QUARTERLY REPORT FOR THIRD QUARTER OF 2016

NIS
GAZPROM NEFT
БУДУЋНОСТ
НА ДЕЛУ

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The Quarterly Report of *NIS j.s.c. Novi Sad* for third quarter of 2016 represents a comprehensive review of NIS Group's development and performance in third quarter of 2016, as well as for first nine months 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 third quarter of 2016 despite the frequent fluctuations in the world oil market NIS continued to improve its profitability compared to the previous two quarters of the current year. Net profit of NIS Group for the nine months of 2016 was 7.7 billion dinars, which is more than twice the amount than that recorded in the six months of this year in amount of 3.1 billion dinars. At the same time were continued investments in key projects of the Company, so for the investments was earmarked 14.5 billion dinars.

Such results have been achieved mostly due to the dedicated implementation of measures to increase operational efficiency at all levels in the Company. Also, NIS continued with dividend payment practice, so in the third quarter to the shareholders were paid out dividends in amount more than 4 billion dinars, or 25% of 2015 net profit. In parallel were continued investments in business processes, and in the third quarter was carried out further modernization of the Pančevo Oil Refinery, and value of performed works is estimated at 7 million euro. Special attention was paid to the MHC/DHT complex where were carried out the first investment works from the beginning of its operating in November 2012.

In terms of operational indicators the total turnover of petroleum products amounted to 2,414 thousand tons, which is 3% more than in the first nine months of 2015. In particular was increased sale of petroleum products in foreign assets, where was registered 34% better results than the previous year, while the turnover on domestic market was 1% higher than last year. The introduction of premium fuel for domestic and regional markets was continued and in the third quarter of 2016 GAZPROM petrol stations in Serbia started selling G-Drive Diesel and in Romania petrol G-Drive 100.

Total oil and gas production reached 1,108 thousand tons of oil equivalent, while the volume of oil and semi-products refining was 2,376 thousand tons. Better results compared to the first nine months of 2015 were achieved in electricity generation, which amounted to 104,305 MWh, or 21% more than last year.

In this reporting period the average price of Urals crude oil in the world market was 40.1 dollar per barrel, or 27% less than the average price of oil in the same period last year. This was reflected in the financial results of NIS Group, so the indicator of EBITDA for the first nine months of 2016 was 22.5 billion dinars, which is 30% less compared to the last year’s result. However, even in difficult operating conditions NIS Group continued to increase allocations for taxes and other public revenue and for this purposes was paid 117.5 billion dinars, or 7% more than the previous year. NIS also continued to invest in the community where it operates and in the third quarter were published results of public competition within the corporate program “Together for the Community” based on which NIS will support 11 projects of local governments providing 110.5 million dinars.

BUSINESS REPORT

Key Events

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

July

- NIS and the Petnica Science Centre signed a memorandum of cooperation
- Fourth Bolshoi Classical Music Festival took place, with Gazprom Neft support
- NIS representatives took part in the Europe Energy Dialogue forum in Thessaloniki
- NIS and the Road Traffic Safety Agency organised a campaign to increase the safety of motorcyclists
- Young physicists from Serbia competed, with NIS support, at the 47th International Physics Olympiad in Zurich, winning five medals
- Presentation of NIS rendered in the European Parliament – under auspices of the association: European Energy Forum, successful operation of NIS was presented, as well as its contribution to integrations of the Republic of Serbia

August

- NIS announced its consolidated business results for the first half of 2016
- PJSC “Gazprom Neft” signed a sponsorship agreement for the making of interior mosaic decoration on the dome of the Church of Saint Sava in Belgrade
- Results of the public contest under the Together for the Community corporate programme were announced based on which NIS will support 106 projects in 11 local communities in which the company operates
- NIS' compressed natural gas retail network was expanded to include NIS Petrol station "Čačak 1"
- International Jazz Festival *Nišville* took place, with NIS support
- NIS and the Road Traffic Safety Agency organised a campaign "Drive Well Rested" dedicated to increasing traffic safety in summer months
- Team of young chemists from Serbia, who competed at the 48th International Chemistry Olympiad in Georgia with NIS support, won four medals
- Startup of small power plant Majdan of 2.4 MW of power

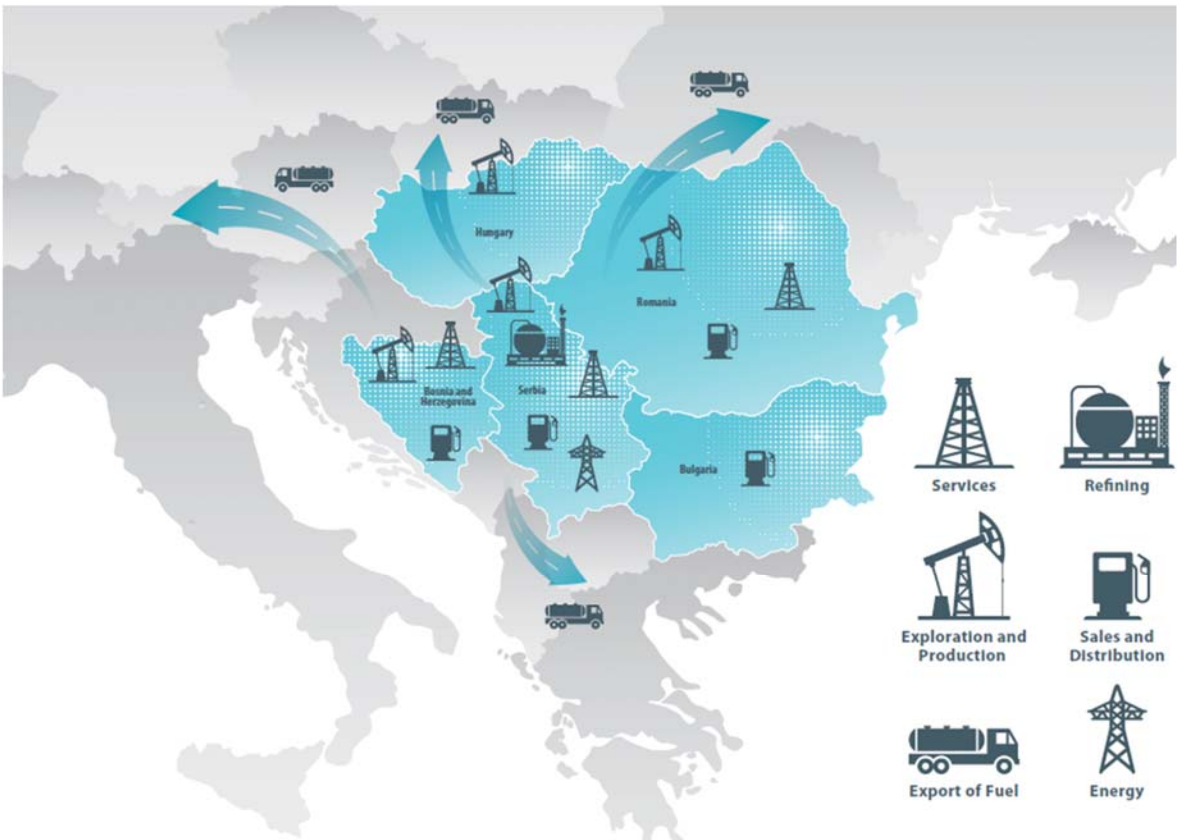
September

- NIS j.s.c. Novi Sad paid its shareholders 4.03 billion dinars (25 percent of last year's net profit) in dividends from the 2015 profit
- Amine Unit for natural gas scrubbing, in which NIS had invested over €30 million, was presented to the media
- Sale of premium diesel fuel *G-Drive Diesel* launched at *GAZPROM*-branded stations in Serbia
- NIS was the top-ranked company from Serbia in the list of 500 leading companies from Central and Eastern Europe by French credit insurance group Coface, based on the criterion of 2015 sales
- New NIS Archive opened in Novi Sad; with the surface area it covers and the latest management standards it has in place, it represents the largest and most advanced facility of its kind in Serbia
- NIS employees, with company support, provided resources for purchasing the latest diagnostic ultrasonic equipment for Betanija Maternity Hospital in Novi Sad, as part of the charity campaign entitled “Future Stems from the Heart”
- Under NIS' social responsibility programme “Energy of Knowledge,” a modern classroom in which oil and gas production and drilling technologies classes will be held was officially opened in the Technical School in Zrenjanin
- NIS and the Road Traffic Safety Agency held the second consecutive Traffic Safety Week in Novi Sad
- Capital overhaul of the refinery units successfully performed

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*

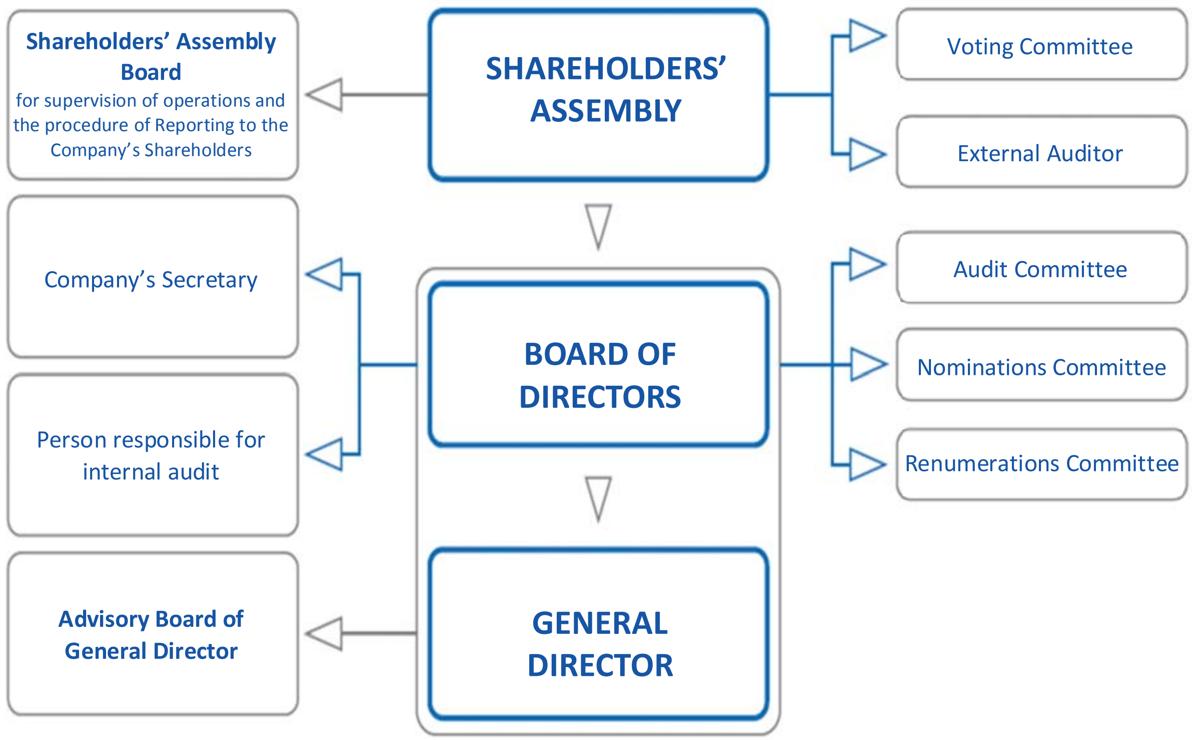
Business Name:	*NIS j.s.c. Novi Sad*
Company Identity Number::	20084693
Address:	Novi Sad, 12, Narodnog fronta street
Tax ID:	104052135
Web site:	www.nis.eu
e-mail:	office@nis.eu
Activity:	0610 – crude oil exploitation
Number and date of registration in BRA:	BD 92142, 09/29/2005
Total equity as at September, 30th 2016:	207,133,495,000.00 RSD
Share capital as at September, 30th 2016:	81,530,200,000.00 RSD
Number of employees[4] as at September, 30th 2016:	3,896
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 September, 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
Member of Audit Committee
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 member of Parlament of the Republic of Serbia. He was the City Mayor holding office for three consecutive terms from 2004 to 2009. He was President of the Basketball Association of Serbia and Montenegro from 2005 to 2006. Mr Knežević was appointed Minister of Agriculture, Forestry and Water Management with the Government of the Republic of Serbia from July 2012 to September 2013. From October 2013 to end of 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

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 nine months of 2016, RSD net	
General Director	19,129,600
Other members of the BoD	49,157,861

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.On 29 July 2016, Board of Directors appointed members of the Board of Directors' Commissions, consisting of the following members:

- Audit Committee:
  - Wolfgang Ruttenstorfer, Chairman of the Audit Committee,
  - Alexey Yankevich, Member of the Audit Committee, and
  - Nenad Mijailović, 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, 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 September, 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
Member of Audit Commission

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

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 nine months of 2016, net RSD

SAB Members	14,221,812

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 nine 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.
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. Other than that, with a view to obtain required financial funds for the next period, in the first nine months of 2016 NIS negotiated/reached deals on new credit lines with Serbian and Arabian banks for general purposes funding, as well as with European banks based in Serbia to fund import from EU (funding exceeding 30 days is granted in cases, when the finances are intended for import of goods or services originating in the EU), thus obtaining funds needed in 2016 and a portion of funds for 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 prolonging or worsening of restrictive measures by the EU and the USA against Gazprom Neft	
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

Crude Oil Market

A price war has been raging for months on the crude oil market, Saudi Arabia being the main perpetrator. Low price of oil is this country's weapon of choice in its quest to fend off USA and Iran-led competition. This, however, ceased to spell any economic logic even for Saudi Arabia. Such turn of events benefitted mostly to Europe's drivers: in summer, a season abundant with travels, fuel prices at refuelling stations traditionally go up, while this summer it was steadily low.

Pumping jacks having been operating perpetually in oilfields world over. *OPIS* consultancy Information department has disclosed that July extraction totalled 350.000 barrels of oil per day. Furthermore, some countries have accelerated their pace of extraction, whereby Saudi Arabia, for instance, has augmented its output by the spectacular 50.000 barrels per day.

Some experts have even coined a new term "crude oil weapon" to describe recent developments, which, to their mind, threatens the competitors and their neighbours, who fell out of political favour, rather than consumers in Europe. They purport that the pivotal objective is to boot out those competitors, who are involved in fracturing, notably so in the USA, along with another important objective to hamper Iran's efforts to rekindle its strong position in crude oil market.

In the wake of sanctions lifting, Iran set itself three objectives: first, to bring the oil production back to the pre-sanction level; second, the soonest revival of the lost market share; and third, to provide direct investments from abroad into the frail power generation infrastructure.

Low price of oil makes the achievement of these objectives difficult. It is also worth emphasizing that Iran's crude oil extraction costs are twice as big as those in Saudi Arabia, extracts one barrel at the rate of 14 dollars, compared to Iran's 30 dollars. Concurrently, Saudi Arabia itself is plagued by low prices of oil. That country has developed even greater dependence on the export of oil than Iran, which has managed to diversify options in its economy. Hence, a very unusual outset of this year for the Saudis – skyrocketing prices of petrol. The prices of diesel and jet fuel, as well as gas, electricity and water have also gone up.

Saudi Arabia's strategy creates problems to other oil exporters as well, however, their attempts at being more vocal constantly fail as Saudi Arabia holds a tremendous sway over the oil producers' organisation, OPEC.

Canada ranks sixth in the world's oil producers list and for the second consecutive year Canadian oil sector has suffered a billions of dollars loss as a consequence of reduced production in the aftermath of shrinking investments as well as in the wake of sprawling fires, according to data disclosed by an influential non-profit organisation *Conference Board of Canada*. This year, the sector is poised to incur a 10 billion Canadian dollars loss (7.6 billion US dollars), following a record high loss of 11 billion Canadian dollars suffered in 2015.

Canadian oil producers have been making tireless efforts to revive the market share, which keeps global crude oil prices at a low level. Their position has been further damaged by a stalling production in the aftermath of fires in Alberta, which boasts world's third stock of oil.

