



**Naftna industrija Srbije A.D.**

**Interim Condensed Financial Statements (Unaudited)**

**30 September 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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**Contents**

<b>Interim Condensed Statement of Financial Position</b>	<b>3</b>
<b>Interim Condensed Statement of Profit and Loss and Other Comprehensive Income</b>	<b>4</b>
<b>Interim Condensed Statement of Changes in Shareholders' Equity</b>	<b>5</b>
<b>Interim Condensed Statement of Cash Flows</b>	<b>6</b>
 <b>Notes to the Interim Condensed Financial Statements</b>	
1. General information	7
2. Summary of Significant Accounting Policies	7
3. Application of new IFRS	8
4. New Accounting Standards	8
5. Segment Information	9
6. Cash and Cash Equivalents	12
7. Trade and Other Receivables	12
8. Inventories	14
9. Other Current Assets	14
10. Property, Plant and Equipment	15
11. Investments in subsidiaries and joint venture	17
12. Trade and Other Non-Current Receivables	17
13. Other Non-current Assets	17
14. Short-term Debt and Current Portion of Long-term Debt	17
15. Trade and Other Payables	18
16. Other Current Liabilities	18
17. Other Taxes Payable	18
18. Long-term Debt	18
19. Share Capital	19
20. Purchases of oil, gas and petroleum products	19
21. Production and manufacturing expenses	20
22. Selling, general and administrative expenses	20
23. Fair value measurement	20
24. Contingencies and commitments	20
25. Related party transactions	22
 Contact Informations	 24

**NIS a.d.**  
**STATEMENT OF FINANCIAL POSITION**  
*(All amounts are in 000 RSD, unless otherwise stated)*

<b>Assets</b>	Note	<b>30 September 2016</b>	<b>31 December 2015</b>
		<i>(unaudited)</i>	
<b>Current assets</b>			
Cash and cash equivalents	6	13,662,092	16,729,893
Short-term financial assets		4,931,447	2,033,844
Trade and other receivables	7	38,120,774	36,645,567
Inventories	8	18,719,438	20,760,398
Current income tax prepayments		1,174,388	1,618,126
Other current assets	9	3,940,441	5,548,275
Assets classified as held for sale		3,473	21,703
<b>Total current assets</b>		<b>80,552,053</b>	<b>83,357,806</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	222,122,147	217,647,262
Investment property		1,518,054	1,336,060
Other intangible assets		4,096,543	4,373,314
Investments in subsidiaries and joint venture	11	14,481,431	13,623,069
Trade and other non-current receivables	12	11,223,758	14,583,568
Long-term financial assets		33,544,313	33,823,202
Deferred tax assets		4,090,937	4,521,729
Other non-current assets	13	2,892,884	3,401,988
<b>Total non-current assets</b>		<b>293,970,067</b>	<b>293,310,192</b>
<b>Total assets</b>		<b>374,522,120</b>	<b>376,667,998</b>
<b>Liabilities and shareholder's equity</b>			
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	14	28,885,003	17,865,941
Trade and other payables	15	26,097,617	29,828,377
Other current liabilities	16	3,440,689	5,782,078
Other taxes payable	17	9,050,653	9,484,109
Provisions for liabilities and charges		2,187,900	2,228,885
<b>Total current liabilities</b>		<b>69,661,862</b>	<b>65,189,390</b>
<b>Non-current liabilities</b>			
Long-term debt	18	87,660,557	99,309,246
Provisions for liabilities and charges		10,066,206	9,154,267
<b>Total non-current liabilities</b>		<b>97,726,763</b>	<b>108,463,513</b>
<b>Equity</b>			
Share capital	19	81,530,200	81,530,200
Reserves		(79,025)	(79,564)
Retained earnings		125,682,320	121,564,459
<b>Total equity</b>		<b>207,133,495</b>	<b>203,015,095</b>
<b>Total liabilities and shareholder's equity</b>		<b>374,522,120</b>	<b>376,667,998</b>

Kirill Kravchenko  
 Chief Executive Officer

28 October 2016



Anton Fyodorov  
 Chief Financial Officer

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

NIS a.d.

