



NIS
GAZPROM NEFT

**FUTURE
AT WORK**

QUARTERLY REPORT

for first quarter of 2017



The Quarterly Report of NIS j.s.c. Novi Sad for first quarter of 2017 represents a comprehensive review of NIS Group's development and performance in first quarter of 2017.

The Report covers and presents information on NIS Group, which is comprised of NIS j.s.c. Novi Sad and its subsidiaries. If any information relates to individual subsidiaries or to NIS j.s.c. Novi Sad, it is so noted in the Report. The terms "NIS j.s.c. Novi Sad" and "Company" denote the parent company NIS j.s.c. Novi Sad, whereas the terms "NIS" and "NIS Group" relate to NIS j.s.c. Novi Sad with its subsidiaries.

In accordance with the Law on Capital Market, the Report consists of three parts: the business report, financial statements (stand-alone and consolidated), and the statement of the persons responsible for the preparation of the Report.

The Quarterly Report is rendered in Serbian, English and Russian. In case of any discrepancy, the Serbian version will be given precedence. The Report is also available for download from the corporate web site. For more information on NIS Group, visit the corporate web site www.nis.eu.

Contents

- Foreword 3
- Business Report 4
 - Highlights 4
 - Group's Profile 5
 - Risk Management 18
 - Business Environment 22
 - Market Share 24
 - Result Analysis 26
 - Securities 38
 - Human Resources 40
- Financial Statements 42
 - Stand-alone Financial Statements 42
 - Statement on Financial Position 42
 - Statement of Profit And Loss and Other Comprehensive Income 43
 - Statement of Changes in Equity 44
 - Statement of Cash Flows 45
 - Notes to Stand-alone Financial Statements 46
 - Consolidated Financial Statements 59
 - Consolidated Statement on Financial Position 59
 - Consolidated Statement of Profit and Loss and Other Comprehensive Income 60
 - Consolidated Statement of Changes in Equity 61
 - Consolidated Statement of Cash Flows 62
 - Notes to Consolidated Financial Statements 63
- Statement of Individuals Responsible for the Preparation of Financial Statements 77
 - Contacts 78

Foreword

In the first quarter of 2017, NIS Group has achieved significantly better financial results than in the same period a year earlier. Net profit of NIS Group in the reporting period amounted to 5.4 billion dinars, which is much better result than in the first quarter of 2016, when net profit was 260 million dinars. EBITDA ratio amounts to 11.1 billion RSD, or three times more than a year ago, when the value of this indicator was 3.8 billion RSD. Operating cash flow of NIS Group has increased by 25 percent compared to the first quarter of 2016 and amounts to 4.5 billion RSD. Good financial results of the Group were contributed by the stabilization of the situation in the global oil market, as well as stable relationship between currencies, and the implementation of programs and measures to increase operational efficiency at all levels of NIS Group had a significant impact on the achieved result. The impact of measures to increase the operational efficiency on EBITDA in the first three months of 2017 is estimated at slightly above 1 billion RSD. In addition, the fact that NIS has again increased sales volume of petroleum products had the impact on the result as well.

In the first quarter of 2017, NIS Group has continued with significant allocations for the investments, for which 4.7 billion RSD has been allocated, which is 1 percent more than in the same period last year. The largest part was invested in exploration and production of oil and gas, as well as in the segment of oil and semi-finished products refining. Liabilities for taxes and other public revenues have continued to grow, and obligations of NIS Group on this basis amount to 35.6 billion dinars, which is 8 percent more than in the first quarter of last year.

In terms of operational indicators, significant results were achieved in the field of sales and distribution. The total trade of petroleum products in the first three months of 2017 was 717 thousand tons, which is two percent more than last year. NIS' share in the market of petroleum products in Serbia was 75 percent from January to March of this year, or about 1 percent more than the previous year. The total sales volume in the foreign assets has significantly increased as well, with an increase of 25 percent compared to the first quarter of 2016. At the same time, NIS has continued to distribute premium fuels, such as those from the G-Drive series, in Serbia and the region. Also, despite very adverse weather conditions at the beginning of the year, NIS has proved to be a reliable partner and has ensured regular supply of petroleum products in the market. In the first three months of 2017, oil and gas production amounted to 343 thousand conditional tons, which is 2 percent more than the planned production volume for the first quarter of this year. In the same period, the total volume of oil and semi-finished products refining was 765 thousand tons, which is slightly less than last year's results. Such refining volume, among other things, is the result of satisfying of the needs of the market, available stock and optimization of the raw materials basket.

At the same time, NIS has continued to strengthen its partnerships. With the German group BASF, NIS has signed an Agreement on Business and Technical Cooperation in the field of improving the quality of the production program of NIS, as well as the development of technology of production of petroleum products. In addition, NIS has continued to be a good partner to the community in which it operates, which is recognized by the general public. For merits in improving the quality of education in Serbia through the programme "Energy of Knowledge" NIS was awarded "Svetosavska Award" in January by the Serbian Ministry of Education, Science and Technological Development. Also, NIS has again proved to be a leading domestic brand, because, at the awards ceremony "Best from Serbia" in February, it won two awards in the category of "Goods Production and Business Activities" – for the best corporate brand and the best goods brand - NIS Petrol.

Business Report

Highlights

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 announced a “National Champion” in the category “Environmental Protection and Sustainable Development” in the competition for the European Business Awards.
- NIS and EXIT foundation launched “Youth Heroes” try-out for the second consecutive year with basic idea to promote young, successful and humane individuals.
- “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 Ex-7 block in west Romania.



February



- NIS published audited consolidated results for 2016.
- 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.
- Alexander Dyukov, CEO of “Gazprom Neft” PJSC, had a discussion with the President and the Prime Minister of Serbia, respectively Tomislav Nikolic and Aleksandar Vucic during his stay in Serbia, and the main topics of the conversation referred to further development of NIS and investment opportunities for “Gazprom Neft” PJSC in Serbia. Mr Dyukov visited NIS j.s.c Novi Sad and spoke with the top management of the company.
- 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

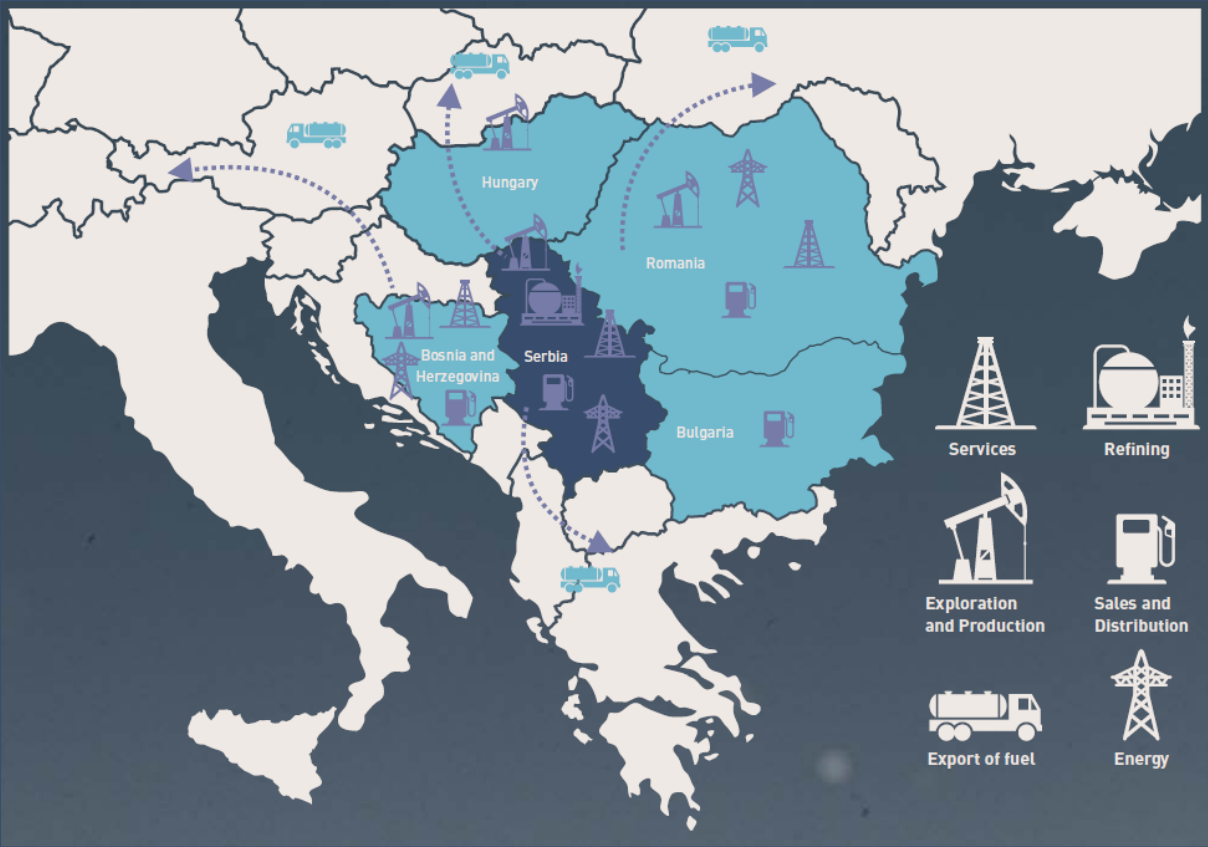
- Board of Directors of NIS j.s.c. Novi Sad appointed Kirill Tyurdenev to the position of the General Director of the Company.
- NIS j.s.c. Novi Sad and German chemical company BASF have signed an Agreement on Business and Technical Cooperation in the area of NIS product range quality improvement, as well as the development of petroleum products manufacturing technology.
- NIS donated assets for medical equipment procurement to University Children’s Clinic “Tiršova”.
- At the Belgrade Motor Show, NIS presented advantages of G-Drive premium fuel.
- Students of Yale University visited NIS.



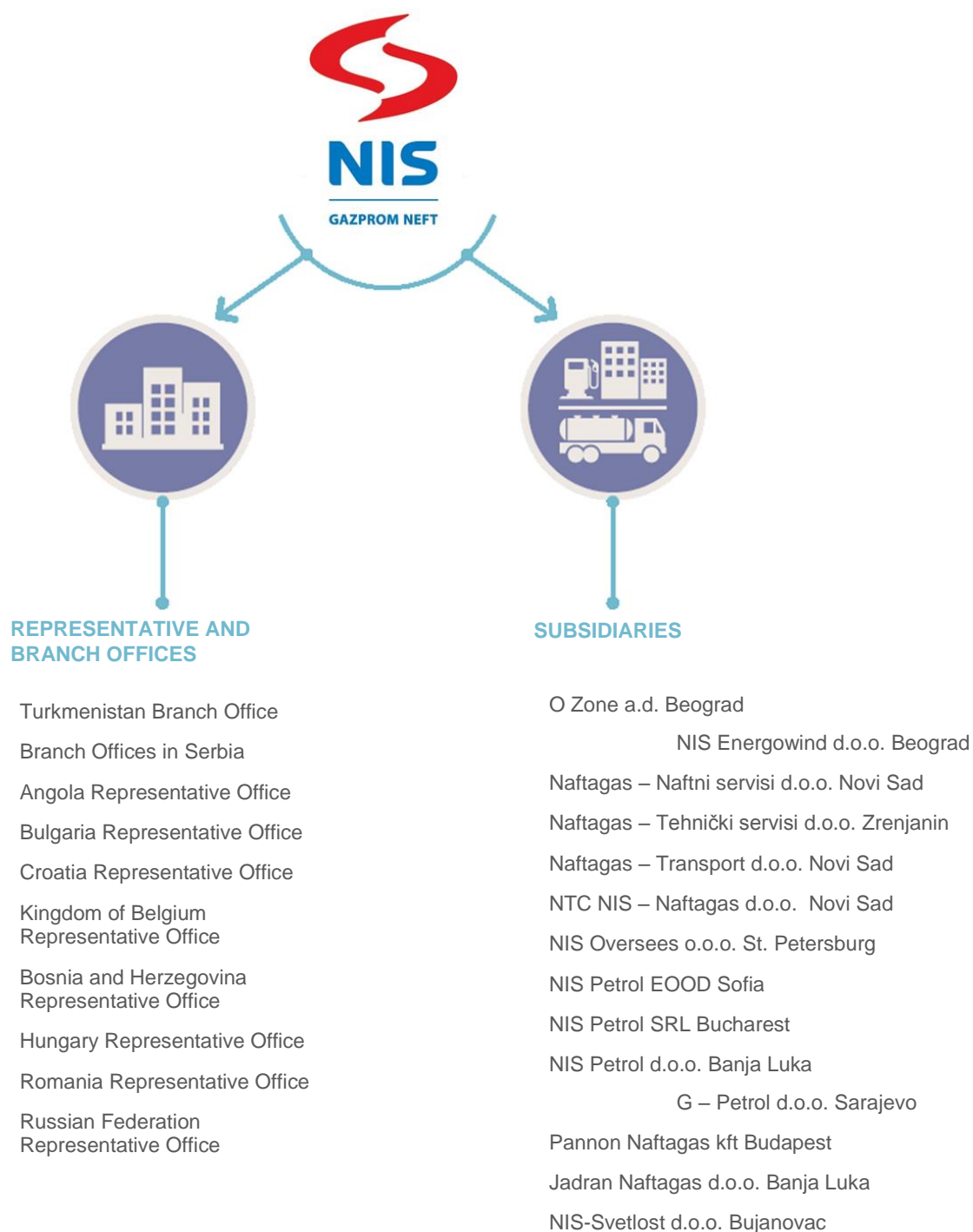
Group's Profile

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.



NIS Group Business Structure¹



¹ 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>.

Business activities

NIS Group delivers its core business activities through five Blocks: Exploration and Production, Services, Refining, Sales and Distribution, and Energy. In addition, Functions within the corporate headquarters support core business activities.

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 CO₂ 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 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 Pančevo². 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, produces and sells compressed natural gas, sells natural 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.

² 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 CEO dated March 1st, 2016, this facility was assigned for the management and responsibility of the Sales and Distribution Block.

The electricity output is marketed as well. 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 Blocks³, while other functions are centralised⁴. One of the General Director's Deputy is in charge of petrochemicals operations.

General information on NIS j.s.c. Novi Sad

Business Name:	NIS j.s.c. Novi Sad
Company Identity Number::	20084693
Address:	Novi Sad, 12, Narodnog fronta street
Tax ID:	104052135
Web site:	www.nis.eu
e-mail:	office@nis.eu
Activity:	0610 – crude oil exploitation
Number and date of registration in BRA:	BD 92142, 09/29/2005
Total equity as at March, 31st 2017:	220,948,474,000 RSD
Share capital as at March, 31st 2017:	81,530,200,000 RSD
Number of employees⁵ as at March, 31st 2017:	3,911
Audit company that audited the last financial statements (dated December, 31st 2016):	Pricewaterhouse Coopers d.o.o Belgrade 88a, Omladinskih brigada street 11070 Belgrade
Name and address of organised market where shares of the issuer are traded in:	Belgrade Stock Exchange 1, Omladinskih brigada street 11070 Belgrade

³ Finance, Economics, Planning and Accounting, Strategy and Investments, Material and Technical and Service Support and Capital Investments, Organisational Affairs and HSE.

⁴ 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.

⁵ Number of leased employees, employees in subsidiaries and representative offices excluded.

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.

