



Naftna industrija Srbije A.D.

Interim Condensed Financial Statements (Unaudited)

30 June 2016

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

Naftna industrija Srbije A.D.
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30 June 2016

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STATEMENT OF FINANCIAL POSITION
(All amounts are in 000 RSD, unless otherwise stated)

Assets	Note	30 June 2016	31 December 2015
		<i>(unaudited)</i>	
Current assets			
Cash and cash equivalents	6	12,940,802	16,729,893
Short-term financial assets		4,369,511	2,033,844
Trade and other receivables	7	36,636,634	36,645,567
Inventories	8	28,246,951	20,760,398
Current income tax prepayments		1,434,723	1,618,126
Other current assets	9	7,400,639	5,548,275
Assets classified as held for sale		11,621	21,703
Total current assets		91,040,881	83,357,806
Non-current assets			
Property, plant and equipment	10	219,806,735	217,647,262
Investment property		1,518,313	1,336,060
Other intangible assets		4,071,916	4,373,314
Investments in subsidiaries and joint venture		13,623,069	13,623,069
Trade and other non-current receivables	11	11,174,558	14,583,568
Long-term financial assets		33,940,255	33,823,202
Deferred tax assets		4,326,478	4,521,729
Other non-current assets	12	3,036,732	3,401,988
Total non-current assets		291,498,056	293,310,192
Total assets		382,538,937	376,667,998
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	13	28,351,236	17,865,941
Trade and other payables	14	38,441,923	29,828,377
Other current liabilities	15	3,040,885	5,782,078
Other taxes payable	16	10,607,451	9,484,109
Provisions for liabilities and charges		2,224,612	2,228,885
Total current liabilities		82,666,107	65,189,390
Non-current liabilities			
Long-term debt	17	87,446,577	99,309,246
Provisions for liabilities and charges		9,489,387	9,154,267
Total non-current liabilities		96,935,964	108,463,513
Equity			
Share capital	18	81,530,200	81,530,200
Reserves		(81,933)	(79,564)
Retained earnings		121,488,599	121,564,459
Total equity		202,936,866	203,015,095
Total liabilities and shareholder's equity		382,538,937	376,667,998

Kirill Kravchenko
 Chief Executive Officer
 29 July 2016



Anton Fyodorov
 Chief Financial Officer

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

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STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

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

		Six month period ended	
		30 June	
	Note	2016	2015
		<i>(unaudited)</i>	<i>(unaudited)</i>
Sales of petroleum products and oil and gas sales		69,441,523	94,938,163
Other revenues		6,202,716	3,031,129
Total revenue from sales	5	75,644,239	97,969,292
Purchases of oil, gas and petroleum products	19	(38,561,258)	(55,849,444)
Production and manufacturing expenses	20	(12,636,165)	(9,084,169)
Selling, general and administrative expenses	21	(9,730,005)	(9,851,372)
Transportation expenses		(513,095)	(380,596)
Depreciation, depletion and amortization		(6,630,814)	(5,742,324)
Taxes other than income tax		(1,824,206)	(2,205,561)
Total operating expenses		(69,895,543)	(83,113,466)
Other income/(expenses), net		101,290	(569,520)
Operating profit		5,849,986	14,286,306
Net foreign exchange loss		(219,696)	(5,401,875)
Finance income		602,203	642,550
Finance expenses		(1,469,827)	(1,669,255)
Total other expense		(1,087,320)	(6,428,580)
Profit before income tax		4,762,666	7,857,726
Current income tax expense		(617,313)	(1,043,037)
Deferred income tax expense		(195,252)	(388,175)
Total income tax expense		(812,565)	(1,431,212)
Profit for the period		3,950,101	6,426,514
Other comprehensive loss:			
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		(2,369)	18,497
Other comprehensive (loss)/profit for the period		(2,369)	18,497
Total comprehensive income for the period		3,947,732	6,445,011
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		24.21	39.53
Weighted average number of ordinary shares in issue (in millions)		163	163

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

NIS a.d.**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

Six month period ended 30 June 2016 and 2015

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

(unaudited)

