 March	
	2017	2016
Profit for the period	5,772,302	591,691
Income tax expenses	1,130,547	217,090
Finance expenses	733,466	825,092
Finance income	(314,770)	(285,822)
Depreciation, depletion and amortization	3,574,242	3,288,249
Net foreign exchange gain	(246,622)	(1,179,967)
Other expense (income), net	185,701	(237,214)
Other non-operating (income) expense, net*	(193,171)	17,242
EBITDA	10,641,695	3,236,361

*Other non-operating income/expense, net mainly relate to fines, penalties and other.

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017***(All amounts are in 000 RSD, unless otherwise stated)*

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

	Three month period ended 31 March 2017		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	39,207	39,207
Sale of gas	616,096	-	616,096
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	616,096	-	616,096
Sale of petroleum products	35,597,786	6,634,623	42,232,409
<i>Through a retail network</i>	12,056,311	-	12,056,311
<i>Wholesale activities</i>	23,541,475	6,634,623	30,176,098
Sale of electricity	167,809	1,404,866	1,572,675
Other sales	1,503,357	48,828	1,552,185
Total sales	37,885,048	8,127,524	46,012,572

	Three month period ended 31 March 2016		
	Domestic market	Export and international sales	Total
Sale of crude oil	438	522,557	522,995
Sale of gas	931,007	-	931,007
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	931,007	-	931,007
Sale of petroleum products	23,900,363	4,497,718	28,398,081
<i>Through a retail network</i>	8,516,704	-	8,516,704
<i>Wholesale activities</i>	15,383,659	4,497,718	19,881,377
Sale of electricity	248,618	1,039,523	1,288,141
Other sales	1,468,442	34,259	1,502,701
Total sales	26,548,868	6,094,057	32,642,925

Out of the amount of 30,176,098 RSD (2016: 19,881,377 RSD) revenue from sale of petroleum products (wholesale), the amount of 5,313,361 RSD (2016: 2,774,329 RSD) are derived from a single domestic customer HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Gazprom Marketing & Trading Co., Ltd. in the amount of 1,293,335 RSD (2016: 1,030,679 RSD). These sales were presented within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 1,136,767 RSD (2016: 1,002,913 RSD).

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 37,885,048 RSD (2016: 26,548,868 RSD), and the total of revenue from external customer from other countries is 8,127,524 RSD (2016: 6,094,057 RSD).

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017***(All amounts are in 000 RSD, unless otherwise stated)*

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

	Three month period ended	
	31 March	
	2017	2016
Sale of crude oil	39,207	522,557
Sale of petroleum products (retail and wholesale)		
Bulgaria	1,441,553	1,016,184
Bosnia and Herzegovina	1,387,099	1,001,973
Romania	455,763	441,408
All other markets	3,350,208	2,038,153
	<u>6,634,623</u>	<u>4,497,718</u>
Sale of electricity	1,404,866	1,039,523
Other sales	48,828	34,259
	<u>8,127,524</u>	<u>6,094,057</u>

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

6. CASH AND CASH EQUIVALENTS

	31 March	31 December
	2017	2016
Cash in bank and in hand	10,319,216	13,010,884
Deposits with original maturity of less than three months	6,850,408	7,000,000
Cash held on escrow account	55,821	41,783
Cash equivalents	761	984
	<u>17,226,206</u>	<u>20,053,651</u>

7. SHORT-TERM FINANCIAL ASSETS

	31 March	31 December
	2017	2016
Short-term loans	601,928	585,545
Current portion of long-term loans	5,931,070	4,180,584
<i>Less impairment provision</i>	<i>(231,390)</i>	<i>(229,288)</i>
	<u>6,301,608</u>	<u>4,536,841</u>

Current portion of long-term loans amounting to 5,931,070 RSD (31 December 2016: 4,180,584 RSD) relates to the current portion of long-term loans given to foreign subsidiaries.