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME**

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

	Note	Nine month period ended 30 September	
		2016 <i>(unaudited)</i>	2015 <i>(unaudited)</i>
Sales of petroleum products and oil and gas sales		112,941,379	145,173,536
Other revenues		11,023,736	5,021,816
<b>Total revenue from sales</b>	<b>5</b>	<b>123,965,115</b>	<b>150,195,352</b>
Purchases of oil, gas and petroleum products	20	(64,003,637)	(86,630,946)
Production and manufacturing expenses	21	(20,937,883)	(14,010,730)
Selling, general and administrative expenses	22	(14,925,163)	(14,849,636)
Transportation expenses		(745,364)	(654,844)
Depreciation, depletion and amortization		(10,027,762)	(8,848,784)
Taxes other than income tax		(2,761,412)	(3,203,409)
<b>Total operating expenses</b>		<b>(113,401,221)</b>	<b>(128,198,349)</b>
Other income/(expenses), net		42,173	(974,036)
<b>Operating profit</b>		<b>10,606,067</b>	<b>21,022,967</b>
Net foreign exchange gain/(loss)		268,106	(4,487,458)
Finance income		899,786	1,012,015
Finance expenses		(2,227,014)	(2,466,847)
<b>Total other expense</b>		<b>(1,059,122)</b>	<b>(5,942,290)</b>
<b>Profit before income tax</b>		<b>9,546,945</b>	<b>15,080,677</b>
Current income tax expense		(972,331)	(2,474,483)
Deferred tax expense		(430,792)	(816,460)
<b>Total income tax expense</b>		<b>(1,403,123)</b>	<b>(3,290,943)</b>
<b>Profit for the period</b>		<b>8,143,822</b>	<b>11,789,734</b>
<b>Other comprehensive profit (loss):</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Change in value of available-for-sale financial assets		539	(33,713)
<b>Other comprehensive income (loss) for the period</b>		<b>539</b>	<b>(33,713)</b>
<b>Total comprehensive income for the period</b>		<b>8,144,361</b>	<b>11,756,021</b>
<b>Earnings per share attributable to shareholders of Naftna Industrija Srbije</b>			
- Basic earnings (RSD per share)		49.95	72.10
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

Nine month period ended 30 September 2016 and 2015

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

	Share capital	Reserves	Retained earnings	Total
<i>(unaudited)</i>				
Balance as at 1 January 2015	81,530,200	(42,277)	113,098,379	194,586,302
Profit / (loss) for the period	-	-	11,789,734	11,789,734
Other comprehensive income/(loss)	-	(33,713)	-	(33,713)
Change in value of available-for-sale financial assets	-	(33,713)	11,789,734	11,756,021
Total comprehensive income (loss) for the period	-	-	(7,639,380)	(7,639,380)
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 September 2015	81,530,200	(75,990)	117,248,733	198,702,943
Balance as at 1 January 2016	81,530,200	(79,564)	121,564,459	203,015,095
Profit / (loss) for the period	-	-	8,143,822	8,143,822
Other comprehensive income/(loss)	-	539	-	539
Change in value of available-for-sale financial assets	-	539	8,143,822	8,144,361
Total comprehensive income (loss) for the period	-	-	(4,025,961)	(4,025,961)
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 September 2016	81,530,200	(79,025)	125,682,320	207,133,495

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

NIS a.d.

**STATEMENT OF CASH FLOWS**

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

	<b>Nine month period ended</b>	
	<b>30 September</b>	
	<b>2016</b>	<b>2015</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Cash flows from operating activities</b>		
Profit before income tax	<b>9,546,945</b>	<b>15,080,677</b>
Adjustments for:		
Finance costs	2,227,014	2,466,847
Finance income	(899,786)	(1,012,015)
Depreciation, depletion and amortization	10,027,762	8,848,784
Adjustments for other provisions	375,704	225,002
Allowance for doubtful accounts	297,398	94,348
Payables write off	(1,757)	(189,331)
Net unrealised foreign exchange losses	2,360,792	3,811,170
Other non-cash items	(108,290)	242,899
	<b>14,278,837</b>	<b>14,487,704</b>
<i>Changes in working capital:</i>		
Trade and other receivables	1,902,750	2,615,210
Inventories	1,997,494	10,001,012
Other current assets	(589,303)	1,049,954
Trade payables and other current liabilities	(5,335,351)	(3,925,689)
Other taxes payable	(442,453)	1,124,963
	<b>(2,466,863)</b>	<b>10,865,450</b>
Income taxes paid	(519,595)	(2,707,712)
Interest paid	(2,271,550)	(2,225,493)
Interest received	671,543	1,203,593
	<b>(2,119,602)</b>	<b>(3,729,612)</b>
<b>Net cash generated by operating activities</b>	<b>19,239,317</b>	<b>36,704,219</b>
<b>Cash flows from investing activities</b>		
Acquisition of equity-accounted investments	(858,362)	-
Loans issued	(8,866,217)	(11,624,581)
Loan proceeds received	6,885,722	9,121,936
Capital expenditures	(14,483,888)	(20,257,076)
Proceeds from sale of property, plant and equipment	374,664	174,446
Other inflow	65	77,031
	<b>(16,948,016)</b>	<b>(22,508,244)</b>
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	16,108,460	28,641,181
Repayment of borrowings	(17,396,806)	(24,516,218)
Dividends paid	(4,025,961)	(7,639,380)
	<b>(5,314,307)</b>	<b>(3,514,417)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(3,023,006)</b>	<b>10,681,558</b>
Effect of foreign exchange on cash and cash equivalents	(44,795)	(166,350)
<b>Cash and cash equivalents as of the beginning of the period</b>	<b>16,729,893</b>	<b>5,338,023</b>
<b>Cash and cash equivalents as of the end of the period</b>	<b>13,662,092</b>	<b>15,853,231</b>

