NIS GAZPROM NEFT

FUTURE AT WORK

QUARTERLY REPORT

for third quarter of 2017

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

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Foreword

In the first nine months of 2017, NIS significantly improved its financial results in relation to the same period of the previous year. Such results have been achieved thanks to positive market trends, that is, the growth of crude oil prices on the world market, as well as measures to increase operational efficiency at all levels of the Group. In the nine months of the current year, NIS has achieved a net profit of 20.1 billion dinars, which is 2.6 times more compared to the first nine months of 2016, when the net profit was 7.7 billion dinars. The EBITDA indicator increased by 53% compared to the previous reporting period and amounts to RSD 34.3 billion. The effect of measures to increase operational efficiency on the EBITDA indicator in the current year amounted to 5.1 billion dinars, and the consistent implementation of this program will continue in the upcoming period.

NIS has also remained committed to investments in further development, and during this reporting period, it has invested the most in the area of exploration and production of oil and gas, as well as in processing and transport segments. The total investment volume is 16.6 billion dinars, which is 15 percent more than in the same period of 2016. NIS Group's share of taxes and other public revenues has also continued to grow, and 126 billion dinars have been allocated for this purpose in the current year - 7 percent more than in the first three quarters of last year.

In terms of operational indicators, NIS has improved its results in the area of processing and trade compared to the previous reporting period, while a better result than planned was achieved in the segment of exploration and production of domestic oil and gas. The volume of crude oil and semi-finished products processing was 2.613 thousand tons, or 10 percent more than in the first nine months of 2016. The total trade of petroleum products amounted to 2,514 thousand tons, which is 4 percent more than the volume of trade in the previous reporting period. It is important to note that at the same time NIS has achieved better results in retail and wholesale in Serbia, export growth of 6%, while ino-active transactions have increased by 22%. The total production of oil and gas amounted to 1,044 thousand t.o.e..

A special success for NIS in this reporting period represents the fact that the Pancevo Oil Refinery became the first energy facility in the Republic of Serbia which obtained the IPPC permit from the competent state authorities on integrated prevention and control of environmental pollution. This license will be at the same time a new stimulation for NIS to continue to work on the continuous improvement and modernization of its facilities and work processes in order to improve environmental protection. At the same time, NIS has paid dividend to its shareholders for the fifth consecutive year, and for this purpose, 25 percent of the net profit from 2016, i.e. 4.021 billion dinars was allocated for this purpose.

Also, the implementation of socially responsible NIS projects has continued, and a public competition for financing of projects in 11 municipalities and cities in which NIS operates was conducted within the program "Together for Community", for which 110.5 million dinars was allocated. In addition, NIS has received a new award for its responsible and transparent work with shareholders and professional public - the "Stevie International Business Award" gold award in the category of specialized websites aimed at informing of investors and shareholders.

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 Nikolić and Aleksandar Vučić 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.

April

- NIS organized the Forum of Contractors dedicated to improvement of work environment safety, exchange of experiences with contractors and also to familiarize them with best practices in occupational and environmental safety at NIS.
- Representatives of the certification body Bureau Veritas handed over to NIS management the certificates for five management systems, by which they confirm their compliance with international ISO standards.
- For the fifth consecutive year, NIS has supported “Balkan Traffic” festival in Brussels, as an artistic event which will contribute to promotion of the Balkan region’s culture and heritage;
- A new physics laboratory was opened in the Fifth Belgrade Grammar School, reconstruction and refurbishment of which was supported by NIS within its social responsibility program: “Together to the Community”;
- With NIS’s support, a modern laboratory for petroleum-petrochemical engineering was opened within the Faculty of Technology of Novi Sad University, and equipped with state of the art teaching appliances.
- Within its program "Together to the Community", NIS supported construction of the Park of Knowledge in the city of Nis, which has for its aim to promote natural sciences among pupils of elementary and secondary schools.

May

- NIS Group has published consolidated results of its business operation for the first quarter of 2017;
- CEO of NIS, Kirill Tyrdenev and Minister of Mining and Energy in the Serbian Government, Aleksandar Antic inaugurated the NIS's plant for production and wholesale of natural compressed gas at the Ostrovo gas field;
- Winners of the second consecutive national contest called: “Youth Heroes”, initiated by EXIT Foundation in cooperation with NIS, were proclaimed during a ceremony in Novi Sad;

- NISOTEC brand won the large champion cup of the 84th International Agricultural Fair in Novi Sad for the top-notch quality of motor and hydraulic oils, as well as seven large golden medals and three golden medals for the quality of NISOTEC palette of products.
- NIS took participation in this-year’s cultural event – Night of Museums, with rich programs at two locations, in Company’s museums in Novi Sad and in Kikinda.

June

- Shareholders Assembly of NIS j.s.c. Novi Sad held the 9th regular session and brought the Decision on distribution of profit for 2016, payment of dividends and defining total amount of the Company’s retained earnings;
- Within additional upgrade of refining, NIS has successfully implemented its new project of line blending of motor gasoline in the Oil Refinery in Pančevo, in which it has invested almost 10 million euro;
- CEO of NIS, Kirill Tyrdenev took participation in the ceremonial opening of the National booth of Serbia at the International Economic Forum in Sankt Petersburg (SPIEF ’17);
- Representatives of NIS took participation in an environmental protection activity of cleaning and landscaping Fruška Gora creeks, organized in Fruška Gora national park to mark the World Environment Day, June the 5th;
- Representatives of NIS signed with Mihailo Pupin Institute from Belgrade and with Banja Luka University the memoranda on cooperation in the areas of education, professional training of personnel and exchange of knowledge.

July

- NIS group released consolidated business results for the first half of 2017.
- Fifth "Bolshoi" Festival of Russian Classical Music supported by "Gazprom Neft" PJSC, the majority shareholder of NIS j.s.c. Novi Sad, was held.
- As part of its “Together for the Community” programme, NIS announced a public competition to fund projects in 11 municipalities and cities where it operates.
- The students from Serbia who, with NIS' support, participated in the international Olympiads in physics, mathematics and chemistry, collected 15 medals in the competitions.

August

- For the fifth consecutive year, NIS paid dividends to its shareholders, and 25 percent of net profit in 2016 is allocated to that end, or 4.021 billion dinars.
- Professional practice which lasted five weeks was held in NIS for 42 students, the future employees of NIS, who study at renowned national and international universities.
- In cooperation with the Tennis Association of Serbia, the "NIS Open Tennis School" campaign continued and the children from Zlatibor, Bečej and Zrenjanin had an opportunity to make first steps in learning this sport.

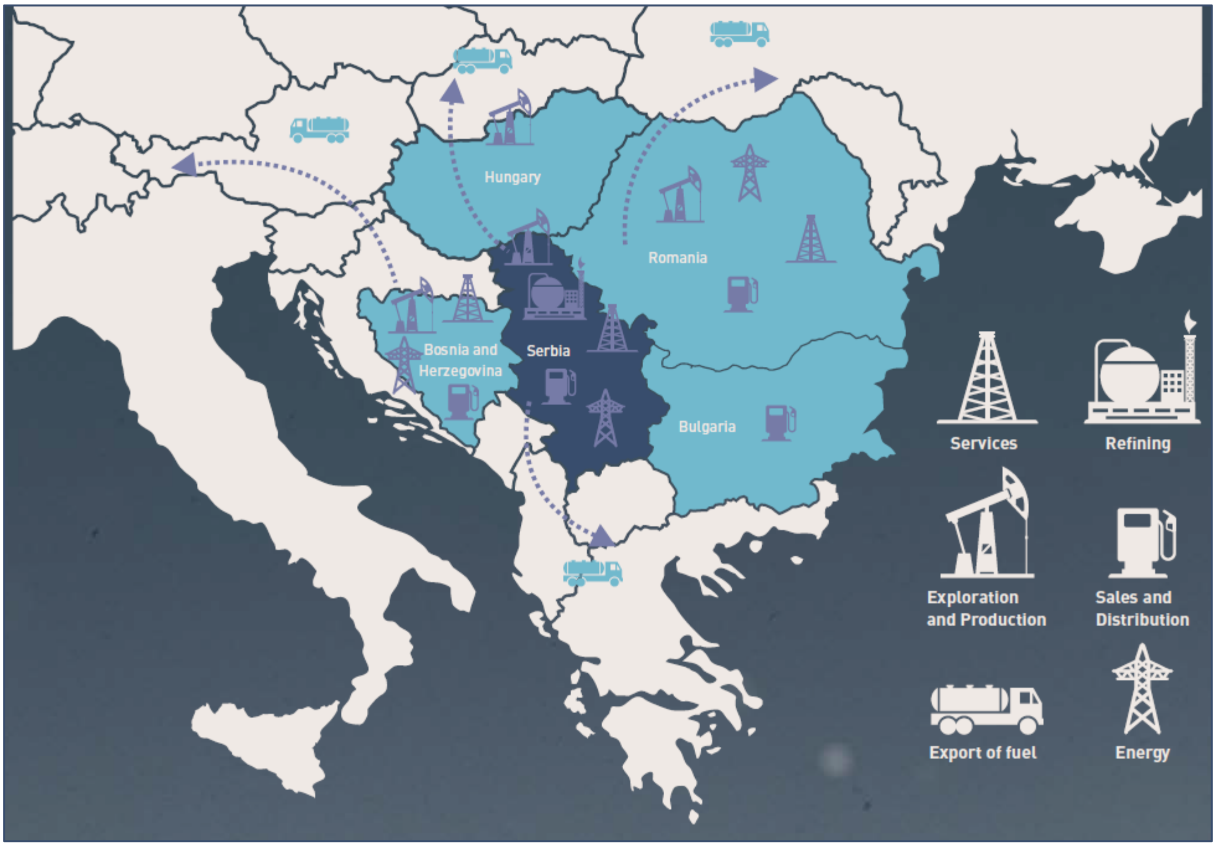
September

- Representatives of the Provincial Government presented NIS with the IPPC permit on integrated pollution prevention and control, testifying that the production process in Pančevo Oil Refinery is in full compliance with the strictest national and European standards in the field of environmental protection
- The seismic survey project "Turija 3" has been successfully completed, and "Južni Banat 2" project has been initiated in the territory of Pančevo, Kovačicva, Alibunar and Kovin municipalities.
- In the vice-chancellor’s office of Novi Sad University, the continuation of the successful long term cooperation between NIS and this well-renowned educational institution in the field of education, research, development of scientific and technical database, and knowledge transfer was officially marked.
- NIS received a golden award “Stevie International Business Award” in the specialty category of web sites providing information to investors and shareholders.
- In cooperation with the Road Traffic Safety Agency, the manifestation titled “Week of Road Traffic Safety” was organized in NIS Business Center, from 25 to 30 September, with an aim to improve general road traffic safety.
- The new loyalty programme “On the Road with Us” was implemented in all GAZPROM and NIS Petrol service stations in Bosnia and Herzegovina.
- NIS placed improved-quality LPG in the domestic petroleum product market.

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 Structure[1]

REPRESENTATIVE AND BRANCH OFFICES

Turkmenistan Branch Office

Branch Offices in Serbia

Angola Representative Office

Bulgaria Representative Office

Croatia Representative Office

Kingdom of Belgium Representative Office

Bosnia and Herzegovina Representative Office

Hungary Representative Office

Romania Representative Office

Russian Federation Representative Office

SUBSIDIARIES

O Zone a.d. Beograd

NIS Energowind d.o.o. Beograd

Naftagas – Naftni servisi d.o.o. Novi Sad

Naftagas – Tehnički servisi d.o.o. Zrenjanin

Naftagas – Transport d.o.o. Novi Sad

NTC NIS – Naftagas d.o.o. Novi Sad

NIS Oversees o.o.o. St. Petersburg

NIS Petrol EOOD Sofia

NIS Petrol SRL Bucharest

NIS Petrol d.o.o. Banja Luka

G – Petrol d.o.o. Sarajevo

Pannon Naftagas kft Budapest

Jadran Naftagas d.o.o. Banja Luka

NIS-Svetlost d.o.o. Bujanovac

[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.

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 CO_2 capture, which has a design capacity of 65,000 tonnes of LPG and natural gasoline per year. In 2016 a new Amine Plant was added to the complex, which enhanced gas quality and output and had positive environmental impact reflected in the prevention of carbon dioxide emissions into the air.

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

Services provide services in oil and gas exploration and production through geophysical surveying, well construction, completion and workover, and performance of special operations and measurement on wells. The Block also delivers equipment maintenance services and the construction and maintenance of oil and gas systems and facilities. Apart from carriage of goods and truck services, it provides passenger transportation and vehicle rental services.

NIS has its own servicing capacities, which are able to fully meet Group's demand and to provide services to third parties. All this is delivered through subsidiaries Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad. Services have expanded the business into foreign markets: Bosnia and Herzegovina, Romania and Russia.

Refining is responsible for refining crude oil and other raw materials and for producing petroleum products. It produces a broad range of petroleum products: from motor and energy fuels to feedstock for the petrochemicals industry, and other petroleum products. Block's refining complex includes a production plant in Pančevo[2]. 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*".On its oil and gas fields, NIS has 14 small power plants with the total power of 13.8 MW. Most of small power plants also generate thermal energy, meeting the consumption requirements of its own facilities. The electricity output is marketed as well. In addition to small power plants, NIS produces electrical and thermal energy at the Energy Plant

[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.

Pančevo having a generator power of 10.7 MWe. Electrical and thermal energy at the Energy Plant are fully used at the *Pančevo* Oil Refinery.

The main activities are supported by ten Functions of the parent company - NIS j.s.c. Novi Sad. Five of the ten supporting Functions are partially de-centralised and have functionally subordinate departments within Blocks[3], while other functions are centralised[4]. 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, September 29th, 2005
Total equity as at September 30th, 2017:	231,441,261,000 RSD
Share capital as at September 30th, 2017:	81,530,200,000 RSD
Number of employees[5] as at September 30th, 2017:	4,080
Audit company that audited the last annual 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 and employees in subsidiaries 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.

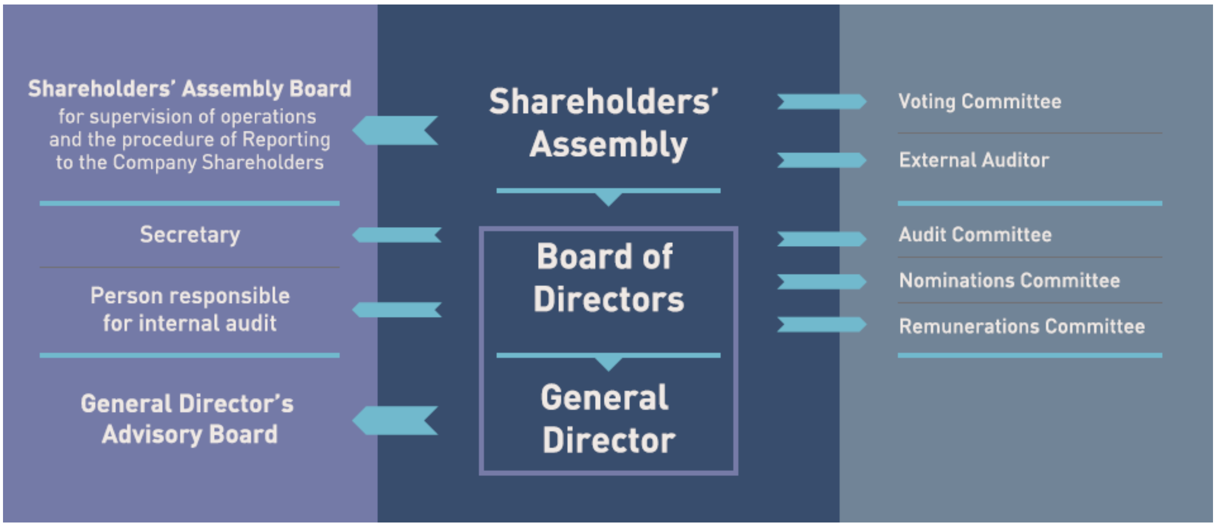


***Chart no. 1**: Corporate Bodies of NIS j.s.c. Novi Sad*

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.

At the 9th Shareholders' Assembly meeting of the NIS j.s.c. Novi Sad Shareholders' Assembly, held on June 27th, 2017, the following persons were appointed the members of the Board of Directors: Vadim Yakovlev, Kirill Tyurdenev, Danica Drašković, Alexey Yankevich, Kirill Kravchenko, Alexander Krylov, Nikola Martinović, Wolfgang Ruttenstorfer, Anatoly Cherner, and Stanislav Shekshnia.

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. From 2007 to 2010 he was Deputy CEO in charge for economics and finance in PJSC "Gazprom neft". Since 2007 he is Deputy Chairman of the Executive Board of PJSC „Gazprom neft". From 2010 to 2011 he was First Deputy CEO - Financial Director in PJSC "Gazprom neft". Since 2011, he has been holding the post of the First Deputy CEO in PJSC "Gazprom neft".

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.

He graduated with honours on Faculty for International Relations with Bachelor's degree and later with Master's degree in International Law (with specialization) at Moscow State Institute of International Relations (MGIMO). He also obtained a Master of Law (LL.M) degree from the University of Manchester. Completed executive education programme at international business school INSEAD and London Business School. From 2000 through 2004, worked for A.T. Kearney and Unilever. In 2004 he joined McKinsey & Co. From 2007 through 2012, he worked for SIBUR Mineral Fertilizers as Deputy CEO for Strategy and Corporate Development. In 2012 joined JSFC Sistema, as Executive Vice-President and Executive Board Member. Before joining NIS j.s.c. Novi Sad, he occupied the position of the President and Board Chair in United Petrochemical Company, which, at that time, was part of JSFC Sistema Group, and as Chairman of the Board of Directors of Ufaorgsintez. He took the position of First Deputy of General Director for Refining and Sales at NIS j.s.c. Novi Sad in April 2016. He was appointed General Director of NIS j.s.c. Novi Sad on March 22nd, 2017.

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.

Kirill Kravchenko
Deputy CEO for Organizational Affairs 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 from January 2008 to March 2009 he was Deputy Chairman of Management Board of PJSC “Gazprom Neft”, as well as Deputy General Director for Organizational Affairs. As of March 2009, to July 2017 he held the position of Deputy CEO for Overseas Assets Management in PJSC “Gazprom Neft”. From July 2017 he was elected Deputy CEO for Organizational Affairs in PJSC “Gazprom neft”. Since February 2009 until March 22nd, 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 Petroleum Industry of Serbia/NIS j.s.c. Novi Sad BoD from 2004 to 2008, and he was re-elected on 10.02.2009.

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

Born on October 15th, 1950 in Vienna, Austria.

In 1976, he graduated from the Economics and Business Administration at the Vienna University of Economics and business, and he holds a PhD degree.

Mr. Ruttenstorfer's career started in the Austrian company OMV in 1976. In 1985, he was transferred to the Planning and Control Department and in 1989; he became responsible for the strategic development of the OMV Group. Being appointed Marketing Director in 1990, he became a member of the Executive Board in 1992, and was in charge of finance and chemical products. By early 1997, he was a member of the OMV EB, when he was appointed Deputy Minister of Finance. On 01.01.2000, he was re-appointed a member of the OMV EB in charge of finance, a function he performed by April 2002. He was in charge of gas affairs by December 2006. In the period from 01.01.2002 to 31.03.2011, Mr. Ruttenstorfer was the Chairman of the Executive Board of the OMV Group. Mr. Ruttenstorfer was or still is member of Board of Directors of companies such as VIG, Roche, RHI AG and Telekom Austria.

He was elected Independent member of the NIS j.s.c. Novi Sad Board of Directors as of 20.04.2012.

Anatoly Cherner
Member of NIS j.s.c. Novi Sad Board of Directors
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
Professor at the International Business School INSEAD

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

Mr. Sheknia serves as the Chief of practice in the Talent Performance and Leadership Development Consulting Department. Director of Talent Equity Institute and a senior partner at Ward Howell. He teaches the course "Entrepreneur Leadership" at the International Business School INSEAD. Mr. Shekshnia has more than 15 years of practical experience in management. He held the following positions: CEO of Alfa Telecom, chairman and CEO of Millicom International Cellular, Russia and ZND, Chief Operational Director of Vimpelkom, Director of Personnel Management in OTIS Elevator, Central and East Europe. He has been a member of LLC SUEK and c.j.s.c. Vimpelkom-R Boards of Directors.

Mr. Sheknia was elected Independent member of the NIS j.s.c. Novi Sad Board of Directors as of 21.06.2010.

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

Members of BoD	98,866,766

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	• 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	• 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"
Kirill Kravchenko	• Vice-Chairman of the National Oil Committee of the Republic of Serbia • Serbian Tennis Federation BoD Member • SAM BoD Member – Serbian Association of Managers

Alexander Krilov	• JSC “Gazprom Neft-Novosibirsk” • JSC “Gazprom Neft-Tumen” • JSC “Gazprom Neft-Ural” • JSC “Gazprom Neft-Yaroslavlye” • JSC “Gazprom Neft-Northwest” • LTD “Gazprom Neft Asia” • LTD “Gazprom Neft - Tajikistan" • LTD “Gazprom Neft - Kazakhstan" • LTD “Gazprom Neft - Centre” • JSC “Gazprom Neft - Terminal” • LTD “Gazprom Neft – Regional sales“ • JSC “Gazprom Neft – Transport” • LTD “Gazprom Neft – Krasnoyarsk” • LTD “Gazprom Neft – Corporate Sales” • LLC “Gazprom Neft – Belnefteprodukt” • JSC “Gazprom Neft – Alternative Fuels” • LTD “ITSK” • “Gazprom Neft – Laboratory” LLC
Nikola Martinović	-
Wolfgang Ruttenstorfer	• “Flughafen Wien” AG, Vienna, Member of the Supervisory Board • “RHI” AG, Vienna, Member of the Supervisory Board • Telekom Austria, Chairman of the Supervisory Board
Anatoly Cherner	• JSC NGK “Slavneft” • JSC “Gazprom Neft-ONPZ” • JSC “Slavneft-JANOS” • JSC “Gazprom Neft –MNPZ” • JSC “Gazprom Neft-Aero” • CJSC “St. Petersburg’s 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) • "Avtomatika servis" LLC
Stanislav Shekshnia	• 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 term of office of the members of the Board of Directors committees expired by the date of the 9th General Meeting of the NIS j.s.c. Novi Sad Shareholders' Assembly, i.e. by June 27th, 2017, by which date the aforesaid committees had the following composition:

- Audit Committee:
  - Wolfgang Ruttenstorfer, Chairman,
  - Alexey Yankevich, member and
  - Nenad Mijailović, member.
- Remuneration Committee:
  - Stanislav Shekshnia, Chairman,
  - Anatoly Cherner, member and
  - Zoran Grujčić, member.
- Nominations Committee:
  - Goran Knežević, Chairman,
  - Kirill Kravchenko, member and
  - Stanislav Shekshnia, member.