	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2015	81,530,200	(42,277)	113,098,379	194,586,302
Profit / (loss) for the period	-	-	6,426,514	6,426,514
Other comprehensive income / (loss)				
Change in value of available-for-sale financial assets	-	18,497	-	18,497
Total comprehensive income (loss) for the period	-	18,497	6,426,514	6,445,011
Dividend distribution	-	-	(7,639,380)	(7,639,380)
Total transaction with owners, recorded in equity	-	-	(7,639,380)	(7,639,380)
Balance as at 30 June 2015	81,530,200	(23,780)	111,885,513	193,391,933
Balance as at 1 January 2016	81,530,200	(79,564)	121,564,459	203,015,095
Profit / (loss) for the period	-	-	3,950,101	3,950,101
Other comprehensive income / (loss)				
Change in value of available-for-sale financial assets	-	(2,369)	-	(2,369)
Total comprehensive income / (loss) for the period	-	(2,369)	3,950,101	3,947,732
Dividend distribution	-	-	(4,025,961)	(4,025,961)
Total transaction with owners, recorded in equity	-	-	(4,025,961)	(4,025,961)
Balance as at 30 June 2016	81,530,200	(81,933)	121,488,599	202,936,866

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

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STATEMENT OF CASH FLOWS

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

	Six month period ended	
	30 June	
	2016	2015
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities		
Profit before income tax	4,762,666	7,857,726
Adjustments for:		
Finance costs	1,469,827	1,669,255
Finance income	(602,203)	(642,550)
Depreciation, depletion and amortization	6,630,814	5,742,324
Adjustments for other provisions	237,979	171,545
Allowance for doubtful accounts	253,960	84,866
Payables write off	(2,215)	(203,393)
Net unrealised foreign exchange losses	1,733,154	4,662,972
Other non-cash items	(68,117)	234,855
	9,653,199	11,719,874
<i>Changes in working capital:</i>		
Trade and other receivables	3,428,025	348,493
Inventories	(7,517,487)	11,484,654
Other current assets	(3,214,409)	1,926,875
Trade payables and other current liabilities	3,207,179	(5,537,786)
Other taxes payable	1,122,445	532,123
	(2,974,247)	8,754,359
Income taxes paid	(433,013)	(2,595,388)
Interest paid	(1,491,228)	(1,498,316)
Interest received	503,454	241,779
	(1,420,787)	(3,851,925)
Net cash generated by operating activities	10,020,831	24,480,034
Cash flows from investing activities		
Loans issued	(5,853,724)	(7,884,015)
Loan proceeds received	3,946,267	5,959,284
Capital expenditures	(9,831,593)	(13,199,337)
Proceeds from sale of property, plant and equipment	282,622	72,437
	(11,456,428)	(15,051,631)
Net cash used in investing activities	(11,456,428)	(15,051,631)
Cash flows from financing activities		
Proceeds from borrowings	9,425,689	16,231,948
Repayment of borrowings	(11,822,113)	(22,702,299)
	(2,396,424)	(6,470,351)
Net cash used in financing activities	(2,396,424)	(6,470,351)
Net (decrease) increase in cash and cash equivalents	(3,832,021)	2,958,052
Effect of foreign exchange on cash and cash equivalents	42,930	(45,065)
Cash and cash equivalents as of the beginning of the period	16,729,893	5,338,023
Cash and cash equivalents as of the end of the period	12,940,802	8,251,010

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

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

1. GENERAL INFORMATION

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

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

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

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 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 2015, 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 2015.

The results for the six month period ended 30 June 2016 are not necessarily indicative of the results expected for the full year.

2.2. Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Financial Statements are consistent with those applied during the preparation of Financial Statements as of and for the year ended 31 December 2015, except for those described in Application of new IFRS paragraph.

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

2.3. Application of New IFRS

IFRS 14 - Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Unless otherwise stated the new standard and interpretations are not expected to have significant impact on the Company's Financial Statements.

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

- Amendments to IFRS 11 – Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Amendments to IFRS 7 Financial instruments: Disclosure (issued in September 2014 and effective for annual periods on or after 1 January 2016).
- Amendments to IAS 19 Employee Benefits (issued in September 2014 and effective for annual periods on or after 1 January 2016).
- Amendments to IAS 34 Interim Financial Reporting (issued in September 2014 effective for annual periods beginning on or after 1 January 2016).

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

3.1. Impact of recent crude oil volatility

In the line with recent changes in the crude oil price on the world market, management of the company continues to monitor the crude oil price fluctuation and its influence on business performance in order to adequately take measure to mitigate impact if the negative trends on the market continue.

Based on the currently available information and crude oil price forecast, management believe that at reporting date there are no indicators of asset impairment.

