NIS GAZPROM NEFT
FUTURE AT WORK

QUARTERLY REPORT

for second quarter of 2017

The Quarterly Report of *NIS j.s.c. Novi Sad* for second quarter of 2017 represents a comprehensive review of NIS Group's development and performance in second quarter of 2017.

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

The first six months of 2017 were marked by certain stabilisation in the global oil market as a result of the implementation of the output reduction agreement of OPEC member countries and some non-OPEC countries. Average oil prices were around 30 percent higher than in the same period last year. Owing to more favourable macroeconomic conditions and consistency in implementing operational efficiency improvement measures, NIS Group considerably improved its financial performance year over year.

The net profit of NIS in this reporting period is RSD 12.4 billion, four times higher than a year ago, when the Group net profit was RSD 3.1 billion. A substantial improvement vis-à-vis the first half of 2016 was also achieved in terms of EBITDA, which is RSD 22.5 billion, or 71 percent higher than last year.

At the same time, NIS went ahead with the investments planned, allocating RSD 10 billion in the first six months, or 9 percent more than last year. The largest funds were invested in the exploration, production and processing of oil and gas. The implementation of operational efficiency improvement and cost-cutting measures had a significant effect on the good financial performance of NIS Group. The implementation of the programme in the first six months of 2017 produced an effect of RSD 2.8 billion on EBITDA. NIS is going to continue improving its operational efficiency at all levels in the second half of the year, as well.

Additionally, NIS j.s.c. Novi Sad continued being a reliable source of income for its shareholders. A decision on distribution of profits in 2016, payment of dividends and identification of the total amount of retained earnings, among others, was taken at the ninth regular meeting of the Shareholders Assembly held in Belgrade on June 27th. According to this Decision, this is the fifth consecutive year that NIS j.s.c. Novi Sad will be paying dividends to its shareholders in the amount of 25 percent of the Company's net profit for the preceding year. More specifically, shareholders will be paid RSD 4.02.

As to operating indicators, the total throughput of petroleum products was 1,552 thousand tonnes, like last year. NIS also continued to place top-quality G-Drive fuels on the market of Serbia and the region, and to develop its loyalty programme “On the Road with Us”, launching it in Bosnia and Herzegovina and Bulgaria. The output of oil and gas amounted to 692 thousand conditional tonnes. 3D seismic surveys in the exploration areas Južni Banat I and Turija III were successfully completed in the first half of the year, and works commenced in the exploration area Morović. The total volume of processed oil and semi-finished products in the first six months of 2017 was 1,645 thousand tonnes.

Let it also be noted that NIS continued carrying out important business projects in the reporting period. In May, NIS commissioned its Compressed Natural Gas production and wholesale facility at the gas field “Ostrovo” near Požarevac in an official ceremony attended by representatives of the Serbian Government and Ambassador of the Russian Federation to Serbia. As part of additional modernisation of refinery processing, NIS successfully delivered a new project of motor petrol in-line blending at Pančevo Oil Refinery, investing nearly EUR 10 million in it. NIS brands continued being recognised with important awards: NISOTEC was the winner of the Grand Champion Trophy of 84th International Agricultural Fair in Novi Sad for the top quality of motor and hydraulic oils, as well as seven grand prix gold medals and three gold medals for the quality of NISOTEC products. In April, representatives of the certification body “Bureau Veritas” presented the management of NIS with certificates for five management systems, verifying that they are compliant with international ISO standards and that NIS operates according to best global corporate practices.

BUSINESS REPORT

Highlights

January

- NIS j.s.c. Novi Sad won “St. Sava Award” awarded by Ministry of Education, Science and Technological Development for its contribution to education in Republic of Serbia in 2016 through corporate program “Energy of Knowledge”.
- NIS j.s.c. Novi Sad announced a “National Champion” in the category "Environmental Protection and Sustainable Development" in the competition for the European Business Awards.
- NIS and EXIT foundation launched “Youth Heroes” try-out for the second consecutive year with basic idea to promote young, successful and humane individuals.
- “Smart classroom” of Russian language opened in Grammar School “Svetozar Marković“ from Niš with the support from NIS’ corporate program “Together for the Community”.
- NIS Petrol s.r.l. Bucharest started exploration drilling in borehole Teremia 1000 in Ex-7 block in west Romania.