The Board of Directors shall appoint the members of the aforesaid committees for the next term of office as soon as possible, including that it may also form other standing or ad hoc committees, to deal with the issues relevant for the work 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 September 30th, 2017

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

Born on October 14th, 1980 in Čačak, Serbia.

Mr. Mijailović graduated from the Faculty of Economics, University of Belgrade in 2003. In 2007, he obtained an MBA degree from the University of Lausanne, Switzerland. In 2010, he started his PhD studies at the Faculty of Economics, University of Belgrade. As from 2011, he has held an international CFA license in the field of Finance. From 2003 to 2009, he worked as a consultant and manager in finance and banking in the following companies: Deloitte Belgrade, AVS Fund de Compensation Geneve, JP Morgan London, KBC Securities Corporate Finance Belgrade. From December 2009 to August 2012, Mr. Mijailović served as Advisor to the Minister in the Ministry of Economy and Regional Development, Department of Economy and Privatization. Since August 2012, he has held the position of Deputy Minister of Finance and Economy of the Republic of Serbia. As of August 2014, he served as the Secretary of State in the Ministry of Finance of the Republic of Serbia. Mr. Mijailović was a member of NIS j.s.c. Novi Sad BoD from 18.06.2013 to 30.06.2014.

He was appointed Chairman of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 30.06.2014.

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

Born on July 28th, 1955 in Čačak, Serbia.

Mr. Grujičić graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994, he was employed with Heat Transfer Appliances Plant "Cer" in Čačak, where he held a variety of positions, including General Manager, Technical Manager, Production Manager and Design Engineer. From May 1994 to February 1998, he served as Advisor to the General Manager of Interkomerc, Belgrade. From February 1998 to June 2004, he was Managing Director of the Company MNG Group d.o.o., Čačak. From June 2004 to February 2007, he was Director of the Trading Company Agrostroj j.s.c. Čačak, Director of the limited partnership company Leonardo from Čačak and Director of the Vojvodina Highway Centre. Since February 2007, Mr. Grujičić has been employed with NIS j.s.c. Novi Sad and has held the following positions: Deputy Director of the Logistics Department, Jugopetrol; Head of RC Čačak at the Retail Department – Čačak Region; Manager of the Retail Network Development of the Development Department, Sales and Distribution. 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. Since October 2017, he has served as Advisor to the General 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 nine months of 2017, net RSD

Members of SAB	13,691,819

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	0.000003066%

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

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

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 nine 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

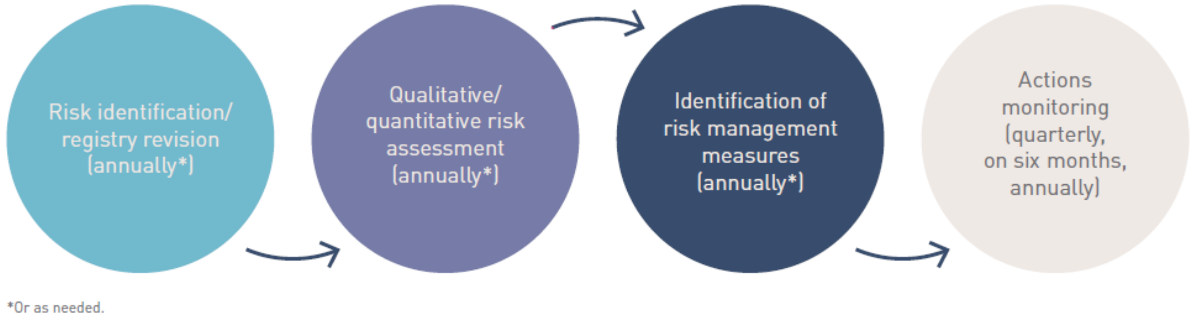
NIS has set its objectives in relation to risk management and established an integrated risk management system (IRMS).

The aim of the Company in the area of risk management is to increase effectiveness and efficiency of administrative decisions using the analysis of accompanying risks, as well as to provide maximum effectiveness and efficiency of risk management measures during implementation of issued decisions. IRMS is represents set of process, methodological framework and instruments aimed at ensuring the efficiency and effectiveness of the risk management process in the NIS.

Company objectives in the area of risk management are achieved through realization of the following tasks:

- Setting up the risk management culture in the Company, in order to reach common understanding of basic principles and approaches to risk management by both the management and the employees;
- Defining and developing a systematic approach to identification and assessment of risk that are present in the Company's business operation, both in general, and in certain area of business activities;
- Motivating exchange of risk related information between organizational units of the Company and the shared definition of risk management measures;
- Forwarding systematic risk related information to managerial bodies of the Company.

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.

In its business operations, the Group faces operational, market, government regulation and policy risks, financial and other risks.

Operational Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Project risks	
With respect to geological research, the goal of NIS Group is to increase the resource base and production of NIS. 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 NIS' resource base growth.	Measured implemented to the end of risk reduction are: execution of new 3D seismic testing through application of the top-notch wireless technology, selection of candidates for exploratory drilling based on complex seismic/geological data interpretation, program expertise for geological-exploratory works by major shareholder and selection of the most perspective wells, accompanied by application of the state of the art exploration methods. With the aim of reducing risks, special attention has been focused on good preparation of implementation projects and quality monitoring during execution of geological-exploratory works. In order to reduce license related risks, geological-exploratory works have been executed in accordance with dynamics defined by Projects of Geological Exploration, and provisions of the Law on Mining and Geological Exploration, which, among other things, also regulates the area of oil and gas exploration and production.

Market Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Price Change Risks	
In view of its core activity, NIS Group is exposed to price change risks, namely the price of crude oil and petroleum products, which affect the value of stock and margins in oil refining, which in turn affects future cash flows.	These risks are partly offset by adjusting petroleum product selling prices against the changes in oil and petroleum product prices. The need to apply some of the commodity hedging instruments in Group's subsidiaries, including NIS j.s.c. Novi Sad as a subsidiary, is at the discretion of Gazprom Neft Group. In addition, the following actions are undertaken in order to reduce potentially negative impact of the risk: • Annual planning based on multiple scenarios, plan follow-up and timely adjustment of operating plans for crude oil procurement; • Regular sessions of NIS j.s.c. Novi Sad Committee in charge of crude oil purchase/sale to discuss all major subjects related both to crude oil purchase and sale (sale of Angola-Palanca crude oil); • Tendency to enter into long-term crude oil purchase contracts at optimal commercial terms, with longer payment terms on an open account basis and sales contracts which would exempt NIS j.s.c. Novi Sad, in line with current governmental agreements, from paying customs clearance fees at import based on preferential status; • Expansion of the supplier portfolio, successful cooperation with EU companies, growing competition in tenders for importing and more prominent progress regarding purchase prices; • Expansion/diversification of the crude oil basket for prospective import, provision of samples of the crude oil types that have not been processed by the *Pančevo* Oil Refinery; • Continuous effort to optimise processes and striving to achieve optimal economic effects and indicators;

	• Occasional benchmarking to survey the market and price trends, that is, to analyse the commercial capacities of major prospective suppliers of crude oil, renowned companies which are dominant and reliable in crude oil trading; • Daily follow-up of crude oil publications, analysis/testing of new crude oil types which have not been used in NIS refining plants, analysis and consideration of potential commercial terms of procurement.

Government Regulation and Policy 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.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Foreign Exchange Risk	
NIS Group operates in an international setting and is thus exposed to the risk of 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.
Interest Rate Risk	
NIS Group is exposed to the interest rate risk both in terms of its bank loans and placement of deposits.	NIS j.s.c. Novi Sad takes out loans with commercial banks 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, LIBOR, etc.).
Credit Risk	
Arises in relation to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans extended to third parties, and exposure to wholesale and retail risks, including unrecoverable debt and assumed liabilities.	Credit risk management is established at the level of NIS Group. With respect to credit limits, banks are ranked based on the adopted methodologies applicable to major and other banks, in order to determine the maximum extent of exposure of NIS j.s.c. Novi Sad to the bank at any given time (through deposits, documentary instruments: bank guarantees, Letters of Credit, etc. – issued to NIS j.s.c. Novi Sad). Regarding accounts receivable, there is a credit limit methodology in place which serves for defining the level of exposure in relation to individual customers, depending on their financial indicators.
Liquidity Risk	
Liquidity risk denotes a risk that the Company will encounter difficulty in meeting its liabilities. It is the risk of not having suitable sources to finance the Group's business operations.	NIS Group continually monitors liquidity in order to provide sufficient cash to meet its operational, investment and financial performance requirements. To this end, it is continually contracting and securing sufficient credit and documentary lines while maintaining the maximum allowable level of credit exposure and meeting the commitments under commercial bank arrangements (covenants). This type of projection takes into account the Group's debt repayment schedules, compliance with contractual terms and compliance with internally-set goals, and it is based on daily cash flow projections for the entire NIS Group, which form a basis for making decisions regarding raising external loans, in which case adequate bank financing sources are secured within the allowable indebtedness limits set by PJSC "Gazprom Neft". Aiming to increase liquidity and decrease dependence on external financing sources, as well as to decrease NIS Group's costs of financing, the cash pooling system was introduced on 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 Serbia[6]. Since mid-September 2014, NIS j.s.c. Novi Sad Novi Sad has been exposed to the risk of limited external financing capacities due to the imposition of sectorial sanctions by the EU and the U.S.A. on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU. Namely, sanctions do not allow NIS j.s.c. Novi Sad to borrow funds from EU and U.S.A. banks with maturity period longer than 30, i.e. 60 days. The exception foreseen by EU sanction refers to the possibility of borrowing funds from EU banks for period longer than 30 days exclusively if the loan is intended for payment of imports of non-sanctioned goods and services from the EU. With its continuous monitoring of geopolitical situation and capital market trends, timely response and extension of credit lines with banks before the aforesaid sanctions were imposed, NIS managed to secure sufficient limits for documentary business and for credit financing of NIS Group in 2015 and 2016. Furthermore, with the aim of acquiring necessary funds for future transactions NIS negotiated/contracted new credit lines with Serbian, Russian 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

[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.

	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. In the fourth quarter of 2016, the tender for restructuring the credit portfolio of NIS j.s.c. Novi Sad was closed, as well as an additional tender, in the second quarter of 2017, the aim of which was to secure sufficient credit limit for drawing favourable credit from EU banks for a 3-5 year period, for imports from the EU. These sources of funding will be available in 2017 and in 2018 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).

Business Environment

The World

The production in 14 OPEC member countries, in the third quarter of 2017, mostly stagnated or even slightly dropped. In August, the oil output rose in Nigeria, which is exempted from the cut. Simultaneously, Libya, also exempt from a production-cutting deal, marked a decline in production, as well as Venezuela, given that both countries are dealing with political issues. Iraq's production fell. In September Report, OPEC members suggest that oil outputs are falling and that market is rebalancing. OPEC Secretary-General says that the process of bringing supply and demand to balance is supported by a high level of compliance of OPEC member states, but also non-members of this organization, with the production quota established by the deal to cut oil production. However, OPEC ministers are divided when the issue of extension or expansion of the oil cut deal is raised, due to expire in March 2018. The next OPEC meeting is scheduled in November 2017. Crude oil prices are fluctuating around $50 per barrel, and their increase is to slow down US shale oil production, threatening to lessen the impact of OPEC's supply cuts.

The hurricanes which struck the American continent brought extra profits to European refineries. At the same time, they slashed the prices of American crude oil, due to cancellation of orders of numerous domestic refineries, concurrently leading to petrol and diesel price hikes and an increase in fuel deliveries from European ports. The US has even marketed strategic petroleum reserves to meet the needs of the domestic refineries. The country first dipped into the strategic reserves after Harvey tropical storm hit, and Reuters says that new similar situations are expected to follow during summer and highlights that this year's hurricane season will be possibly extremely destructive, which carries potential implications for the crude oil and petroleum product market.

China has taken a new step toward strengthening its relations with Russia, by accepting to acquire a share in "Rosneft" Oil Company. By a USD 9 billion worth investment, Chinese CEFC China Energy Company Ltd. acquired a 14.16% stake in Russian "Rosneft" Oil Company. According to Wood Mackenzie Consulting, the deal at hand is to intensify the energy relationship between Russia and China. A direct stake in “Rosneft” will make CEFC the main driver for the relationship of “Rosneft” with China, ahead of CNPC, Sinopec and Beijing Gas. The Russian government will remain the majority shareholder of this company.

Although not struggling with hurricanes, European refineries are facing the increased obligations on account of environmental restrictions. They even announced potential relocation of their units in case of significantly higher CO_2 emission fees. Oil producers have united with other large industrial energy consumers in order to warn of the effects of the EU plans to raise carbon dioxide emission fees. EU legislators will, on 12 October, behind closed doors, try again finding a compromise on the reforms in the emissions trading system (EU ETS), the key European leverage in the fight to prevent overheating of the planet. Euroactiv Association reminds that European refiners, alongside the cement, glass, paper, chemical and metal manufacturers, have so far acquired a number of CO_2 emissions licenses free of charge, in order not become globally uncompetitive compared to their non-EU rivals. As an aftermath, plants would be either shut down or relocated outside the EU, there where such a climate regulations regime is not in place or is incomparably lax.

The International Monetary Fund urged the world's largest economies to deal with the issue of dampening growth and productivity, noting that the global recovery is not certain to continue. The sustainability of economic growth is not guaranteed. The cyclic recovery is gaining momentum, however the productivity increase rate remains sluggish, it is stated in the IMF report on economic standing for the Group of 20 most developed countries in the world (G20). G20 members have made a significant progress in the period following the Great Recession, which is reflected in a stable growth and reduced unemployment rate, however the risks persist, given that the potential growth rates in more than half of the G20 countries are estimated to be two percent or lower, it is stated in the report. The foreign trade imbalance in the United Kingdom and the United States, which is continually recording trade deficits, could boost protectionism and a large and prolonged drop in raw material prices, especially oil, threatening the growth of developing countries such as Argentina, Saudi Arabia, Brazil, South Africa, Mexico and Turkey, the IMF claims. In the meantime, the developed economies, such as Japan, South Korea, Australia, France and Italy, are recording growth below their potential, while facing inflation that is below the target rate and weak demand for products and services. Although the public debt levels have significantly stabilized, little progress has been made towards their reduction, it is stated in the international creditor's report.

Serbia

The IMF mission visited Belgrade in the period from 13 to 19 September 2017, in order to initiate a discussion on the 2018 budget and the progress made in the implementation of structural reforms. The IMF projects Serbia's economic growth in 2017 will be at 2.3 per cent (previously forecast growth was 3.0 per cent), said the head of the IMF Mission. In addition, in the press release after the visit, he stated that economic activity in Serbia continues to grow, in spite of the temporary lagging in the first half of the year, caused by the effects of disruptions in power generation and the negative effect of the drought on agricultural production. The domestic demand continues recording a significant growth, including further recovery of private consumption, and the conditions in the labour market are continually improving. The economic policy should remain focused on improving reforms aimed at strengthening private sector activities. The reforms also include improvements in the business and investment environment, more efficient state administration and state-owned enterprises, and the improved quality and quantity of public infrastructure. Serbia has significantly improved fiscal performance than projected for the first seven months of 2017, the additional fiscal space should be used in term of additional investment in the priority areas, rational increase of wages in the public sector and pensions (decrease of labour taxes), and progressive debt reduction. The final revision of the precautionary Stand-By Arrangement, which Serbia made with the IMF, is scheduled for late October and early November 2017.

The retail prices of goods and services for personal consumption (consumer price index) in September 2017, compared to the same month in 2016, increased by 3.2%, while in August and July, compared with the same month of the previous year, they increased by 2.5 and 3.2 percent, respectively.

In the period January-August 2017, industrial production saw a year-on-year increase by 3.0 per cent. In the overview by sectors, in August 2017, compared to August 2016, the highest growth was recorded by the manufacturing sector (9.7%) and the mining sector (4.7%).

Export of goods in the period January-August, denoted in euros, raised by 13.4 per cent and import of goods by 13.1 per cent on the year before. Import coverage by exports is 78.9 per cent and is higher than the coverage ration in the same period of the previous year, when it was 78.7 percent.

In August 2017, compared to the same month last year, the average net wage was nominally higher by 4.3 percent and realistically by 1.8 percent.

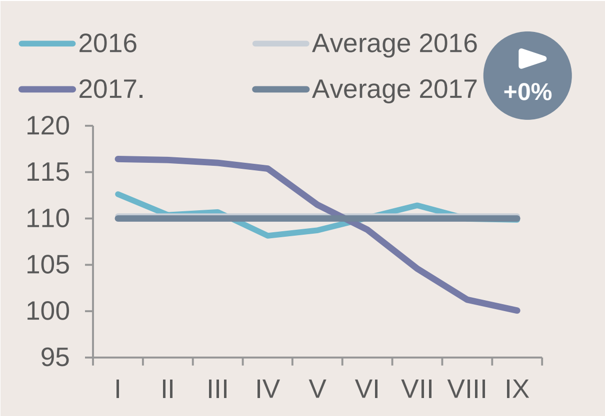


***Chart no. 2:** USD/RSD exchange rate changes*[7]

- Average USD/RSD exchange rate in first nine months of 2017 is higher by RSD 0.26, i.e. at the same level as the first nine months of 2016 average.
- In first nine months of 2017, the USD/RSD exchange rate declined by RSD 15.81, i.e. 13%.
- In first nine months of 2016, the USD/RSD exchange rate declined by RSD1.35, i.e. 1%.

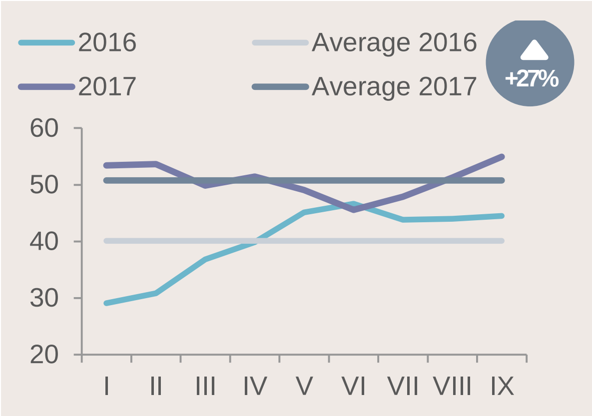


***Chart no. 3**: Urals RCMB oil price, $/bbl*[8]

- Average Urals RCMB oil price in first nine months of 2017 is higher by 10.714$/bbl, i.e. 27% of the 2016 average price.
- In first nine months of 2017, Urals RCMB oil price by 2.94 $/bbl, i.e. 6%.
- In first nine months of 2016, Urals RCMB oil price is increased by 11.045 $/bbl, i.e. 31%.

[7] Data source: NBS.
[8] Data source: Platts.

Market Share[9]

The consumption of motor fuel in the entire region has been increasing in line with positive macroeconomic indicators.

The increase in fuel consumption has mostly been contributed by the following segments: transport, construction and processing industry.

The trend of diesel fuel consumption in Serbia involves two components. The first one is the positive impact of the satisfactory results of infrastructure and construction projects, as well as the growth of processing industry and transport, while the other one concerns having a portion of consumption restored to formal legal channels following the effective unscheduled measures for controlling the placement of base oil on the market.

Serbia

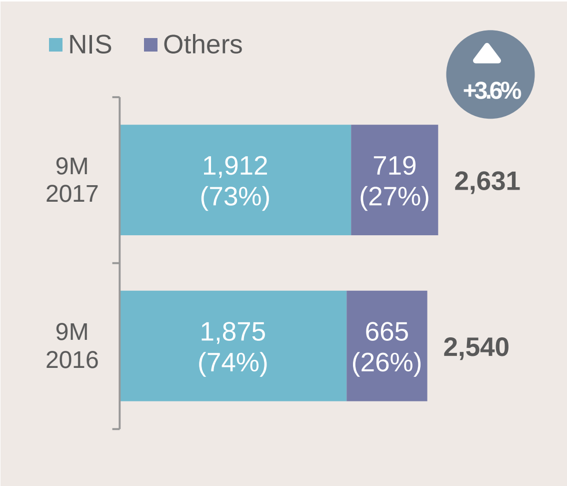


***Chart no. 4**: The volume of overall petroleum products market[10], thousand tonnes*

During the nine months of 2017, the total consumption of petroleum products in Serbia increased year on year, which was mostly contributed by the increase in the consumption of coke, aviation fuel, virgin naphtha, motor petrol and diesel fuel. Construction and road construction industry is the main driver of consumption, which is also shown by the increase in the consumption of coke, used as a raw material in cement plants and factories that produce construction material, where production growth has been achieved, too. A reduced number of LPG driven vehicles and its high price with a substantial proportion of state levies have a negative effect on the consumption of LPG.

NIS's sales have a growing trend, but the growth is slightly slower than the market growth.