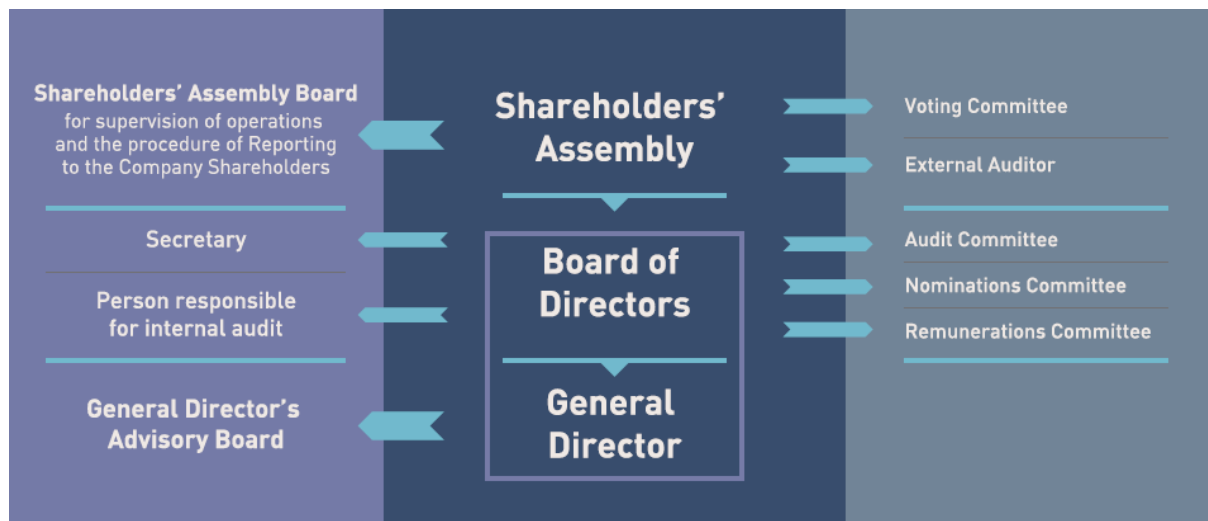


Chart no. 1: Corporate Bodies of NIS j.s.c. Novi Sad

Shareholders' Assembly

As the highest authority of the Company, the Shareholders' Assembly is consisted of all shareholders.

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.

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.



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 Tyurdenev
General Director of NIS j.s.c. Novi Sad
Member of NIS j.s.c. Novi Sad Board of Directors

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. 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. In March 2017 he was appointed General Director of NIS j.s.c. Novi Sad.

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



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.



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

Born on December 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 Belgrade Faculty of Economics. 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



Kirill Kravchenko
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. As of March 2009, he holds the position of Deputy CEO for Overseas Assets Management in PJSC "Gazprom Neft". Since February 2009 until March 2017 he was General Director of NIS j.s.c. Novi Sad.

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



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 to 17.11.2014, he was performing the duties of the Advisor to the Director of NTC NIS Naftagas d.o.o. Novi Sad. Furthermore, he currently serves as member of the National Bank of Serbia Governor Council.

Mr. Martinović was a member of NIS j.s.c. Novi Sad BoD from 2004 to 2008, and he was re-elected on 10.02.2009.



Wolfgang Rutenstorfer
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. Rutenstorfer'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. Rutenstorfer was the Chairman of the Executive Board of the OMV Group. Mr. Rutenstorfer 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

He was born on May 29th, 1964 in Moscow, USSR.

Mr. Shekshnia serves as the Chief of practice in the Talent Performance and Leadership Development Consulting Department. Director of Talent Equity Institute and a senior partner at Ward Howell. He teaches the course "Entrepreneur Leadership" at the International Business School INSEAD. Mr. Shekshnia has more than 15 years of practical experience in management. He held the following positions: CEO of Alfa Telecom, chairman and CEO of Millicom International Cellular, Russia and 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. Shekshnia was elected Independent member of the NIS j.s.c. Novi Sad Board of Directors as of 21.06.2010.

Total amount of remunerations paid out to BoD members in first quarter of 2017, RSD net

Members of BoD	18,845,330
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The number and % of NIS j.s.c. Novi Sad shares owned by BoD members

Name	Number of shares	% of total number of shares
Nikola Martinović	224	0.0001%

Membership of the Board of Directors or Supervisory Boards of other Companies

Vadim Yakovlev	<ul style="list-style-type: none"> • 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 Tyurdenev	-
Danica Drašković	-

Alexey Yankevich	<ul style="list-style-type: none"> • 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”
Goran Knežević	-
Kirill Kravchenko	<ul style="list-style-type: none"> • Vice-Chairman of the National Oil Committee of the Republic of Serbia • Serbian Tennis Federation BoD Member • SAM BoD Member – Serbian Association of Managers
Alexander Krilov	<ul style="list-style-type: none"> • JSC “Gazprom Neft-Novosibirsk” • JSC “Gazprom Neft-Omsk” • JSC “Gazprom Neft-Tumen” • JSC “Gazprom Neft-Ural” • JSC “Gazprom Neft-Yaroslavlje” • 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	-
Wolfgang Ruttenstorfer	<ul style="list-style-type: none"> • “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	<ul style="list-style-type: none"> • JSC NGK “Slavneft” • JSC “Gazprom Neft-ONPZ” • JSC “Slavneft-JANOS” • JSC “Gazprom Neft –MNPZ” • JSC “Gazprom Neft-Aero” • CJSC “St. Petersburg’International Commodities and resources Exchange” • LTD “Gazprom Neft –SM” • LTD “Gazprom Neft Marin Bunker” • LTD “Gazprom Neft – Logistics” (Chairman of BoD) • JSC “Mozirski NPZ” • „Gazprom Neft Lubrikants Italy“ • LTD “Gazprom Neft - Catalytic Systems” (Chairman of BoD)
Stanislav Shekshnia	<ul style="list-style-type: none"> • Dentsu Aegis Network Russia (Member of BoD) • NLMK (Member of BoD) • LTD “Russian Fishery Company” (Member of BoD)

Board of Directors' Committees

With a view to ensuring the efficient performance of its activities, the Board of Directors has established three standing committees (Audit, Remunerations and Nominations Committee) 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:
 - Wolfgang Ruttenstorfer, Chairman,
 - Alexey Yankevich, member and
 - Nenad Mijailović, member.
- Remuneration Committee:
 - Stanislav Shekshnia, Chairman,
 - Anatoly Cherner, member and
 - Zoran Grujić, member.
- Nominations Committee:
 - Goran Knežević, Chairman,
 - Kirill Kravchenko, member and
 - Stanislav Shekshnia, member.

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.

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.

Members of Shareholders' Assembly Board as of March 31st, 2017



Nenad Mijailović
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 Grujić
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. Grujić graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994, he was employed with Heat Transfer Appliances Plant “Cer” in Čačak, where he held a variety of positions, including General Manager, Technical Manager, Production Manager and Design Engineer. From May 1994 to February 1998, he served as Advisor to the General Manager of Interkomerc, Belgrade. From February 1998 to June 2004, he was Managing Director of the Company MNG Group d.o.o., Čačak. From June 2004 to February 2007, he was Director of the Trading Company Agrostroj j.s.c. Čačak, Director of the limited partnership company Leonardo from Čačak and Director of the Vojvodina Highway Centre. Since February 2007, Mr. Grujić 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 to January 2016, he had served as Advisor to the Sales and Distribution Director. Since February 2016 he has served as Advisor to the Function for External Affairs and Government Relations Director.

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 30.06.2014.



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. Since 2012 and nowadays is employed as a Director of economics and corporate planning with PJSC “Gazprom Neft”.

He was appointed member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 25.06.2012.

A total amount of remunerations paid out to SAB members in first quarter of 2017, net RSD

Members of SAB	5,006,571
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The number and % of NIS j.s.c. Novi Sad shares owned by SAB members

Name	Number of shares	% of total number of shares
Nenad Mijailović	5	0.00003066%

Membership of the Board of Directors or Supervisory Boards of other Companies

Nenad Mijailović	-
Zoran Grujić	-
Alexey Urusov	• Member of the Supervisory Board of Gazpromneft Marine Bunker Balkan S.A.

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.

General Director of NIS j.s.c. Novi Sad is Mr Kirill Tyurdenev.

The 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 Deputy for exploration and production, 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 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.

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.

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.

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 first three months of 2017, 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.

Risk Management

Integrated Risk Management System

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

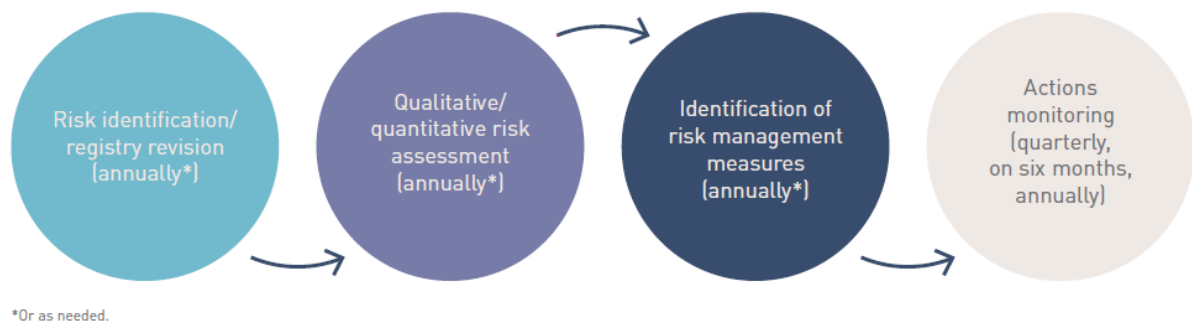
The objective of risk management is to ensure additional guarantees that strategic and operational targets will be delivered through timely identification and prevention of risks, identification of effective measures and provision of maximum efficiency of risk management actions.

IRMS represents set of process, methodological framework and instruments aimed at ensuring the efficiency and effectiveness of the risk management process in the NIS.

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



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 Section for monitoring of risk management system, 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 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.

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

	<p>suppliers of crude oil, renowned companies which are dominant and reliable in crude oil trading;</p> <ul style="list-style-type: none"> • 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.
<p>Interest Rate Risk – NIS Group is exposed to the interest rate risk both in terms of its bank loans and placement of deposits.</p>	<p>NIS j.s.c. Novi Sad takes out loans with commercial banks mostly 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 base interest rates, whereas for placing in the form of granted loans/credits, exposure to the risk of changes in basic interest rates is greater (EURIBOR).</p>
<p>Credit Risk</p>	
<p>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.</p>	<p>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 deposits, documentary instruments: bank guarantees, Letters of Credit, etc. – issued to NIS j.s.c. Novi Sad).</p> <p>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.</p>
<p>Liquidity Risk</p>	
<p>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.</p>	<p>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).</p> <p>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 indebtedness limits set by PJSC "Gazprom Neft".</p> <p>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 1 January 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 Serbia⁶.</p> <p>Since mid-September 2014, NIS j.s.c. Novi Sad has been exposed to the risk of limited external financing capacities due to the imposition of sectorial sanctions by the EU and the U.S.A. on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU.</p> <p>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 NIS negotiated/contracted new</p>

⁶ 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.

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 2017 and in part for 2018.

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 in EUR will be taken out at more favourable interest rates, all within the allowed loan limits, which will unburden the company's cash flow for investments in the next 3 years (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 funding for long term development of NIS despite of the limitations of the sanctions.

Business Environment

The World

The International Energy Agency (IEA) does not expect a large increase in oil prices despite the efforts of the Organization of the Petroleum Exporting Countries and part of independent producers to stabilize prices on higher levels than the current ones by means of reduced production. From the beginning of 2017, OPEC and 11 independent producers started the implementation of the agreement on reducing oil production by 1.8 million bbl/d during 6 months with the option of extending this period. This is an attempt of reducing market saturation with oil and influencing prices to return to the level acceptable to all producers. IEA estimates that the global market contains enormous oil stocks; therefore it is not reasonable to expect fewer oil offers and consequently higher prices. In addition, please note that even when oil prices increase, other producers, not only from the USA, but also from Brazil and Canada, take advantage of that in order to place additional quantities, thus contributing to maintenance of low prices.

At the same time, OPEC announced that crude oil stocks began to fall, that it is “cautiously optimistic” about the market already restoring its balance. Morgan Stanley states in his report that crude oil stocks, including those in China, Japan and floating terminals all around the world have been reduced by 72 million barrels this year.

In the first quarter of 2017, the greatest producers were Russia, Saudi Arabia, UAE and Kuwait.

On March 29th, the Government of Great Britain informed the European council on its intention to withdraw from the European Union. Both sides now have two years to arrange the withdrawal details. The first part of Brexit referendum uncertainty – whether the Great Britain will definitely leave the EU has been thereby resolved.

The withdrawal affected the pound whose value decreased by 16% in comparison with the level it had against the dollar before the referendum, but it does not affect the capital market, which indicates the strength of Great Britain's economy

The World Energy Council published a report titled “2017 Energy Issues Monitor”, and the main report conclusions are as follows:

- World primary energy demand will continue to slow down the growth and the maximum will be reached before 2030,
- Electricity demand will be doubled,
- Solar and wind energy growth will continue, but it is difficult to estimate growth %,
- Light-freight vehicles will continue to be the major problem for goals regarding carbon reduction, and
- Technological achievements will have better positive effect than government policies.

Serbia

During his visit to Serbia near the end of March 2017, IMF's Mission Chief pointed out that Serbia's economic program delivered good results, but that the labour market structure showed how much more Serbia had to do in order to realize its potential as a dynamic market economy. Transition from ineffective and protected public sector to productive and competitive private sector is the very goal of Serbia's program supported by IMF. This goal may be achieved by “structural reforms” entailing business environment improvement, fight against grey economy, restructuring public enterprises and reforming state administration.

In January 2017, The World Bank increased the forecast for gross domestic product (GDP) in Serbia for 2017 to 2.8 per cent, which is higher than the previous estimate by 0.5 percentage points.

Higher growth rate is expected due to macroeconomic stability, business environment improvement, increase in the state capital consumption, relaxation effects of monetary policy in the previous period, structural reforms implementation and demand recovery; and all together, according to Minister Vujovic, will impact the economic growth rate in Serbia to be higher and the goal of reaching at least 3% GDP in 2017 to be achieved.

The inflation set within the limits of the new goal in January 2017, total inflation increase was mostly influenced by the prices of energy sources and unprocessed food.

In January 2017, retail prices of goods and services used for personal consumption (consumer price index) were increased by 2.4% as compared to the same month of 2016, while in February 2017 they were increased by 3.2% as compared to the same month of the previous year and by 3,6% in March 2017 compared to the same month of the previous year.

Industrial production in the period January-February 2017 was higher than the one of the same period in 2016 by 0.7%. There was an increase in the production of capital products (7.3%), consumer durable goods (5.5%) and intermediate products, while a fall was recorded in energy production (10.4%).

Export of goods in the period January-February, represented in euros, was increased by 8.5% as compared to the same period of the previous year. Import of goods was increased by 11.7% as compared to the same period of the previous year.

Import coverage by exports is 76.4% and is less than the coverage in the same period of the previous year, when it amounted to 78.7%.

In February 2017 average gross salary was nominally higher by 5.8% and actually higher by 2.5% as compared to the same month of the last year, whereas the average net salary was nominally higher by 5.7% and actually by 2.4%.



Chart no. 2: USD/RSD exchange rate changes⁷

- Average USD/RSD exchange rate in 2017 is higher by RSD 4.99, i.e. 4% of the 2016 average.
- In 2017, the USD/RSD exchange rate declined by RSD 1.01, i.e. 1%.
- In 2016, the USD/RSD exchange rate declined by RSD 2.65, i.e. 2%.