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

**NIS a.d.**

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 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 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 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.

Subsequent events occurring after 30 September 2016 were evaluated through 28 October 2016, the date these Interim Condensed Financial Statements were authorised for issue.

The result for the nine month period ended 30 September 2016 are not necessarily indicative of the results expected for the full year.

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

**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.

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 2016**

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

**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.

The new standard will not have any impact on the Company's financial position or performance.

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).

**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 nine months period ended 30 September 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.

**Amendments to IFRS 15 - Revenue from Contracts with Customers (issued in April 2016 and effective for annual periods beginning on or after 1 January 2018).** The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation in a contract; how to determine whether a company is a principal or an agent; and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.



NIS a.d.

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 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 nine month periods ended 30 September 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 nine month period ended 30 September 2016 are shown in the table below:

	<b>Upstream</b>	<b>Downstream</b>	<b>Eliminations</b>	<b>Total</b>
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 result)	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

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 2016**

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

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

	<b>Upstream</b>	<b>Downstream</b>	<b>Eliminations</b>	<b>Total</b>
Segment revenue	40,301,533	149,202,083	(39,308,264)	150,195,352
Intersegment	38,232,326	1,075,938	(39,308,264)	-
External	2,069,207	148,126,145	-	150,195,352
EBITDA (Segment result)	29,629,247	830,564	-	30,459,811
Depreciation, depletion and amortization	(2,567,464)	(6,281,320)	-	(8,848,784)
Impairment losses	(10,332)	(244,371)	-	(254,703)
Net foreign exchange loss	(19,242)	(4,468,216)	-	(4,487,458)
Finance expenses, net	(83,530)	(1,371,302)	-	(1,454,832)
Income tax	-	(3,290,943)	-	(3,290,943)
Segment profit (loss)	<b>26,611,304</b>	<b>(14,821,570)</b>	-	<b>11,789,734</b>

EBITDA for the nine month period ended 30 September 2016 and 2015 is reconciled below:

	<b>Nine month period ended 30 September</b>	
	<b>2016</b>	<b>2015</b>
Profit for the period	8,143,822	11,789,734
Income tax expenses	1,403,123	3,290,943
Finance expenses	2,227,014	2,466,847
Finance income	(899,786)	(1,012,015)
Depreciation, depletion and amortization	10,027,762	8,848,784
Net foreign exchange (gain)/loss	(268,106)	4,487,458
Other (gain) expense, net	(42,173)	974,036
Other non-operating income, net*	(195,779)	(385,976)
<b>EBITDA</b>	<b>20,395,877</b>	<b>30,459,811</b>

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

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

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

	<b>Nine month period ended 30 September 2016</b>		
	<b>Domestic market</b>	<b>Export and international sales</b>	<b>Total</b>
Sale of crude oil	-	1,305,751	1,305,751
Sale of gas	2,309,441	-	2,309,441
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	2,309,441	-	2,309,441
Sale of petroleum products	91,823,146	17,503,040	109,326,186
<i>Through a retail network</i>	32,867,315	-	32,867,315
<i>Wholesale activities</i>	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
<b>Total sales</b>	<b>99,327,051</b>	<b>24,638,064</b>	<b>123,965,115</b>

  

