



QUARTERLY REPORT FOR THIRD QUARTER OF 2016

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

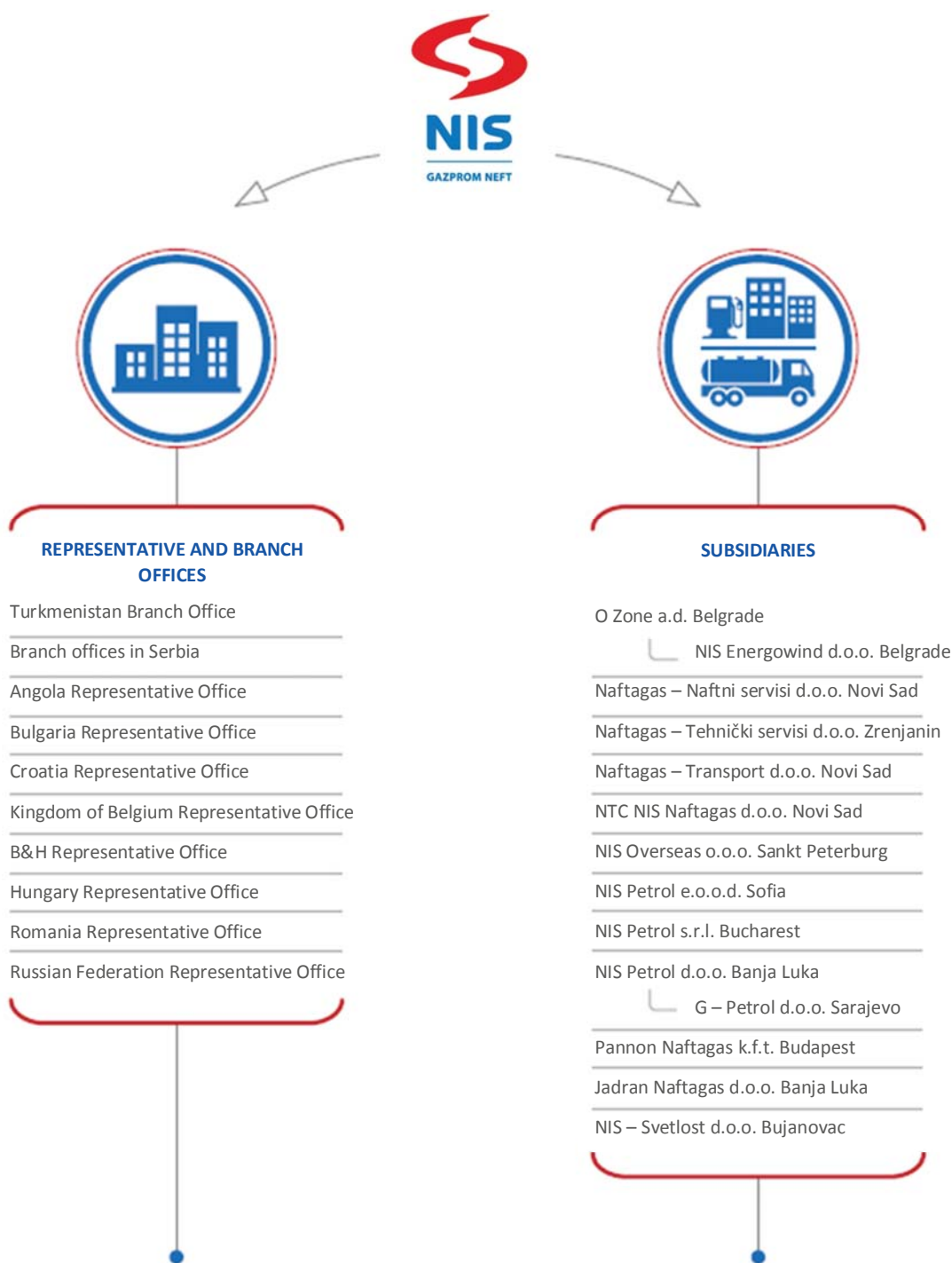
Group's Profile

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 Structure¹



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 CO₂ 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 decentralized, with their functionally subordinate departments in Blocks², while all other functions are centralised³. 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