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and that the Company has not early adopted. The full list of such Standards and interpretations was disclosed in the Financial Statements as of and for the year ended 31 December 2015.

The following new amendments were issued during the six months period ended 30 June 2016.

The amendments to IAS 12 - Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016 effective for annual periods beginning on or after 1 January 2017) on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The amendments to IAS 7 – Statement of Cash Flow (issued in January 2016 effective for annual periods beginning on or after 1 January 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.

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

The amendments to IFRS 2 – Share-based Payment (issued in June 2016 effective for annual periods beginning on or after 1 January 2018) clarifies guidance on the following:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled; and
- share-based payment transactions with a net settlement feature for withholding tax obligations.

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

5. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the six month periods ended 30 June 2016 and 2015. Operating segments are components that engaged in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

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

Reportable segment results for the six month period ended 30 June 2016 are shown in the table below:

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	16,464,797	76,139,367	(16,959,925)	75,644,239
Intersegment	15,747,345	1,212,580	(16,959,925)	-
External	717,452	74,926,787	-	75,644,239
EBITDA (Segment results)	9,714,343	2,482,133	-	12,196,476
Depreciation, depletion and amortization	(2,372,599)	(4,258,215)	-	(6,630,814)
Revaluation surpluses	-	163,058	-	163,058
Net foreign exchange gain (loss)	1,059	(220,755)	-	(219,696)
Finance expenses, net	(52,903)	(814,721)	-	(867,624)
Income tax	(812,565)	-	-	(812,565)
Segment profit (loss)	7,308,664	(3,358,563)	-	3,950,101

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

Reportable segment results for the six month period ended 30 June 2015 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	28,946,095	96,741,511	(27,718,314)	97,969,292
Intersegment	26,945,653	772,661	(27,718,314)	-
External	2,000,442	95,968,850	-	97,969,292
EBITDA (Segment results)	21,385,136	(849,091)	-	20,536,045
Depreciation, depletion and amortization	(1,579,456)	(4,162,868)	-	(5,742,324)
Impairment losses	-	(195,740)	-	(195,740)
Net foreign exchange loss	(21,243)	(5,380,632)	-	(5,401,875)
Finance expenses, net	(55,650)	(971,055)	-	(1,026,705)
Income tax	-	(1,431,212)	-	(1,431,212)
Segment profit (loss)	19,320,745	(12,894,231)	-	6,426,514

EBITDA for the six month period ended 30 June 2016 and 2015 is reconciled below:

	Six month period ended	
	30 June	
	2016	2015
Profit for the period	3,950,101	6,426,514
Income tax expenses	812,565	1,431,212
Finance expenses	1,469,827	1,669,255
Finance income	(602,203)	(642,550)
Depreciation, depletion and amortization	6,630,814	5,742,324
Net foreign exchange loss	219,696	5,401,875
Other (income)/expense, net	(101,290)	569,520
Other non-operating income, net*	(183,034)	(62,105)
EBITDA	12,196,476	20,536,045

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

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

	Six month period ended 30 June 2016		
	Export and		
	Domestic	international	Total
	market	sales	
Sale of crude oil	-	597,730	597,730
Sale of gas	1,491,599	-	1,491,599
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,491,599	-	1,491,599
Sale of petroleum products	56,132,313	11,219,881	67,352,194
<i>Through a retail network</i>	19,404,476	-	19,404,476
<i>Wholesale activities</i>	36,727,837	11,219,881	47,947,718
Sale of electricity	319,440	2,787,679	3,107,119
Other sales	3,010,899	84,698	3,095,597
Total sales	60,954,251	14,689,988	75,644,239

NIS a.d.**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016***(All amounts are in 000 RSD, unless otherwise stated)*

	Six month period ended 30 June 2015		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,740,490	1,740,490
Sale of gas	4,779,868	-	4,779,868
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	4,779,868	-	4,779,868
Sale of petroleum products	73,647,685	14,770,120	88,417,805
<i>Through a retail network</i>	23,162,461	-	23,162,461
<i>Wholesale activities</i>	50,485,224	14,770,120	65,255,344
Sale of electricity	184,683	157,481	342,164
Other sales	2,491,919	197,046	2,688,965
Total sales	81,104,155	16,865,137	97,969,292

Out of the amount of 47,947,718 RSD (2015: 65,255,344 RSD) revenue from sale of petroleum products (wholesale), the amount of 6,690,792 RSD (2015: 8,888,980 RSD) are derived from a single domestic customer HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 2,169,254 RSD (2015: 1,685,458 RSD).