NIS a.d.
Notes to the Interim Condensed Financial Statements for the three month period ended
31 March 2017

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

8. TRADE AND OTHER RECEIVABLES

	31 March 2017	31 December 2016
Trade receivables:		
- related parties	4,235,263	4,484,856
- third parties	25,146,507	30,558,693
- state and state owned companies	17,146,924	15,815,559
	46,528,694	50,859,108
Other receivables:		
- third parties	-	-
- state and state owned companies	9,713,392	9,642,293
	9,713,392	9,642,293
Accrued assets	347,638	30,013
	56,589,724	60,531,414
<i>Less impairment provision for trade and other receivables:</i>		
- <i>third parties</i>	(9,828,457)	(9,841,314)
- <i>state and state owned companies</i>	(11,598,850)	(11,563,533)
	(21,427,307)	(21,404,847)
Total trade and other receivables	35,162,417	39,126,567

The ageing of trade and other receivables is as follows:

	31 March 2017	31 December 2016
Neither impaired nor past due	31,459,465	35,140,866
Past due but not impaired:		
within 30 days	1,549,471	1,354,435
1 to 3 months	370,443	988,410
3 months to 1 year	203,414	29,816
over 1 year	1,579,624	1,613,040
Total	35,162,417	39,126,567

Due to unfavourable macroeconomic conditions in the recent years, the Company was faced with slowdown in collection mostly 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 and other receivables are denominated in the following currencies:

	31 March 2017	31 December 2016
RSD	21,732,228	25,650,795
EUR	12,839,656	12,784,196
USD	590,533	691,576
	35,162,417	39,126,567

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017***(All amounts are in 000 RSD, unless otherwise stated)*

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

	Trade & other receivables		
	Third parties	State and state owned companies	Total
As at 1 January 2016	10,001,877	15,777,436	25,779,313
Provision for receivables impairment	76,659	15,740	92,399
Release of provision	(57,006)	(925)	(57,931)
Other	22,387	61,055	83,442
As at 31 March 2016	10,043,917	15,853,306	25,897,223
As at 1 January 2017	9,841,314	11,563,533	21,404,847
Provision for receivables impairment	63,144	11,672	74,816
Release of provision	(75,092)	(15,188)	(90,280)
Receivables written off during the year as uncollectible	(922)	-	(922)
Exchange differences	13	38,833	38,846
As at 31 March 2017	9,828,457	11,598,850	21,427,307

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Profit and Loss. Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

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

9. INVENTORIES

	31 March 2017	31 December 2016
Crude oil	17,984,962	15,067,495
Petroleum products	9,690,305	8,721,079
Materials and supplies	4,232,615	4,086,896
Other	583,048	642,224
Less impairment provision	(5,035,856)	(5,038,462)
	27,455,074	23,479,232

10. OTHER CURRENT ASSETS

	31 March 2017	31 December 2016
Advances paid	333,937	319,986
Deferred VAT	1,047,457	1,004,151
Prepaid expenses	348,012	75,971
Prepaid custom duties	30,710	31,117
Prepaid excise	1,460,960	1,527,393
Other current assets	14,247,074	14,235,708
Less impairment provision	(11,960,454)	(11,977,231)
	5,507,696	5,217,095

Deferred VAT as at 31 March 2017 amounting to 1,047,457 RSD (31 December 2016: 1,004,151 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017**

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

Prepaid excise as at 31 March 2017 amounting to 1,460,960 RSD (31 December 2016: 1,527,393 RSD) 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.

Other current assets mainly relate to accrued interests and claims in dispute which are impaired.

Movements on the Company's provision for impairment of other current assets are as follows:

	Advances paid	Other current assets	Total
As at 1 January 2016	268,119	13,763,835	14,031,954
Increase of provision during the year	-	228,648	228,648
Release of provision	(2,750)	(2,830)	(5,580)
Receivables written off during the year as uncollectible	-	(1,035)	(1,035)
As at 31 March 2016	265,369	13,988,618	14,253,987
As at 1 January 2017	257,940	11,719,291	11,977,231
Increase of provision during the year	5,659	5,849	11,508
Release of provision	(328)	(2,277)	(2,605)
Receivables written off during the year as uncollectible	-	(25,680)	(25,680)
As at 31 March 2017	263,271	11,697,183	11,960,454

