QUARTERLY REPORT FOR SECOND QUARTER OF 2016

NIS GAZPROM NEFT БУДУЋНОСТ НА ДЕЛУ

NIS.EU

The Quarterly Report of *NIS j.s.c. Novi Sad* for second quarter of 2016 represents a comprehensive review of NIS Group's development and performance in second quarter of 2015, as well as for first six months of of 2016.

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

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

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

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FOREWORD

In the first six months of 2016, NIS Group responded to the prolonged crisis in oil-gas sector by continuing consistent implementation of its program of operational efficiency in all walks of business operation. In this way, it preserved its profitability and net profit was RSD 3.1 billion in the first half of this year. The achieved result is even more significant if we bear in mind the fact that in the first three months, net profit was 260 million dinars.

Regardless of the challenges in operation, caused by low prices of crude oil at the global market before all, the success was noted at majority of operational business indicators. Total turnover of oil derivatives was 1,553 thousand tons and was increased by 6% compared to the first six months of 2015. Sales at the domestic market was increased by 5% in comparison with the first half of the last year and amounted to 1,217 thousand tons. In the first six months of 2016, volume of oil and semi-finished products refining increased and reached 1,750 thousand tons, which is 16% higher if compared with the first half of 2015.

In the first six months of 2016, NIS once again proved that it has been safe source of income for its shareholders. At the 8th regular session of its Shareholders Assembly, *NIS j.s.c. Novi Sad* brought the Decision on profit distribution for 2015, dividend payment and determining the total amount of retained earnings of the Company. Based on this decision, shareholders will be paid 25% of the last-year profit, i.e. gross amount of RSD 4.025 billion or gross amount of RSD 24.69 per share.

At the same time, NIS continued to invest in its own development and invested the sum almost three times higher than net profit – total of RSD 9.1 billion. Major part of this amount was invested in exploration and production of oil and gas. Direct and indirect tax obligations of NIS Group for the first six months of 2016 were RSD 76.3 billion.

It should be said that the long-term crisis in oil sector still left traces to business results in the first half of 2016. EBITDA indicator was RSD 13.2 billion which is -37% less than the first half of 2015. Production of domestic oil and gas in the first six months was 716 thousand tons of oil equivalents, which is 6% less. But NIS continued the activities in increasing oil and gas reserves and started seismic research in this period, on the project “Southern Banat” in Serbia and completed research on 150 square kilometers in EX-7 block at the west of Romania.

Confirming its strategic orientation to operate taking care about its employees, about wellbeing of wider community and environmental protection, NIS has presented its Report on Sustainable Development for the sixth consecutive year, which is in compliance with standards of the leading world organization in the area of sustainable operation - Global Reporting Initiative (GRI). At the same time, recognizability of NIS brand was confirmed with the award Winner "No.1" in the category "Energy", which the *NIS j.s.c. Novi Sad* won at the presentation of awards - Corporate Superbrands Srbija 2015/2016.

Results from the first half of 2016 once again confirmed rightness and effectiveness of the road traveled by NIS in the circumstances of global crisis in oil-gas industry. First of all, operational efficiency and implementation of a wide saving program in all areas of business activity, have strongly contributed to maintenance of profitability and therefore they will remain in the company’s focus. On the other hand, NIS will, in its further activities, still be concentrated on key investment projects such as Thermo-electric power plant in Pancevo, and continued upgrade of refining capacities of Pancevo refinery through Bottom of the Barrel Project. In the third quarter, another mini power plant for production of electricity will be launched, while NIS, as a group oriented to fulfill the needs of its consumers, will continually enrich its retail network with the offer of new products and services.

BUSINESS REPORT

Key Events in Q2 2016

January

- 3D seismic survey successfully completed at *Turija II* exploration area
- New generation of trainees of NIS Chance programme has signed employment contracts
- The Ninth *Küstendorf* International Film and Music Festival was held in *Mokra Gora* under the auspices of PJSC "Gazprom Neft" and the Ministry of Culture and Information of Serbia
- A new language laboratory was opened in the elementary school "Jovan Popović" in Novi Sad with the help of NIS
- The International Mini Basket Festival "Rajko Žižić" was held in Belgrade for the 7th consecutive year, with the support of NIS

February

- NIS published revised Consolidated Financial Statements for 2015
- Commercial production at the Bitumen production unit in Pančevo Refinery started successfully after the regular investment maintenance works
- A new loyalty program "On the Road with Us" was launched
- The General Director of *NIS j.s.c. Novi Sad* participated in the "Partnership in the Balkans - Strengthening Regional Relations" summit held in Brussels
- Kirill Kravchenko, General Director of *NIS j.s.c. Novi Sad*, declared the most powerful foreigner in Serbia by daily "Blic" for the 7th year in a row

March

- Within a corporate program "Together to the Community", NIS signed cooperation agreements with the representatives of Belgrade and another 10 cities and municipalities in Serbia
- Investment works on some of the process plants in Pančevo Oil Refinery were completed
- It was announced that PJSC "Gazprom Neft" would invest EUR 4 million for interior decoration works in St Sava Cathedral in Belgrade
- At the International Days of Energy and Investments in Novi Sad, NIS presented the advantages of use of compressed natural gas within the panel "Future Technologies in the Energy Industry"
- At the Car Show held at Belgrade Fair, NIS presented the loyalty programme "On the Road with Us" and the advantages of use of compressed natural gas
- Two modern physics and chemistry laboratories were opened at the Technical Faculty "Mihajlo Pupin" in Zrenjanin with the support of NIS

April

- The Board of Directors of *NIS j.s.c. Novi Sad* adopted the Annual Report on Business Analysis for 2015.
- *NIS j.s.c. Novi Sad* supported the Tenth Festival of Culture and Art of the Balkan Countries, Balkan Trafik, organized in Brussels.
- With NIS support, the tenth Serbian Mathematical Olympiad was held in Belgrade.
- In the St. Sava's Temple in Vračar, preparatory works were performed within the project of making the mosaic on the interior surface of the main dome financed by PJSC “Gazprom Neft”.
- At almost 200 *NIS Petrol* and *GAZPROM* petrol stations, "Agro Weekend" initiative was organized offering benefits to farmers upon fuel purchase.
- Within the FED Cup match between Serbia and Belgium in Belgrade, NIS and the Tennis Federation of Serbia organized "Open Tennis School" for children.

May

- Consolidated results of the NIS Group business operations for Q1 2016 were published.
- The Board of Directors of *NIS j.s.c. Novi Sad* held the meeting where it established the draft Decision of the Shareholders' Assembly on profit distribution for 2015, dividend payment and determining the total amount of retained profit.
- Kirill Kravchenko, *NIS j.s.c. Novi Sad* CEO, took part at the conference for young specialists "Energy Security and Challenges in Light of COP21: Comparative Experience in an Era of Energy Transition", in the Energy Charter Secretariat Knowledge Centre in Krakow.
- Renovated NIS Museum in Novi Sad was inaugurated within the event "Museum Night" with the exhibition titled "From Fossils to Cars".
- With NIS support, Festival of Science and Education was held in Novi Sad.
- NIS and the Road Traffic Safety Agency launched the campaign aiming to improve safety of farmers in traffic.
- Specialized portal Infostud published results of the research where NIS ranked second most attractive employer in Serbia.

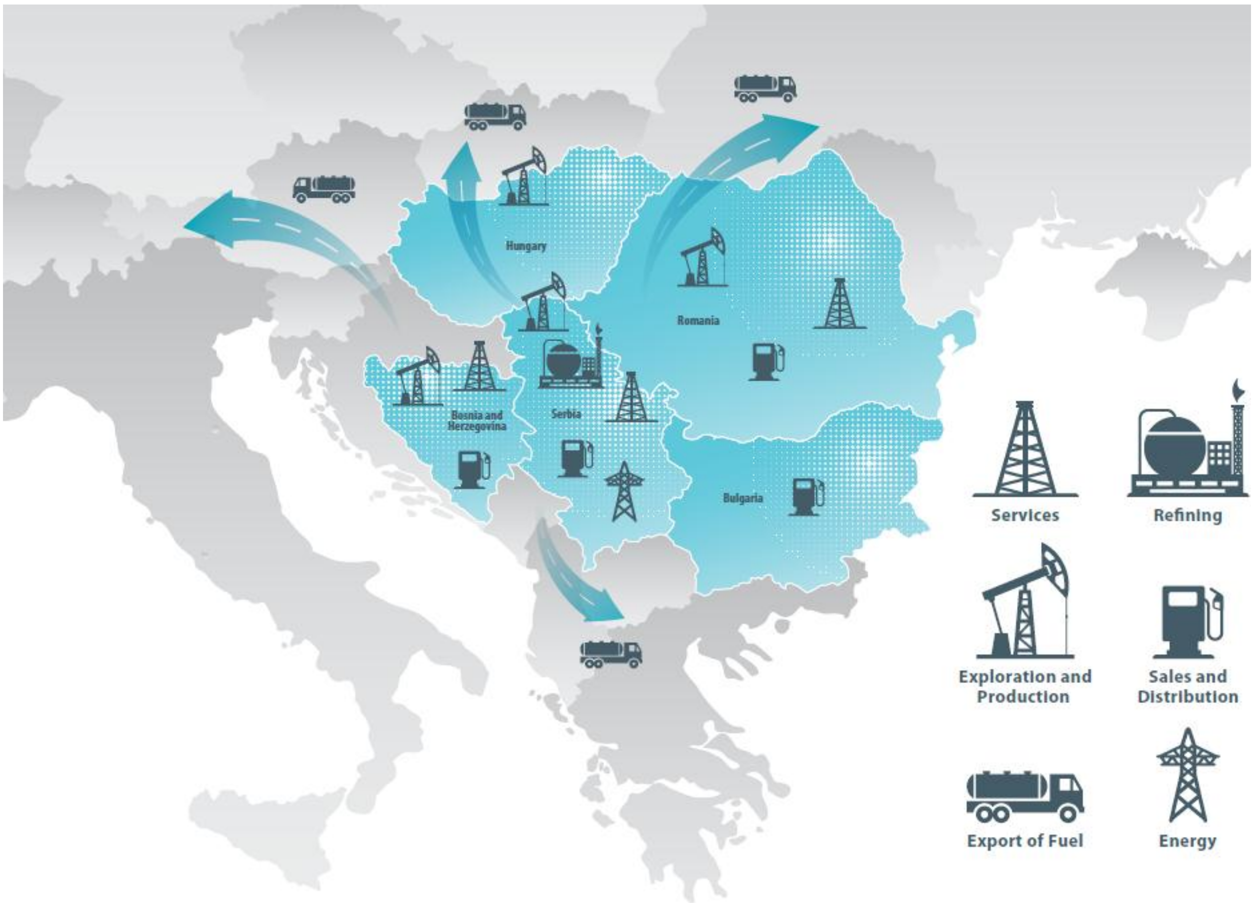
June

- NIS presented the Sustainable Development Report for 2015 which is aligned with the standards of the leading organisation in the world in the area of sustainable business operation Global Reporting Initiative (GRI).
- At its 8th regular meeting, the Shareholder's Assembly passed the Decision on 2015 profit distribution, dividend payment and determining the total amount of the Company's retained profit.
- At the ceremony held in the hall of the Radio Television of Serbia, NIS and the Exit Foundation awarded the winners of the competition "Youth Heroes".
- *NIS j.s.c. Novi Sad* was awarded as the winner "Number 1" in the Energy category at the Corporate Superbrands Serbia 2015/2016 awarding ceremony.
- Piatnitsky Ensemble, one of the most famous Russian artistic ensembles, had its first performance in Belgrade, with *NIS j.s.c. Novi Sad* support.
- NIS supported the conference "Better Future for the Youth in the Western Balkans" held in the European Parliament in Brussels.

Group's Profile

NIS Group is one of the largest vertically-integrated energy systems in South East Europe. NIS Group operates in crude oil and natural gas exploration and production, refining of crude oil and natural gas; sales and distribution of a wide range of petroleum and gas products; and implementation of petrochemicals and energy projects.

NIS is an international group with an international team of experts and it operates in ten countries.



NIS Group Business Structure[1]

NIS
GAZPROM NEFT

REPRESENTATIVE AND BRANCH OFFICES

- Turkmenistan Branch Office
- Branch offices in Serbia
- Angola Representative Office
- Bulgaria Representative Office
- Croatia Representative Office
- Kingdom of Belgium Representative Office
- B&H Representative Office
- Hungary Representative Office
- Romania Representative Office
- Russian Federation Representative Office

SUBSIDIARIES

- O Zone a.d. Belgrade
  - NIS Energowind d.o.o. Belgrade
- Naftagas – Naftni servisi d.o.o. Novi Sad
- Naftagas – Tehnički servisi d.o.o. Zrenjanin
- Naftagas – Transport d.o.o. Novi Sad
- NTC NIS Naftagas d.o.o. Novi Sad
- NIS Overseas o.o.o. Sankt Peterburg
- NIS Petrol e.o.o.d. Sofia
- NIS Petrol s.r.l. Bucharest
- NIS Petrol d.o.o. Banja Luka
  - G – Petrol d.o.o. Sarajevo
- Pannon Naftagas k.f.t. Budapest
- Jadran Naftagas d.o.o. Banja Luka
- NIS – Svetlost d.o.o. Bujanovac

[1] Under the Law on Tourism of the Republic of Serbia, if a company does not operate a hospitality business as a core activity, in order to perform these activities, it is obligated to form a branch office, i.e. premises outside its headquarters and register it accordingly, or otherwise establish an organisational unit that is recorded in the Tourism Registry. For this reason, the Company registered all petrol stations at which it operates a hospitality business as separate branches. The list of petrol stations which are registered as branches is posted on the website: http://ir.nis.eu/about-the-company/group-structure-hide/.

NIS Group's Business Activities

EXPLORATION AND PRODUCTION BLOCK

Exploration and Production Block covers exploration, production, infrastructure and operational support to production, management of oil and gas reserves, oil and gas reservoir engineering, and major exploration and production projects.

Major portion of NIS oil deposits are in Serbia; however NIS has made a breakthrough into the region, conducting explorations in Bosnia and Herzegovina, Hungary and Romania. In Angola, NIS has been operating since 1980; it began oil exploitation in that country in 1985.

Elemir-located plant for the preparation of natural gas, production of LPG and natural gasoline and CO_2 capture is also operated by *Exploration and Production Block* and it has a total design capacity of 65,000 tonnes of LPG and natural gasoline per year.

Through its subsidiary, Scientific and Technological Centre (STC) NIS Naftagas d.o.o. Novi Sad, NIS provides scientific and technical support to the parent company's prevailing activity and aims to ensure development and innovation in its business area.

SERVICES BLOCK

Services Block provides various services in exploration for and production of oil and gas, ranging from geophysical research, well construction, completion and workover to special well operations and measurement services. This Block also provides services of equipment maintenance and construction and maintenance of oil and gas systems and facilities. In addition to carriage of goods and engagement of machinery, *Services Block* also provides passenger transportation and car rental services.

Services Block has expanded its business to foreign markets, namely Bosnia and Herzegovina, Romania and Russia.

REFINING BLOCK

It deals with refining of crude oil and other raw materials as well as the production of petroleum products. It outputs a wide range of petroleum products: from motor and power fuel to the feed for petrochemical industry, and other crude-oil-related products.

Refining Block's processing complex is made up of two production units located in the towns of Pančevo and Novi Sad. The Pančevo Refinery is operational, with its designed capacity of 4.8 million tons per annum, while the Novi Sad Refinery has been on a stand-by and its designed capacity of 2.5 million tons per annum is currently not in operation.

SALES AND DISTRIBUTION BLOCK

Sales and Distribution Block is structured around external and internal trade, wholesale, retail in petroleum products and associated products.

NIS runs the largest retail network in Serbia and is growing its sales and distribution business into regional countries - Bosnia and Herzegovina, Bulgaria and Romania. In the market of Serbia and the region, NIS is present with two brands: *NIS Petrol* and *GAZPROM*.

As separate business lines, NIS is developing aviation fuel supply, bunkering, lubricants and bitumen sales.

ENERGY BLOCK

Energy Block is in charge of production of electricity and thermal energy from conventional and renewable sources, gas and electricity sales, development and introduction of strategically important energy projects, development and implementation of projects for energy efficiency improvement.

Energy Block develops and implements energy projects within NIS Group, analyses and evaluates investment projects in the Serbian energy sector as part of strategic partnerships.

NIS Group core business is supported by supporting functions within the parent Company *NIS j.s.c. Novi Sad*. Five out of ten supporting functions are partially de-centralized, with their functionally subordinate departments in Blocks[2], while all other functions are centralised[3]. One of the General Director's deputies is in charge of petrochemical operations.

[2] Function for Finance, Economics, Planning and Accounting, Function for Strategy and Investment, Function for Material and Technical and Service Support and Capital Construction, Function for Organisational Issues and Function for HSE.

[3] Function for Legal and Corporate Affairs, Function for Corporate Security, Function for External Affairs and Government Relations, Function for Public Relations and Communications and Function for Internal Audit (Function for Internal Audit reports to CEO, while the person in charge of internal supervision reports to the Audit Commission of the Board of Directors).

General Information on *NIS j.s.c. Novi Sad*

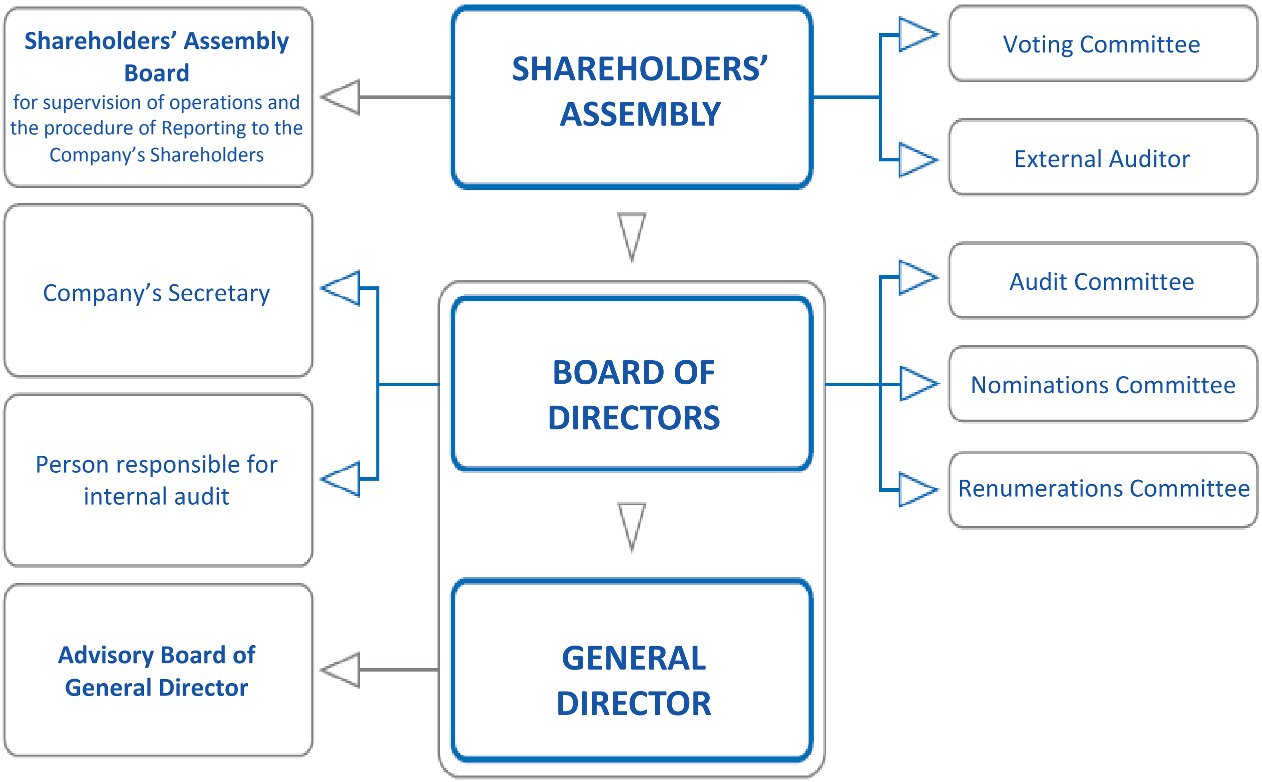
Business Name:	*NIS j.s.c. Novi Sad*
Company Identity Number::	20084693
Address:	Novi Sad, 12, Narodnog fronta street
Tax ID:	104052135
Web site:	www.nis.eu
e-mail:	office@nis.eu
Activity:	0610 – crude oil exploitation
Number and date of registration in BRA:	BD 92142, 09/29/2005
Total equity as at June, 30th 2016:	202,936,866,000.00 RSD
Share capital as at June, 30th 2016:	81,530,200,000.00 RSD
Number of employees[4] as at June, 30th 2016:	3,898
Audit company that audited the last financial statements (dated December, 31st 2015):	Pricewaterhouse Coopers d.o.o Belgrade 88a, Omladinskih brigada street 11070 Belgrade
Name and address of organised market where shares of the issuer are traded in:	Belgrade Stock Exchange 1, Omladinskih brigada street 11070 Belgrade

[4] Number of leased employees, employees in subsidiaries and representative offices excluded.