	<b>Nine month period ended 30 September 2015</b>		
	<b>Domestic market</b>	<b>Export and international sales</b>	<b>Total</b>
Sale of crude oil	-	1,740,490	1,740,490
Sale of gas	5,700,294	-	5,700,294
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	5,700,294	-	5,700,294
Sale of petroleum products	115,248,883	22,483,869	137,732,752
<i>Through a retail network</i>	37,104,041	-	37,104,041
<i>Wholesale activities</i>	78,144,842	22,483,869	100,628,711
Sale of electricity	274,907	328,663	603,570
Other sales	4,184,652	233,594	4,418,246
<b>Total sales</b>	<b>125,408,736</b>	<b>24,786,616</b>	<b>150,195,352</b>

Out of the amount of 76,458,871 RSD (2015: 100,628,711 RSD) revenue from sale of petroleum products (wholesale), the amount of 9,416,348 RSD (2015: 12,097,149 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 3,538,860 RSD (2015: 2,814,115 RSD).

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 99,327,051 RSD (2015: 125,408,736 RSD), and the total of revenue from external customer from other countries is 24,638,064 RSD (2015: 24,786,616 RSD).

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 2016**

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

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

	Nine month period ended 30 September	
	2016	2015
Sale of crude oil	1,305,751	1,740,490
Sale of petroleum products (retail and wholesale)		
Bulgaria	4,010,140	5,819,919
Bosnia and Herzegovina	3,674,305	4,312,062
Romania	2,903,157	2,165,511
All other markets	6,915,438	10,186,377
	17,503,040	22,483,869
Sale of electricity	5,703,111	328,663
Other sales	126,162	233,594
	<b>24,638,064</b>	<b>24,786,616</b>

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

**6. CASH AND CASH EQUIVALENTS**

	30 September 2016	31 December 2015
Cash in bank and in hand	9,216,899	10,725,749
Deposits with original maturity of less than three months	4,390,000	6,000,000
Cash with restriction	54,324	3,184
Cash equivalents	869	960
	<b>13,662,092</b>	<b>16,729,893</b>

**7. TRADE AND OTHER RECEIVABLES**

	30 September 2016	31 December 2015
Trade receivables:		
- related parties	4,105,902	3,433,615
- third parties	30,461,634	28,651,802
- state and state owned companies	19,020,125	19,369,662
	<b>53,587,661</b>	<b>51,455,079</b>
Other receivables:		
- state and state owned companies	10,424,734	10,314,622
	<b>22,701</b>	<b>655,179</b>
Accrued assets		
	<b>64,035,096</b>	<b>62,424,880</b>
Less impairment provision for trade and other receivables:		
- third parties	(10,011,069)	(10,001,877)
- state and state owned companies	(15,903,253)	(15,777,436)
	<b>(25,914,322)</b>	<b>(25,779,313)</b>
<b>Total trade and other receivables</b>	<b>38,120,774</b>	<b>36,645,567</b>

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 2016**

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

The ageing of trade and other receivables is as follows:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Neither impaired nor past due	23,667,817	29,966,050
Past due but not impaired:		
within 30 days:		
1 to 3 months	1,873,586	1,935,572
3 months to 1 year	1,506,862	1,210,536
over 1 year	7,682,674	118,635
	3,389,835	3,414,774
<b>Total</b>	<b>38,120,774</b>	<b>36,645,567</b>

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:

	<b>30 September 2016</b>	<b>31 December 2015</b>
RSD	44,727,663	43,281,136
EUR	18,387,172	17,635,878
USD	920,239	1,507,845
Other	22	21
	<b>64,035,096</b>	<b>62,424,880</b>

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

	<b>Trade &amp; other receivables</b>		
	<b>Third parties</b>	<b>State and state owned companies</b>	<b>Total</b>
<b>As at 1 January 2015</b>	10,201,470	19,522,269	29,723,739
Provision for receivables impairment	23,632	76,362	99,994
Unused amounts reversed	(55,608)	(51,486)	(107,094)
Receivables written off during the year as uncollectible	468,562	(1,808,979)	(1,340,417)
Exchange differences	-	(81,498)	(81,498)
Other	(6,047)	-	(6,047)
<b>As at 30 September 2015</b>	<b>10,632,009</b>	<b>17,656,668</b>	<b>28,288,677</b>
<b>As at 1 January 2016</b>	<b>10,001,877</b>	<b>15,777,436</b>	<b>25,779,313</b>
Provision for receivables impairment	65,054	67,696	132,750
Unused amounts reversed	(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
<b>As at 30 September 2016</b>	<b>10,011,069</b>	<b>15,903,253</b>	<b>25,914,322</b>

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.