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017

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

11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2016						
Cost	98,224,109	120,288,251	32,971,933	17,494,322	34,916,617	303,895,232
Depreciation and impairment	(22,749,386)	(38,800,866)	(14,182,435)	(8,139,485)	(2,375,798)	(86,247,970)
Net book value	75,474,723	81,487,385	18,789,498	9,354,837	32,540,819	217,647,262
Period ended 31 March 2016						
Additions	-	-	-	-	4,466,415	4,466,415
Changes in decommissioning obligations	171,847	-	-	-	-	171,847
Transfer from assets under construction	3,424,209	99,745	1,181,856	42,681	(4,748,491)	-
Impairment	-	-	-	-	(16,150)	(16,150)
Depreciation	(1,151,681)	(1,407,592)	(329,956)	(143,707)	-	(3,032,936)
Transfer to intangible assets	-	-	-	-	(4,988)	(4,988)
Transfer to investment property	-	-	(3,866)	(1,688)	-	(5,554)
Disposals and write-off	(1,977)	(9,113)	(10,365)	(7,286)	(18,845)	(47,586)
Other transfers	(11,514)	96,995	(110,951)	25,470	(451)	(451)
	77,905,607	80,267,420	19,516,216	9,270,307	32,218,309	219,177,859
As at 31 March 2016						
Cost	101,792,833	120,524,894	33,786,619	17,586,761	34,606,747	308,297,854
Depreciation and impairment	(23,887,226)	(40,257,474)	(14,270,403)	(8,316,454)	(2,388,438)	(89,119,995)
Net book value	77,905,607	80,267,420	19,516,216	9,270,307	32,218,309	219,177,859
As at 1 January 2017						
Cost	115,864,815	110,525,127	46,383,755	17,548,942	31,776,922	322,099,561
Depreciation and impairment	(27,422,504)	(35,174,792)	(24,349,626)	(8,489,733)	(2,103,957)	(97,540,612)
Net book value	88,442,311	75,350,335	22,034,129	9,059,209	29,672,965	224,558,949
Period ended 31 March 2017						
Additions	-	-	-	-	5,258,428	5,258,428
Changes in decommissioning obligations	40,043	-	-	-	-	40,043
Transfer from assets under construction	2,955,133	1,168,149	882,955	111,044	(5,117,281)	-
Transfer to intangible assets	-	-	-	-	(31,479)	(31,479)
Transfer to investment property	-	-	-	(2,314)	-	(2,314)
Impairment	-	-	-	-	(13)	(13)
Depreciation	(1,407,572)	(1,418,914)	(366,488)	(135,546)	-	(3,328,520)
Disposals and write-off	(1,769)	(3,336)	(58,457)	(550)	(38,231)	(102,343)
Other transfers	1,620	8	(19,345)	20,031	10,883	13,197
	90,029,766	75,096,242	22,472,794	9,051,874	29,755,272	226,405,948
As at 31 March 2017						
Cost	118,822,361	111,683,380	47,095,306	17,669,616	31,859,243	327,129,906
Depreciation and impairment	(28,792,595)	(36,587,138)	(24,622,512)	(8,617,742)	(2,103,970)	(100,723,957)
Net book value	90,029,766	75,096,242	22,472,794	9,051,874	29,755,273	226,405,949

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Notes to the Interim Condensed Financial Statements for the three month period ended
31 March 2017