Company Governance System

NIS j.s.c. Novi Sad has established a one-tier governance system where the Board of Directors holds the central role in the Company governance. The Board of Directors is responsible for the accomplishment of set goals and achievement of results, while shareholders exercise their rights and control primarily through the Shareholders' Assembly.

The provisions of the Article of Association make a full and distinct delineation between the scope of operations of the Board of Directors and the scope of work of the Shareholders' Assembly, the General Director of the Company and the bodies appointed by corporate governance bodies.



Shareholders' Assembly

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

Board of Directors

The Board of Directors has a central role in the management of the Company and it is collectively responsible for the long-term success of the Company and for setting up basic business goals and guiding the directions of the Company's further development, as well as identification and control of the effectiveness of the Company's business strategy.

The Board of Directors consists of 11 members appointed by the Shareholders' Assembly. The members elect the Board of Directors' Chairperson, while the functions of the Board of Directors' Chairperson and the General Director are separated.

Members of Board of Directors as of June, 30th 2016

Vadim Yakovlev

Chairman of NIS j.s.c. Novi Sad Board of Directors
Deputy Chairman of the Executive Board of PJSC "Gazprom Neft", First CEO Deputy, in charge of exploration and production, strategic planning and mergers and acquisitions

Born on September 30, 1970 in Sharkan, Udmurtskaya ASSR.

In 1993, Mr Yakovlev graduated from the Moscow Engineering Physics Institute, Department of Applied Nuclear Physics. Mr Yakovlev graduated from the Faculty of Finance at the International University in Moscow in 1995. Since 1999, he has been a qualified member of the ACCA (Chartered Association of Certified Accountants). In 2009, he earned a degree from the British Institute of Directors (IoD). During his employment with PricewaterhouseCoopers from 1995 to 2000, Mr Yakovlev held various positions, starting from a Consultant to being promoted to Audit Manager. In the period from 2001 to 2002, he served as Deputy Head of Financial and Economics Department, YUKOS EP c.j.s.c. From 2003 to 2004, he was Financial Director of Yugansk Neftegaz, NK Yukos. From 2005 to 2006, Mr Yakovlev held the position of Deputy General Director in charge of economy and finance at SIBUR-Russian Tyres.

Mr Yakovlev was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of February 10, 2009 and he was elected Chairman of the *NIS j.s.c. Novi Sad* Board of Directors as of July 7, 2009.

Kirill Kravchenko

General Director of NIS j.s.c. Novi Sad
Member of Nominations Committee
Deputy CEO for Foreign Asset Management at PJSC "Gazprom Neft"

Born on May 13, 1976 in Moscow, USSR.

In 1998, Mr Kravchenko graduated with honours from Lomonosov Moscow State University with a degree in Sociology. He completed postgraduate studies at the same university. He continued his studies at the Open British University (Financial Management) and IMD Business School. He holds a PhD in Economics. Mr Kravchenko worked in consulting until 2000, and from 2000 to 2004 he held various positions in YUKOS in Moscow and Western Siberia and with Schlumberger (under partnership program with NK Yukos) in Europe and Latin America. In the period 2004 to 2007 he was Administrative Director at JSC MHK EuroChem Mineral and Chemical Company. Mr Kravchenko was elected member to the Board of Directors several times in major Russian and international companies. In April 2007, he was appointed Vice-Chairman, PJSC "Gazprom Neft", and in January 2008 he was made Deputy Chairman of Management Board of PJSC "Gazprom Neft", as well as Deputy General Director for Organizational Affairs. Since February 2009, he was appointed General Director of the Serbian petroleum company *NIS j.s.c. Novi Sad*, and member of the Company's Board of Directors. As of March 2009, he holds the position of Deputy CEO for Foreign Assets Management in PJSC "Gazprom Neft".

Mr Kravchenko was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of February 10, 2009.

Alexander Bobkov

Member of NIS j.s.c. Novi Sad Board of Directors
Advisor to the CEO of PJSC "Gazprom Neft"
Executive Director of MFC "Lakhta Center" j.s.c.

Born on October 18, 1966 in Vinnica, USSR.

Mr Bobkov graduated from "Zhdanov" Leningrad State University, Department of politic economy, in 1988. On 16.06.2006, Mr Bobkov received his Master's Degree in Economics and attained his PhD in Economics on 17.06.2011. From 1991 to 2010 he held various positions in the following fields: civil engineering, production, real estate and sales with the Leningrad Centre of Business Co-operation "Perekryostok", "Proxima" j.s.c. and "General Civil Engineering Corporation" Ltd. Since 2010, Mr Bobkov has served as Executive Director of "Okhta" c.j.s.c. Public Business Centre (presently "Lakhta Center" Multifunctional complex j.s.c.) and in 2012, he was appointed Advisor to the CEO of PJSC "Gazprom Neft".

Mr Bobkov was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of July 22, 2013.

Danica Drašković

Member of NIS j.s.c. Novi Sad Board of Directors

Born on November 14, 1945 in Kolašin, Montenegro.

Ms Drašković graduated from the Faculty of Law, University of Belgrade in 1968. From 1968 to 1990, she worked in the field of finance in the banking sector, and in the field of law and commerce within the economy sector, and as a Belgrade City Magistrate. Ms Drašković is the owner of the publishing house "Srpska reč", founded in 1990. She is the author of two books written in the opinion journalism style.

From April 1, 2009 to June 18, 2013, Ms Danica Drašković was a member of the *NIS j.s.c. Novi Sad* Board of Directors, being re-elected on June 30, 2014.

Alexey Yankevich

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

Born on December 19, 1973 in Leningrad, USSR.

In 1997, Mr Yankevich graduated from Saint-Petersburg State Electrical Engineering University ("LETI"), majoring in optical and electronic instruments and systems. In 1998, he completed a course at LETI-Lovanium International School of Management in Saint-Petersburg. Mr Yankevich was employed with CARANA, a consulting company from 1998 to 2001. In the period from 2001 to 2005 he served as Deputy Head of Planning, Budgeting and Controlling Department at YUKOS RM c.j.s.c. (business unit responsible for logistics and downstream operations). In 2004, he became a Certified Management Accountant (CMA). From 2005 to 2007 he worked as deputy CFO at LLK-International (production and sale of lubricants and special petroleum products; part of the LUKOIL group). From 2007 to 2011 he held the post of Head of the Planning and Budgeting Department, and was Head of Economics and Corporate Planning Department at PJSC "Gazprom Neft". Since August 2011 he has served as acting Deputy CEO for Economics and Finance at PJSC "Gazprom Neft". Mr Yankevich has been a member of the Management Board of PJSC "Gazprom Neft" and Deputy CEO" for Economics and Finance at PJSC "Gazprom Neft since March 2012.

Mr Yankevich was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of June 18, 2013.

Goran Knežević

Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Nominations Committee

Born on May 12, 1957 in Banatski Karlovac, Serbia.

Mr Knežević graduated from the Faculty of Economics, University of Belgrade. He worked at "Servo Mihalj" in Zrenjanin from 1983 to 1990. Mr Knežević served as General Manager at "Servo Mihalj Turist" from 1990 to 2000. Since 2000, he has been the Executive Committee Chairman of the city of Zrenjanin and the City Mayor holding office for three consecutive terms. Mr Knežević was appointed Minister of Agriculture of the Republic of Serbia in 2012. From 01 October 2013 to 30 June 2014, he was Advisor to the General Director of *NIS j.s.c. Novi Sad*.

Mr Knežević was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of June 30, 2014.

Alexander Krilov

Member of NIS j.s.c. Novi Sad Board of Directors
Director of the Department for Regional Sales at PJSC "Gazprom Neft"

Born on March 17, 1971 in Leningrad, USSR.

In 1992, Mr Krylov graduated from LMU (Leningrad) and graduated from the Faculty of Law of Saint Petersburg State University in 2004. In 2007, he earned MBA degree from Moscow International Business School MIRBIS, specializing in Strategic management and Entrepreneurship. From 1994 to 2005 Mr Krylov held managerial

positions in the field of real estate sales (Chief Executive Officer, Chairman) in the following companies: Russian-Canadian JC "Petrobild"; c.j.s.c. "Alpol". From 2005 – 2007 he was deputy director in the Division for implementation in "Sibur" Ltd. In April 2007, Mr Krylov was appointed Head of the Division for Petroleum Product Supply, head of the Regional Sales Division and Director of the Regional Sales Department at PJSC "Gazprom Neft".

Mr Krylov was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of November 29, 2010.

Nikola Martinović

Member of NIS j.s.c. Novi Sad Board of Directors
Member of Audit Committee

Born on December 3, 1947 in Feketić, Serbia.

Mr Martinović completed his primary education in Feketić, and secondary in Srbobran. He graduated from the Faculty of Economics in Subotica, where he also defended his Master's Thesis, titled "Transformation of Tax System in Serbia by implementing VAT". From 1985 to 1990, he was the CEO of "Solid" company from Subotica, and from 1990 to 1992, he served as Assistant Minister of the Interior of the Republic of Serbia. From 1992 to 2000, Mr Martinović held the position of Assistant CEO of the Serbian Petroleum Industry in charge of financial affairs, and was CEO of "Naftagas Promet" from 1996 to 2000. From 2005 until 31.08.2013, Mr Martinović worked as a Special Advisor at *NIS j.s.c. Novi Sad*. On 01.09.2013, he was appointed Special Advisor to the CEO of O Zone j.s.c. Belgrade, and from 15.12.2013 until his retirement on 17.11.2014, he was performing the duties of the Advisor to the Director of NTC NIS Naftagas d.o.o. Novi Sad. Furthermore, he currently serves as member of the National Bank of Serbia Governor Council.

Mr Martinović was a member of *NIS j.s.c. Novi Sad* Board of Directors from 2004 to 2008, and he was re-elected on February 10, 2009.

Wolfgang Ruttenstorfer

Independent Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Audit Committee

Born on October 15, 1950 in Vienna, Austria.

In 1976, he graduated from the Economics and Business Administration at the Vienna University of Economics and business, and he holds a PhD degree. Mr Ruttenstorfer's career started in the Austrian company OMV in 1976. In 1985, he was transferred to the Planning and Control Department and in 1989; he became responsible for the strategic development of the OMV Group. Being appointed Marketing Director in 1990, he became a member of the Executive Board in 1992, and was in charge of finance and chemical products. By early 1997, he was a member of the OMV Executive Board, when he was appointed Deputy Minister of Finance. On 01.01.2000, he was re-appointed a member of the OMV Executive Board in charge of finance, a function he performed by April 2002. He was in charge of gas affairs by December 2006. In the period from 01.01.2002 to 31.03.2011, Mr Ruttenstorfer was the Chairman of the Executive Board of the OMV Group.

He was elected Independent member of the *NIS j.s.c. Novi Sad* Board of Directors as of April 20, 2012.

Anatoly Cherner

Member of NIS j.s.c. Novi Sad Board of Directors
Member of Remuneration Committee
Deputy Chairman of the Executive Board, Deputy CEO for logistics, refining and sales in PJSC "Gazprom Neft"

Born on August 27, 1954 in Grozny, USSR.

Mr Cherner graduated from Grozny Oil Institute in 1976 with a degree in chemical oil and gas engineering. In period from 1976 to 1993 he was employed at the "Sheripov Grozny Refinery", starting as an operator to become refinery director. In 1996, he joined "SlavNeft" as Head of the Oil and Oil Products Trading Department and was later appointed Vice-Chairman of "NGK SlavNeft". He joined SibNeft (from June 2006 – "Gazprom Neft") as Vice-Chairman for refining and marketing in April 2006.

Mr Cherner was elected member of the *NIS j.s.c. Novi Sad* Board of Directors as of February 10, 2009.

Stanislav Shekshnia

Independent Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Remuneration Committee
Member of Nominations Committee
Affiliate Professor of the International business school INSEAD

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

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

Mr Sheknia was elected Independent member of the *NIS j.s.c. Novi Sad* Board of Directors as of June 21, 2010.

The number and % of *NIS j.s.c. Novi Sad* shares owned by BoD members		
Name	**No. of shares**	**% in the total no. of issued shares**
Nikola Martinović	224	0.0001%

Total amount of remunerations paid out to BoD members in first six months of 2016, RSD net	
General Director	12,928,773
Other members of the BoD	33,978,227

Board of Directors' Committees

With a view to ensuring the efficient performance of its activities, the Board of Directors has established three standing committees as its advisory and expert bodies providing assistance to its activities, especially in terms of deliberating on issues within its scope of competence, preparation and monitoring of the enforcement of decisions and adopting and performing certain specialized tasks to meet the Board of Directors' needs.

The mandate of the Committees ran until the date of the 7th Regular Session of the Shareholders' Assembly of *NIS j.s.c. Novi Sad* of 28 June 2016, until when the Committees had had the following members:

- Audit Committee:
  - Wolfgang Ruttenstorfer, Chairman of the Audit Committee,
  - Alexey Urusov, Member of the Audit Committee, and
  - Nikola Martinović, Member of the Audit Committee.
- Remuneration Committee:
  - Stanislav Shekshnia, Chairman of the Remuneration Committee,
  - Anatoly Cherner, Member of the Remuneration Committee, and
  - Zoran Grujčić, Member of the Remuneration Committee.
- Nominations Committee:
  - Goran Knežević, Chairman of the Nominations Committee,
  - Kirill Kravchenko, Member of the Nominations Committee and,
  - Stanislav Shekshnia, Member of the Nominations Committee.

The Board of Directors will appoint members of the above Committees for the next mandate within a short time and, if necessary, may set up other standing or ad hoc committees to address issues of relevance for the activities of the Board of Directors.

Shareholders' Assembly Board

The Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to Company's Shareholders (hereinafter the Shareholders' Assembly Board) is an advisory and expert body of the *NIS j.s.c. Novi Sad* Shareholders' Assembly which provides assistance to the Shareholders' Assembly in its activities and deliberation on issues falling within their scope of competence. The members of the Shareholders' Assembly Board are accountable to the Shareholders' Assembly which appoints them to and relieves them of their duty.

Members of Shareholders’ Assembly Board as of June, 30th, 2016

Nenad Mijailović

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

Born on October 14, 1980 in Čačak, Serbia.

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

Mr Mijailović was a member of *NIS j.s.c. Novi Sad* Board of Directors from June 18, 2013 to June 30, 2014. He was appointed Chairman of the *NIS j.s.c. Novi Sad* Shareholders’ Assembly Board for the Supervision of Operations and Procedure for Reporting to Company’s Shareholders as of June 30, 2014.

Zoran Grujičić

Member of Shareholder Assembly Board for Supervision of Operations and Procedure for Reporting to
NIS j.s.c. Novi Sad Shareholders
Member of Remuneration Committee

Born on July 28, 1955 in Čačak, Serbia.

Mr Grujičić graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994, he was employed with Heat Transfer Appliances Plant “Cer” in Čačak, where he held a variety of positions, including General Manager, Technical Manager, Production Manager and Design Engineer. From May 1994 to February 1998, he served as Advisor to the General Manager of Interkomerc, Belgrade. From February 1998 to June 2004, he was Managing Director of the Company MNG Group d.o.o., Čačak. From June 2004 to February 2007, he was Director of the Trading Company Agrostroj j.s.c. Čačak, Director of the limited partnership company Leonardo from Čačak and Director of the Vojvodina Highway Centre. Since February 2007, Mr Grujičić has been employed with *NIS j.s.c. Novi Sad* and has held the following positions: Deputy Director of the Logistics Department, Jugopetrol; Head of RC Čačak at the Retail Department – Čačak Region; Manager of the Retail Network Development of the Development Department, Sales and Distribution Block. Since 01.10.2012, he has served as Advisor to the Sales and Distribution Block’s Director.

He was appointed member of the *NIS j.s.c. Novi Sad* Shareholders’ Assembly Board for the Supervision of Operations and Procedure for Reporting to Company’s Shareholders as of June 30, 2014.

Alexey Urusov

Member of Shareholder Assembly Board for Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders
Member of Audit Commission
Director of Economics and Corporate Planning Department in PJSC "Gazprom Neft"

Born on November 17, 1974 in Tyumen, USSR.

Mr Urusov graduated from the Tyumen University (specialist in finance) and the University of Wolverhampton in the United Kingdom (BA (Hons) Business Administration). Mr Urusov holds and MSc degree in Sociology. From 2006 to 2008 worked as executive vice-president for planning and performance management in the Integra Group. From 2002 to 2006 worked in TNK-VR. From 2002 to 2003 member of TNK BoD's Group for monitoring and, and in period from 2004 to 2006 worked as CFO in TNK-VR Ukraine. From 2009 to 2012, Mr Urusov was employed with *NIS j.s.c. Novi Sad* as Chief Finance Officer.

He was appointed member of the *NIS j.s.c. Novi Sad* Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to Company's Shareholders as of June 25, 2012.

The number and % of *NIS j.s.c. Novi Sad* shares owned by SAB members

Name	No. of shares	% in the total no. of issued shares
Nenad Mijailović	5	0.000003066%

A total amount of remunerations paid out to SAB members in first six months of 2016, net RSD

SAB Members	9,731,646

General Director

The Board of Directors appoints one of its executive members to act as the General Director. The General Director coordinates the activities of the executive members of the Board of Directors and organizes the Company's activities. In addition to this, the General Director performs daily management activities and decides on matters which do not fall within the competence of the Shareholders' Assembly and the Board of Directors. The General Director is a legal representative of NIS.

Mr Kirill Kravchenko is the General Director of *NIS j.s.c Novi Sad*.

The Advisory Board of General Director

The Advisory Board of General Director as an expert body that provides assistance to the General Director in his activities and consideration of issues within its scope of competence. The composition of the Advisory Board of General Director has been determined by the General Director's Decision and it is composed of the Directors of all Blocks and Functions within the Company, the General Director's Deputy for petrochemical operations and Regional Directors of *NIS j.s.c. Novi Sad*. The Advisory Board has a Council composed of Block Directors and the General Director's Deputy in charge of petrochemical operations. The Advisory Board of General Director is managed by the General Director and provides him assistance in relation to the issues concerning the Company's business operations management. In addition to issues concerning the Company's current operations (monthly and quarterly operating results, annual business plans, monthly investment plans), the Advisory Board deals with issues related to strategy and development policy, whose basic principles are established by the Shareholders' Assembly and the Company's Board of Directors.

Transactions Involving Personal Interest and Transactions with Related Parties

A person entrusted with special duties at the Company must notify the Board of Directors without delay of the personal interest (or the interest of a related party) in a legal transaction concluded by the Company, or a legal action undertaken by the Company.

By the conclusion of the Contract on regulating the mutual rights and obligations with the Company, the members of the Board of Directors are additionally informed about the obligation to notify the Company due to a possible conclusion of a legal transaction with the Company, as well as with the obligation to not represent competition to the Company and other special duties of the members of the Board of Directors.

The Company identifies legal transactions and legal actions with related parties to ensure that their conclusion only takes places if they are not damaging to Company operations. Legal transactions and legal actions with related parties are authorized by the Board of Directors in line with the Law. Once per year, the Board of Directors submits to the regular Shareholders Assembly the information on the approval of the conclusion of personal interest transactions. In addition, with the aim of monitoring potential competition, the Company has the practice of quarterly surveys of members of the Board of Directors about the circumstances of their current engagement, as well as about memberships in Boards of Directors and Steering Committees at other companies.

In first six months of 2016, NIS Group entered into business transactions with its related parties. The most important transactions with related parties occurred based on supply/delivery of crude oil, petroleum products and energy. An overview of transactions with related parties is provided in the notes accompanying the financial statements.

Risk Managements

Integrated Risk Management System

NIS has set its risk management targets and established an integrated risk management system (IRMS).

Risk management goal is to ensure additional guarantees for meeting strategic and operational objectives by timely identification and prevention of risks, identification of effective measures and delivery of maximum efficiency of risk management measures.

IRMS is a systematic, structured, unified and on-going process of risk identification and assessment, identification of risk management measures and monitoring of their implementation. It allows for a consistent and clear-cut framework for risk management and reporting from business operations to the management of *NIS j.s.c. Novi Sad*.

Risk management has been incorporated into the NIS environment through the implementation of the following activities:

- Adoption of the risk-oriented approach in all aspects of production and management activity;
- Systematic analysis of identified risks;
- Establishment of a risk monitoring system and monitoring of the efficiency of risk management measures;
- Communication of adopted basic risk management principles and approaches to all employees;
- Provision of necessary normative and methodological support;
- Distribution of risk management powers and responsibilities between organisational units.