The concern for oil sector profitability has resulted in plummeting investment, which, in turn, brought about a lower production level. This year's total oil production is reckoned to shrink by one per cent.

Furthermore, *Conference Board of Canada* anticipates a 38 billion Canadian dollars (29 billion US dollars) reduction in investment in Canada's oil industry between 2014 and 2017.

In Q3 2016, the average price of Brent oil blend ranged around 46 USD/bbl, while the average price of Urals crude oil blend in the same period ranged around 44 USD/bbl**.**

Global Economy

In its semi-annual Fiscal Monitor issue International Monetary Fund (IMF) has expressed concern over the problem of growing "global debt balloon", which has reached 225 per cent of world's gross domestic product (GDP), which might spark another financial crisis. At this juncture, global debt is at its all-time record level.

Non-financial sector's gross debt has nominally redoubled since the turn of the century, reaching 152 thousand billion dollars last year, and has continued to grow. This amount is comprised of debts of governments, non-financial companies and households. IMF deems that, notwithstanding a large portion of loans originated in the period preceding the 2008 crisis, low interest rates were brought about by surging corporate borrowing in developing markets.

Almost 100 thousand billion dollars are the liabilities of the private sector, which in IMF's opinion might spell huge risks, as the very extent of the debt might trigger an unprecedented private sector deleverage, which, in turn, could thwart the fragile economic recovery. At this juncture, private sector debt levels are high both in developed economies and in several major developing markets, such as China and Brazil, which are pivotal for the global system of financial stability.

Notwithstanding the lack of a common stance as to what debt to GDP level threatens global financial stability, debt results in weakening growth even if there is no crisis. According to IMF, an excessive private debt is one of the main obstacles to global recovery and poses risk to financial stability, whereby financial recessions are protracted and deeper than traditional recessions.

Region

FocusEconomics panel of analysts anticipates an approximate 3.1% regional GDP growth rate in Q3 2016. In their reckoning, Romania will emerge as the region's fastest growing economy this year, its expected growth reaching almost 4.7%, while the growth rate of Poland and Slovakia is expected to exceed 3%. Croatia, Estonia, Hungary, Latvia and Slovenia will decelerate the *CEE* region, their expected rate reaching around 2%.

Analysts at *FocusEconomics* anticipate steady region's consumer prices and their 0.3% annual slump before the end of 2016. There is an anticipation of a revived inflation in the *CEE* region next year, with a forecasted 1.6% average annual inflation rate.

Serbia

The latest World Economic Forum's 2016 Competitiveness Report considers that Serbia made greatest strides in macroeconomic environment indicators, moving up by 22 positions. In this column, as well as last year, Serbia ranked first by its inflation rates, as well as another 35 countries. By inflation criteria, the best accomplishment is considered an average annual inflation rate ranging from 0.5% to 2.9%, as deflation is deemed equally bad as high inflation. In view of inflation variation in the period January – September 2016 and projections before the year's end, Serbia should keep its first position by this criterion in the next report as well. Serbia could significantly improve its competitiveness by reducing its budget deficit, as well as increased national savings.

The Report contains a survey on factors that might present burden to business operation in the surveyed countries. Those polled in Serbia have identified inflation and foreign currency policy as factors, which least burden their business operation. Furthermore, access to sources of funding has been assessed as much easier than last year, a softened National Bank of Serbia monetary policy contributing greatly to it. This was also recognised within the very competitiveness index, as the relaxed access to loans significantly improved Serbia's ranking within the column pertaining to the extent of development of financial market.

In September National Bank of Serbia published a report entitled "Macroeconomic Developments in Serbia", which indicated that inflation variation is below the low limit of target tolerance margin, which is mainly due to the plummeting price of oil and agricultural staple, as well as low import inflation.

Hence, the consumer prices in Serbia in August by 0.1% exceeded those in July, with a mere 0.9% annual inflation. Inflation is poised to return to the target as impacted by the low base in the second half of 2016, recovery of domestic demand and increased price of primary product.

Serbia's Statistics Agency indicates that the industrial output in the Republic of Serbia in August 2016 was by 5.1% greater than in August 2015, and it exceeds the 2015 average by 3.0%. The industrial output in the period January – August 2016, exceeds the same period in 2015 by 5.3%.

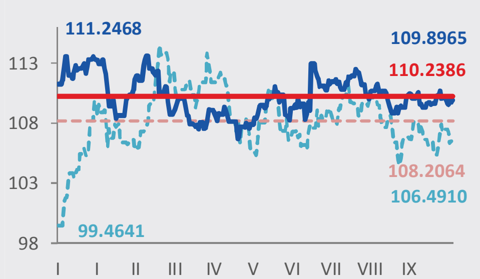
In terms of structure, processing industry recorded the year-to-year growth of 4.3%, while mining and the supply of electricity, gas and steam year-to-year growth of 6.0% and 7.4%.

Turnover of goods in retail trade in the period January – August 2016, compared to the same period in 2015, is higher in current prices by 7%, and in constant prices by 8%.

Diversified and robust export growth reduced the external imbalance. There were positive trends in the period January – August 2016. Export posted a year-to-year growth of 9.5%, and import 6.0%, which reduced current account deficit. Export-import coverage ratio is 77.2% and it is greater than the coverage ratio in the same period previous year, when it was 74.8%[7].

Average wage paid in the period January – August 2016, compared to the average wage paid in the period January – August 2015, is nominally higher by 3.6%, and in real terms it is higher by 2.6%.

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



- Average USD/RSD exchange rate is by 2.03 RSD i.e. 2% in first nine months 2016 higher than the average rate in first nine months 2015
- USD/RSD exchange rate decreased by 1.35 RSD i.e. 1% in first nine months 2016
- USD/RSD exchange rate increased by 7.03 RSD i.e. 7% in first nine months 2015

Brent oil price trend[9], $/bbl **-25%**

- Average price of Brent crude oil is by 13.62 $/bbl i.e. 25% lower in first nine months 2016 than the average price in first nine months 2015
- Price of Brent crude oil increased by 11.59 $/bbl i.e. 32% in first nine months 2016
- Price of Brent crude oil decreased by 7.70 $/bbl i.e. 14% in first nine months 2015

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

Market Share

Demand side of the motor fuel market in the region is growing in comparison with the same period last year as a result of macroeconomic trends.

Fuel consumption is growing in the segment of transport, manufacturing and construction.

Infrastructure works positively affect the growth in consumption of diesel fuel in Serbia, as well as improved results of the processing industry, good agriculture season and the growth of transport.

Part of the consumption of diesel fuel moved into the "gray zone", primarily through blending non-exicse base oils which imports increased by more than 60% .The practice and cross-border purchases of fuel in Bosnia and Herzegovina and Macedonia due to significantly lower duties on fuel continues.

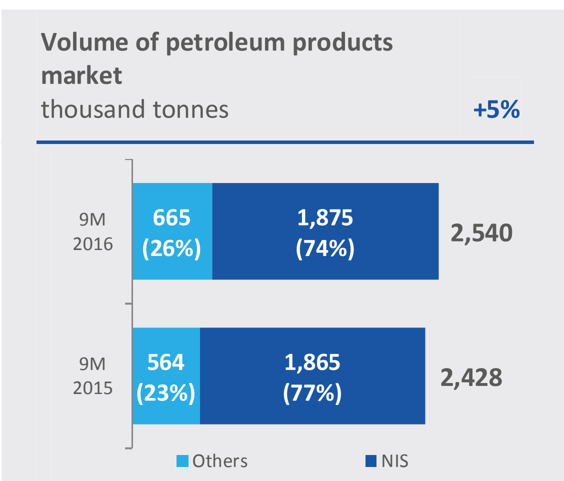
Serbian Market

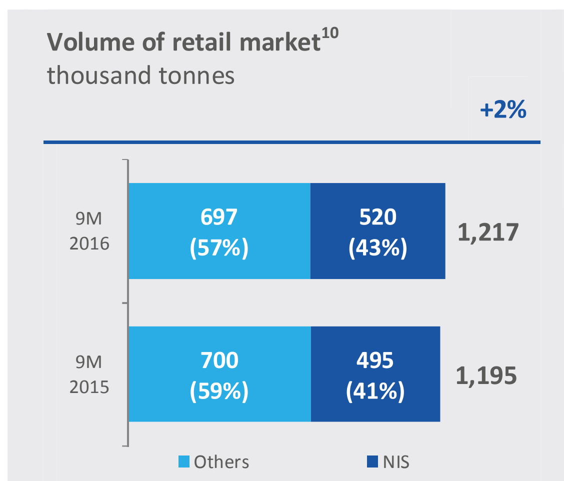
Total consumption of petroleum products in Serbia for first nine months of 2016 is growing compared to the same period last year, mostly contributed by growth in consumption of naphtha, motor gasoline, diesel, jet fuel, and bitumen mainly due to lower prices of petroleum products and major infrastructure works. In the same comparative period consumption of LPG, fuel oil and heavy fuel oil was lower.

The reasons for the slightly lower market share of NIS in first nine months 2016 compared to same period last year are increasing amounts of petroleum products in the so-called "gray zone" as a segment unavailable for legitimate market participants.

Retail market for the period of nine months of this year in the total amount increased by 1.8% compared to the same period in 2015. NIS has increased its market share in the retail market of the Republic of Serbia, with growth in sales of gasoline and diesel, as well as auto gas.

The growth in fuel consumption was associated with lower prices, mild winters, the growth of transport and the early beginning of agricultural works.





[10] The sales range of NIS and other competitors includes motor fuel (autogas, gasoline, diesel). LPG cylinders are not included. Information for 2016 is an estimate.Information on market volumes for first 9M 2015 was ajdusted after receiving all relevant market data from National Oil Committee of Serbia. After the market analysis of NPCS for year 2015 was published, minimal corrections were added for the first nine monts of the last year.

Regional Markets[11]

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.

NIS owns 35[12] active petrol stations in Bosnia and Herzegovina.

NIS' share in petroleum products market is 10.7%, and share in retail market is 10.4%.

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 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.

Wholesale prices in Bulgaria are somewhat lower than in other markets due to strong competition as well as the pricing policy of Lukoil.

NIS owns 35 active petrol stations in Bulgaria.

NIS' share in petroleum products market is 4.5%, and share in retail market is 4.4%.

Romania

The market for motor fuels recorded a recovery in the first nine months 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 1.0%.

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[11] 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;

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

Result Analysis

Key Performance Indicators[13]

Q3 2016	Q3 2015	Δ Q3 2016 / Q3 2015 (%)[14]	Indicator	Unit of measure	9M 2016	9M 2015	Δ 9M 2016 / 9M 2015 (%)[15]
NIS Group							
44.1	49.5	-11%	Urals	$/bbl	40.1	54.6	-27%
4.5	6.0	-24%	Net profit	bn RSD	7.7	10.9	-30%
9.3	11.3	-17%	EBITDA[16]	bn RSD	22.5	32.3	-30%
52.7	55.8	-6%	Sales revenues	bn RSD	134.1	159.2	-16%
9.6	11.7	-18%	OCF	bn RSD	18.2	36.0	-50%
41.2	42.1	-2%	Liabilities from taxes and other public revenues[17]	bn RSD	117.5	109.3	+7%
5.6	6.5	-17%	CAPEX[18]	bn RSD	14.5	19.0	-24%
708	677	+5%	Total indebtedness[19]	mn USD	708	677	+5%
Exploration and production							
5.6	8.4	-33%	EBITDA	bn RSD	15.3	29.6	-48%
365	395	-8%	Oil and gas production[20]	thousand t.o.e.	1,108	1,190	-7%
240	265	-9%	Domestic oil production[21]	thousand tonnes	733	801	-8%
3.3	4.6	-30%	CAPEX	bn RSD	10.8	14.6	-26%
Services							
0.5	0.8	-41%	EBITDA	bn RSD	0.8	1.0	-25%
15	10	+50%	Completed wells	no. of wells	37	31	+19%
0.2	0.1	+24%	CAPEX	bn RSD	0.3	0.7	-52%
Refining							
1.3	-1.7	+176%	EBITDA	bn RSD	4.9	-3.3	2.5x
626	890	-30%	Oil and semi-finished products refining volume	thousand tonnes	2,376	2,401	-1%
0.6	0.9	-29%	CAPEX	bn RSD	1.3	2.0	-34%
Sales and distribution							
3.5	3.9	-11%	EBITDA	bn RSD	8.3	8.3	0%
861	872	-1%	Total petroleum product sales[22]	thousand tonnes	2,414	2,335	+3%
68	54	+26%	Sales - foreign assets[23]	thousand tonnes	191	142	+34%
793	818	-3%	Domestic sales of petroleum products	thousand tonnes	2,223	2,193	+1%
570	545	+5%	Motor fuels	thousand tonnes	1,529	1,439	+6%
243	228	+6%	Retail	thousand tonnes	668	619	+8%
0.3	0.7	-59%	CAPEX	bn RSD	0.5	1.1	-56%

[13] Some values in the table may vary from previous reports due to rounding
[14] 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.
[15] 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.
[16] 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
[17] 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.
[18] CAPEX amounts do not include VAT.
[19] Total indebtedness = total debt to banks + Letters of Credit. As at 30 September 2016, it stands at USD 702 million of total debt + USD 6 million in Letters of Credit.
[20] Domestic oil production includes natural gasoline and light condensate, while gas production takes into account commercial production of gas.
[21] Including natural gasoline and light condensate.
[22] Including internal sales
[23] The sales of foreign assets represent the sales accomplished by NIS subsidiaries abroad (retail and wholesale).

Q3 2016	Q3 2015	$\Delta\frac{\text{Q3 2016}}{\text{Q3 2015}}$ (%)[24]	Indicator	Unit of measure	9M 2016	9M 2015	$\Delta\frac{\text{9M 2016}}{\text{9M 2015}}$ (%)[25]
Energy							
0.3	0.2	+23%	EBITDA	bn RSD	0.8	1.1	-30%
29,969	27,705	+8%	Electricity generation	MWh	104,305	86,078	+21%
1.0	0.1	8x	CAPEX	bn RSD	1.3	0.4	3x

[24] 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.

[25] 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.

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 nine 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 nine months of 2016

In the first nine months 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, 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. Drilling commenced in late August 2016. Drilling and exploration of contour-exploratory well Idjos (*Is-X-5*) is planned.

The period from January to September 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.

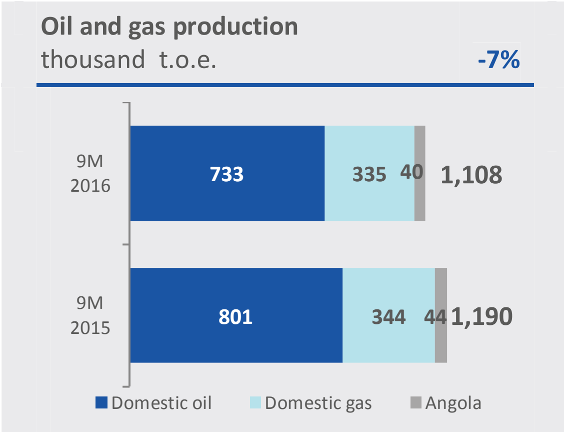
At the exploratory block Kiskunhalas in Hungary, drilling of RAG Kiha-004 was completed. During a short testing, oil has been recovered and preparatory and overhaul activities for extended testing with the bottom-hole pump are underway. Interpretation of the data recorded at *Ex-7* and *Ex-8* blocks (phase 1 and 2 – a joint project with East West Petroleum) was completed by experts from NIS STC. Interpretation results have been integrated into geological model and resource base assessment. Testing of Jimbolia-6 has been finished, flow of gas obtained and permit for performing seismics extended. In Bosnia and Herzegovina, a strategy is being prepared for further operations in the entire licence block.