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

Oil and gas production assets

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2016						
Cost	16,744,368	7,644,244	24,388,612	98,224,109	22,153	122,634,874
Depreciation and impairment	-	(248,771)	(248,771)	(22,749,386)	(20,311)	(23,018,468)
Net book amount	16,744,368	7,395,473	24,139,841	75,474,723	1,842	99,616,406
Period ended 31 March 2016						
Additions	601,163	3,341,040	3,942,203	-	-	3,942,203
Changes in decommissioning obligations	-	-	-	171,847	-	171,847
Transfer from asset under construction	(3,510)	(3,420,699)	(3,424,209)	3,424,209	-	-
Other transfers	23,017	28,239	51,256	(11,514)	-	39,742
Depreciation and depletion	-	-	-	(1,151,681)	-	(1,151,681)
Disposals and write-off	(8,887)	-	(8,887)	(1,977)	1	(10,863)
	17,356,151	7,344,053	24,700,204	77,905,607	1,843	102,607,654
As at 31 March 2016						
Cost	17,356,151	7,592,824	24,948,975	101,792,833	22,152	126,763,960
Depreciation and impairment	-	(248,771)	(248,771)	(23,887,226)	(20,309)	(24,156,306)
Net book amount	17,356,151	7,344,053	24,700,204	77,905,607	1,843	102,607,654
As at 1 January 2017						
Cost	16,633,007	4,162,492	20,795,499	115,864,815	22,129	136,682,443
Depreciation and impairment	-	(876)	(876)	(27,422,504)	(20,309)	(27,443,689)
Net book amount	16,633,007	4,161,616	20,794,623	88,442,311	1,820	109,238,754
Period ended 31 March 2017						
Additions	631,732	3,192,972	3,824,704	-	-	3,824,704
Changes in decommissioning obligations	-	-	-	40,043	-	40,043
Transfer from asset under construction	(241,841)	(2,713,292)	(2,955,133)	2,955,133	-	-
Other transfers	(38,014)	46,494	8,480	1,620	-	10,100
Depreciation and depletion	-	-	-	(1,407,572)	-	(1,407,572)
Disposals and write-off	(34,131)	(2,124)	(36,255)	(1,769)	-	(38,024)
	16,950,753	4,685,666	21,636,419	90,029,766	1,820	111,668,005
As at 31 March 2017						
Cost	16,950,753	4,686,542	21,637,295	118,822,361	22,130	140,481,786
Depreciation and impairment	-	(876)	(876)	(28,792,595)	(20,310)	(28,813,781)
Net book amount	16,950,753	4,685,666	21,636,419	90,029,766	1,820	111,668,005

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017

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

12. OTHER NON-CURRENT ASSETS

	31 March 2017	31 December 2016
Advances paid for PPE	1,961,575	2,062,604
Prepaid expenses	764,812	794,251
Other assets	1,081,555	1,076,724
Less impairment provision	(44,365)	(41,758)
	3,763,577	3,891,821

13. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	31 March 2017	31 December 2016
Short-term loans	11,144,407	13,299,544
Interest liabilities	159,388	173,834
Current portion of long-term loans (note 17)	9,078,338	9,516,423
Current portion of finance lease liabilities (note 17)	47,453	25,114
	20,429,586	23,014,915

14. TRADE AND OTHER PAYABLES

	31 March 2017	31 December 2016
Trade payables:		
- related parties	9,658,494	10,126,021
- third parties	12,221,950	16,349,956
Dividends payable	3,772,308	3,772,308
Other accounts payable	13,876	14,508
	25,666,628	30,262,793

As at 31 March 2017 payables to related parties amounting to 9,658,494 RSD (31 December 2016: 10,126,021 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 5,682,952 RSD (31 December 2016: 5,818,200 RSD), mostly for the purchase of crude oil.

15. OTHER CURRENT LIABILITIES

	31 March 2017	31 December 2016
Advances received	1,225,805	1,228,944
Payables to employees	3,363,276	2,914,402
Accruals and deferred income	22,063	24,297
Other current non-financial liabilities	17,294	45,511
	4,628,438	4,213,154

16. OTHER TAXES PAYABLE

	31 March 2017	31 December 2016
Mineral extraction tax	301,481	241,017
VAT	1,160,111	1,410,486
Excise tax	4,818,905	5,009,938
Contribution for buffer stocks	273,891	601,357
Custom duties	27,054	279,104
Other taxes	1,825,491	1,807,736
	8,406,933	9,349,638

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017

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

17. LONG-TERM DEBT

	31 March 2017	31 December 2016
Long-term loan - Gazprom Neft	36,037,181	37,328,836
Bank loans	66,376,683	65,392,094
Finance lease liabilities	210,197	142,528
Less Current portion	(9,125,791)	(9,541,537)
	93,498,270	93,321,921