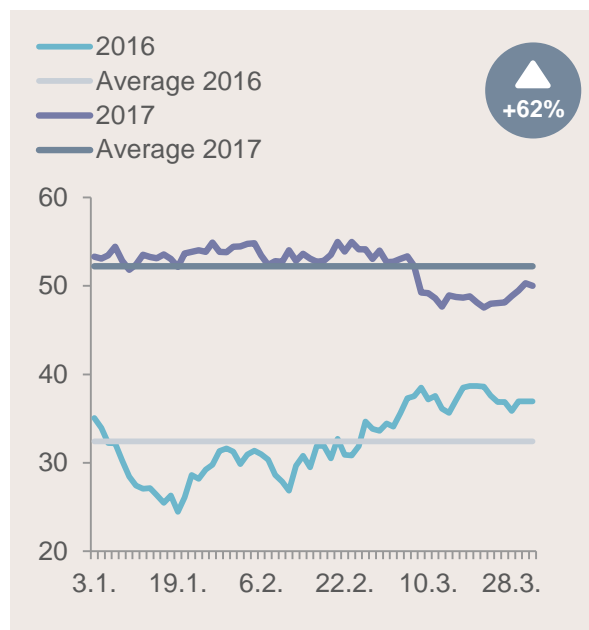


Chart no. 3: Urals RCMB oil price, \$/bbl⁸

- Average Urals RCMB oil price in 2017 is higher by 20 \$/bbl, i.e. 62% of the 2016 average price.
- In 2017, Urals RCMB oil price declined by 3.29 \$/bbl, i.e. 6%.
- In 2016, Urals RCMB oil price is increased by 1.88 \$/bbl, i.e. 5%.

⁷ Data source: NBS.

⁸ Data source: Platts.

Market Share⁹

Demand for motor fuels in the regional market is increasing with regard to the same period of the last year due to positive macroeconomic trends.

Fuel consumption is increasing in transport, process industry and construction segments.

Improved results of construction and process industry, as well as transport growth have positive influence on the growth of diesel fuel consumption in Serbia.

Part of diesel fuel consumption remains in grey zone primarily through blending non-excisable base oils, although more intensive control of import conducted by inspection authorities and the Customs Administration was noticeable at the end of the first quarter.

Serbia

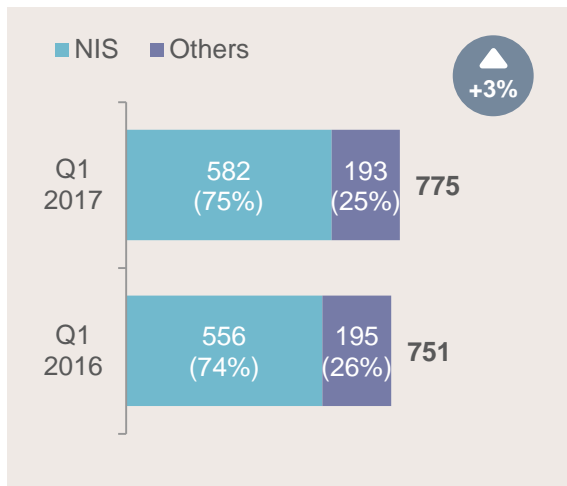


Chart no. 4: The volume of overall petroleum products market¹⁰, thousand tonnes

In the first quarter of 2017, total petroleum products consumption in Serbia was higher than it had been in the same period of 2016, mostly on account of the increase in consumption of jet fuel, virgin naphtha, motor gasoline, diesel, heavy fuel oil and lubricants, which was mainly determined by lower prices of petroleum products and significant infrastructure works. In the same comparative period, consumption of LPG, bitumen, coke and other petroleum products (special benzines, toluene...) was lower.

NIS market share features a growth trend. If measures for reducing the amount of petroleum products in the so called grey zone, the segment unavailable to legal market participants, prove successful, the assumption is that the level of legal sale, thereby NIS share, will increase in the future period.

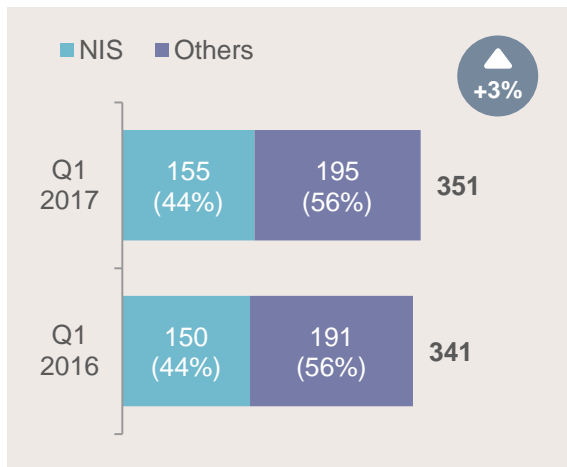


Chart no. 5: Retail market of motor fuels in the Republic of Serbia¹¹, thousand tonnes

The retail market increased in total of 2.8% in the first three months of 2017 as compared to the same period of 2016. NIS slightly increased its market share in retail sales in the Republic of Serbia by 0.20 percentage points.

The increase in fuel consumption is related to increase in transport, fleet and transit traffic.

⁹ 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.

¹⁰ Data for 2016 were given based on estimates. Following the published NOCS market assessment for 2015 minor corrections have been made for 2015.

¹¹ The sales of NIS and other competitors include motor fuel (auto gas, gasoline, and diesel). LPG cylinders were not included. Data for 2016 were given based on estimates.

Bosnia and Herzegovina

The Fiscal Council of Bosnia and Herzegovina proposed a procedure for amendments and additions to the Excise Law. Excises will cover oil and petroleum products, and this means that these amendments and additions would cause an increase in the price of these products. It has been agreed that VAT collected by means of these excises will be properly distributed among entities. Adopting this law is one of the conditions for the arrangement with the International Monetary Fund (IMF).

Traditionally, in Bosnia and Herzegovina petrol is sold at the lowest prices in the region, whereas diesel is more expensive only in the Republic of Macedonia, thus leaving room for cross-border sale.

The Federal Government adopted the Balance of Energy Requirements of the Federation of Bosnia and Herzegovina for 2017, prepared by the Federal Ministry of Energy, Mining and Industry. As far as petroleum products are concerned, a placement amounting to 950,000 tonnes has been planned, whereby 730,000 tonnes will be from import and 220,000 tonnes from Brod Refinery.

In Bosnia and Herzegovina, 35¹² NIS petrol stations are active.

NIS share¹³ in the total market of motor fuels is 11.1%, whereas in the retail market it amounts to 10.7%.

Bulgaria

In the Bulgarian market, a decrease in import as a result of increased volumes of refining in Burgas Refinery is evident. The import recorded in the first quarter of 2017 originated from Romania, whereas the import of petroleum products from Greece was only periodically applied.

In the retail market of Bulgaria, there is fierce competition among the market participants dominated by loyalty programmes.

BM Petroleum Company has started two new petrol stations where petroleum products are sold at very low prices. In the Bulgarian territory, BM Petroleum Company currently has 15 petrol stations in its network.

In Bulgaria, 35 NIS petrol stations are active.

NIS share in the total market of motor fuels is 6.4%, whereas in the retail market it amounts to 4.8%.

Romania

VAT rate reduction from 20% to 19% as of 1 January 2017 in Romania resulted in fuel price decrease and contributed to a mild increase in motor fuel consumption. The Competition Council in Romania is launching fuel market research in order to analyse prices in Romania, which are without tax higher than the average in the European Union.

MOL Romania Company plans to implement the concept of Fresh Corner at 100 of its petrol stations in Romania by the end of 2017, which represent a half of the total number of petrol stations in Romania of this company.

In Romania, 18 NIS petrol stations are active.

NIS share in the total market of motor fuels is 0.9%, whereas in the retail market it amounts to 1.5%.

¹² In addition to this number, there are two more petrol stations in Bosnia and Herzegovina, operating by the *DODO (Dealer Owned Dealer Operated)* model.

¹³ NIS market share was calculated over 37 petrol stations (35 petrol stations owned by NIS and two petrol stations operating by the *DODO (Dealer Owned Dealer Operated)* model).

Result Analysis

Key Performance Indicators

Indicator	Unit of measure	Q1 2017	Q1 2016	Δ ¹⁴
Urals RCMB	\$/bbl	52.2	32.2	+62%
Net profit	bn RSD	5.4	0.3	+18x
EBITDA ¹⁵	bn RSD	11.1	3.8	+3x
OCF	bn RSD	4.5	3.6	+25%
CAPEX ¹⁶	bn RSD	4.7	4.6	+1%
Accrued liabilities for taxes and other public revenue ¹⁷	bn RSD	35.6	32.8	+8%
Total bank indebtedness ¹⁸	mn USD	664	633	+5%
LTIF ¹⁹	%	1.71	1.96	-13%

Operating Indicators

Exploration and Production

Indicator	Unit of measure	Q1 2017	Q1 2016	Δ ²⁰
Oil and gas production ²¹	thousand t.o.e.	343	377	-9%
Domestic oil production ²²	thousand tonnes	227	251	-10%
LTIF	%	0	0	/
EBITDA	bn RSD	7.4	4.2	+76%
CAPEX	bn RSD	3.1	3.9	-20%

The main focus of the “Exploration and Production” Block in the first quarter of 2017 referred to achieving the planned production of hydrocarbons, project implementation and improvement of geological and exploration works efficiency, as well as to the improvement of production and technological efficiency by implementing measures for increasing operational efficiency.

In 2017, the focus was on OMS (Operations Management System) implementation with a view of increasing operational efficiency and management efficiency regarding all types of risks, expense reduction and business process optimization. The first quarter of 2017 ended with no workers injured at work, this meaning that 593 days passed with no workers injured at work in the “Exploration and Production” Block.

Reservoir Development

The beginning of the year was marked by an increased number of activities and successful results. Eleven new wells were put into production, thus exceeding the planned number by 40%.

The successful fracturing campaign was continued in the first quarter. Within three months, operations were executed at 15 wells.

In the area of technologies, thanks to project implementation for fracturing unconsolidated freestone and doubler drilling, the production of the oldest reservoir in Serbia, Jermenovci, was increased by 2 times in comparison with 2016.

¹⁴ 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.

¹⁵ 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.

¹⁶ CAPEX amounts are exclusive of VAT.

¹⁷ 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.

¹⁸ Total bank indebtedness = Total debt to banks + Letters of Credit. As at 31.3.2017, this was USD 659.4 million of total debt + USD 4.3 million in Letters of Credit.

¹⁹ 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.

²⁰ 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.

²¹ Due to change in methodology, domestic oil production includes gasoline and light condensate, whereas gas production takes into account commercial production of gas.

²² With gasoline and light condensate.

Workover and insulation works project continued and resulted in high efficiency of Velebit oilfield. In this quarter, we started applying the same technology in Kikinda-Varos oilfield too.

On the whole, indicators of production in the first quarter allow us to give an optimistic forecast and explain additional activities at the well fund.

Exploration

In the first quarter of 2017, within the execution of geological and exploration works in the “Exploration and Production” Block, contour-exploration well Is-X-5 was explored, which was drilled near the end of 2016 within the newly-found Idjos reservoir. The well was put to trial production.

The implementation of high-viscosity oil project was continued by testing Km-X-1 exploration well.

Drilling Ks-X-1 exploration well commenced (Kikinda Salas).

3D Seismic Surveys

Acquisition of 3D seismic data obtained from Juzni Banat I surveys was successfully completed and project implementation of 3D seismic surveys Turija III commenced. 3D seismic data interpretation in the exploration area Turija II and 3D seismic data processing in the exploration area Juzni Banat I are in their final stages. NIR E360 Turija I project implementation is in its final stage.

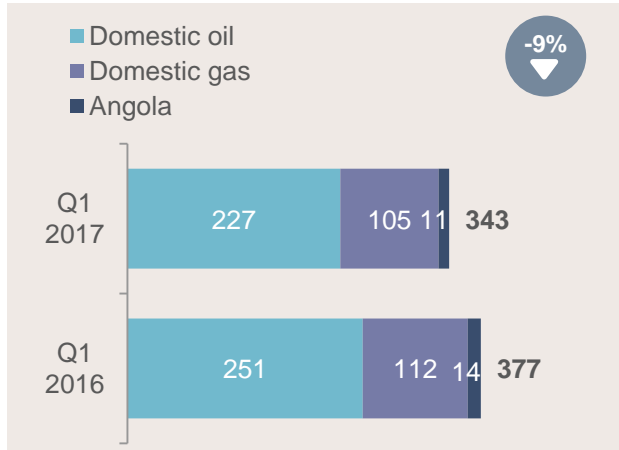
International Projects

At Kiskunhalas exploration block in Hungary, preliminary works for well testing are being executed, which is expected to be conducted in the third quarter. License returned for Kelebia on March 30th, 2017.

Drilling Teremia-1000 well at Ex-7 block was completed. Testing program for Teremia-1000 well is being prepared. Program approval in Romanian National Agency for Mineral Resources. Permitting start for 3 exploration wells Ex-7 (1 well) and Ex-8 (2 wells). Permitting continuation at SIR per blocks Ex-2 and Ex-3.

In Bosnia and Herzegovina “Data Room” was opened in NIS Novi Sad which was visited by one company. Continuation of reprocessing and reinterpretation.

Operating Indicators



Volume of oil and gas production in first quarter of 2017 was down by 9% compared with same period previous year.

Chart no. 6: Oil and gas output, thousand t.o.e.

Services

Indicator	Unit of measure	Q1 2017	Q1 2016	Δ ²³
Wells finished	Number of wells	13	13	0%
LTIF	%	3.40	5.39	-37%
EBITDA	bn RSD	0.4	0.3	-1%
CAPEX	bn RSD	0.2	0.1	+18%

Oilfield Services

In the first quarter, Naftagas – Naftni servisi d.o.o. Novi Sad executed works using 4 drilling rigs on average.

13 new wells were drilled for requirements of the “Exploration and Production” Block.

Drilling at Termia-1000 exploration well in Romania was successfully completed.

Penetration rate and efficiency were increased by continuation of “Technical Limits” strategy application.

In addition, drilling *Adice-2H* thermal well was completed in the first quarter of 2017.

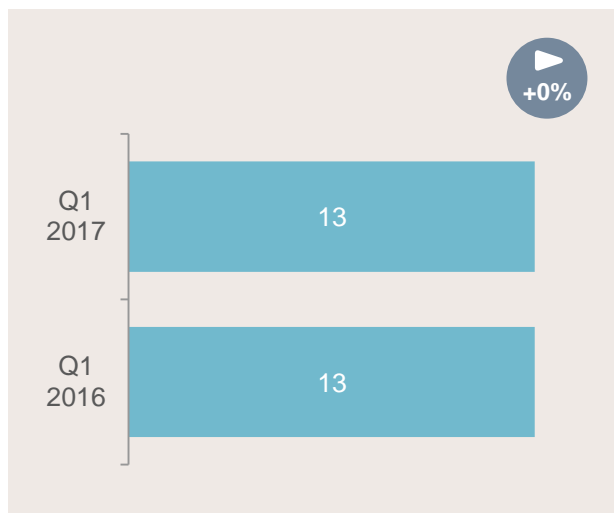


Chart no. 7: Number of completed wells

The Workover Department operated using 14 workover rigs. In the first quarter of this year, 98 wells were under workover. Moreover, the Department was also engaged in mobilisation and preparation of the 15th workover rig and capital workover activities at Teremia-1000 well in Romania.

The Well Services Department achieved an increase in operations with regard to the business plan by 155 operations.