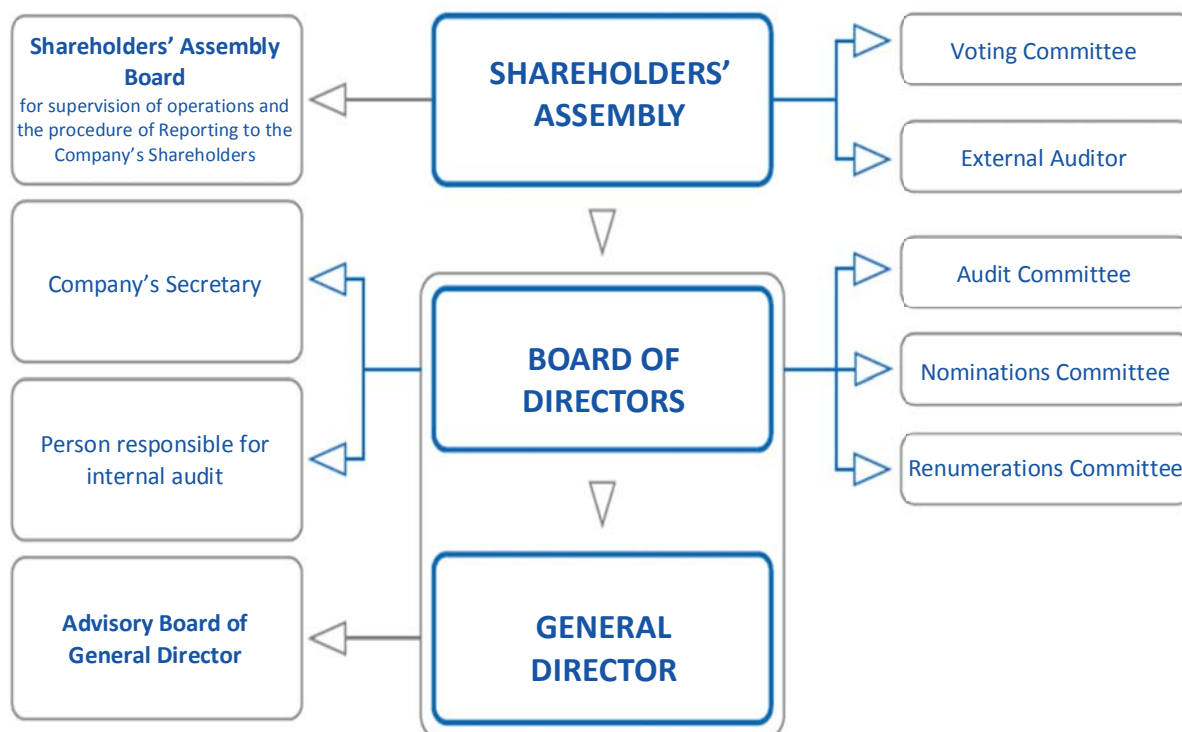
| | |
|---|---|
| Business Name: | NIS j.s.c. Novi Sad |
| Company Identity Number:: | 20084693 |
| Address: | Novi Sad, 12, Narodnog fronta street |
| Tax ID: | 104052135 |
| Web site: | www.nis.eu |
| e-mail: | office@nis.eu |
| Activity: | 0610 – crude oil exploitation |
| Number and date of registration in BRA: | BD 92142, 09/29/2005 |
| Total equity as at September, 30 th 2016: | 207,133,495,000.00 RSD |
| Share capital as at September, 30 th 2016: | 81,530,200,000.00 RSD |
| Number of employees ⁴ as at September, 30 th 2016: | 3,896 |
| Audit company that audited the last financial statements (dated December, 31 st 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 Parliament 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 Rutenstorfer

***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 Rutenstorfer'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 Rutenstorfer 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 Shekshnia 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 ongoing 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 subsidiaries⁵ 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 servisi 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 trends⁸ +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 trend⁹, \$/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.

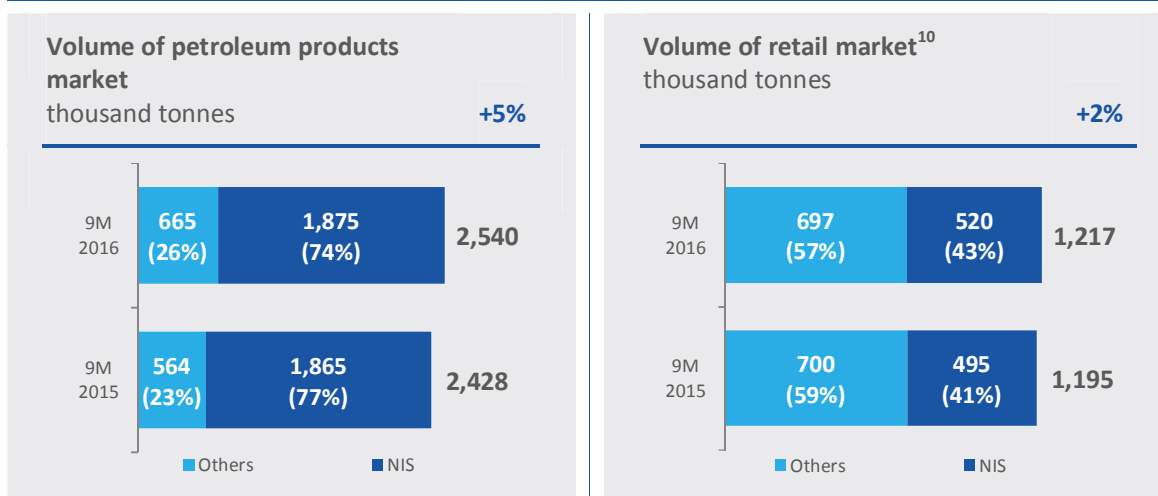
Serbian Market

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 adjusted 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 months of the last year.

Regional Markets¹¹

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 35¹² 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%.

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 Indicators¹³

| Q3 2016 | Q3 2015 | $\Delta \frac{Q3\ 2016}{Q3\ 2015}$ (%) ¹⁴ | Indicator | Unit of measure | 9M 2016 | 9M 2015 | $\Delta \frac{9M\ 2016}{9M\ 2015}$ (%) 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 | $\Delta \frac{Q3\ 2016}{Q3\ 2015}$ (%) ²⁴ | Indicator | Unit of measure | 9M 2016 | 9M 2015 | $\Delta \frac{9M\ 2016}{9M\ 2015}$ (%) 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 11.9²⁶ 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.

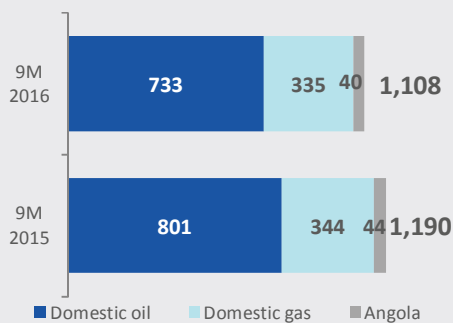
Production of domestic gas exceeds the plan for first nine months of 2016 (+0.3%), while the production of oil in Angola is below the plan for the same period (-6.2%).

²⁶ Including gasoline and LPG

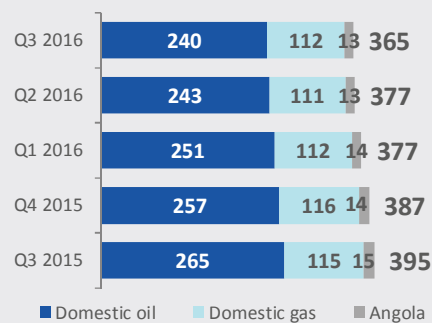
Oil and gas production

thousand t.o.e.