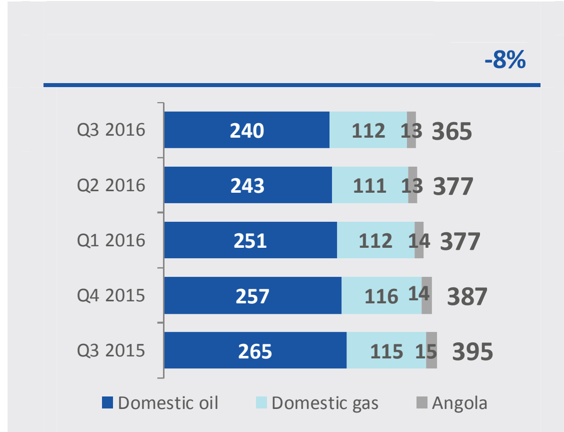
Operating indicators

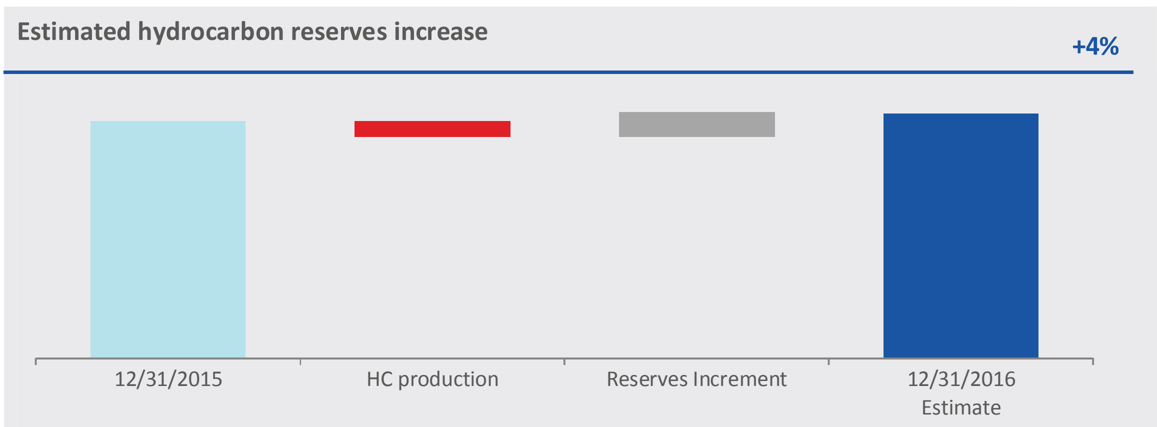
Volume of oil production in first nine months of 2016 exceeds the planned by 11.9[26] thousand tonnes. Regarding the planned activities, production from new drilling operations and GTA has exceeded the plan, whereas production of basic well stock is lower than planned. Total effect of geotechnical operations together with production from the new drilling in first nine months amounts to 76.5 thousand tonnes which is 15.4 thousand tonnes more than planned.

Production of domestic gas exceeds the plan for first nine months of 2016 (+0.3%), while the production of oil in Angola is below the plan for the same period (-6.2%).

[26] Including gazoline and LPG







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 nine months of 2016

In the first nine months *Services Block* successfully completed the project of *Ji-6* well workover of *Ji-6* well (Jimbolia) in Romania. In September, a large part of works within overhaul in Pančevo Refinery, LOT3 was finished. Completion of works is planned in October.

In the first nine 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 nine months of 2016 37 new wells have been drilled, out of which 3 are complicated from the technical-engineering point of view, and complex works on wells Tus-138 and Majdan-2, where additional channels had been drilled, have also been performed. Works on development of exploratory well Km-X-1 has been initiated, development is still underway. Tender for drilling in Romania has been won, and preparation done for works in Romania, while expected beginning of mobilization will be by the end of 2016. In addition to increase of work requests by 25% when compared with the planned number of works, Mining Tool, Equipment and Piping Department has fulfilled and exceeded plan of services for Upstream Block and for all units of *Services Block*.

As many as 14 workover rigs on average have been involved in works required by the *Exploration and Production* to meet its production plan, while another, 15th rig was involved in Mirecol, an EU-funded project. "Drilling Services" unit has monitored all the works of drilling and workover rigs, as well as works of foreign current and capital workover brigades (TKRB) with EK MLU units, wiring tools, flexible tubing, nitrogen unit and the GP. In addition, works on tank inertization and oil pipeline pigging with gas nitrogen, installation of pipes of flexible tubing as the production tubing on gas well It23 and EK measurements for the needs of PGS Banatski Dvor have been done..

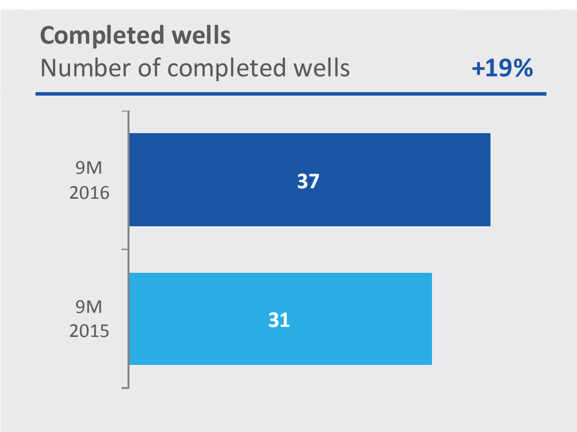
The unit "Seismic Services" has completed 3D seismic works on the project Turija-2 in the range of 97.51 km^2 of logged 3D seismics, and in Romania, on the Project EX-7 Periam 3rd stage, in the range of 150.82 km^2.

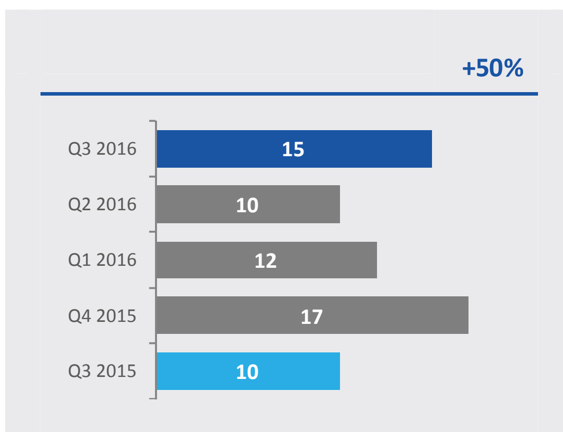
Implementation of the Southern Banat 1 Project started as at 30 September 2016; area of 381.81 km^2 was logged within this project, while the total performance of the unit since the beginning of the year has been 630.13 km^2 of surveyed 3D seismics.

Plant for, maintenance and production of technical equipment for *Exploration and Production Block* and *Services Block* Zrenjanin, has been performing planned preventive check and workover of pumps for oil transport and formation water injection since January 2016. Activities of maintenance of 4 congenerator units for *Energy Block* have been taken over. Capital workover has been performed, as well as rebranding of 21 nodding donkeys. One general overhaul and 5 large servicing of gas-engine compressors have been done for the *Exploration and production Block*.

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, 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, contionuation ofA activities on the Bottom of the Barrel Project. Development of extended base design for the needs of reconstruction of the existing *MHC, SRU and LPG* units is ongoing, as well as intensive activities with the aim to provide local document necessary for the project implementation. By the end of 2016, most significant planned activities will be singing of the contract with EPCm, a contractor for the work package 1[27], and opening the tender for the selection of EPCm contractor for the work package 2[28]

Accomplishments in first nine months of 2016

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

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.

Final version of the extended base front end engineering design *(FEED)* of deferred coker unit – project: Bottom of the Barrel gas been obtained, as well as the tender package of invitation to bid for auxiliary units. *EPCm* contractor has been selected for the base package – construction of deferred coker unit – Bottom of the Barrel Project. Signed contracts for procurement of equipment with long lead items *(LLI).*

The overhaul was successfully implemented in September 2016. During major overhaul hydrocracking catalyst was replaced in order to increase the yield of middle distillates.

Heat exchanger *Packinox* was commissioned and this will allow a higher level of energy efficiency in the Platforming (*S-300*).

Plans for the optimization of the basket of raw materials to the processing of new types of *Kirkuk* and the *Forcados* oil were implemented. Activities on the realization of the ambitious production plan until the end of 2016, with further cost optimization were continued.

Implementation of measures for increase of operational efficiency is at a high level. Package of measures for increasing efficiency of technological processes is being continually implemented. In addition, accent is also put on implementation of additional measures in *Quick Wins* format, with the aim to reduce consumption of energy products and to increase energy efficiency. Therefore, indicator of energy efficiency according to Solomon Methodology is in the zone exceeding 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.

[27] Reconstruction of the existing units connected with the deferred coker unit, and those are: *MHC/DHT, LPG, SRU.*

[28] Includes construction of deferred coker unit and new auxiliary units: for amine regeneration, acid water stripper with a unit for removal of phenol.

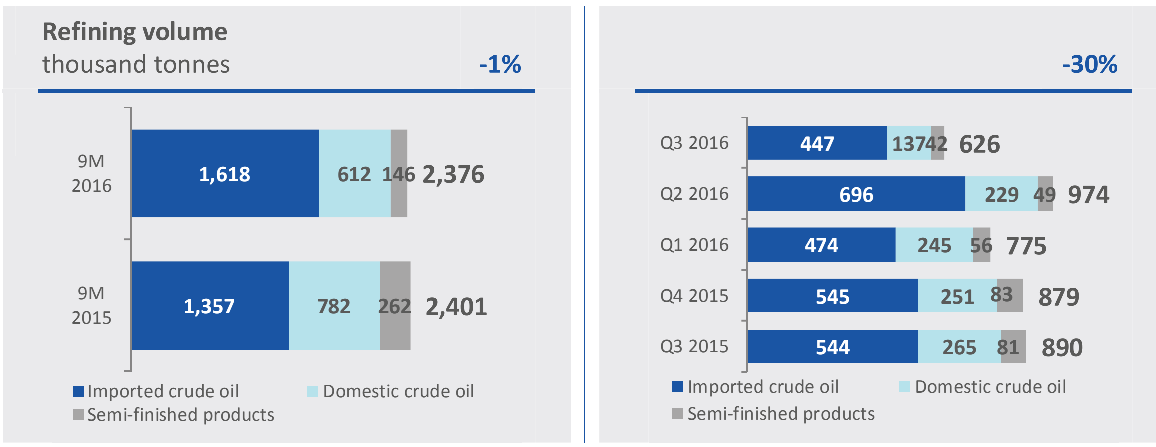
The Certificate of Conformity of the quality management system to the requirements of ISO 9001:2008 standard has been awarded to the *Refining* by the Organization for Quality System Certification and Monitoring (YUQS).

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

Operating indicators

Scale of refining is the result of satisfying market needs and optimization of refining of oil types and other raw materials (reduction of imported VGO, giving up refining of Gasoil 1,1%, increase in refining of products from stock UCO[29]).

Oil refining increased if compared with the Business Plan (+91 thousand tons, or +4.2%), due to oil refining efficiency increase, rising end of the VGO distillation and refining of new oils of *Kirkuk* and *Forcados* type.



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 nine months 2016. Compared to the first nine months of the previous year, we managed to increase our market share in the retail market of petroleum products in Serbia by 1.3%. In the nine months of 2016, we achieved 3% 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.

[29] Unconverted oil

Accomplishments in first nine months of 2016

In June 2016 we began selling branded G-Drive diesel fuel on the Serbian market. In September 2016, sale of branded fuel, *G-Drive diesel* started also in Bulgaria.

Since the end of 2015, we have been actively developing the loyalty program "With us on the Road" and by 30 September 2016, the totals of 305,761 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.

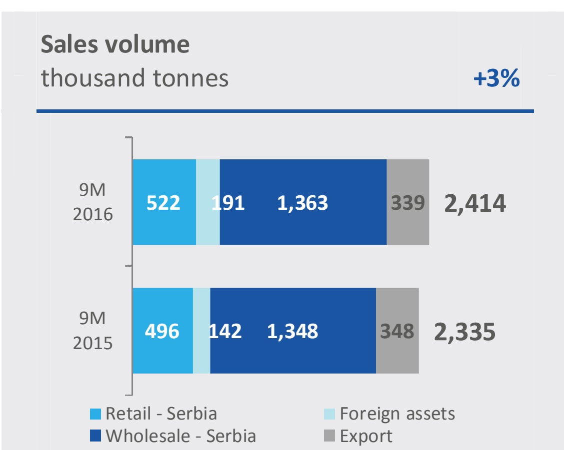
We have introduced 8 new auto-cisterns for transportation of aviation fuel into operation. Two sets of tank trucks (tow truck + trailer) were procured for the transport of motor gasoline and medium distillates, as well as 6 semi-trailers for the transport of LPG (within the project: Procurement of 6 sets of Vehicles for LPG Transport (tow truck with semi-trailer).

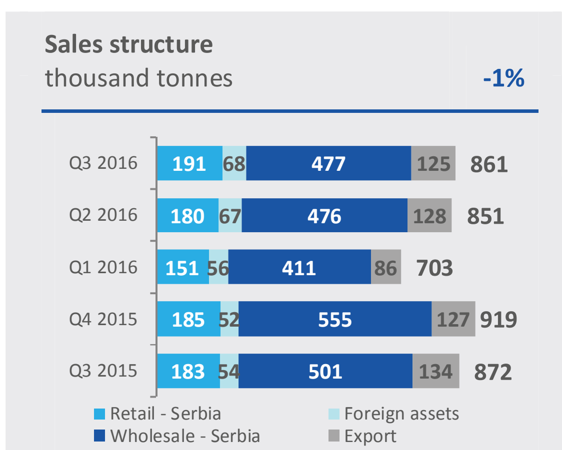
A new locomotive for shunting station in Pančevo has been obtained and handed over for exploitation to the Refining Block together with the shunting station.

Operating indicators[30]

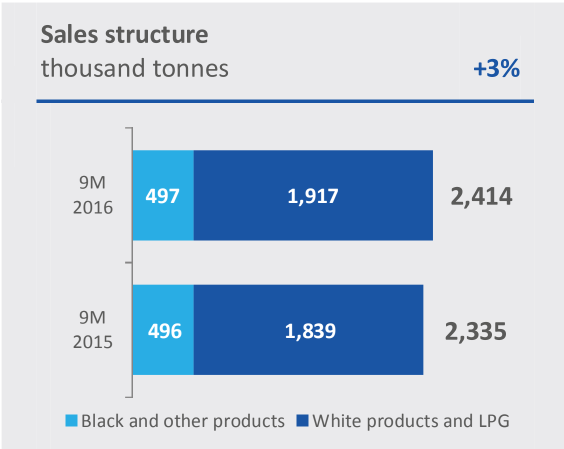
In the first nine months of year 2016, we recorded a 3% growth in the turnover compared to the first nine months in year 2015, so that the total turnover amounted to 2,414 thousand tons.

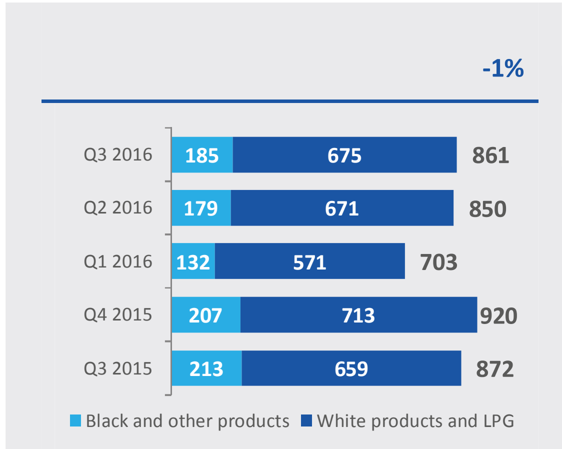
- Retail in Serbia - retail volume increase of 5%.
  - Growth in retail sales was a result of 5% increase in sales of diesel fuel and 6% increase in the sales of gasoline.
- Wholesale in Serbia - a 1% increase.
  - Increased sales of motor fuel by 3%
  - Increased sales of non-energy fuel by 6%
  - Decline in the turnover of heavy fuel oil is 8%
- Export - 3% decrease
  - Drop in export is a consequence of decreased export of motor fuels by 2% and decreased export of energy fuels by 19% (mostly mazut - due to higher cost-effectiveness of bitumen sale and use of mazut for heating in refinery).
- Foreign assets - in the first nine months of 2016, the turnover of foreign assets in Bosnia and Herzegovina, Romania and Bulgaria recorded an increase of 34% and amounted to 191 thousand tons.
  - Increase in the sales of motor fuels by 34%, of which sales of diesel recorded 33% increase and sales of gasoline recorded 47% increase.