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

	Long-term loans	Short-term loans (note 13)	Finance lease	Total
As at 1 January 2016	112,726,667	4,282,974	-	117,009,641
Proceeds	-	2,606,096	-	2,606,096
Repayment	(8,876,923)	(912,561)	-	(9,789,484)
Non-cash transactions	-	-	18,795	18,795
Foreign exchange difference	(358,946)	43,536	(54)	(315,464)
As at 31 March 2016	103,490,798	6,020,045	18,741	109,529,584
As at 1 January 2017	102,720,930	13,299,544	142,528	116,163,002
Proceeds	2,103,895	2,105,545	-	4,209,440
Repayment	(2,334,305)	(4,309,905)	(6,325)	(6,650,535)
Non-cash transactions	-	-	74,333	74,333
Foreign exchange difference	(76,656)	49,223	(339)	(27,772)
As at 31 March 2017	102,413,864	11,144,407	210,197	113,768,468

(a) *Long-term loan - Gazprom Neft*

As at 31 March 2017 long-term loan - Gazprom Neft amounting to 36,037,181 RSD (31 December 2016: 37,328,836 RSD), with current portion of 5,765,949 RSD (2016: 5,742,898 RSD), 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 March 2017	31 December 2016
Domestic	28,859,396	27,522,764
Foreign	37,517,287	37,869,330
	66,376,683	65,392,094
Current portion of long-term loans	(3,312,389)	(3,773,525)
	63,064,294	61,618,569

The maturity of bank loans was as follows:

	31 March 2017	31 December 2016
Between 1 and 2 years	13,151,059	13,323,750
Between 2 and 5 years	45,945,397	44,038,904
Over 5 years	3,967,838	4,255,915
	63,064,294	61,618,569

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017***(All amounts are in 000 RSD, unless otherwise stated)*

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

	31 March 2017	31 December 2016
USD	39,157,170	39,607,916
EUR	24,384,133	22,955,261
RSD	2,453,131	2,443,363
JPY	382,249	385,554
	66,376,683	65,392,094

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 March 2017 and 31 December 2016, respectively.

18. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Three month period ended 31 March	
	2017	2016
Crude oil	17,354,579	15,863,402
Petroleum products	5,940,041	1,850,303
	23,294,620	17,713,705

19. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 31 March	
	2017	2016
Employee costs	795,346	790,493
Materials and supplies (other than purchased oil, petroleum products and gas)	214,007	184,985
Repair and maintenance services	832,122	877,858
Electricity for resale	1,430,034	1,162,649
Electricity and utilities	361,874	431,101
Safety and security expense	57,279	69,727
Insurance services	70,383	75,403
Transportation services for production	412,298	415,631
Other	1,791,108	1,865,921
	5,964,451	5,873,768

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended 31 March	
	2017	2016
Employee costs	2,199,633	2,227,177
Legal, audit and consulting services	305,958	289,962
Rent expense	32,680	29,114
Business trips expense	56,770	40,130
Safety and security expense	115,588	106,755
Insurance expense	22,468	20,384
Transportation and storage	82,625	129,785
Allowance for doubtful accounts	(53,972)	(13,311)
Other	1,917,767	1,898,175
	4,679,517	4,728,171

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017

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

21. NET FOREIGN EXCHANGE GAIN

	Three month period ended 31 March	
	2017	2016
Net foreign exchange gain (loss) on financing activities including:		
- foreign exchange gain	763,332	3,396,399
- foreign exchange loss	(596,718)	(2,699,272)
Net foreign exchange gain (loss) on operating activities	80,008	482,840
	246,622	1,179,967

22. FINANCE INCOME

	Three month period ended 31 March	
	2017	2016
Interest on bank deposits	86,964	36,376
Interest income on loans issued	227,806	249,446
	314,770	285,822

23. FINANCE EXPENSES

	Three month period ended 31 March	
	2017	2016
Interest expense	705,791	803,570
Provision of trade and other non-current receivables: discount	33,499	27,229
Less: amounts capitalised on qualifying assets	(5,824)	(5,707)
	733,466	825,092

24. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Financial Statements: investment properties and financial investments classified as available for sale. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Financial Statements as of 31 December 2016. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 31 March 2017 carrying value of financial assets approximate their fair value.