-7%

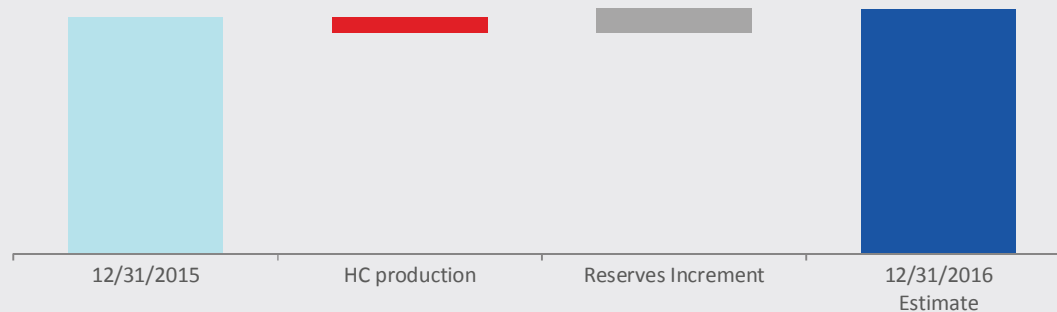


-8%



Estimated hydrocarbon reserves increase

+4%



Services

Main priorities and initiatives for 2016

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

Accomplishments in first 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..

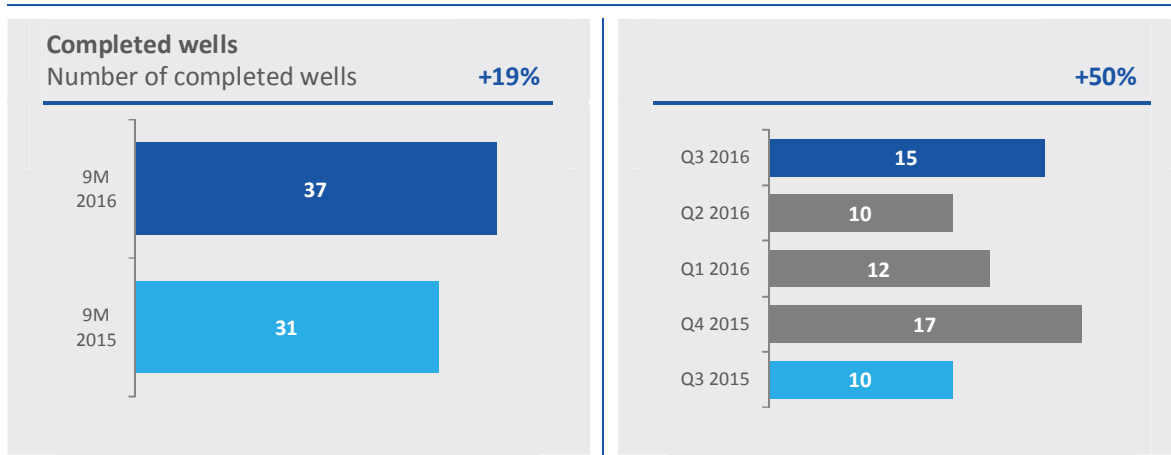
The unit "Seismic Services" has completed 3D seismic works on the project Turija-2 in the range of 97.51 km² of logged 3D seismics, and in Romania, on the Project EX-7 Periam 3rd stage, in the range of 150.82 km².

Implementation of the Southern Banat 1 Project started as at 30 September 2016; area of 381.81 km² was logged within this project, while the total performance of the unit since the beginning of the year has been 630.13 km² 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 cogenerator 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, continuation of 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 signing of the contract with EPCm, a contractor for the work package 1²⁷, and opening the tender for the selection of EPCm contractor for the work package 2²⁸.

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.

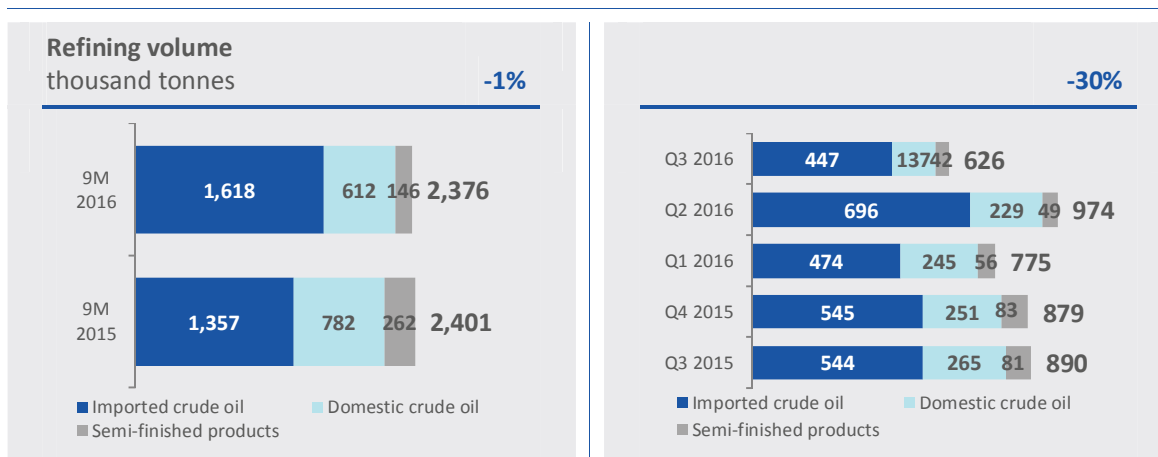
The Certificate of Conformity of the quality management system to the requirements of ISO 9001:2008 standard has been awarded to the *Refining* by the Organization for Quality System Certification and Monitoring (YUQS).

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 UCO²⁹).

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.