The Seismic Services Department successfully implemented *Južni Banat I* project, 24 days before the deadline. Mobilisation of seismic team for *Turija III* project was completed and the works commenced there.

In the first quarter of 2017, total of 258.8 km² was surveyed.

Technical Services

Naftagas – Technical Services d.o.o. Zrenjanin successfully executed works on workover rigs CW3 (for the Drilling Department) and CW2 (for works in Romania). All works at Ostrovo Gathering Station were completed.

In the first quarter of 2017, revitalization of S-2450 unit for sulphur extraction from oil was completed for the most part and works for the investment project on improving reliability of S-2600 unit commenced, which entails the replacement of 19 lines in Oil Refinery Pančevo.

Transport

Naftagas – Transport d.o.o. Novi Sad, as a support process for all activities of all Blocks, provided transport services by passenger, freight, specialized vehicles and bus transport. Total mileage is 6.9 million kilometres.

The project for procurement of 14 tank trailers for crude oil transport and 2 mobile steam devices (MSD) for requirements of the “Exploration and Production” Block was implemented.

In addition, significant results were achieved in the field of traffic safety. A system of continuous vehicle and driving behaviour monitoring was implemented according to trends of the leading international companies (RAG+).

²³ 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.

Refining

Indicator	Unit of measure	Q1 2017	Q1 2016	Δ ²⁴
Volume of refining of crude oil and semi-finished products	thousand tonnes	765	776	-1%
LTIF	%	0	2.14	-100%
EBITDA ²⁵	bn RSD	2.9	-1.1	4x
CAPEX	bn RSD	1.1	0.3	4x

Test run performances of the MHC catalyst, which was replaced in the capital workover, were summed up.

Work in extremely low temperatures at the beginning of the year was thoroughly analysed and lessons for future operation in such conditions were summed up.

A program of measures for rotating equipment operation improvement was developed.

At the beginning of March, compliance of controlling processes for factory production of polymer modified bitumen with the referent standard EN 14023 was recertified.

On the basis of OMS diagnosis from December 2016, a detailed action plan was developed, whose implementation started in 2017. Within the OMS project, a training process started with respect to LEAN basis in the "Refining" Block.

Effect of implementation of programme for increasing the operational efficiency amounted to 194 million dinars in first quarter of 2017.

„Bottom of the Barrel“ Project

Tender EPCm bids were received for work set 2²⁶ for "Deep Refining" project and preliminary technical evaluation was performed. Location requirements were obtained from the authorized institutions, as well as energy license for the project.

A sponsorship meeting with EPCm contractor was held (work set 1²⁷) – with CB&I Company.

Activities for equipment procurement were continued.

Workover

In the middle of February 2017, after successfully executed works within the regular annual overhaul of the Bitumen Unit, commercial production of bitumen and polymer modified bitumen continued.

Regeneration of HDS catalyst and grading replacement at C-400 were performed.

At the end of March 2017, the planned overhaul of the Alkylation Unit (C-2600) started, which entails installation of nineteen new pipelines, remediation of nine additional lines including installation of new pumps and diagnosis of other unit equipment.

Basket of Raw Materials Optimization

Within further optimization of the basket of raw materials in refining, a new type of oil Novy Port was tested.

Other Projects

Thermal insulation was installed and repaired at weak points of the units.

Revitalization and pre-start activities on old Claus Unit (C-2450) were performed.

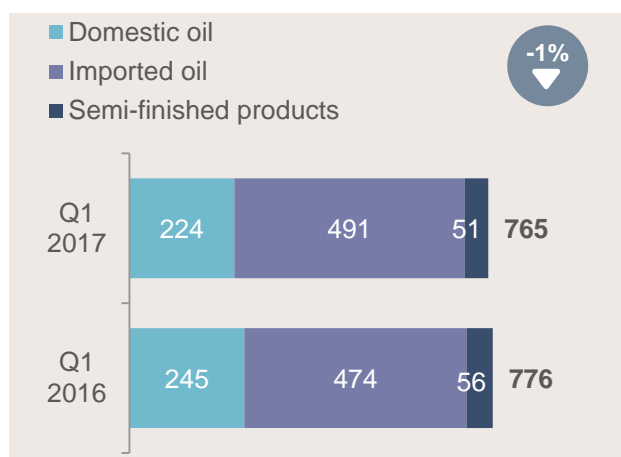
²⁴ Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.

²⁵ EBITDA of Refining Block includes Energy Plant in Pančevo Refinery which is eliminated on consolidated level as the effect of Energy Plant is also included in EBITDA of Energy Block.

²⁶ Reconstruction of the existing units connected to the delayed coking unit, and these are MHC/DHT, LPG, and SRU.

²⁷ Construction of delayed coking units and new auxiliary units: amine regenerator, sour water stripper with a phenol removal unit.

Operating Indicators



The volume of refining is the result of meeting market requirements, available stocks and raw materials basket optimization (growth in refining of oil, reduction in semi-finished products).

Chart no. 8: Refining volume, thousand tonnes

Sales and Distribution

Indicator	Unit of measure	Q1 2017	Q1 2016	Δ ²⁸
Total sales volume of petroleum products²⁹	thousand tonnes	717	703	+2%
Sales volume – foreign assets³⁰	thousand tonnes	70	56	+25%
Sales volume of petroleum products in the domestic market³¹	thousand tonnes	575	562	+2%
Motor fuels³²	thousand tonnes	438	431	+2%
Retail³³	thousand tonnes	203	195	+4%
LTIF	%	1.76	1.21	+45%
EBITDA	bn RSD	2.1	1.9	+11%
CAPEX	bn RSD	0.2	0.1	+179%

In comparison with the first quarter of 2016, market share in the retail market of petroleum products in Serbia increased by 0.2%.

In the first quarter of 2017, an increase in the sales volume amounting to 2% was recorded with regard to the same period of 2016.

Points of Purchase

NIS Group owns over 400 active points of purchase. Most of them, i.e. 336 points of purchase are located in the Republic of Serbia. In addition to 2 stores of LPG cylinders and 10 internal petrol stations, NIS owns 324 public petrol stations (16 thereof in GAZPROM brand).

In the regional countries, NIS owns 35³⁴ petrol stations in Bosnia and Herzegovina (27 in GAZPROM brand), 35 petrol stations in Bulgaria (all in GAZPROM brand) and 18 petrol stations in Romania (all in GAZPROM brand).

Loyalty Programs and Marketing Activities

A humanitarian campaign entitled “Seasonal Magic is in Our Hands” took place from December 7th, 2016 to January 8th, 2017. For each purchase of at least 25 litres of fuel, NIS donated RSD 25 to the University Children’s Clinic “Tirsova” in order to procure medical equipment for the gastroenterology ward. Together with the funds raised in NIS internal campaign, the donation to the children’s clinic “Tiršova” represents the largest amount ever donated to this clinic.

²⁸ 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.

²⁹ Including the internal sales volume within NIS Group (i.e. between segments).

³⁰ The sales volume of foreign assets includes sales generated by the subsidiaries of NIS abroad (retail and wholesale).

³¹ Includes sales to foreign buyers and not sales on territory of Republic Serbia.

³² Total sales of motor fuels in Serbia and in foreign assets.

³³ Total retail in Serbia and in foreign assets.

³⁴ In addition to 35 petrol stations owned by NIS in Bosnia and Herzegovina, two petrol stations operating by the DODO (Dealer Owned Dealer Operated) model are also active.

As of March 31st, 2017, G-Drive fuel (G-Drive 100 petrol and G-Drive Diesel) was introduced at 3 petrol stations within a 3-month pilot project.

In mid-March 2017, G-Drive Diesel fuel was introduced at GAZPROM petrol stations in Bosnia and Herzegovina. In this manner, the portfolio of branded fuels in the market of Bosnia and Herzegovina was completed at GAZPROM petrol stations. G-Drive Diesel reaches average share of 28% in the sales of diesel fuels.

“On the Road with Us” loyalty program offers a number of special benefits for purchases of fuel, goods and services at all NIS Petrol and GAZPROM petrol stations. This program was being developed from the end of 2015 to March 31st, 2017, over 436 thousand cards were issued and natural persons participating in this program took 46% share in the total generated sales.

AGRO CARD loyalty program was intended for farmers and has been developed from the end of 2013. By 31/03/2017, over 121 thousand cards were realised.

Operating Indicators³⁵

In the first quarter of 2017, sales growth was recorded in the amount of 2% with regard to the first quarter of 2016, thus the total sales amounted to 717 thousand tonnes.

- Retail sale in Serbia – retail sales increase by 3% is the result of the increase in the sale of diesel fuels, as well as motor fuels.
- Wholesale in Serbia – an increase by 2% largely due to the increase in the sale of energy and non-energy fuels.
- Export – a fall amounting to 16% as a consequence of a decrease in the export of motor and non-energy fuels.
- Foreign assets – increase in the sales volume by 25% (retail sales channel by 7% and wholesale channel by 98%).



Chart no. 9: Volume of sales³⁶, thousand tonnes

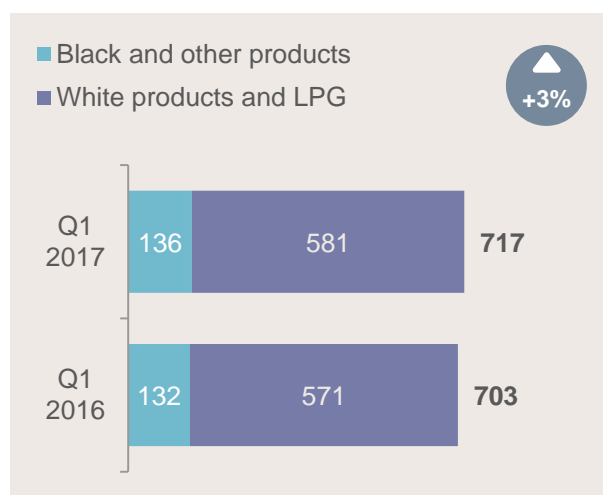


Chart no. 10: Structure of sales³⁷, thousand tonnes

Energy

Indicator	Unit of measure	Q1 2017	Q1 2016	Δ ³⁸
Electricity Generation	MWh	46,076	40,047	+15%
LTIF	%	0	0	/
EBITDA	bn RSD	0.3	0.4	-17%
CAPEX	bn RSD	0.1	0.2	-69%

The first quarter of 2017 was very successful for the “Energy” Block. EBITDA of regular operation in the first quarter amounts to 2.6 million dollars and in comparison with the business plan for the first quarter of

³⁵ Including internal sales within NIS Group i.e. between segments (Q1 2017: 3.5 thousand tonnes; Q1 2016: 3.6 thousand tonnes).

³⁶ Including internal sales within NIS Group i.e. between segments (Q1 2017: 3.5 thousand tonnes; Q1 2016: 3.6 thousand tonnes).

³⁷ Including internal sales within NIS Group i.e. between segments (Q1 2017: 3.5 thousand tonnes; Q1 2016: 3.6 thousand tonnes).

³⁸ 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.

2017, it is higher by 0.8 million dollars. The contract quantity of electricity sale for 2017 amounts to 1.78 TWh. Further activities for business development and operational efficiency continue.

Business Development

In respect of TE-TO Pancevo project, preparation and alignment of EPC contract with the selected contractor and the contract of project funding are ongoing.

For “Plandiste” wind park project, negotiations with a new partner regarding SHA (Shareholders’ Agreement) are in progress.

The model and platform for using shale resources at Aleksinac field are being developed.

The harmonization of project realisation scheme with partner is in progress for Kovin project (TPP, coal mining).

Gas Monetization

Negotiations for implementation of the project for Novo Milosevo small power plant construction by the BOOT (Build, Own, Operate, Transfer) model were initialized. Completion of negotiations, project approval and construction start are expected by the end of 2017.

As far as Velebit 3 small power plant reconstruction is concerned, the project for obtaining a construction permit was completed, technical and financial analysis was performed. Works are expected to be completed by the end of 2017.

In order to increase efficiency and reduce expenses for providing consumers with thermal energy in Novi Sad Oil Refinery, a project passport is being prepared for heat source decentralization. Technical and financial analysis was performed, whereas the start of works is planned to occur in 2017.

Works for CNG Unit construction at Ostrovo gas field were completed, whereas the unit was set to trial operation on March 29th, 2017. For the construction project of CNG supply station at Zarkovo 2 (Belgrade) petrol station, factory equipment testing and Urban Design Project were completed. Works are expected to be completed by the end of 2017. In addition to this location, together with Sales and Distribution Block the location for CNG facility “Block 45” in Belgrade is agreed. Project passport for production capacity and CNG sales increase at Novi Sad 10 fuel supply station is in the preparation stage.

Electricity Trade

In the area of electricity trade, NIS is present in the markets of Serbia, Bosnia and Herzegovina, Romania, Slovenia and Hungary. In addition to these markets, trade was performed on the border with the Former Yugoslav Republic of Macedonia. Since the beginning of 2017, activities in the Serbian retail market have been intensified. So far providing supplies to 8 end users has been arranged, whereas by the end of 2016 there were three of them. We expect this trend to continue in the future. During the first quarter of 2017, NIS j.s.c. Novi Sad began the procedure for registration on the Serbian electricity stock market. In the same period, NIS Petrol s.r.l. Bucharest began the procedure for registration on the Hungarian electricity stock market.

Operating Indicators

In the first quarter of 2017, total production amounting to 46,076 MWh of electricity was achieved.

In order to produce electricity at cogeneration units, 9.5 million m³ of non-commercial gas were used.

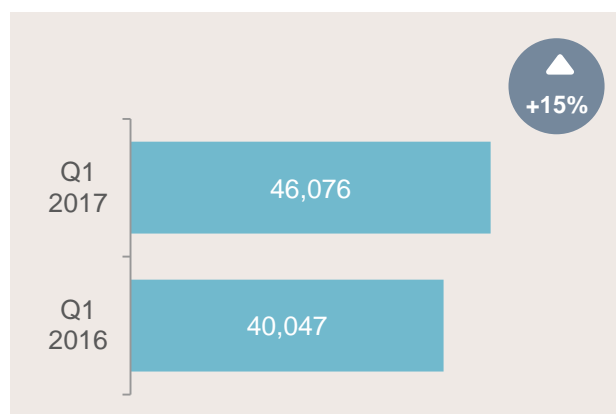


Chart no. 11: Electricity output, MWh³⁹

³⁹ Including Power Plant Pančevo (10.7 MWe).

Financial Indicators

Net profit

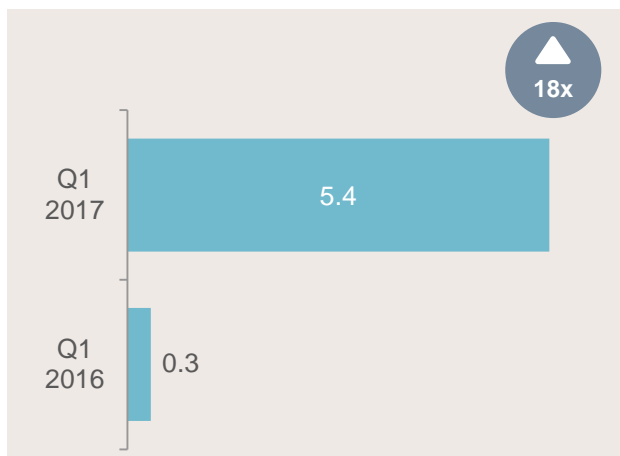


Chart no. 12: Net profit, bn RSD

Net profit for the first quarter of 2017 was many times higher than the net profit generated in the same period last year and amounted to 5.4 billion dinars.