[30] Including internal sales (9M 2016: app. 9.2 thousand tonnes; 9M 2015: app. 13.7 thousand tonnes)





Energy

The year of 2016 was very successful for Energy Block. Its operating performance in the first nine months of the year posted a US$ 7.2 million EBITDA, which exceeds the first nine months 2016 business plan by US$ 4.0 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 is 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.
- In the area of gas utilization in 2016, power plant on Majdan field was launched (9.5 million m^3 of gas per year, 2.4 MW). It is planned to build Ostrovo plant for production of compressed natural gas (10.8 million Sm^3 gas per year). Construction and commissioning of CNG module on the PS Cacak is completed (1.0 mil/year Sm^3 of gas).

Accomplishments in first nine months of 2016

During the third quarter of this year, activities on projects of the Energy Block continued. Works on construction of small power plant Majdan (2.4 MW) were completed and the power plant was commissioned in August 2016. After confirmation of reserves and quality of gas for the location of the small power plant Novo Milosevo (9,8 MW), the technical assignment for preparing Feasibility Study with idea design was defined; author of the study has been nominated (STC NIS Naftagas Ltd. Novi Sad). PE Srbijagas has agreed with preparation of documentation and approved participation of MSK Kikinda. In addition, *Messer's* bid for construction of the plant for drilling gas treatment was received.

Works on construction of the CNG supply station on the PS Cacak were completed and it was commissioned on 27 July 2016. Project for the compressed gas production unit on new location – PS Zarkovo 2 has approved at the Investment Committee of the Energy Block, and Technical Assignment for procurement of main equipment defined. Within implementation of the project of production of compressed natural gas at the Ostrovo field, gas exploitation has been approved and main mining design completed. Construction is ongoing (constructed access road from Ostrovo village, completed works on terrain alignment). Draft expertise report of Mining-Geological Faculty on interaction of NIS's facilities and activities with the water spring has been obtained for review.

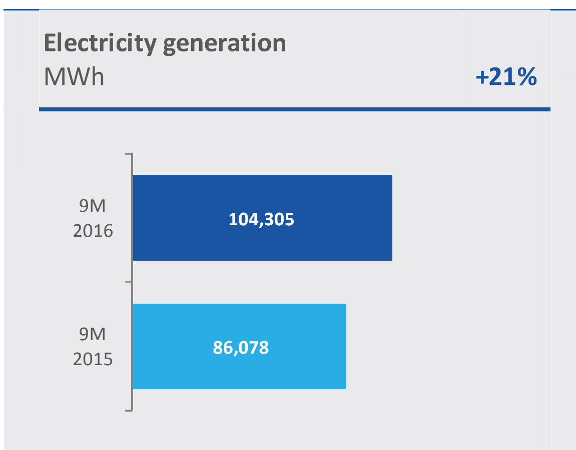
For the project CHPP Pančevo, tender was completed and final commercial negotiations held. Founding capital paid in by NIS j.s.c. Novi Sad and PJSC Centrenergoholding, a subsidiary of Gasprom Energoholding.

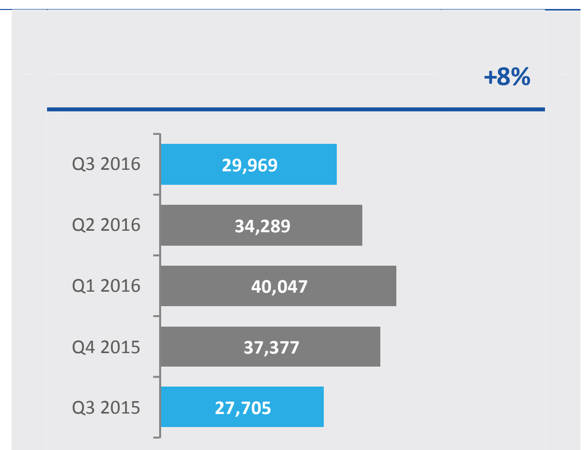
In the *Plandište* wind farm project the Power Purchase Agreement (feed-in) was obtained. Documents have been drafted to start negotiations with Energy Ministry representatives concerning terms and conditions to gain rights to tap into the oil shale resources of the deposits in the environs of the town of *Aleksinac* and project delivery plan. For the project Kovin (TE-To coal exploitation), preparation of Feasibility Study for the new mine has started.

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. In august, NIS Petrol s.r.l. test-traded first quantities in Slovenia. Registration procedure in Hungary is near its end. First trading on both markets is expected in November. NIS Petrol s.r.l. has continued its activities at expanding the partner network, which is a prerequisite for access to OTC market in Romania.

Operating indicators

104.305 MWh of electricity was generated in the first nine monts of 2016, whereby 21.8 million m^3 of non-commercial gas was consumed.



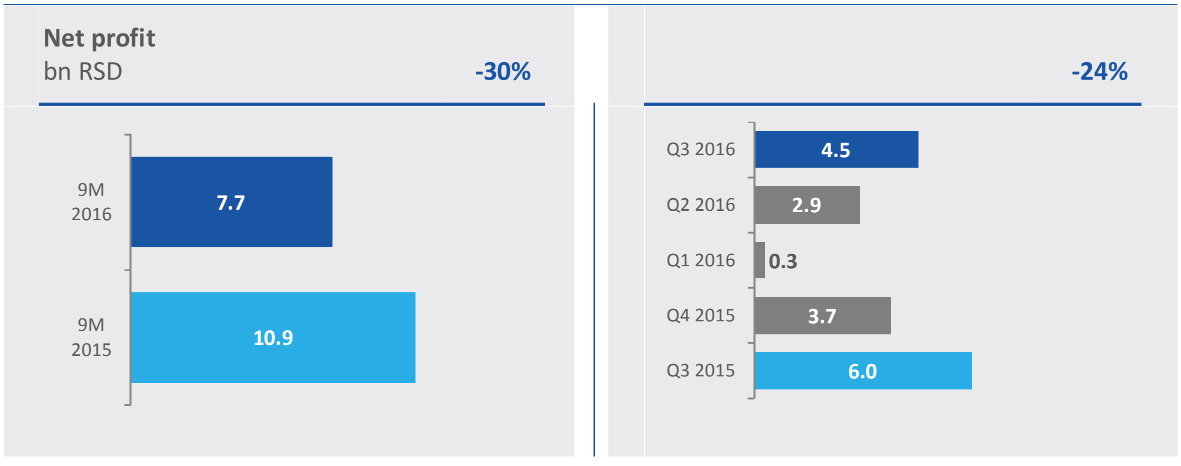


Financial Indicators

The low price of oil is still the most important factor affecting NIS' financial results. Despite this, we managed to achieve positive net result in amount of 7.7 billion RSD. Low crude oil prices had negative impact on EBITDA, which for the first nine months of 2016 amounts to 22.5 billion RSD.

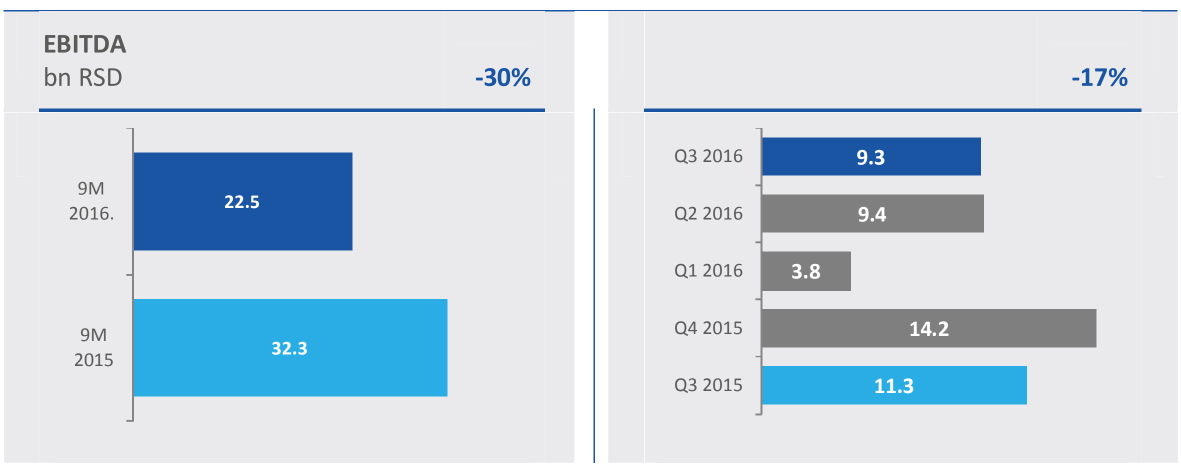
Net profit

Although the prices of petroleum products remained on low level on global market, we recorded net profit of 7.7 billion RSD in first nine months of 2016.



EBITDA

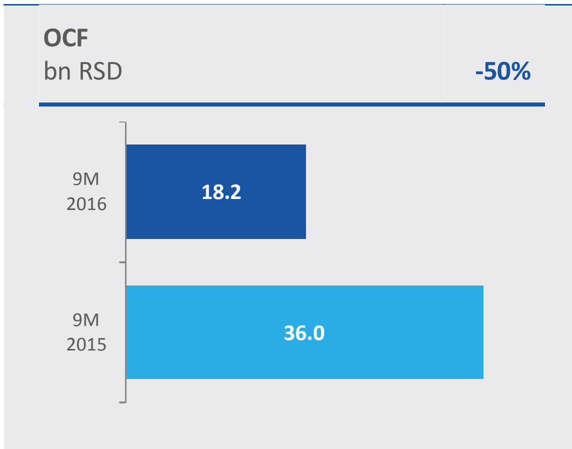
Negative impact of crude oil price (average crude oil price dropped by 27% compared to same period last year) continues to be reflected in EBITDA indicator.

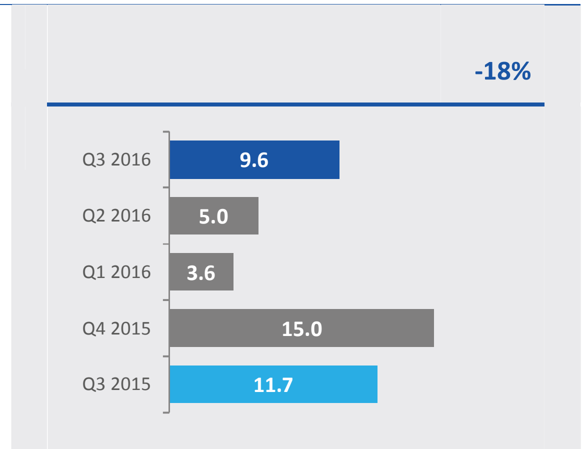


OCF

In the first nine months of this year OCF is RSD 18.2 billion, which means a 50% 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.



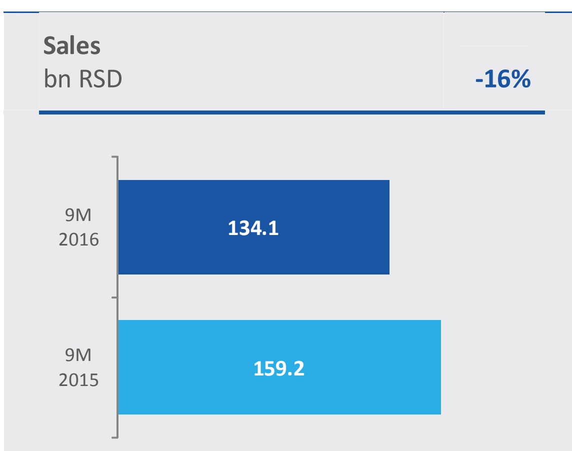


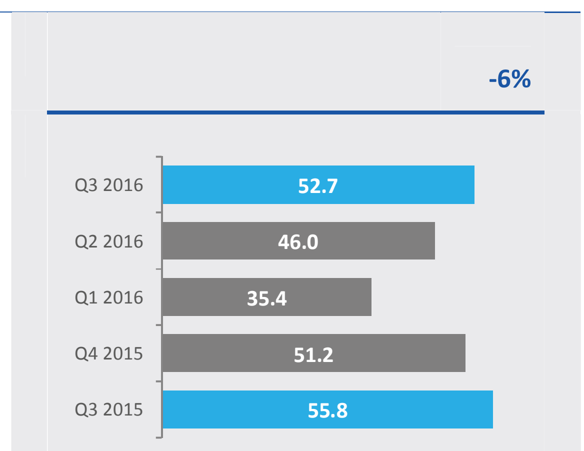
Sales

Average price of Urals crude oil amounts to 40.1 $/bbl in first nine months of 2016, which is by 27% lower than average price of this type of crude oil in same period last year.

Average retail prices of petroleum products decreased by 6.9% in first nine months of 2016 compared to first nine months of 2015.

Changes in retail prices	$\Delta \frac{\text{9M 2016}}{\text{9M 2015}}$
Euro premium BMB 95	-6.15%
Euro diesel	7.67%





Ratio Indicators

Ratio Indicators		
	9M 2016	9M 2015
Return on total capital (Gross profit/total capital)	5%	8%
Net return on equity (Net profit/shareholders equity[31])	9%	13%
Operating net profit (operating profit/net sales income)	9%	15%
	9M 2016	**FY 2015**
Degree of leverage (short term and long term liabilities/total equity)	86%	92%
Degree of leverage (short term and long term liabilities/shareholders equity[32])	205%	215%
1st degree liquidity (cash and cash equivalents/short term liabilities)	24%	29%
2nd degree liquidity (current assets - inventories/short term liabilities)	88%	96%
Net working fund ratio (current assets – current liabilities/total assets)	4%	6%

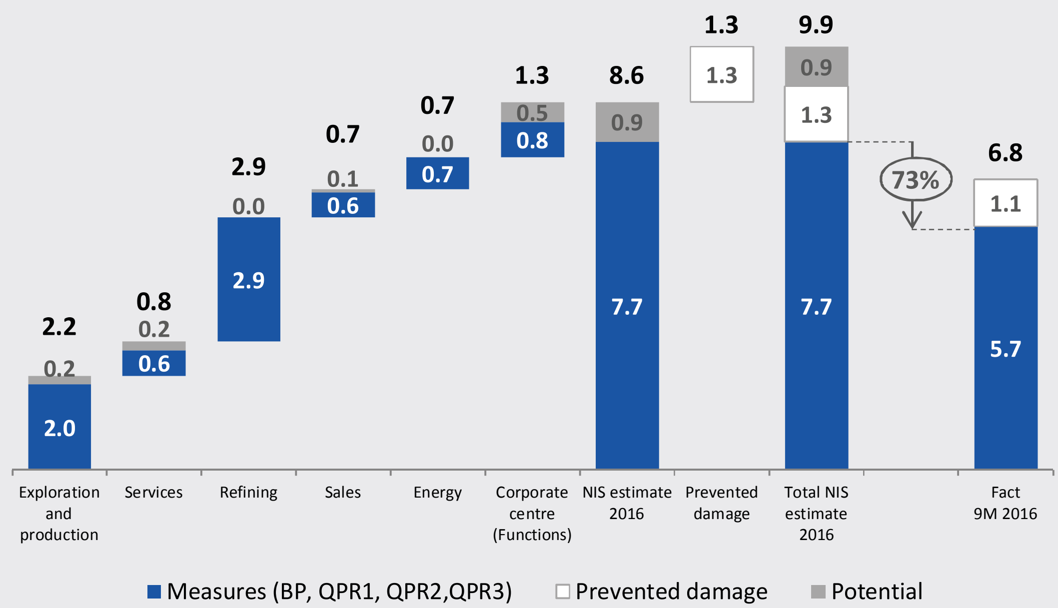
[31] shareholders equity = share capital
[32] shareholders equity = share capital

Improvement of Operational Efficiency

Estimated effect of measures for improvement of operational efficiency on EBITDA in 2016 is RSD 7.7 billion. In addition, estimated potential is RSD 0.9 billion, and the expected effect of the prevented damage is RSD 1.3 billion.