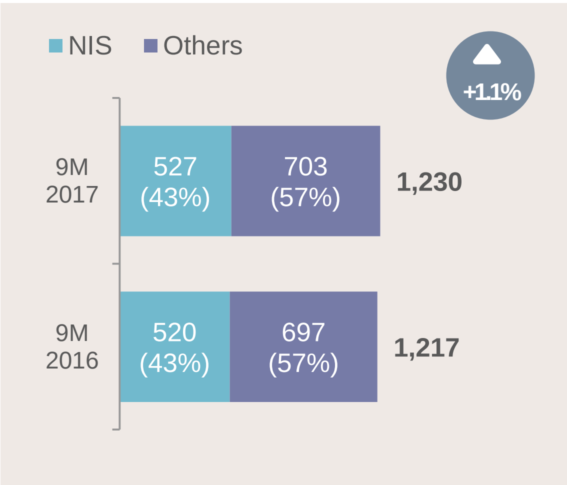


***Chart no. 5**: Retail market of motor fuels in the Republic of Serbia[11], thousand tonnes*

During the nine months of 2017, the retail market was increased by 1.1 percent in total year on year. NIS's share in the retail market has been stable.

The fuel consumption increase is related to transport growth, fleet and transit growth, as well as having a portion of diesel consumption restored to formal legal channels by marginalising the misuse of base oil and transferring a portion of consumption from the wholesale channel to the corporate client sub-channel, which is part of retail sales volumes.

[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 2017 were given based on estimates.
[11] The sales of NIS and other competitors include motor fuel (auto gas, gasoline, and diesel). LPG cylinders were not included. Data for 2017 were given based on estimates.

Bosnia and Herzegovina

The Ministry of Agriculture, Forestry and Water Management of the Republic of Srpska has approved a fuel subsidies programme for farmers. The quantity of subsidised fuel by hectare has been increased and the price at which farmers get the subsidised diesel fuel is lower than the regular retail price.

The import of motor fuel in Bosnia and Herzegovina has increased by 3.64 percent.

The number of petrol stations in Bosnia and Herzegovina has been on an increase, particularly in the segment of smaller retail chains. Although these chains have until recently been focused on the territories of the entities, most of them now aim for national network coverage and better positioning than their competitors.

In Bosnia and Herzegovina, 35[12] NIS petrol stations are active.

NIS share[13] in the total market of motor fuels is 12.2%, whereas in the retail market it amounts to 10.9%.

Bulgaria

Rompetrol has intensified its wholesale activities in Bulgaria.

The competition in the retail market is extremely intense both when it comes to prices, various loyalty programme offers and extending the ranges of fuels with additives.

In Bulgaria, 35 NIS petrol stations are active.

NIS share in the total market of motor fuels is 5.2%, whereas in the retail market it amounts to 4.4%.

Romania

The Government of Romania has taken a decision to increase the excise duties on petroleum products in two stages, on 15 September and 1 October.

MOL has opened two new petrol stations in Râșnov and Bușteni, and now has a network of 210 petrol stations in total. It is also continuing to implement the Fresh Corner gastronomic programme at 67 stations.

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 1.3%.

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[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

Q3 2017	Q3 2016	Δ[14]	Indicator	Unit of measure	9M 2017	9M 2016	Δ[15]
51.4	44.1	+16%	**Urals RCMB**	$/bbl	50.8	40.1	+27%
60.4	52.7	+15%	**Sales revenues**	bn RSD	167.8	134.1	+25%
7.7	4.5	+70%	**Net profit**	bn RSD	20.1	7.7	2.6x
11.7	9.3	+26%	**EBITDA**[16]	bn RSD	34.3	22.5	+53%
20.0	9.6	+109%	**OCF**	bn RSD	38.9	18.2	+114%
6.7	5.3	+25%	**CAPEX**[17]	bn RSD	16.6	14.4	+15%
45.8	41.2	+11%	**Accrued liabilities for taxes and other public revenue**[18]	bn RSD	126.0	117.5	+7%
671	708	-5%	**Total bank indebtedness**[19]	mn USD	671	708	-5%
1.65	1.76	-6%	**LTIF**[20]	%	1.65	1.76	-6%

Operating Indicators

Exploration and Production

Q3 2017	Q3 2016	Δ[21]	Indicator	Unit of measure	9M 2017	9M 2016	Δ[22]
352	365	-4%	**Oil and gas production**[23]	thousand t.o.e.	1,044	1,108	-6%
237	240	-1%	**Domestic oil production**[24]	thousand tonnes	696	733	-5%
1.49	0	+100%	**LTIF**	%	1.49	0	+100%
6.4	5.6	+13%	**EBITDA**	bn RSD	20.8	15.3	+36%
4.4	3.3	+34%	**CAPEX**[25]	bn RSD	11.4	10.8	+6%

The main focus of the "Exploration and Production" Block in the third 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.

Reservoir Development

Major GTA completion trend has been continued in third quarter of 2017.

FHF have been for the first time completed at the oilfields Bramalj and Majdan-plitko. In their wake the number of candidates for FHF and drilling increased. Other than that, within the programme of renewed testing of old wells, a deposit was put on stream within the Sirakovo oilfield. The programme of completing wells from non-working fluid of previous years has been successfully resumed.

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[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] 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.

[16] 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.

[17] Financing, VAT excluded.

[18] 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.

[19] Total bank indebtedness =Total debt to banks + Letters of Credit. As at September 30th,2017, this was USD 668.9 million of total debt + USD 1.9 million in Letters of Credit.

[20] 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.

[21] 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.

[22] 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.

[23] Domestic oil production includes gasoline and light condensate, whereas gas production takes into account commercial production of gas.

[24] With gasoline and light condensate.

[25] Financing, VAT excluded.

In terms of Squeeze cementing, 2 operations have been successfully completed at the satellite of the Kikinda-Varoš field, thus confirming the good prospects of the field’s main facility.

On the whole, production indices in the first nine months of 2017 spell an optimistic forecast and substantiate additional activities at the well count.

Exploratory drilling and well testing

Within the implementation of geological and exploratory works in the Exploration and Production, appraisal and exploratory wells *Ča*-16 and *Mesp*-1A, as well as the appraisal and exploratory well *Is*-X-5, have been tested and put into operation. Wells *Kiz*-2, *Ča*-5X and *Is*-X-6 are in the testing stage. Testing of the appraisal and exploratory well *Km*-X-1 is in the final stage, with hydraulic cracking scheduled to be performed by the end of the year. Drilling of the well *Lo*-X-1 started. Site and access road construction for *Ve*-3X is under way. Well *Ks*-X-1 has been conserved due to the high percentage of non-hydrocarbon gases (CO_2 and N_2) in the reservoir. Start of drilling at *Majd*-X-2 is scheduled by the end of the year.

3D Seismic Surveys

3D seismic survey has been completed at the exploration areas of Južni Banat I, Turija III and Morović.

Acquisition of *3D* seismic data at the exploration area of Južni Banat II started.

Complex seismic and geological interpretation of data from the exploration area of Turija II started, as well as processing of seismic data acquired at the exploration area of Južni Banat I. Processing of seismic data acquired at the exploration areas of Turija III and Morović is under way, as is the final stage of interpretation of full azimuthal anisotropic migration of *ES360* and *AVAZ* inversion within the implementation of science and research (NIR) development projects. All activities are performed within the scheduled deadlines.

International Projects

Preparatory works are under way at the exploration block Kiskunhalas in Hungary for the purpose of well testing expected in the fourth quarter.

Testing of all eight intervals of the well *Teremia*-1000 within the block *Ex*-7 has been completed, and the well has been conserved. Approval process for the program is under way at Romania's National Agency for Mineral Resources. The project of drilling Pesak Sud-1000 has been initiated, while the process of obtaining access to the site is under way. Permitting process related to seismic and exploration works (SIR) continues at blocks *Ex*-2 and *Ex*-3.

In Bosnia and Herzegovina, hydrodynamic measuring and approval of the project of conservation of Ob-2 are under way.

Operating Indicators

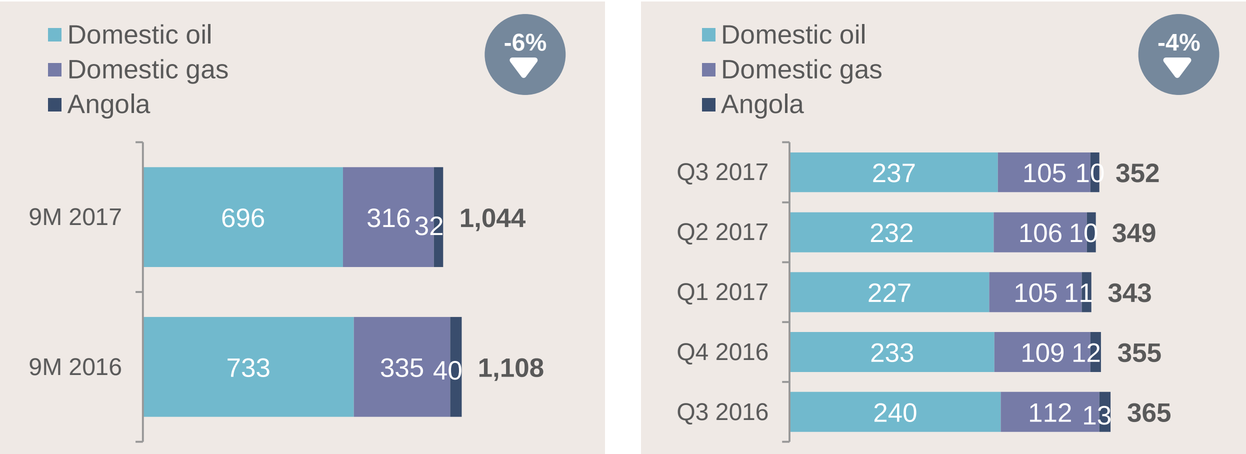


***Chart no. 6**: Oil and gas output, thousand t.o.e.*

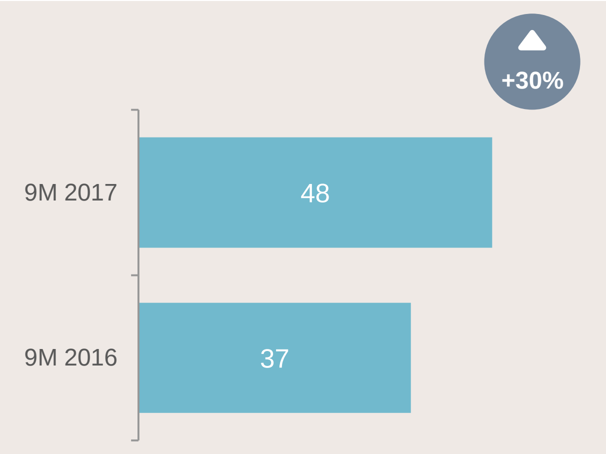
Volume of oil and gas production in first nine months of 2017 was down by 6% compared with same period previous year.

Services

Q3 2017	Q3 2016	Δ[26]	Indicator	Unit of measure	9M 2017	9M 2016	Δ[27]
17	15	+13%	**Wells finished**	Number of wells	48	37	+30%
3.26	3.26	0%	**LTIF**	%	3.26	3.26	0%
0.6	0.5	+20%	**EBITDA**	bn RSD	1.9	0.8	+140%
0.1	0.2	-66%	**CAPEX**[28]	bn RSD	0.3	0.3	-9%

Oilfield Services

Naftagas - Oilfield Services performed works in the first three quarters with 5 drilling rigs on average. Drilling of 48 new wells has been completed for the business needs of the Exploration and Production. Drilling of exploratory well *Teremia*-1000 in Romania as well as drilling of four appraisal wells in the country has been completed successfully. Implementation of the strategy "Technical Limits" increased drilling speed and also efficiency.



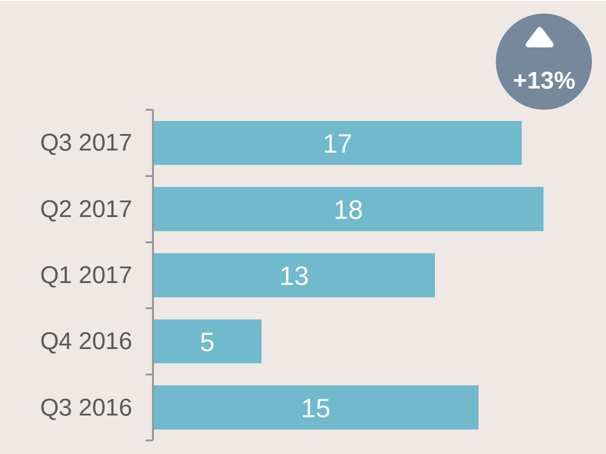


***Chart no. 7**: Number of completed wells*

Workover Production Unit performed works with 14 workover rigs. In the first three quarters this year, the total of 322 wells was subject to workover, including capital workover and completion of the well *Teremia*-1000 in Romania.

In the first nine months, the Well Workover Unit performed 4,933 operations, while Cementing and Stimulation Unit performed 1,286 operations. Seismic Services Unit successfully implemented Južni Banat I projects, 24 days before the deadline, and Turija III, 7 days before the deadline, as well as the project Morović *3D* - 25 days before the deadline. Works at the project of Južni Banat II started.

In the first nine months of 2017, the total of 929.98 km^2 of *3D* seismic data was acquired. Furthermore, gravimetric and geomagnetic survey resumed after several years.

Technical Services

Naftagas – Tehnicki servisi d.o.o. Zrenjanin successfully completed works at workover rigs *CW2*, *CW3*, *ID6*, while the works commenced to prepare mud system for the rig *ID5*. In addition, capital workover and rebranding of 20 pumping units were performed.

In the preceding period, works were performed to reconstruct *R*-1 and *R*-8 tanks in Elemir. Tender was won to reconstruct petrol station Zrenjanin 7 for the business needs of the Sales and Distributionlock.

In the third quarter of 2017, workover of the rig *S*-2400 in the POR was performed, and also works to repair leakage on the rig *EA*-4308.

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 is21.3 million kilometres.

[26] 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.
[27] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[28] Financing, VAT excluded.

There has been a completion of the project to procure 10 tank trucks with trailers for crude oil transportation as required by „Exploration and production" Block, registration and obtaining Authority to Carry Dangerous Goods (ADR) has been under way.

In the investment cycle, projects are under way to procure 10 flatbed semi-trailers and 2 low-bearing semi-trailers to transport the load of users from the units of the Exploration and Production Block and the Services Block.

Refining

Q3 2017	Q3 2016	Δ[29]	Indicator	Unit of measure	9M 2017	9M 2016	Δ[30]
968	626	+55%	**Volume of refining of crude oil and semi-finished products**	thousand tonnes	2.613	2,376	+10%
0,83	1.57	-47%	**LTIF**	%	0.83	1.57	-47%
4.5	1.3	3x	**EBITDA**[31]	bn RSD	9.5	4.9	2x
1.5	0.6	+141%	**CAPEX**[32]	bn RSD	3.6	1.3	+169%

Operation at extremely low temperatures early this year was analysed in detail and the lessons were drawn for future work under such conditions. MoC[33] procedures have been initiated, as well as the investment projects for removal of bottlenecks in the unit during the winter period. In the third quarter, activities were initiated to implement the projects of investment maintenance for the purpose of preparation for winter.

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

In April 2017, preparations of equipment were made for summer mode of operation. Capacity constraints of BA-2101 furnace were removed, and the test run for bottlenecks to achieve the maximum capacity of FCC unit was performed.

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

In July 2017, target projects were implemented to resolve bottlenecks in terms of achieving maximum capacity in summer conditions, with the fog system at *S*-2600/*S*-2300.

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. The application of LEAN tools for optimization of the scheduled maintenance process has started, as well as the structured touring of the facilities aimed at improving the process efficiency and effectiveness. OMS methodology was prepared to determine equipment criticality and it started being applied at the test rig in the POR. RCM (Reliability Centred Maintenance) methodology is in the stage of development and start of implementation.

Industrial volunteer fire brigade took silver medal at the International Fire Brigade Competition in Australia.

New procedure for issuing work permits - Job Safety Analysis (JSA) started being implemented.

The Pančevo Oil Refinery obtained IPPC permit (integrated permit) concerning integrated environmental pollution prevention and control, which proves that the production process in the Refinery is entirely adjusted to the highest domestic and European standards in the area of environmental protection.

Effect of implementation of programme for increasing the operational efficiency amounted to 1.3 billion dinars in first nine months of 2017.

[29] 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.
[30] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[31] 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.
[32] Financing, VAT excluded.
[33] Management of changes.

„Bottom of the Barrel" Project

The energy permit has been obtained, as well as the construction permit for construction of a temporary access road, and the permit for facility demolition.

The Review Commission conducted expert analysis of Preliminary Designs, submitting positive opinion which is a precondition to obtain Building Permit. Public review was organized and approval obtained for the Environmental Impact Study.

Building permit was obtained and construction works commenced within the working package 1[34] of the project Bottom-of-the-Barrel. *EPCm* contract was signed for the working package 2[35] with the selected contractor. Contractor selection is under way for the steel structure.

60% of the 3*D* model of the Bottom-of-the-Barrel project is under consideration for the working package 1[36].

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.

In April 2017, the scheduled overhaul of the Alkylation unit (S-2600) was completed, including replacement of 19 pipelines, repair of 9 additional lines and implementation of other investment projects and inspection of other equipment at the unit in order to increase its reliability.

In June 2017, *SARU* unit was overhauled and put into operation.

In July 2017, *S*-200 was overhauled, while *FCC* unit was repaired and put into operation in August. In September, current overhaul was performed at *S*-2400 (diesel fuel dewaxing unit).

Basket of Raw Materials Optimization

In view of further optimization of the feedstock basket, the new Novy Port crude is refined.

Other Projects

Damaged thermal insulation was replaced.

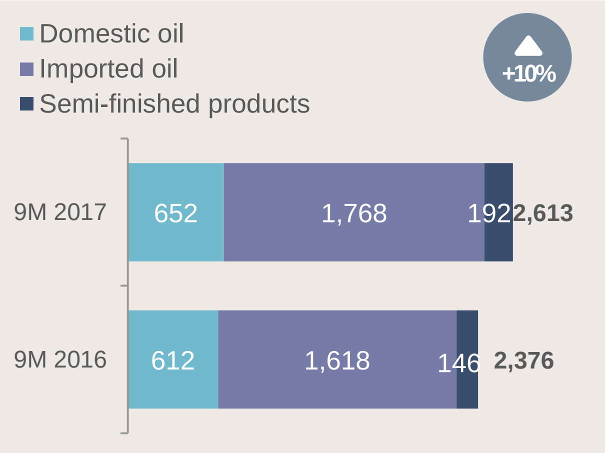
Revitalization on old Claus Unit (C-2450) was performed.

The project "DC-2301 Reconstruction" (bottlenecks) has been completed.

The project "Introduction of Hydrogen-Rich Gas from C-300 to C-5000" has been completed.

The project "Optimization of Steam Lines in Manipulation" was completed.

Operating Indicators



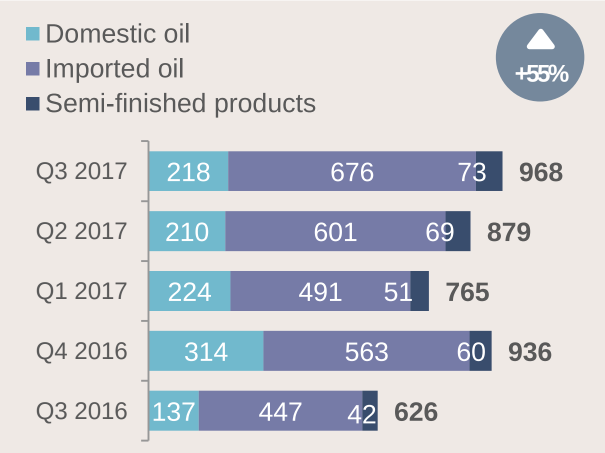


***Chart no. 8**: Refining volume, thousand tonnes*

In the first nine months of 2017, refining volume rose by 10% year-on-year.

The volume of refining is the result of meeting market requirements, available stocks and raw materials basket optimization.

[34] Construction of delayed coking unit and new auxiliary units: for amine regeneration, sour water stripper with phenol removal unit.
[35] Reconstruction of the existing units connected with the delayed coking unit, namely *MHC/DHT*, *LPG*, *SRU*.
[36] Construction of delayed coking unit and new auxiliary units: for amine regeneration, sour water stripper with phenol removal unit.

Sales and Distribution

Q3 2017	Q3 2016	Δ[37]	Indicator	Unit of measure	9M 2017	9M 2016	Δ[38]
962	861	+12%	**Total sales volume of petroleum products[39]**	thousand tonnes	2,514	2,414	+4%
88	68	+29%	**Sales volume – foreign assets[40]**	thousand tonnes	233	191	+22%
713	668	+7%	**Sales volume of petroleum products in the domestic market[41]**	thousand tonnes	1,922	1,885	+2%
602	570	+6%	**Motor fuels[42]**	thousand tonnes	1,564	1,529	+2%
253	243	+4%	**Retail[43]**	thousand tonnes	693	668	+4%
1.20	1.59	-25%	**LTIF**	%	1.20	1.59	-25%
3.2	3.5	-9%	**EBITDA**	bn RSD	8.4	8.3	+1%
0.6	0.3	+105%	**CAPEX[44]**	bn RSD	0.8	0.5	+71%

The share in the petroleum product retail market in Serbia for the third quarter of 2017 rose by 0.5% year-on-year, while the share grew by 0.2% in the first nine months of 2017 year-on-year.

Points of Purchase[45]

NIS Group owns over 400 active points of purchase. Most of them, i.e. 330[46] points of purchase are located in the Republic of Serbia. In addition to 10 internal petrol stations, NIS owns 320[47] public petrol stations (16 thereof in GAZPROM brand).

In the regional countries, NIS owns 35[48] 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).

In Serbia, following completion of total reconstruction works, two petrol stations were put into operation: Jagodina 2 and Ruma 1. Works started to totally reconstruct 5 more petrol stations: Kikinda 4, Novi Pazar 2, Jagodina 3, Zrenjanin 2 and Topola, and also to build petrol station Tošin bunar. The petrol stations are expected to be operational by the end of 2017. Bagrdan petrol station was bought. In the fourth quarter of 2017, the petrol station is scheduled to be rebranded into GAZPROM brand.