February

- NIS published audited consolidated results for 2016.
- NIS won two awards in the framework of the “Best from Serbia” award given by Serbian Chamber of Commerce – in category of “Goods and Services” for the best corporate brand and for the best goods brand for NIS Petrol.
- Alexander Dyukov, CEO of “Gazprom Neft” PJSC, had a discussion with the President and the Prime Minister of Serbia, respectively Tomislav Nikolić and Aleksandar Vučić during his stay in Serbia, and the main topics of the conversation referred to further development of NIS and investment opportunities for “Gazprom Neft” PJSC in Serbia. Mr Dyukov visited NIS j.s.c. Novi Sad and spoke with the top management of the company.
- NIS together with Serbian Tennis Federation organized a three-day free tennis school for children in Niš during the Davis Cup match between the national teams of Serbia and Russia.
- NIS organized a conference in the field of compensation and benefits for third consecutive year.

March

- Board of Directors of NIS j.s.c. Novi Sad appointed Kirill Tyurdenev to the position of the General Director of the Company.
- NIS j.s.c. Novi Sad and German chemical company BASF have signed an Agreement on Business and Technical Cooperation in the area of NIS product range quality improvement, as well as the development of petroleum products manufacturing technology.
- NIS donated assets for medical equipment procurement to University Children’s Clinic “Tiršova”.
- At the Belgrade Motor Show, NIS presented advantages of G-Drive premium fuel.
- Students of Yale University visited NIS.

April

- NIS organized the Forum of Contractors dedicated to improvement of work environment safety, exchange of experiences with contractors and also to familiarize them with best practices in occupational and environmental safety at NIS.
- Representatives of the certification body Bureau Veritas handed over to NIS management the certificates for five management systems, by which they confirm their compliance with international ISO standards.
- For the fifth consecutive year, NIS has supported “Balkan Traffic” festival in Brussels, as an artistic event which will contribute to promotion of the Balkan region’s culture and heritage;
- A new physics laboratory was opened in the Fifth Belgrade Grammar School, reconstruction and refurbishment of which was supported by NIS within its social responsibility program: “Together to the Community”;
- With NIS’s support, a modern laboratory for petroleum-petrochemical engineering was opened within the Faculty of Technology of Novi Sad University, and equipped with state of the art teaching appliances.
- Within its program "Together to the Community", NIS supported construction of the Park of Knowledge in the city of Nis, which has for its aim to promote natural sciences among pupils of elementary and secondary schools.

May

- NIS Group has published consolidated results of its business operation for the first quarter of 2017;
- CEO of NIS, Kirill Tyrdenev and Minister of Mining and Energy in the Serbian Government, Aleksandar Antic inaugurated the NIS's plant for production and wholesale of natural compressed gas at the Ostrovo gas field;
- Winners of the second consecutive national contest called: “Youth Heroes”, initiated by EXIT Foundation in cooperation with NIS, were proclaimed during a ceremony in Novi Sad;
- NISOTEC brand won the large champion cup of the 84th International Agricultural Fair in Novi Sad for the top-notch quality of motor and hydraulic oils, as well as seven large golden medals and three golden medals for the quality of NISOTEC palette of products.
- NIS took participation in this-year’s cultural event – Night of Museums, with rich programs at two locations, in Company’s museums in Novi Sad and in Kikinda.