The effect of the measures for improvement of operational efficiency on EBITDA amounted to RSD 5.7 billion in the first nine months of 2016, which is 73% of the expected effect for this year.

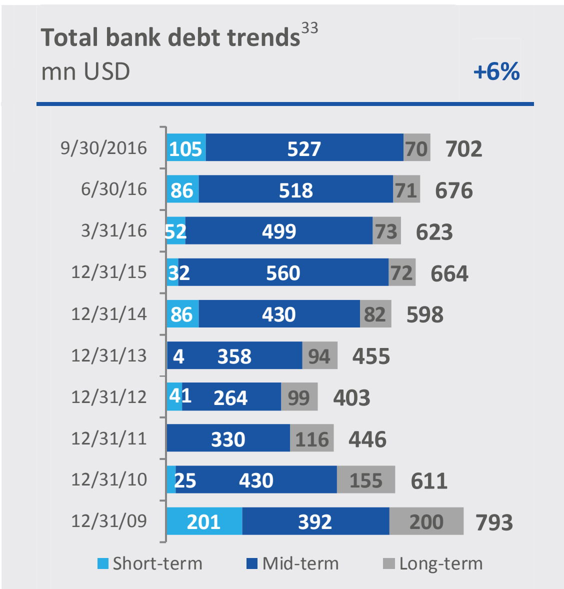
Effect of measures for improvement of operational efficiency on EBITDA
bn RSD

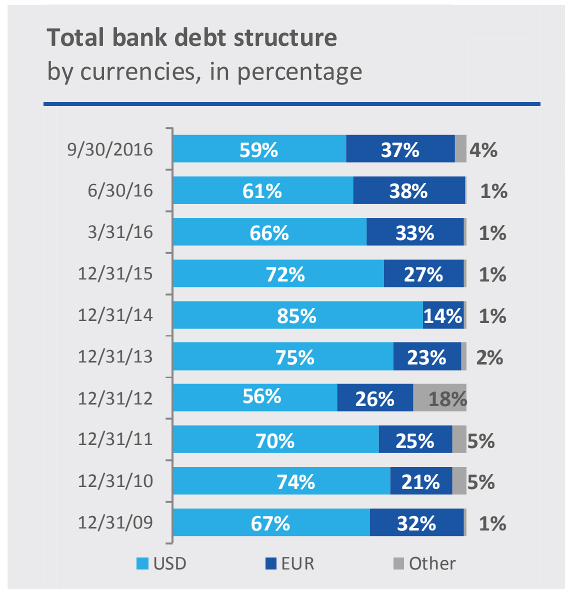


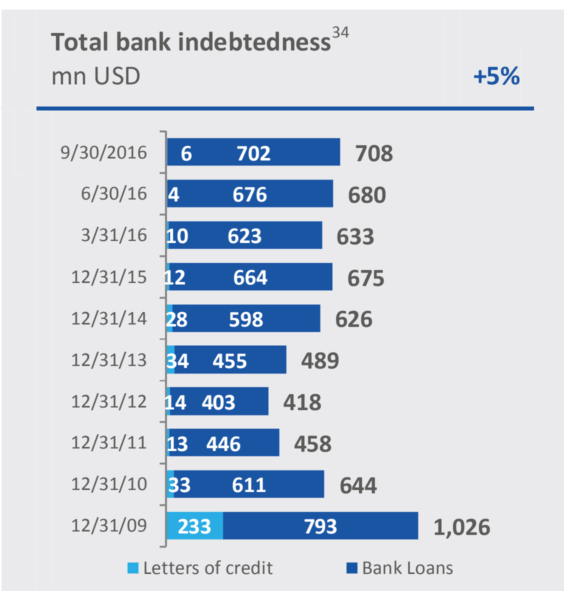
Indebtedness

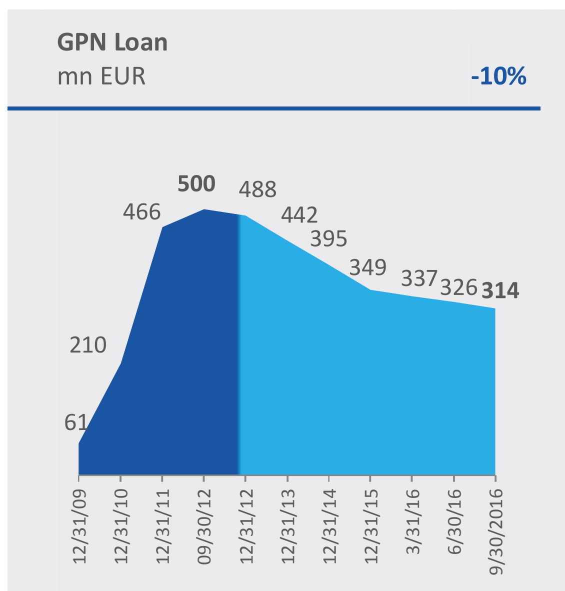
In Q3 2016, the debt towards banks increased to the level of USD 702 million. This increase is the result of drawing down favourable loans from banks that belong to EU bank-wing groups based on imports from the EU, and in compliance with exemptions stipulated by the current text of EU sanctions, as well as drawing down loans from Serbian banks. Drawing down of loans pace largely depends on the pace of imports 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.

There has been a continuation of a trend of diversified currency structure of credit portfolio by increasing the share of loans in euros and dinars and reducing the share of loans in dollars. 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.









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

[34] In addition to debt to banks and Letters of Credit, as at September 30th, 2016 *NIS j.s.c. Novi Sad* also holds issued bank guarantees in the amount of USD 27.5 million, corporate guarantees in the amount of USD 50.0 million and signed Letters of Intent in the amount of USD 1.5 million and finacial leasing in the amount of USD 3.4 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.

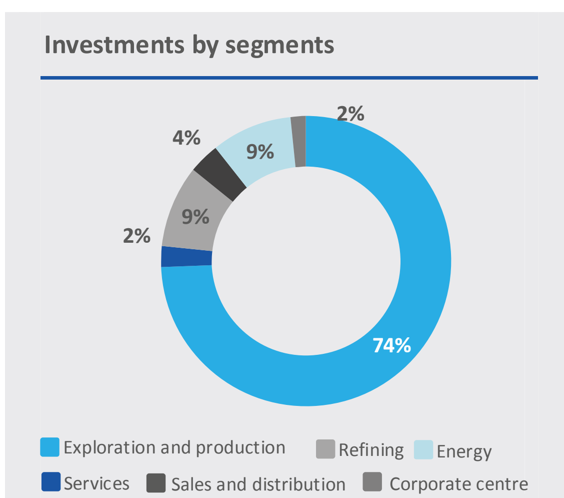
In the first nine months of 2016 the amount of RSD 14.46 billion[35] was allocated for investments financing, which is less than the amount allocated in the same period in 2015 by 24%. The most important investments in oil and gas production in 2016 included:

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

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 SO_x emissions)
- Repair and separation of oil and storm sewer drain.

Investment funding by project type[36]	9M 2016	9M 2015
Environmental protection	0.08	0.49
Angola	0.10	0.58
Projects with direct economic effect	9.93	14.03
Projects without direct economic effect	2.97	3.27
Project research works	1.38	0.58
Total:	**14.46**	**18.95**



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

Taxes and other Public Revenues

Analytical review of accrued liabilities from taxes and other public revenues[37]			
NIS j.s.c. Novi Sad	**9M 2016**	**9M 2015**	**Δ $\frac{9M\ 2016}{9M\ 2015}$ (%)**
Social insurance contributions paid by employer	1.09	1.10	0%
Corporate tax	0.81	1.60	-49%
Value-added tax	15.79	16.10	-2%
Excise duties	78.47	73.80	6%
Commodity reserves fee	4.47	4.50	-1%
Customs duties	0.30	0.20	+49%
Royalty	0.73	1.10	-34%
Other taxes	0.94	1.00	-6%
Total	**102.60**	**99.50**	**+3%**
NIS subsidiaries in Serbia[38]			
Social insurance contributions paid by employer	0.35	0.40	-11%
Corporate tax	0.06	0.10	-45%
Value-added tax	0.68	0.70	-2%
Excise duties	0.00	0.00	-
Customs duties	0.04	0.10	-61%
Royalty	0.00	0.00	-
Other taxes	0.06	0.10	-35%
Total	**1.20**	**1.30**	**-8%**
Total *NIS j.s.c. Novi Sad* with subsidiaries in Serbia	**103.8**	**100.80**	**+3%**
NIS regional subsidiaries and Angola and Turkmenistan			
Social insurance contributions paid by employer	0.05	0.10	-54%
Corporate tax	0.17	0.90	-81%
Value-added tax	0.96	0.60	+59%
Excise duties	7.61	5.40	+41%
Customs duties	4.36	0.50	8x
Royalty	0.00	0.00	-
Other taxes	0.08	0.10	-15%
Total	**13.23**	**7.70**	**+74%**
Deferred taxes (total for Group)	0.45	0.80	-44%
Total NIS Group[39]	**117.48**	**109.30**	**+7%**

The accrued liabilities from public revenues paid by *NIS j.s.c. Novi Sad* with its subsidiaries established from NIS' organisational structure[40] in Serbia for first nine months 2016 total RSD 103.8 billion, which represents an increase of RSD 3 billion i.e. 3% on the same period last year.

The accrued liabilities from public revenues paid by NIS Group for first nine months 2016 total RSD 117.5 billion, which represents an increase of RSD 8.2 billion i.e. 7% on the same period in 2015.

[37] In billions of RSD.
[38] 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.
[39] Including taxes and other liabilities from public revenues for regional subsidiaries, profit tax in Angola and deferred tax assets.
[40] 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.

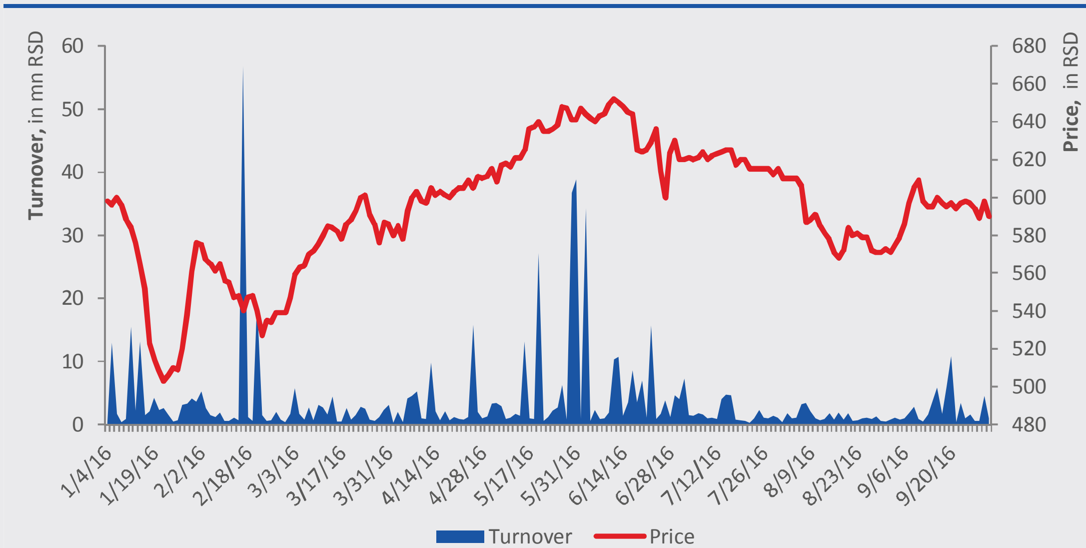
Top 10 shareholders with the largest percentage in share capital are mainly custody accounts:

Shareholders' name	No. of shares	% in share capital
PJSC "Gazprom Neft"	91,565,887	56.15%
Republic of Serbia	48,712,079	29.87%
Societe Generale banka Srbija – custody account	885,486	0.54%
UniCredit Bank Srbija a.d. – custody account	557,040	0.34%
Raiffeisen banka a.d. Beograd – custody account	328,515	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	19,910,868	12.21%
Total number of shareholders as at September 30th, 2016:		**2,148,356**

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 nine months of 2016



Overview of trading in *NIS j.s.c. Novi Sad* shares at Belgrade Stock Exchange in first nine months of 2016	
Last price (September 30th , 2016)	590 RSD
Highest price (June 13th, 2016)	658 RSD
Lowest price (January 21st, 2016)	500 RSD
Total turnover	667,742,946.00 RSD
Total volume (number of shares)	1,115,156 shares
Total number of transactions	23,969 transactions
Market cap as at September 30th , 2016	96,205,636,000.00 RSD
EPS	49.94 RSD
Consolidated EPS	47.06 RSD
P/E ratio	11.81
Consolidated P/E ratio	12.54
Book value as at September 30th, 2016	1,270.29 RSD
Consolidated book value as at September 30th, 2016	1,189.47 RSD
P/BV ratio	0.46
Consolidated P/BV ratio	0.50

In first nine 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[41]	(4.4)	16.5[42]	40.6[43]	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 %[44]	-	-	-	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.

[41] Net profit of *NIS j.s.c. Novi Sad*
[42] Net profit used for covering accumulated losses
[43] Net profit used for covering accumulated losses
[44] Calculated as the ratio of gross dividend and year-end share price

Human Resources

Number of employees

Organisational unit	September 30th, 2016			September 30th, 2015		
	Employees[45]	Leasing	Total	Employees[46]	Leasing	Total
NIS j.s.c. Novi Sad	**3,896**	**3,559**	**7,455**	**3,886**	**3,418**	**7,304**
Exploration and Production Block	782	219	1,001	768	210	978
Services Block	83	24	107	94	22	116
Refining Block	776	32	808	821	46	867
Sales and Distribution Block	965	2,821	3,786	922	2,656	3,578
Energy Block	243	20	263	232	18	250
The Corporate Centre	1,047	443	1,490	1,049	466	1,515
Representative offices and branches	**62**	**0**	**62**	**57**	**4**	**61**
Subsidiaries in the country	**1,400**	**1,563**	**2,963**	**1,393**	**1,518**	**2,911**
Naftagas – Oilfield Services47	601	780	1,381	581	772	1,353
Naftagas – Technical Services	400	487	887	411	463	874
Naftagas - Transport	104	273	377	108	255	363
STC NIS Naftagas	295	23	318	293	28	321
Subsidiaries abroad	**94**	**1**	**95**	**112**	**0**	**112**
NIS Petrol, Bulgaria	41	0	41	58	0	58
NIS Petrol, Romania	29	0	29	28	0	28
NIS Petrol, B&H	17	0	17	16	0	16
Jadran Naftagas, B&H	6	0	6	6	0	6
Panon Naftagas, Hungary	1	1	2	4	0	4
Other subsidiaries	**550**	**111**	**661**	**321**	**102**	**423**
O Zone a.d. Beograd	7	111	118	6	99	105
NIS Overseas o.o.o. Saint Petersburg	118	0	118	119	0	119
NIS – Svetlost d.o.o. Bujanovac	0	0	0	15	0	15
G – Petrol d.o.o. Sarajevo	425	0	425	181	3	184
NIS j.s.c. Novi Sad	**6,002**	**5,234**	**11,236**	**5,769**	**5,042**	**10,811**

The Basis for Employment Termination

In first nine months of 2016 a total of 188 employees left NIS Group: 12 employees were retired, 52 employees left NIS Group by mutual agreement, and for 124 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*[48]	Subsidiaries in Serbia
Retirement	8	4
Termination of employment by mutual agreement	38	14
Other	90	34
Total:	136	52