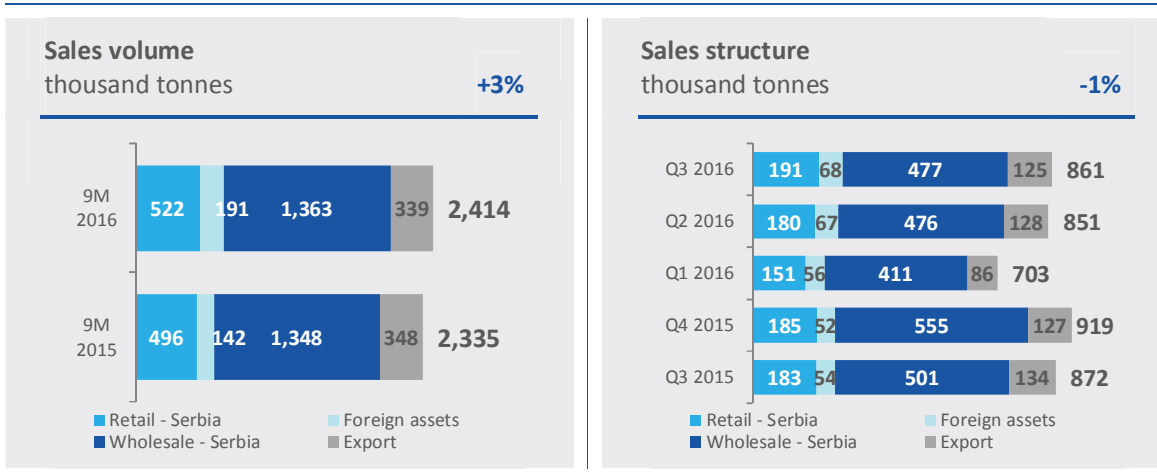
We have introduced 8 new auto-cisterns for transportation of aviation fuel into operation. Two sets of tank trucks (tow truck + trailer) were procured for the transport of motor gasoline and medium distillates, as well as 6 semi-trailers for the transport of LPG (within the project: Procurement of 6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

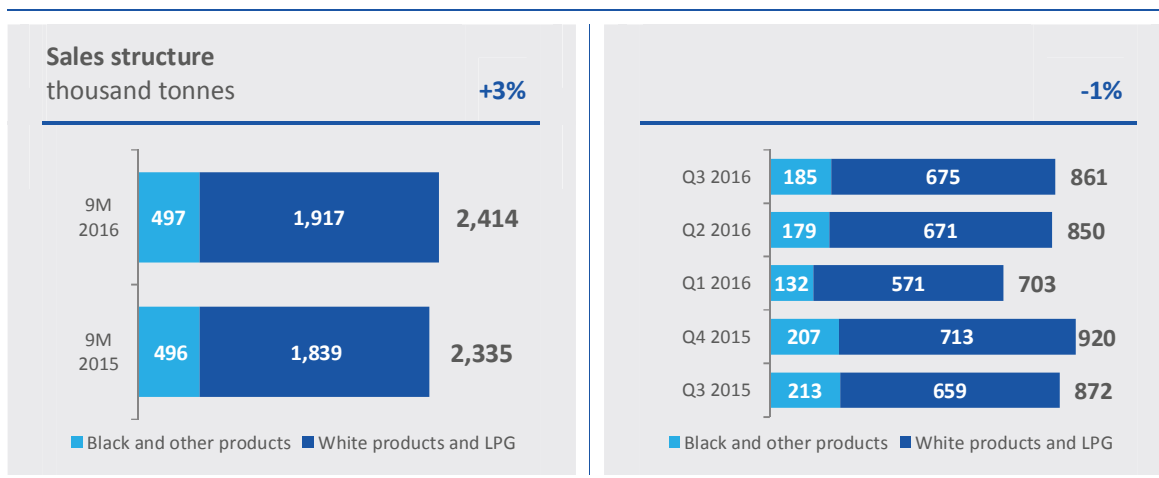
Operating indicators³⁰

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 m³ of gas per year, 2.4 MW). It is planned to build Ostrovo plant for production of compressed natural gas (10.8 million Sm³ gas per year). Construction and commissioning of CNG module on the PS Cacak is completed (1.0 mil/year Sm³ 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.

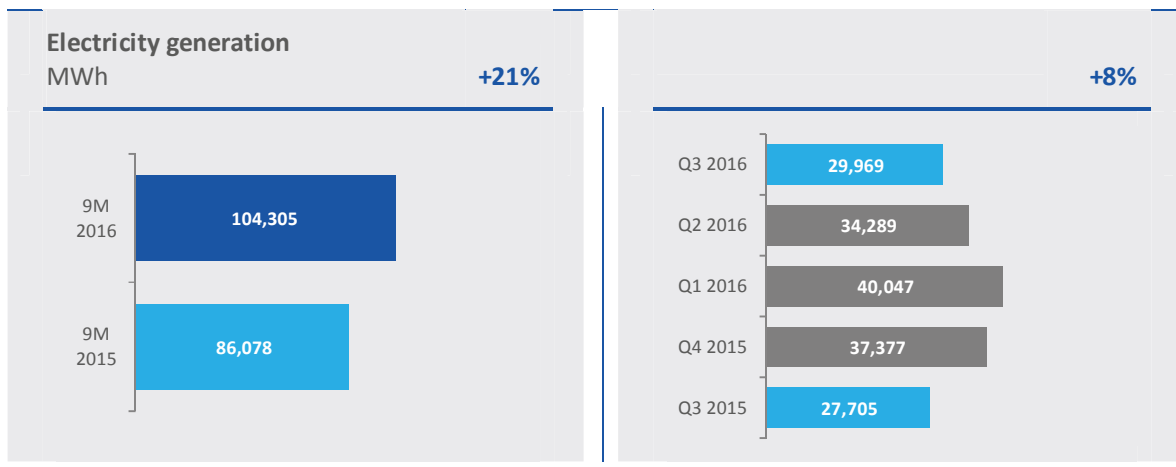
For the project CHPP Pančevo, tender was completed and final commercial negotiations held. Founding capital paid in by NIS j.s.c. Novi Sad and PJSC Centrenergoholding, a subsidiary of Gazprom Energoholding.

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 months of 2016, whereby 21.8 million m³ of non-commercial gas was consumed.