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 60,954,251 RSD (2015: 81,104,155 RSD), and the total of revenue from external customer from other countries is 14,689,988 RSD (2015: 16,865,137 RSD).

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

	Six month period ended 30 June	
	2016	2015
Sale of crude oil	597,730	1,740,490
Sale of petroleum products (retail and wholesale)		
Bulgaria	1,903,384	3,618,422
Bosnia and Herzegovina	448,042	2,783,262
Romania	2,396,174	1,053,203
All other markets	6,472,281	7,315,233
	11,219,881	14,770,120
Sale of electricity	2,787,679	157,481
Other sales	84,698	197,046
	14,689,988	16,865,137

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

6. CASH AND CASH EQUIVALENTS

	30 June 2016	31 December 2015
Cash in bank and in hand	12,872,548	10,725,749
Deposits with original maturity of less than three months	-	6,000,000
Cash equivalents	68,254	4,144
	12,940,802	16,729,893

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**Notes to the Interim Condensed Financial Statements for the six month period ended
30 June 2016**

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

7. TRADE AND OTHER RECEIVABLES

	30 June 2016	31 December 2015
Trade receivables:		
- related parties	4,069,507	3,433,615
- third parties	28,801,430	28,651,802
- state and state owned companies	19,164,105	19,369,662
	52,035,042	51,455,079
Other receivables:		
- state and state owned companies	10,424,734	10,314,622
Accrued assets	84,487	655,179
	62,544,263	62,424,880
<i>Less impairment provision for trade and other receivables:</i>		
- <i>third parties</i>	(10,007,147)	(10,001,877)
- <i>state and state owned companies</i>	(15,900,482)	(15,777,436)
	(25,907,629)	(25,779,313)
Total trade and other receivables	36,636,634	36,645,567

The ageing of trade and other receivables is as follows:

	30 June 2016	31 December 2015
Neither impaired nor past due	21,323,920	29,966,050
Past due but not impaired:		
within 30 days:	2,285,719	1,935,572
1 to 3 months	2,368,651	1,210,536
3 months to 1 year	7,303,542	118,635
over 1 year	3,354,802	3,414,774
Total	36,636,634	36,645,567

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

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

	30 June 2016	31 December 2015
RSD	45,437,093	43,281,136
EUR	16,069,466	17,635,878
USD	1,037,682	1,507,845
Other	22	21
	62,544,263	62,424,880

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

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

	Trade & other receivables		Total
	Third parties	State and state owned companies	
As at 1 January 2015	10,201,470	19,522,269	29,723,739
Provision for receivables impairment	17,068	72,669	89,737
Unused amounts reversed	(63,851)	(27,992)	(91,843)
Receivables written off during the year as uncollectible	(8,456)	(1,331,961)	(1,340,417)
Exchange differences	(20,478)	(23,866)	(44,344)
Other	(6,047)	20,479	14,432
As at 30 June 2015	10,119,706	18,231,598	28,351,304
As at 1 January 2016	10,001,877	15,777,436	25,779,313
Provision for receivables impairment	49,479	47,615	97,094
Unused amounts reversed	(43,936)	(34,254)	(78,190)
Receivables written off during the year as uncollectible	(326)	(3,854)	(4,180)
Exchange differences	-	113,539	113,539
Other	53	-	53
As at 30 June 2016	10,007,147	15,900,482	25,907,629

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.

8. INVENTORIES

	30 June 2016	31 December 2015
Crude oil	14,243,467	11,069,970
Petroleum products	15,459,782	12,887,574
Materials and supplies	3,023,496	1,428,748
Other	540,972	491,761
Less impairment provision	(5,020,766)	(5,117,655)
	28,246,951	20,760,398

9. OTHER CURRENT ASSETS

	30 June 2016	31 December 2015
Advances paid	407,988	453,622
Deferred VAT	1,920,871	1,741,957
Prepaid expenses	254,050	84,499
Prepaid custom duties	32,252	33,171
Prepaid excise	4,456,335	3,027,852
Other current assets	14,584,591	14,239,128
Less impairment provision	(14,255,448)	(14,031,954)
	7,400,639	5,548,275

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

Deferred VAT as at 30 June 2016 amounting to 1,920,871 RSD (31 December 2015: 1,741,957 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 30 June 2016 amounting to 4,456,335 RSD (31 December 2015: 3,027,852 RSD) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