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 2016**

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

**8. INVENTORIES**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Crude oil	10,204,138	11,069,970
Petroleum products	8,504,529	12,887,574
Materials and supplies	4,498,872	1,428,748
Other	531,534	491,761
Less impairment provision	(5,019,635)	(5,117,655)
	<b>18,719,438</b>	<b>20,760,398</b>

**9. OTHER CURRENT ASSETS**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Advances paid	437,146	453,622
Deferred VAT	1,538,056	1,741,957
Prepaid expenses	168,370	84,499
Prepaid custom duties	31,787	33,171
Prepaid excise	1,559,590	3,027,852
Other current assets	14,470,311	14,239,128
Less impairment provision	(14,264,819)	(14,031,954)
	<b>3,940,441</b>	<b>5,548,275</b>

Deferred VAT as at 30 September 2016 amounting to 1,538,056 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 September 2016 amounting to 1,559,590 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:

	<b>Advances paid</b>	<b>Other current assets</b>	<b>Total</b>
<b>As at 1 January 2015</b>	239,846	20,751,217	20,991,063
Provision for receivables impairment	723	110,065	110,788
Unused amounts reversed	(2,777)	(14,974)	(17,751)
Receivables written off during the year as uncollectible	(6)	(501,296)	(501,302)
Other	(822)	8,963	8,141
<b>As at 30 September 2015</b>	<b>236,964</b>	<b>20,353,975</b>	<b>20,590,939</b>
<b>As at 1 January 2016</b>	268,118	13,763,836	14,031,954
Provision for receivables impairment	426	262,452	262,878
Unused amounts reversed	(6,425)	(12,968)	(19,393)
Receivables written off during the year as uncollectible	-	(10,145)	(10,145)
Other	(474)	(1)	(475)
<b>As at 30 September 2016</b>	<b>261,645</b>	<b>14,003,174</b>	<b>14,264,819</b>

NIS a.d.

Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 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
<b>As at 1 January 2015</b>						
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)
<b>Net book value</b>	<b>54,244,500</b>	<b>81,700,317</b>	<b>17,976,401</b>	<b>9,897,025</b>	<b>37,809,661</b>	<b>201,627,904</b>
<b>Period ended 30 September 2015</b>						
Additions	-	-	-	-	18,172,717	18,172,717
Transfer from assets under construction	14,431,027	3,505,380	1,947,636	164,803	(20,048,846)	-
Impairment	-	(29,826)	(147,634)	-	(100,750)	(278,210)
Depreciation	(2,544,953)	(4,297,426)	(945,826)	(419,942)	-	(8,208,147)
Transfer to investment property	-	-	(38,046)	(180,595)	-	(218,641)
Disposals and write-off	(177,259)	(51,979)	(40,063)	(95,459)	(35,288)	(400,048)
Other transfers	(24,248)	(2,953)	(2,066)	6,887	(49,340)	(71,720)
<b>As at 30 September 2015</b>	<b>65,929,067</b>	<b>80,823,513</b>	<b>18,750,402</b>	<b>9,372,719</b>	<b>35,748,154</b>	<b>210,623,855</b>
Cost	87,658,110	117,956,072	32,744,484	17,572,992	38,412,420	294,344,078
Depreciation and impairment	(21,729,043)	(37,132,559)	(13,994,082)	(8,200,273)	(2,664,266)	(83,720,223)
<b>Net book value</b>	<b>65,929,067</b>	<b>80,823,513</b>	<b>18,750,402</b>	<b>9,372,719</b>	<b>35,748,154</b>	<b>210,623,855</b>
<b>As at 1 January 2016</b>						
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)
<b>Net book value</b>	<b>75,474,723</b>	<b>81,487,385</b>	<b>18,789,498</b>	<b>9,354,837</b>	<b>32,540,819</b>	<b>217,647,262</b>
<b>Period ended 30 September 2016</b>						
Additions	-	-	-	-	13,546,836	13,546,836
Changes in decommissioning obligations	634,193	-	-	-	-	634,193
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)
<b>As at 30 September 2016</b>	<b>83,881,214</b>	<b>75,089,886</b>	<b>22,162,760</b>	<b>9,034,055</b>	<b>31,954,232</b>	<b>222,122,147</b>
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)
<b>Net book value</b>	<b>83,881,214</b>	<b>75,089,886</b>	<b>22,162,760</b>	<b>9,034,055</b>	<b>31,954,232</b>	<b>222,122,147</b>