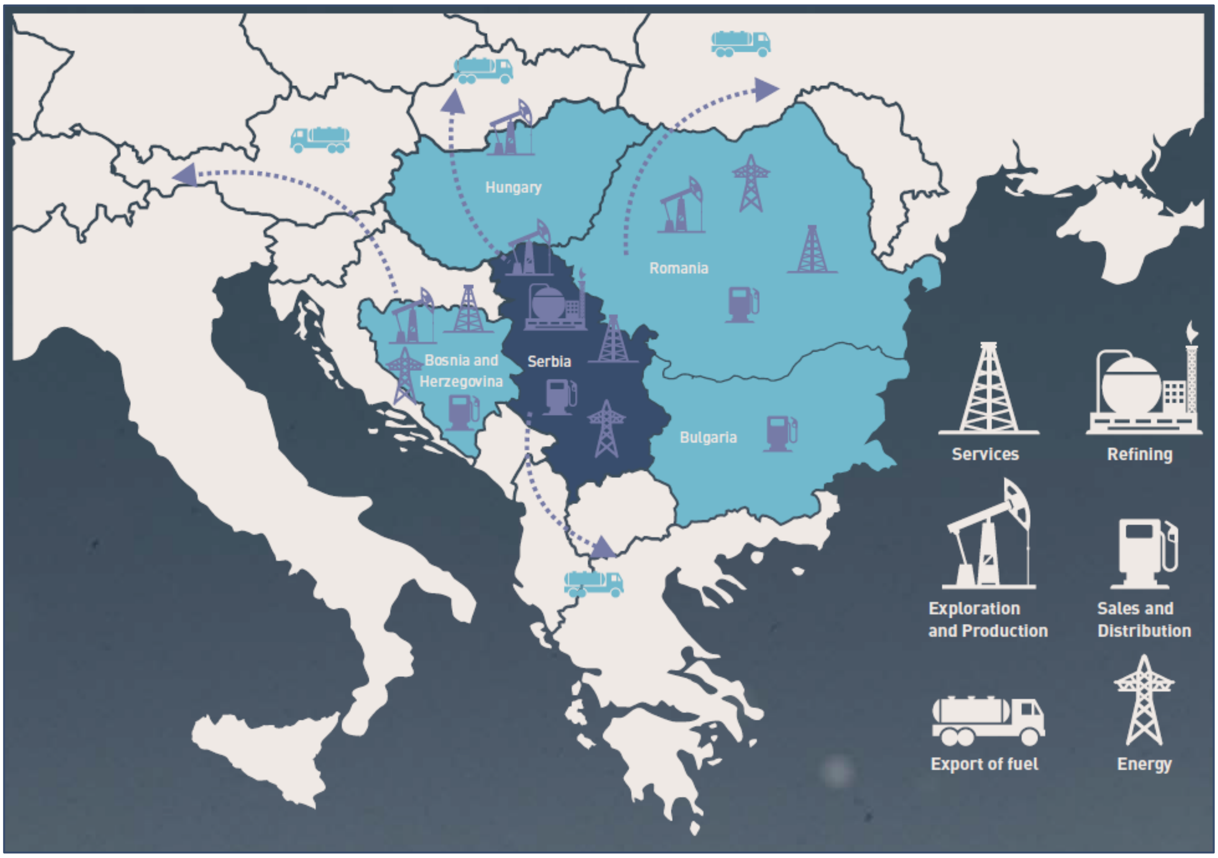
June

- Shareholders Assembly of NIS j.s.c. Novi Sad held the 9th regular session and brought the Decision on distribution of profit for 2016, payment of dividends and defining total amount of the Company’s retained earnings;
- Within additional upgrade of refining, NIS has successfully implemented its new project of line blending of motor gasoline in the Oil Refinery in Pančevo, in which it has invested almost 10 million euro;
- CEO of NIS, Kirill Tyrdenev took participation in the ceremonial opening of the National booth of Serbia at the International Economic Forum in Sankt Petersburg (SPIEF ’17);
- Representatives of NIS took participation in an environmental protection activity of cleaning and landscaping Fruška Gora creeks, organized in Fruška Gora national park to mark the World Environment Day, June the 5th;
- Representatives of NIS signed with Mihailo Pupin Institute from Belgrade and with Banja Luka University the memoranda on cooperation in the areas of education, professional training of personnel and exchange of knowledge.

Group's Profile

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

The Group has operations in 10 countries around the globe and hires an international team of experts



NIS Group Business Structure[1]

REPRESENTATIVE AND BRANCH OFFICES

- Turkmenistan Branch Office
- Branch Offices in Serbia
- Angola Representative Office
- Bulgaria Representative Office
- Croatia Representative Office
- Kingdom of Belgium Representative Office
- Bosnia and Herzegovina Representative Office
- Hungary Representative Office
- Romania Representative Office
- Russian Federation Representative Office

SUBSIDIARIES

- O Zone a.d. Beograd
- NIS Energowind d.o.o. Beograd
- Naftagas – Naftni servisi d.o.o. Novi Sad
- Naftagas – Tehnički servisi d.o.o. Zrenjanin
- Naftagas – Transport d.o.o. Novi Sad
- NTC NIS – Naftagas d.o.o. Novi Sad
- NIS Oversees o.o.o. St. Petersburg
- NIS Petrol EOOD Sofia
- NIS Petrol SRL Bucharest
- NIS Petrol d.o.o. Banja Luka
- G – Petrol d.o.o. Sarajevo
- Pannon Naftagas kft Budapest
- Jadran Naftagas d.o.o. Banja Luka
- NIS-Svetlost d.o.o. Bujanovac

[1] Under the Law on Tourism of the Republic of Serbia, if a company does not operate in hospitality as its core activity, the company is obliged to form a branch, i.e. premises outside its registered seat, and register it accordingly or otherwise establish an organisational unit that is registered in the Tourism Registry. To this end, the Company registered all petrol stations where it provides hospitality services as separate branches.

Business activities

NIS Group delivers its core business activities through five Blocks: Exploration and Production, Services, Refining, Sales and Distribution, and Energy. In addition, Functions within the corporate headquarters support core business activities.

The activities of **Exploration and Production** cover 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.