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

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

	Advances paid	Other current assets	Total
As at 1 January 2015	239,846	20,751,217	20,991,063
Provision for receivables impairment	377	100,133	100,510
Unused amounts reversed	(2,560)	(10,977)	(13,537)
Receivables written off during the year as uncollectible	(6)	(85,545)	(85,551)
Other	(822)	8,963	8,141
As at 30 June 2015	236,835	20,763,791	21,000,626
As at 1 January 2016	268,118	13,763,836	14,031,954
Provision for receivables impairment	-	246,285	246,285
Unused amounts reversed	(2,995)	(10,768)	(13,763)
Receivables written off during the year as uncollectible	-	(9,028)	(9,028)
As at 30 June 2016	265,123	13,990,325	14,255,448

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2015						
Cost	73,455,117	114,595,855	31,255,519	17,838,728	40,592,464	277,737,683
Depreciation and impairment	(19,210,617)	(32,895,538)	(13,279,118)	(7,941,703)	(2,782,803)	(76,109,779)
Net book value	54,244,500	81,700,317	17,976,401	9,897,025	37,809,661	201,627,904
Period ended 30 June 2015						
Additions	-	-	-	-	10,867,738	10,867,738
Transfer from asset under construction	6,974,133	2,220,364	870,622	136,797	(10,201,916)	-
Impairment	-	(13,670)	(147,634)	-	(60,354)	(221,658)
Depreciation	(1,564,966)	(2,851,375)	(611,204)	(281,645)	-	(5,309,190)
Disposals and write-off	(102,955)	(9,839)	(18,925)	(73,093)	(23,770)	(228,582)
Other transfers	(22,648)	(2,966)	(2,844)	(183,524)	(57,624)	(269,606)
	59,528,064	81,042,831	18,066,416	9,495,560	38,333,735	206,466,606
As at 30 June 2015						
Cost	80,321,226	116,754,476	31,992,961	17,651,840	41,117,822	287,838,325
Depreciation and impairment	(20,793,162)	(35,711,645)	(13,926,545)	(8,156,280)	(2,784,087)	(81,371,719)
Net book value	59,528,064	81,042,831	18,066,416	9,495,560	38,333,735	206,466,606
As at 1 January 2016						
Cost	98,224,109	120,288,251	32,971,933	17,494,322	34,916,617	303,895,232
Depreciation and impairment	(22,749,386)	(38,800,866)	(14,182,435)	(8,139,485)	(2,375,798)	(86,247,970)
Net book value	75,474,723	81,487,385	18,789,498	9,354,837	32,540,819	217,647,262
Period ended 30 June 2016						
Additions	182,825	-	-	-	8,454,362	8,637,187
Transfer from asset under construction	8,345,209	576,307	1,266,758	70,787	(10,259,061)	-
Impairment	-	-	-	-	(16,150)	(16,150)
Depreciation	(2,353,986)	(2,801,341)	(705,579)	(279,048)	-	(6,139,954)
Disposals and write-off	(85,528)	(10,717)	(71,222)	(34,448)	(100,603)	(302,518)
Other transfers	(12,394)	(2,974,900)	2,971,157	(3,986)	1,031	(19,092)
	81,550,849	76,276,734	22,250,612	9,108,142	30,620,398	219,806,735
As at 30 June 2016						
Cost	106,584,982	108,678,053	46,073,793	17,446,065	32,977,756	311,760,649
Depreciation and impairment	(25,034,133)	(32,401,319)	(23,823,181)	(8,337,923)	(2,357,358)	(91,953,914)
Net book value	81,550,849	76,276,734	22,250,612	9,108,142	30,620,398	219,806,735