- The growth of prices of crude oil and petroleum products,
- Measures for improving operational efficiency and reduction of costs,
- Growth in the sales volumes,
- Positive net foreign exchange differences.

EBITDA

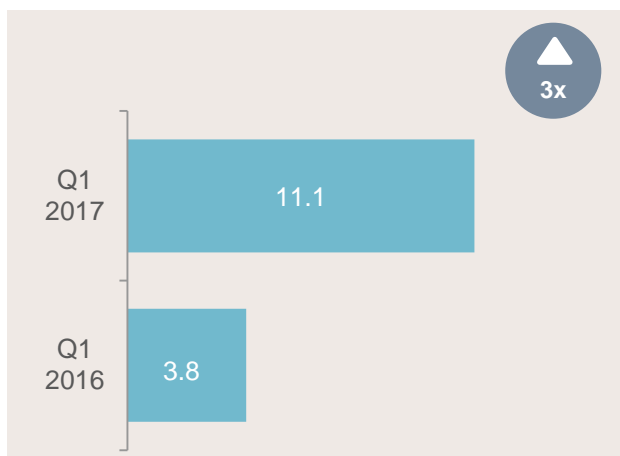


Chart no. 13: EBITDA, bn RSD

EBITDA for the first three months of 2017 was nearly three times higher than in the first three months of 2016 and amounted to 11.1 billion dinars.

- The growth of prices of crude oil and petroleum products,
- Measures for improving operational efficiency and reduction of costs,
- Growth in the sales volumes.

OCF

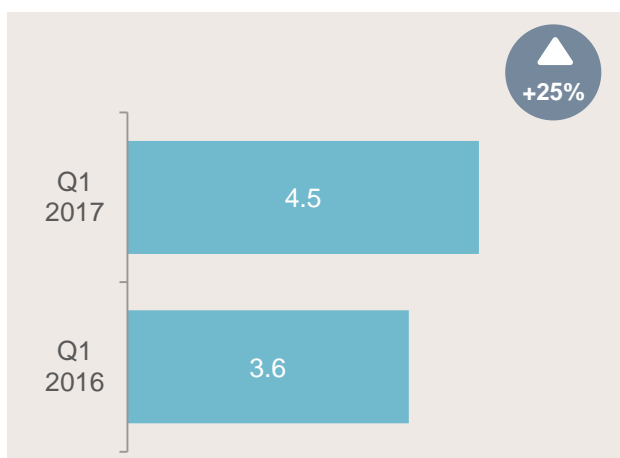


Chart no. 14: OCF, bn RSD

In the first three months of 2017, operating cash flow amounted to 4.5 billion dinars and was greater than the one in the same period of 2016 by 25%.

- Higher inflows resulting from higher prices of petroleum products,
- Growth of EBITDA.

CAPEX

At the 16th meeting of the Board of Directors held on December 16th, 2016, the business plan for 2017 and the medium-term investment program were adopted, presenting an investment plan for CAPEX in the period 2017 - 2019.

In 2017, the main directions of investments are focused on the implementation of projects in oil and gas production, refining, energy projects, projects in sales and distribution, as well as a number of projects in the repair services and professional services.

During the first three months of 2017, 4.66 billion dinars was allocated to finance investments, which is 0.7% more than the amount allocated in 2016.

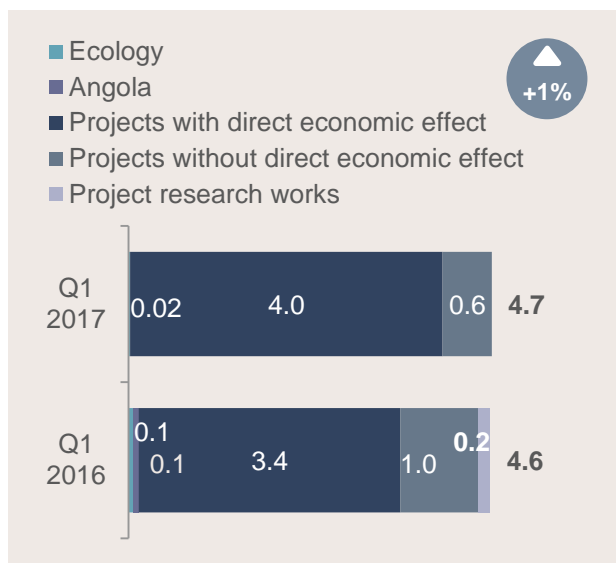


Chart no. 15: CAPEX⁴⁰, bn RSD

The most significant investments in oil and gas production in the first three months of 2017 were: investment in geological-technical measures, drilling of development wells, investment in infrastructure projects, program of 3D seismic explorations and drilling of exploration wells in the Republic of Serbia and investments in concession rights.

Most of the investments in the Refining Block were allocated for the modernization of refinery processing, for the start of the phase of the implementation of the project "Development of Refining Processing (Increasing of Processing Depth)", which is aimed at maximum utilization of the capacity and infrastructure of Pančevo Oil Refinery. Furthermore, there are significant investments in the program to increase production efficiency, the program of the projects for the adjustment of legal norms, as well as investment maintenance program, and investments related to environmental protection.

⁴⁰ Financing, VAT excluded.

Indebtness

In the first quarter of 2017, a slight reduction in debt to banks was achieved, up to the level of USD 659 million, accompanied with maintaining credit portfolio currency structure on the same level, as it was on December 31st, 2016. Additionally, debt to parent company PJSC "Gazprom neft" has been reduced and currently amounts to 291 million EUR.

Negotiations with banks and other financial institutions are continuously performed, as well as finding long-term financial sources and financial sources that are not limited by sanctions, in order to ensure the restructuring of the portfolio in terms of maturity, currency and prices, and all within the allowed limits of the debt and EBITDA ratio.

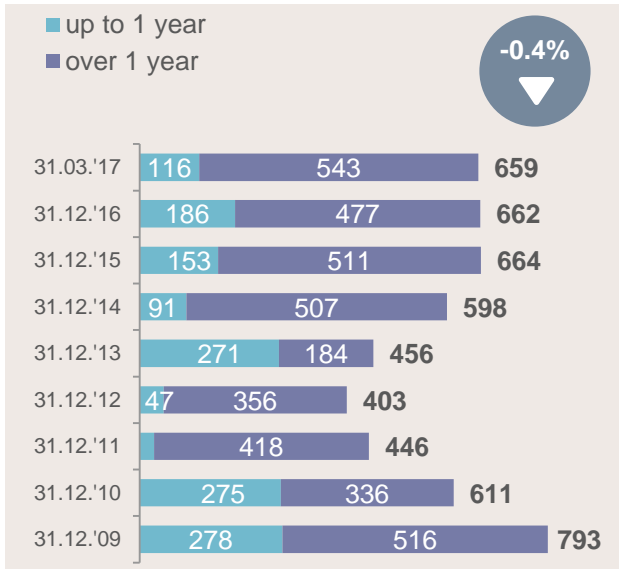


Chart no. 16: Total bank debt trends, mn USD

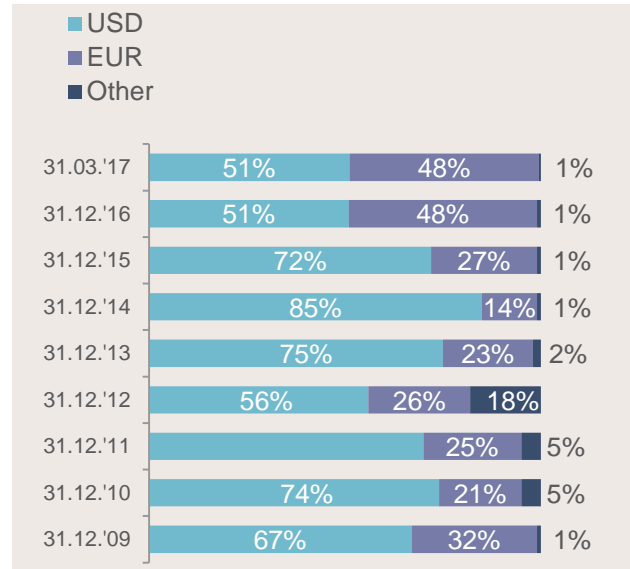


Chart no. 17: Total bank debt structure, by currencies, in %

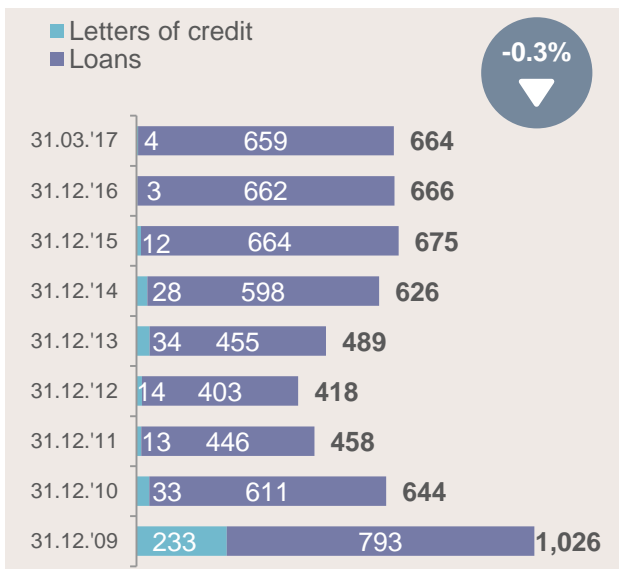


Chart no. 18: Total bank indebtedness⁴¹, mn USD

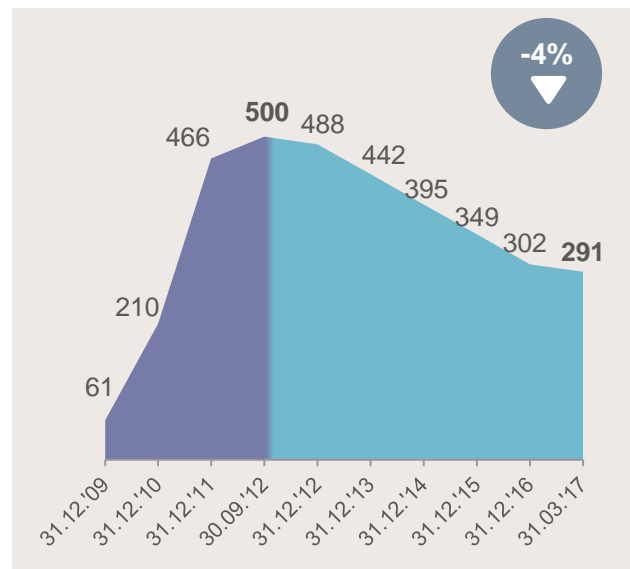


Chart no. 19: GPN Loan, mn EUR

⁴¹ In addition to debt to banks and Letters of Credit, as at March 31st, 2017 NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of USD 23.8 million, corporate guarantees in the amount of USD 62.3 million and signed Letters of Intent in the amount of USD 0.1 million and financial leasing in the amount of USD 3.6 million.

Taxes and other public revenues

Analytical review of accrued liabilities from taxes and other public revenues⁴²

NIS j.s.c. Novi Sad	Q1 2017	Q1 2016	Δ ⁴³
Social insurance contributions paid by employer	0.38	0.37	+3%
Corporate tax	0.79	0.09	+8x
Value-added tax	4.39	4.59	-4%
Excise duties	22.23	22.16	0%
Commodity reserves fee	1.36	1.37	0%
Customs duties	0.20	0.07	+180%
Royalty	0.30	0.21	+43%
Other taxes	0.32	0.31	+6%
Total	29.97	29.17	+3%
NIS subsidiaries in Serbia⁴⁴			
Social insurance contributions paid by employer	0.12	0.12	-2%
Corporate tax	0.04	0.03	+56%
Value-added tax	0.21	0.15	+44%
Excise duties	0.00	0.00	-
Customs duties	0.01	0.02	-40%
Royalty	0.00	0.00	-
Other taxes	0.02	0.02	-12%
Total	0.40	0.33	+20%
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	30.37	29.50	+3%
NIS regional subsidiaries and Angola			
Social insurance contributions paid by employer	0.02	0.02	-4%
Corporate tax	0.001	0.08	-99%
Value-added tax	0.40	0.20	+96%
Excise duties	2.81	2.25	+25%
Customs duties	1.60	0.67	+140%
Royalty	0.00	0.00	-
Other taxes	0.02	0.03	-26%
Total	4.85	3.25	+49%
Deferred taxes (total for Group)	0.35	0.05	+7x
Total NIS Group⁴⁵	35.57	32.79	+8%

⁴² In billions of RSD.

⁴³ 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.

⁴⁴ Subsidiaries include: NTC NIS – Naftagas d.o.o., Naftagas – Transport d.o.o., Naftagas – Tehnički servisi d.o.o. and Naftagas – Naftni servisi d.o.o., and exclude O Zone a.d and NIS – Svetlost d.o.o.

⁴⁵ Including taxes and other liabilities from public revenues for regional subsidiaries, profit tax in Angola and deferred tax assets.

Ratio Indicators

	Q1 2017	Q1 2016
Return on total capital (Gross profit/total capital)	3%	0%
Net return on equity (Net profit/shareholders equity)	7%	0%
Operating net profit (operating profit/net sales income ⁴⁶)	15%	-1%
	Q1 2017	FY 2016
Degree of leverage (short term and long term liabilities/equity)	80%	86%
Degree of leverage (short term and long term liabilities/ shareholders equity)	203%	212%
1st degree liquidity (cash and cash equivalents/short term liabilities)	32%	33%
2nd degree liquidity ((current assets – inventories)/short term liabilities)	98%	98%
Net working fund ratio ((current assets – current liabilities)/total assets)	8%	7%

Operational Efficiency Improvement

The estimated effect of measures to increase the operational efficiency on EBITDA ratio in 2017 is 5.3 billion RSD. In addition, the expected effect from the prevented damage is 0,5 billion RSD.

The effect of measures for operational efficiency improvement amounted to 1.1. billion RSD in first quarter of 2017.

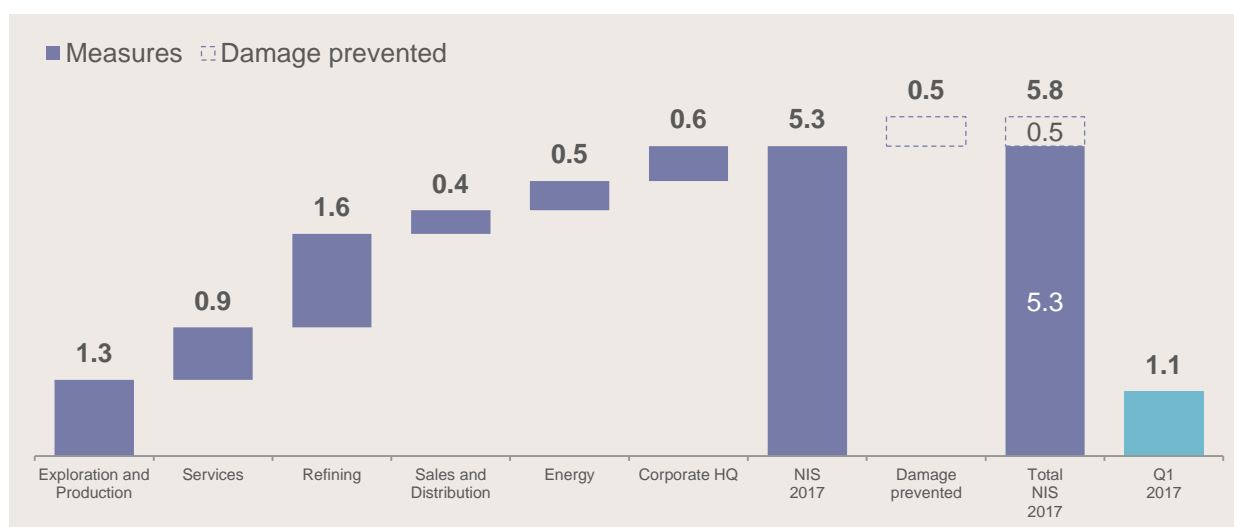


Chart no. 20: Effect of operational efficiency improvement measures on the EBITDA indicator

⁴⁶ Net sales income = Income from sales of goods and services – Costs of goods sold.