Loyalty Programs and Marketing Activities

Since March 31st, 2017, when G-Drive fuel (G-Drive100 petrol and G-Drive Diesel) was introduced at three NIS Petrol fuelling stations as a pilot project, and as at October 30th, 2017, the sales of this fuel has started at 84 NIS Petrol fuelling stations in total.

In mid-March 2017, G-Drive Diesel fuel was introduced at GAZPROM petrol stations in Bosnia and Herzegovina. G-Drive Diesel reaches average share of 33% 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 September 30th, 2017, over 490 thousand cards were issued and natural persons participating in this program took 47% share in the total generated sales. In July 2017 the program was joined by another partner Tehnomanija which is awarding owners of the card "On the Road with Us" with bonus points for every purchase. The bonus points may be used solely at NIS Petrol and GAZPROM petrol stations.

In July, loyalty program titled "Together on the Road" was launched in Bosnia and Herzegovina. By 9 October 2017, more than 21,000 cards were issued. Program "On the Road with Us" was launched in Bulgaria on 15 September 2017, and by 9 October 2017 more than 7,000 cards were issued.

[37] 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.
[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.
[39] Including the internal sales volume within NIS Group (i.e. between segments).
[40] The sales volume of foreign assets includes sales generated by the subsidiaries of NIS abroad (retail and wholesale).
[41] Domestic market sales includes sales volumes invoiced in local currency (RSD) and does not include sales volumes sold to foreign customers and invoiced in foreign currency.
[42] Total sales of motor fuels in Serbia and in foreign assets.
[43] Total retail in Serbia and in foreign assets.
[44] Financing, VAT excluded.
[45] As at September 30th, 2017.
[46] This includes 5 petrol stations that on September 30th 2017 are in process of total reconstruction.
[47] This includes 5 petrol stations that on September 30th 2017 are in process of total reconstruction.
[48] 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.

Agro Card loyalty program was intended for farmers and has been developed from the end of 2013. By September 30th, 2017, over 123 thousand cards were realised. In May 2017, the NIS Agro Card discount scheme was revised.

Operating Indicators[49]

In the first nine months of 2017, sales volume rose by 4% year-on-year, with the total sales volume amounting to 2,514 thousand tons.

- Retail in Serbia - retail volume growth of 1% resulted from the growth in diesel fuel, as well as motor fuel sales.
- Wholesale in Serbia - growth of 2% mainly due to non-energy fuels.
- Export - growth of 6% is the result of the growth of energy and non-energy fuel export.
- Foreign assets - growth of sales volume by 22% (retail channel by 12% and wholesale channel by 54%).

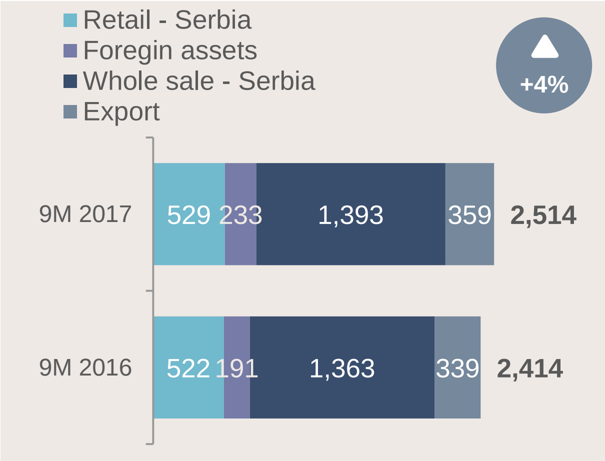
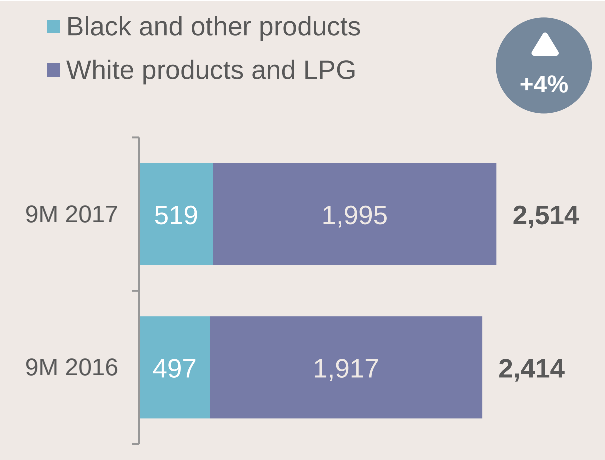


***Chart no. 9:** Volume of sales*[50]*, thousand tonnes*



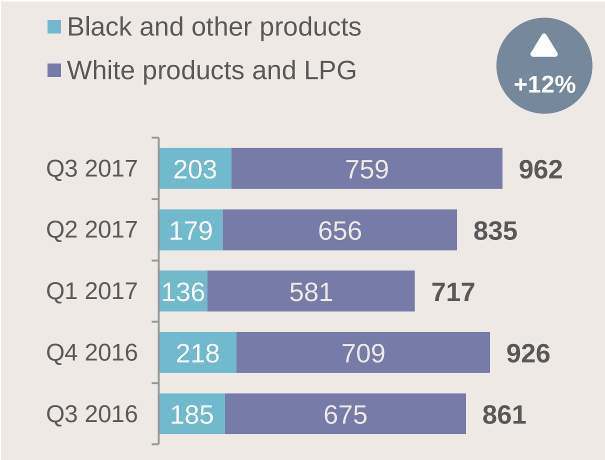


***Chart no. 10**: Structure of sales*[51]*, thousand tonnes*

[49] Including internal sales within NIS Group i.e. between segments (9M 2017: 11.4 thousand tonnes; 9M 2016: 9.2 thousand tonnes).
[50] Including internal sales within NIS Group i.e. between segments (9M 2017: 11.4 thousand tonnes; 9M 2016: 9.2 thousand tonnes).
[51] Including internal sales within NIS Group i.e. between segments (9M 2017: 11.4 thousand tonnes; 9M 2016: 9.2 thousand tonnes).

Energy

Q3 2017	Q3 2016	Δ[52]	Indicator	Unit of measure	9M 2017	9M 2016	Δ[53]
34,191	29,969	+14%	**Electricity Generation**	MWh	117,967	104,305	+13%
0.00	3.02	-100%	**LTIF**	%	0.00	3.02	-100%
0.2	0.3	-11%	**EBITDA**[54]	bn RSD	0.8	0.8	-1%
0.1	1.0	-89%	**CAPEX**[55]	bn RSD	0.2	1.3	-82%

The first nine months of 2017 was very successful for the "Energy" Block. EBITDA of regular operation amounts to 7.2 million dollars. The contract quantity of electricity sale for 2017 amounts to 2.51 TWh. Further activities for business development and operational efficiency continue.

Gas Monetization

Documentation has been prepared to approve investment construction project for the small power plant Turija 2. Announcement of the tender to deliver main equipment and procure designing service is scheduled for the fourth quarter of 2017, while the startup is scheduled for the fourth quarter of 2018.

For the purpose of reconstructing small power plant Velebit and in order to obtain a stimulating price for electric energy, technical and economic analysis has been performed and building permit obtained. Tendering procedures are under way to procure the service of the power plant reconstruction, construction of the heating substation and connection to the field heating system and delivery of heat accumulators. Works are expected to commence by the end of 2017.

In order to reduce heating costs of consumers within the former Novi Sad Oil Refinery, implementation of the project of heating source decentralization commenced in 2017. Tendering procedure is under way to select the supplier of steam boilers and cogenerator overhaul. Preparation of technical documentation by the selected designer is under way. Construction of reverse condensate pipeline is under way, with its completion scheduled by the end of October 2017. Completion of all works is scheduled for the second quarter of 2018.

Works to construct CNG unit at the gas field of Ostrovo were completed, and the unit had its trial run on 29 March 2017 when commercial sale of gas also started. Capitalization of the facility with a permanent work permit is expected in the fourth quarter of 2017. Main equipment has been delivered for the needs of the project of constructing CNG filling station at the petrol station of Žarkovo 2 (Belgrade). Preparation of technical documentation and the process of obtaining permits and approvals are under way. Works are expected to start by the end of 2017. Construction of a compressed natural gas unit at the future petrol station Block 45 in New Belgrade has been approved. Implementation is scheduled for the second half of 2018, following completion of the construction of the petrol station Block 45.Technical documentation is being prepared by the selected designer/contractor to expand the capacity by installing an additional dispenser for CNG sale at the fuelling station SSG Novi Sad 10. Works will be completed by the end of 2017. For the purpose of implementing the project of reconstruction of the CNG production unit at the Palić field, design documentation has been prepared and submitted for coordination purposes in order to approve the project. Technical Assignments for compressor modification and preparation of technical documentation for performance of works have also been prepared.

Electricity Trade

In the area of electricity trade, NIS operates 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.

[52] 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.
[53] 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.
[54] EBITDA of Energy 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 Refining Block.
[55] Financing, VAT excluded.

Operating Indicators

In the first nine months of 2017, total production amounting to 117,967 MWh of electricity was achieved. In order to produce electricity at cogeneration units, 28.6 million m^3 of non-commercial gas were used.

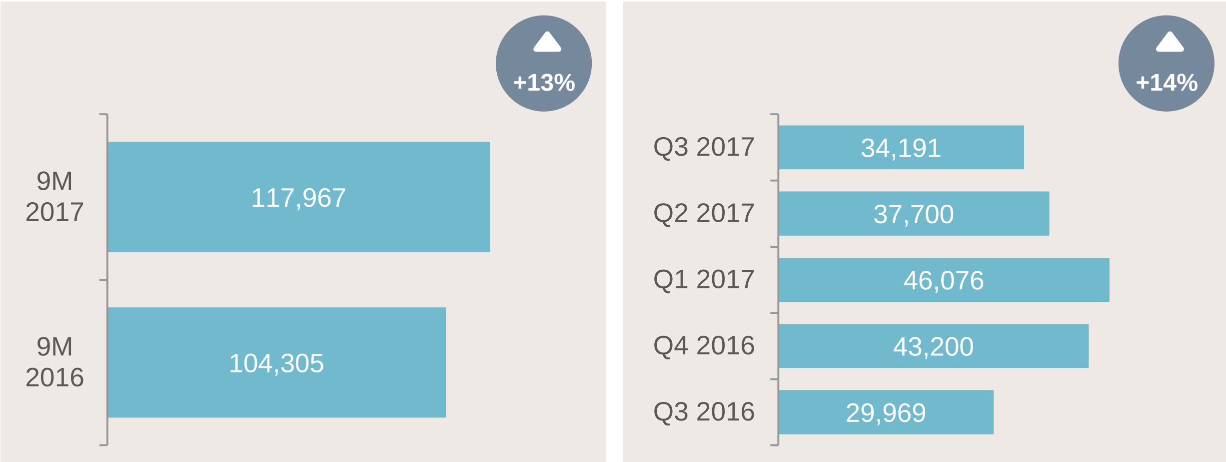


Chart no. 11*: Electricity output, MWh*[56]

Financial Indicators

Net profit

Net profit for the first nine months of 2017 was many times higher than the net profit generated in the same period last year and amounted to 20.1 billion dinars.

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

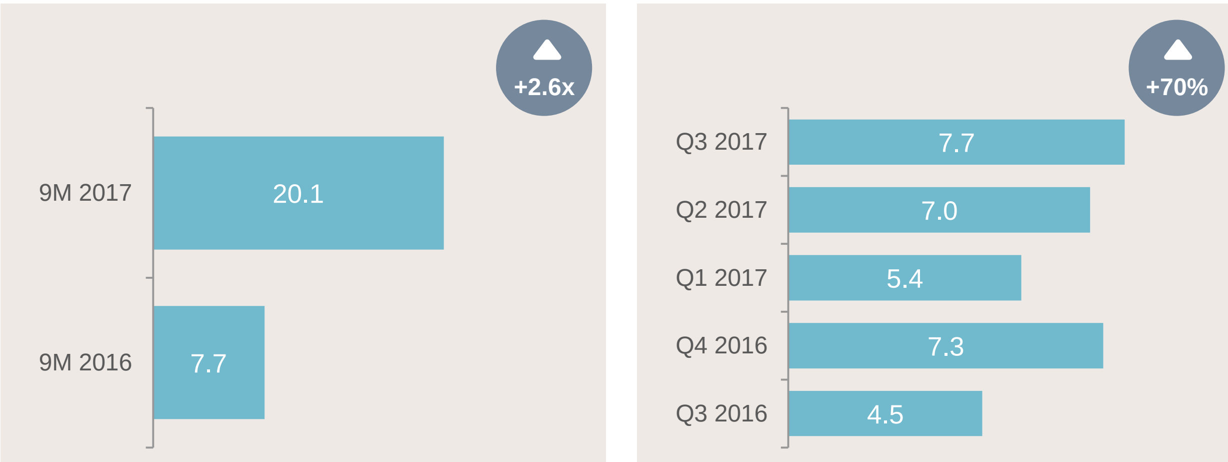


Chart no. 12*: Net profit, bn RSD*

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

EBITDA

EBITDA for the first nine months of 2017 was 53% higher than in the first nine months of 2016 and amounted to 34.3 billion dinars.

- The growth of prices of crude oil and petroleum products,
- Measures for improving operational efficiency and reduction of costs.

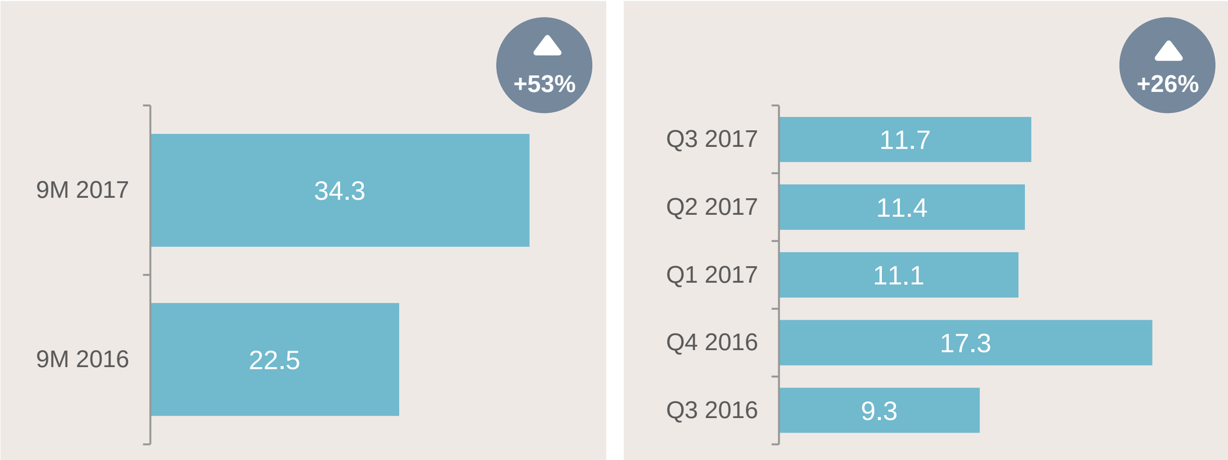


***Chart no. 13**: EBITDA, bn RSD*

OCF

In the first nine months of 2017, operating cash flow amounted to 38.9 billion dinars and was greater than the one in the same period of 2016 by 114%.

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

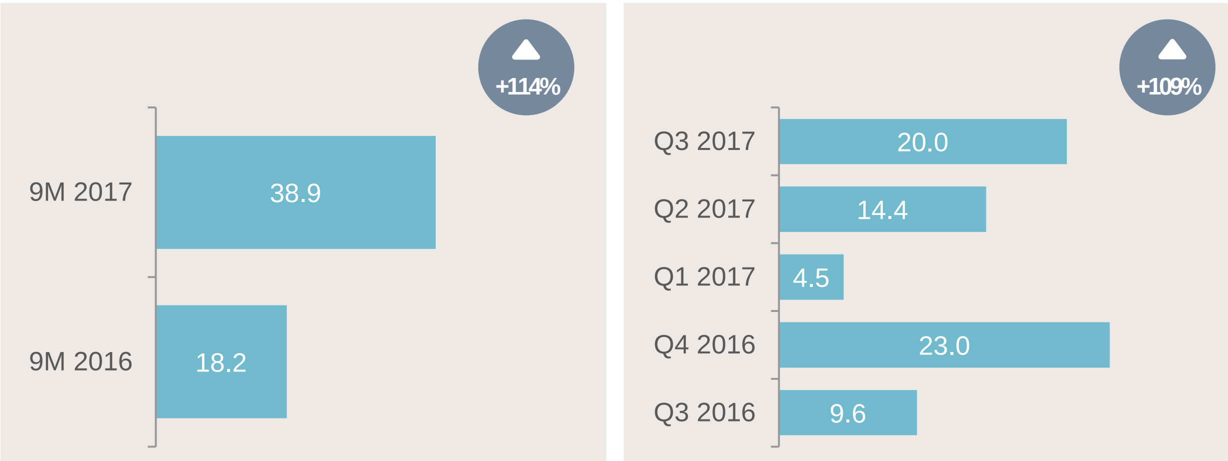


***Chart no. 14**: OCF, bn RSD*

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 nine months of 2017, 16.65 billion dinars was allocated to finance investments, which is 15% more than the amount allocated in 2016.

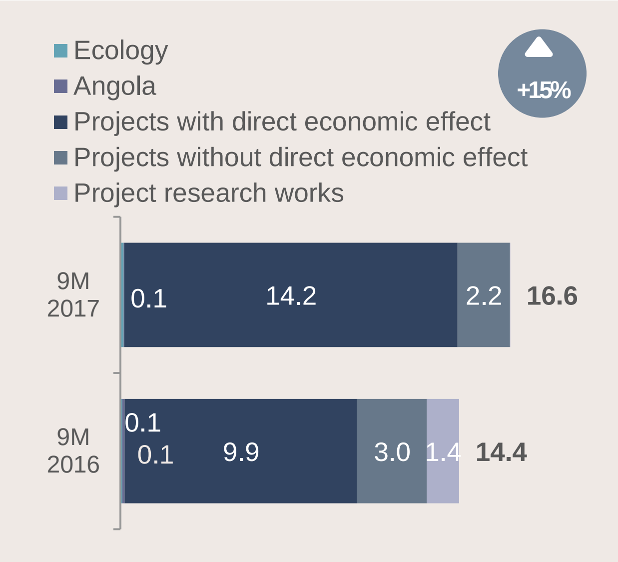


***Chart no. 15**: CAPEX[57], bn RSD*

The most important investments in oil and gas production in the first nine months of 2017 were the following: investment into geological and technical measures, drilling of development wells, program of 3D seismic surveys and drilling of exploratory wells in the Republic of Serbia, as well as investment into infrastructural projects and investment in concession rights.

The largest investment within the Refining was allocated for refining modernization within the refinery, namely for implementation of the project "Development of Refining within the Refinery (Bottom-of-the-Barrel Increase)" aiming to maximize usage of capacities and infrastructure of the Pančevo Oil Refinery. In addition, considerable investments were allocated for the program of production efficiency increase, as well as the program of investment maintenance, investments related to environmental protection and projects of harmonizing legal norms. A smaller share of investments was allocated for the implementation of corporate projects of production automation and for the procurement of capital assets.

In the area of sales, the most important investments were related to purchase, reconstruction and construction of new petrol stations in Serbia. Additionally, significant investments were allocated for logistics projects and other retail projects in Serbia.

[57] Financing, VAT excluded.

Indebtedness

In the first nine months of 2017, the debt towards banks slightly grew, up to the level of USD 668.9 million with the increase of the share of credit in EUR compared to the situation as of 31 December 2016. Furthermore, the debt towards the parent company PJSC Gazrom Neft has also been reduced amounting presently to EUR 267 million.

Long-term funding sources have been ensured enabling credit portfolio restructuring in the first nine months, in terms of maturity date extension and reduction of the price of financing. Negotiations with banks and other financial institutions are continuously under way to find additional long-term funding sources, as well as funding sources not limited by sanctions, in order for the process of portfolio restructuring in terms of maturity, currency and price, to continue in 2018 and 2019, within the limits of allowable debt/EBITDA ratio.