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

Oil and gas production assets

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2015						
Cost	15,001,370	11,578,278	26,579,648	73,455,117	22,203	100,056,968
Depreciation and impairment	-	(253,585)	(253,585)	(19,210,617)	(20,358)	(19,484,560)
Net book amount	15,001,370	11,324,693	26,326,063	54,244,500	1,845	80,572,408
Period ended 30 June 2015						
Additions	1,387,963	7,847,450	9,235,413	-	-	9,235,413
Transfer from asset under construction	(211,476)	(6,762,657)	(6,974,133)	6,974,133	-	-
Other transfers	(12,000)	12,216	216	(22,648)	(30)	(22,462)
Depreciation and depletion	-	-	-	(1,564,966)	-	(1,564,966)
Disposals and write-off	(28,012)	-	(28,012)	(102,955)	(50)	(131,017)
	16,137,845	12,421,702	28,559,547	59,528,064	1,765	88,089,376
As at 30 June 2015						
Cost	16,137,845	12,660,141	28,797,986	80,321,226	22,123	109,141,335
Depreciation and impairment	-	(238,439)	(238,439)	(20,793,162)	(20,358)	(21,051,959)
Net book amount	16,137,845	12,421,702	28,559,547	59,528,064	1,765	88,089,376
As at 1 January 2016						
Cost	16,744,368	7,644,244	24,388,612	98,224,109	22,153	122,634,874
Depreciation and impairment	-	(248,771)	(248,771)	(22,749,386)	(20,311)	(23,018,468)
Net book amount	16,744,368	7,395,473	24,139,841	75,474,723	1,842	99,616,406
Period ended 30 June 2016						
Additions	1,027,611	6,117,189	7,144,800	182,825	-	7,327,625
Transfer from asset under construction	(30,671)	(8,307,604)	(8,338,275)	8,338,275	-	-
Other transfers	-	28,239	28,239	(5,460)	1	22,780
Depreciation and depletion	-	-	-	(2,353,986)	-	(2,353,986)
Disposals and write-off	(27,936)	(181)	(28,117)	(85,528)	-	(113,645)
	17,713,372	5,233,116	22,946,488	81,550,849	1,843	104,499,180
As at 30 June 2016						
Cost	17,713,372	5,481,509	23,194,881	106,584,982	22,153	129,802,016
Depreciation and impairment	-	(248,393)	(248,393)	(25,034,133)	(20,310)	(25,302,836)
Net book amount	17,713,372	5,233,116	22,946,488	81,550,849	1,843	104,499,180

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

11. TRADE AND OTHER NON-CURRENT RECEIVABLES

	30 June 2016	31 December 2015
Non-current trade receivables:		
- state and state owned companies	9,795,291	12,388,550
	9,795,291	12,388,550
Non-current other receivables:		
- third parties	3,018	79,767
- state and state owned companies	2,113,073	4,050,964
	2,116,091	4,130,731
<i>Less impairment provision for trade and other non-current receivables:</i>		
- <i>third parties</i>	(59)	(76,849)
- <i>state and state owned companies</i>	(736,765)	(1,858,864)
	(736,824)	(1,935,713)
	11,174,558	14,583,568

Trade and other non-current receivables amounting to 11,174,558 RSD mainly relate to the long-term receivables from the Republic of Serbia in the amount of 7,637,035 RSD according to the debt of Srbijagas owed to Naftna industrija Srbije takeover and its conversion into public debt. (Short-term part of the receivables: note 7).

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

As at 31 May 2016, the second instalment was paid in accordance with the repayment schedule defined by the Law.

12. OTHER NON-CURRENT ASSETS

	30 June 2016	31 December 2015
Advances paid for PPE	999,682	1,363,418
Prepaid expenses	888,357	908,248
Other assets	1,179,502	1,161,131
Less impairment provision	(30,809)	(30,809)
	3,036,732	3,401,988

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

	30 June 2016	31 December 2015
Short-term loans	9,999,680	4,282,974
Interest liabilities	173,261	165,546
Current portion of long-term loans (note 17)	18,171,217	13,417,421
Current portion of finance lease liabilities (note 17)	7,078	-
	28,351,236	17,865,941

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

14. TRADE AND OTHER PAYABLES

	30 June 2016	31 December 2015
Trade payables		
- related parties	14,392,192	13,600,086
- third parties	16,230,875	12,373,881
Dividends payable	7,798,270	3,772,308
Other accounts payable	20,586	82,102
	38,441,923	29,828,377

As at 30 June 2016 payables to related parties amounting to 14,392,192 RSD (31 December 2015: 13,600,086 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 9,218,134 RSD (31 December 2015: 10,104,805 RSD), mostly for the purchase of crude oil.