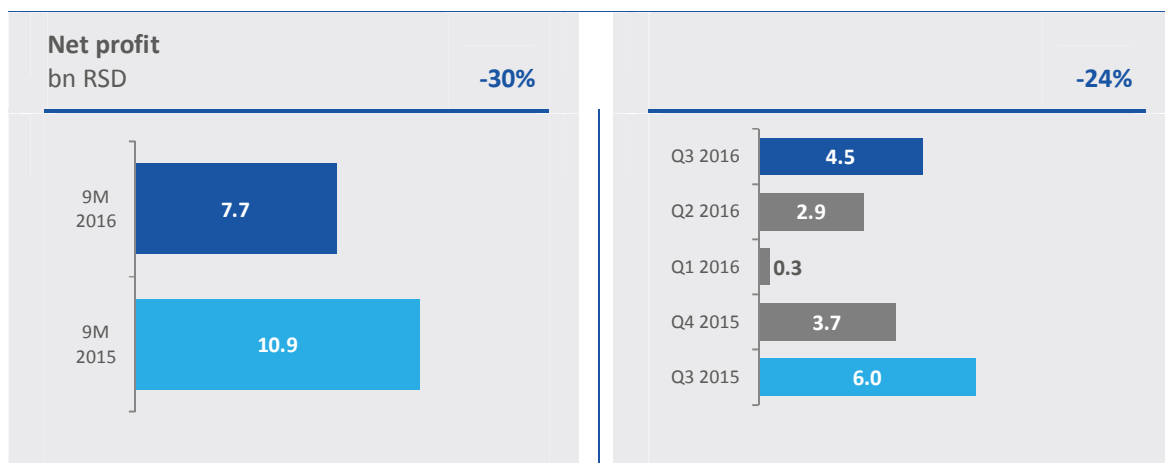


Financial Indicators

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.

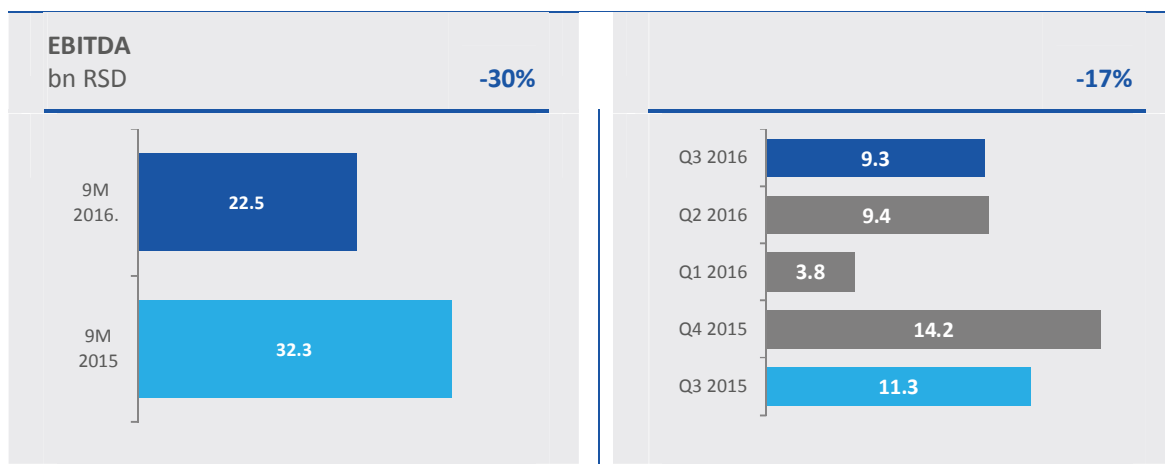
Net profit

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

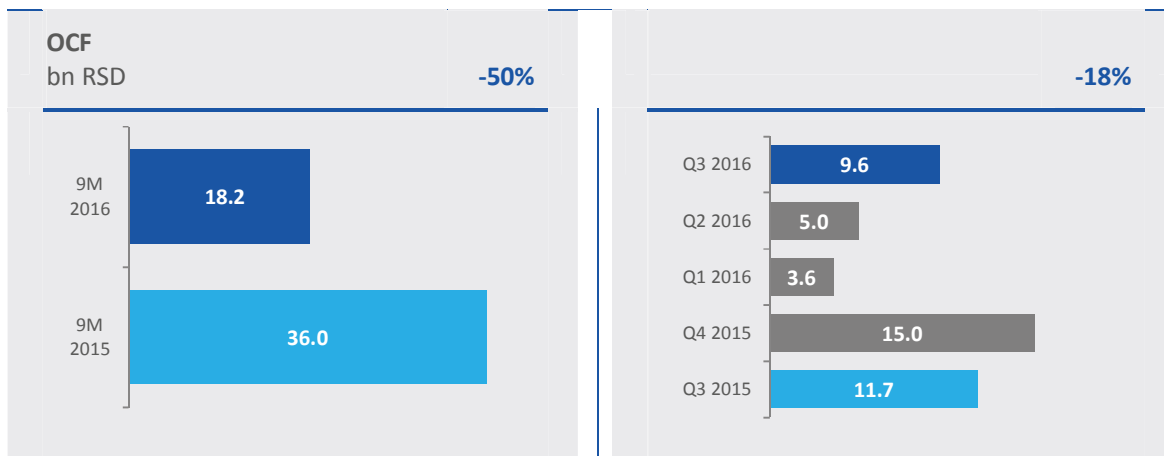
Negative impact of crude oil price (average crude oil price dropped by 27% compared to same period last year) continues to be reflected in EBITDA indicator.



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.