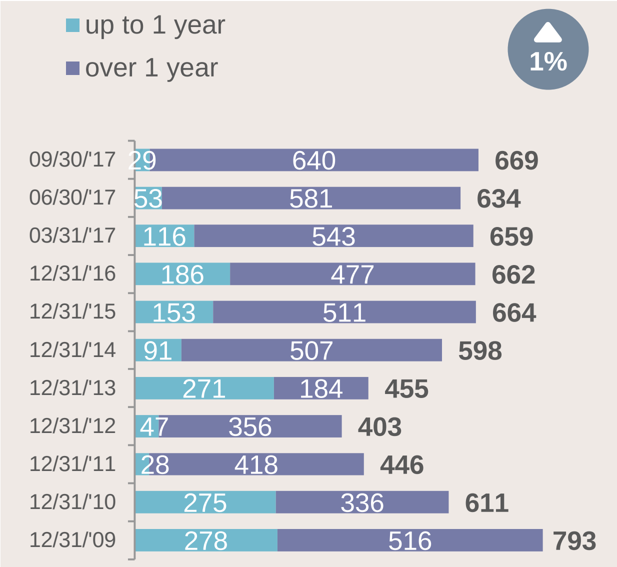


***Chart no. 16**: Total bank debt trends with maturity structure, mn USD*

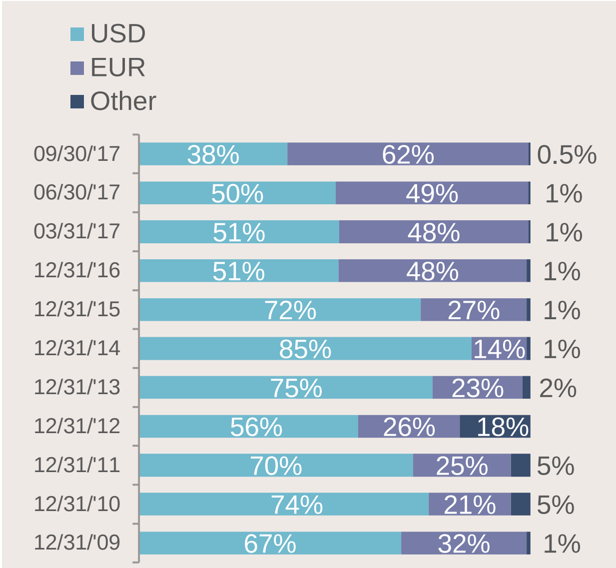


***Chart no. 17**: Total bank debt structure, by currencies, in %*

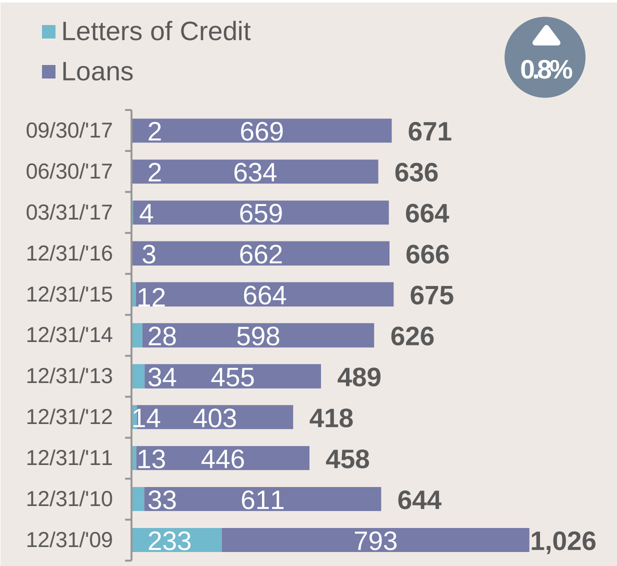


***Chart no. 18**: Total bank indebtedness[58], mn USD*

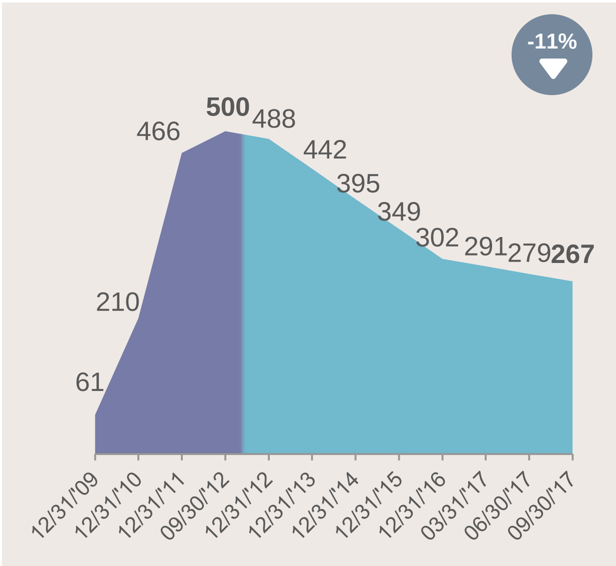


***Chart no. 19**: GPN Loan, mn EUR*

[58] In addition to debt to banks and Letters of Credit, as at September 30th, 2017 NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of USD 30.3 million, corporate guarantees in the amount of USD 63.4 million and signed Letters of Intent in the amount of USD 0.2 million and financial leasing in the amount of USD 3.98 million.

Taxes and other public revenues

Analytical review of accrued liabilities from taxes and other public revenues[59]

NIS j.s.c. Novi Sad	9M 2017	9M 2016	∆[60]
Social insurance contributions paid by employer	1.13	1.09	+4%
Corporate tax	2.85	0.81	+252%
Value-added tax	16.27	15.79	+3%
Excise duties	78.32	78.47	0%
Commodity reserves fee	4.37	4.47	-2%
Customs duties	0.55	0.30	+84%
Royalty	0.88	0.73	+21%
Other taxes	0.99	0.94	+6%
Total	**105.37**	**102.60**	**+3%**
NIS subsidiaries in Serbia[61]			
Social insurance contributions paid by employer	0,37	0.35	+3%
Corporate tax	0,21	0.06	+282%
Value-added tax	1,00	0.68	+46%
Excise duties	0,00	0.00	/
Customs duties	0,02	0.04	-41%
Royalty	0,00	0.00	/
Other taxes	0,06	0.06	-11%
Total	**1.65**	**1.20**	**+38%**
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	**107.2**	**103.8**	**+3%**
NIS Subsidiaries in region and Angola			
Social insurance contributions paid by employer	0.05	0.05	+7%
Corporate tax	1,942	0.17	11x
Value-added tax	1.16	0.96	+21%
Excise duties	9.26	7.61	+22%
Customs duties	5.30	4.36	+22%
Royalty	0.00	0.00	/
Other taxes	0.08	0.08	-6%
Total	**17.79**	**13.23**	**+34%**
Deferred taxes (total for Group)	1.22	0.45	+173%
Total NIS Group[62]	**126.04**	**117.48**	**+7%**

[59] In billions of RSD.
[60] 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.
[61] 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.
[62] Including taxes and other liabilities from public revenues for regional subsidiaries, profit tax in Angola and deferred tax assets.

Ratio Indicators[63]

	9M 2017	9M 2016
Return on total capital (Gross profit/total capital)	12%	5%
Net return on equity (Net profit/shareholders equity)	25%	9%
Operating net profit (operating profit/net sales income[64])	15%	9%
	9M 2017	**FY 2016**
Degree of leverage (short term and long term liabilities/equity)	71%	86%
Degree of leverage (short term and long term liabilities/shareholders equity)	190%	212%
1st degree liquidity (cash and cash equivalents/short term liabilities)	43%	33%
2nd degree liquidity ((current assets – inventories)/short term liabilities)	122%	98%
Net working fund ratio ((current assets – current liabilities)/total assets)	11%	7%

Operational Efficiency Improvement

The estimated effect of measures to increase the operational efficiency on EBITDA ratio in 2017 is 6.7 billion RSD. In addition, the expected effect from the prevented damage is 0.8 billion RSD.

The effect of measures for operational efficiency improvement amounted to 5.1 billion RSD in first nine months of 2017.

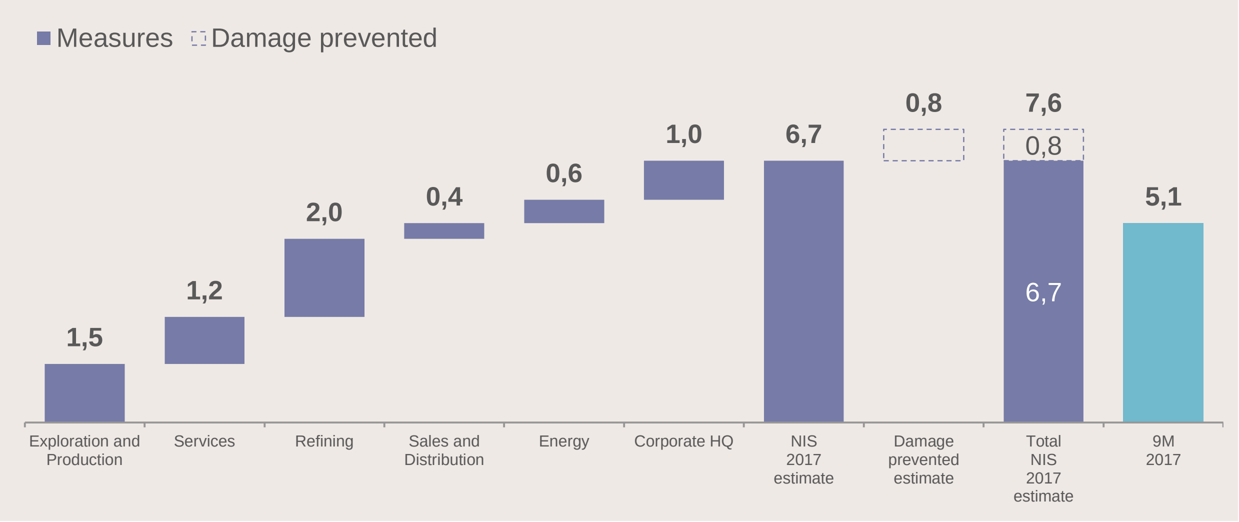


***Chart no. 20**: Effect of operational efficiency improvement measures on the EBITDA indicator*

[63] Racio indicators are calculated from financial statements prepared in Accordance with the Law on Accounting of the Republic of Serbia and regulations issued by Ministry of Finance of the Republic of Serbia. These financial statements are disclosed on forms stipulated by the Securities Exchange Commission of the Republic of Serbia on corporate web site in Downolad section of part for Investors (http://ir.nis.eu/en/download-center/).

[64] 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	48,712,094	29.87%
Societe Generale banka Srbija a.d. – custody account	1,210,994	0.74%
Unicredit Bank Serbia a.d. – custody account	556,040	0.34%
Societe Generale banka Srbija a.d. – custody account	327.507	0,20%
Global Macro Capital Oportunities	243.709	0,15%
Ativ fond d.o.o.	236.330	0,15%
AWLL Communications d.o.o. Belgrade	227.352	0,14%
Raiffeisen bank a.d. Belgrade – custody account	212,127	0,13%
Keramika Jovanovic d.o.o.	203.824	0,13%
Other shareholders	19.564.536	12,00%
Total number of shareholders as at September 30th, 2017:		**2.119.831**

Share Trading and Indicators per Share

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

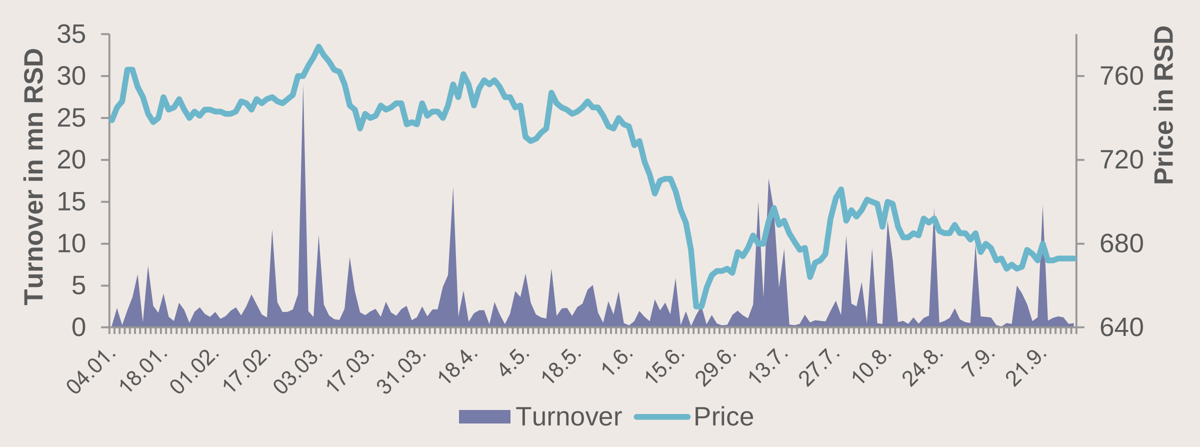


***Chart no. 21**: Price and turnover trends in first nine months of 2017*

Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in first nine months of 2017	
Last price (September 30th, 2017)	673 RSD
Highest price (March 3rd, 2017)	775 RSD
Lowest price (June 21st, 2017)	640 RSD
Total turnover	541,390,117 RSD
Total volume (number of shares)	751,460 shares
Total number of transactions	16,877 transactions
Market capitalization as at September 30th, 2017	109,739,649,200 RSD
EPS[65]	124.42 RSD
Consolidated EPS[66]	123.46 RSD
P/E ratio	5.4
Consolidated P/E ratio	5.5
Book value as at September 30th, 2017	1,419.36 RSD
Consolidated book value as at September 30th, 2017	1,337.21 RSD
P/BV ratio	0.5
Consolidated P/BV ratio	0.5

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

[65] For nine months period ended September 30th, 2017.
[66] For nine months period ended September 30th, 2017.

Dividends

	2009	2010	2011	2012	2013	2014	2015	2016
Net profit (loss), bn RSD[67]	(4.4)	16.5[68]	40.6[69]	49.5	52.3	30.6	16.1	16.1
Total amount of dividend, bn RSD	0.00	0.00	0.00	12.4	13.1	7.6	4.0	4.0
Payment ratio	-	-	-	25%	25%	25%	25%	25%
Earnings per share[70]**, RSD**	-	101.1	249.0	303.3	320.9	187.4	98.8	98.6
Dividend per share, gross, RSD	0.00	0.00	0.00	75.83	80.22	46.85	24.69	24.66
Share price as at December 31st, RSD	-	475	605	736	927	775	600	740
Shareholders' dividend yield, in %[71]	-	-	-	10.3	8.7	6.0	4.1	3.3

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.

[67] Net profit of NIS j.s.c. Novi Sad.
[68] Net profit used for covering accumulated losses.
[69] Net profit used for covering accumulated losses.
[70] For NIS j.s.c. Novi Sad.
[71] 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	September 30th, 2017			September 30th, 2016		
	Employees	Leasing	Total	Employees	Leasing	Total
NIS j.s.c. Novi Sad	**4,080**	**3,530**	**7,610**	**3,958**	**3,559**	**7,517**
Exploration and Production	800	218	1,018	782	219	1,001
Services	87	22	109	83	24	107
Refining	865	35	900	776	32	808
Sales and Distribution	964	2,770	3,734	965	2,821	3,786
Energy	247	25	272	243	20	263
The Corporate Headquarters	1,055	460	1,515	1.047	443	1.490
Representative Offices and Branches	62	0	62	62	0	62
Subsidiaries in the country	**1,387**	**1,611**	**2,998**	**1,400**	**1,563**	**2,963**
Naftagas – Naftni servisi d.o.o. Novi Sad[72]	588	840	1,428	601	780	1.381
Naftagas – Tehnički servisi d.o.o. Zrenjanin	395	468	863	400	487	887
Naftagas – Transport d.o.o. Novi Sad	97	275	372	104	273	377
NTC NIS Naftagas d.o.o. Novi Sad	307	28	335	295	23	318
Subsidiaries abroad	**85**	**1**	**86**	**94**	**1**	**95**
NIS Petrol e.o.o.d. Sofia (Bulgaria)	36	0	36	41	0	41
NIS Petrol s.r.l. Bucharest (Romania)	25	0	25	29	0	29
NIS Petrol d.o.o. Banja Luka (B&H)	19	0	19	17	0	17
Jadran Naftagas d.o.o Banja Luka (B&H)	5	0	5	6	0	6
Panon Naftagas k.f.t. Budapest (Hungary)	0	1	1	1	1	2
Other subsidiaries	**565**	**103**	**668**	**550**	**111**	**661**
O Zone a.d. Beograd	5	103	108	7	111	118
NIS Overseas o.o.o. Saint Petersburg (Russian Federation)	117	0	117	118	0	118
NIS Svetlost d.o.o. Bujanovac	0	0	0	0	0	0
G Petrol d.o.o. Sarajevo (B&H)	443	0	443	425	0	425
TOTAL:	**6,117**	**5,245**	**11,362**	**6,002**	**5,234**	**11,236**

[72] Including employees in brances.

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	September 30th, 2017 *(unaudited)*	December 31st, 2016
ASSETS			
Current assets			
Cash and cash equivalents	6	19,839,057	20,053,651
Short-term financial assets	7	15,198,354	4,536,841
Trade and other receivables	8	32,513,080	39,126,567
Inventories	9	26,831,214	23,479,232
Current income tax prepayments		-	128,703
Other current assets	10	5,685,880	5,217,095
Non-current assets held for sale		101,798	-
Total current assets		**100,169,383**	**92,542,089**
Non-current assets			
Property, plant and equipment	11	231,066,344	224,558,949
Investment property		1,581,182	1,549,663
Intangible assets		3,111,477	3,705,857
Investments in joint venture		1,038,800	
Investments in subsidiaries		13,425,586	
Trade and other non-current receivables	12	2,865	9,294,969
Long-term financial assets	13	29,570,882	32,576,641
Deferred tax assets		2,838,273	4,059,076
Other non-current assets	14	4,072,082	3,891,821
Total non-current assets		**286,707,491**	**294,118,407**
Total assets		**386,876,874**	**386,660,496**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	15	10,259,252	23,014,915
Trade and other payables	16	25,300,725	30,262,793
Other current liabilities	17	4,103,264	4,213,154
Current income tax payable		3,282,875	
Other taxes payable	18	9,313,059	9,349,638
Provisions for liabilities and charges		2,704,716	1,956,120
Total current liabilities		**54,963,891**	**68,796,620**
Non-current liabilities			
Long-term debt	19	91,350,793	93,321,921
Long-term trade and other payables		-	1,859
Provisions for liabilities and charges		9,120,929	9,365,454
Total non-current liabilities		**100,471,722**	**102,689,234**
Equity			
Share capital		81,530,200	81,530,200
Reserves		18,536	14,088
Retained earnings		149,892,525	133,630,354
Total equity		**231,441,261**	**215,174,642**
Total liabilities and shareholder's equity		**386,876,874**	**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

	Note	Nine months period ended September 30th 2017 (unaudited)	2016 (unaudited)
Sales of petroleum products, oil and gas		140,336,863	112,941,379
Other revenues		13,070,575	11,023,736
Total revenue from sales	**5**	**153,407,438**	**123,965,115**
Purchases of oil, gas and petroleum products		(80,408,250)	(64,003,637)
Production and manufacturing expenses	20	(21,776,759)	(20,937,883)
Selling, general and administrative expenses	21	(15,193,947)	(14,925,163)
Transportation expenses		(791,895)	(745,364)
Depreciation, depletion and amortization		(10,525,965)	(10,027,762)
Taxes other than income tax		(3,006,015)	(2,761,412)
Exploration expenses		(10,790)	-
Total operating expenses		**(131,713,621)**	**(113,401,221)**
Other (expenses) income, net		(583,279)	42,173
Operating profit		**21,110,538**	**10,606,067**
Net foreign exchange gain	22	6,169,965	268,106
Finance income	23	1,059,700	899,786
Finance expenses	24	(2,058,521)	(2,227,014)
Total other income (expense)		**5,171,144**	**(1,059,122)**
Profit before income tax		**26,281,682**	**9,546,945**
Current income tax expense		(4,777,638)	(972,331)
Deferred tax expense		(1,220,804)	(430,792)
Total income tax expense		**(5,998,442)**	**(1,403,123)**
Profit for the period		**20,283,240**	**8,143,822**
Other comprehensive profit (loss):			
Components of other comprehensive income that will not be reclassified to profit or loss, net of tax			
Revaluation of 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		3,049	539
Other comprehensive profit (loss) for the period		**4,448**	**539**
Total comprehensive income for the period		**20,287,688**	**8,144,361**
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		124.42	49.95
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

Nine months period ended September 30th, 2017 and 2016
(unaudited)

	Share capital	Reserves	Retained earnings	Total
Balance as at January 1st, 2016	**81,530,200**	**(79,564)**	**121,564,459**	**203,015,095**
Profit for the period	-	-	8,143,822	8,143,822
Other comprehensive income (loss)				
Change in value of available-for-sale financial assets	-	539	-	539
Total comprehensive income (loss) for the period	-	539	8,143,822	8,144,361
Dividend distribution	-	-	(4,025,961)	(4,025,961)
Total transactions with owners, recorded in equity	**-**	**-**	**(4,025,961)**	**(4,205,961)**
Balance as at September 30th, 2016	**81,530,200**	**(79,025)**	**125,682,320**	**207,133,495**
Balance as at January 1st, 2017	**81,530,200**	**14,088**	**133,630,354**	**215,174,642**
Profit for the period	-	-	20,283,240	20,283,240
Other comprehensive income/(loss)				
Change in value of available-for-sale financial assets	-	3,049	-	3,049
Revaluation of property, plant and equipment transferred to investment property	-	1,399	-	1,399
Total comprehensive income (loss) for the period	**-**	**4,448**	**20,283,240**	**20,287,688**
Dividend distribution	-	-	(4,021,069)	(4,021,069)
Total transactions with owners, recorded in equity	**-**	**-**	**(4,021,069)**	**(4,021,069)**
Balance as at September 30th, 2017	**81,530,200**	**18,536**	**149,892,525**	**231,441,261**

In thousand RSD

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

Statement of Cash Flows

	Note	Nine months period ended September 30th 2017 *(unaudited)*	2016 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**26,281,682**	**9,546,945**
Adjustments for:			
Finance expenses	24	2,058,521	2,227,014
Finance income	25	(1,059,700)	(899,786)
Net unrealised foreign exchange losses (gain)		(5,324,247)	2,360,792
Depreciation, depletion and amortization		10,525,965	10,027,762
Adjustments for other provisions		478,381	375,704
Allowance for doubtful accounts		217,828	297,398
Payables write off		(2,867)	(1,757)
Other non-cash items		211,316	(108,290)
Operating cash flow before changes in working capital		**7,105,197**	**14,278,837**
Changes in working capital:			
Trade and other receivables		15,900,505	1,902,750
Inventories		(3,417,644)	1,997,494
Other current assets		(1,239,968)	(589,303)
Trade payables and other current liabilities		(4,106,475)	(5,335,351)
Other taxes payable		(35,181)	(442,453)
Total effect on working capital changes		**7,101,237**	**(2,466,863)**
Income taxes paid		(1,197,351)	(519,595)
Interest paid		(2,181,767)	(2,271,550)
Interest received		923,883	671,543
Net cash generated from operating activities		**38,032,881**	**19,239,317**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equity-accounted investments		-	(858,362)
Loans issued		(3,662,119)	(8,866,217)
Loan proceeds received		2,802,327	6,885,722
Capital expenditures		(17,895,126)	(14,483,888)
Proceeds from sale of property, plant and equipment		102,341	374,664
Bank deposits placement		(7,945,830)	-
Other inflow		156	65
Net cash used in investing activities		**(26,598,251)**	**(16,948,016)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	19	35,915,950	16,108,460
Repayment of borrowings	19	(43,223,916)	(17,396,806)
Repayments of finance lease liabilities	19	(38,189)	-
Dividends paid		(4,021,069)	(4,025,961)
Net cash used in financing activities		**(11,367,224)**	**(5,314,307)**
Net increase (decrease) in cash and cash equivalents		67,406	(3,023,006)
Effect of foreign exchange on cash and cash equivalents		(282,000)	(44,795)
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		**19,839,057**	**13,662,092**

In thousand RSD

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

Notes to Stand-alone Financial Statements[73]

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
- Electricity 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 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 financial statements, crude oil price has increased since December 31st, 2016 to 58.305 $/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 September 30th, 2017 were evaluated through October 26th, 2017, the date these Interim Condensed Financial Statements were authorised for issue.