NIS IRMS Process Flow

*Or as needed.

The system‘s underlying principle is that the responsibility for managing various risks is assigned to different management levels depending on an estimated financial impact of the risk. Such approach allows for defining areas of responsibility for risk management and monitoring at all management levels, and for preparing corresponding action plans for managing key risks at the level of organisational units and *NIS j.s.c. Novi Sad* as a whole.

All major subsidiaries[5] are also covered by the process through the preparation of a consolidated risk registry. The parent Company has set up the Risk Assessment Section, which coordinates the process and ensures its continuous development.

Furthermore, management systems, the organisational structure, processes, standards and other regulatory documents, the Code of Corporate Governance and the Code of Business Ethics altogether form an internal control system which gives guidance for implementing NIS’ business activities and effective management of associated risks.

IRMS Integration into Business Planning Process

Risk assessment is incorporated into business planning processes and information on key risks is incorporated into business plans.

Risks are reviewed in parallel with business planning processes.

[5] NIS Petrol EOOD, NIS PETROL s.r.l., NIS Petrol d.o.o., Jadran – Naftagas d.o.o., Pannon Naftagas Kft, Naftagas – Tehnički servisi d.o.o., Naftagas – Naftni servisi d.o.o., Naftagas – Transport d.o.o.

With respect to key risks, management targets (management strategies) are defined, as well as risk management measures, financial resources needed and people responsible for the implementation of measures. If internal and external circumstances should change, the list of key risks and corresponding risk management measures and resources needed may be revised throughout the year.

In its business operations, the Group is exposed to industrial (operational) and financial risks.

Operational Risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Risks Associated with Oil and Gas Exploration and Production	
With respect to geological research, the goal of NIS Group is to increase the resource base and production. This largely depends on the outcome of geological and exploration activities aiming at increasing the number of active wells in the country and abroad. The main risk in oil and gas exploration and production ensues from failure to prove estimated reserves and, consequently, failure to achieve planned resource base growth.	Measures applied to mitigate the risks are selecting candidates for exploration drilling based on seismic and geological interpretation of new 3D seismic data, expertise in geological research provided by the majority shareholder and selection of most prospective wells, application of latest exploration methods, and experience in geological research, all of which reduces the probability of risks arising.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Market Risks	
Foreign Exchange Risk – NIS Group operates in an international setting and it is exposed to the risk of volatile foreign currency exchange rates, arising from business transactions in different currencies, primarily USD and EUR. The risk is associated with future business transactions and recognised assets and liabilities.	Part of the risks relating to the impact of the national currency exchange rate against USD is neutralised through natural hedging of petroleum product selling prices, which are adjusted to changes in the exchange rate. Risk management instruments are also used, including forward transactions on the foreign exchange market, which reduces the impact of foreign currency losses in the event of depreciation of national currency against USD or EUR. Other measures include balancing of the foreign exchange equilibrium in terms of adjusting the currencies in which export transactions are denominated with the currencies of foreign liabilities; managing the currency structure of the loan portfolio etc.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Market Risks	
Price Change Risk – In view of its core activity, NIS Group is exposed to price change risks, namely the price of crude oil and petroleum products, which affects the value of inventories and margins in oil refining, which in turn affects future cash flows.	These risks are partly offset by adjusting petroleum product selling prices against the changes in oil and petroleum product prices. Whether commodity hedging instruments will be applied in Gazprom Neft Group's subsidiaries, including *NIS j.s.c. Novi Sad* as a subsidiary is at the discretion of Gazprom Neft Group. In addition, the following actions are undertaken in order to reduce potentially negative impact of the risk: • Annual planning based on the multiple scenarios approach, plan follow-up and timely adjustment of crude oil procurement plans; • regular sessions of *NIS j.s.c. Novi Sad* Committee for procurement/sales of crude oil for discussion of all significant issues in the procurement and the sales process of crude oil (sales of crude oil from Angola – Palanca crude); • Tendency to enter into long-term contracts for crude oil purchase at most favourable commercial terms, including extended payment terms on an open account basis and entering into purchase contracts based on which NIS would, in line with current intergovernmental agreements, be exempted from the payment of customs clearance fees at import based on preferential status; • Wider range of suppliers, successful cooperation with EU companies, higher competitiveness in import procurement tender procedure and ever more visible results of the shift in procurement prices; • Diversification of crude oil basket for the potential import procurement, ensuring the samples of the types of crude which have not been yet refined in Pančevo Oil Refinery; constant strive to optimize the process and efforts to achieve the best possible economic effects and indicators; • Occasional benchmarking for the purpose of market research and price trend analysis, i.e. analysing commercial capacities of major prospective suppliers of crude oil, renowned companies which are dominant and reliable in crude oil trading; • Daily follow-up of crude oil publications, analysis/testing of crude oil which has not been used in NIS refining plants, with analysing and reviewing potential commercial terms of procurement.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Market Risks	
Interest Rate Risk – NIS Group is exposed to the interest rate risk both in terms of its indebtedness with banks and placement of deposits.	*NIS j.s.c. Novi Sad* takes out loans from commercial banks at floating interest rates and performs sensitivity analysis with respect to changes in interest rates in order to estimate if raising a loan at a flat interest rate is required to a certain extent. Term deposits are placed exclusively with major commercial banks from which *NIS j.s.c. Novi Sad* takes out loans and/or credit/documentary lines. Moreover, the term deposits, both in RSD and in foreign currency, are short-term (up to 90 days), at flat interest rates. Based on the aforesaid, revenues and cash flows are substantially independent of changes in market interest rates on deposited funds in the form of term deposits, although the interest rates that *NIS j.s.c. Novi Sad* can obtain in the market heavily rely on the base interest rate at the moment of depositing (Belibor - reference interest rate of the National Bank of Serbia).
Credit Risk	
Credit Risk is related to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans granted to foreign or local subsidiaries, as well as due to the exposure in wholesale and retail sale risks, including unrecoverable debt and assumed payment obligations.	Credit risk management is established at the level of NIS Group. With respect to credit limits, banks are ranked in line with adopted methodologies applicable to core and other banks with the aim of setting the maximum amount of exposure of *NIS j.s.c. Novi Sad* to the bank at any given time (through facilities to secure claims from one bank, documentary instruments – bank guarantees, Letters of Credit etc. issued to *NIS j.s.c. Novi Sad*). Regarding the accounts receivable, a methodology for credit limits has been developed and serves as a basis for defining the level of exposure in relation to specific customers, depending on their financial indicators.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Liquidity Risk	
Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities. It is the risk of having insufficient sources of financing for the Group's business operations.	NIS Group continuously monitors liquidity in order to ensure sufficient cash to meet its operational and investment needs and financial liabilities. To this end, it is continually contracting and securing sufficient credit and documentary lines while maintaining the maximum allowable level of credit exposure and meeting the commitments under commercial bank arrangements (covenants). Liquidity forecasts take into account the Group's plans debt repayment schedules, compliance with contractual terms and compliance with internally-set goals, and it is based on the daily cash flow projections of the entire NIS Group which are the basis for making decisions regarding raising external loans, in which case adequate bank financing sources are secured, provided compliance with the allowable limits set by PJSC "Gazprom Neft". Aiming to increase liquidity and decrease dependence on external financing sources, as well as to decrease NIS Group's costs of financing, as of January 1, 2014 the Group has applied the cash pooling system for liquidity management, which involves centralized management of liquidity and financing with respect to the division of NIS Group in the Republic of Serbia.[6] Since mid-September 2014 *NIS j.s.c. Novi Sad* has been exposed to limited external financing capabilities, as already stated, due to the imposing of sectorial sanctions by the EU and the U.S.A. on the largest Russian-owned power generating companies incorporated outside EU. Owing to continuous monitoring of geopolitical situation and capital market trends, as well as timely response and entering into lines of credits with banks before the aforesaid sanctions were imposed, NIS managed to secure sufficient limits for documentary business and for credit financing of NIS Group in 2015 and 2016. Furthermore, with the aim of acquiring necessary funds for future transactions, in first half of 2016. NIS has negotiated/contracted new credit lines with Serbian banks for unlimited funding purposes and with Serbia-based European banks for funding imports from the EU (exempt from the sanctions), thus ensuring the necessary funds for 2016 and part of funds needed in 2017.

[6] *NIS j.s.c. Novi Sad* and subsidiaries Naftagas – Naftni servisis d.o.o., Naftagas – Tehnički servisi d.o.o. and NTC (STC) NIS Naftagas d.o.o.

Other Risks

RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Risk of the introduction of economic restrictive measures by the EU and the USA against Gazprom Neft Group	
The introduction of economic restrictive measures by the EU and the USA against Gazprom Neft Group created a risk for its long term development due to the limited possibilities of getting long-term loans from business banks belonging to banking groups with head offices in the EU and the USA.	NIS regularly follows developments on the international scene, assesses consequences to its business operations and takes appropriate actions so that NIS is excluded from the EU sanctions.

Business Environment

World

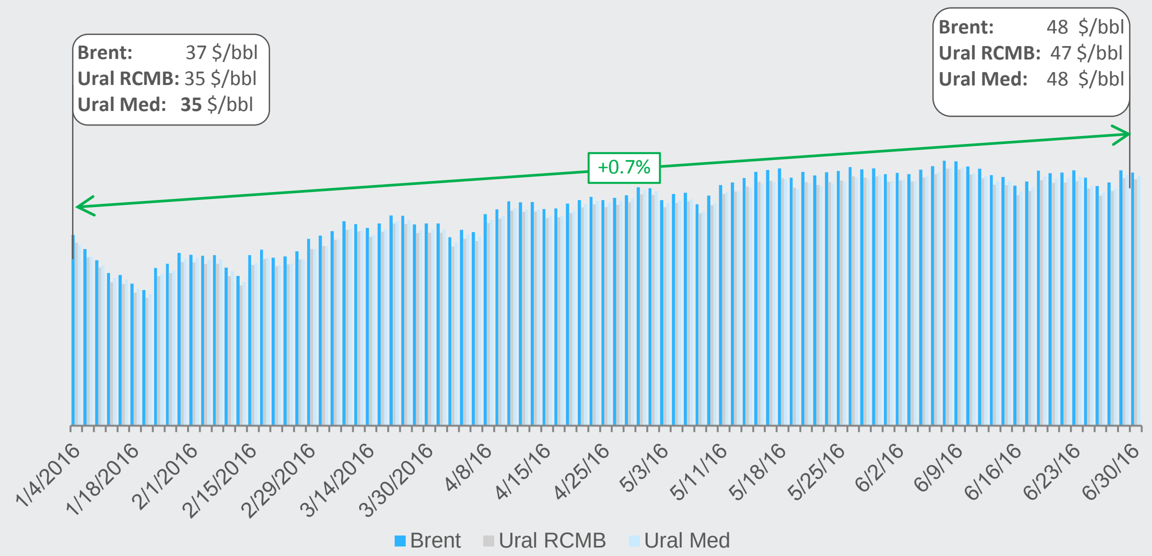
After a referendum in Great Britain there occurred a fall of stocks and a change in the exchange rate between currencies in the stock exchanges around the world: the pound plummeted to the lowest level against the dollar, the yen went up against the dollar, and the dollar got stronger against the euro. Great fluctuations in financial markets are expected to continue. Central banks can exert influence on the reduction of market fluctuations by increasing liquidity. According to expectations, Brexit will cause a slowdown of growth of the global economy for at least two more years. The reduction in investments and consumption will have a negative impact on global growth and the IMF reduced the forecast of global GDP growth from 2.3% to 2.2% in 2016. However, the Managing Director of IMF Christine Lagarde says that another global recession is unlikely in spite of strong turbulences triggered by Brexit in Great Britain and the rest of Europe demonstrating a certain ”disappointment” of the citizens in the EU. Despite economic uncertainty, the Managing Director of the IMF has expressed some optimism, saying that paradoxically Brexit could become a catalyst for deepening the economic integration of the EU.

In late June, Bloomberg published “New Energy Outlook 2016“ where it is said that the renewable energy sources will continue to massively develop in the next years, and will produce 70% of EU’s electricity in 2040 owing to reduction of solar and wind energy production costs. In 2015, renewable energy sources amounted to 32% of electrical energy production in EU. According to Bloomberg estimates, hydro energy, solar energy and wind energy will go up in the USA from 14% in 2015 to 44% in 2040. The prices of natural gas and coal will remain at a low level; however, it will not prevent a fundamental change of the global electricity system. It is said in the report that according to a forecast renewable energy sources will exceed natural gas at a global level in 2027. Furthermore, it is said that the demand in electrical energy will grow because of its new use, especially in relation to electric cars.

The oil price went up in the second quarter (*Brent* oil went from 36 $/bbl in early April to 48 $/bbl in late June). A decrease of commercial stocks of “black gold“ in USD has contributed to a price growth, however, continuous price growth can only occur if producers considerably decrease production. Apart from that, oil price growth was also influenced by the announcement of oil workers’ strike in Norway, which was expected to cause a drop in the production in that country by almost one-fifth (according to the data of the International Energy Agency the share of this country in the global oil production amounts to 2,1%).

Iran’s return to global oil markets is not, after all, a too big threat to the establishment of equilibrium in the oil market, because its production has already reached the pre-sanctions level, contrary to expectations that this process will take years, so that this country has very small quantities of additional oil for sale in global markets. Additional production requires significant investments, and the new oil could appear in the market only after 2020.

Brent and Urals crude oil price trends of in first six months of 2016[7]



Serbia

Favourable trends of growth of economic activities continued in the second quarter 2016. The Republic of Serbia has improved its business environment and made a remarkable success in encouraging investments. Continuation of positive tendencies in Serbia depends on the development of infrastructure, innovations and trade, as well as on good planning of projects at a regional level and their implementation.

The National Bank of Serbia stated in the report "Macroeconomic Tendencies in Serbia" published in June that the inflation rate is below the lower limit of allowed deviation from the target, which is mainly the consequence of a significant drop in the price of oil and primary agricultural products, as well as of low import inflation. In that way, consumer prices in Serbia were higher by 0.1% in May than in April, while the annual inflation amounted to only 0.7%. It is expected that inflation will go back to its target under the influence of a low basic price in the second half of 2016, recovery of domestic demand and growth of prices of primary products.

The IMF mission visited Serbia in the period from 9 to 21 June for conducting negotiations about the fourth and fifth revision of "stand-by" arrangement. The IMF is on the whole very satisfied with the achieved progress and good results. Therefore, it increased again the forecast of growth of the gross domestic product (GDP) of Serbia for 2016 to 2.5% from previously forecast 1.8%. The expected consolidated budget deficit was also reduced to 2.5% instead of 3.75%.

In the forthcoming period it is necessary to focus on two areas – the reform of state financial institutions and continuation of work on the implementation of the strategy for solving distressed loans, which started to decrease at a high level. It is necessary to continue reforms of the state administration with a view to improving public sector efficiency and improving at the same time the services in health and education sectors.

It is necessary to ensure permanence and sustainability of the achieved results.

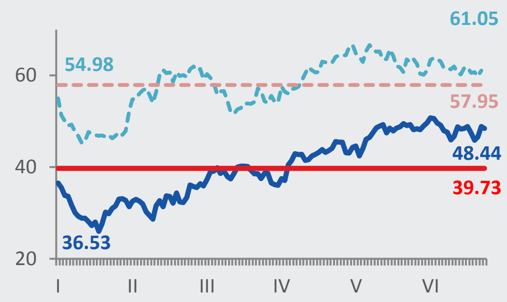
This new agreement with the IMF is subject to the approval by the new government and the completion of activities regarding the agreed structural measures. The confirmation of the assessment by the Board of Directors of the IMF is also expected by the end of August.

[7] Source: Platts

USD/RSD exchange rate trends[8] **+2%**

- Average USD/RSD exchange rate is by RSD 1.86 i.e. 1.7% in first six months 2016 higher than the average rate in first six months 2015
- USD/RSD exchange rate decreased by RSD 0.17 i.e. 0.16% in first six months 2016
- USD/RSD exchange rate increased by RSD 8.27 i.e. 8.3% in first six months 2015

Brent oil price trend[9]**, $/bbl** **-31%**



- Average price of Brent crude oil is by 18.22 $/bbl i.e. 31% lower in first 6M 2016 than the average price in first 6M 2015
- Price of Brent crude oil increased by 11.91 $/bbl i.e. 33% in first 6M 2016
- Price of Brent crude oil increased by -6.07 $/bbl i.e. 11% in first 6M 2015

[8] Source: National Bank of Serbia.
[9] Data for Europe Brent Spot Price FOB. Source: Platt's Crude Oil Marketwire;.

Market Share

The key factor for a recovery in demand for motor fuels on the regional market are lower prices in the first half of 2016 compared with the same period last year, as well as positive macroeconomic parameters. Fuel consumption in the transportation segment is on the rise.

In Serbia, consumption of diesel fuel and gasoline is a generator of growth in the overall consumption of motor fuels primarily due to increased activities in road construction and processing industry as well as due to a growth in transport industry.

Part of the consumption of diesel fuel has moved into the grey area, either as a consequence of blending non-excised base oils, or due to a non-transparent transit operations. The practice of cross-border purchases of fuel continues in Bosnia and Herzegovina and Macedonia due to significantly lower duties on fuel.

Serbian Market

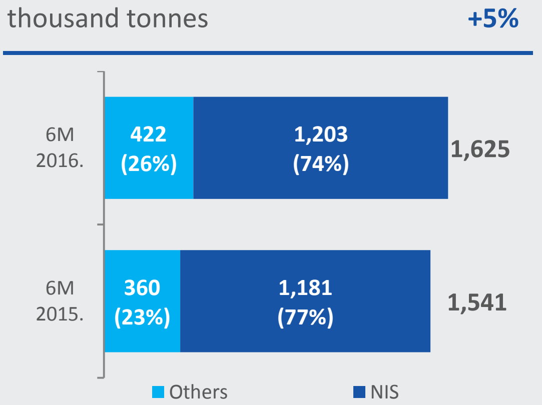
In the first half of 2016, the total consumption of petroleum products in Serbia increased compared to the same period in 2015, mainly due to a growth in the consumption of naphtha and gasoline, diesel, fuel oil and bitumen, which is mainly due to lower prices of petroleum products and major infrastructure works. In the same comparative period, the consumption of LPG, fuel oil and aviation fuel is lower.

The reasons for NIS’ slightly lower market share are growing amount of products in the so-called grey zone as a segment which is unavailable for legitimate marketers.

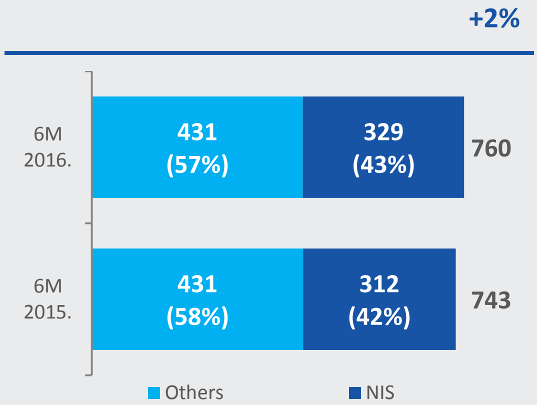
The retail market in the first half of this year increased in the total amount by 2.3% compared to the same period in 2015. NIS has increased its market share in the retail trade of the Republic of Serbia, with growth in sales of petrol and diesel, as well as auto gas.

The growth in fuel consumption is associated with lower prices, mild winters, growth in transportation and early start of agricultural works.

Volume of petroleum products market
thousand tonnes



Volume of retail market[10]
thousand tonnes



[10] The sales range of NIS and other competitors includes motor fuel (autogas, gasoline, diesel). LPG cylinders are not included.
Information on market volumes for first 6M 2015 was ajdusted after receiving all relevant market data from National Oil Committee of Serbia. Information for 2016 is an estimate. After the market analysis of NPCS for year 2015 was published, minimal corrections were added for the first half of the last year.

Sources of information used for the projection:
- PFC - estimated consumption per quarters in Bulgaria and Romania; Eurostat,
- Data for BiH: PFC, internal analysis and assessment of Sales and Distribution Block;
Motor fuel market: petrol, diesel and LPG;

Regional Markets

Bosnia and Herzegovina

Due to low excise duties and VAT rate, prices of motor fuels in Bosnia and Herzegovina are still significantly lower than in the region, which has a positive effect on consumption growth. The Council of Ministers adopted the Draft Law on Amendments to the Law on Excise Duties in Bosnia and Herzegovina which imposes excise tax on oil and oil derivatives i.e. 10 pfennig per liter of fuel for the construction of highways and 5 pfennig for the construction of main roads and regional roads.

Book of Rules on the Conditions for Retail of Heating Oil entered into force on 17 May 2016 which will help solve the problem of long-term substitution of diesel fuel with this derivative both in the local market as well as for cross-border purchases by farmers from the border areas of Serbia and Croatia. Brod Oil Refinery will continue producing fuel oil but will reduce its production level.