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 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
<b>As at 1 January 2015</b>						
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)
<b>Net book amount</b>	<b>15,001,370</b>	<b>11,324,693</b>	<b>26,326,063</b>	<b>54,244,500</b>	<b>1,845</b>	<b>80,572,408</b>
<b>Period ended 30 September 2015</b>						
Additions						
Transfer from asset under construction	2,511,561	12,698,240	15,209,801	-	-	15,209,801
Other transfers	(2,781,977)	(11,658,741)	(14,440,718)	14,431,027	-	(9,691)
Impairment	60,693	(33,229)	27,464	(24,248)	-	3,216
Depreciation and depletion	-	(10,332)	(10,332)	-	-	(10,332)
Disposals and write-off	(38,480)	-	-	(2,544,953)	-	(2,544,953)
		(1)	(38,481)	(177,261)	(1)	(215,743)
<b>As at 30 September 2015</b>	<b>14,753,167</b>	<b>12,320,630</b>	<b>27,073,797</b>	<b>65,929,065</b>	<b>1,844</b>	<b>93,004,706</b>
<b>As at 1 January 2016</b>						
Cost	14,795,758	12,569,401	27,365,159	87,658,108	22,203	115,045,420
Depreciation and impairment	(42,591)	(248,771)	(291,362)	(21,729,043)	(20,359)	(22,040,714)
<b>Net book amount</b>	<b>14,753,167</b>	<b>12,320,630</b>	<b>27,073,797</b>	<b>65,929,065</b>	<b>1,844</b>	<b>93,004,706</b>
<b>As at 1 January 2016</b>						
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)
<b>Net book amount</b>	<b>16,744,368</b>	<b>7,395,473</b>	<b>24,139,841</b>	<b>75,474,723</b>	<b>1,842</b>	<b>99,616,406</b>
<b>Period ended 30 September 2016</b>						
Additions	1,556,444	9,251,005	10,807,449	-	-	10,807,449
Changes in decommissioning obligations	-	-	-	634,193	-	634,193
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)
<b>As at 30 September 2016</b>	<b>18,069,189</b>	<b>5,336,563</b>	<b>23,405,752</b>	<b>83,881,214</b>	<b>1,843</b>	<b>107,288,809</b>
<b>As at 30 September 2016</b>						
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)
<b>Net book amount</b>	<b>18,069,189</b>	<b>5,336,563</b>	<b>23,405,752</b>	<b>83,881,214</b>	<b>1,843</b>	<b>107,288,809</b>



NIS a.d.

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 2016**

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

**11. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURE**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Investments in subsidiaries	16,825,912	16,325,803
Investments accounted for using equity method	1,038,800	180,438
Less <i>Impairment of Investments in subsidiaries</i>	<u>(3,383,281)</u>	<u>(2,883,172)</u>
	<b><u>14,481,431</u></b>	<b><u>13,623,069</u></b>

During 2016 the Company increased investments accounted for using equity method in Serbskaya Generaciya in the amount of 858,362 RSD.

**12. TRADE AND OTHER NON-CURRENT RECEIVABLES**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Non-current trade receivables:		
- state and state owned companies	9,756,970	12,388,550
	<b><u>9,756,970</u></b>	<b><u>12,388,550</u></b>
Non-current other receivables:		
- third parties	3,018	79,767
- state and state owned companies	2,098,413	4,050,964
	<b><u>2,101,431</u></b>	<b><u>4,130,731</u></b>
<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>	<u>(634,584)</u>	<u>(1,858,864)</u>
	<b><u>(634,643)</u></b>	<b><u>(1,935,713)</u></b>
	<b><u>11,223,758</u></b>	<b><u>14,583,568</u></b>

Trade and other non-current receivables amounting to 11,223,758 RSD mainly relate to the long-term receivables from the Republic of Serbia in the amount of 7,584,054 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.