The results for the nine month period ended September 30th, 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.

[73] 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 the Application of new IFRS paragraph.

3. APPLICATION OF NEW IFRS

The following standards or amended standards became effective for the Company from January 1st, 2017:

- ***The amendments to IAS 7 – Statement of Cash Flow (issued in January 2016 effective for annual periods beginning on or after January 1st, 2017)*** require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Company will present the disclosure in the Interim Condensed Financial Statements (note 19).

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

- ***The amendments to IAS 12 – Income Taxes:*** Recognition of Deferred Tax Assets for Unrealized Losses (issued in January 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 January 1st, 2018 or later, and that the Company has not already adopted.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (either through profit and loss or other comprehensive income), and at amortised cost. The decision is to be made at initial recognition.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only. All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss.

IFRS 15 – Revenue from Contracts with Customers *(issued in May 2014 and effective for annual periods beginning on or after 1 January 2018) and* ***Amendments to IFRS 15*** *(issued in April 2016 and effective for annual periods beginning on or after 1 January 2018).* The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

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

IFRS 16 – Leases *(issued in January 2016 and replaces the previous IAS 17 Leases, effective for annual periods beginning on or after 1 January 2019 with early adoption permitted in case of implementation of IFRS 15 Revenue from Contracts with Customers).* Key features of the standard are:

- IFRS 16 changes the lessees accounting requirements given in IAS 17 and eliminates the classification of leases as either operating leases or finance leases. Instead, introduces a single lessee accounting model where a lessee is required to recognise:
  (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
  (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.
- IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.
- IFRS 16 does not change the accounting for services.

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

IFRIC 23 – Uncertainty over Income Tax Treatments *(issued in June 2017 and effective for annual periods beginning on or after 1 January 2019).* IFRIC 23 clarifies the accounting for uncertainties in income taxes.

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

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

5. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the nine month periods ended September 30th, 2017 and 2016. Operating segments are components that engage 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 nine month period ended September 30th, 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	30,884,922	153,982,555	(31,460,039)	153,407,438
Intersegment	29,797,225	1,662,814	(31,460,039)	-
External	1,087,697	152,319,741	-	153,407,438
EBITDA (Segment results)	**20,727,183**	**10,958,011**	**-**	**31,685,194**
Depreciation, depletion and amortization	(4,050,306)	(6,475,659)	-	(10,525,965)
Impairment of non-financial assets	-	(23,506)	-	(23,506)
Net foreign exchange gain	375,228	5,794,737	-	6,169,965
Finance expenses, net	(74,853)	(923,968)	-	(998,821)
Income tax	(1,925,216)	(4,073,226)	-	(5,998,442)
Segment profit (loss)	**15,075,861**	**5,207,379**	**-**	**20,283,240**

Reportable segment results for the nine month period ended September 30th, 2016 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	25,763,224	124,829,524	(26,627,633)	123,965,115
Intersegment	24,276,020	2,351,613	(26,627,633)	-
External	1,487,204	122,477,911	-	123,965,115
EBITDA (Segment results)	**15,331,311**	**5,064,566**	**-**	**20,395,877**
Depreciation, depletion and amortization	(3,657,485)	(6,370,277)	-	(10,027,762)
Reversal surpluses	-	158,108	-	158,108
Net foreign exchange gain	10,558	257,548	-	268,106
Finance expenses, net	(81,186)	(1,246,042)	-	(1,327,228)
Income tax	(162,230)	(1,240,893)	-	(1,403,123)
Segment profit (loss)	**11,257,426**	**(3,113,604)**	**-**	**8,143,822**

Income tax in Upstream segment increased due to Global agreement with the Ministry of finance and General Tax administration of the Republic of Angola signed in June 2017 by which Company agreed to pay tax contingencies for the fiscal years 2002 – 2016.

EBITDA for the nine month period ended September 30th, 2017 and 2016 is reconciled below:

	Nine months period ended September 30th,	
	2017	2016
Profit for the period	20,283,240	8,143,822
Income tax expenses	5,998,442	1,403,123
Finance expenses	2,058,521	2,227,014
Finance income	(1,059,700)	(899,786)
Depreciation, depletion and amortization	10,525,965	10,027,762
Net foreign exchange (gain) loss	(6,169,965)	(268,106)
Other expense (income), net	583,279	(42,173)
Other non-operating (income) expense, net*	(534,588)	(195,779)
EBITDA	**31,685,194**	**20,395,877**

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

	Nine months period ended September 30th,		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	891,183	891,183
Sale of gas	1,911,439	-	1,911,439
Through a retail network	-	-	-
Wholesale activities	1,911,439	-	1,911,439
Sale of petroleum products	113,816,619	23,717,622	137,534,241
Through a retail network	40,667,665	-	40,667,665
Wholesale activities	73,148,954	23,717,622	96,866,576
Sale of electricity	343,791	7,462,832	7,806,623
Other sales	5,093,097	170,855	5,263,952
Total sales	**121,164,946**	**32,242,492**	**153,407,438**

	Nine months period ended September 30th, 2017		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,305,751	1,305,751
Sale of gas	2,309,441	-	2,309,441
Through a retail network	-	-	-
Wholesale activities	2,309,441	-	2,309,441
Sale of petroleum products	91,823,146	17,503,040	109,326,186
Through a retail network	32,867,315	-	32,867,315
Wholesale activities	58,955,831	17,503,040	76,458,871
Sale of electricity	375,306	5,703,111	6,078,417
Other sales	4,819,158	126,162	4,945,320
Total sales	**99,327,051**	**24,638,064**	**123,965,115**

Out of the amount of 96,866,576 RSD (2016: 76,458,871 RSD) revenue from sale of petroleum products (wholesale), the amount of 15,198,024 RSD (2016: 9,416,348 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 7,022,733 RSD (2016: 5,509,850 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 3,912,733 RSD (2016: 3,538,860 RSD).

The Company is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 121,164,947 RSD (2016: 99,327,051 RSD), and the total of revenue from external customer from other countries is 32,242,492 RSD (2016: 24,638,064 RSD).

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

	Nine months period ended September 30th	
	2017	**2016**
Sale of crude oil	891,183	1,305,751
Sale of petroleum products (retail and wholesale)		
Bulgaria	5,331,605	4,010,140
Bosnia and Herzegovina	4,634,272	3,674,305
Romania	3,387,235	2,903,157
All other markets	10,364,510	6,915,438
	23,717,622	17,503,040
Sale of electricity	7,462,832	5,703,111
Other sales	170,855	126,162
	32,242,492	**24,638,064**

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

6. CASH AND CASH EQUIVALENTS

	September 30th, 2017	December 31st, 2016
Cash in bank and in hand	5,987,593	13,010,884
Deposits with original maturity of less than three months	13,565,000	7,000,000
Cash held on escrow account	44,116	41,783
Cash equivalents	242,348	984
	19,839,057	**20,053,651**

Deposits with original maturity of less than three months as of 30 September 2017 amounting to 13,565,000 (31 December 2016: 7,000,000 RSD) relate to term deposits up to 90 days with commercial banks.

7. SHORT-TERM FINANCIAL ASSETS

	September 30th, 2017	December 31st, 2016
Short-term loans	751,206	585,545
Deposits with original maturity more than 3 months less than 1 year	3,996,786	-
Current portion of long-term loans issued (note 13)	9,456,659	3,077,384
Current portion of long-term loans issued-interest	1,218,882	1,103,200
Less impairment loss provision	(225,179)	(229,288)
	15,198,354	**4,536,841**

8. TRADE AND OTHER RECEIVABLES

	September 30th, 2017	December 31st, 2016
Trade receivables:		
- related parties	4,889,627	4,484,856
- third parties	27,409,052	30,558,693
- state and state owned companies	11,815,231	15,815,559
	44,113,910	**50,859,108**
Other receivables:		
- state and state owned companies	9,352,806	9,642,293
	9,352,806	**9,642,293**
Accrued assets	274,372	30,013
	53,741,088	**60,531,414**
Less impairment provision for trade and other receivables:		
- third parties	(9,879,740)	(9,841,314)
- state and state owned companies	(11,348,268)	(11,563,533)
	(21,228,008)	**(21,404,847)**
Total trade and other receivables	**32,513,080**	**39,126,567**

The ageing of trade and other receivables is as follows:

	September 30th, 2017	December 31st, 2016
Neither impaired nor past due	29,020,872	35,140,866
Past due but not impaired:		
within 30 days	1,408,880	1,354,435
1 to 3 months	640,227	988,410
3 months to 1 year	174,572	29,816
over 1 year	1,268,529	1,613,040
Total	**32,513,080**	**39,126,567**

Company Management 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:

	September 30th, 2017	December 31st, 2016
RSD	22,750,856	25,650,795
EUR	8,815,088	12,784,196
USD	947,136	691,576
	32,513,080	**39,126,567**

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

	Trade&other receivables		
	Third parties	State and state owned companies	Total
As at January 1st, 2016	**10,001,877**	**15,777,436**	**25,779,313**
Provision for receivables impairment	65,054	67,696	132,750
Release of provision	(36,279)	(46,348)	(82,627)
Receivables written off during the year as uncollectible	(19,584)	(7,871)	(27,455)
Exchange differences	1	112,340	112,341
As at September 30th, 2016	**10,011,069**	**15,903,253**	**25,914,322**
As at January 1st, 2017	**9,841,314**	**11,563,533**	**21,404,847**
Provision for receivables impairment	258,534	19,907	278,441
Release of provision	(145,969)	(19,983)	(165,952)
Receivables written off during the year as uncollectible	(24,074)	-	(24,074)
Exchange differences	(449)	(323,771)	(324,220)
Unwinding of discount (note 24)	-	(100,225)	(100,225)
Transfer from non-current part (note 12)	-	208,808	208,808
Other	(49,616)	(1)	(49,617)
As at September 30th, 2017	**9,879,740**	**11,348,268**	**21,228,008**

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

	September 30th, 2017	December 31st, 2016
Crude oil	16,207,711	15,067,495
Petroleum products	10,801,457	8,721,079
Materials and supplies	4,216,837	4,086,896
Other	592,683	642,224
Less impairment provision	(4,987,474)	(5,038,462)
	26,831,214	**23,479,232**

10. OTHER CURRENT ASSETS

	September 30th, 2017	December 31st, 2016
Advances paid	398,720	319,986
Deferred VAT	1,132,015	1,004,151
Prepaid expenses	286,058	75,971
Prepaid custom duties	32,310	31,117
Prepaid excise	1,471,759	1,527,393
Other current assets	14,442,184	14,235,708
Less impairment provision	(12,077,166)	(11,977,231)
	5,685,880	**5,217,095**

Deferred VAT as at September 30th, 2017 amounting to 1,132,015 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 September 30th, 2017 amounting to 1,471,759 RSD (December 31st, 2016: 1,527,393 RSD) relates to the excise paid for finished products stored in non-excise warehouse.

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

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

	Advances paid	Other current assets	Total
As at January 1st, 2016	268,118	13,763,836	14,031,954
Increase of provisions during the year	426	262,452	262,878
Release of provision	(6,425)	(12,968)	(19,393)
Receivables written off during the year as uncollectible	-	(10,145)	(10,145)
Other	(474)	(1)	(475)
As at September 30th, 2016	**261,645**	**14,003,174**	**14,264,819**
As at January 1st, 2017	**257,940**	**11,719,291**	**11,977,231**
Increase of provision during the year	5,253	136,987	142,240
Release of provision	(338)	(55,247)	(55,585)
Receivables written off during the year as uncollectible	-	(36,341)	(36,341)
Other	1	49,620	49,621
As at September 30th, 2017	**262,856**	**11,814,310**	**12,077,166**

The ageing of other current assets is as follows:

	September 30th, 2017	December 31st, 2016
Neither impaired nor past due	5,370,115	5,120,782
Not impaired and past due in the following periods:		
Less than 1 month	9,022	22,090
1 - 3 months	9,810	24,676
3 month - one year	38,222	19,481
Over 1 year	258,711	30,066
Total	5,685,880	**5,217,095**

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 September 30th, 2016						
Additions	634,193	-	-	-	13,546,836	14,181,029
Transfer from assets under construction	11,509,079	787,045	1,567,025	114,361	(13,977,510)	-
Impairment	-	-	-	-	(21,100)	(21,100)
Depreciation	(3,627,945)	(4,196,547)	(1,065,202)	(411,519)	-	(9,301,213)
Disposals and write-off	(88,534)	(13,089)	(89,779)	(44,427)	(133,887)	(369,716)
Other transfers	(20,302)	(2,974,908)	2,961,218	20,803	(926)	(14,115)
	83,881,214	**75,089,886**	**22,162,760**	**9,034,055**	**31,954,232**	**222,122,147**
As at September 30th, 2016						
Cost	110,169,045	108,882,884	46,262,002	17,441,663	34,316,540	317,072,134
Depreciation and impairment	(26,287,831)	(33,792,998)	(24,099,242)	(8,407,608)	(2,362,308)	(94,949,987)
Net book value	**83,881,214**	**75,089,886**	**22,162,760**	**9,034,055**	**31,954,232**	**222,122,147**
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 September 30th, 2017						
Additions	134,606	-	-	-	16,595,854	16,730,460
Transfer from assets under construction	13,801,597	2,106,526	1,097,520	267,610	(17,273,253)	-
Transfer to investment property	-	-	(22,698)	(2,314)	-	(25,012)
Transfer to non-current assets held for sale	-	(14,361)	-	(101,798)	-	(116,159)
Impairment	-	-	(20,874)	-	(8,059)	(28,933)
Depreciation	(4,006,861)	(4,255,052)	(1,109,465)	(415,854)	-	(9,787,232)
Disposals and write-off	(39,783)	(7,610)	(137,877)	(4,408)	(84,716)	(274,394)
Other transfers	1,314	(141,282)	(37,372)	179,654	6,351	8,665
	98,333,184	**73,038,556**	**21,803,363**	**8,982,099**	**28,909,142**	**231,066,344**
As at September 30th, 2017						
Cost	129,652,194	112,400,576	47,012,151	17,734,196	31,000,232	337,799,349
Depreciation and impairment	(31,319,010)	(39,362,020)	(25,208,788)	(8,752,097)	(2,091,090)	(106,733,005)
Net book value	**98,333,184**	**73,038,556**	**21,803,363**	**8,982,099**	**28,909,142**	**231,066,344**

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 September 30th, 2016						
Additions	1,556,444	9,251,005	10,807,449	634,193	-	11,441,642
Transfer from asset under construction	(220,295)	(11,286,560)	(11,506,855)	11,509,079	-	2,224
Other transfers	-	26,015	26,015	(20,302)	1	5,714
Depreciation and depletion	-	-	-	(3,627,945)	-	(3,627,945)
Disposals and write-off	(11,328)	(49,370)	(60,698)	(88,534)	-	(149,232)
	18,069,189	**5,336,563**	**23,405,752**	**83,881,214**	**1,843**	**107,288,809**
As at September 30th, 2016						
Cost	18,069,189	5,584,956	23,654,145	110,169,045	22,153	133,845,343
Depreciation and impairment	-	(248,393)	(248,393)	(26,287,831)	(20,310)	(26,556,534)
Net book amount	**18,069,189**	**5,336,563**	**23,405,752**	**83,881,214**	**1,843**	**107,288,809**
As at January 1st, 2017						
Cost	12,345,350	7,915,400	20,260,750	115,864,815	22,129	136,147,694
Depreciation and impairment	-	(876)	(876)	(27,422,504)	(20,309)	(27,443,689)
Net book amount	**12,345,350**	**7,914,524**	**20,259,874**	**88,442,311**	**1,820**	**108,704,005**
Period ended September 30th, 2017						
Additions	2,372,057	9,882,806	12,254,863	134,606	-	12,389,469
Transfer from asset under construction	(3,089,976)	(10,701,547)	(13,791,523)	13,801,597	-	10,074
Other transfers	(33,756)	33,717	(39)	1,314	-	1,275
Depreciation and depletion	-	-	-	(4,006,861)	-	(4,006,861)
Disposals and write-off	(63,297)	(19,281)	(82,578)	(39,783)	-	(122,361)
	11,530,378	**7,110,219**	**18,640,597**	**98,333,184**	**1,820**	**116,975,601**
As at September 30th, 2017						
Cost	11,530,378	7,111,095	18,641,473	129,652,194	22,129	148,315,796
Depreciation and impairment	-	(876)	(876)	(31,319,010)	(20,309)	(31,340,195)
Net book amount	**11,530,378**	**7,110,219**	**18,640,597**	**98,333,184**	**1,820**	**116,975,601**

12. TRADE AND OTHER NON-CURRENT RECEIVABLES

	September 30th, 2017	December 31st, 2016
Long-term trade receivables	-	8,969,816
Long-term other receivables	2,924	1,053,755
Less Impairment provision	(59)	(728,602)
	2,865	**9,294,969**

Decrease in trade and other non-current receivables mostly relates to effect of signed contract with Unicredit bank on the transfer of part of receivables for a fee without recourse. The total amount of EUR 67,200,000 transferred in accordance with the Agreement relates to receivables from the Republic of Serbia with the due dates in 2016-2019. The payment under the Agreement was made on 17 July 2017 in full.

Movements on the Company's impairment provision of long-term other receivables are as follows:

	Long-term other receivables
As at 1 January 2016	**1,935,712**
Receivables written off during the year as uncollectible	(1,051,522)
Exchange differences	35,191
Unwinding of discount (note 24)	(266,016)
Other	(18,722)
As at 30 September 2016	**634,643**
As at 1 January 2017	**728,602**
Release of provision	(159,155)
Receivables written off during the year as uncollectible	(132,657)
Exchange differences	(12,859)
Unwinding of discount (note 24)	(215,064)
Transfer to current part (note 8)	(208,808)
As at 30 September 2017	**59**

13. LONG-TERM FINANCIAL ASSETS

	September 30th, 2017	December 31st, 2016
Deposits with original maturity more than 1 year	4,009,222	-
LT loans issued	34,889,162	35,507,395
Available for sale financial assets	2,051,203	1,897,255
Other LT placements	26,700	27,648
Less current portion (note 7)	(9,456,659)	(3,077,384)
Less provision	(1,948,746)	(1,778,273)
	29,570,882	**32,576,641**

14. OTHER NON-CURRENT ASSETS

	September 30th, 2017	December 31st, 2016
Advances paid for PPE	2,362,416	2,062,604
Prepaid expenses	711,917	794,251
Other assets	1,042,530	1,076,724
Less impairment provision	(44,781)	(41,758)
	4,072,082	**3,891,821**

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

	September 30th, 2017	December 31st, 2016
Short-term loans	1,560,220	13,299,544
Interest liabilities	132,392	173,834
Current portion of long-term loans (note 19)	8,520,859	9,516,423
Current portion of finance lease liabilities (note 19)	45,781	25,114
	10,259,252	**23,014,915**

16. TRADE AND OTHER PAYABLES

	September 30th,2017	December 31st, 2016
Trade payables		
- related parties	5,174,425	10,126,021
- third parties	16,346,686	16,349,956
Dividends payable	3,772,308	3,772,308
Other accounts payable	7,306	14,508
	25,300,725	**30,262,793**

As at September 30th, 2017 payables to related parties amounting to 5,174,425 RSD (December 31st, 2016: 10,126,021 RSD) mainly relate to payables to the supplier Naftagas-Naftni servisi d.o.o. Novi Sad in the amount of 2,420,001 RSD mostly relate to drilling and overhaul services (December 31st, 2016: Gazprom Neft, St Petersburg in the amount of 5,818,200 RSD mostly for the purchase of crude oil).

17. OTHER CURRENT LIABILITIES

	September 30th, 2017	December 31st, 2016
Advances received	1,199,726	1,228,944
Payables to employees	2,486,612	2,914,402
Accruals and deferred income	405,450	24,297
Other current non-financial liabilities	11,476	45,511
	4,103,264	**4,213,154**

18. OTHER TAXES PAYABLE

	September 30th, 2017	December 31st, 2016
Mineral extraction tax	281,684	241,017
VAT	2,154,761	1,410,486
Excise tax	4,464,273	5,009,938
Contribution for buffer stocks	489,333	601,357
Custom duties	89,220	279,104
Other taxes	1,833,788	1,807,736
	9,313,059	**9,349,638**

19. LONG-TERM DEBT

	September 30th, 2017	December 31st, 2016
Long-term loan - Gazprom Neft	31,923,439	37,328,836
Bank and other long term loans	67,781,671	65,392,094
Finance lease liabilities	212,323	142,528
Less Current portion (note 15)	(8,566,640)	(9,541,537)
	91,350,793	**93,321,921**

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

	Long-term loans	Short-term loans (note 15)	Finance lease	Total
As at 1 January 2016	**112,726,667**	**4,282,974**	**-**	**117,009,641**
Proceeds	3,187,239	12,921,221	-	16,108,460
Repayment	(12,017,265)	(5,379,541)	-	(17,396,806)
Non-cash transactions	-	-	174,403	174,403
Foreign exchange difference (note 22)	410,380	69,728	(342)	479,766
As at 30 September 2016	**104,307,021**	**11,894,382**	**174,061**	**116,375,464**
As at 1 January 2017	**102,720,930**	**13,299,544**	**142,528**	**116,163,002**
Proceeds	28,733,261	7,182,689	-	35,915,950
Repayment	(24,459,383)	(18,764,533)	(38,189)	(43,262,105)
Non-cash transactions	-		115,272	115,272
Foreign exchange difference (note 22)	(7,289,698)	(157,480)	(7,288)	(7,454,466)
As at 30 September 2017	**99,705,110**	**1,560,220**	**212,323**	**101,477,653**

(a) Long-term loan - Gazprom Neft

As at September 30th, 2017 long-term loan - Gazprom Neft amounting to 31,923,439 RSD (December 31st, 2016: 37,328,836 RSD), with current portion of 5,551,902 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 and other long term loans

	September 30th, 2017	December 31st, 2016
Domestic	41,992,259	27,522,764
Foreign	25,789,412	37,869,330
	67,781,671	65,392,094
Current portion of long-term loans	(2,968,957)	(3,773,525)
	64,812,714	**61,618,569**

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

	September 30th, 2017	December 31st, 2016
Between 1 and 2 years	26,176,525	13,323,750
Between 2 and 5 years	35,523,376	44,038,904
Over 5 years	3,112,813	4,255,915
	64,812,714	**61,618,569**

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

	September 30th, 2017	December 31st, 2016
USD	25,731,860	39,607,916
EUR	38,747,942	22,955,261
RSD	2,985,010	2,443,363
JPY	316,859	385,554
	67,781,671	**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 September 30th, 2017 and December 31st, 2016, respectively.