In the beginning of the second quarter of 2016, sale of subsidised diesel fuel began, and representatives of registered farms can buy fuel at subsidised price at 231 gas station ever since, which is by 0.60 KM lower than the retail price.

NIS owns 35[11] active petrol stations in Bosnia and Herzegovina.

NIS' share in petroleum products market is 11.7%, and share in retail market is 10.7%.

Bulgaria

What is evident in the Bulgarian market is a reduction in imports as a result of increased volume of refining by the modernised refinery in Burgas.

On the retail market of Bulgaria numerous loyalty programs and campaigns have been launched in the second quarter and there is a fierce competition between market participants. We also noted a trend of development of small private chains that rapidly extend its network with the aim to cover the market of the entire country as well as a development of the Corporate Customers segment.

NIS owns 35 active petrol stations in Bulgaria.

NIS' share in petroleum products market is 4.5%, and share in retail market is 4.3%.

Romania

The market for motor fuels recorded a recovery in the first half of 2016 compared to the same period last year primarily due to lower prices and lower duties on fuel, which has a positive impact on fuel consumption increase.

MOL Group has further expanded its network in the region, including wholesale and retail in Romania. Increased Burgas Refinery output brings additional quantities of imports on the Romanian market which creates pressure on domestic production and premiums.

NIS owns 18 active petrol stations in Romania.

NIS' share in petroleum products market is 0.6%, and share in retail market is 0.9%.

[11] Two more petrol stations operate in DODO (Dealer Owned Dealer Operated) mode.

Result Analysis

Key Performance Indicators

Q2 2016	Q2 2015	Δ Q2 2016 / Q2 2015 (%)[12]	Indicator	Unit of measure	6M 2016	6M 2015	Δ 6M 2016 / 6M 2015 (%)[13]
NIS Group							
43.9	61.5	-29%	Urals	$/bbl	38.1	57.2	-33%
2.9	9.6	-70%	Net profit	bn RSD	3.1	5.0	-36%
9.4	13.8	-32%	EBITDA[14]	bn RSD	13.2	21.0	-37%
46.0	57.0	-19%	Sales revenues	bn RSD	81.4	103.4	-21%
5.0	19.9	-75%	OCF	bn RSD	8.6	24.3	-65%
43.5	37.7	+15%	Liabilities from taxes and other public revenues[15]	bn RSD	76.3	67.2	+13%
4.5	5.5	-18%	CAPEX[16]	bn RSD	9.1	12.5	-27%
680	571	+19%	Total indebtedness[17]	mn USD	680	571	+19%
Exploration and production							
5.5	11.3	-51%	EBITDA	bn RSD	9.7	21.2	-54%
366	398	-8%	Oil and gas production[18]	thousand t.o.e.	743	795	-7%
243	267	-9%	Domestic oil production[19]	thousand tonnes	493	536	-8%
3.6	5.4	-32%	CAPEX	bn RSD	7.5	9.6	-22%
Services							
-0.0	-0.01	-33%	EBITDA	bn RSD	0.3	0.2	27%
10	12	-17%	Completed wells	no. of wells	22	21	+5%
0.0	0.3	-88%	CAPEX	bn RSD	0.2	0.6	-69%
Refining							
4.7	2.7	+72%	EBITDA	bn RSD	3.6	-1,6	+128%
974	828	+18%	Oil and semi-finished products refining volume	thousand tonnes	1,750	1,512	+16%
0.4	0.6	-31%	CAPEX	bn RSD	0.7	1.1	-38%
Sales and distribution							
2.8	2.6	+8%	EBITDA	bn RSD	4.8	4.4	+9%
850	782	+9%	Total petroleum product sales[20]	thousand tonnes	1,553	1,463	+6%
67	48	+40%	Sales - foreign assets[21]	thousand tonnes	123	89	+38%
655	611	+7%	Domestic sales of petroleum products	thousand tonnes	1,217	1,160	+5%
506	481	+5%	Motor fuels	thousand tonnes	919	870	+6%
180	172	+5%	Retail	thousand tonnes	331	313	+6%
0.2	0.3	-38%	CAPEX	bn RSD	0.2	0.5	-52%
Energy							
0.2	0.3	-50%	EBITDA	bn RSD	0,5	0,9	-42%
34,289	26,975	+27%	Electricity generation	MWh	74,336	58,373	+27%
0.1	0.1	+24%	CAPEX	bn RSD	0.3	0.3	+19%

[12] All possible discrepancies in percentage values are due to rounding errors. Changes presented in percentage were calculated using indicator values that are not rounded to billions RSD.

[13] All possible discrepancies in percentage values are due to rounding errors. Changes presented in percentage were calculated using indicator values that are not rounded to billions RSD.

[14] EBITDA = Sales revenue (excluding excise duty) – inventory costs (crude oil, petroleum and other products) – operating expenses (OPEX) – other costs that can be controlled by the management

[15] Taxes, duties, fees and other public revenues accrued for the observed period. The overview includes NIS' tax obligations and other public revenues in Serbia and other countries in which it operates.

[16] CAPEX amounts do not include VAT.

[17] Total indebtedness = total debt to banks + Letters of Credit. As at 30 June 2016, it stands at USD 675.6 million of total debt + USD 4.2 million in Letters of Credit.

[18] Domestic oil production includes natural gasoline and light condensate, while gas production takes into account commercial production of gas.

[19] Including natural gasoline and light condensate.

[20] Including internal sales

[21] The sales of foreign assets represent the sales accomplished by NIS subsidiaries abroad (retail and wholesale).

Operational Indicators

Exploration and production

Despite the reduced scope of investments, *Exploration and Production Block* managed to meet the hydrocarbon production plan while increasing hydrocarbon reserves by 3.7%. The first six months of 2016 was also marked by the application of new technologies and innovative solutions - multistage fracturing, horizontal drilling etc. We continued with the implementation of operational efficiency increase programme and reduced costs.

Main priorities and initiatives for 2016

- Accomplishment of the planned hydro-carbons production, geological explorations efficiency improvement, completion of geological explorations projects concerning tight reserves and unconventional resources.
- Increased production and technological efficiency, implementation of operational efficiency boost measures.

Accomplishments in first six months of 2016

In the first half of 2016, three exploratory wells were drilled as part of *Exploration and Production*'s geological research activities; with two of them, testing operations were completed with a positive outcome and hydrodynamic measurement is currently in progress, whereas the third one is in its testing phase. The well drilled in end-2015 is now in test production. Increment in reserves by the end of 2016 is estimated at 3.7%.

The investment project for drilling and testing of *Kumane* exploratory well (specific heavy oil accumulation) was adopted by the Investment Board at the beginning of July.

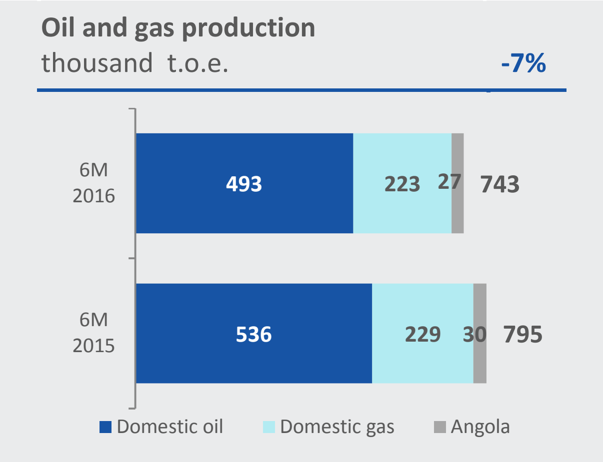
The period from January to June 2016 saw the completion of 3D seismic acquisition and processing at the *Turija II* exploration area. The acquisition of 3D seismic data also began in the exploration area of *Južni Banat I*. The Regional Model of Pannonian Basin was finalised and presented.

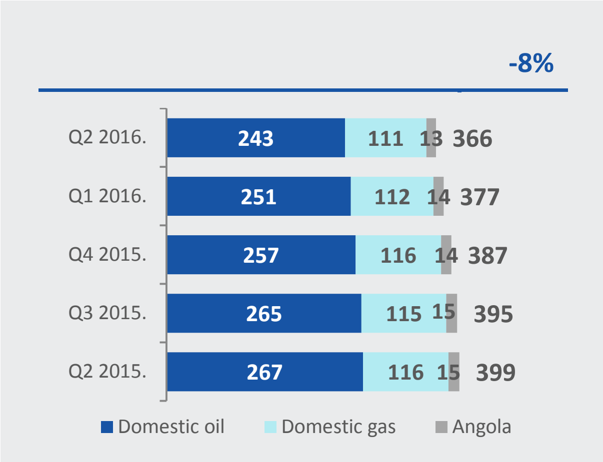
Drilling of the *RAG Kiha-004* well was finished in the exploration block of Kiskunhalas, Hungary. The short testing period resulted in oil recovery. In Bosnia and Herzegovina, a strategy is being prepared for further operations in the entire licence block. Interpretation of the data recorded at *Ex-7* and *Ex-8* blocks (phase 1 and 2 – a joint project with East West Petroleum) was completed by experts from NIS STC. Phase 3 of seismic operations at *Ex-7* and *Ex-8* blocks ended and data processing is in progress. Testing of *Jimbolia-6* well is finished, resulting in gas flow.

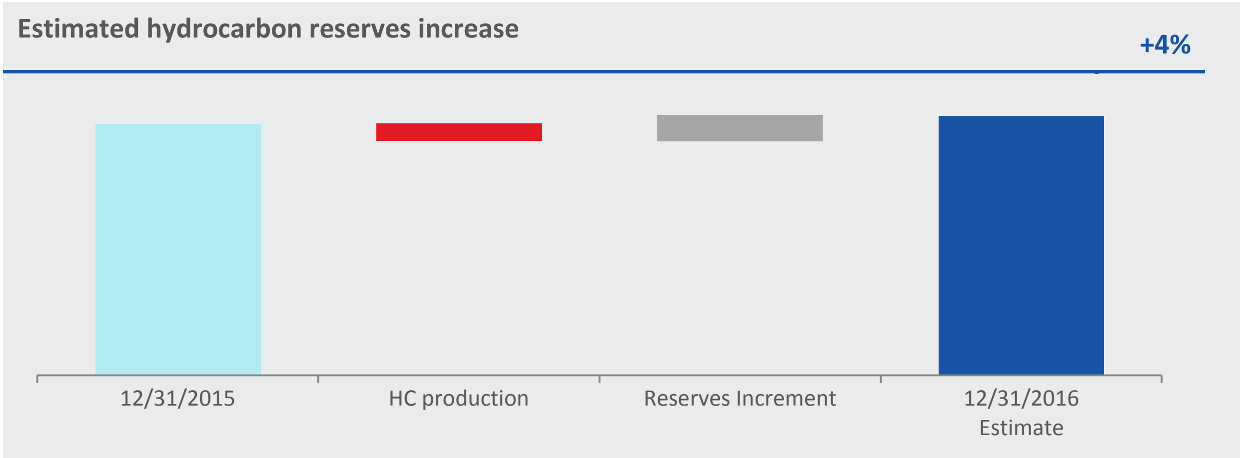
Operating indicators

Volume of oil production in first six months of 2016 exceeds the planned by 7.8 thousand tonnes. Regarding the planned activities, production from new drilling operations and GTA has exceeded the plan, whereas production of basic well stock is lower than planned. Total effect of geotechnical operations together with production from the new drilling in first six months amounts to 38.8 thousand tonnes which is 10.4 thousand tonnes more than planned.

Production of domestic gas exceeds the plan for first six months of 2016 (+2%), while the production of oil in Angola is below the plan for the same period (-5.4%).







Services

Main priorities and initiatives for 2016

- "Mega Macs" plant to reach its full operational capacity and drill in machinery to be put on stream within the expansion of range of operations and services provided by *Services Block*.
- Further operational efficiency boost, optimisation of the number of crews and accomplishing maximum efficiency, increase effective time rate in Workover Unit.
- Implementation of the plan of modernisation and development of process of control of tubing and sucker rods.
- Increase of control quality

Accomplishments in first six months of 2016

In the first six months *Services Block* successfully completed the project of *Ji-6* well workover of *Ji-6* well (Jimbolia) in Romania and finalized all preparatory activities for the overhaul in the Pančevo Refinery's Lot 1 and Lot 3. The overhaul operations are expected to start in the coming period. In the first six months of year 2016 *Services Block* worked with an average of 5 well rigs according to the restrictive Gantt chart due to the fluctuations in the market price of oil. In first six months of 2016 22 new well-bores have been drilled; three out of them complicated test wells, along with the completion of the complicated works on wells *Tus-138* and *Majdan-2*, where additional channels were drilled. In addition to that, they won a tender to drill in Romania, due to which preparation works have been under way on the rig K-1 which is to complete these works.

As many as 14 workover rigs on average have been involved in works required by the *Exploration and Production* to meet its production plan. Before the year's end another rig will be involved in Mirecol, an EU-funded project. Before the year's end another, 15th rig will be involved to complete complicated operations. The "Wellbore services" Production Unit has been involved in all works carried out by drilling and workover rigs, as well as the operation of foreign well servicing and workover crews by making available their Mud Logging Unit for electrical well-logging measurement, wireline tools, coiled tubing, nitrogen plants, GP, down-the-hole treatment and cementing devices.

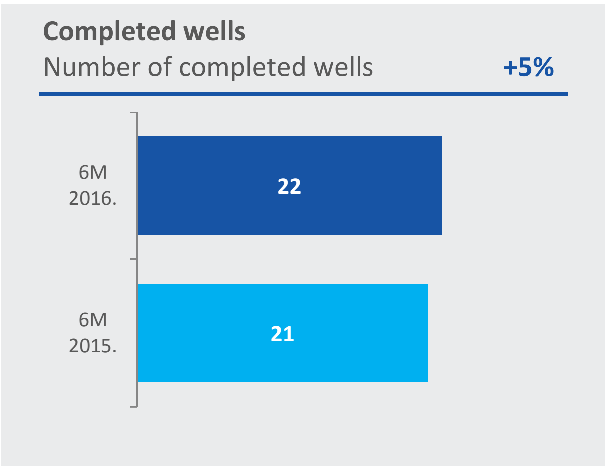
The "Seismic Services" Production Unit has completed 3D seismic works in Romania within the "Block EX-7 Periam 3rd stage" project.

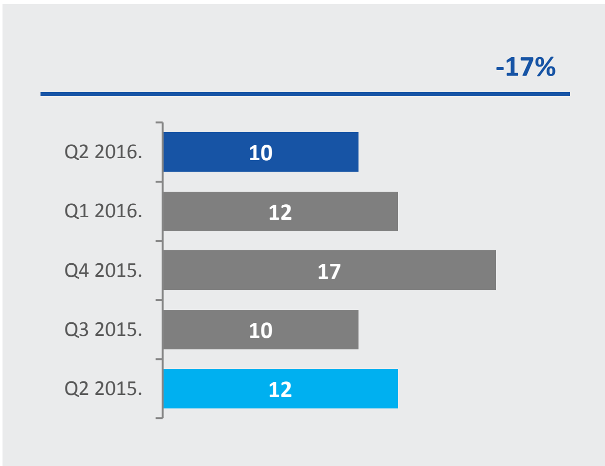
Activities within the *Južni Banat* project have started with the geodetic groups works, bulldozer stumping to pave the way for equipment installation.

Since January 2016, oil transportation pumps have been preventively repaired as scheduled and layer water has been injected. Workover and sucker-rod pumping units rebranding was resumed. Cooper Bessemer 2 compressor's gas-powered engine has undergone a general repair, and an overhaul has been completed on two gas-powered engines of the compressor in the Production Unit for preparation of oil and gas for transportation. Kardwell 4 workover rig has been conditioned to start drilling and K1 drilling rig has been prepared to operate in Romania.

The "Tubing Centre" Production Unit was officially incorporated on 1st June, 2016. Other than the principal process of washing, controlling and testing of pipe fittings (tubing and drilling rods) and pump rods, it anticipates expansion of its activities by providing the service of workover rigs washing. Other than that, over the course of second quarter the tubing testing process has been upgraded with electromagnetic testing with a new device purchased for this purpose.

Operating indicators





Refining

Main priorities and initiatives for 2016

- In the field of increasing operating efficiency, the key tasks for 2016 are as follows: the implementation of projects and measures for the purpose of increasing operating efficiency (Solomon indices); the preparation and the implementation of the programme of measures for reducing unrecoverable losses of hydrocarbons; the implementation of measures for increasing energy efficiency in the format of *"Quick Wins"*; the improvement of technological possibilities for refining a wide range of oil (including heavy oils) and the implementation of the risk management system in the business processes of the *Refining*.
- In the field of investments, the works on the "Bottom-of-the-Barrel" project will be continued (including the completion of activities on the preparation of the extended Basic Design for the

needs of the construction of the Delayed Coking Unit as well as on the determination of the qualified *EPCm* contractors for the implementation stage), and it is also planned to conduct several reconstructions (of the Catalytic Reforming Unit which would include the installation of the *"Packinox"* heat-exchangers; the replacement of 0.4 *MCC* control panels in the process units of Block 5, the reconstruction of air-coolers in the *FCC* Unit) and to carry out the regular scheduled turnaround.

Accomplishments in first six months of 2016

At the beginning of the year, the turnaround was performed in the Bitumen and Polymer Bitumen Production Unit, i.e. S-0250/0290.

On-line cleaning of furnaces has been conducted in the Atmospheric Distillation Unit and the Vacuum Distillation Unit, so that the refining capacity could be increased because of the upcoming regular scheduled turnaround in September, and also washing of all the segments of coolers and cleaning of heat-exchangers have been performed in the Atmospheric Distillation Unit.

After deconservation and turnaround, the “Small” Atmospheric Distillation Unit (S-100) and the Kerosene Merox Unit (S-750/850) have been successfully started up for the purpose of increasing the scope of refining and production efficiency.

The Gasoline In-Line Blending project has been completed, and it will be in the trial run by the end of August.

The final version has been obtained for the extended Basic Design (FEED) of the Delayed Coking Unit. The tender procedure is ongoing for the selection of the EPCm contractors, and also the tender activities have started for the selection of the suppliers for long lead items (LLI).

The activities have been intensified on the performance of the regular scheduled turnaround in September 2016, including the preparation of the key investment projects which will be implemented in the shutdown during the turnaround in September.

The construction works related to the installation of the "Packinox" heat-exchangers have been completed, and also the works on the installation of the equipment for 0.4 kW MCC Unit in Block 5.

The implementation of measures for increasing operating efficiency in at the high level. The package of measures for increasing efficiency of technological processes is being continuously implemented. Also, the focus is on the implementation of additional measures in the format of "Quick Wins" with the aim of reducing the consumption of utilities and increasing energy efficiency. Therefore, the values of the main key performance indicators (Solomon) are in the zone of the fulfilment or transfer of the plan.

In the HSE Year, the special focus in NIS has been on the occupational safety and health of all the employees in the *Refining* as well as on the further development of industrial safety.

There has been the successful implementation of the second regular supervisory inspection of the occupational health and safety management system, pursuant to the requirements of SRPS OHSAS 18001:2008 standard.

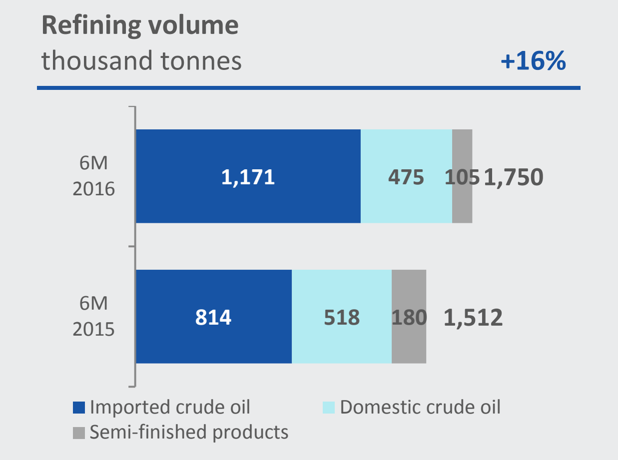
The Certificate of Conformity of the quality management system to the requirements of ISO 9001:2008 standard has been awarded to the *Refining* by the Organization for Quality System Certification and Monitoring (YUQS).

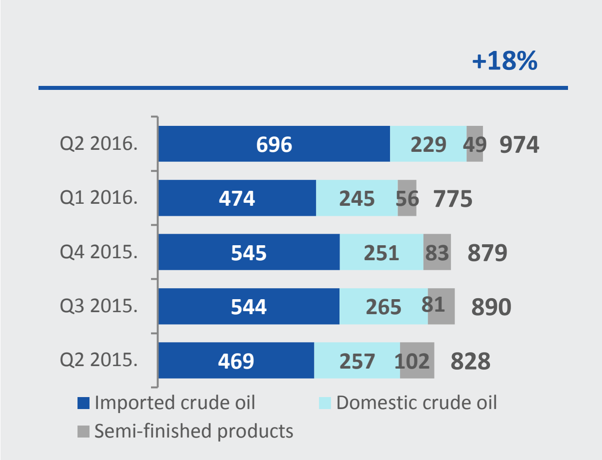
The procedure of legalization of the facilities in the Pančevo Refinery has been successfully completed.