15. OTHER CURRENT LIABILITIES

	30 June 2016	31 December 2015
Advances received	1,028,880	3,131,988
Payables to employees	1,972,637	2,624,262
Accruals and deferred income	26,691	13,066
Other current non-financial liabilities	12,677	12,762
	3,040,885	5,782,078

16. OTHER TAXES PAYABLE

	30 June 2016	31 December 2015
Mineral extraction tax	256,996	241,017
VAT	1,761,137	1,311,122
Excise tax	5,554,169	5,707,561
Contribution for buffer stocks	297,830	350,301
Custom duties	962,417	85,278
Other taxes	1,774,902	1,788,830
	10,607,451	9,484,109

17. LONG-TERM DEBT

	30 June 2016	31 December 2015
Long-term loan - Gazprom Neft	40,147,931	42,427,710
Bank loans	65,440,758	70,298,957
Finance lease liabilities	36,183	-
Less Current portion	(18,178,295)	(13,417,421)
	87,446,577	99,309,246

(a) Long-term loan - Gazprom Neft

As at 30 June 2016 long-term loan - Gazprom Neft amounting to 40,147,931 RSD (31 December 2015: 42,427,710 RSD), with current portion of 5,735,419 RSD (2015: 5,657,028 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

NIS a.d.**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016***(All amounts are in 000 RSD, unless otherwise stated)***(b) Bank loans**

	30 June 2016	31 December 2015
Domestic	21,109,974	18,693,335
Foreign	44,330,784	51,605,622
	65,440,758	70,298,957
Current portion of long-term loans	(12,435,798)	(7,760,393)
	53,004,960	62,538,564

The maturity of bank loans was as follows:

	30 June 2016	31 December 2015
Between 1 and 2 years	2,178,811	11,829,773
Between 2 and 5 years	46,214,065	45,785,596
Over 5 years	4,612,084	4,923,195
	53,004,960	62,538,564

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

	30 June 2016	31 December 2015
USD	45,989,341	53,388,078
EUR	16,950,417	16,529,505
RSD	2,070,334	1,175
JPY	430,666	380,199
	65,440,758	70,298,957

The Company repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Company has both fixed and floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor. Management expects that the Company will be able to fulfil its obligations within agreed timeframe.

The loan agreements contain financial covenants that require the Company's ratio of Indebtedness to EBITDA. Management believes the Company is in compliance with these covenants as of 30 June 2016 and 31 December 2015, respectively.

18. SHARE CAPITAL

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

Share capital as of 30 June 2016 and 31 December 2015 comprise of 163,060,400 shares.

19. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Six month period ended	
	30 June 2016	2015
Crude oil	34,696,298	42,798,094
Petroleum products	3,719,216	12,835,396
Other	145,744	215,954
	38,561,258	55,849,444

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

20. PRODUCTION AND MANUFACTURING EXPENSES

	Six month period ended 30 June	
	2016	2015
Employee costs	1,582,691	1,778,308
Materials and supplies (other than purchased oil, petroleum products and gas)	395,548	491,224
Repair and maintenance services	1,817,333	1,732,584
Electricity and utilities	3,733,577	1,499,246
Safety and security expense	165,189	58,902
Transportation services for production	874,737	252,847
Other	4,067,090	3,271,058
	12,636,165	9,084,169

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six month period ended 30 June	
	2016	2015
Employee costs	4,527,464	4,628,035
Legal, audit, and consulting services	709,405	634,541
Rent expense	64,970	52,583
Business trips expense	121,964	87,088
Safety and security expense	227,570	237,051
Transportation and storage	312,047	589,894
Allowance for doubtful accounts	253,960	84,866
Other	3,512,625	3,537,314
	9,730,005	9,851,372

22. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Financial Statements: investment properties and financial investments classified as available for sale. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Financial Statements as of 31 December 2015. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 30 June, 2016 carrying value of financial assets approximate their fair value.

23. CONTINGENCIES AND COMMITMENTS

Transfer of property ownership

As at 30 June 2016, the Company had ownership and the right to use and possess of 7,942 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

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 770,749 RSD (31 December 2015: 687,705 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.

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

Other contingent liabilities

As at 30 June 2016, the Company did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Company has to pay the difference in tax calculation of 81 million USD related to the additional profit oil for the period from 2002 to 2009. The Company's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Company's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed. Taking all of the above into consideration, the Company's Management is of the view that as at 30 June 2016 outflow of resources embodying economic benefits is not probable due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

Tax risks

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 30 June 2016.

There were no other material commitments of the Company.

24. 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.

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The second largest shareholder with 29.87% interest is Republic of Serbia, while remaining 13.98% of interest owned by various minority shareholders are traded on the Belgrade Stock Exchange and are owned by various shareholders. Gazprom, Russian Federation is the ultimate owner of the Company.