Securities

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

Shareholder	Number of shares	% of share capital
PJSC „Gazprom Neft“	91,565,887	56.15%
Republic of Serbia	48,712,089	29.87%
Societe Generale banka Srbija a.d. – custody account	1,153,462	0.71%
Unicredit Bank Serbia a.d. – custody account	556,040	0.34%
Aktiv-fond d.o.o	236,330	0.14%
AWLL Communications d.o.o. Belgrade	227,352	0.14%
Unicredit Bank Serbia a.d. – collective account	220,138	0.14%
Global Macro Capital Opportunities	216,465	0.13%
Raiffeisen bank a.d. Belgrade – custody account	212,127	0.13%
Keramika Jovanović d.o.o. Zrenjanin	203,824	0.12%
Other shareholders	19,756,686	12.12%
Total number of shareholders as at March 31st, 2017:		2,130,713

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. 21: Price and turnover trends in first quarter of 2017

Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in first quarter of 2017

Last price (March 31 st , 2017)	747 RSD
Highest price (March 3 rd , 2017)	775 RSD
Lowest price (March 30 th , 2017)	717 RSD
Total turnover	181,139,029 RSD
Total volume (number of shares)	241,073 shares
Total number of transactions	6,331 transactions
Market capitalization as at March 31 st , 2017	121,806,118.800 RSD
EPS	35.40 RSD
Consolidated EPS	32.96 RSD
P/E ratio	21.1
Consolidated P/E ratio	22.7
Book value as at March 31 st , 2017	1,355.01 RSD
Consolidated book value as at March 31 st , 2017	1,268.63 RSD
P/BV ratio	0.6
Consolidated P/BV ratio	0.6

In first quarter of 2017, there were no acquisitions of treasury shares by the Company.

Dividends

	2009	2010	2011	2012	2013	2014	2015
Net profit (loss), bn RSD⁴⁷	(4.4)	16.5 ⁴⁸	40.6 ⁴⁹	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 %⁵⁰	-	-	-	10.3	8.7	6.0	4.1

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.

⁴⁷ Net profit of NIS j.s.c. Novi Sad.

⁴⁸ Net profit used for covering accumulated losses.

⁴⁹ Net profit used for covering accumulated losses.

⁵⁰ Calculated as the ratio of gross dividend and year-end share price.

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.

Number of Employees and Employee Structure

Organizational Unit	March 31 st , 2017			March 31 st , 2016		
	Employees	Leasing	Total	Employees	Leasing	Total
NIS j.s.c. Novi Sad	3,976	3,542	7,518	3,947	3,433	7,380
Exploration and Production	782	214	996	788	214	1,002
Services	85	24	109	94	20	114
Refining	789	29	818	796	40	836
Sales and Distribution	964	2,790	3,754	940	2,689	3,629
Energy	247	20	267	234	18	252
The Corporate Headquarters	1,044	465	1,509	1,032	448	1,480
Representative Offices and Branches	65	0	65	63	4	67
Subsidiaries in the country	1,403	1,511	2,914	1,399	1,374	2,773
Naftagas – Naftni servisi	612	740	1,352	602	627	1,229
Naftagas – Tehnički servisi	393	477	870	400	465	865
Naftagas – Transport	95	269	364	103	256	359
NTC NIS Naftagas	303	25	328	294	26	320
Subsidiaries abroad	85	1	86	94	1	95
NIS Petrol, Bulgaria	41	0	41	41	0	41
NIS Petrol, Romania	23	0	23	29	0	29
NIS Petrol, B&H	16	0	16	16	0	16
Jadran Naftagas, B&H	5	0	5	6	0	6
Panon Naftagas, Hungary	0	1	1	2	1	3
Other subsidiaries	538	101	639	343	103	446
O Zone a.d. Beograd	7	101	108	6	100	106
NIS Overseas o.o.o. Saint Petersburg	116	0	116	122	0	122
NIS Svetlost d.o.o. Bujanovac	0	0	0	15	0	15
G Petrol d.o.o. Sarajevo	415	0	415	200	3	203
TOTAL:	6,002	5,155	11,157	5,783	4,911	10,694

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.

Financial Statements

Stand-alone Financial Statements

Statement on Financial Position

	Notes	March 31 st , 2017 (unaudited)	December 31 st , 2016
ASSETS			
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

In thousand RSD

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

Statement of Profit And Loss and Other Comprehensive Income

	Notes	Three months period ended March 31 st ,	
		2017 (unaudited)	2016 (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

In thousand RSD

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

Statement of Changes in Equity

Three months period ended March 31st, 2017 and 2016
(unaudited)

	Share capital	Reserves	Retained earnings	Total
Balance as at January 1st, 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 March 31st, 2016	81,530,200	(83,058)	122,156,149	203,603,291
Balance as at January 1st, 2017	81,530,200	14,088	133,630,354	215,174,642
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 March 31st, 2017	81,530,200	15,618	139,402,656	220,948,474

In thousand RSD

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

Statement of Cash Flows

	Three months period ended March 31 st ,		
	Note	2017 (unaudited)	2016 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before income tax		6,902,849	808,781
<i>Adjustments for:</i>			
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
<i>Changes in working capital:</i>			
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
Net cash used in investing activities		(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)
Net cash used in financing activities		(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

In thousand RSD

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

1. GENERAL INFORMATION

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

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

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

The Company was established in accordance with the Decision of Government of Republic of Serbia on July 7th, 2005. On February 2nd, 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 December 31st, 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 March 31st, 2017 were evaluated through April 28th, 2017, the date these Interim Condensed Financial Statements were authorised for issue.

The results for the three month period ended March 31st, 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.

⁵¹ 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 December 31st, 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 January 1st, 2017, but did not have any material impact on the Company:

- Disclosure Initiative Amendments to IAS 1 (issued on January 29th, 2016 and effective for annual periods beginning on or after January 1st, 2017).
- Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12 (issued on January 19th, 2016 and effective for annual periods beginning on or after January 1st, 2017).

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after January 1st, 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 December 31st, 2016. No new documents were issued during the three months period ended March 31st, 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 March 31st, 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 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 three month period ended March 31st, 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
<i>Intersegment</i>	10,311,920	584,560	(10,896,480)	-
<i>External</i>	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 March 31st, 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
<i>Intersegment</i>	7,075,717	616,223	(7,691,940)	-
<i>External</i>	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 March 31st, 2017 and 2016 is reconciled below:

	Three months period ended March 31 st ,	
	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.

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

	Three months period ended March 31 st , 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 months period ended March 31 st , 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).

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

	Three months period ended March 31 st ,	
	2017	2016
Sale of crude oil	39,207	522.557
Sale of petroleum products (retail and wholesale)		
<i>Bulgaria</i>	1,441,553	1.016.184
<i>Bosnia and Herzegovina</i>	1,387,099	1.001.973
<i>Romania</i>	455,763	441.408
<i>All other markets</i>	3,350,208	1.919.555
	6,634,623	4.497.718
Sale of electricity	1,404,866	1,039,523
Other sales	48,828	34,259
	8,127,524	6.094.057

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

6. CASH AND CASH EQUIVALENTS

	March 31 st , 2017	December 31 st , 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
	17,226,206	20,053,651

7. SHORT-TERM FINANCIAL ASSETS

	March 31 st , 2017	December 31 st , 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>	(231,390)	(229,288)
	6,301,608	4,536,841

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.

8. TRADE AND OTHER RECEIVABLES

	March 31 st , 2017	December 31 st , 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
Less impairment provision for trade and other receivables:		
- third parties	(9,828,457)	(9,841,314)
- state and state owned companies	(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:

	March 31 st , 2017	December 31 st , 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 aging table above are fully recoverable.

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

	March 31 st , 2017	December 31 st , 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

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

	Trade&other receivables		Total
	Third parties	State and state owned companies	
As at January 1st, 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 March 31st, 2016	10,043,917	15,853,306	25,897,223
As at January 1st, 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 March 31st, 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

	March 31 st , 2017	December 31 st , 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

	March 31 st , 2017	December 31 st , 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 March 31st, 2017 amounting to 1,047,457 RSD (December 31st, 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.

Prepaid excise as at March 31st, 2017 amounting to 1,460,960 RSD (December 31st, 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 January 1st, 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 March 31st, 2016	265,369	13,988,618	14,253,987
As at January 1st, 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 March 31st, 2017	263,271	11,697,183	11,960,454

11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at January 1st, 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 March 31st, 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 March 31st, 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 January 1st, 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 March 31st, 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 March 31st, 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

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 January 1st, 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 March 31st, 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 March 31st, 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)
As at January 1st, 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 March 31st, 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 March 31st, 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

12. OTHER NON-CURRENT ASSETS

	March 31 st , 2017	December 31 st , 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

	March 31 st , 2017	December 31 st , 2016
Short-term loans	11,144,407	13,299,544
Interest liabilities	159,388	173,834
Current portion of long-term loans (note 16)	9,078,338	9,516,423
Current portion of finance lease liabilities (note 16)	47,453	25,114
	20,429,586	23,014,915

14. TRADE AND OTHER PAYABLES

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

15. OTHER CURRENT LIABILITIES

	March 31 st , 2017	December 31 st , 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

	March 31 st , 2017	December 31 st , 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

17. LONG-TERM DEBT

	March 31 st , 2017	December 31 st , 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 March 31st, 2017 long-term loan - Gazprom Neft amounting to 36,037,181 RSD (December 31st, 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 December 24th, 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until May 15th, 2023.

(b) Bank loans

	March 31 st , 2017	December 31 st , 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:

	March 31 st , 2017	December 31 st , 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

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

	March 31 st , 2017	December 31 st , 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 March 31st, 2017 and December 31st, 2016, respectively.

18. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Three months period ended March 31 st ,	
	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 months period ended March 31 st ,	
	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 months period ended March 31 st ,	
	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

21. NET FOREIGN EXCHANGE GAIN

	Three months period ended March 31 st ,	
	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 months period ended March 31 st ,	
	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 months period ended March 31 st ,	
	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 December 31st, 2016. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of March 31st, 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 (December 31st, 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 March 31st, 2017.

Other contingent liabilities

As at March 31st, 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 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. Taking all of the above into consideration, the Company's Management is of the view that as at March 31st, 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 March 31st, 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 March 31st, 2017 and December 31st, 2016 the outstanding balances with related parties were as follows:

	Subsidiaries	Parent	Parent's subsidiaries and associates
As at March 31st, 2017			
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)
As at December 31st, 2016			
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 March 31st, 2017 and 2016 the following transaction occurred with related parties:

	Subsidiaries	Parent	Parent's subsidiaries and associates
Three months period ended March 31st, 2017			
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 months period ended March 31st, 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.

Consolidated Financial Statements

Consolidated Statement on Financial Position

	Notes	March 31 st , 2017 (unaudited)	December 31 st , 2016
ASSETS			
Current assets			
Cash and cash equivalents	6	19,878,635	22,899,342
Short-term financial assets		245,975	247,882
Trade and other receivables	7	33,511,621	37,445,000
Inventories	8	30,574,600	26,836,064
Current income tax prepayments		-	126,103
Other current assets	9	6,488,178	5,946,829
Total current assets		90,699,009	93,501,220
Non-current assets			
Property, plant and equipment	10	255,364,453	253,760,267
Investment property		1,556,509	1,549,663
Goodwill and other intangible assets		6,239,856	6,457,971
Investments in joint venture		2,047,021	2,047,021
Trade and other non-current receivables		9,524,892	9,369,158
Long-term financial assets		158,941	163,565
Deferred tax assets		3,422,838	3,771,354
Other non-current assets	11	3,616,025	3,680,642
Total non-current assets		281,930,535	280,799,641
Total assets		372,629,544	374,300,861
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	12	19,553,286	21,976,571
Trade and other payables	13	24,350,807	29,579,165
Other current liabilities	14	5,724,654	5,234,250
Current income tax payable		685,267	-
Other taxes payable	15	9,526,642	10,136,560
Provisions for liabilities and charges		1,949,686	1,979,312
Total current liabilities		61,790,342	68,905,858
Non-current liabilities			
Long-term debt	16	94,480,667	94,294,661
Long-term trade and other payable		1,866	1,859
Provisions for liabilities and charges		9,492,942	9,617,973
Total non-current liabilities		103,975,475	103,914,493
Equity			
Share capital		81,530,200	81,530,200
Reserves		(557,456)	(567,083)
Retained earnings		126,110,898	120,731,166
Equity attributable to the Company's owners		207,083,642	201,694,283
Non-controlling interest		(219,915)	(213,773)
Total equity		206,863,727	201,480,510
Total liabilities and shareholder's equity		372,629,544	374,300,861

In thousand RSD

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

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Notes	Three months period ended March 31 st ,	
		2017	2016
		(unaudited)	(unaudited)
Sales of petroleum products and oil and gas sales		46,486,915	31,945,481
Other revenues		3,778,850	3,405,867
Total revenue from sales	5	50,265,765	35,351,348
Purchases of oil, gas and petroleum products	17	(26,365,923)	(19,283,812)
Production and manufacturing expenses	18	(6,044,080)	(5,731,230)
Selling, general and administrative expenses	19	(5,143,811)	(5,344,361)
Transportation expenses		(223,713)	(224,605)
Depreciation, depletion and amortization		(4,138,179)	(3,916,120)
Taxes other than income tax		(1,183,568)	(1,077,767)
Exploration expenses		(7,452)	-
Total operating expenses		(43,106,726)	(35,577,895)
Other (expenses) income, net		(152,328)	256,751
Operating profit		7,006,711	30,204
Net foreign exchange gain	20	207,856	1,288,276
Finance income	21	92,382	44,374
Finance expenses	22	(755,944)	(855,416)
Total other expense		(455,706)	477,234
Profit before income tax		6,551,005	507,438
Current income tax expense		(828,249)	(197,385)
Deferred tax expense		(348,315)	(48,594)
Total income tax expense		(1,176,564)	(245,979)
Profit/(Loss) for the period		5,374,441	261,459
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	-
		1,399	-
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets			
		131	(3,493)
Currency translation differences			
		7,246	(147,998)
		7,377	(151,491)
Other comprehensive loss for the period		8,776	(151,491)
Total comprehensive profit (loss) for the period		5,383,217	109,968
Profit attributable to:			
- Shareholders of Naftna Industrija Srbije			
		5,379,732	268,073
- Non-controlling interest			
		(5,291)	(6,614)
Profit for the period		5,374,441	261,459
Total comprehensive income (loss) attributable to:			
- Shareholders of Naftna Industrija Srbije			
		5,389,359	118,709
- Non-controlling interest			
		(6,142)	(8,741)
Total comprehensive income for the period		5,383,217	109,968
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)			
		32.99	1.64
Weighted average number of ordinary shares in issue (in millions)			
		163	163

In thousand RSD

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

Consolidated Statement of Changes in Equity

Three months period ended March 31st, 2017 and 2016
(unaudited)