Operating indicators

The scope of refining is the result of meeting the needs of the market and the optimization of refining the types of oil and other raw material (reduction of the amount of imported *VGO*, desisting from refining *Gasoil* 1.1%).

The refining of domestic oil pursuant to the plans of *Upstream* has been slightly increased as compared to the Business Plan for 2016, and the reduction of refining *SRS* and *REB* is the consequence of the optimization of the basket of the refined raw material and the substitution with the new types of oil, i.e. *Kirkuk* and *Forcados*.





Sales and Distribution

Sales and Distribution operations may be assessed as successful, despite the crisis that has been plaguing the oil producing industry since 2015. This division of our company has been running its business successfully in continuation over the course of first six months 2016. Compared to the first six months of the previous year, we managed to increase our market share in the retail market of petroleum products in Serbia by 1.4%. In the six months of 2016, we achieved 6% growth in the volume of turnover compared to the same period in year 2015.

Main priorities and initiatives for 2016

- Activities this year will also focus on the improvement of retail network efficiency by way of implementing a plan for reconstruction and optimisation of the number of petrol stations, increased average daily sales at each petrol station, introduction of branded fuel *G-Drive 100*, *G-Diesel*, *Ultra D*, *Ultra 98* into the markets of Serbia, Bulgaria and Bosnia and Herzegovina, optimisation of procurement prices and non-fuel goods, and price positioning by different types of goods.
- Further development of wholesale channels, logistics and business units will be achieved by increasing the volume of premium sales, revamping warehouse operations and reducing logistics costs, as well as by exporting petroleum products to neighbouring countries (Romania, Bulgaria, Macedonia, and Montenegro) where margin is higher than in distant export destinations.

Accomplishments in first six months of 2016

In June 2016 we began selling branded G-Drive diesel fuel on the Serbian market.

Since the end of 2015, we have been actively developing the loyalty program "With us on the Road" and by 30 June 2016, the totals of 269,200 cards have been assigned. A loyalty program for farmers is currently also being developed.

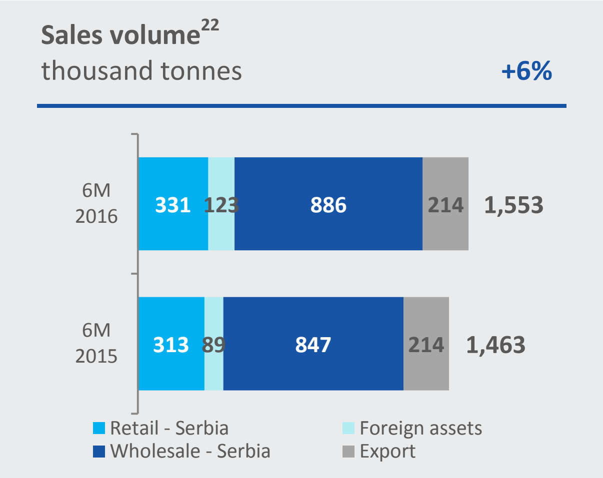
We have ensured import of new types of oil (*KIRKUK* and *FORCADOS*). For the existing types of oil (*REB* and *CPC*), better import premium has been obtained.

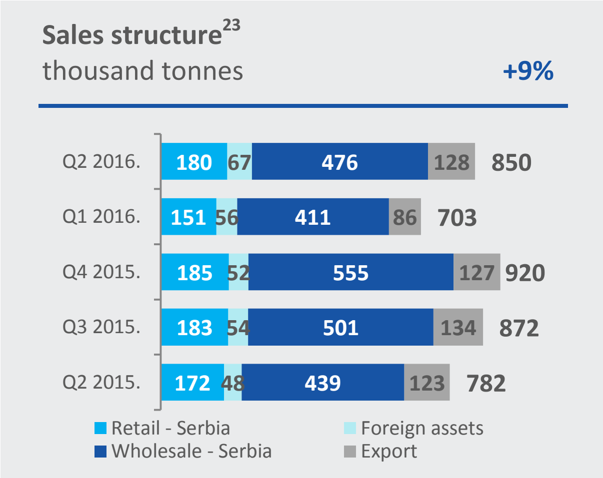
We have introduced 8 new auto-cisterns for transportation of aviation fuel into operation. A new locomotive for shunting station in Pancevo has been obtained and handed over for exploitation to the Refining Block together with the shunting station.

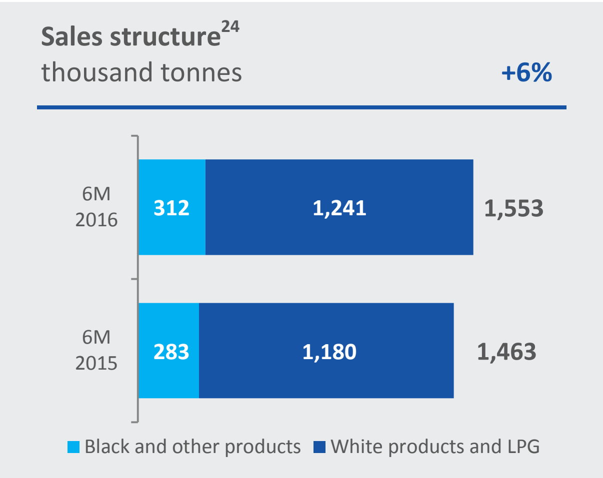
Operating indicators

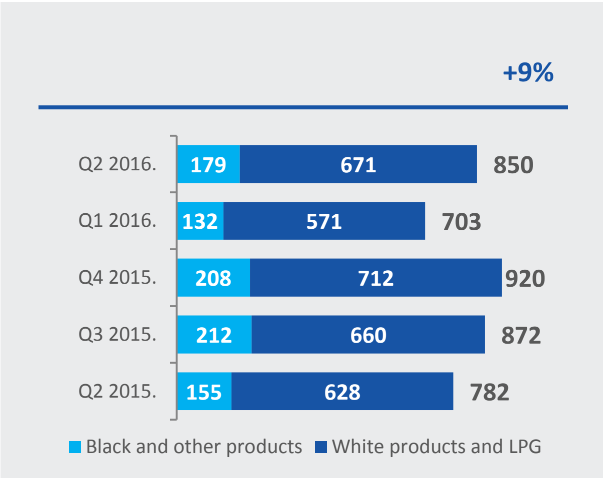
In the first six months of year 2016, we recorded a 6% growth in the turnover compared to the first six months in year 2015, so that the total turnover in Serbia in foreign assets amounted to 1,553 thousand tons.

- Retail in Serbia - retail volume increase of 6%.
  - Growth in retail sales was a result of 5% increase in sales of diesel fuel and 7% increase in the sales of gasoline. .
- Wholesale in Serbia - a 5% increase.
  - Increased sales of motor fuel by 4%
  - Increased sales of non-energy fuel by 12%
  - Decline in the turnover of heavy fuel oil is 1%
- Export - at the same level as in the first six months of last year
  - Stagnation in exports compared to 6 months in 2015 is a result of 6% increase in exports of non-energy fuel and a 5% drop in exports of motor fuel
- Foreign assets - in the first six months of 2016, the turnover of foreign assets in Bosnia and Herzegovina, Romania and Bulgaria recorded an increase of 38% and amounted to 122.6 thousand tons.
  - Increase in the sales of motor fuels by 38%, of which sales of diesel recorded 36% increase and sales of gasoline recorded 56% increase.









[22] Including internal sales (6M 2016: app. 6 thousand tonnes; 6M 2015: app. 7 thousand tonnes)
[23] Including internal sales
[24] Including internal sales (6M 2016: app. 6 thousand tonnes; 6M 2015: app. 7 thousand tonnes)

Energy

The year of 2016 was very successful for Energy Block. Its operating performance in the first half of the year posted a US$ 4.8 million EBITDA, which exceeds the first six months 2016 business plan by US$2.5 million. Activities on further business development and improvement of operational efficiency were continued.

Main priorities and initiatives for 2016

Principal objectives of Energy Block in 2016 are to further develop its business and monetise gas.

- The start of construction and equipment (140 MW) manufacturing for CHPP *Pančevo* project is expected in 2016, its commissioning is scheduled for the end of 2018. Within Plandište wind farm project Power Purchase Agreement was obtained (feed in), and by the end of 2016 the allocation of project funds, ordering of equipment and start of constructionis expected. in the field of business development the creation of a model and a platform to make a decision on the completion of *Kovin* (CHPP, coal extraction) and *Aleksinac* projects (oil shale extraction and processing) is in progress.
- As for the utilisation of gas in 2016, two power plants will be built and put in service on *Majdan* field (9.5 million m3 of gas annually, 2.4 MW). A compressed natural gas production plant is to be built and commissioned in *Ostrovo* (10.8 million Sm^3 of gas annually), as well as the construction and commissioning of CNG module at Čačak 1 petrol station (1.0 million Sm^3 of gas annually). New location for CNG production plant for retail was designated on teritory of Belgrade – PS Žarkovo 2. Start of the project implementation is expected by the end of 2016.

Accomplishments in first quarter of 2016

As in the first quarter, activities on Energy Block's projects were continued in the second quarter of this year.Construction of a low-capacity power station *Majdan* (2.4 MW) are drawing to an end. It is to become operational in August 2016. Following the confirmation of gas reserves and its quality at the low-capacity power station location in *Novo Miloševo* (9.8 MW), NTC reached an agreement with the company's *Exploration and Production* to design the project and oversee the execution of works.

A CNG dispensing plant was built at the *Čačak 1* refuelling station. The process of gaining approval for the measurement type by the Measurements and Precious Metals Directorate of the Republic of Serbia has been under way. The plant is to be put on stream by the end of July 2016. Construction works have been under way within the completion of the project to extract compressed natural gas from the deposit in *Ostrovo* (the extraction of gas was approved, the principal mining project is complete, access roads to the village of *Ostrovo* are in place, levelling of the surrounding area is done).

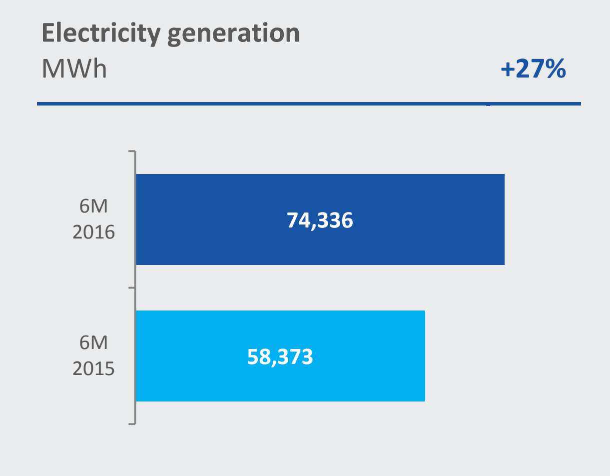
Invitation to bid for CHPP Pančevo project has been completed, bids assessment being under way. In the *Plandište* wind farm project the Power Purchase Agreement (feed-in) was obtained. The endorsement of pieces of legislation of the Republic of Serbia required to receive project funding is pending.

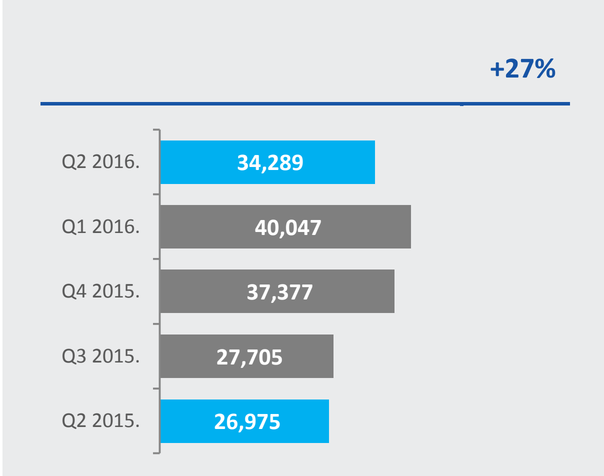
Documents have been drafted to start negotiations with Energy Ministry representatives concerning terms and conditions to gain rights to tap into the oil shale resources of the deposits in the environs of the town of *Aleksinac* and project delivery plan.

NIS trades electrical power in Serbia's market, but also partners in cross-border trade on Serbia's borders with Bosnia and Herzegovina, Macedonia, Hungary and Romania. NIS PETROL Srl, Bucharest, trades on Romania's *OPCOM* Stock Exchange and on Serbian border. Since mid-April *NIS j.s.c. Novi Sad* managed to partially (up to 25%) cater to its own needs in consumption within NIS balance group. The initial activities in Serbia's retail market have started. Over the course of these two years, as an initial market, the target group are consumers, who buy goods in state purchase. NIS Petrol S.r.l. continuously expands its partners network, this being a prerequisite to gain access to OTC market in Romania and start trading activity in Slovenia and along its borders. The registration process in Hungarian market has started.

Operating indicators

74.336 MWh of electricity was generated in the first half of 2016, whereby 13.7 million m^3 of non-commercial gas was consumed.



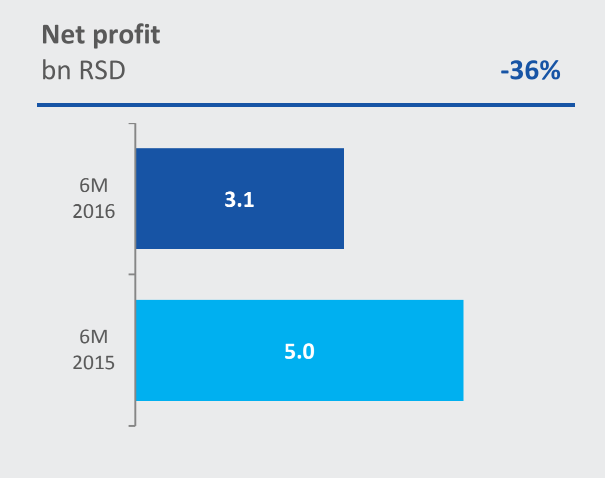


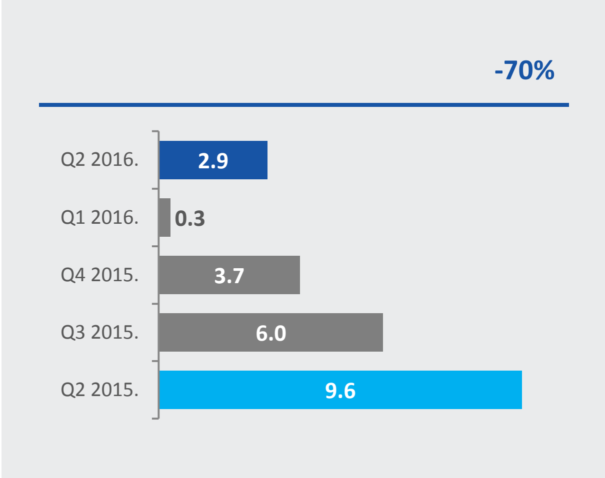
Financial Indicators

Unfavourable macroeconomic trends continued through second quarter of 2016. Despite this, we managed to achieve positive net result in amount of 3.1 billion RSD. The drop in retail prices of petroleum products by approximately 8%, despite the increase in sales volume, affected the decrease of sales revenues. Low crude oil prices had negative impact on EBITDA, which for the first six months of 2016 amounts to 13.2 billion RSD.

Net profit

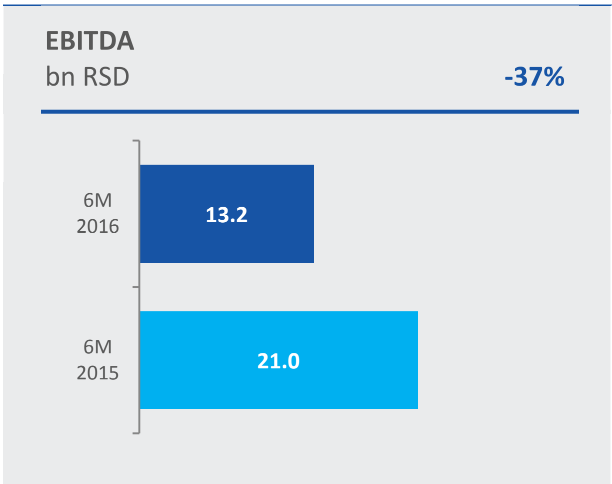
Although the prices of petroleum products remained on low level on global market, we recorded net profit of 3.1 billion RSD in first quarter of 2016. Continued implementation of measures for increasing of operational efficiency largely influenced positive result.

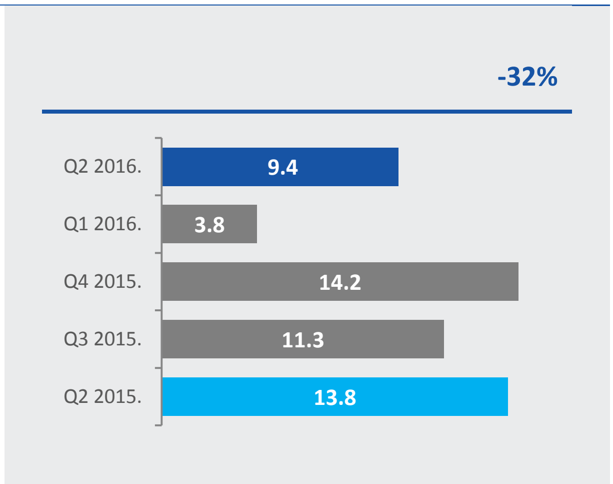




EBITDA

Negative impact of crude oil price (average crude oil price dropped by 33% compared to same period last year) continues to be reflected in EBITDA indicator.

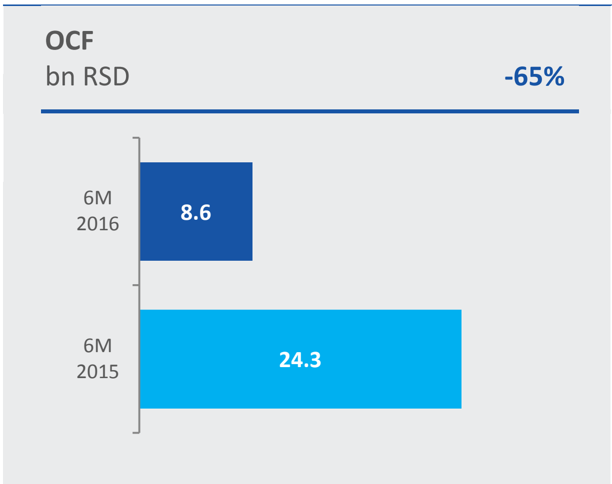


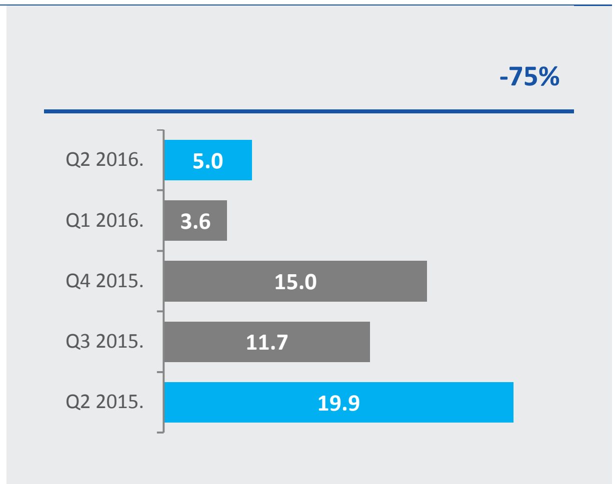


OCF

In the first six months of this year OCF is RSD 8.6 billion, which means a 65% decrease compared to the same period last year.

- lower inflows
- greater levies to be paid to the state and higher accounts payables, despite the lower levies for petroleum products and crude oil.