20. PRODUCTION AND MANUFACTURING EXPENSES

	Nine months period ended September 30th, 2017	2016
Employee costs	2,293,789	2,322,953
Materials and supplies (other than purchased oil, petroleum products and gas)	669,476	642,522
Repair and maintenance services	2,793,300	3,467,815
Electricity for resale	7,392,331	5,825,769
Electricity and utilities	1,155,469	1,112,610
Safety and security expense	235,259	255,056
Insurance services	211,900	215,782
Transportation services for production	1,281,143	1,276,474
Other	5,744,092	5,818,902
	21,776,759	**20,937,883**

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Nine months period ended September 30th, 2017	2016
Employee costs	7,009,847	6,771,277
Legal, audit and consulting services	1,141,840	1,301,863
Rent expense	93,551	99,826
Business trips expense	226,237	204,710
Safety and security expense	343,656	351,040
Insurance expense	73,179	58,328
Transportation and storage	256,120	376,798
Allowance for doubtful accounts	78,453	(107,441)
Other	5,971,064	5,868,762
	15,193,947	**14,925,163**

22. NET FOREIGN EXCHANGE GAIN

	Nine months period ended September 30th, 2017	2016
Foreign exchange gain (loss) on financing activities including:		
- foreign exchange gain (note 19)	8,038,567	2,812,312
- foreign exchange loss (note 19)	(584,101)	(3,292,078)
Net foreign exchange gain (loss) on operating activities	(1,284,501)	747,872
	6,169,965	**268,106**

23. FINANCE INCOME

	Nine months period ended September 30th, 2017	2016
Interest on bank deposits	372,424	154,664
Interest income on loans issued	687,120	745,057
Dividend income	156	65
	1,059,700	**899,786**

24. FINANCE EXPENSES

	Nine months period ended September 30th, 2017	2016
Interest expense	2,316,193	2,449,590
Decommissionning provision: unwinding of the present value	103,429	87,285
Trade receivables: unwinding of discount (note 8 and 12)	(315,289)	(266,016)
Less: interest expense capitalised on qualifying assets	(45,812)	(43,845)
	2,058,521	**2,227,014**

25. 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 September 30th, 2017 carrying value of financial assets approximate their fair value.

26. 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 756,371 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 September 30th, 2017.

Capital commitments

As of September 30th, 2017 the Company has entered into contracts to purchase property, plant and equipment for 8,467,278 RSD (31 December 2016: 5,324,487 RSD).

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

27. 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 nine month period ended September 30th, 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 September 30th, 2017 and December 31st, 2016 the outstanding balances with related parties were as follows:

	Subsidiaries	Parent	Parent's subsidiaries and associates
As at September 30th, 2017			
Short-term financial assets	11,322,658	-	-
Trade and other receivables	3,827,683	-	1,061,944
Other current assets	30,176	-	-
Investments in subsidiaries and joint ventures	16,825,911	-	-
Long-term financial assets	25,432,503	-	-
Other non-current assets	110,335	-	-
Trade and other payables	(4,206,864)	-	(967,561)
Other current liabilities	(1,725)	-	(943)
Short-term debt and current portion of long-term debt	(1,564,771)	(5,551,902)	-
Long-term debt	-	(26,371,537)	-
	51,775,906	**(31,923,439)**	**93,440**
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 nine month period ended September 30th, 2017 and 2016 the following transaction occurred with related parties:

	Subsidiaries	Parent	Parent's subsidiaries and associates
Nine months period ended September 30th, 2017			
Petroleum products and oil and gas sales	8,130,312	-	450,630
Other revenues	870,187	-	7,025,797
Purchases of oil, gas and petroleum products	(8,184,252)	(20,062,252)	(451,934)
Production and manufacturing expenses	(2,947,579)	-	(7,230,421)
Selling, general and administrative expenses	(372,554)	-	(4,776)
Transportation expenses	(68,633)	-	-
Other income (expenses), net	(21,455)	(5,002)	(175)
Finance income	675,469	-	-
Finance expense	(23,679)	(489,792)	-
	(1,942,184)	**(20,557,046)**	**(210,879)**
Nine months period ended September 30th, 2016			
Petroleum products and oil and gas sales	6,154,627	-	395,681
Other revenues	506,502	-	5,511,748
Purchases of oil, gas and petroleum products	(6,184,471)	(29,566,123)	(396,618)
Production and manufacturing expenses	(2,979,091)	-	(5,527,528)
Selling, general and administrative expenses	(427,045)	-	(113,585)
Transportation expenses	(65,131)	-	-
Other income (expenses), net	(26,660)	18,455	(39)
Finance income	727,579	-	-
Finance expense	(10,272)	(585,042)	-
	(2,303,962)	**(30,132,710)**	**(130,341)**

Transactions with Key Management Personnel

For the nine month period ended on September 30th, 2017 and 2016 the Company recognized 743,813 RSD and 593,172 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.

28. SUBSEQUENT EVENTS

In accordance with the laws in force in the Republic of Serbia, at the beginning of October 2017 all the condition were met for the full implementation the earlier prepared plan for restructuring of the company HIP Petrohemija a.d. Pancevo. In accordance with the adopted plan, the structure of the share capital of the company HIP Petrohemija has also been changed, whereby NIS increased its equity interest in HIP Petrohemija to 20.855912% by the conversion of the remaining part of the receivables after the write-offs. This change was registered in CSD on October 19th, 2017.

Consolidated Financial Statements

Consolidated Statement on Financial Position

	Notes	September 30th, 2017 *(unaudited)*	December 31st, 2016
ASSETS			
Current assets			
Cash and cash equivalents	6	22,984,295	22,899,342
Short-term financial assets		4,127,506	247,882
Trade and other receivables	8	30,882,751	37,445,000
Inventories	9	30,156,479	26,836,064
Current income tax prepayments		-	126,103
Other current assets	10	6,638,722	5,946,829
Non-current assets held for sale		101,798	-
Total current assets		**94,891,551**	**93,501,220**
Non-current assets			
Property, plant and equipment	11	258,034,121	253,760,267
Investment property		1,581,182	1,549,663
Godwill and other intangible assets		5,739,013	6,457,971
Investments in joint venture		2,047,021	2,047,021
Trade and other non-current receivables	12	74,589	9,369,158
Long-term financial assets	13	4,160,311	163,565
Deferred tax assets		2,536,443	3,771,354
Other non-current assets	14	3,969,906	3,680,642
Total non-current assets		**278,142,586**	**280,799,641**
Total assets		**373,034,137**	**374,300,861**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	15	8,923,197	21,976,571
Trade and other payables	16	23,453,124	29,579,165
Other current liabilities	17	4,765,992	5,234,250
Current income tax payable		3,459,561	-
Other taxes payable	18	10,304,562	10,136,560
Provisions for liabilities and charges		2,714,149	1,979,312
Total current liabilities		**53,620,585**	**68,905,858**
Non-current liabilities			
Long-term debt	19	92,148,112	94,294,661
Long-term trade and other payable		-	1,859
Provisions for liabilities and charges		9,219,562	9,617,973
Total non-current liabilities		**101,367,674**	**103,914,493**
Equity			
Share capital		81,530,200	81,530,200
Reserves		(104,412)	(567,083)
Retained earnings		136,841,382	120,731,166
Equity attributable to the Company's owners		**218,267,170**	**201,694,283**
Non-controlling intrest		(221,292)	(213,773)
Total equity		**218,045,878**	**201,480,510**
Total liabilities and shareholder's equity		**373,034,137**	**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

	Note	Nine months period ended September 30th 2017 (unaudited)	2016 (unaudited)
Sales of petroleum products, oil and gas		152,482,858	120,862,239
Other revenues		15,295,658	13,221,667
Total revenue from sales	**5**	**167,778,516**	**134,083,906**
Purchases of oil, gas and petroleum products		(90,399,231)	(69,670,479)
Production and manufacturing expenses	20	(21,676,685)	(20,513,650)
Selling, general and administrative expenses	21	(16,527,886)	(16,845,192)
Transportation expenses		(796,620)	(754,999)
Depreciation, depletion and amortization		(12,209,378)	(11,793,435)
Taxes other than income tax		(3,560,012)	(3,592,618)
Exploration expenses		(10,790)	-
Total operating expenses		**(145,180,602)**	**(123,170,373)**
Other (expenses) income, net		(590,994)	(37,433)
Operating profit		**22,006,920**	**10,876,100**
Net foreign exchange gain	22	6,081,472	422,245
Finance income	23	386,530	176,821
Finance expenses	24	(2,132,338)	(2,316,985)
Total other expense		**4,335,664**	**(1,717,919)**
Profit before income tax		**26,342,584**	**9,158,181**
Current income tax expense		(5,005,146)	(1,037,117)
Deferred tax expense		(1,221,552)	(446,724)
Total income tax expense		**(6,226,698)**	**(1,483,841)**
Profit for the period		**20,115,886**	**7,674,340**
Other comprehensive profit (loss):			
Components of other comprehensive income that will not be reclassified to profit or loss, net of tax			
Revaluation of 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		3,049	540
Currency translation differences		466,103	(205,593)
		469,152	(205,053)
Other comprehensive loss for the period		**470,551**	**(205,053)**
Total comprehensive profit (loss) for the period		**20,586,437**	**7,469,287**
Profit attributable to:			
- Shareholders of Naftna Industrija Srbije		20,131,285	7,693,883
- Non-controlling interest		(15,399)	(19,543)
Profit for the period		**20,115,886**	**7,674,340**
Total comprehensive income (loss) attributable to:			
- Shareholders of Naftna Industrija Srbije		20,593,956	7,491,592
- Non-controlling interest		(7,519)	(22,305)
Total comprehensive income for the period		**20,586,437**	**7,469,287**
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		123.46	47.18
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

Nine months period ended September 30th, 2017 and 2016 (unaudited)

	Equity attributable to the Company owners				Non-controlling interest	Total
	Share capital	Reserves	Retained earnings	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	-	-	7,693,883	7,693,883	(19,543)	7,674,340
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	540	-	540	-	540
Currency translation differences	-	(202,831)	-	(202,831)	(2,762)	(205,593)
Total comprehensive income (loss) for the period	**-**	**(202,291)**	**7,693,883**	**7,491,592**	**(22,305)**	**7,469,287**
Dividend distribution	-	-	(4,025,961)	(4,025,961)	-	(4,025,961)
Total transactions with owners, recorded in equity	**-**	**-**	**(4,025,961)**	**(4,025,961)**	**-**	**(4,025,961)**
Balance as at September 30th, 2016	**81,530,200**	**(732,819)**	**113,366,064**	**194,163,445**	**(208,439)**	**193,955,006**
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	-	-	20,131,285	20,131,285	(15,399)	20,115,886
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	3,049	-	3,049	-	3,049
Revaluation of property, plant and equipment transferred to investment property	-	1,399	-	1,399	-	1,399
Currency translation differences	-	458,223	-	458,223	7,880	466,103
Total comprehensive income (loss) for the period	**-**	**462,671**	**20,131,285**	**20,593,956**	**(7,519)**	**20,586,437**
Dividend distribution	-	-	(4,021,069)	(4,021,069)	-	(4,021,069)
Total transactions with owners, recorded in equity	**-**	**-**	**(4,021,069)**	**(4,021,069)**	**-**	**(4,021,069)**
Balance as at September 30th, 2017	**81,530,200**	**(104,412)**	**136,841,382**	**218,267,170**	**(221,292)**	**218,045,878**

In thousand RSD

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

Consolidated Statement of Cash Flows

	Note	Nine months period ended September 30th 2017 *(unaudited)*	2016 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**26,342,584**	**9,158,181**
Adjustments for:			
Finance expenses	24	2,132,338	2,316,985
Finance income	23	(386,530)	(176,821)
Net unrealised foreign exchange (gain) losses		(6,229,993)	857,387
Depreciation, depletion and amortization		12,209,378	11,793,435
Adjustments for other provisions		335,027	387,722
Allowance for doubtful accounts		219,210	300,791
Payables write off		(3,040)	(34,981)
Other non-cash items		242,716	(217,712)
Operating cash flow before changes in working capital		**8,519,106**	**15,226,806**
Changes in working capital:			
Trade and other receivables		15,954,800	1,725,516
Inventories		(3,435,738)	1,936,116
Other current assets		(1,410,312)	808,134
Trade payables and other current liabilities		(4,204,264)	(7,784,658)
Other taxes payable		182,148	(425,518)
Total effect on working capital changes		**7,086,634**	**(3,740,410)**
Income taxes paid		(1,236,163)	(560,632)
Interest paid		(2,161,896)	(2,260,963)
Interest received		382,314	332,506
		38,932,579	**18,155,488**
Net cash generated from operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equity-accounted investments		-	(858,362)
Loans issued		-	(67,549)
Loan proceeds received		129,779	121,923
Capital expenditures		(18,872,419)	(15,501,064)
Proceeds from sale of property, plant and equipment		116,766	395,389
Bank deposits placements		(7,982,453)	-
Other (outflow) inflow		(49,321)	218
Net cash used in investing activities		**(26,657,648)**	**(15,909,445)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	19	28,733,261	14,737,364
Repayment of borrowings	19	(36,491,816)	(15,619,787)
Repayments of finance lease liabilities	19	(74,859)	-
Dividends paid		(4,021,069)	(4,025,961)
Net cash used in financing activities		**(11,854,483)**	**(4,908,384)**
Net increase (decrease) in cash and cash equivalents		420,448	(2,662,341)
Effect of foreign exchange on cash and cash equivalents		(335,495)	(24,087)
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		**22,984,295**	**16,585,007**

in thousand RSD

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

Notes to Consolidated Financial Statements[74]

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije, Novi Sad (the “Company”) and its subsidiaries (together refer to as the “Group”) is a vertically integrated oil company operating predominantly in the Republic of 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
- Electricity 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 has increased since December 31st, 2016 to 58.305 $/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 September 30th, 2017 were evaluated through October 26th, 2017, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the nine month period ended September 30th, 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.

[74] 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 the Application of new IFRS paragraph.

3. APPLICATION OF NEW IFRS

The following amended standards became effective for the Group from January 1st, 2017:

- **The amendments to IFRS 7 – Statement of Cash Flow (issued in January 2016 effective for annual periods on or after January 1st, 2017)** require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Group made disclosure in the Interim Condensed Consolidated Financial Statements (note 19).

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

- **The amendments to IAS 12 – Income Tax:** Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016 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 January 2017 or later, and that the Group has not early adopted.

IFRS 9 – Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after January 1st, 2018).

Key features of the new standard are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (either through profit and loss or other comprehensive income), and at amortised cost. The decision is to be made at initial recognition.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only. All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss.
  The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after January 1st, 2018) and **Amendments to IFRS 15** (issued in April 2016 and effective for annual periods beginning on or after January 1st, 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

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

IFRS 16 – Leases (issued in January 2016 and replaces the previous IAS 17 Leases, effective for annual periods beginning on or after January 1st, 2019 with early adoption permitted in case of implementation of IFRS 15 Revenue from Contracts with Customers). Key features of the standard are:

- IFRS 16 changes the lessees accounting requirements given in IAS 17 and eliminates the classification of leases as either operating leases or finance leases. Instead, introduces a single lessee accounting model where a lessee is required to recognise:
  (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
  (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.
- IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.
- IFRS 16 does not change the accounting for services.

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

IFRIC 23 – Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after January 1st, 2019). IFRIC 23 clarifies the accounting for uncertainties in income taxes.

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

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 nine month periods ended September 30th, 2017 and 2016. Operating segments are components that engage 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 nine month period ended September 30th, 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	31,433,942	169,103,459	(32,758,885)	167,778,516
Intersegment	30,439,235	2,319,650	(32,758,885)	-
External	994,707	166,783,809	-	167,778,516
EBITDA (Segment results)	22,709,283	11,549,299	-	34,258,582
Depreciation, depletion and amortization	(5,035,652)	(7,173,726)	-	(12,209,378)
Impairment of non-financial assets	-	(23,506)	-	(23,506)
Net foreign exchange gain	315,538	5,765,934	-	6,081,472
Finance expenses, net	(89,487)	(1,656,321)	-	(1,745,808)
Income tax	(2,136,528)	(4,090,170)	-	(6,226,698)
Segment profit	**15,639,263**	**4,476,623**	**-**	**20,115,886**

Reportable segment results for the nine month period ended September 30th, 2016 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	26,378,732	134,915,607	(27,210,433)	134,083,906
Intersegment	24,858,820	2,351,613	(27,210,433)	-
External	1,519,912	132,563,994	-	134,083,906
EBITDA (Segment results)	16,108,425	6,354,959	-	22,463,384
Depreciation, depletion and amortization	(4,691,002)	(7,102,433)	-	(11,793,435)
Reversal surpluses	-	158,073	-	158,073
Net foreign exchange gain	52,948	369,297	-	422,245
Finance expenses, net	(94,870)	(2,045,294)	-	(2,140,164)
Income tax	(233,300)	(1,250,541)	-	(1,483,841)
Segment profit (loss)	**11,054,283**	**(3,379,943)**	**-**	**7,674,340**

Income tax in Upstream segment increased due to Global agreement with the Ministry of finance and General Tax administration of the Republic of Angola signed in June 2017 by which Group agreed to pay tax contingencies for the fiscal years 2002 – 2016.

EBITDA for the nine month period ended September 30th, 2017 and 2016 is reconciled below:

	Nine months period ended September 30th,	
	2017	2016
Profit for the period	20,115,886	7,674,340
Income tax expenses	6,226,698	1,483,841
Finance expenses	2,132,338	2,316,985
Finance income	(386,530)	(176,821)
Depreciation, depletion and amortization	12,209,378	11,793,435
Net foreign exchange (gain) loss	(6,081,472)	(422,245)
Other expense (income), net	590,994	37,433
Other non-operating (income) expense, net	(548,710)	(243,584)
EBITDA	**34,258,582**	**22,463,384**

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

	Nine months period ended September 30th,		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	891,183	891,183
Sale of gas	1,906,477	-	1,906,477
Through a retail network	-	-	-
Wholesale activities	1,906,477	-	1,906,477
Sale of petroleum products	113,816,619	35,868,579	149,685,198
Through a retail network	40,667,665	11,951,100	52,618,765
Wholesale activities	73,148,954	23,917,479	97,066,433
Sale of electricity	343,791	7,545,629	7,889,420
Other sales	4,869,878	2,536,360	7,406,238
Total sales	**120,936,765**	**46,841,751**	**167,778,516**

	Nine months period ended September 30th,		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,305,751	1,305,751
Sale of gas	2,305,199	-	2,305,199
Through a retail network	-	-	-
Wholesale activities	2,305,199	-	2,305,199
Sale of petroleum products	91,494,273	25,757,016	117,251,289
Through a retail network	32,867,316	-	32,867,316
Wholesale activities	58,626,957	25,757,016	84,383,973
Sale of electricity	381,762	5,701,314	6,083,076
Other sales	4,635,624	2,502,967	7,138,591
Total sales	**98,816,858**	**35,267,048**	**134,083,906**

In 2016 export and international sales through own retail network within foreign subsidiaries were presented within wholesale activities in the amount of 9,247,673 RSD. Starting from 2017 these sales activities are separated.

Out of the amount of 97,066,434 RSD (2016: 84,383,973 RSD) revenue from sale of petroleum products (wholesale), the amount of 15,198,024 RSD (2016: 9,416,348 RSD) are derived from a single domestic customer HIP Petrohemija. These revenue is attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Gazprom Marketing & Trading Co., Ltd. in the amount of 7,022,733 RSD (2016: 5,509,850 RSD). These sales are presented within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 5,799,782 RSD (2016: 5,334,701 RSD).

The Group is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 120,936,765 RSD (2016: 98,816,858 RSD), and the total of revenue from external customer from other countries is 46,841,751 RSD (2016: 35,267,048 RSD).

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

	Nine months period ended September 30th,	
	2017	**2016**
Sale of crude oil	891,183	1,305,751
Sale of petroleum products (retail and wholesale)		
Bulgaria	9,761,132	7,332,712
Bosnia and Herzegovina	8,897,726	5,350,840
Romania	7,606,850	6,401,921
All other markets	9,602,871	6,671,543
	35,868,579	25,757,016
Sale of electricity	7,545,629	5,701,314
Other sales	2,536,360	2,502,967
	46,841,751	**35,267,048**

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:

	September 30th, 2017	**December 31st, 2016**
Serbia	243,365,721	238,780,068
Bulgaria	7,546,034	7,966,581
Bosnia and Herzegovina	7,477,950	8,052,241
Romania	6,964,570	6,968,931
Hungary	41	80
	265,354,316	**261,767,901**

6. CASH AND CASH EQUIVALENTS

	September 30th, 2017	**December 31st, 2016**
Cash in bank and in hand	7,375,311	14,110,111
Deposits with original maturity of less than three months	13,860,727	7,188,962
Cash held on escrow account	1,505,909	1,599,285
Cash equivalents	242,348	984
	22,984,295	**22,899,342**

Cash held on escrow accounts as of September 30th, 2017 amounting to 1,505,909 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.