	Equity attributable to the Company owners				Non-controlling interest	
	Share capital	Reserves	Retained earnings	Total		Total
Balance as at January 1st, 2016	81,530,200	(530,528)	109,698,142	190,697,814	(186,134)	190,511,680
Profit/(loss) for the period	-	-	268,073	268,073	(6,614)	261,459
Other comprehensive income/(loss)						
Change in value of available-for-sale financial assets	-	(3,493)	-	(3,493)	-	(3,493)
Currency translation differences	-	(145,871)	-	(145,871)	(2,127)	(147,998)
Total comprehensive income (loss) for the period	-	(149,364)	268,073	118,709	(8,741)	109,968
Balance as at March 31st, 2016	81,530,200	(679,892)	109,966,215	190,816,523	(194,875)	190,621,648
Balance as at January 1st, 2017	81,530,200	(567,083)	120,731,166	201,694,283	(213,773)	201,480,510
Profit/(loss) for the period	-	-	5,379,732	5,379,732	(5,291)	5,374,441
Other comprehensive income/(loss)						
Change in value of available-for-sale financial assets	-	131	-	131	-	131
Revaluation of intangible assets, property, plant and equipment transferred to investment property	-	1,399	-	1,399	-	1,399
Currency translation differences	-	8,097	-	8,097	(851)	7,246
Total comprehensive income (loss) for the period	-	9,627	5,379,732	5,389,359	(6,142)	5,383,217
Balance as at March 31st, 2017	81,530,200	(557,456)	126,110,898	207,083,642	(219,915)	206,863,727

In thousand RSD

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

Consolidated Statement of Cash Flows

	Three months period ended March 31 st ,		
	Note	2017 (unaudited)	2016 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		6,551,005	507,438
<i>Adjustments for:</i>			
Finance costs	22	755,944	855,416
Finance income	21	(92,382)	(44,374)
Depreciation, depletion and amortization		4,138,179	3,916,120
Adjustments for other provisions		(154,931)	90,834
Allowance for doubtful accounts		9,207	(19,725)
Payables write off		(5,382)	(35,870)
Net unrealised foreign exchange losses (gain)		195,651	(413,517)
Other non-cash items		85,538	(171,369)
		4,931,824	4,177,515
<i>Changes in working capital:</i>			
Trade and other receivables		3,804,956	3,871,616
Inventories		(3,779,857)	1,373,256
Other current assets		(669,101)	320,008
Trade payables and other current liabilities		(5,065,385)	(5,721,306)
Other taxes payable		(610,399)	(222,326)
		(6,319,786)	(378,752)
Income taxes paid		(10,909)	(78,606)
Interest paid		(781,802)	(755,394)
Interest received		90,323	90,163
		(702,388)	(743,837)
Net cash generated by operating activities		4,460,655	3,562,364
CASH FLOWS FROM INVESTING ACTIVITIES			
Loan proceeds received		4,952	9,818
Capital expenditures		(5,225,524)	(5,328,559)
Proceeds from sale of property, plant and equipment		26,850	86,164
Other (outflow) inflow		(12,424)	93
Net cash used in investing activities		(5,206,146)	(5,232,484)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	16	2,103,896	2,017,186
Repayment of borrowings	16	(4,374,560)	(8,876,923)
Net cash used in financing activities		(2,270,664)	(6,859,737)
Net decrease in cash and cash equivalents		(3,016,155)	(8,529,857)
Effect of foreign exchange on cash and cash equivalents		(4,552)	(1,312)
Cash and cash equivalents as of the beginning of the period		22,899,342	19,271,435
Cash and cash equivalents as of the end of the period		19,878,635	10,740,266

1. GENERAL INFORMATION

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

- Exploration, production and development of crude oil and gas,
- Production of refined petroleum products,
- Petroleum products and gas trading, 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 July 7th, 2005. On February 2nd, 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 Group.

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

These Interim Condensed 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

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

The Interim Condensed Consolidated 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 Group does not disclose information which would substantially duplicate the disclosures contained in its audited Consolidated 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 Group believes that the disclosures in these Interim Condensed Consolidated Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Consolidated Financial Statements are read in conjunction with the Group’s Consolidated Financial Statements for 2016.

At the date of signing consolidated financial statements, crude oil price decrease since December 31st, 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 March 31st, 2017 were evaluated through April 28th, 2017, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

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

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

⁵² 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 Consolidated Financial Statements are consistent with those applied during the preparation of Consolidated Financial Statements as of and for the year ended December 31st, 2016, except for those described in Application of new IFRS paragraph.

3. APPLICATION OF NEW IFRS

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

- Amendments to IFRS 7 Financial instruments: Disclosure (issued on January 29th, 2016 and effective for annual periods on or after January 1st, 2017).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on January 19th, 2016 and effective for annual periods beginning on or after January 1st, 2017).

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after January 1st, 2017 or later, and that the Group has not early adopted. The full list of such Standards and interpretations was disclosed in the Consolidated Financial Statements as of and for the year ended December 31st, 2016. No new documents were issued during the three months period ended March 31st, 2017.

The new standards and interpretations are not expected to have significant impact the Group's Interim Condensed Consolidated Financial Statements.

5. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the three month periods ended March 31st, 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 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 three month period ended March 31st, 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	10,566,147	51,010,101	(11,310,483)	50,265,765
<i>Intersegment</i>	10,491,029	819,454	(11,310,483)	-
<i>External</i>	75,118	50,190,647	-	50,265,765
EBITDA (Segment results)	7,856,081	3,273,317	-	11,129,398
Depreciation, depletion and amortization	(1,754,080)	(2,384,099)	-	(4,138,179)
Net foreign exchange gain	14,071	193,785	-	207,856
Finance expenses, net	(56,179)	(607,383)	-	(663,562)
Income tax	(44,866)	(1,131,698)	-	(1,176,564)
Segment profit (loss)	6,016,298	(641,857)	-	5,374,441

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	7,671,905	35,371,383	(7,691,940)	35,351,348
<i>Intersegment</i>	7,075,716	616,224	(7,691,940)	-
<i>External</i>	596,189	34,755,159	-	35,351,348
EBITDA (Segment results)	4,522,496	(756,483)	-	3,766,013
Depreciation, depletion and amortization	(1,544,069)	(2,372,051)	-	(3,916,120)
Net foreign exchange gain	44,566	1,243,710	-	1,288,276
Finance expenses, net	(29,439)	(781,603)	-	(811,042)
Income tax	(240,489)	(5,490)	-	(245,979)
Segment profit (loss)	2,825,466	(2,564,007)	-	261,459

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

	Three months period ended March 31 st ,	
	2017	2016
Profit for the period	5,374,441	261,459
Income tax expenses	1,176,564	245,979
Finance expenses	755,944	855,416
Finance income	(92,382)	(44,374)
Depreciation, depletion and amortization	4,138,179	3,916,120
Net foreign exchange gain	(207,856)	(1,288,276)
Other expense (income), net	152,328	(256,751)
Other non-operating (income) expense, net*	(167,820)	76,440
EBITDA	11,129,398	3,766,013

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

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

	Three months period ended March 31 st , 2017		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	39,207	39,207
Sale of gas	611,672	-	611,672
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	611,672	-	611,672
Sale of petroleum products	35,761,919	10,074,117	45,836,036
<i>Through a retail network</i>	12,056,311	3,910,095	15,966,406
<i>Wholesale activities</i>	23,705,608	6,164,022	29,869,630
Sale of electricity	179,443	1,445,144	1,624,587
Other sales	1,432,927	721,336	2,154,263
Total sales	37,985,961	12,279,804	50,265,765

	Three months period ended March 31 st , 2016		
	Domestic market	Export and international sales	Total
Sale of crude oil	438	522,557	522,995
Sale of gas	927,012	-	927,012
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	927,012	-	927,012
Sale of petroleum products	23,900,363	6,595,111	30,495,474
<i>Through a retail network</i>	8,516,704	-	8,516,704
<i>Wholesale activities</i>	15,383,659	6,595,111	21,978,770
Sale of electricity	249,614	1,039,523	1,289,137
Other sales	1,433,284	683,446	2,116,730
Total sales	26,510,711	8,840,637	35,351,348

In 2016 Export and international sales through own retail network within foreign subsidiaries were presented within wholesale activities in amount of 2,538,602 RSD. Starting from 2017 these sales activities are separated.

Out of the amount of 29,869,630RSD (2016: 21,978,770 RSD) revenue from sale of petroleum products (wholesale), the amount of 5,313,361RSD (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 1,665,337 RSD (2016: 1,501,335 RSD).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 37,985,961 RSD (2016: 26,510,711 RSD), and the total of revenue from external customer from other countries is 12,279,804 RSD (2016: 8,840,637 RSD).

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

	Three months period ended March 31 st ,	
	2017	2016
Sale of crude oil	39,207	522,557
Sale of petroleum products (retail and wholesale)		
<i>Bulgaria</i>	2,999,769	1,915,517
<i>Bosnia and Herzegovina</i>	2,439,619	1,342,480
<i>Romania</i>	1,728,403	1,436,844
<i>All other markets</i>	2,906,326	1,900,270
	10,074,117	6,595,111
Sale of electricity	1,445,144	1,039,523
Other sales	721,336	683,446
	12,279,804	8,840,637

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

Non-current assets, other than financial instruments and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts), by country:

	March 31 st , 2017	December 31 st , 2016
Serbia	240,157,858	238,780,068
Bulgaria	7,918,867	7,966,581
Bosnia and Herzegovina	7,999,114	8,052,241
Romania	7,084,911	6,968,931
Hungary	68	80
	263,160,818	261,767,901

6. CASH AND CASH EQUIVALENTS

	March 31 st , 2017	December 31 st , 2016
Cash in bank and in hand	11,134,120	14,110,111
Cash held on escrow account	7,140,976	7,188,962
Deposits with original maturity of less than three months	1,602,778	1,599,285
Cash equivalents	761	984
	19,878,635	22,899,342

Cash held on escrow accounts as of March 31st, 2017 amounting to 1,602,778 RSD (December 31st, 2016: 1,599,285 RSD) 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.

7. TRADE AND OTHER RECEIVABLES

	March 31 st , 2017	December 31 st , 2016
Trade receivables:		
- related parties	455,244	1,047,541
- third parties	26,911,641	31,723,648
- state and state owned companies	17,146,924	15,815,559
	44,513,809	48,586,748
Other receivables:		
- third parties	246,657	234,228
- state and state owned companies	9,713,392	9,865,845
	9,960,049	10,100,073
Accrued assets	373,516	50,243
	54,847,374	58,737,064
Less impairment provision for trade and other receivables:		
- third parties	(9,736,903)	(9,728,531)
- state and state owned companies	(11,598,850)	(11,563,533)
	(21,335,753)	(21,292,064)
Total trade and other receivables	33,511,621	37,445,000

The ageing of trade and other receivables is as follows:

	March 31 st , 2017	December 31 st , 2016
Neither impaired nor past due	30,623,410	33,563,122
Past due but not impaired:		
within 30 days	1,598,458	1,725,053
1 to 3 months	434,466	1,283,108
3 months to 1 year	287,925	277,304
over 1 year	567,362	596,413
Total	33,511,621	37,445,000

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

	March 31 st , 2017	December 31 st , 2016
RSD	20,497,006	24,499,017
EUR	10,838,204	11,090,173
USD	591,034	691,575
Other	1,585,377	1,164,235
	33,511,621	37,445,000

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

	Trade&other receivables		Total
	Third parties	State and state owned companies	
As at January 1st, 2016	9,862,727	15,777,436	25,640,163
Provision for receivables impairment	17,023	15,740	32,763
Release of provisions	(28,665)	(925)	(29,590)
Other	49,578	61,055	110,633
As at March 31st, 2016	9,900,663	15,853,306	25,753,969
As at January 1st, 2017	9,728,531	11,563,533	21,292,064
Provision for receivables impairment	64,311	11,672	75,983
Release of provisions	(75,405)	(15,188)	(90,593)
Receivables written off during the year as uncollectible	(922)	-	(922)
Exchange differences	15	38,833	38,848
Other	20,373	-	20,373
As at March 31st, 2017	9,736,903	11,598,850	21,335,753

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Consolidated 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.

8. INVENTORIES

	March 31 st , 2017	December 31 st , 2016
Crude oil	17,984,962	15,067,495
Petroleum products	10,436,502	9,638,529
Materials and supplies	6,512,336	6,446,355
Other	915,028	1,009,762
Less impairment provision	(5,274,228)	(5,326,077)
	30,574,600	26,836,064

9. OTHER CURRENT ASSETS

	March 31 st , 2017	December 31 st , 2016
Advances paid	459,307	437,325
VAT receivables	341,837	274,292
Deferred VAT	1,320,067	1,251,278
Prepaid expenses	388,101	115,146
Prepaid custom duties	30,772	31,117
Prepaid excise	1,529,535	1,538,828
Other current assets	14,400,727	14,297,606
Less impairment provision	(11,982,168)	(11,998,763)
	6,488,178	5,946,829

Deferred VAT as at March 31st, 2017 amounting to 1,320,067 RSD (December 31st, 2016: 1,251,278 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.

Prepaid excise as at March 31st, 2017 amounting to 1,529,535 RSD (December 31st, 2016: 1,528,828 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 Group's provision for impairment of other current assets are as follows:

	Advances paid	Other current assets	Total
As at January 1st, 2016	270,297	13,772,414	14,042,711
Increase of provision during the year	-	228,355	228,355
Release of provision	(2,751)	(2,830)	(5,581)
Other	-	(692)	(692)
As at March 31st, 2016	267,546	13,997,247	14,264,793
As at January 1st, 2017	261,983	11,736,780	11,998,763
Increase of provision during the year	5,659	4,666	10,325
Release of provision	(329)	(2,285)	(2,614)
Receivables written off during the year as uncollectible	-	(25,677)	(25,677)
Write off	-	1,371	1,371
As at March 31st, 2017	267,313	11,714,855	11,982,168

The ageing of other current assets is as follows:

	March 31 st , 2017	December 31 st , 2016
Neither impaired nor past due	6,371,862	5,834,710
Not impaired and past due in following periods:		
Less than 1 month	20,051	23,019
1 – 3 months	26,336	26,895
3 months – 1 year	36,791	21,598
Over one year	33,138	40,607
Total	6,488,178	5,946,829