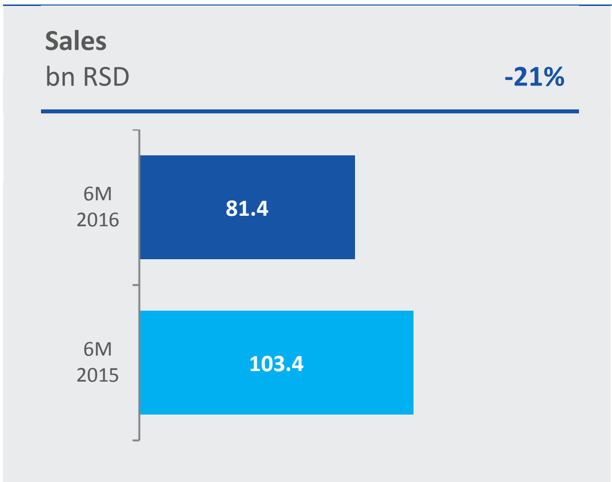


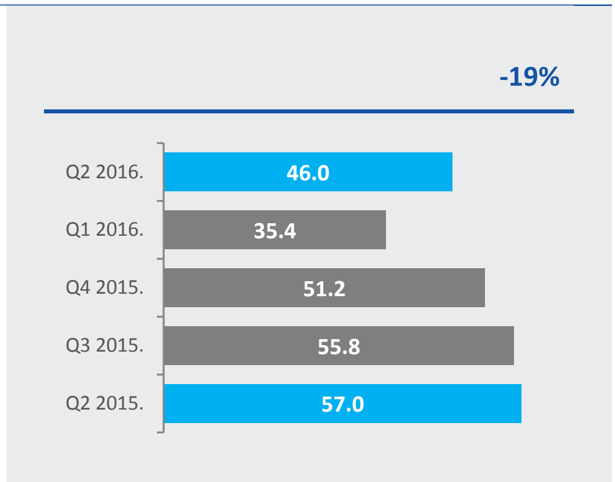
Sales

Average price of Urals crude oil amounts to 38.06 $/bbl in first six months of 2016, which is by 33% lower than average price of this type of crude oil in same period last year.

Average retail prices of petroleum products decreased by 7.9% in first six months of 2016 compared to first six months of 2015.

Changes in retail prices	$\Delta \frac{\text{6M 2016}}{\text{6M 2015}}$ (%)
Euro premium BB 95	-5.87%
Euro diesl	-9.79%





Ratio Indicators

Ratio Indicators		
	6M 2016	**6M 2015**
Return on total capital (Gross profit/total capital)	2%	4%
Net return on equity (Net profit/shareholders equity[25])	4%	6%
Operating net profit (operating profit/net sales income)	7%	15%
	6M 2016	**FY 2015**
Degree of leverage (short term and long term liabilities/total equity)	95%	92%
Degree of leverage (short term and long term liabilities/shareholders equity[26])	221%	215%
1st degree liquidity (cash and cash equivalents/short term liabilities)	19%	29%
2nd degree liquidity (current assets - inventories/short term liabilities)	75%	96%
Net working fund ratio (current assets – current liabilities/total assets)	3%	6%

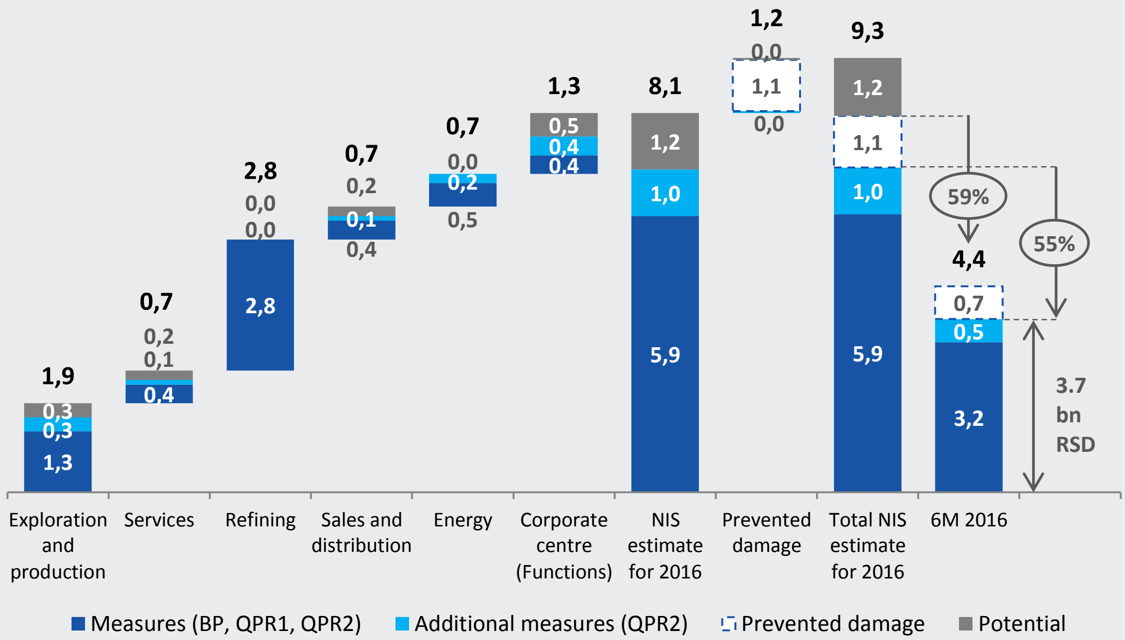
[25] shareholders equity = share capital
[26] shareholders equity = share capital

Improvement of Operational Efficiency

Estimated effect of measures for improvement of operational efficiency on EBITDA in 2016 is RSD 8.1 billion. In addition, the expected effect of the prevented damage is RSD 1.1 billion.

The effect of the measures for improvement of operational efficiency on EBITDA amounted to RSD 4.4 billion in the first six months of 2016, which is 59% of the expected effect for this year.

Effect of measures for improvement of operational efficiency on EBITDA
bn RSD

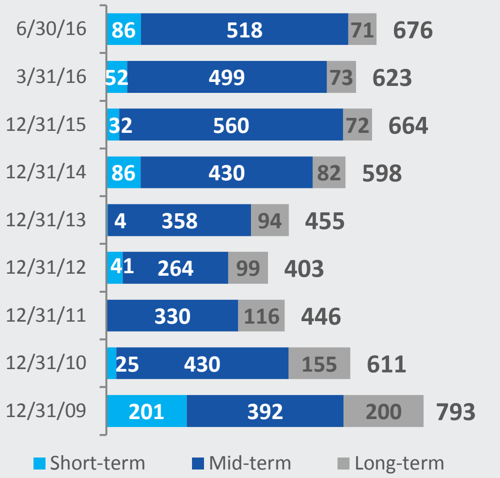


Indebtedness

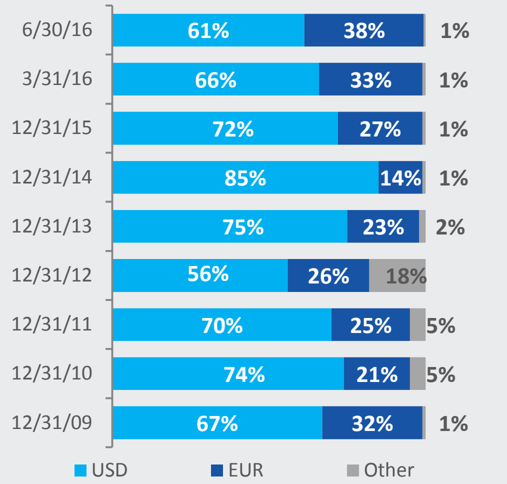
In Q2 2016, the debt towards banks increased slightly to the level of USD 676 mln. This increase resulted from drawdown of favourable loans from the banks belonging to the EU bank groups on the basis of import from the EU, in line with the exceptions stipulated by the current text of the EU sanctions. Dynamics of the loan drawdown is conditioned by the dynamics of import from the EU. Drawdown of the above loans provides the required funds for repayment of due loans by the end of 2016, i.e. 2017, and also for funding of regular business operations up to the level of authorized indebtedness.

Trend of diversifying of currency composition of credit portfolio by increasing the share of loans in euros and decreasing the share of loans in US dollars is continued. In addition, negotiations and finding long-term funding sources as well as finding sources for funding not limited by the sanctions is an on-going activity.

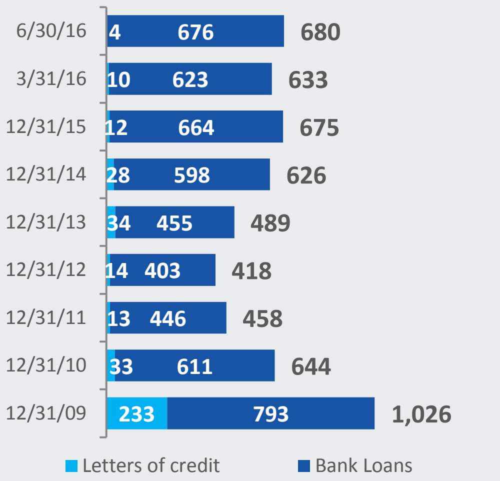
Total bank debt trends[27]
mn USD **+2%**



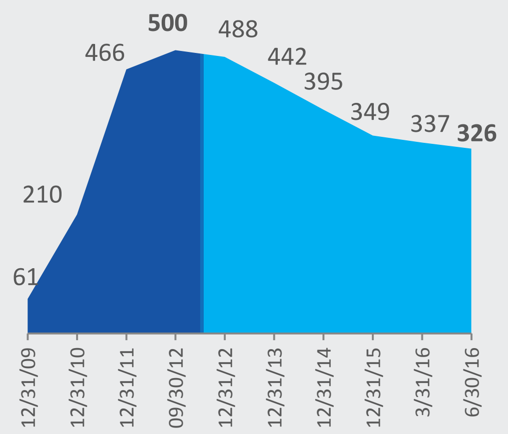
Total bank debt structure
by currencies, in percentage



Total bank indebtedness[28]
mn USD **+1%**



GPN Loan
mn EUR **-7%**



[27] Term structure of debt is shown according to contracts signed with banks and not by maturity of the debt as at June 30th , 2016.

[28] In addition to debt to banks and Letters of Credit, as at June 30th, 2016 *NIS j.s.c. Novi Sad* also holds issued bank guarantees in the amount of USD 28.1 million, corporate guarantees in the amount of USD 45.6 million and signed Letters of Intent in the amount of USD 0.3 million and finacial leasing in the amount of USD 2.1 million.

Investments

The Business Plan for 2016 and Mid-Term Investment Programme (hereinafter referred to as MIP) with a CAPEX investment plan 2016-2018 were adopted at the 13th meeting of the Board of Directors held on December 15th, 2015.

According to MIP, the main investment directions are related to the implementation of the following groups of projects: projects in the oil and gas production, refining, energy industry, projects in the field of sales and distribution, and a certain number of projects in the services and administration. NIS performed prioritization of its investment portfolio also in 2016 in order to achieve the maximum effect of investments. Selected projects include the highly profitable projects, projects generating a fast return on investments, and the projects whose postponement would have a negative effect on the generated profit.

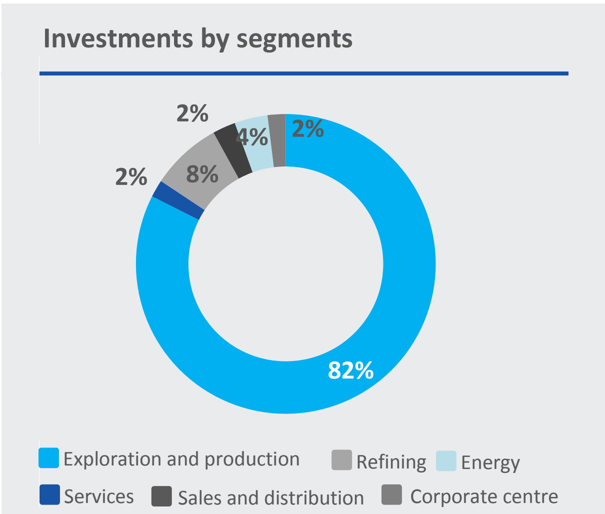
In the first six months of 2016 the amount of RSD 9.11 billion[29] was allocated for investments financing, which is less than the amount allocated in the same period in 2015 by 27%. The most important investments in oil and gas production in 2016 included:

- Drilling of development wells
- Investment in geological and technical measures
- Infrastructure projects and projects in gas business
- Geological exploration projects
- Investments in concession rights

The biggest investments in the *Refining Block* were allocated for the bottom-of-the-barrel project and the investment maintenance program, while the most significant capital investments are related to the environmental protection in the Oil Refinery in Pančevo:

- Project for ejection gas scrubbing at S-2200 (reduction in SOx emissions)
- Reduction of NO_x emission in flue gases from the Energy Plant
- Reconstruction and improvement of the sewage system and waste water treatment plant

Investment funding by project type[30]	6M 2016	6M 2015
Environmental protection	0.06	0.25
Angola	0.10	0.29
Projects with direct economic effect	6.67	9.39
Projects without direct economic effect	1.91	2.30
Project research works	0.36	0.28
Total:	**9.11**	**12.51**



[29] *NIS j.s.c. Novi Sad* with its subsidiaries, excluding NIS Overseas o.o.o. Sankt Peterburg and NIS – Svetlost d.o.o. Bujanovac.
[30] In billions of RSD, VAT excluded.

Taxes and other Public Revenues

Analytical review of accrued liabilities from taxes and other public revenues[31]			
NIS j.s.c. Novi Sad	**6M 2016**	**6M 2015**	**$\Delta \frac{6M\ 2016}{6M\ 2015}$ (%)**
Social insurance contributions paid by employer	0.72	0.73	-1%
Corporate tax	0.54	0.84	-35%
Value-added tax	9.49	10.41	-9%
Excise duties	51.91	45.40	14%
Commodity reserves fee	3.00	2.90	3%
Customs duties	0.19	0.18	3%
Royalty	0.47	0.81	-42%
Other taxes	0.63	0.67	-6%
Total	**66.94**	**61.93**	**8%**
NIS subsidiaries in Serbia[32]			
Social insurance contributions paid by employer	0.24	0.26	-10%
Corporate tax	0.01	0.07	-79%
Value-added tax	0.34	0.24	43%
Excise duties	0.00	0.00	-
Customs duties	0.02	0.05	-52%
Royalty	0.00	0.00	-
Other taxes	0.04	0.03	48%
Total	**0.66**	**0.64**	**2%**
Total *NIS j.s.c. Novi Sad* with subsidiaries in Serbia	**67.6**	**62.58**	**8%**
NIS regional subsidiaries and Angola and Turkmenistan			
Social insurance contributions paid by employer	0.03	0.06	-49%
Corporate tax	0.09	0.21	-60%
Value-added tax	0.57	0.35	64%
Excise duties	4.89	3.25	50%
Customs duties	2.87	0.36	697%
Royalty	0.00	0.00	-
Other taxes	0.05	0.07	-21%
Total	**8.50**	**4.30**	**98%**
Deferred taxes (total for Group)	0.20	0.37	-46%
Total NIS Group[33]	**76.31**	**67.25**	**13%**

The accrued liabilities from public revenues paid by *NIS j.s.c. Novi Sad* with its subsidiaries established from NIS' organisational structure[34] in Serbia for first six monhts 2016 total RSD 67.6 billion, which represents an increase of RSD 5.02 billion i.e. 8% on the same period last year. The increase is mainly caused by increase in excise tax for *NIS j.s.c. Novi Sad* as Serbian Government increased excise tax (for 2,5 RSD/l for gasoline, for 4 RSD/l for diesel and for 1 RSD/kg for LPG). In addition, because of the planned overhaul in Pančevo Rafinery NIS increased its inventories in order to secure market supply during overhaul i.e in third quarter of 2016. This increase in production of petroleum products also led to increase of excise tax.

The accrued liabilities from public revenues paid by NIS Group for first six monhts 2016 total RSD 76.31 billion, which represents an increase of RSD 9.05 billion i.e. 13% on the same period in 2015.

[31] In billions of RSD.

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

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

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

Securities

Share Capital Structure

NIS j.s.c. Novi Sad share capital amounts to RSD 81.53 billion and is divided into a total of 163,060,400 shares with a nominal value of 500.00 RSD. All issued shares are common stock, which grants the following rights to their holders:

- Right to participate and vote at the shareholders' assembly sessions, according to one-share-one vote rule;
- Right to dividend in compliance with applicable regulations;
- Right to a share in the distribution of the liquidation stock or bankruptcy estate in compliance with the bankruptcy law;
- Pre-emption right to buy a new issue of common stock and other financial instruments tradable for common stock;
- Other rights in accordance with the Company Law and Company documents.

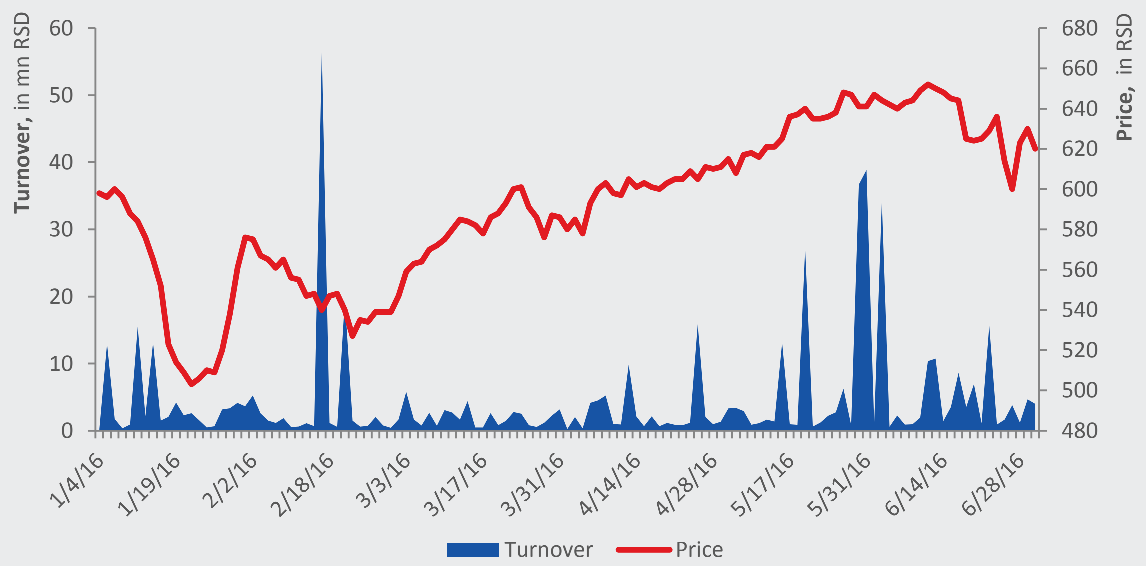
Top 10 shareholders with the largest percentage in share capital are mainly custody accounts:

Shareholders' name	No. of shares	% in share capital
PJSC "Gazprom Neft"	91,565,887	56.15%
Republic of Serbia	48,712,074	29.87%
Societe Generale banka Srbija – custody account	819,457	0.50%
UniCredit Bank Srbija a.d. – custody account	556,015	0.34%
Raiffeisen banka a.d. Beograd – custody account	326,815	0.20%
Aktiv-fond d.o.o.	229,083	0.14%
AWLL communications d.o.o. Belgrade	227,352	0.14%
UniCredit Bank Srbija a.d. – collective account	223,801	0.14%
Global Macro Capital Opportunities	216,465	0.13%
Keramika Jovanović d.o.o. Zrenjanin	203,824	0.12%
Other shareholders	19,979,627	12.25%
	Total number of shareholders as at June 30th, 2016:	**2,157,099**

Share Trading and Indicators per Share

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

Price and turnover trends in first six months of 2016



Overview of trading in *NIS j.s.c. Novi Sad* shares at Belgrade Stock Exchange in first six months of 2016	
Last price (June 30th , 2016)	620 RSD
Highest price (June 13th, 2016)	658 RSD
Lowest price (January 21st, 2016)	500 RSD
Total turnover	545,485,729 RSD
Total volume (number of shares)	911,865 shares
Total number of transactions	15,049 transactions
Market cap as at June 30th , 2016	101,097,448,000.00 RSD
EPS	24.21 RSD
Consolidated EPS	19.30 RSD
P/E ratio	25.59
Consolidated P/E ratio	32.13
Book value as at June 30th, 2016	1,244.55 RSD
Consolidated book value as at June 30th, 2016	1,162.08 RSD
P/BV ratio	0.50
Consolidated P/BV ratio	0.53

In first six months of 2016, there were no acquisitions of treasury shares by the Company.

Dividends

NIS j.s.c. Novi Sad dividend policy is based on a balanced approach which takes into account the necessity of profit retention for investment funding purposes, the rate of return of the invested capital and the amount for dividend payment. The long-term dividend policy stipulates that a minimum of 15% of net profit is to be paid to shareholders in the form of dividends.

When deciding on profit distribution and dividend payment, the Company management takes into consideration a number of factors, including the financial standing, investment plans, loan repayment obligations, macroeconomic environment and legislation. Each of these factors, either individually or combined, if carrying sufficient weight, may affect the proposed dividend payment.