Deposits with original maturity of less than three months as of 30 September 2017 amounting to 13,860,727 (31 December 2016: 7,188,962 RSD) relates to term deposits up to 90 days with commercial banks.

7. SHORT-TERM FINANCIAL ASSETS

	September 30th, 2017	December 31st, 2016
Short-term loans	2,210	21,103
Deposits with original maturity more than 3 months less than 1 year	3,996,786	-
Current portion of long-term investments (note 13)	102,071	179,596
Other short-term financial assets	28,695	49,439
Less impairment loss provision	(2,256)	(2,256)
	4,127,506	**247,882**

8. TRADE AND OTHER RECEIVABLES

	September 30th, 2017	December 31st, 2016
Trade receivables:		
- related parties	1,062,560	1,047,541
- third parties	29,174,577	31,723,648
- state and state owned companies	11,815,231	15,815,559
	42,052,368	**48,586,748**
Other receivables:		
- related parties	269,242	220,242
- third parties	13,528	13,986
- state and state owned companies	9,352,806	9,865,845
	9,635,576	**10,100,073**
Accrued assets	311,431	50,243
	51,999,375	**58,737,064**
Less impairment provision for trade and other receivables:		
- third parties	(9,768,356)	(9,728,531)
- state and state owned companies	(11,348,268)	(11,563,533)
	(21,116,624)	**(21,292,064)**
Total trade and other receivables	**30,882,751**	**37,445,000**

The ageing of trade and other receivables is as follows:

	September 30th, 2017	December 31st, 2016
Neither impaired nor past due	28,075,544	33,563,122
Past due but not impaired:		
within 30 days	2,191,006	1,725,053
1 to 3 months	31,665	1,283,108
3 months to 1 year	136,392	277,304
over 1 year	448,144	596,413
Total	**30,882,751**	**37,445,000**

Group management 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:

	September 30th, 2017	December 31st, 2016
RSD	21,627,356	24,499,017
EUR	6,765,891	11,090,173
USD	936,905	691,575
Other	1,552,599	1,164,235
	30,882,751	**37,445,000**

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

	Trade&other receivables		
	Third parties	State and state owned companies	Total
As at January 1st, 2016	9,862,727	15,777,436	25,640,163
Provision for receivables impairment	73,186	67,696	140,882
Release of provisions	(42,776)	(46,348)	(89,124)
Receivables written off during the year as uncollectible	(20,860)	(7,871)	(28,731)
Excahnge differences	-	112,340	112,340
Other	1,235	-	1,235
As at September 30th, 2016	**9,873,512**	**15,903,253**	**25,776,765**
As at January 1st, 2017	**9,728,531**	**11,563,533**	**21,292,064**
Provision for receivables impairment	264,701	19,907	284,608
Release of provisions	(147,255)	(19,983)	(167,238)
Receivables written off during the year as uncollectible	(24,074)	-	(24,074)
Exchange differences	(449)	(323,771)	(324,220)
Unwinding of discount (note 24)	-	(100,225)	(100,225)
Transfer from non-current part (note 12)	-	208,808	208,808
Other	(53,098)	(1)	(53,099)
As at September 30th, 2017	**9,768,356**	**11,348,268**	**21,116,624**

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.

9. INVENTORIES

	September 30th, 2017	December 31st, 2016
Crude oil	16,207,711	15,067,495
Petroleum products	12,271,825	9,638,529
Materials and supplies	5,925,235	6,446,355
Other	927,030	1,009,762
Less impairment provision	(5,175,322)	(5,326,077)
	30,156,479	**26,836,064**

10. OTHER CURRENT ASSETS

	September 30th, 2017	December 31st, 2016
Advances paid	462,408	437,325
VAT receivables	353,469	274,292
Deferred VAT	1,436,482	1,251,278
Prepaid expenses	308,147	115,146
Prepaid custom duties	32,746	31,117
Prepaid excise	1,546,782	1,538,828
Other current assets	14,596,951	14,297,606
Less impairment provision	(12,098,263)	(11,998,763)
	6,638,722	**5,946,829**

Deferred VAT as at September 30th, 2017 amounting to 1,436,482 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 September 30th, 2017 amounting to 1,546,782 RSD (December 31st, 2016: 1,528,828 RSD) relates to the excise paid for finished products stored in non-excise warehouse.

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

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

	Advances paid	Other current assets	Total
As at January 1st, 2016	270,296	13,772,415	14,042,711
Increase of provision during the year	5,360	262,456	267,816
Release of provision	(6,425)	(12,974)	(19,399)
Other	(475)	(10,083)	(10,558)
As at September 30th, 2016	**268,756**	**14,011,814**	**14,280,570**
As at January 1st, 2017	**261,983**	**11,736,780**	**11,998,763**
Increase of provision during the year	5,253	135,855	141,108
Release of provision	(340)	(55,253)	(55,593)
Receivables written off during the year as uncollectible	-	(36,339)	(36,339)
Write off	-	50,324	50,324
As at September 30th, 2017	**266,896**	**11,831,367**	**12,098,263**

The ageing of other current assets is as follows:

	September 30th,2017	December 31st, 2016
Neither impaired nor past due	6,296,012	5,834,710
Not impaired and past due in following periods:		
Less than 1 month	10,175	23,019
1 – 3 months	11,788	26,895
3 months – 1 year	52,592	21,598
Over one year	268,155	40,607
Total	**6,638,722**	**5,946,829**

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	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 September 30th, 2016						
Additions	634,193	-	-	117	14,427,556	15,061,866
Transfer from assets under construction	11,950,134	787,045	1,554,699	215,038	(14,506,916)	-
Impairment	-	-	-	-	(21,135)	(21,135)
Depreciation	(4,375,145)	(4,196,547)	(1,735,860)	(587,561)	(3,796)	(10,898,909)
Disposals and write-off	(128,586)	(13,088)	(89,813)	(49,588)	(174,514)	(455,589)
Other transfers	(19,744)	(2,974,908)	2,960,677	20,803	(115,298)	(128,470)
Translation differences	999	-	276,957	(67)	106,885	384,774
	91,644,519	**75,089,886**	**37,883,268**	**10,585,032**	**35,953,255**	**251,155,960**
As at September 30th, 2016						
Cost	121,224,108	108,882,883	65,248,047	20,045,103	38,340,620	353,740,761
Depreciation and impairment	(29,579,589)	(33,792,997)	(27,364,779)	(9,460,071)	(2,387,365)	(102,584,801)
Net book value	**91,644,519**	**75,089,886**	**37,883,268**	**10,585,032**	**35,953,255**	**251,155,960**
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 September 30th, 2017						
Additions	134,606	-	405	626	16,666,535	16,802,172
Transfer from assets under construction	13,995,221	2,106,526	1,138,318	266,715	(17,506,780)	-
Transfer to investment property	-	-	(22,698)	(2,313)	-	(25,011)
Transfer to non-current assets held for sale	-	(14,361)	-	(101,798)	-	(116,159)
Impairment	-	-	(20,874)	-	(8,059)	(28,933)
Depreciation	(4,724,287)	(4,255,052)	(1,750,299)	(593,011)	(3,689)	(11,326,338)
Disposals and write-off	(19,258)	(7,610)	(139,870)	(4,561)	(93,706)	(265,005)
Other transfers	(41,023)	(141,282)	(37,370)	178,313	43,149	1,787
Translation differences	18	-	(539,176)	2,317	(231,818)	(768,659)
	106,215,140	**73,038,556**	**36,122,799**	**10,316,323**	**32,341,303**	**258,034,121**
As at September 30th, 2017						
Cost	141,743,684	112,400,575	65,304,481	20,356,786	34,461,379	374,266,905
Depreciation and impairment	(35,528,544)	(39,362,019)	(29,181,682)	(10,040,463)	(2,120,076)	(116,232,784)
Net book value	**106,215,140**	**73,038,556**	**36,122,799**	**10,316,323**	**32,341,303**	**258,034,121**

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 September 30th, 2016						
Additions	2,078,665	9,526,572	11,605,237	634,193	-	12,239,430
Transfer from asset under construction	(220,235)	(11,729,899)	(11,950,134)	11,950,134	-	-
Other transfers	-	(101,349)	(101,349)	(19,744)	-	(121,093)
Depreciation and depletion	(3,796)	-	(3,796)	(4,375,145)	-	(4,378,941)
Disposals and write-off	(14,113)	(87,090)	(101,203)	(128,586)	-	(229,789)
Translation differences	101,701	-	101,701	999	-	102,700
	21,892,831	**5,302,106**	**27,194,937**	**91,644,519**	**11,116**	**118,850,572**
As at September 30th, 2016						
Cost	21,914,550	5,550,499	27,465,049	121,224,108	33,408	148,722,565
Depreciation and impairment	(21,719)	(248,393)	(270,112)	(29,579,589)	(22,292)	(29,871,993)
Net book amount	**21,892,831**	**5,302,106**	**27,194,937**	**91,644,519**	**11,116**	**118,850,572**
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 September 30th, 2017						
Additions	3,701,099	9,228,980	12,930,079	134,606	-	13,064,685
Transfer from asset under construction	(3,089,976)	(10,904,350)	(13,994,326)	13,995,221	(895)	-
Other transfers	(856,887)	831,107	(25,780)	(41,023)	975	(65,828)
Depreciation and depletion	(3,689)	-	(3,689)	(4,724,287)	(38)	(4,728,014)
Disposals and write-off	(71,897)	(18,913)	(90,810)	(19,258)	-	(110,068)
Translation differences	(222,796)	-	(222,796)	18	(4)	(222,782)
	19,569,265	**3,410,400**	**22,979,665**	**106,215,140**	**11,132**	**129,205,937**
As at September 30th, 2017						
Cost	19,595,020	3,411,276	23,006,296	141,743,684	32,342	164,782,322
Depreciation and impairment	(25,755)	(876)	(26,631)	(35,528,544)	(21,210)	(35,576,385)
Net book amount	**19,569,265**	**3,410,400**	**22,979,665**	**106,215,140**	**11,132**	**129,205,937**

12. TRADE AND OTHER NON-CURRENT RECEIVABLES

	September 30th, 2017	December 31st, 2016
Long-term trade receivables	-	8,969,816
Long-term other receivables	74,648	1,127,944
Less Impairment provision	(59)	(728,602)
	74,589	**9,369,158**

Decrease in trade and other non-current receivables mostly relates to effect of signed contract with Unicredit bank on the transfer of part of receivables for a fee without recourse. The total amount of EUR 67,200,000 transferred in accordance with the Agreement relates to receivables from the Republic of Serbia with the due dates in 2016-2019. The payment under the Agreement was made on 17 July 2017 in full.

Movements on the Group's impairment provision of long-term other receivables are as follows:

	Long-term other receivables
As at January 1st, 2016	**1,935,712**
Receivables written off during the year as uncollectible	(1,051,522)
Exchange differences	35,191
Unwinding of discount (note 24)	(266,016)
Other	(18,722)
As at September 30th, 2016	**634,643**
As at January 1st, 2017	**728,602**
Release of provision	(159,155)
Receivables written off during the year as uncollectible	(132,657)
Exchange differences	(12,859)
Unwinding of discount (note 24)	(215,064)
Transfer to current part (note 8)	(208,808)
As at September 30th, 2017	**59**

13. LONG-TERM FINANCIAL ASSETS

	September 30th, 2017	December 31st, 2016
Deposits with original maturity more than 1 year	4,009,222	-
Available for sale financial assets	2,051,204	1,897,256
LT loans issued	102,071	179,596
Other LT placements	26,700	27,648
Less current portion (note 7)	(102,071)	(179,596)
Less provision	(1,926,815)	(1,761,339)
	4,160,311	**163,565**

14. OTHER NON-CURRENT ASSETS

	September 30th, 2017	December 31st, 2016
Advances paid for PPE	2,260,239	1,851,425
Prepaid expenses	711,917	794,251
Other assets	1,042,531	1,076,724
Less impairment provision	(44,781)	(41,758)
	3,969,906	**3,680,642**

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

	September 30th, 2017	December 31st, 2016
Short-term loans	-	12,189,945
Interest liabilities	203,537	243,913
Current portion of long-term loans (note 19)	8,672,948	9,516,423
Current portion of finance lease liabilities (note 19)	46,712	26,290
	8,923,197	**21,976,571**

16. TRADE AND OTHER PAYABLES

	September 30th, 2017	December 31st, 2016
Trade payables		
- related parties	977,272	6,898,039
- third parties	18,698,408	18,893,423
Dividends payable	3,772,308	3,772,308
Other accounts payable	5,136	15,395
	23,453,124	**29,579,165**

As at September 30th, 2017 payables to related parties amounting to 977,272 RSD (December 31st, 2016: 6,898,039 RSD) mainly relate to payables to the supplier Gazprom Marketing & Trading Co., Ltd. in the amount of 961,914 RSD mostly based on electricity trade (31 December 2016: Gazprom Neft, St Petersburg in the amount of 5,818,200 RSD, mostly for the purchase of crude oil).

17. OTHER CURRENT LIABILITIES

	September 30th, 2017	December 31st, 2016
Advances received	1,287,595	1,325,012
Payables to employees	3,053,543	3,551,055
Accruals and deferred income	412,018	309,194
Other current non-financial liabilities	12,836	48,989
	4,765,992	**5,234,250**

18. OTHER TAXES PAYABLE

	September 30th, 2017	December 31st, 2016
Mineral extraction tax	281,684	241,017
VAT	2,334,551	1,565,733
Excise tax	4,945,743	5,395,623
Contribution for buffer stocks	489,333	601,357
Custom duties	183,899	298,878
Other taxes	2,069,352	2,033,952
	10,304,562	**10,136,560**

19. LONG-TERM DEBT

	September 30th, 2017	December 31st, 2016
Long-term loan - Gazprom Neft	31,923,439	37,328,836
Bank and other long-term loans	68,485,841	66,120,490
Finance lease liabilities	402,941	343,080
Other long-term borrowings	55,551	44,968
Less Current portion	(8,719,660)	(9,542,713)
	92,148,112	**94,294,661**

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

	Long-term loans	Short-term loans (note 15)	Finance lease	Total
As at January 1st, 2016	**113,444,171**	**3,553,120**	**199,289**	**117,196,580**
Proceeds	3,187,240	11,550,124	-	14,737,364
Repayment	(12,017,266)	(3,602,521)	-	(15,619,787)
Non-cash transactions	-	-	173,662	173,662
Foreign exchange difference (note 22)	420,214	69,727	5,641	495,582
As at September 30th, 2016	**105,034,359**	**11,570,450**	**378,592**	**116,983,401**
As at January 1st, 2017	**103,449,326**	**12,189,945**	**343,080**	**115,982,351**
Proceeds	28,733,261	-	-	28,733,261
Repayment	(24,459,383)	(12,032,433)	(74,859)	(36,566,675)
Non-cash transactions	-	-	141,992	141,992
Foreign exchange difference (note 22)	(7,313,924)	(157,512)	(7,272)	(7,478,708)
As at September 30th, 2017	**100,409,280**	**-**	**402,941**	**100,812,221**

(a) Long-term loan - Gazprom Neft

As at September 30th, 2017 long-term loan - Gazprom Neft amounting to 31,923,439 RSD (December 31st, 2016: 37,328,836 RSD), with current portion of 5,551,902 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

	September 30th, 2017	December 31st, 2016
Domestic	41,992,258	27,522,764
Foreign	26,493,583	38,597,726
	68,485,841	66,120,490
Current portion of long-term loans	(3,121,046)	(3,773,525)
	65,364,795	**62,346,965**

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

	September 30th, 2017	December 31st, 2016
Between 1 and 2 years	26,375,628	13,481,072
Between 2 and 5 years	35,876,354	44,609,978
Over 5 years	3,112,813	4,255,915
	65,364,795	**62,346,965**

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

	September 30th, 2017	December 31st, 2016
USD	25,731,860	39,607,916
EUR	42,436,260	26,126,044
RSD	862	976
JPY	316,859	385,554
	68,485,841	**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 September 30th, 2017 and December 31st, 2016, respectively.

20. PRODUCTION AND MANUFACTURING EXPENSES

	Nine months period ended September 30th, 2017	2016
Employee costs	4,345,590	4,146,467
Materials and supplies (other than purchased oil, petroleum products and gas)	1,567,698	1,614,042
Repair and maintenance services	2,169,608	2,796,401
Electricity for resale	7,464,026	5,823,726
Electricity and utilities	1,882,701	1,800,322
Safety and security expense	235,259	255,056
Insurance services	211,900	215,782
Transportation services for production	1,505,553	1,447,797
Other	2,294,350	2,414,057
	21,676,685	**20,513,650**

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Nine months period ended September 30th, 2017	2016
Employee costs	7,703,353	7,767,382
Legal, audit and consulting services	731,858	899,743
Rent expense	286,491	430,957
Business trips expense	227,888	235,304
Safety and security expense	398,981	397,792
Insurance expense	76,029	77,440
Transportation and storage	132,042	276,971
Allowance for doubtful accounts	78,800	(105,036)
Other	6,892,444	6,864,639
	16,527,886	**16,845,192**

22. NET FOREIGN EXCHANGE GAIN (LOSS)

	Nine months period ended September 30th, 2017	2016
Foreign exchange gain (loss) on financing activities including:		
- foreign exchange gain	8,188,507	3,022,413
- foreign exchange loss	(709,799)	(3,517,995)
Net foreign exchange gain (loss) on operating activities	(1,397,236)	917,827
	6,081,472	**422,245**

23. FINANCE INCOME

	Nine months period ended September 30th, 2017	2016
Interest on bank deposits	374,723	159,463
Interest income on loans issued	11,651	17,293
Dividend income	156	65
	386,530	**176,821**

24. FINANCE EXPENSES

	Nine months period ended September 30th, 2017	2016
Interest expense	2,396,781	2,512,411
Decommissioning provision: unwinding of the present value	103,429	87,285
Trade receivables: unwinding of discount	(315,289)	(266,016)
Less: intrest expense capitalised on qualifying assets	(52,583)	(16,695)
	2,132,338	**2,316,985**

25. 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 September 30th, 2017 carrying value of financial assets approximate their fair value.

26. 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 756,371 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 September 30th, 2017.

Capital commitments

As of September 30th, 2017 the Group has entered into contracts to purchase property, plant and equipment for 8,467,278 RSD (31 December 2016: 5,324,487 RSD) and drilling and exploration works estimated to 53.09 USD million (31 December 2016: 40.17 USD million).

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

27. 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 nine month period ended September 30th, 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 September 30th, 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 September 30th, 2017			
Trade and other receivables	-	1,062,560	269,242
Investments in joint ventures	-	-	2,047,021
Trade and other payables	-	(977,272)	-
Other current liabilities	-	(943)	-
Short-term debt and current portion of long-term debt	(5,551,902)	-	-
Long-term debt	(26,371,537)	-	-
	(31,923,439)	**84,345**	**2,316,263**
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 nine month period ended September 30th, 2017 and 2016 the following transaction occurred with related parties:

	Parent company	Parent's subsidiaries and associates	Joint venture
Nine months period ended September 30th, 2017			
Petroleum products and oil and gas sales	-	450,590	-
Other revenues	-	7,026,197	-
Purchases of oil, gas and petroleum products	(20,062,252)	(451,894)	-
Production and manufacturing expenses	-	(7,269,422)	-
Selling, general and administrative expenses	-	(4,776)	-
Other expenses, net	(5,002)	(175)	-
Finance expense	(489,792)	-	-
	(20,557,046)	**(249,480)**	**-**
Nine months period ended September 30th, 2016			
Petroleum products and oil and gas sales	-	395,681	-
Other revenues	-	5,610,682	-
Purchases of oil, gas and petroleum products	(29,566,123)	(396,618)	-
Production and manufacturing expenses	-	(5,593,596)	-
Selling, general and administrative expenses	-	(113,594)	-
Other income (expenses), net	18,455	(39)	-
Finance expense	(585,043)	-	-
	(30,132,711)	**(97,484)**	**-**

***Transactions* with Key Management Personnel**

For the nine month period ended on September 30th, 2017 and 2016 the Group recognized 743,813 RSD and 593,172 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.

28. SUBSEQUENT EVENTS

In accordance with the laws in force in the Republic of Serbia, at the beginning of October all the condition were met for the full implementation the earlier prepared plan for restructuring of the company HIP Petrohemija a.d. Pancevo. In accordance with the adopted plan, the structure of the share capital of the company HIP Petrohemija has also been changed, whereby NIS increased its equity interest in HIP Petrohemija to 20.855912% by the conversion of the remaining part of the receivables after the write-offs. This change was registered in CSD on October 19th, 2017.

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 Serbia[75] 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
	(Stamp)	
Deputy General Director, Head of Function for Finance, Economics, Planning and Accounting NIS j.s.c. Novi Sad		Director of Accounting Department, Function for Finance, Economics, Planning and Accounting NIS j.s.c. Novi Sad

[75] 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.

Contacts

NIS j.s.c. Novi Sad

E-mail: office@nis.eu

12, Narodnog fronta St.
21000 Novi Sad, Serbia
(+381 21) 481 1111

1, Milentija Popovića St.
11000 Belgrade, Serbia
(+381 11) 311 3311

Investor Relations

E-mail: Investor.Relations@nis.eu

12, Narodnog fronta St.
21000 Novi Sad, Serbia

Sector for Minority Shareholders Affairs

E-mail: servis.akcionara@nis.eu

12, Narodnog fronta St.
21000 Novi Sad, Serbia
Info Service: (+381 11) 22 000 55

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.