In the six month period ended 30 June 2016 and in the same period in 2015, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

NIS a.d.**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016***(All amounts are in 000 RSD, unless otherwise stated)*

As at 30 June 2016 and 31 December 2015 the outstanding balances with related parties were as follows:

	Subsidiaries	Parent company	Entities under common control	Total
As at 30 June 2016				
Short-term financial assets	4,170,200	-	-	4,170,200
Trade and other receivables	3,498,665	-	570,842	4,069,507
Other current assets	4,430	-	-	4,430
Investments in subsidiaries and joint ventures	13,442,631	-	180,438	13,623,069
Long-term financial assets	33,738,036	-	-	33,738,036
Other non-current assets	59,477	-	-	59,477
Trade and other payables	(4,461,399)	(9,218,134)	(753,868)	(14,433,401)
Other current liabilities	(2,558)	-	(301)	(2,859)
Short-term debt and current portion of long-term debt	(399,308)	(5,735,419)	-	(6,134,727)
Long-term debt	-	(34,412,512)	-	(34,412,512)
	50,050,174	(49,366,065)	(2,889)	681,220
As at 31 December 2015				
Short-term financial assets	1,946,998	-	-	1,946,998
Trade and other receivables	3,285,510	-	148,105	3,433,615
Other current assets	2,095	-	9,394	11,489
Investments in subsidiaries and joint ventures	16,325,803	-	-	16,325,803
Long-term financial assets	34,175,533	-	-	34,175,533
Other non-current assets	68,269	-	-	68,269
Trade and other payables	(3,470,404)	(10,004,805)	(166,005)	(13,641,214)
Other current liabilities	(6,607)	-	-	(6,607)
Short-term debt and current portion of long-term debt	(731,105)	(5,657,028)	-	(6,388,133)
Long-term debt	-	(36,770,682)	-	(36,770,682)
	51,596,092	(52,432,515)	(8,506)	(844,929)

NIS a.d.**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016***(All amounts are in 000 RSD, unless otherwise stated)*

For the six month period ended 30 June 2016 and 2015 the following transaction occurred with related parties:

	Subsidiaries	Parent company	Entities under common control	Total
Three month period ended 30 June 2016				
Petroleum products and oil and gas sales	4,032,019	-	269,062	4,301,081
Other Revenues	329,036	-	2,746,489	3,075,525
Purchases of oil, gas and petroleum products	(4,044,423)	(21,609,732)	(236,564)	(25,890,719)
Production and manufacturing expenses	(1,814,394)	-	(2,675,951)	(4,490,345)
Selling, general and administrative expenses	(259,746)	-	(143,585)	(403,331)
Transportation expenses	(42,905)	-	-	(42,905)
Other expenses, net	(21,852)	1,373	(16)	(20,495)
Finance income	16,960	400,427	-	417,387
Finance expense	(481,227)	-	-	(481,227)
	(2,286,532)	(21,207,932)	(40,565)	(23,535,029)
Three month period ended 30 June 2015				
Petroleum products and oil and gas sales	4,575,153	-	80,878	4,656,031
Other Revenues	266,916	-	157,482	424,398
Purchases of oil, gas and petroleum products	(5,735)	(35,246,131)	(2,033,070)	(37,284,936)
Production and manufacturing expenses	(1,631,846)	(3,733)	(109,057)	(1,744,636)
Selling, general and administrative expenses	(455,511)	(15,465)	-	(470,976)
Transportation expenses	(10,714)	-	-	(10,714)
Other expenses, net	(48,354)	(16,210)	(18,557)	(83,121)
Finance income	526,342	-	-	526,342
Finance expense	(435)	(494,182)	-	(494,617)
	3,215,816	(35,775,721)	(1,922,324)	(34,482,229)

Key management compensation

Management compensation paid or payable in six month period ended 30 June 2016 and 2015 is shown in the table below:

	Six month period ended 30 June	
	2016	2015
Salaries and other short-term employee benefits	394,678	230,464
	394,678	230,464

25. EVENTS AFTER THE REPORTING DATE

No significant events, which required disclosure in these Interim Condensed Financial Statements, occurred after the reporting date.

Subsequent events occurring after 30 June 2016 were evaluated through 29 July 2016, the date these Interim Condensed Financial Statements were authorised for issue.

NIS a.d.
Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2016

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

NIS a.d.
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