	2009	2010	2011	2012	2013	2014	2015
Net profit (loss), million RSD[35]	(4.4)	16.5[36]	40.6[37]	49.5	52.3	30.6	16.1
Total amount of dividend, million RSD	0.00	0.00	0.00	12.4	13.1	7.6	4.0
Payment ratio	-	-	-	25%	25%	25%	25%
Earnings per share, in RSD	-	101.1	249.0	303.3	320.9	187.4	98.8
Dividend per share, gross, in RSD	0.00	0.00	0.00	75.83	80.22	46.85	24.69
Share price as at December 31st, in RSD	-	475	605	736	927	775	600
Shareholders' dividend yield, in %[38]	-	-	-	10.3	8.7	6.0	4.1

Overview of Financial Instruments Used by the Group

Due to its exposure to foreign exchange risk, NIS Group practises forward transactions on the foreign exchange market as the instrument to manage this type of risk.

As the parent company of the entire Gazprom Neft Group, which includes *NIS j.s.c. Novi Sad* and its subsidiaries, PJSC "Gazprom Neft" manages the commodity hedging instruments at the level of Gazprom Neft Group and decides if it is necessary to use specific commodity hedging instruments.

[35] Net profit of *NIS j.s.c. Novi Sad*
[36] Net profit used for covering accumulated losses
[37] Net profit used for covering accumulated losses
[38] Calculated as the ratio of gross dividend and year-end share price

Human Resources

Number of employees

Organisational unit	June 30th, 2016			June 30th, 2015		
	Employees[39]	Leasing	Total	Employees[40]	Leasing	Total
NIS j.s.c. Novi Sad	**3,898**	**3,478**	**7,376**	**3,938**	**3,421**	**7,359**
Exploration and Production Block	781	219	1,000	772	204	976
Services Block	91	23	114	105	18	123
Refining Block	786	35	821	829	46	875
Sales and Distribution Block	960	2,723	3,683	934	2,654	3,588
Energy Block	242	19	261	234	15	249
The Corporate Centre	1,038	459	1,497	1,064	484	1,549
Representative offices and branches	**60**	**3**	**63**	**64**[41]	**4**	**68**
Subsidiaries in the country	**1,408**	**1,465**	**2,873**	**1,411**	**1,466**	**2,877**
Naftagas – Oilfield Services[42]	610	707	1,317	590	726	1,316
Naftagas – Technical Services	401	476	877	420	456	876
Naftagas - Transport	103	261	364	110	255	365
STC NIS Naftagas	294	21	315	291	29	320
Subsidiaries abroad	**96**	**1**	**97**	**132**	**0**	**132**
NIS Petrol, Bulgaria	42	0	42	77	0	77
NIS Petrol, Romania	30	0	30	30	0	30
NIS Petrol, B&H	17	0	17	15	0	15
Jadran Naftagas, B&H	6	0	6	6	0	6
Panon Naftagas, Hungary	1	1	2	4	0	4
Other subsidiaries	**524**	**107**	**631**	**260**	**156**	**416**
O Zone a.d. Beograd	6	104	110	5	93	0
NIS Overseas o.o.o. Saint Petersburg	122	0	122	118	0	98
NIS – Svetlost d.o.o. Bujanovac	15	0	15	15	3	118
G – Petrol d.o.o. Sarajevo	381	3	384	122	60	182
NIS j.s.c. Novi Sad	**5,986**	**5,054**	**11,040**	**5,805**	**5,047**	**10,852**

The Basis for Employment Termination

In first six months of 2016 a total of 128 employees left NIS Group: 8 employees were retired, 37 employees left NIS Group by mutual agreement, and for 83 of employees the basis for the termination of employment was different in nature (termination of employment contract, termination of employment at the request of the employee, redundancy program, death of the employee etc.)

Basis	*NIS j.s.c. Novi Sad*[43]	Subsidiaries in Serbia
Retirement	6	2
Termination of employment by mutual agreement	32	5
Other	56	27
Total:	**94**	**34**

[39] The headcount includes employees through the "NIS Chance" programme.
[40] The headcount includes employees through the "NIS Chance" programme.
[41] Due to the harmonization of data at the end of 2015, number of employees in the branch in Turkmenistan for 2015 was corrected.
[42] Inclusive of the employees in branches.
[43] Representative and branch offices included.

Research and Development

The introduction and efficient use of new technologies is one of the priorities of NIS development in all business areas, from production and refining to human resources. Equipment modernization, innovative approach and preparation of up-to-date technologies are the prerequisite for advancement, competitiveness and taking on the regional leadership. NIS constantly modernizes its operations in the field of oil and gas business, introduces and upgrades new methods of oil and gas exploitation, constructs new refining units, automates its operations, and develops and modernizes the retail network.

In the field of exploration and development, the Rulebook on Planning, Execution, and Control of Innovative, Scientific, Research, Development and Technological Studies (SRDW) in *NIS j.s.c. Novi Sad*, in the Science and Technology Council, has been formed under the competence of *NIS j.s.c. Novi Sad* General Director, which convenes sessions on a quarterly basis; whereas the Research and Development Section has been formed within the Science and Technology Center, which performs tasks of science and research project coordination and execution.

In the NIS Group, the research and development activity is organized within subsidiary "STC NIS Naftagas" d.o.o. Novi Sad, which, in synergy with PJSC "Gazprom Neft", uses resources and technology of the parent company, and performs two functions:

- Coordinator of science and research activities, and
- Executor of science and research activities.

FINANCIAL STATEMENTS

Stand-alone Financial Statements

Statement of Financial Position

	Note	30 June 2016 *(unaudited)*	31 December 2015 *(audited)*
Assets			
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**

In thousand RSD

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

Statement of Profit And Loss and Other Comprehensive Income

	Note	Three month period ended 30 June 2016 (unaudited)	2015 (unaudited)
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 espense		(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

in thousand RSD

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

Three month period ended 30 June 2016 and 2015

(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 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**
Loss for the period	-	-	3,950,101	3,950,101
Other comprehensive income				
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 transactions 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**

in thousand RSD

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

	Six months period ended 30 June	
	2016	**2015**
	(unaudited)	*(unaudited)*
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**
Changes in working capital:		
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
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)
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**

in thousand RSD

The accompanying notes are an integral part of these financial statements.

Notes to Stand-alone Financial Statements[44]

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") 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 months 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.

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[44] 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 January 1, 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 amandments 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.

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 months 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 months period ended 30 June 2016 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
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	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**

Reportable segment results for the six months 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 months period ended 30 June 2016 and 2015 is reconciled below:

	Six months 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 months period ended 30 June 2016		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	597,730	597,730
Sale of gas	1,491,599	-	1,491,599
Through a retail network	-	-	-
Wholesale activities	1,491,599	-	1,491,599
Sale of petroleum products	56,132,313	11,219,881	67,352,194
Through a retail network	19,404,476	-	19,404,476
Wholesale activities	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**

	Six months 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
Through a retail network	-	-	-
Wholesale activities	4,779,868	-	4,779,868
Sale of petroleum products	73,647,685	14,770,120	88,417,805
Through a retail network	23,162,461	-	23,162,461
Wholesale activities	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 months period ended 30 June	
	2016	2015
Sale of crude oil	597,730	1,740,490
Sale of petroleum products (retail and wholeasle)		
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**

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	
Less impairment provision for trade and other receivables:		
- third parties	(10,007,147)	(10,001,877)
- state and state owned companies	(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**

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

	Trade&other receivables		
	Third parties	State and state owned companies	Total
As at 1 January 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**

Deferred VAT as at 30 June 2016 amounting to 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**

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 assets 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 assets 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**

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**

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
Less impairment provision for trade and other non-current receivables:		
- third parties	(59)	(76,849)
- state and state owned companies	(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 16)	18,171,217	13,417,421
Current portion of finance lease liabilities (note 16)	7,078	-
	28,351,236	**17,865,941**

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	12,763
	3,040,885	**5,782,079**

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.

(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 months 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**

20. PRODUCTION AND MANUFACTURING EXPENSES

	Six months 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 months 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.

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 months 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.

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**

	Subsidiaries	Parent company	Entities under common control	Total
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)**

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

	Subsidiaries	Parent company	Entities under common control	Total
Six 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)**
Six month periods 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 months period ended 30 June 2016 and 2015 is shown in the table below:

	Six months 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.

Consolidated Financial Statements

Consolidated Statement of Financial Position

	Note	30 June 2016 *(unaudited)*	31 December 2015 *(audited)*
Assets			
Current assets			
Cash and cash equivalents	6	15,794,618	19,271,435
Short-term financial assets		295,504	201,087
Trade and other receivables	7	34,849,957	34,948,713
Inventories	8	31,702,770	24,178,244
Current income tax prepayments		1,456,043	1,629,761
Other current assets	9	8,109,595	6,225,886
Assets classified as held for sale		11,621	21,703
Total current assets		**92,220,108**	**86,476,829**
Non-current assets			
Property, plant and equipment	10	249,021,575	247,213,423
Investment property		1,518,313	1,336,060
Goodwill and other intangible assets		6,903,732	7,155,279
Investments in joint venture		1,188,659	1,188,659
Trade and other non-current receivables	11	11,248,650	14,656,649
Long-term financial assets		202,219	321,006
Deferred tax assets		4,065,183	4,268,741
Other non-current assets	12	2,998,903	3,399,135
Total non-current assets		**277,147,234**	**279,538,952**
Total assets		**369,367,342**	**366,015,781**
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	13	27,953,057	17,135,875
Trade and other payables	14	36,309,858	29,364,018
Other current liabilities	15	3,634,548	6,537,802
Other taxes payable	16	11,479,373	10,445,185
Provisions for liabilities and charges		2,242,468	2,256,470
Total current liabilities		**81,619,304**	**65,739,350**
Non-current liabilities			
Long-term debt	17	88,477,350	100,313,640
Provisions for liabilities and charges		9,781,637	9,451,111
Total non-current liabilities		**98,258,987**	**109,764,751**
Equity			
Share capital	18	81,530,200	81,530,200
Reserves		(671,151)	(530,528)
Retained earnings		108,832,335	109,698,142
Equity attributable to the Company's owners		**189,691,384**	**190,697,814**
Non-controlling interest		(202,333)	(186,134)
Total equity		**189,489,051**	**190,511,680**
Total liabilities and shareholder's equity		**369,367,342**	**366,015,781**

in thousand RSD

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

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	Six months period ended 30 June 2016 *(unaudited)*	2015 *(unaudited)*
Sales of petroleum products and oil and gas sales		73,879,723	99,132,126
Other revenues		7,490,753	4,266,577
Total revenue from sales	5	**81,370,476**	**103,398,703**
Purchases of oil, gas and petroleum products	19	(41,792,362)	(58,957,117)
Production and manufacturing expenses	20	(12,413,860)	(9,422,209)
Selling, general and administrative expenses	21	(11,093,552)	(10,776,522)
Transportation expenses		(516,243)	(368,842)
Depreciation, depletion and amortization		(7,826,328)	(6,789,017)
Taxes other than income tax		(2,241,084)	(2,629,035)
Exploration expenses		-	(6,972)
Total operating expenses		**(75,883,429)**	**(88,949,714)**
Other income/(expenses), net		141,767	(853,256)
Operating profit		**5,628,814**	**13,595,733**
Net foreign exchange loss		(232,269)	(5,562,495)
Finance income		124,499	133,976
Finance expenses		(1,530,492)	(1,731,606)
Total other expense		**(1,638,262)**	**(7,160,125)**
Profit before income tax		**3,990,552**	**6,435,608**
Current income tax expense		(641,049)	(1,113,367)
Deferred tax expense		(202,753)	(372,131)
Total income tax expense		**(843,802)**	**(1,485,498)**
Profit for the period		**3,146,750**	**4,950,110**
Other comprehensive profit (loss):			
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		(2,369)	18,497
Currency translation differences		(141,049)	(119)
		(143,418)	18,378
Other comprehensive (loss)/profit for the period		**(143,418)**	**18,378**
Total comprehensive income for the period		**3,003,332**	**4,968,488**
Profit attributable to:			
- Shareholders of Naftna Industrija Srbije		3,160,154	4,964,880
- Non-controlling interest		(13,404)	(14,770)
Profit (loss) for the period		**3,146,750**	**4,950,110**
Total comprehensive income (loss) attributable to:			
- Shareholders of Naftna Industrija Srbije		3,019,531	4,982,723
- Non-controlling interest		(16,199)	(14,235)
Total comprehensive income for the period		**3,003,332**	**4,968,488**
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		19.38	30.45
Weighted average number of ordinary shares in issue (in millions)		163	163

in thousand RSD

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

Consolidated Statement of Changes in Equity

Three month period ended 30 June 2016 and 2015

	Equity attributable to the Company's owners					
(unaudited)	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2015	**81,530,200**	**(452,813)**	**102,696,156**	**183,773,543**	**(153,042)**	**183,620,501**
Profit /(loss) or the period	-	-	4,964,880	4,964,880	(14,770)	4,950,110
Other comprehensive income/(loss)						
Change in value of available-for-sale financial assets	-	18,497	-	18,497	-	18,497
Currency translation differences	-	(654)	-	(654)	535	(119)
Total comprehensive income (loss) for the period	-	17,843	4,964,880	4,982,723	(14,235)	4,968,488
Dividend distribution	-	-	(7,639,380)	(7,639,380)	-	(7,639,380)
Total transaction with owners, recorded in equity	-	-	(7,639,380)	(7,639,380)	-	(7,639,380)
Other	-	-	(2,065)	(2,065)	-	(2,065)
Balance as at 30 June 2015	**81,530,200**	**(434,970)**	**100,019,591**	**181,114,821**	**(167,277)**	**180,947,544**
Balance as at 1 January 2016	**81,530,200**	**(530,528)**	**109,698,142**	**190,697,814**	**(186,134)**	**190,511,680**
Profit(loss) for the period	-	-	3,160,154	3,160,154	(13,404)	3,146,750
Other comprehensive income/ (loss)						
Change in value of available-for-sale financial assets	-	(2,369)	-	(2,369)	-	(2,369)
Currency translation differences	-	(138,254)	-	(138,254)	(2,795)	(141,049)
Total comprehensive income (loss) for the period	-	(140,623)	3,160,154	3,019,531	(16,199)	3,003,332
Dividend distribution	-	-	(4,025,961)	(4,025,961)	-	(4,025,961)
Balance as at 30 June 2016	**81,530,200**	**(671,151)**	**108,832,335**	**189,691,384**	**(202,333)**	**189,489,051**

in thousand RSD

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

Consolidated Statement of Cash Flows

	Six month period ended 30 June	
	2016 *(unaudited)*	**2015** *(unaudited)*
Cash flows from operating activities		
Profit before income tax	**3,990,552**	**6,435,608**
Adjustments for:		
Finance costs	1,530,492	1,731,606
Finance income	(124,499)	(133,976)
Depreciation, depletion and amortization	7,826,328	6,789,017
Adjustments for other provisions	242,843	199,536
Allowance for doubtful accounts	249,825	72,285
Payables write off	(36,310)	(275,187)
Net unrealised foreign exchange losses	1,096,932	4,214,557
Other non-cash items	(240,325)	279,719
	10,545,286	**12,877,557**
Changes in working capital:		
Trade and other receivables	3,506,752	97,288
Inventories	(7,570,181)	11,300,958
Other current assets	(2,489,259)	2,225,748
Trade payables and other current liabilities	1,233,685	(5,316,547)
Other taxes payable	1,047,623	580,236
	(4,271,380)	**8,887,683**
Income taxes paid	(466,559)	(2,661,258)
Interest paid	(1,484,073)	(1,498,274)
Interest received	239,203	259,547
	(1,711,429)	**(3,899,985)**
Net cash generated by operating activities	**8,553,029**	**24,300,863**
Cash flows from investing activities		
Loans issued	(67,549)	(386,333)
Capital expenditures	(10,344,606)	(14,685,113)
Proceeds from sale of property, plant and equipment	292,094	81,652
Other inflow	89,783	37
Net cash used in investing activities	**(10,030,278)**	**(14,989,757)**
Cash flows from financing activities		
Proceeds from borrowings	8,382,322	15,918,666
Repayment of borrowings	(10,447,013)	(22,523,400)
Net cash used in financing activities	**(2,064,691)**	**(6,604,734)**
Net (decrease) increase in cash and cash equivalents	(3,541,940)	2,706,372
Effect of foreign exchange on cash and cash equivalents	65,123	(47,172)
Cash and cash equivalents as of the beginning of the period	19,271,435	8,326,704
Cash and cash equivalents as of the end of the period	**15,794,618**	**10,985,904**

in thousand RSD

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

Notes to Consolidated Financial Statements[45]

1. GENERAL INFORMATION

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

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

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 Consolidated Financial Statements have been approved and authorized for issue by Chief Executive Officer and will be presented to Board of Directors for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

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

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

The Group does not disclose information which would substantially duplicate the disclosures contained in its audited Consolidated Financial Statements for 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 Group believes that the disclosures in these Interim Condensed Consolidated Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Consolidated Financial Statements are read in conjunction with the Group's Consolidated Financial Statements for 2015.

The results for the six months 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 Consolidated Financial Statements are consistent with those applied during the preparation of Consolidated Financial Statements as of and for the year ended 31 December 2015, except for those described in Application of new IFRS paragraph.

[45] 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 Group's Consolidated Financial Statements.

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

- 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 January 1, 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 Group has not early adopted. The full list of such Standards and interpretations was disclosed in the Consolidated Financial Statements as of and for the year ended 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.

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 Group's Consolidated Financial Statements.

5. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the six months 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 Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas and oil field services. Downstream segment (refining and marketing) processes crude oil into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre 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 Group's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Group's on-going operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	16,854,439	82,196,998	(17,680,961)	81,370,476
Intersegment	16,109,935	1,571,026	(17,680,961)	-
External	744,504	80,625,972	-	81,370,476
EBITDA (Segment results)	10,018,335	3,162,988	-	13,181,323
Depreciation, depletion and amortization	(3,079,371)	(4,746,957)	-	(7,826,328)
Reversal surpluses	-	163,058	-	163,058
Net foreign exchange loss	(2,378)	(229,891)	-	(232,269)
Finance expenses, net	(61,776)	(1,344,217)	-	(1,405,993)
Income tax	(833,595)	(10,207)	-	(843,802)
Segment profit (loss)	**6,769,442**	**(3,622,692)**	**-**	**3,146,750**

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	28,924,193	102,192,824	(27,718,314)	103,398,703
Intersegment	26,945,653	772,661	(27,718,314)	-
External	1,978,540	101,420,163	-	103,398,703
EBITDA (Segment results)	21,410,985	(402,191)	-	21,008,794
Depreciation, depletion and amortization	(2,134,025)	(4,654,992)	-	(6,789,017)
Impairment losses	-	(200,994)	-	(200,994)
Net foreign exchange loss	4,637	(5,567,132)	-	(5,562,495)
Finance expenses, net	(60,641)	(1,536,989)	-	(1,597,630)
Income tax	(49,612)	(1,435,886)	-	(1,485,498)
Segment profit (loss)	**18,455,140**	**(13,505,030)**	**-**	**4,950,110**

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

	Six months period ended 30 June	
	2016	2015
Profit for the period	3,146,750	4,950,110
Income tax expenses	843,802	1,485,498
Finance expenses	1,530,492	1,731,606
Finance income	(124,499)	(133,976)
Depreciation, depletion and amortization	7,826,328	6,789,017
Net foreign exchange loss	232,269	5,562,495
Other (income)/expense, net	(141,767)	853,256
Other non-operating income, net*	(132,052)	(229,212)
EBITDA	**13,181,323**	**21,008,794**

*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 months period ended 30 June 2016		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	597,730	597,730
Sale of gas	1,487,364	-	1,487,364
Through a retail network	-	-	-
Wholesale activities	1,487,364	-	1,487,364
Sale of petroleum products	56,132,312	15,662,317	71,794,629
Through a retail network	19,404,476	-	19,404,476
Wholesale activities	36,727,836	15,662,317	52,390,153
Sale of electricity	364,195	2,747,601	3,111,796
Other sales	2,852,739	1,526,218	4,378,957
Total sales	**60,836,610**	**20,533,866**	**81,370,476**

	Six months 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	4,770,769	-	4,770,769
Through a retail network	-	-	-
Wholesale activities	4,770,769	-	4,770,769
Sale of petroleum products	73,373,633	19,247,234	92,620,867
Through a retail network	23,162,461	-	23,162,461
Wholesale activities	50,211,172	19,247,234	69,458,406
Sale of electricity	184,683	157,481	342,164
Other sales	2,232,653	1,691,760	3,924,413
Total sales	**80,561,738**	**22,836,965**	**103,398,703**

Out of the amount of 52,390,153 RSD (2015: 69,458,406 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 3,241,212 RSD (2015: 2,828,881 RSD).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 60,836,610 RSD (2015: 80,561,738 RSD), and the total of revenue from external customer from other countries is 20,533,866 RSD (2015: 22,836,965 RSD).