[45] The headcount includes employees through the "NIS Chance" programme.
[46] The headcount includes employees through the "NIS Chance" programme.
[47] Inclusive of the employees in branches.
[48] 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 September 2016 *(unaudited)*	31 December 2015 *(audited)*
Assets			
Current assets			
Cash and cash equivalents	6	13,662,092	16,729,893
Short-term financial assets		4,931,447	2,033,844
Trade and other receivables	7	38,120,774	36,645,567
Inventories	8	18,719,438	20,760,398
Current income tax prepayments		1,174,388	1,618,126
Other current assets	9	3,940,441	5,548,275
Assets classified as held for sale		3,473	21,703
Total current assets		**80,552,053**	**83,357,806**
Non-current assets			
Property, plant and equipment	10	222,122,147	217,647,262
Investment property		1,518,054	1,336,060
Other intangible assets		4,096,543	4,373,314
Investments in subsidiaries and joint venture	11	14,481,431	13,623,069
Trade and other non-current receivables	12	11,223,758	14,583,568
Long-term financial assets		33,544,313	33,823,202
Deferred tax assets		4,090,937	4,521,729
Other non-current assets	13	2,892,884	3,401,988
Total non-current assets		**293,970,067**	**293,310,192**
Total assets		**374,522,120**	**376,667,998**
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	14	28,885,003	17,865,941
Trade and other payables	15	26,097,617	29,828,377
Other current liabilities	16	3,440,689	5,782,078
Other taxes payable	17	9,050,653	9,484,109
Provisions for liabilities and charges		2,187,900	2,228,885
Total current liabilities		**69,661,862**	**65,189,390**
Non-current liabilities			
Long-term debt	18	87,660,557	99,309,246
Provisions for liabilities and charges		10,066,206	9,154,267
Total non-current liabilities		**97,726,763**	**108,463,513**
Equity			
Share capital	19	81,530,200	81,530,200
Reserves		(79,025)	(79,564)
Retained earnings		125,682,320	121,564,459
Total equity		**207,133,495**	**203,015,095**
Total liabilities and shareholder's equity		**374,522,120**	**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	Nine month period ended 30 September 2016 (unaudited)	2015 (unaudited)
Sales of petroleum products and oil and gas sales		112,941,379	145,173,536
Other revenues		11,023,736	5,021,816
Total revenue from sales	5	123,965,115	150,195,352
Purchases of oil, gas and petroleum products	20	(64,003,637)	(86,630,946)
Production and manufacturing expenses	21	(20,937,883)	(14,010,730)
Selling, general and administrative expenses	22	(14,925,163)	(14,849,636)
Transportation expenses		(745,364)	(654,844)
Depreciation, depletion and amortization		(10,027,762)	(8,848,784)
Taxes other than income tax		(2,761,412)	(3,203,409)
Total operating expenses		(113,401,221)	(128,198,349)
Other income/(expenses), net		42,173	(974,036)
Operating profit		**10,606,067**	**21,022,967**
Net foreign exchange gain/(loss)		268,106	(4,487,458)
Finance income		899,786	1,012,015
Finance expenses		(2,227,014)	(2,466,847)
Total other expense		(1,059,122)	(5,942,290)
Profit before income tax		**9,546,945**	**15,080,677**
Current income tax expense		(972,331)	(2,474,483)
Deferred tax expense		(430,792)	(816,460)
Total income tax expense		(1,403,123)	(3,290,943)
Profit for the period		**8,143,822**	**11,789,734**
Other comprehensive profit (loss): **Items that may be subsequently reclassified to profit or loss**			
Change in value of available-for-sale financial assets		539	(33,713)
Other comprehensive income (loss) for the period		**539**	**(33,713)**
Total comprehensive income for the period		**8,144,361**	**11,756,021**
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		49.95	72.10
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

Nine month period ended 30 September 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/(loss) for the period	-	-	11,789,734	11,789,734
Other comprehensive income (loss)				
Change in value of available-for-sale financial assets	-	(33,713)	-	(33,713)
Total comprehensive income/(loss) for the period	-	(33,713)	11,789,734	11,756,021
Dividend distribution	-	-	(7,639,380)	(7,639,380)
Total transaction with owners, recorded in equity	-	-	(7,639,380)	(7,639,380)
Balance as at 30 September 2015	**81,530,200**	**(75,990)**	**117,248,733**	**198,702,943**
Balance as at 1 January 2016	**81,530,200**	**(79,564)**	**121,564,459**	**203,015,095**
Profit/(loss) for the period	-	-	8,143,822	8,143,822
Other comprehensive income (loss)				
Change in value of available-for-sale financial assets	-	539	-	539
Total comprehensive income (loss) for the period	-	539	8,143,822	8,144,361
Dividend distribution	-	-	(4,025,961)	(4,025,961)
Total transactions with owners, recorded in equity	-	-	(4,025,961)	(4,025,961)
Balance as at 30 September 2016	**81,530,200**	**(79,025)**	**125,682,320**	**207,133,495**

in thousand RSD

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

Statement of Cash Flows

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

in thousand RSD

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

Notes to Stand-alone Financial Statements[49]

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 mandated by Serbian legislation. The accompanying Interim Condensed Financial Statements were primarily derived from the Company’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (IFRS).

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

The Company does not disclose information which would substantially duplicate the disclosures contained in its audited Financial Statements for 2015, such as significant accounting policies, significant estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Company believes that the disclosures in these Interim Condensed Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Financial Statements are read in conjunction with the Company’s Financial Statements for 2015.

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

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

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

[49] All amounts are in 000 RSD, unless otherwise stated.

2.2. Changes in significant accounting policies

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

3. APPLICATION OF NEW IFRS

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

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

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

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

4. NEW ACCOUNTING STANDARDS

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

The following new amandmentsre issued during the nine months period ended 30 September 2016:

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

The amendments to IAS 7 – Statement of Cash Flow (issued in January 2016 effective for annual periods beginning on or after 1 January, 2017) require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

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

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

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

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

5. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

*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):

	Nine months period ended 30 September 2016		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,305,751	1,305,751
Sale of gas	2,309,441	-	2,309,441
Through a retail network	-	-	-
Wholesale activities	2,309,441	-	2,309,441
Sale of petroleum products	91,823,146	17,503,040	109,326,186
Through a retail network	32,867,315	-	32,867,315
Wholesale activities	58,955,831	17,503,040	76,458,871
Sale of electricity	375,306	5,703,111	6,078,417
Other sales	4,819,158	126,162	4,945,320
Total sales	**99,327,051**	**24,638,064**	**123,965,115**

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

Out of the amount of 76,458,871 RSD (2015: 100,628,711 RSD) revenue from sale of petroleum products (wholesale), the amount of 9,416,348 RSD (2015: 12,097,149 RSD) are derived from a single domestic customer HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 3,538.860 RSD (2015: 2,814,115 RSD).

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 199,327,051 RSD (2015: 125,408,736 RSD), and the total of revenue from external customer from other countries is 24,638,064 RSD (2015: 24,786,616 RSD).

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

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

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

6. CASH AND CASH EQUIVALENTS

	30 September 2016	31 December 2015
Cash in bank and in hand	9,216,899	10,725,749
Deposits with original maturity of less than three months	4,390,000	6,000,000
Cash with restriction	54,324	3,184
Cash equivalents	869	4,144
	13,662,092	**16,729,893**

7. TRADE AND OTHER RECEIVABLES

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

The ageing of trade and other receivables is as follows:

	30 September 2016	31 December 2015
Neither impaired nor past due	23,667,817	29,966,050
Past due but not impaired:		
within 30 days:	1,873,586	1,935,572
1 to 3 months	1,506,862	1,210,536
3 months to 1 year	7,682,674	118,635
over 1 year	3,389,835	3,414,774
Total	**38,120,774**	**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 September 2016	31 December 2015
RSD	44,727,663	43,281,136
EUR	18,387,172	17,635,878
USD	920,239	1,507,845
Other	22	21
	64,035,096	**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	23,632	76,362	99,994
Unused amounts reversed	(55,608)	(51,486)	(107,094)
Receivables written off during the year as uncollectible	468,562	(1,808,979)	(1,340,417)
Exchange differences	-	(81,498)	(81,498)
Other	(6,047)	-	(6,047)
As at 30 September 2015	**10,632,009**	**17,656,668**	**28,288,677**
As at 1 January 2016	**10,001,877**	**15,777,436**	**25,779,313**
Provision for receivables impairment	65,054	67,696	132,750
Unused amounts reversed	(36,279)	(46,348)	(82,627)
Receivables written off during the year as uncollectible	(19,584)	(7,871)	(27,455)
Exchange differences	1	112,340	112,341
As at 30 September 2016	**10,011,069**	**15,903,253**	**25,914,322**

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

9. OTHER CURRENT ASSETS

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

Deferred VAT as at 30 September 2016 amounting to 538,056 RSD (31 December 2015: 1,741,957 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 30 September 2016 amounting to 1,559,590 RSD (31 December 2015: 3,027,852 RSD) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

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

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

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

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 September 2015						
Additions	-	-	-	-	18,172,717	18,172,717
Transfer from assets under construction	14,431,027	3,505,380	1,947,636	164,803	(20,048,846)	-
Impairment	-	(29,826)	(147,634)	-	(100,750)	(278,210)
Depreciation	(2,544,953)	(4,297,426)	(945,826)	(419,942)	-	(8,208,147)
Transfer to investment property	-	-	(38,046)	(180,595)	-	(218,641)
Disposals and write-off	(177,259)	(51,979)	(40,063)	(95,459)	(35,288)	(400,048)
Other transfers	(24,248)	(2,953)	(2,066)	6,887	(49,340)	(71,720)
	65,929,067	80,823,513	18,750,402	9,372,719	35,748,154	210,623,855
As at 30 September 2015						
Cost	87,658,110	117,956,072	32,744,484	17,572,992	38,412,420	294,344,078
Depreciation and impairment	(21,729,043)	(37,132,559)	(13,994,082)	(8,200,273)	(2,664,266)	(83,720,223)
Net book value	65,929,067	80,823,513	18,750,402	9,372,719	35,748,154	210,623,855
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 September 2016						
Additions	-	-	-	-	13,546,836	13,546,836
Changes in decommissioning obligations	634,193	-	-	-	-	634,193
Transfer from assets under construction	11,509,079	787,045	1,567,025	114,361	(13,977,510)	-
Impairment	-	-	-	-	(21,100)	(21,100)
Depreciation	(3,627,945)	(4,196,547)	(1,065,202)	(411,519)	-	(9,301,213)
Disposals and write-off	(88,534)	(13,089)	(89,779)	(44,427)	(133,887)	(369,716)
Other transfers	(20,302)	(2,974,908)	2.961.218	20.803	(926)	(14.115)
	83,881,214	75,089,886	22,162,760	9,034,055	31,954,232	222,122,147
As at 30 September 2016						
Cost	110,169,045	108,882,884	46,262,002	17,441,663	34,316,540	317,072,134
Depreciation and impairment	(26,287,831)	(33,792,998)	(24,099,242)	(8,407,608)	(2,362,308)	(94,949,987)
Net book value	**83,881,214**	**75,089,886**	**22,162,760**	**9,034,055**	**31,954,232**	**222,122,147**

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 September 2015						
Additions	2,511,561	12,698,240	15,209,801	-	-	15,209,801
Transfer from asset under construction	(2,781,977)	(11,658,741)	(14,440,718)	14,431,027	-	(9,691)
Other transfers	60,693	(33,229)	27,464	(24,248)	-	3,216
impairment	-	(10,332)	(10,332)	-	-	(10,332)
Depreciation and depletion	-	-	-	(2,544,953)	-	(2,544,953)
Disposals and write-off	(38,480)	(1)	(38,481)	(177,261)	(1)	(215,743)
	14,753,167	12,320,630	27,073,797	65,929,065	1,844	93,004,706
As at 30 September 2015						
Cost	14,795,758	12,569,401	27,365,159	87,658,108	22,203	115,045,420
Depreciation and impairment	(42,591)	(248,771)	(291,362)	(21,729,043)	(20,359)	(22,040,714)
Net book amount	14,753,167	12,320,630	27,073,797	65,929,065	1,844	93,004,706
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 September 2016						
Additions	1,556,444	9,251,005	10,807,449	-	-	10,807,449
Changes in decommissioning obligations	-	-	-	634,193	-	634,193
Transfer from asset under construction	(220,295)	(11,286,560)	(11,506,855)	11,509,079	-	2,224
Other transfers	-	26,015	26,015	(20,302)	1	5,714
Depreciation and depletion	-	-	-	(3,627,945)	-	(3,627,945)
Disposals and write-off	(11,328)	(49,370)	(60,698)	(88,534)	-	(149,232)
	18,069,189	5,336,563	23,405,752	83,881,214	1,843	107,288,809
As at 30 September 2016						
Cost	18,069,189	5,584,956	23,654,145	110,169,045	22,153	133,845,343
Depreciation and impairment	-	(248,393)	(248,393)	(26,287,831)	(20,310)	(26,556,534)
Net book amount	**18,069,189**	**5,336,563**	**23,405,752**	**83,881,214**	**1,843**	**107,288,809**

11. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURE

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

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

12. TRADE AND OTHER NON-CURRENT RECEIVABLES

	30 September 2016	31 December 2015
Non-current trade receivables:		
- state and state owned companies	9,756,970	12,388,550
	9,756,970	**12,388,550**
Non-current other receivables:		
- third parties	3,018	79,767
- state and state owned companies	2,098,413	4,050,964
	2,101,431	**4,130,731**
Less impairment provision for trade and other non-current receivables:		
- third parties	(59)	(76,849)
- state and state owned companies	(634,584)	(1,858,864)
	(634,643)	**(1,935,713)**
	11,223,758	**14,583,568**

Trade and other non-current receivables amounting to 11,223,758 RSD mainly relate to the long-term receivables from the Republic of Serbia in the amount of 7,584,054 RSD according to the debt of Srbijagas owed to Naftna industrija Srbije takeover and its conversion into public debt. (Short-term part of the receivables: note 7).

These receivables were denominated in EUR on the date of the debt takeover.As at 31 May 2016, the second instalment was paid in accordance with the repayment schedule defined by the Law.

13. OTHER NON-CURRENT ASSETS

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

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

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

15. TRADE AND OTHER PAYABLES

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

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

16. OTHER CURRENT LIABILITIES

	30 September 2016	31 December 2015
Advances received	1,085,994	3,131,988
Payables to employees	2,315,764	2,624,262
Accruals and deferred income	25,437	13,066
Other current non-financial liabilities	13,494	12,763
	3,440,689	**5,782,079**

17. OTHER TAXES PAYABLE

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

18. LONG-TERM DEBT

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

(a) Long-term loan - Gazprom Neft

As at 30 September 2016 long-term loan - Gazprom Neft amounting to 38,708,236 RSD (31 December 2015: 42,427,710 RSD), with current portion of 5,734,553 RSD (2015: 5,657,028 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) Bank loans

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

The maturity of bank loans was as follows:

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

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

	30 September 2016	31 December 2015
USD	45,401,624	53,388,078
EUR	17,711,073	16,529,505
RSD	2,069,474	1,175
JPY	416,614	380,199
	65,598,785	**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 September 2016 and 31 December 2015, respectively.

19. SHARE CAPITAL

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

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

20. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

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

21. PRODUCTION AND MANUFACTURING EXPENSES

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

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

23. FAIR VALUE MEASUREMENT

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

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

24. CONTINGENCIES AND COMMITMENTS

Transfer of property ownership

As at 30 September 2016, the Company had ownership and the right to use and possess of 7,948 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Company's management recognised an environmental provision in the amount of 745,344 RSD (31 December 2015: 687,705 RSD).

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

Other contingent liabilities

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

Taking all of the above into consideration, the Company's Management is of the view that as at 30 September 2016 outflow of resources embodying economic benefits is not probable due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

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 September 2016.