**13. OTHER NON-CURRENT ASSETS**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Advances paid for PPE	1,023,712	1,363,418
Prepaid expenses	811,953	908,248
Other assets	1,088,028	1,161,131
Less impairment provision	<u>(30,809)</u>	<u>(30,809)</u>
	<b><u>2,892,884</u></b>	<b><u>3,401,988</u></b>

**14. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Short-term loans	11,894,382	4,282,974
Interest liabilities	170,096	165,546
Current portion of long-term loans (note 18)	16,770,083	13,417,421
Current portion of finance lease liabilities (note 18)	50,442	-
	<b><u>28,885,003</u></b>	<b><u>17,865,941</u></b>

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 2016**

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

**15. TRADE AND OTHER PAYABLES**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Trade payables:		
- related parties	13,816,239	13,600,086
- third parties	8,500,036	12,373,881
Dividends payable	3,772,308	3,772,308
Other accounts payable	9,034	82,102
	<b>26,097,617</b>	<b>29,828,377</b>

As at 30 September 2016 payables to related parties amounting to 13,816,239 RSD (31 December 2015: 13,600,086 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 7,572,603 RSD (31 December 2015: 10,104,805 RSD), mostly for the purchase of crude oil.

**16. OTHER CURRENT LIABILITIES**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Advances received	1,085,994	3,131,988
Payables to employees	2,315,764	2,624,262
Accruals and deferred income	25,437	13,066
Other current non-financial liabilities	13,494	12,762
	<b>3,440,689</b>	<b>5,782,078</b>

**17. OTHER TAXES PAYABLE**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Mineral extraction tax	252,292	241,017
VAT	2,891,034	1,311,122
Excise tax	3,477,325	5,707,561
Contribution for buffer stocks	203,793	350,301
Custom duties	442,129	85,278
Other taxes	1,784,080	1,788,830
	<b>9,050,653</b>	<b>9,484,109</b>

**18. LONG-TERM DEBT**

	<b>30 September 2016</b>	<b>31 December 2015</b>
Long-term loan - Gazprom Neft	38,708,236	42,427,710
Bank loans	65,598,785	70,298,957
Finance lease liabilities	174,061	-
Less Current portion	(16,820,525)	(13,417,421)
	<b>87,660,557</b>	<b>99,309,246</b>

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

As at 30 September 2016 long-term loan - Gazprom Neft amounting to 38,708,236 RSD (31 December 2015: 42,427,710 RSD), with current portion of 5,734,553 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 nine month period ended 30 September 2016**

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

(b) *Bank loans*

	<b>30 September 2016</b>	<b>31 December 2015</b>
Domestic	21,770,145	18,693,335
Foreign	43,828,640	51,605,622
	65,598,785	70,298,957
Current portion of long-term loans	(11,035,530)	(7,760,393)
	<b>54,563,255</b>	<b>62,538,564</b>

The maturity of bank loans was as follows:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Between 1 and 2 years	13,081,142	11,829,773
Between 2 and 5 years	37,149,218	45,785,596
Over 5 years	4,332,895	4,923,195
	<b>54,563,255</b>	<b>62,538,564</b>

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

	<b>30 September 2016</b>	<b>31 December 2015</b>
USD	45,401,624	53,388,078
EUR	17,711,073	16,529,505
RSD	2,069,474	1,175
JPY	416,614	380,199
	<b>65,598,785</b>	<b>70,298,957</b>

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 September 2016 and 31 December 2015, respectively.

## 19. 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 September 2016 and 31 December 2015 comprise of 163,060,400 shares.

## 20. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	<b>Nine month period ended 30 September</b>	
	<b>2016</b>	<b>2015</b>
Crude oil	55,017,158	68,038,067
Petroleum products	8,986,479	18,431,639
Other	-	161,240
	<b>64,003,637</b>	<b>86,630,946</b>

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 2016**

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

**21. PRODUCTION AND MANUFACTURING EXPENSES**

	Nine month period ended 30 September	
	2016	2015
Employee costs	2,322,953	2,653,606
Materials and supplies (other than purchased oil, petroleum products and gas)	642,522	688,167
Repair and maintenance services	3,467,815	2,617,981
Electricity for resale	5,825,769	279,382
Electricity and utilities	1,112,610	2,097,556
Safety and security expense	255,056	108,223
Insurance services	215,782	31,536
Transportation services for production	1,276,474	386,840
Other	5,818,902	5,147,439
	<b>20,937,883</b>	<b>14,010,730</b>

**22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	Nine month period ended 30 September	
	2016	2015
Employee costs	6,771,277	6,597,999
Legal, audit, and consulting services	1,301,863	1,184,973
Rent expense	99,826	86,026
Business trips expense	204,710	155,414
Safety and security expense	351,040	341,076
Insurance expense	58,328	229,600
Transportation and storage	376,798	862,930
Allowance for doubtful accounts	(107,441)	85,937
Other	5,868,762	5,305,681
	<b>14,925,163</b>	<b>14,849,636</b>

**23. 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 September, 2016 carrying value of financial assets approximate their fair value.