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

	Six months period ended 30 June	
	2016	2015
Sale of crude oil	597,730	1,740,490
Sale of petroleum products (retail and wholeasle)		
Bulgaria	4,362,556	5,098,773
Bosnia and Herzegovina	3,049,289	4,310,182
Romania	3,432,176	2,748,444
All other markets	4,818,296	7,089,835
	15,662,317	19,247,234
Sales of electricity	3,111,796	342,164
Other sales	1,162,023	1,507,077
	20,533,866	**22,836,965**

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

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

	30 June 2016	31 December 2015
Serbia	234,290,981	232,868,821
Bulgaria	8,188,489	8,246,434
Bosnia and Herzegovina	8,104,807	8,152,524
Romania	6,859,343	6,436,983
	257,443,620	**255,704,762**

6. CASH AND CASH EQUIVALENTS

	30 June 2016	31 December 2015
Cash in bank and in hand	13,573,316	11,302,285
Deposits with original maturity of less than three months	572,670	6,385,304
Cash held on escrow account	1,647,656	1,562,453
Cash equivalents	976	21,393
	15,794,618	**19,271,435**

Cash held on escrow accounts as of 30 June 2016 amounting to 1,647,656 RSD (31 December 2015: 1,562,453 RSD) mainly relate to deposited funds in accordance with share purchase agreement with Energowind doo (through which the operation of future wind farm ''Plandiste' will be managed).

7. TRADE AND OTHER RECEIVABLES

	30 June 2016	31 December 2015
Trade receivables:		
- related parties	639,369	253,057
- third parties	30,052,842	29,781,907
- state and state owned companies	19,164,105	19,369,662
	49,856,316	49,404,626
Other receivables:		
- third parties	17,958	209,227
- state and state owned companies	10,648,823	10,314,622
	10,666,781	10,523,849
Accrued assets	93,094	660,401
	60,616,191	60,588,876
Less impairment provision for trade and other receivables:		
- third parties	(9,865,752)	(9,862,727)
- state and state owned companies	(15,900,482)	(15,777,436)
	(25,766,234)	(25,640,163)
Total trade and other receivables	**34,849,957**	**34,948,713**

The ageing of trade and other receivables is as follows:

	30 June 2016	31 December 2015
Neither impaired nor past due	20,383,381	27,139,823
Past due but not impaired:		
within 30 days:	2,308,351	1,831,215
1 to 3 months	2,407,555	1,200,167
3 months to 1 year	7,278,832	2,198,059
over 1 year	2,471,838	2,579,449
Total	**34,849,957**	**34,948,713**

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

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

	30 June 2016	31 December 2015
RSD	44,000,044	41,704,312
EUR	14,418,005	16,348,409
USD	1,034,861	1,507,433
Other	1,163,281	1,028,722
	60,616,191	**60,588,876**

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

	Trade&other receivables		
	Third parties	State and state owned companies	Total
As at 1 January 2015	10,062,347	19,522,269	29,584,616
Provision for receivables impairment	45,809	72,669	118,478
Unused amounts reversed	(101,871)	(27,992)	(129,863)
Receivables written off during the year as uncollectible	(8,456)	(1,331,961)	(1,340,417)
Exchange differences	-	(23,866)	(23,866)
Other	(25,052)	20,478	(4,574)
As at 30 June 2015	**9,972,777**	**18,231,597**	**28,204,374**
As at 1 January 2016	9,862,727	15,777,436	25,640,163
Provision for receivables impairment	52,225	47,615	99,840
Unused amounts reversed	(50,103)	(34,254)	(84,357)
Receivables written off during the year as uncollectible	(326)	(3,854)	(4,180)
Exchange differences	54	113,539	113,593
Other	1,175	-	1,175
As at 30 June 2016	**9,865,752**	**15,900,482**	**25,766,234**

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	16,278,943	13,738,263
Materials and supplies	5,788,270	4,120,087
Other	852,554	838,428
Less impairment provision	(5,460,464)	(5,588,504)
	31,702,770	**24,178,244**

9. OTHER CURRENT ASSETS

	30 June 2016	31 December 2015
Advances paid	505,216	536,372
VAT receivables	274,323	227,121
Deferred VAT	2,122,429	2,014,262
Prepaid expenses	293,339	120,106
Prepaid custom duties	32,261	33,190
Prepaid excise	4,455,921	3,028,713
Other current assets	14,694,201	14,308,833
Less impairment provision	(14,268,095)	(14,042,711)
	8,109,595	**6,225,886**

Deferred VAT as at 30 June 2016 amounting to 2,122,429 RSD (31 December 2015: 2,014,262 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 4,455,921 RSD (31 December 2015: 3,028,713 RSD) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

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

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

	Advances paid	Other current assets	Total
As at 1 January 2015	244,828	20,758,935	21,003,763
Provision for receivables impairment	789	100,177	100,966
Unused amounts reversed	(4,207)	(10,977)	(15,184)
Other	(845)	(76,595)	(77,440)
As at 30 June 2015	**240,565**	**20,771,540**	**21,012,105**
As at 1 January 2016	270,297	13,772,414	14,042,711
Provision for receivables impairment	1,826	246,289	248,115
Unused amounts reversed	(2,995)	(10,770)	(13,765)
Other	-	(8,965)	(8,965)
As at 30 June 2016	**269,128**	**13,998,968**	**14,268,096**

The ageing of other current assets is as follows:

	30 June 2016	31 December 2015
Neither impaired nor past due	8,019,441	6,071,893
Not impaired and past due in the following periods:		
Less than 1 month	19,793	30,136
1 - 3 months	16,961	31,372
3 month - one year	7,336	43,018
Over 1 year	46,064	49,467
Total	**8,109,595**	**6,225,886**

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	82,284,653	114,595,854	49,338,344	20,285,937	46,177,226	312,682,014
Depreciation and impairment	(21,058,518)	(32,895,538)	(14,910,568)	(8,614,025)	(2,813,514)	(80,292,163)
Net book value	**61,226,135**	**81,700,316**	**34,427,776**	**11,671,912**	**43,363,712**	**232,389,851**
Period ended 30 June 2015						
Additions	-	-	-	-	11,835,701	11,835,701
Transfer from assets under construction	7,976,839	2,220,364	1,095,610	157,601	(11,450,414)	-
Impairment	-	(13,670)	(147,634)	-	(65,609)	(226,913)
Depreciation	(1,960,882)	(2,851,376)	(1,066,233)	(394,893)	(2,494)	(6,275,878)
Disposals and write-off	(39,029)	(9,838)	(23,083)	(73,160)	(37,825)	(182,935)
Other transfers	(127,091)	(2,966)	31,271	(143,503)	(82,624)	(324,913)
Translation differences	(2)	-	(39,229)	-	(12,782)	(52,013)
	67,075,970	**81,042,830**	**34,278,478**	**11,217,957**	**43,547,665**	**237,162,900**
As at 30 June 2015						
Cost	90,056,793	116,754,474	50,265,517	20,135,541	46,358,904	323,571,229
Depreciation and impairment	(22,980,823)	(35,711,644)	(15,987,039)	(8,917,584)	(2,811,239)	(86,408,329)
Net book value	**67,075,970**	**81,042,830**	**34,278,478**	**11,217,957**	**43,547,665**	**237,162,900**
As at 1 January 2016						
Cost	108,928,420	120,288,250	51,644,542	20,010,602	38,640,748	339,512,562
Depreciation and impairment	(25,345,752)	(38,800,866)	(16,727,934)	(9,024,312)	(2,400,275)	(92,299,139)
Net book value	**83,582,668**	**81,487,384**	**34,916,608**	**10,986,290**	**36,240,473**	**247,213,423**
Period ended 30 June 2016						
Additions	182,825	-	-	-	9,003,156	9,185,981
Transfers from assets under construction	8,649,614	576,307	1,249,221	134,030	(10,609,172)	-
Impairment	-	-	-	-	(16,150)	(16,150)
Depreciation	(2,871,227)	(2,801,341)	(1,152,792)	(396,101)	(2,531)	(7,223,992)
Disposals and write-off	(72,588)	(10,717)	(71,220)	(36,946)	(103,686)	(295,157)
Other transfers	(4,330)	(2,974,900)	2,972,646	(3,986)	(137,405)	(147,975)
Translation differences	11	1	225,364	-	65,534	290,910
	89,466,973	**76,276,734**	**38,139,827**	**10,683,287**	**34,454,754**	**249,021,575**
As at 30 June 2016						
Cost	117,609,602	108,678,052	64,994,417	20,021,638	36,835,841	348,139,550
Depreciation and impairment	(28,142,629)	(32,401,318)	(26,854,590)	(9,338,351)	(2,381,087)	(99,117,975)
Net book value	**89,466,973**	**76,276,734**	**38,139,827**	**10,683,287**	**34,454,754**	**249,021,575**

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	18,087,173	13,477,995	31,565,168	82,284,653	33,457	113,883,278
Depreciation and impairment	(17,291)	(253,585)	(270,876)	(21,058,518)	(20,359)	(21,349,753)
Net book amount	**18,069,882**	**13,224,410**	**31,294,292**	**61,226,135**	**13,098**	**92,533,525**
Period ended 30 June 2015						
Additions	1,785,780	8,308,729	10,094,509	-	-	10,094,509
Transfer from asset under construction	(208,626)	(7,663,770)	(7,872,396)	7,872,396	-	-
Other transfers	(687,195)	595,911	(91,284)	(22,648)	(30)	(113,962)
Depreciation and depletion	(2,494)	-	(2,494)	(1,960,882)	-	(1,963,376)
Disposals and write-off	(34,993)	-	(34,993)	(39,029)	(49)	(74,071)
Translation differences	(4,372)	(7,757)	(12,129)	(2)	-	(12,131)
	18,917,982	**14,457,523**	**33,375,505**	**67,075,970**	**13,019**	**100,464,494**
As at 30 June 2015						
Cost	18,936,408	14,695,962	33,632,370	90,056,793	33,378	123,722,541
Depreciation and impairment	(18,426)	(238,439)	(256,865)	(22,980,823)	(20,359)	(23,258,047)
Net book amount	**18,917,982**	**14,457,523**	**33,375,505**	**67,075,970**	**13,019**	**100,464,494**
As at 1 January 2016						
Cost	19,971,794	7,942,643	27,914,437	108,928,420	33,408	136,876,265
Depreciation and impairment	(21,185)	(248,771)	(269,956)	(25,345,752)	(22,292)	(25,638,000)
Net book amount	**19,950,609**	**7,693,872**	**27,644,481**	**83,582,668**	**11,116**	**111,238,265**
Period ended 30 June 2016						
Additions	1,463,361	6,165,361	7,628,722	182,825	-	7,811,547
Transfer from asset under construction	(30,671)	(8,619,517)	(8,650,188)	8,650,188	-	-
Other transfers	-	(72,919)	(72,919)	(4,904)	-	(77,823)
Depreciation and depletion	(2,531)	-	(2,531)	(2,871,227)	-	(2,873,758)
Disposals and write-off	(30,722)	(425)	(31,147)	(72,588)	-	(103,735)
Translation differences	60,564	-	60,564	11	-	60,575
	21,410,610	**5,166,372**	**26,576,982**	**89,466,973**	**11,116**	**116,055,071**
As at 30 June 2016						
Cost	21,431,001	5,414,765	26,845,766	117,609,602	33,408	144,488,776
Depreciation and impairment	(20,391)	(248,393)	(268,784)	(28,142,629)	(22,292)	(28,433,705)
Net book amount	**21,410,610**	**5,166,372**	**26,576,982**	**89,466,973**	**11,116**	**116,055,071**

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	77,110	152,849
- state and state owned companies	2,113,072	4,050,963
	2,190,182	4,203,812
Less impairment provision for trade and other non-current receivables:		
- third parties	(58)	(76,849)
- state and state owned companies	(736,765)	(1,858,864)
	(736,823)	(1,935,713)
	11,248,650	14,656,649

Trade and other non-current receivables amounting to 11,248,650 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	961,853	1,360,565
Prepaid expenses	888,357	908,248
Other assets	1,179,502	1,161,131
Less impairment provision	(30,809)	(30,809)
	2,998,903	**3,399,135**

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

	30 June 2016	31 December 2015
Short-term loans	9,601,559	3,553,120
Interest liabilities	172,103	164,324
Current portion of long-term loans (note 17)	18,171,217	13,417,421
Current portion of finance lease liabilities (note 17)	8,178	1,010
	27,953,057	**17,135,875**

14. TRADE AND OTHER PAYABLES

	30 June 2016	31 December 2015
Trade payables		
- related parties	9,972,000	10,170,810
- third parties	18,517,507	15,334,596
Dividends payable	7,798,270	3,772,308
Other accounts payable	22,081	86,304
	36,309,858	**29,364,018**

As at 30 June 2016 payables to related parties amounting to 9,972,000 RSD (31 December 2015: 10,170,810 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	1,110,584	3,207,205
Payables to employees	2,478,704	3,296,282
Accruals and deferred income	30,402	19,878
Other current non-financial liabilities	14,858	14,437
	3,634,548	**6,537,802**

16. OTHER TAXES PAYABLE

	30 June 2016	31 December 2015
Mineral extraction tax	256,996	241,017
VAT	1,973,318	1,651,548
Excise tax	5,976,844	6,066,530
Contribution for buffer stocks	297,830	350,301
Custom duties	970,464	85,332
Other taxes	2,003,921	2,050,457
	11,479,373	**10,445,185**

17. LONG-TERM DEBT

	30 June 2016	31 December 2015
Long-term loan - Gazprom Neft	40,147,931	42,427,710
Bank loans	66,168,206	71,016,461
Finance lease liabilities	237,891	199,289
Other long-term borrowings	102,717	88,611
Less Current portion	(18,179,395)	(13,418,431)
	88,477,350	**100,313,640**

(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.

(b) Bank loans

	30 June 2016	31 December 2015
Domestic	21,109,975	18,693,334
Foreign	45,058,231	52,323,127
	66,168,206	71,016,461
Current portion of long-term loans	(12,435,798)	(7,760,393)
	53,732,408	**63,256,068**

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	46,316,907	46,347,221
Over 5 years	5,236,690	5,079,074
	53,732,408	**63,256,068**

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	19,747,136	17,247,010
RSD	1,063	1,174
JPY	430,666	380,199
	66,168,206	**71,016,461**

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

The loan agreements contain financial covenants that require the Group's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group 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 months period ended 30 June	
	2016	**2015**
Crude oil	34,696,298	42,798,278
Petroleum products	6,950,318	15,942,885
Other	145,746	215,954
	41,792,362	**58,957,117**

20. PRODUCTION AND MANUFACTURING EXPENSES

	Six months period ended 30 June	
	2016	**2015**
Employee costs	2,762,975	3,433,378
Materials and supplies (other than purchased oil, petroleum products and gas)	1,029,283	1,379,673
Repair and maintenance services	1,419,116	1,454,296
Electricity and utilities	4,188,610	1,891,122
Safety and security expense	165,189	58,902
Transportation services for production	1,032,469	842,014
Other	1,816,218	362,824
	12,413,860	**9,422,209**

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months period ended 30 June	
	2016	**2015**
Employee costs	5,195,676	4,921,823
Legal, audit, and consulting services	489,114	713,154
Rent expense	334,084	173,300
Business trips expense	147,868	147,396
Safety and security expense	255,450	266,464
Transportation and storage	231,880	306,380
Allowance for doubtful accounts	249,825	72,285
Other	4,189,655	4,175,720
	11,093,552	**10,776,522**

22. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Consolidated Financial Statements: investment properties and financial investments classified as available for sale. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Consolidated Financial Statements as of 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 Group's management recognised an environmental provision in the amount of 770,749 RSD (31 December 2015: 687,705 RSD).

The Group's Management believes that cash outflows related to provision will not be significantly higher than the ones already provided for. However, it is possible that these costs will increase significantly in the future, should the legislation become more restrictive.

Other contingent liabilities

As at 30 June 2016, the Group did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Group has to pay the difference in tax calculation of 81 USD million related to the additional profit oil for the period from 2002 to 2009. The Group's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Group's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed. Taking all of the above into consideration, the Group's Management is of the view that as at 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 Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Group has paid all tax liabilities as of 30 June 2016.

Farm-out agreement with East West Petroleum Corporation, Canada

In October 2011, the Group 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 Group shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Group 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, Group will act as the Operator and will be in charge of and shall conduct all Joint Operations. Exploration activities are underway. On 30 June 2016 drilling and exploration works for Block 2, 3, 7 and 8 were estimated to 41.96 USD million.

There were no other material commitments of the Group.

24. SIGNIFICANT GROUP ENTITIES

The financial statements of below listed subsidiaries are consolidated as at 30 June 2016 and 31 December 2015:

Subsidiary	Country of incorporation	Nature of business	Share% 30 June 2016	Share% 31 December 2015
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
Pannon naftagas Kft, Budapest	Hungary	O&G activity	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-naftni servisi d.o.o., Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o., Novi Sad	Serbia	O&G activity	100	100
Naftagas-tehnicki servisi d.o.o., Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o., Novi Sad	Serbia	Transport	100	100
O Zone a.d., Belgrade	Serbia	Other	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	Trade	100	100
Jadran - Naftagas d.o.o., Banja Luka	Bosnia and Herzegovina	O&G activity	66	66
Svetlost d.o.o., Bujanovac,Serbia	Serbia	Trade	51	51
Jubos d.o.o., Bor	Serbia	Other	-	51

25. RELATED PARTY TRANSACTIONS

For the purpose of these Interim Condensed Consolidated Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operational decision as defined by IAS 24 Related Party disclosure.

The majority owner of the Group 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 Group.

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

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

	Parent company	Entities under common control	Joint venture	Total
As at 30 June 2016				
Trade and other receivables	-	639,369	195,656	835,025
Investments in joint venture	-	-	1,188,659	1,188,659
Trade and other payables	(9,218,132)	(753,868)	-	(9,972,000)
Short-term debt and current portion of long-term debt	(5,735,419)	-	-	(5,735,419)
Long-term debt	(34,412,512)	-	-	(34,412,512)
	(49,366,063)	**(114,499)**	**1,384,315**	**(48,096,247)**

	Parent company	Entities under common control	Joint venture	Total
As at 31 December 2015				
Trade and other receivables	-	148,105	195,656	343,761
Other current assets	-	9,394	-	9,394
Investments in joint venture	-	-	1,188,659	1,188,659
Trade and other payables	(10,004,805)	(166,005)	-	(10,170,810)
Short-term debt and current portion of long-term debt	(5,657,028)	-	-	(5,657,028)
Long-term debt	(36,770,682)	-	-	(36,770,682)
	(52,432,515)	**(8,506)**	**1,384,315**	**(51,056,706)**

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

	Parent company	Entities under common control	Joint venture	Total
Three month period ended 30 June 2016				
Petroleum products and oil and gas sales	-	(269,062)	-	(269,062)
Other Revenues	-	(2,814,476)	-	(2,814,476)
Purchases of oil, gas and petroleum products	21,699,732	269,564	-	21,969,296
Production and manufacturing expenses	-	2,675,951	-	2,675,951
Selling, general and administrative expenses	-	143,594	-	143,594
Other (income) expenses, net	(1,373)	16	-	(1,357)
Finance expense	400,427	-	-	400,427
	22,098,786	**5,587**	**-**	**22,104,373**
Three month period ended 30 June 2015				
Petroleum products and oil and gas sales	-	80,878	-	80,878
Other revenues	-	157,482	-	157,482
Purchases of oil, gas and petroleum products	(35,246,131)	(2,033,070)	-	(37,279,201)
Production and manufacturing expenses	(3,733)	(109,057)	-	(112,790)
Selling, general and administrative expenses	(15,465)	(8,022)	-	(23,487)
Other expenses, net	(16,210)	(18,557)	-	(34,767)
Finance expense	(494,182)	-	-	(494,182)
	(35,775,721)	**(1,930,346)**	**-**	**(37,706,067)**

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

26. EVENTS AFTER THE REPORTING DATE

No significant events, which required disclosure in these Interim Condensed Consolidated 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 Consolidated Financial Statements were authorised for issue.

STATEMENT OF INDIVIDUALS RESPONSIBLE FOR THE PREPARATION OF FINANCIAL STATEMENTS

We hereby state that, to our best knowledge, the interim financial reports have been prepared in compliance with the applicable international financial reporting standards, and also in compliance with the Law on Accounting ("Official Gazette of the Republic of Serbia" no. 62/2013), which requires full scope of IFRS to be applied as well as the regulations issued by the Ministry of Finance of the Republic of Serbia[46] and that they show true and objective information on the assets, liabilities, profit and loss, financial position and operations of the Company, including subsidiaries encompassed by the consolidated statements.

Anton Fyodorov	Branko Mitrović
Deputy CEO, Head of Function for Finance, Economics, Planning and Accounting *NIS j.s.c. Novi Sad*	Director of Accounting Department, Function for Finance, Economics, Planning and Accounting *NIS j.s.c. Novi Sad*

[46] Due to the difference between these two regulations, these financial statements differ from IFRS in the following respects:

- The financial statements are prepared in format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 – "Presentation of Financial Statements" requirements.
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

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