Capital commitments

Purchase of property, plant and equipment

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

Farm-out agreement with East West Petroleum Corporation, Canada

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

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

25. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

	Subsidiaries	Parent company	Entities under common control
Nine month period ended 30 September 2016			
Petroleum products and oil and gas sales	6,154,627	-	395,681
Other Revenues	506,502	-	5,511,748
Purchases of oil, gas and petroleum products	(6,184,471)	(29,566,123)	(396,618)
Production and manufacturing expenses	(2,979,091)	-	(5,527,528)
Selling, general and administrative expenses	(427,045)	-	(113,585)
Transportation expenses	(65,131)	-	-
Other income (expenses), net	(26,660)	18,455	(39)
Finance income	727,579	-	-
Finance expense	(10,272)	(585,042)	-
	(2,303,962)	**(30,132,710)**	**(130,341)**
Nine month periods ended 30 September 2015			
Petroleum products and oil and gas sales	7,001,664	-	85,607
Other revenues	416,690	-	328,663
Purchases of oil, gas and petroleum products	(7,034,967)	(60,957,424)	(2,037,894)
Production and manufacturing expenses	(2,623,012)	(5,839)	(213,802)
Selling, general and administrative expenses	(679,729)	(23,823)	(15,137)
Transportation expenses	(15,565)	-	-
Other expenses, net	(47,832)	(16,210)	(19,825)
Finance income	917,527	-	-
Finance expense	(90,345)	(724,476)	-
	(2,155,569)	**(61,727,772)**	**(69,374,573)**

Transations with Key Management Personnel

For the nine month period ended on 30 September 2016 and 2015 the Company recognized 593,172 RSD and 326,210 RSD, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

Consolidated Financial Statements

Consolidated Statement of Financial Position

	Note	30 September 2016 *(unaudited)*	31 December 2015 *(audited)*
Assets			
Current assets			
Cash and cash equivalents	6	16,585,007	19,271,435
Short-term financial assets		298,555	201,087
Trade and other receivables	7	36,581,327	34,948,713
Inventories	8	22,175,060	24,178,244
Current income tax prepayments		1,162,144	1,629,761
Other current assets	9	4,649,636	6,225,886
Assets classified as held for sale		3,473	21,703
Total current assets		**81,455,202**	**86,476,829**
Non-current assets			
Property, plant and equipment	10	251,155,960	247,213,423
Investment property		1,518,054	1,336,060
Goodwill and other intangible assets		6,881,056	7,155,279
Investments in joint venture	11	2,047,021	1,188,659
Trade and other non-current receivables	12	11,297,838	14,656,649
Long-term financial assets		168,212	321,006
Deferred tax assets		3,821,221	4,268,741
Other non-current assets	13	2,859,815	3,399,135
Total non-current assets		**279,749,177**	**279,538,952**
Total assets		**361,204,379**	**366,015,781**
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	14	28,561,023	17,135,875
Trade and other payables	15	23,067,436	29,364,018
Other current liabilities	16	4,345,156	6,537,802
Other taxes payable	17	10,008,198	10,445,185
Provisions for liabilities and charges		2,202,267	2,256,470
Total current liabilities		**68,184,080**	**65,739,350**
Non-current liabilities			
Long-term debt	18	88,700,777	100,313,640
Provisions for liabilities and charges		10,364,516	9,451,111
Total non-current liabilities		**99,065,293**	**109,764,751**
Equity			
Share capital	19	81,530,200	81,530,200
Reserves		(732,819)	(530,528)
Retained earnings		113,366,064	109,698,142
Equity attributable to the Company's owners		**194,163,445**	**190,697,814**
Non-controlling interest		(208,439)	(186,134)
Total equity		**193,955,006**	**190,511,680**
Total liabilities and shareholder's equity		**361,204,379**	**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	Nine months period ended 30 September 2016 (unaudited)	2015 (unaudited)
Sales of petroleum products and oil and gas sales		120,862,239	152,221,776
Other revenues		13,221,667	6,968,923
Total revenue from sales	5	**134,083,906**	**159,190,699**
Purchases of oil, gas and petroleum products	20	(69,670,479)	(91,788,572)
Production and manufacturing expenses	21	(20,513,650)	(13,712,752)
Selling, general and administrative expenses	22	(16,845,192)	(16,383,779)
Transportation expenses		(754,999)	(643,702)
Depreciation, depletion and amortization		(11,793,435)	(10,452,813)
Taxes other than income tax		(3,592,618)	(3,852,278)
Exploration expenses		-	(3,321)
Total operating expenses		**(123,170,373)**	**(136,837,217)**
Other expenses, net		(37,433)	(1,247,103)
Operating profit		**10,876,100**	**21,106,379**
Net foreign exchange gain/(loss)		422,245	(4,489,442)
Finance income		176,821	266,896
Finance expenses		(2,316,985)	(2,563,331)
Total other expense		**(1,717,919)**	**(6,785,877)**
Profit before income tax		**9,158,181**	**14,320,502**
Current income tax expense		(1,037,117)	(2,572,718)
Deferred tax expense		(446,724)	(819,425)
Total income tax expense		**(1,483,841)**	**(3,392,143)**
Profit for the period		**7,674,340**	**10,928,359**
Other comprehensive profit (loss):			
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		540	(33,713)
Currency translation differences		(205,593)	18,002
		(205,053)	(15,711)
Other comprehensive loss for the period		**(205,053)**	**(15,711)**
Total comprehensive income for the period		**7,469,287**	**10,912,648**
Profit attributable to:			
- Shareholders of Naftna Industrija Srbije		7,693,883	10,951,871
- Non-controlling interest		(19,543)	(23,512)
Profit for the period		**7,674,340**	**10,928,359**
Total comprehensive income (loss) attributable to:			
- Shareholders of Naftna Industrija Srbije		7,491,592	10,934,312
- Non-controlling interest		(22,305)	(21,664)
Total comprehensive income for the period		**7,469,287**	**10,912,648**
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		47.18	67.16
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

Nine month period ended 30 September 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	-	-	10,951,871	10,951,871	(23,512)	10,928,359
Other comprehensive income/(loss)						
Change in value of available-for-sale financial assets	-	(33,713)	-	(33,713)	-	(33,713)
Currency translation differences	-	16,154	-	16,154	1,848	18,002
Total comprehensive income (loss) for the period	-	(17,559)	10,951,871	10,934,312	(21,664)	10,912,648
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	-	-	(234)	(234)	-	(234)
Balance as at 30 September 2015	**81,530,200**	**(470,372)**	**106,008,413**	**187,068,241**	**(174,706)**	**186,893,535**
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	-	-	7,693,883	7,693,883	(19,543)	7,674,340
Other comprehensive income/(loss)						
Change in value of available-for-sale financial assets	-	540	-	540	-	540
Currency translation differences	-	(202,831)	-	(202,831)	(2,762)	(205,593)
Total comprehensive income (loss) for the period	-	(202,291)	7,693,883	7,491,592	(22,305)	7,469,287
Dividend distribution	-	-	(4,025,961)	(4,025,961)	-	(4,025,961)
Total transactions with owners, recorded in equity	-	-	(4,025,961)	(4,025,961)	-	(4,025,961)
Balance as at 30 September 2016	**81,530,200**	**(732,819)**	**113,366,064**	**194,163,445**	**(208,439)**	**193,955,006**

in thousand RSD

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

Consolidated Statement of Cash Flows

	Nine month period ended 30 September	
	2016	**2015**
	(unaudited)	*(unaudited)*
Cash flows from operating activities		
Profit before income tax	**9,158,181**	**14,320,502**
Adjustments for:		
Finance costs	2,316,985	2,563,331
Finance income	(176,821)	(266,896)
Depreciation, depletion and amortization	11,793,435	10,452,813
Adjustments for other provisions	387,722	264,769
Allowance for doubtful accounts	300,791	78,223
Payables write off	(34,981)	(257,795)
Net unrealised foreign exchange losses	857,387	3,425,503
Other non-cash items	(217,712)	290,445
	15,226,806	16,550,393
Changes in working capital:		
Trade and other receivables	1,725,516	2,426,856
Inventories	1,936,116	9,862,564
Other current assets	808,134	1,265,252
Trade payables and other current liabilities	(7,784,658)	(5,064,069)
Other taxes payable	(425,518)	1,210,762
	(3,740,410)	9,701,365
Income taxes paid	(560,632)	(2,780,273)
Interest paid	(2,260,963)	(2,224,756)
Interest received	332,506	464,520
	(2,489,089)	(4,540,509)
Net cash generated by operating activities	**18,155,488**	**36,031,751**
Cash flows from investing activities		
Acquisition of equity-accounted investments	(858,362)	(25)
Loans issued	(67,549)	(386,333)
Loan proceeds received	121,923	18,032
Capital expenditures	(15,501,064)	(22,098,297)
Proceeds from sale of property, plant and equipment	395,389	184,043
Other inflow	218	77,076
Net cash used in investing activities	**(15,909,445)**	**(22,205,504)**
Cash flows from financing activities		
Proceeds from borrowings	14,737,364	28,081,912
Repayment of borrowings	(15,619,787)	(24,029,578)
Dividends paid	(4,025,961)	(7,639,380)
Net cash used in financing activities	**(4,908,384)**	**(3,587,046)**
Net (decrease)/increase in cash and cash equivalents	(2,662,341)	10,239,201
Effect of foreign exchange on cash and cash equivalents	(24,087)	(172,196)
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	**16,585,007**	**18,393,709**

in thousand RSD

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

Notes to Consolidated Financial Statements[50]

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.

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

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

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

[50] All amounts are in 000 RSD, unless otherwise stated.

2.2. Changes in significant accounting policies

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

3. APPLICATION OF NEW IFRS

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

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

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).

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 nine months period ended 30 September 2016:

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

The amendments to IAS 7 – Statement of Cash Flow (issued in January 2016 effective for annual periods beginning on or after 1 January, 2017) require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

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

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 nine months periods ended 30 September 2016 and 2015. Operating segments are components that engaged in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The 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 nine months period ended 30 September 2016 are shown in the table below:

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

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	40,250,483	158,248,480	(39,308,264)	159,190,699
Intersegment	38,232,326	1,075,938	(39,308,264)	-
External	2,018,157	157,172,542	-	159,190,699
EBITDA (Segment results)	30,543,850	1,715,664	-	32,259,514
Depreciation, depletion and amortization	(3,439,015)	(7,013,798)	-	(10,452,813)
Impairment losses	(10,332)	(249,738)	-	(260,070)
Net foreign exchange gain (loss)	54,184	(4,543,626)	-	(4,489,442)
Finance expenses, net	(90,082)	(2,206,353)	-	(2,296,435)
Income tax	(94,581)	(3,297,562)	-	(3,392,143)
Segment profit (loss)	**26,265,702**	**(15,337,343)**	**-**	**10,928,359**

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

	Nine months period ended 30 September	
	2016	**2015**
Profit for the period	7,674,340	10,928,359
Income tax expenses	1,483,841	3,392,143
Finance expenses	2,316,985	2,563,331
Finance income	(176,821)	(266,896)
Depreciation, depletion and amortization	11,793,435	10,452,813
Net foreign exchange (gain)/loss	(422,245)	4,489,442
Other expense, net	37,433	1,247,103
Other non-operating income, net*	(243,584)	(546,781)
EBITDA	**22,463,384**	**32,259,514**

*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):

	Nine months period ended 30 September 2016		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	1,305,751	1,305,751
Sale of gas	2,305,199	-	2,305,199
Through a retail network	-	-	-
Wholesale activities	2,305,199	-	2,305,199
Sale of petroleum products	91,494,273	25,757,016	117,251,289
Through a retail network	32,867,316	-	32,867,316
Wholesale activities	58,626,957	25,757,016	84,383,973
Sale of electricity	381,762	5,703,110	6,084,872
Other sales	4,635,624	2,501,171	7,136,795
Total sales	**98,816,858**	**35,267,048**	**134,083,906**

	Nine months period ended 30 September 2015		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,740,490	1,740,490
Sale of gas	5,692,700	-	5,692,700
Through a retail network	-	-	-
Wholesale activities	5,692,700	-	5,692,700
Sale of petroleum products	114,763,509	30,025,077	144,788,586
Through a retail network	37,104,041	-	37,104,041
Wholesale activities	77,659,468	30,025,077	107,684,545
Sale of electricity	274,907	328,663	603,570
Other sales	3,842,581	2,522,772	6,365,353
Total sales	**124,573,697**	**34,617,002**	**159,190,699**

Out of the amount of 84,383,973 RSD (2015: 107,684,545 RSD) revenue from sale of petroleum products (wholesale), the amount of 9,416,348 RSD (2015: 12,097,149 RSD) are derived from a single domestic customer HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 5,334,701 RSD (2015: 4,627,271 RSD).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 98,816,858 RSD (2015: 124,573,697 RSD), and the total of revenue from external customer from other countries is 35,267,048 RSD (2015: 34,617,002 RSD).

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

	Nine months period ended 30 September	
	2016	2015
Sale of crude oil	1,305,751	1,740,490
Sale of petroleum products (retail and wholeasle)		
Bulgaria	7,332,712	8,328,810
Bosnia and Herzegovina	5,350,840	6,806,191
Romania	6,401,921	5,007,969
All other markets	6,671,543	9,882,107
	25,757,016	30,025,077
Sales of electricity	5,703,110	328,663
Other sales	2,501,171	2.522.772
	35,267,048	**34,617,002**

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 September 2016	31 December 2015
Serbia	236,420,437	232,868,821
Bulgaria	8,027,745	8,246,434
Bosnia and Herzegovina	8,110,148	8,152,524
Romania	6,996,646	6,436,983
Hungary	94	-
	259,555,070	**255,704,762**

6. CASH AND CASH EQUIVALENTS

	30 September 2016	31 December 2015
Cash in bank and in hand	9,956,045	11,302,285
Deposits with original maturity of less than three months	4,993,564	6,385,304
Cash held on escrow account	1,634,529	1,562,453
Cash equivalents	869	21,393
	16,585,007	**19,271,435**

Cash held on escrow accounts as of 30 September 2016 amounting to 1,634,529 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 September 2016	31 December 2015
Trade receivables:		
- related parties	961,159	253,057
- third parties	31,672,947	29,781,907
- state and state owned companies	19,020,125	19,369,662
	51,654,231	**49,404,626**
Other receivables:		
- third parties	242,443	209,227
- state and state owned companies	10,424,734	10,314,622
	10,667,177	10,523,849
Accrued assets	36,684	660,401
	62,358,092	**60,588,876**
Less impairment provision for trade and other receivables:		
- third parties	(9,873,512)	(9,862,727)
- state and state owned companies	(15,903,253)	(15,777,436)
	(25,776,765)	**(25,640,163)**
Total trade and other receivables	**36,581,327**	**34,948,713**

The ageing of trade and other receivables is as follows:

	30 September 2016	31 December 2015
Neither impaired nor past due	23,138,097	27,139,823
Past due but not impaired:		
within 30 days:	2,029,063	1,831,215
1 to 3 months	1,647,953	1,200,167
3 months to 1 year	7,268,975	2,198,059
over 1 year	2,497,239	2,579,449
Total	**36,581,327**	**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 ageing table above are fully recoverable.