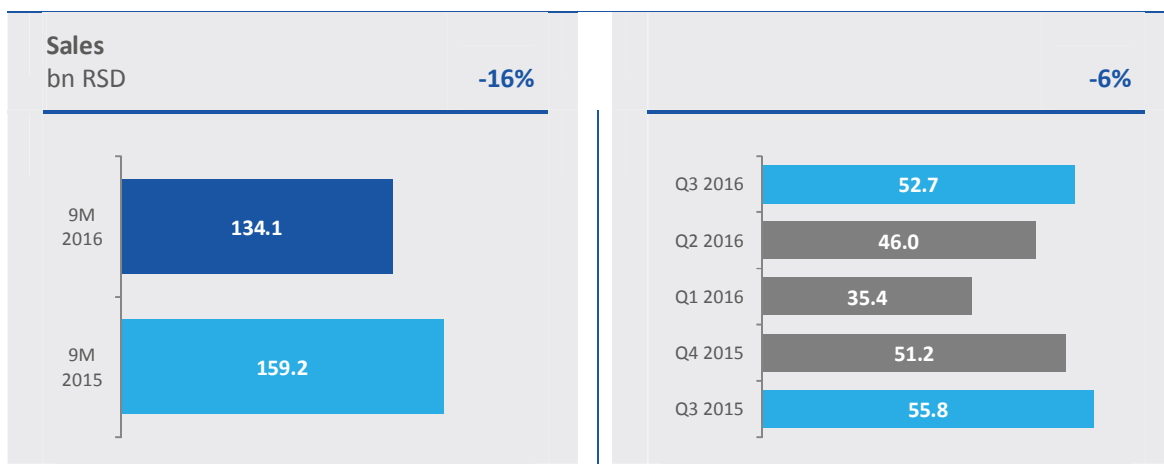
- lower inflows
- greater levies to be paid to the state and higher accounts payables, despite the lower levies for petroleum products and crude oil.

**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 | $\Delta \frac{9M\ 2016}{9M\ 2015}$ |
|--------------------------|------------------------------------|
| 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% |

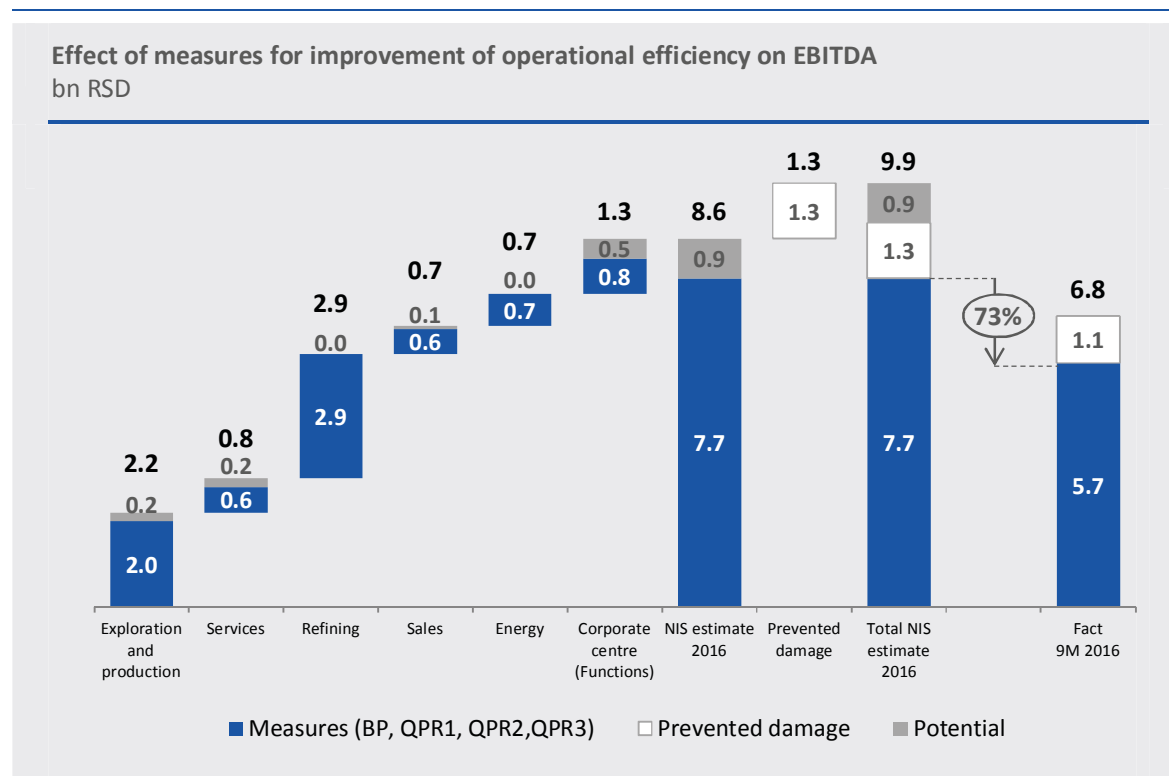
³¹ shareholders equity = share capital

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.