**24. CONTINGENCIES AND COMMITMENTS**

*Transfer of property ownership*

As at 30 September 2016, the Company had ownership and the right to use and possess of 7,948 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.

**NIS a.d.**

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 2016**

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

*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 745,344 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.

*Other contingent liabilities*

As at 30 September 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 September 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.

*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 30 September 2016.

**Capital commitments**

*Purchase of property, plant and equipment*

As of 30 September 2016 the Company has entered into contracts to purchase property, plant and equipment for 3,521,740 RSD (31 December 2015: 611,417 RSD).

*Farm-out agreement with East West Petroleum Corporation, Canada*

In October 2011, the Company entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in the Timisoara region in Romania. Under the Contract, the Company shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Company will be entitled to 85% of the total production volume of hydrocarbons. Moreover, under the Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Company will act as the Operator and will be in charge of and shall conduct all Joint Operations. Exploration activities are underway. On 30 September 2016 drilling and exploration works for Block 2, 3, 7 and 8 were estimated to 41.34 USD million.

There were no other material contingencies commitments of the Company.

NIS a.d.

**Notes to the Interim Condensed Financial Statements for the nine month period ended 30 September 2016**

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

**25. 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 nine month period ended 30 September 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 electricity.

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

	<b>Subsidiaries</b>	<b>Parent company</b>	<b>Entities under common control</b>
<b>As at 30 September 2016</b>			
Short-term financial assets	4,834,611	-	-
Trade and other receivables	3,202,906	-	902,996
Other current assets	5,457	136	-
Investments in subsidiaries and joint ventures	13,442,631	-	-
Long-term financial assets	33,473,297	-	-
Other non-current assets	49,818	-	-
Trade and other payables	(5,319,552)	(7,572,603)	(965,291)
Other current liabilities	(2,184)	-	(2)
Short-term debt and current portion of long-term debt	(324,867)	(5,734,553)	-
Long-term debt	-	(32,973,683)	-
	<b>49,362,117</b>	<b>(46,280,703)</b>	<b>(62,297)</b>
<b>As at 31 December 2015</b>			
Short-term financial assets	1,946,998	-	-
Trade and other receivables	3,285,510	-	148,105
Other current assets	2,095	-	9,394
Investments in subsidiaries and joint ventures	16,325,803	-	-
Long-term financial assets	34,175,533	-	-
Other non-current assets	68,269	-	-
Trade and other payables	(3,470,404)	(10,004,805)	(166,005)
Other current liabilities	(6,607)	-	-
Short-term debt and current portion of long-term debt	(731,105)	(5,657,028)	-
Long-term debt	-	(36,770,682)	-
	<b>51,596,092</b>	<b>(52,432,515)</b>	<b>(8,506)</b>

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

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

	<u>Subsidiaries</u>	<u>Parent company</u>	<u>Entities under common control</u>
<b>Nine month period ended 30 September 2016</b>			
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)	-
	<b>(2,303,962)</b>	<b>(30,132,710)</b>	<b>(130,341)</b>
<b>Nine month period ended 30 September 2015</b>			
Petroleum products and oil and gas sales	7,001,664	-	85,607
Other revenues	416,690	-	328,663
Purchases of oil, gas and petroleum products	(7,034,967)	(60,957,424)	(2,037,894)
Production and manufacturing expenses	(2,623,012)	(5,839)	(213,802)
Selling, general and administrative expenses	(679,729)	(23,823)	(15,137)
Transportation expenses	(15,565)	-	-
Other expenses, net	(47,832)	(16,210)	(19,825)
Finance income	917,527	-	-
Finance expense	(90,345)	(724,476)	-
	<b>(2,155,569)</b>	<b>(61,727,772)</b>	<b>(1,872,388)</b>

**Transactions with Key Management Personnel**

For the nine month period ended on 30 September 2016 and 2015 the Company recognized 593,172 RSD and 326,210 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.

**NIS a.d.**

**Notes to the Interim Condensed Financial Statements for the nine month period ended  
30 September 2016**

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

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**Contact information**

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