25. CONTINGENCIES AND COMMITMENTS

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 812,071 RSD (31 December 2016: 838,655 RSD).

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 March 2017.

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017***(All amounts are in 000 RSD, unless otherwise stated)**Other contingent liabilities*

As at 31 March 2017, 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 66 million USD 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 concessionaires, 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. Taking all of the above into consideration, the Company's Management is of the view that as at 31 March 2017 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.

Capital commitments

As of 31 March 2017 the Company has entered into contracts to purchase property, plant and equipment for 4,759,910 RSD (31 December 2016: 5,324,487 RSD) and drilling and exploration works estimated to 56.72 USD million (31 December 2016: 40.17 USD million).

There were no other material contingencies and commitments of the Company.

26. RELATED PARTY TRANSACTIONS

For the purpose of these Interim Condensed Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operational decision as defined by IAS 24 Related Party disclosure. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

In the three month period ended 31 March 2017 and in the same period in 2016, 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 at 31 March 2017 and 31 December 2016 the outstanding balances with related parties were as follows:

As at 31 March 2017	Subsidiaries	Parent company	Parent's subsidiaries and associates
Short-term financial assets	6,297,452	-	-
Trade and other receivables	3,786,708	-	448,555
Other current assets	2,405	-	-
Investments in subsidiaries and joint ventures	16,825,911	-	-
Long-term financial assets	30,860,798	-	-
Other non-current assets	165,432	-	-
Trade and other payables	(3,503,592)	(5,682,952)	(471,950)
Other current liabilities	(3,210)	-	(4,964)
Short-term debt and current portion of long-term debt	(948,628)	(5,765,949)	-
Long-term debt	-	(30,271,232)	-
	53,483,276	(41,720,133)	(28,359)

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2017***(All amounts are in 000 RSD, unless otherwise stated)*

As at 31 December 2016	Subsidiaries	Parent	Parent's subsidiaries and associates
Short-term financial assets	4,565,622	-	-
Trade and other receivables	3,490,003	-	994,853
Other current assets	1,819	-	-
Investments in subsidiaries and joint ventures	16,825,911	-	-
Long-term financial assets	32,430,010	-	-
Other non-current assets	220,956	-	-
Trade and other payables	(3,248,959)	(5,818,200)	(1,058,865)
Other current liabilities	(2,142)	-	(23,091)
Short-term debt and current portion of long-term debt	(1,110,373)	(5,742,898)	-
Long-term debt	-	(31,585,938)	-
	53,172,847	(43,147,036)	(87,103)

For the three month period ended 31 March 2017 and 2016 the following transaction occurred with related parties:

Three month period ended 31 March 2017	Subsidiaries	Parent	Parent's subsidiaries and associates
Petroleum products and oil and gas sales	(2,616,594)	-	(194,800)
Other revenues	(248,381)	-	(1,293,335)
Purchases of oil, gas and petroleum products	83,238	4,073,504	194,802
Production and manufacturing expenses	744,363	-	1,341,721
Selling, general and administrative expenses	222,512	-	1,099
Transportation expenses	22,540	-	-
Other expenses, net	19,421	14,880	47
Net foreign exchange gain	980	-	-
Finance income	(223,236)	-	-
Finance expense	9,983	171,568	-
Three month period ended 31 March 2016			
Petroleum products and oil and gas sales	(1,663,354)	-	(102,792)
Other revenues	(147,330)	-	(1,066,296)
Purchases of oil, gas and petroleum products	78,679	8,992,138	103,070
Production and manufacturing expenses	745,658	(1)	988,415
Selling, general and administrative expenses	261,243	(9)	389
Transportation expenses	20,798	-	-
Other expenses, net	9,300	4,579	14
Finance income	(243,534)	-	-
Finance expense	3,548	207,409	-

Transactions with Key Management Personnel

For the three month period ended on 31 March 2017 and 2016 the Company recognized 219,963 RSD and 187,691 RSD, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

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Notes to the Interim Condensed Financial Statements for the three month period ended
31 March 2017

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

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