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at January 1st, 2016						
Cost	108,928,420	120,288,250	51,644,542	20,010,602	38,640,748	339,512,562
Depreciation and impairment	(25,345,752)	(38,800,866)	(16,727,934)	(9,024,312)	(2,400,275)	(92,299,139)
Net book value	83,582,668	81,487,384	34,916,608	10,986,290	36,240,473	247,213,423
Period ended March 31st, 2016						
Additions	171,847	-	-	-	4,617,836	4,789,683
Transfer from assets under construction	3,608,836	99,745	1,164,317	72,477	(4,945,375)	-
Impairment	-	-	-	-	(16,150)	(16,150)
Depreciation	(1,443,211)	(1,407,592)	(554,369)	(200,982)	(1,263)	(3,607,417)
Transfer to intangible assets	-	-	1,957	-	(121,680)	(119,723)
Transfer to investment property	-	-	(3,866)	(1,688)	-	(5,554)
Disposals and write-off	(3,293)	(9,113)	(10,365)	(7,739)	(18,855)	(49,365)
Other transfers	(10,958)	96,995	(111,507)	25,470	568	568
Translation differences	16	1	212,794	(1)	83,248	296,058
	85,905,905	80,267,420	35,615,569	10,873,827	35,838,802	248,501,523
As at March 31st, 2016						
Cost	112,678,578	120,524,893	52,692,325	20,132,126	38,253,241	344,281,163
Depreciation and impairment	(26,772,673)	(40,257,473)	(17,076,756)	(9,258,299)	(2,414,439)	(95,779,640)
Net book value	85,905,905	80,267,420	35,615,569	10,873,827	35,838,802	248,501,523
As at January 1st, 2017						
Cost	127,806,623	110,525,127	65,310,661	20,170,463	34,864,554	358,677,428
Depreciation and impairment	(30,936,760)	(35,174,792)	(27,816,298)	(9,600,428)	(1,388,883)	(104,917,161)
Net book value	96,869,863	75,350,335	37,494,363	10,570,035	33,475,671	253,760,267
Period ended March 31st, 2017						
Additions	-	-	411	626	5,467,105	5,468,142
Changes in decommissioning obligations	40,043	-	-	-	-	40,043
Transfer from assets under construction	3,037,804	1,168,149	905,520	110,149	(5,221,622)	-
Transfer (to) from intangible assets	645	8	(19,345)	18,692	-	-
Transfer to investment property	-	-	-	(2,314)	-	(2,314)
Impairment	-	-	-	-	(10)	(10)
Depreciation	(1,645,244)	(1,418,914)	(586,085)	(194,882)	(1,268)	(3,846,393)
Disposals and write-off	(1,989)	(3,336)	(59,075)	(549)	(38,767)	(103,716)
Other transfers	(17,720)	-	(566)	-	(1,041)	(19,327)
Translation differences	3	-	54,564	2,317	10,877	67,761
	98,283,405	75,096,242	37,789,787	10,504,074	33,690,945	255,364,453
As at March 31st, 2017						
Cost	130,820,284	111,683,379	66,109,930	20,292,540	35,822,546	364,728,679
Depreciation and impairment	(32,536,879)	(36,587,137)	(28,320,143)	(9,788,466)	(2,131,601)	(109,364,226)
Net book value	98,283,405	75,096,242	37,789,787	10,504,074	33,690,945	255,364,453

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 January 1st, 2016						
Cost	19,971,794	7,942,643	27,914,437	108,928,420	33,408	136,876,265
Depreciation and impairment	(21,185)	(248,771)	(269,956)	(25,345,752)	(22,292)	(25,638,000)
Net book amount	19,950,609	7,693,872	27,644,481	83,582,668	11,116	111,238,265
Period ended March 31st, 2016						
Additions	711,363	3,353,092	4,064,455	171,847	-	4,236,302
Transfer from asset under construction	(3,510)	(3,605,326)	(3,608,836)	3,608,836	-	-
Other transfers	23,017	(60,475)	(37,458)	(10,958)	-	(48,416)
Depreciation and depletion	(1,263)	-	(1,263)	(1,443,211)	-	(1,444,474)
Disposals and write-off	(8,886)	(1)	(8,887)	(3,293)	-	(12,180)
Translation differences	73,112	-	73,112	16	-	73,128
	20,744,442	7,381,162	28,125,604	85,905,905	11,116	114,042,625
As at March 31st, 2016						
Cost	20,767,115	7,629,933	28,397,048	112,678,578	33,405	141,109,031
Depreciation and impairment	(22,673)	(248,771)	(271,444)	(26,772,673)	(22,289)	(27,066,406)
Net book amount	20,744,442	7,381,162	28,125,604	85,905,905	11,116	114,042,625
As at January 1st, 2017						
Cost	20,139,905	4,274,452	24,414,357	127,806,623	31,406	152,252,386
Depreciation and impairment	(26,494)	(876)	(27,370)	(30,936,760)	(20,312)	(30,984,442)
Net book amount	20,113,411	4,273,576	24,386,987	96,869,863	11,094	121,267,944
Period ended March 31st, 2017						
Additions	745,194	3,286,011	4,031,205	-	-	4,031,205
Changes in decommissioning obligations	-	-	-	40,043	-	40,043
Transfer from asset under construction	(241,841)	(2,795,068)	(3,036,909)	3,037,804	(895)	-
Other transfers	(38,029)	54,140	16,111	(17,075)	975	11
Depreciation and depletion	(1,268)	-	(1,268)	(1,645,244)	(13)	(1,646,525)
Disposals and write-off	(33,121)	(3,137)	(36,258)	(1,989)	-	(38,246)
Translation differences	13,758	(7,646)	6,112	3	-	6,114
	20,558,104	4,807,876	25,365,980	98,283,405	11,161	123,660,546
As at March 31st, 2017						
Cost	20,582,379	4,808,752	25,391,131	130,820,284	32,391	156,243,806
Depreciation and impairment	(24,275)	(876)	(25,151)	(32,536,879)	(21,230)	(32,583,260)
Net book amount	20,558,104	4,807,876	25,365,980	98,283,405	11,161	123,660,546

11. OTHER NON-CURRENT ASSETS

	March 31 st , 2017	December 31 st , 2016
Advances paid for PPE	1,814,024	1,851,425
Prepaid expenses	764,812	794,251
Other assets	1,081,554	1,076,724
Less impairment provision	(44,365)	(41,758)
	3,616,025	3,680,642

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

	March 31 st , 2017	December 31 st , 2016
Short-term loans	10,198,884	12,189,945
Interest liabilities	227,390	243,913
Current portion of long-term loans (note 16)	9,078,338	9,516,423
Current portion of finance lease liabilities (note 16)	48,674	26,290
	19,553,286	21,976,571

13. TRADE AND OTHER PAYABLES

	March 31 st , 2017	December 31 st , 2016
Trade payables		
- related parties	6,153,668	6,898,039
- third parties	14,409,795	18,893,423
Dividends payable	3,772,308	3,772,308
Other accounts payable	15,036	15,395
	24,350,807	29,579,165

As at March 31st, 2017 payables to related parties amounting to 6,153,668 RSD (December 31st, 2016: 6,898,039 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 5,682,952 RSD (December 31st, 2016: 5,818,200 RSD), mostly for the purchase of crude oil.

14. OTHER CURRENT LIABILITIES

	March 31 st , 2017	December 31 st , 2016
Advances received	1,300,676	1,325,012
Payables to employees	4,053,551	3,551,055
Accruals and deferred income	351,813	309,194
Other current non-financial liabilities	18,614	48,989
	5,724,654	5,234,250

15. OTHER TAXES PAYABLE

	March 31 st , 2017	December 31 st , 2016
Mineral extraction tax	301,481	241,017
VAT	1,458,130	1,565,733
Excise tax	5,334,879	5,395,623
Contribution for buffer stocks	273,891	601,357
Custom duties	64,223	298,878
Other taxes	2,094,038	2,033,952
	9,526,642	10,136,560

16. LONG-TERM DEBT

	March 31 st , 2017	December 31 st , 2016
Long-term loan - Gazprom Neft	36,037,181	37,328,836
Bank and other long-term loans	67,108,002	66,120,490
Finance lease liabilities	410,833	343,080
Other long-term borrowings	51,663	44,968
Less Current portion	(9,127,012)	(9,542,713)
	94,480,667	94,294,661

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

	Long-term loans	Short-term loans (note 12)	Finance lease	Total
As at January 1st, 2016	113,444,171	3,553,120	199,289	117,196,580
Proceeds	-	2,017,186	-	2,017,186
Repayment	(8,876,923)	-	-	(8,876,923)
Non-cash transactions	-	-	18,563	18,563
Foreign exchange difference	(351,285)	43,535	4,355	(303,395)
As at March 31st, 2016	104,215,963	5,613,841	222,207	110,052,011
As at January 1st, 2017	103,449,326	12,189,945	343,080	115,982,351
Proceeds	2,103,896	-	-	2,103,896
Repayment	(2,334,305)	(2,040,255)	(6,325)	(4,380,885)
Non-cash transactions	-	-	74,423	74,423
Foreign exchange difference	(73,734)	49,194	(345)	(24,885)
As at March 31st, 2017	103,145,183	10,198,884	410,833	113,754,900

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

As at March 31st, 2017 long-term loan - Gazprom Neft amounting to 36,037,181 RSD (December 31st, 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 December 24th, 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until May 15th, 2023.

(b) *Bank and other long-term loans*

	March 31 st , 2017	December 31 st , 2016
Domestic	28,859,396	27,522,764
Foreign	38,248,606	38,597,726
	67,108,002	66,120,490
Current portion of long-term loans	(3,312,389)	(3,773,525)
	63,795,613	62,346,965

The maturity of bank and other long-term loans was as follows:

	March 31 st , 2017	December 31 st , 2016
Between 1 and 2 years	13,412,402	13,481,072
Between 2 and 5 years	46,415,374	44,609,978
Over 5 years	3,967,837	4,255,915
	63,795,613	62,346,965

The carrying amounts of bank and other long-term loans are denominated in the following currencies:

	March 31 st , 2017	December 31 st , 2016
USD	39,157,170	39,607,916
EUR	27,567,644	26,126,044
RSD	940	976
JPY	382,248	385,554
	67,108,002	66,120,490

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 Indebtedness to EBITDA. Management believes the Group is in compliance with these covenants as of March 31st, 2017 and December 31st, 2016, respectively.

17. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Three months period ended March 31 st ,	
	2017	2016
Crude oil	19,379,113	13,578,008
Petroleum products	6,986,810	5,705,804
	26,365,923	19,283,812

18. PRODUCTION AND MANUFACTURING EXPENSES

	Three months period ended March 31 st ,	
	2017	2016
Employee costs	1,467,674	1,403,778
Materials and supplies (other than purchased oil, petroleum products and gas)	469,611	560,563
Repair and maintenance services	618,924	662,907
Electricity for resale	1,482,227	1,162,492
Electricity and utilities	607,029	690,284
Safety and security expense	57,279	69,727
Insurance services	70,383	75,403
Transportation services for production	463,425	520,184
Other	807,528	585,892
	6,044,080	5,731,230

19. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months period ended March 31 st ,	
	2017	2016
Employee costs	2,380,535	2,529,487
Legal, audit and consulting services	220,201	171,868
Rent expense	95,870	91,526
Business trips expense	57,588	50,713
Safety and security expense	134,169	123,201
Insurance expense	23,591	29,729
Transportation and storage	49,731	92,498
Allowance for doubtful accounts	(55,317)	(19,731)
Other	2,237,443	2,275,070
	5,143,811	5,344,361

20. NET FOREIGN EXCHANGE GAIN

	Three months period ended March 31 st ,	
	2016	2016
Net foreign exchange gain (loss) on financing activities including:		
- foreign exchange gain	763,469	3,458,310
- foreign exchange loss	(631,820)	(2,651,019)
Net foreign exchange gain (loss) on operating activities	76,207	480,985
	207,856	1,288,276

21. FINANCE INCOME

	Three months period ended March 31 st ,	
	2017	2016
Interest on bank deposits	87,811	38,348
Interest income on loans issued	4,571	6,026
	92,382	44,374

22. FINANCE EXPENSES

	Three months period ended March 31 st ,	
	2017	2016
Interest expense	730,565	833,894
Provision of trade and other non-current receivables: discount	33,500	27,229
Less: amounts capitalised on qualifying assets	(8,121)	(5,707)
	755,944	855,416

23. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Consolidated 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 Consolidated Financial Statements as of December 31st, 2016. There were no transfers between the levels of the fair value hierarchy during the interim period.

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

24. 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 Group's management recognised an environmental provision in the amount of 812,071 RSD (December 31st, 2016: 838,655 RSD).

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 March 31st, 2017.

Other contingent liabilities

As at March 31st, 2017, 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. Taking all of the above into consideration, the Group's Management is of the view that as at March 31st, 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 Group 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 Group.

25. RELATED PARTY TRANSACTIONS

For the purpose of these Interim Condensed Consolidated 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 March 31st, 2017 and in the same period in 2016, 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 at March 31st, 2017 and December 31st, 2016 the outstanding balances with related parties were as follows:

	Parent company	Parent's subsidiaries and associates	Joint venture
As at March 31st, 2017			
Trade and other receivables	-	455,244	220,243
Investments in joint ventures	-	-	2,047,021
Trade and other payables	(5,682,952)	(470,716)	-
Other current liabilities	-	(4,964)	-
Short-term debt and current portion of long-term debt	(5,765,949)	-	-
Long-term debt	(30,271,232)	-	-
	(41,720,133)	(20,436)	2,267,264
As at December 31st, 2016			
Trade and other receivables	-	1,047,541	220,243
Investments in joint ventures	-	-	2,047,021
Trade and other payables	(5,818,200)	(1,079,839)	-
Other current liabilities	-	(23,091)	-
Short-term debt and current portion of long-term debt	(5,742,898)	-	-
Long-term debt	(31,585,938)	-	-
	(43,147,036)	(55,389)	2,267,264

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

	Parent company	Parent's subsidiaries and associates	Joint venture
Three months period ended March 31st, 2017			
Petroleum products and oil and gas sales	-	194,800	-
Other revenues	-	1,293,335	-
Purchases of oil, gas and petroleum products	(4,073,504)	(194,802)	-
Production and manufacturing expenses	-	(1,350,806)	-
Selling, general and administrative expenses	-	(1,099)	-
Other expenses, net	(14,880)	(47)	-
Finance expense	(171,568)	-	-
Three months period ended March 31st, 2016			
Petroleum products and oil and gas sales	-	102,792	-
Other revenues	-	1,066,296	-
Purchases of oil, gas and petroleum products	(8,992,137)	(103,070)	-
Production and manufacturing expenses	-	(988,414)	-
Other expenses, net	(4,569)	(403)	-
Finance expense	(207,409)	-	-

Transactions with Key Management Personnel

For the three month period ended on March 31st, 2017 and 2016 the Group 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.

Statement of Individuals Responsible for the Preparation of Financial Statements

We hereby state that, to our best knowledge, the interim financial reports have been prepared in compliance with the applicable international financial reporting standards, and also in compliance with the Law on Accounting (“Official Gazette of the Republic of Serbia” no. 62/2013), which requires full scope of IFRS to be applied as well as the regulations issued by the Ministry of Finance of the Republic of Serbia⁵³ and that they show true and objective information on the assets, liabilities, profit and loss, financial position and operations of the Company, including subsidiaries encompassed by the consolidated statements.

Anton Fyodorov

Branko Mitrović

Deputy General Director,
Head of Function for Finance,
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NIS j.s.c. Novi Sad

Director of Accounting Department,
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⁵³ Due to the difference between these two regulations, these financial statements differ from IFRS in the following respects:

- The financial statements are prepared in format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 – “Presentation of Financial Statements” requirements.
- “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.

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The Report contains statements on uncertain future events. Statements on uncertain future events involve statements which are not historical facts, statements with regard to the NIS Group's intentions, beliefs or current expectations related to, inter alia, the NIS Group's business results, financial standing and liquidity, prospects, growth, strategies and industrial sectors in which the NIS Group does business. For the reason that they relate to the events and depend on the circumstances which may or may not realize in the future, statements on uncertain future events by their nature involve risks and uncertainty, including, but without limitation to risks and uncertainties that the NIS Group has identified in other publicly available documents. NIS Group hereby warns that there are no guarantees that the statements on uncertain future events will be realized in the future and that actual business results, financial standing and liquidity, as well as the development of the industrial sector in which the NIS Group does business, may considerably differ from the ones represented or assumed by statements on uncertain future events. In addition, even if the NIS Group's business results, its financial standing and liquidity, and the development of the industrial sector in which the NIS Group does business happen to comply with the statements on uncertain future events contained herein, the results and development are not indicative of the results and development in upcoming periods. The information contained herein has been presented on the date of the Report and may be changed without prior announcement.