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

	30 September 2016	31 December 2015
RSD	43,223,163	41,704,312
EUR	17,233,005	16,348,409
USD	920,239	1,507,433
Other	981,685	1,028,722
	62,358,092	**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	34,497	76,362	110,859
Unused amounts reversed	(66,356)	(51,486)	(117,842)
Receivables written off during the year as uncollectible	468,562	(1,808,979)	(1,340,417)
Exchange differences	-	(81,498)	(81,498)
Other	(10,908)	-	(10,908)
As at 30 September 2015	**10,488,142**	**17,656,668**	**28,144,810**
As at 1 January 2016	9,862,727	15,777,436	25,640,163
Provision for receivables impairment	73,186	67,696	140,882
Unused amounts reversed	(42,776)	(46,348)	(89,124)
Receivables written off during the year as uncollectible	(20,860)	(7,871)	(28,731)
Exchange differences	-	112,340	112,340
Other	1,235	-	1,235
As at 30 September 2016	**9,873,512**	**15,903,253**	**25,776,765**

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 September 2016	31 December 2015
Crude oil	10,204,138	11,069,970
Petroleum products	9,358,567	13,738,263
Materials and supplies	7,187,705	4,120,087
Other	870,856	838,428
Less impairment provision	(5,446,206)	(5,588,504)
	22,175,060	**24,178,244**

9. OTHER CURRENT ASSETS

	30 September 2016	31 December 2015
Advances paid	559,670	536,372
VAT receivables	265,654	227,121
Deferred VAT	1,726,195	2,014,262
Prepaid expenses	201,181	120,106
Prepaid custom duties	31,790	33,190
Prepaid excise	1,566,012	3,028,713
Other current assets	14,579,704	14,308,833
Less impairment provision	(14,280,570)	(14,042,711)
	4,649,636	**6,225,886**

Deferred VAT as at 30 September 2016 amounting to 1,726,195 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 September 2016 amounting to 1,566,012 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	1,135	110,968	112,103
Unused amounts reversed	(4,424)	(14,974)	(19,398)
Receivables written off during the year as uncollectible	(6)	(501,296)	(501,302)
Other	(865)	8,918	8,053
As at 30 September 2015	**240,668**	**20,362,551**	**20,603,219**
As at 1 January 2016	270,296	13,772,415	14,042,711
Provision for receivables impairment	5,360	262,456	267,816
Unused amounts reversed	(6,425)	(12,974)	(19,399)
Other	(475)	(10,083)	(10,558)
As at 30 September 2016	**268,756**	**14,011,814**	**14,280,570**

The ageing of other current assets is as follows:

	30 September 2016	31 December 2015
Neither impaired nor past due	4,555,293	6,071,893
Not impaired and past due in the following periods:		
Less than 1 month	23,969	30,136
1 - 3 months	12,915	31,372
3 month - one year	7,687	43,018
Over 1 year	49,772	49,467
Total	**4,649,636**	**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 September 2015						
Additions	-	-	-	-	19,331,709	19,331,709
Transfer from assets under construction	15,630,385	3,505,380	2,203,647	192,308	(21,531,720)	-
Impairment	-	(29,826)	(147,634)	-	(103,708)	(281,168)
Depreciation	(3,168,378)	(4,297,427)	(1,623,872)	(589,989)	(3,666)	(9,683,332)
Transfer to investment property	-	-	(38,046)	(180,595)	-	(218,641)
Disposals and write-off	(40,909)	(51,978)	(44,937)	(95,528)	(79,010)	(312,362)
Other transfers	(24,248)	(2,953)	149,303	40,207	(506,780)	(344,471)
Translation differences	(10)	-	(106,351)	-	(17,458)	(123,819)
	73,622,975	**80,823,512**	**34,819,886**	**11,038,315**	**40,453,079**	**240,757,767**
As at 30 September 2015						
Cost	97,767,045	117,956,070	51,089,131	20,056,693	43,103,241	329,972,180
Depreciation and impairment	(24,144,070)	(37,132,558)	(16,269,245)	(9,018,378)	(2,650,162)	(89,214,413)
Net book value	**73,622,975**	**80,823,512**	**34,819,886**	**11,038,315**	**40,453,079**	**240,757,767**
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 September 2016						
Additions	-	-	-	117	14,427,556	14,427,673
Changes in decommissioning obligations	634,193	-	-	-	-	634,193
Transfers from assets under construction	11,950,134	787,045	1,554,699	215,038	(14,506,916)	-
Impairment	-	-	-	-	(21,135)	(21,135)
Depreciation	(4,375,145)	(4,196,547)	(1,735,860)	(587,561)	(3,796)	(10,898,909)
Disposals and write-off	(128,586)	(13,088)	(89,813)	(49,588)	(174,514)	(455,589)
Other transfers	(19,744)	(2,974,908)	2,960,677	20,803	(115,298)	(128,470)
Translation differences	999	-	276,957	(67)	106,885	384,774
	91,644,519	**75,089,886**	**37,883,268**	**10,585,032**	**35,953,255**	**251,155,960**
As at 30 September 2016						
Cost	121,224,108	108,882,883	65,248,047	20,045,103	38,340,620	353,740,761
Depreciation and impairment	(29,579,589)	(33,792,997)	(27,364,779)	(9,460,071)	(2,387,365)	(102,584,801)
Net book value	**91,644,519**	**75,089,886**	**37,883,268**	**10,585,032**	**35,953,255**	**251,155,960**

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 September 2015						
Additions	2,950,141	13,290,802	16,240,943	-	-	16,240,943
Transfer from asset under construction	(2,748,993)	(12,881,392)	(15,630,385)	15,630,385	-	-
Other transfers	60,292	(351,573)	(291,281)	(24,248)	-	(315,529)
Impairment	-	(10,332)	(10,332)	-	-	(10,332)
Depreciation and depletion	(3,732)	-	(3,732)	(3,168,378)	-	(3,172,110)
Disposals and write-off	(74,486)	1	(74,485)	(40,909)	-	(115,394)
Translation differences	(13,196)	-	(13,196)	(10)	-	(13,206)
	18,239,908	**13,271,916**	**31,511,824**	**73,622,975**	**13,098**	**105,147,897**
As at 30 September 2015						
Cost	18,259,661	13,520,687	31,780,348	97,767,045	33,408	129,580,801
Depreciation and impairment	(19,753)	(248,771)	(268,524)	(24,144,070)	(20,310)	(24,432,904)
Net book amount	**18,239,908**	**13,271,916**	**31,511,824**	**73,622,975**	**13,098**	**105,147,897**
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 September 2016						
Additions	2,078,665	9,526,572	11,605,237	-	-	11,605,237
Changes in decommissioning obligations	-	-	-	634,193	-	634,193
Transfer from asset under construction	(220,235)	(11,729,899)	(11,950,134)	11,950,134	-	-
Other transfers	-	(101,349)	(101,349)	(19,744)	-	(121,093)
Depreciation and depletion	(3,796)	-	(3,796)	(4,375,145)	-	(4,378,941)
Disposals and write-off	(14,113)	(87,090)	(101,203)	(128,586)	-	(229,789)
Translation differences	101,701	-	101,701	999	-	102,700
	21,892,831	**5,302,106**	**27,194,937**	**91,644,519**	**11,116**	**118,850,572**
As at 30 September 2016						
Cost	21,914,550	5,550,499	27,465,049	121,224,108	33,408	148,722,565
Depreciation and impairment	(21,719)	(248,393)	(270,112)	(29,579,589)	(22,292)	(29,871,993)
Net book amount	**21,892,831**	**5,302,106**	**27,194,937**	**91,644,519**	**11,116**	**118,850,572**

11. INVESTMENTS IN JOINT VENTURE

The carrying value of the investments in joint ventures as of 30 September 2016 and 31 December 2015 is summarised below:

	Ownership percentage			
	30 September 2016	31 December 2015	30 September 2016	31 December 2015
Energowind	50%	50%	1,008,221	1,008,221
Serbskaya Generaciya	49%	49%	1,038,800	180,438
			2,047,021	**1,188,659**

In 2015 the Group and Centrenergoholding OAO Russian Federation established holding company Serbskaya Generaciya, through which they will jointly operate with Thermal and Heating power plant ''TETO'' Pancevo with projected capacity of 140 MW. On the date of the issuance of these Consolidated Financial Statements there have been no significant business activities. During 2016 the Group increased their investment in Serbskaya Generaciya in the amount of 858,362 RSD.

The principal place of business of joint ventures disclosed above is Republic of Serbia.

12. TRADE AND OTHER NON-CURRENT RECEIVABLES

	30 September 2016	31 December 2015
Non-current trade receivables:		
- state and state owned companies	9,756,970	12,388,550
	9,756,970	12,388,550
Non-current other receivables:		
- third parties	77,098	152,849
- state and state owned companies	2,098,413	4,050,963
	2,175,511	4,203,812
Less impairment provision for trade and other non-current receivables:		
- third parties	(59)	(76,849)
- state and state owned companies	(634,584)	(1,858,864)
	(634,643)	(1,935,713)
	11,297,838	14,656,649

Trade and other non-current receivables amounting to 11,297,838 RSD mainly relate to the long-term receivables from the Republic of Serbia in the amount of 7,584,054 RSD according to the debt of Srbijagas owed to Naftna industrija Srbije takeover and its conversion into public debt. (Short-term part of the receivables: note 7).

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

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

13. OTHER NON-CURRENT ASSETS

	30 September 2016	31 December 2015
Advances paid for PPE	990,643	1,360,565
Prepaid expenses	811,953	908,248
Other assets	1,088,028	1,161,131
Less impairment provision	(30,809)	(30,809)
	2,859,815	**3,399,135**

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

	30 September 2016	31 December 2015
Short-term loans	11,570,450	3,553,120
Interest liabilities	169,191	164,324
Current portion of long-term loans (note 18)	16,770,083	13,417,421
Current portion of finance lease liabilities (note 18)	51,299	1,010
	28,561,023	**17,135,875**

15. TRADE AND OTHER PAYABLES

	30 September 2016	31 December 2015
Trade payables:		
- related parties	8,548,045	10,170,810
- third parties	10,734,643	15,334,596
Dividends payable	3,772,308	3,772,308
Other accounts payable	12,440	86,304
	23,067,436	**29,364,018**

As at 30 September 2016 payables to related parties amounting to 8,548,045 RSD (31 December 2015: 10,170,810 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 7,572,603 RSD (31 December 2015: 10,104,805 RSD), mostly for the purchase of crude oil.

16. OTHER CURRENT LIABILITIES

	30 September 2016	31 December 2015
Advances received	1,158,010	3,207,205
Payables to employees	2,903,223	3,296,282
Accruals and deferred income	269,182	19,878
Other current non-financial liabilities	14,741	14,437
	4,345,156	**6,537,802**

17. OTHER TAXES PAYABLE

	30 September 2016	31 December 2015
Mineral extraction tax	252,292	241,017
VAT	3,141,990	1,651,548
Excise tax	3,920,756	6,066,530
Contribution for buffer stocks	203,793	350,301
Custom duties	460,873	85,332
Other taxes	2,028,494	2,050,457
	10,008,198	**10,445,185**

18. LONG-TERM DEBT

	30 September 2016	31 December 2015
Long-term loan - Gazprom Neft	38,708,236	42,427,710
Bank loans	66,326,123	71,016,461
Finance lease liabilities	378,592	199,289
Other long-term borrowings	109,208	88,611
Less Current portion	(16,821,382)	(13,418,431)
	88,700,777	**100,313,640**

(a) Long-term loan - Gazprom Neft

As at 30 September 2016 long-term loan - Gazprom Neft amounting to 38,708,236 RSD (31 December 2015: 42,427,710 RSD), with current portion of 5,734,553 RSD (2015: 5,657,028 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24

December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) Bank loans

	30 September 2016	31 December 2015
Domestic	21,770,144	18,693,334
Foreign	44,555,979	52,323,127
	66,326,123	71,016,461
Current portion of long-term loans	(11,035,530)	(7,760,393)
	55,290,593	**63,256,068**

The maturity of bank loans was as follows:

	30 September 2016	31 December 2015
Between 1 and 2 years	13,238,236	11,829,773
Between 2 and 5 years	37,719,462	46,347,221
Over 5 years	4,332,895	5,079,074
	55,290,593	**63,256,068**

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

	30 September 2016	31 December 2015
USD	45,401,624	53,388,078
EUR	20,507,370	17,247,010
RSD	515	1,174
JPY	416,614	380,199
	66,326,123	**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 September 2016 and 31 December 2015, respectively.

19. SHARE CAPITAL

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

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

20. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Nine months period ended 30 September	
	2016	2015
Crude oil	55,017,158	68,037,213
Petroleum products	14,485,101	23,590,119
Other	168,220	161,240
	69,670,479	**91,788,572**

21. PRODUCTION AND MANUFACTURING EXPENSES

	Nine months period ended 30 September	
	2016	2015
Employee costs	4,146,467	5,103,986
Materials and supplies (other than purchased oil, petroleum products and gas)	1,614,042	2,026,694
Repair and maintenance services	2,796,401	2,209,311
Electricity for sale	5,823,756	279,382
Electricity and utilities	1,114,623	2,097,556
Safety and security expense	255,056	108,223
Insurance services	215,782	31,536
Transportation services for production	1,447,797	1,260,630
Other	3,099,726	595,434
	20,513,650	**13,712,752**

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Nine months period ended 30 September	
	2016	2015
Employee costs	7,767,382	7,024,304
Legal, audit, and consulting services	899,743	1,344,657
Rent expense	430,957	258,460
Business trips expense	235,304	258,175
Safety and security expense	397,792	388,016
Insurance expense	77,440	235,631
Transportation and storage	276,971	462,140
Allowance for doubtful accounts	(105,036)	78,223
Other	6,864,639	6,334,173
	16,845,192	**16,383,779**

23. FAIR VALUE MEASUREMENT

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

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

24. CONTINGENCIES AND COMMITMENTS

Transfer of property ownership

As at 30 September 2016, the Company had ownership and the right to use and possess of 7,948 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

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 745,344 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 September 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 September 2016 outflow of resources embodying economic benefits is not probable due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the 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 September 2016.

Capital commitments

Purchase of property, plant and equipment

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

Farm-out agreement with East West Petroleum Corporation, Canada

In October 2011, the 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 September 2016 drilling and exploration works for Block 2, 3, 7 and 8 were estimated to 41.34 USD million.

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

25. SIGNIFICANT GROUP ENTITIES

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

Subsidiary	Country of incorporation	Nature of business	Share% 30 September 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	Trade	51	51
Jubos d.o.o., Bor	Serbia	Other	-	51

26. 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 nine month period ended 30 September 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 September 2016 and 31 December 2015 the outstanding balances with related parties were as follows:

	Parent company	Entities under common control	Joint venture
As at 30 September 2016			
Trade and other receivables	-	961,159	195,656
Investments in joint venture	-	-	2,047,021
Trade and other payables	(7,572,603)	(975,442)	-
Short-term debt and current portion of long-term debt	(5,734,553)	-	-
Long-term debt	(32,973,683)	-	-
	(46,280,839)	**(14,283)**	**2,242,677**
As at 31 December 2015			
Trade and other receivables	-	148,105	195,656
Other current assets	-	9,394	-
Investments in joint venture	-	-	1,188,659
Trade and other payables	(10,004,805)	(166,005)	-
Short-term debt and current portion of long-term debt	(5,657,028)	-	-
Long-term debt	(36,770,682)	-	-
	(52,432,515)	**(8,506)**	**1,384,315**

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

	Parent company	Entities under common control	Joint venture
Nine month period ended 30 September 2016			
Petroleum products and oil and gas sales	-	395,681	-
Other Revenues	-	5,610,682	-
Purchases of oil, gas and petroleum products	(29,566,123)	(396,618)	-
Production and manufacturing expenses	-	(5,593,596)	-
Selling, general and administrative expenses	-	(113,594)	-
Other (income) expenses, net	18,455	(39)	-
Finance expense	(585,043)	-	-
	(30,132,711)	**(97,484)**	**-**
Nine month period ended 30 September 2015			
Petroleum products and oil and gas sales	-	85,607	-
Other revenues	-	328,663	-
Purchases of oil, gas and petroleum products	(60,957,424)	(2,037,894)	-
Production and manufacturing expenses	(5,839)	(213,802)	-
Selling, general and administrative expenses	(23,823)	(15,137)	-
Other expenses, net	(16,210)	(19,825)	-
Finance expense	(724,476)	-	-
	(61,727,772)	**(1,872,388)**	**-**

Transactions with Key Management Personnel

For the nine month period ended on 30 September 2016 and 2015 the Group recognized 593,172 RSD and 326,210 RSD, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

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[51] 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

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Head of Function for Finance,
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"НАФТНА ИНДУСТРИЈА СРБИЈЕ" А.Д. НОВИ САД

[51] 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.