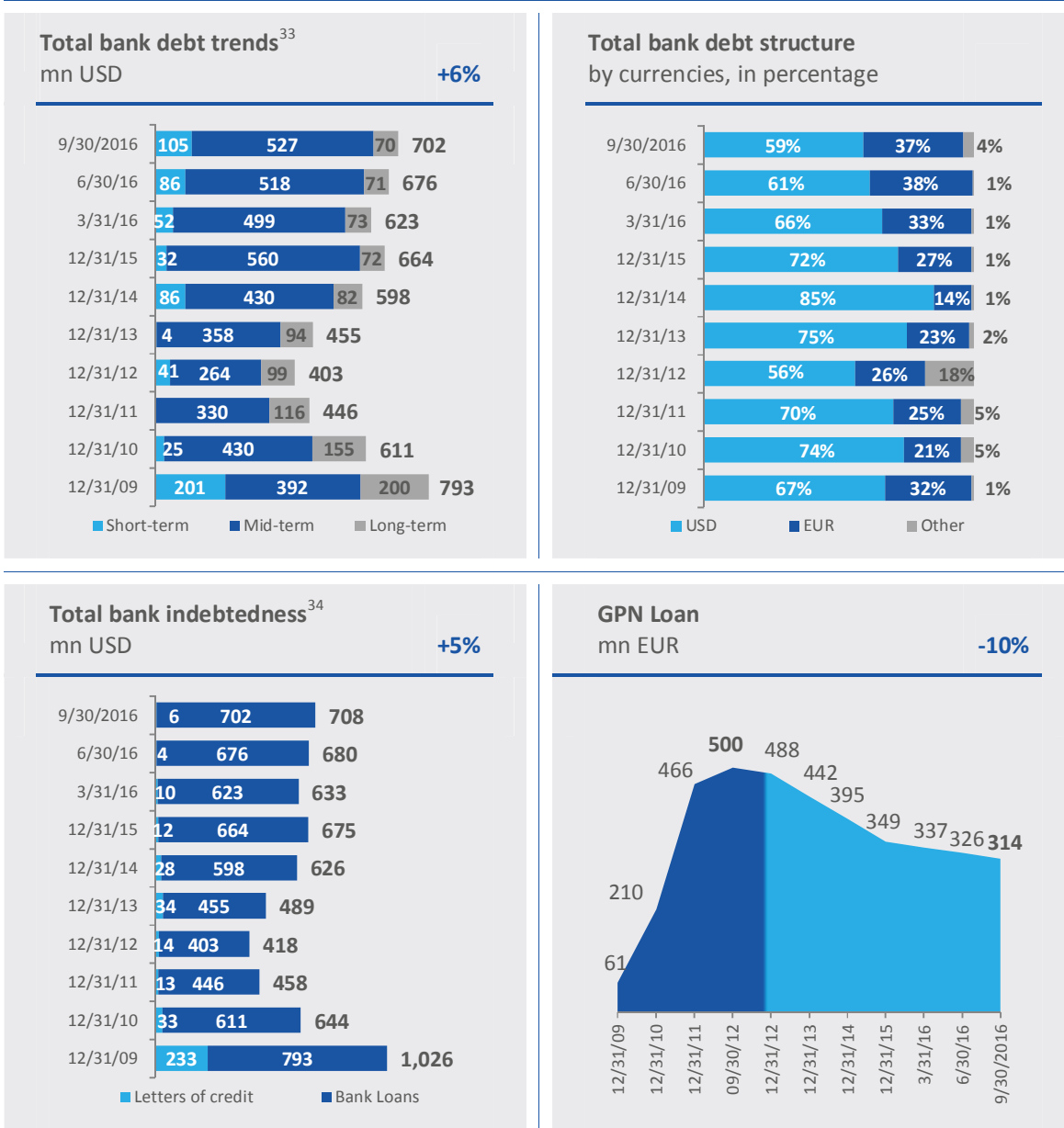
The effect of the measures for improvement of operational efficiency on EBITDA amounted to RSD 5.7 billion in the first nine months of 2016, which is 73% of the expected effect for this year.



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 financial 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.

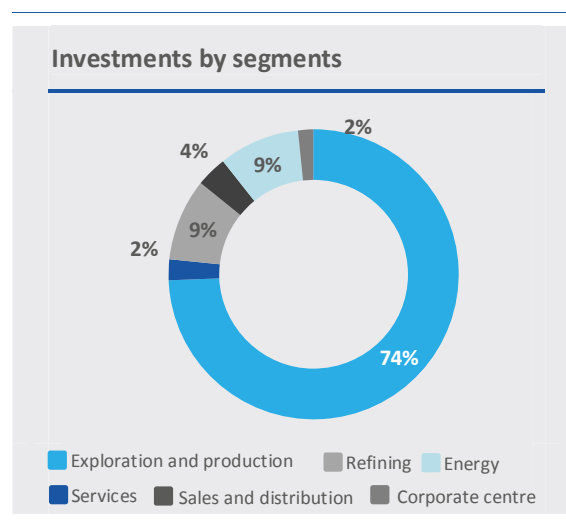
In the first nine months of 2016 the amount of RSD 14.46 billion³⁵ was allocated for investments financing, which is less than the amount allocated in the same period in 2015 by 24%. The most important investments in oil and gas production in 2016 included:

- 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 | | | |
|---|---------------|---------------|--|
| <i>NIS j.s.c. Novi Sad</i> | 9M 2016 | 9M 2015 | $\Delta \frac{9M\ 2016}{9M\ 2015}$ (%) |
| 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 Serbia³⁸ | | | |
| 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 Group³⁹ | 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 structure⁴⁰ 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:

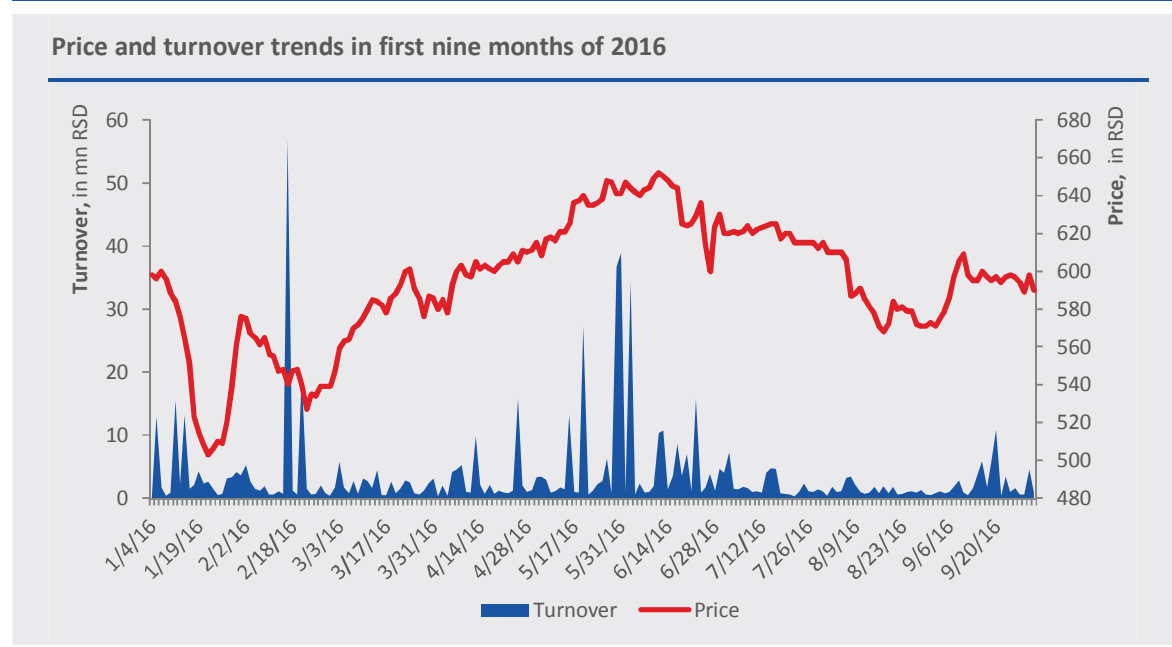
- Right to participate and vote at the shareholders' assembly sessions, according to one-share-one vote rule;
- Right to dividend in compliance with applicable regulations;
- Right to a share in the distribution of the liquidation stock or bankruptcy estate in compliance with the bankruptcy law;
- Pre-emption 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.



| Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in first nine months of 2016 | |
|---|-----------------------|
| Last price (September 30 th , 2016) | 590 RSD |
| Highest price (June 13 th , 2016) | 658 RSD |
| Lowest price (January 21 st , 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 30 th , 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 30 th , 2016 | 1,270.29 RSD |
| Consolidated book value as at September 30 th , 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 31 st , 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 30 th , 2016 | | | September 30 th , 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 Services ⁴⁷ | 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

| | Nine month period ended 30 September | | |
|--|--------------------------------------|---------------------|---------------------|
| | Note | 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

| <i>(unaudited)</i> | 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 Statements⁴⁹

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 amendments were issued during the nine months period ended 30 September 2016:

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

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

Amendments to IFRS 15 - Revenue from Contracts with Customers (issued in April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation in a contract; how to determine whether a

company is a principal or an agent; and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

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 |
| <i>Through a retail network</i> | - | - | - |
| <i>Wholesale activities</i> | 2,309,441 | - | 2,309,441 |
| Sale of petroleum products | 91,823,146 | 17,503,040 | 109,326,186 |
| <i>Through a retail network</i> | 32,867,315 | - | 32,867,315 |
| <i>Wholesale activities</i> | 58,955,831 | 17,503,040 | 76,458,871 |
| Sale of electricity | 375,306 | 5,703,111 | 6,078,417 |
| Other sales | 4,819,158 | 126,162 | 4,945,320 |
| 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 |
| <i>Through a retail network</i> | - | - | - |
| <i>Wholesale activities</i> | 5,700,294 | - | 5,700,294 |
| Sale of petroleum products | 115,248,883 | 22,483,869 | 137,732,752 |
| <i>Through a retail network</i> | 37,104,041 | - | 37,104,041 |
| <i>Wholesale activities</i> | 78,144,842 | 22,483,869 | 100,628,711 |
| Sale of electricity | 274,907 | 328,663 | 603,570 |
| Other sales | 4,184,652 | 233,594 | 4,418,246 |
| 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 | | Total |
|--|-------------------------|---------------------------------|-------------------|
| | Third parties | State and state owned companies | |
| As at 1 January 2015 | 10,201,470 | 19,522,269 | 29,723,739 |
| Provision for receivables impairment | 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 |
| <i>Less Impairment of Investments in subsidiaries</i> | (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 |
| <i>Less impairment provision for trade and other non-current receivables:</i> | | |
| - 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 |
| <i>Less impairment provision</i> | (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) |

Transactions with Key Management Personnel

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

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

| | Nine months period ended 30 September | | |
|--|---------------------------------------|----------------------|----------------------|
| | Note | 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

| <i>(unaudited)</i> | Equity attributable to the Company's owners | | | | Non-controlling interest | Total equity |
|---|---|------------------|--------------------|--------------------|--------------------------|--------------------|
| | Share capital | Reserves | Retained earnings | Total | | |
| 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 (unaudited) | 2015 (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 |
| <i>Changes in working capital:</i> | | |
| 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 Statements⁵⁰

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 |
| <i>Intersegment</i> | 24,858,820 | 2,351,613 | (27,210,433) | - |
| <i>External</i> | 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 |
| <i>Intersegment</i> | 38,232,326 | 1,075,938 | (39,308,264) | - |
| <i>External</i> | 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 |
| <i>Through a retail network</i> | - | - | - |
| <i>Wholesale activities</i> | 2,305,199 | - | 2,305,199 |
| Sale of petroleum products | 91,494,273 | 25,757,016 | 117,251,289 |
| <i>Through a retail network</i> | 32,867,316 | - | 32,867,316 |
| <i>Wholesale activities</i> | 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 |
| <i>Through a retail network</i> | - | - | - |
| <i>Wholesale activities</i> | 5,692,700 | - | 5,692,700 |
| Sale of petroleum products | 114,763,509 | 30,025,077 | 144,788,586 |
| <i>Through a retail network</i> | 37,104,041 | - | 37,104,041 |
| <i>Wholesale activities</i> | 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 wholesale) | | |
| 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 | | Total |
|--|-------------------------|---------------------------------|-------------------|
| | Third parties | State and state owned companies | |
| 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 |
| <i>Less impairment provision for trade and other non-current receivables:</i> | | |
| - 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 | 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) | - |

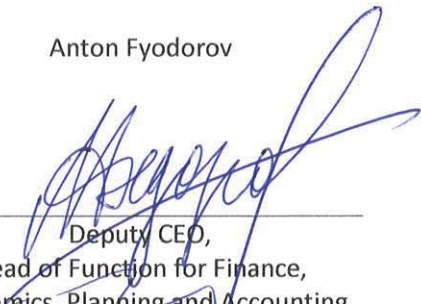
Transactions with Key Management Personnel

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 Serbia⁵¹ 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



Deputy CEO,
Head of Function for Finance,
Economics, Planning and Accounting
NIS j.s.c. Novi Sad

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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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