The majority of NIS' oil deposits are in Serbia, but NIS has also expanded into the region, conducting exploration activities in Bosnia and Herzegovina, Hungary and Romania. NIS has been operating in Angola since 1980 and launched oil exploitation in that country in 1985.

This Block operates an Elemir-based plant for processing of natural gas, production of LPG and natural gasoline and CO_2 capture, which has a design capacity of 65,000 tonnes of LPG and natural gasoline per year. In 2016 a new Amine Plant was added to the complex, which enhanced gas quality and output and had positive environmental impact reflected in the prevention of carbon dioxide emissions into the air.

Through its subsidiary NTC NIS Naftagas d.o.o. Novi Sad, NIS provides scientific and technical support to the main activities of the parent company and brings development and innovation into its operations.

Services provide services in oil and gas exploration and production through geophysical surveying, well construction, completion and workover, and performance of special operations and measurement on wells. The Block also delivers equipment maintenance services and the construction and maintenance of oil and gas systems and facilities. Apart from carriage of goods and truck services, it provides passenger transportation and vehicle rental services. NIS has its own servicing capacities, which are able to fully meet Group's demand and to provide services to third parties. All this is delivered through subsidiaries Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad. Services have expanded the business into foreign markets: Bosnia and Herzegovina, Romania and Russia.

Refining is responsible for refining crude oil and other raw materials and for producing petroleum products. It produces a broad range of petroleum products: from motor and energy fuels to feedstock for the petrochemicals industry, and other petroleum products. Block's refining complex includes a production plant in Pančevo[2]. Maximum designed capacity of the refining plants in Pančevo equals 4.8 million tons per year. Following the construction of the Mild Hydrocracking and Hydrotreating Unit (MHC/DHT) in 2012, NIS now produces fuel that meets EU quality standards and plans to continue to modernise its refining assets and to construct a delayed coking unit.

Sales and Distribution cover foreign and domestic trading and the wholesale and retail of petroleum and non-fuel products.

NIS operates the largest retail network in Serbia and develops the sales and distribution business in regional countries also - Bosnia and Herzegovina, Bulgaria and Romania. In the markets of Serbia and the region, NIS operates two brands: NIS Petrol and GAZPROM.

As separate businesses, NIS develops aviation fuel supply, bunkering, lubricants and bitumen sale and distribution.

All fuel types are subject to regular, rigorous laboratory testing and comply with national and international standards. The introduction of state-of-the-art technologies has increased the network's operational efficiency.

Energy produces electricity and thermal energy from conventional and renewable sources, produces and sells compressed natural gas, sells natural gas and electricity, sets up and carries out strategic energy projects, and develops and implements projects that aim to improve energy efficiency.

This Block develops and implements energy projects within NIS Group, performs analysis and evaluation of investment projects in the energy sector of Serbia under strategic partnership projects.

The implementation of project for construction of CHHP "*Pančevo*" and building of "*Plandište*" wind farm is in progress.

On its oil and gas fields, NIS has 14 small power plants with the total power of 13.8 MW. Most of small power plants also generate thermal energy, meeting the consumption requirements of its own facilities. The electricity output is marketed as well. In addition to small power plants, NIS produces electrical and

[2] Novi Sad Oil Refinery is closed and its design capacity of 2.5 million tons per year is currently not being used. Upon decision of the CEO dated March 1st, 2016, this facility was assigned for the management and responsibility of the Sales and Distribution Block.

thermal energy at the Energy Plant *Pančevo* having a generator power of 10.7 MWe. Electrical and thermal energy at the Energy Plant are fully used at the *Pančevo* Oil Refinery.

The main activities are supported by ten Functions of the parent company - NIS j.s.c. Novi Sad. Five of the ten supporting Functions are partially de-centralised and have functionally subordinate departments within Blocks[3], while other functions are centralised[4]. One of the General Director's Deputy is in charge of petrochemicals operations.

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, September 29th, 2005
Total equity as at June 30th, 2017:	223,521,822,000 RSD
Share capital as at June 30th, 2017:	81,530,200,000 RSD
Number of employees[5] as at June 30th, 2017:	4,058
Audit company that audited the last financial statements (dated December, 31st 2016):	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

[3] Finance, Economics, Planning and Accounting, Strategy and Investments, Material and Technical and Service Support and Capital Investments, Organisational Affairs and HSE.
[4] Legal and Corporate Affairs, Corporate Security, External and Governmental Relations, Public Relations and Communication, and Internal Audit. Internal Audit is organisationally subordinate to the Chief Executive Office, whereas the person responsible for internal audit reports to the Audit Committee of the Board of Directors.
[5] Number of leased employees and employees in subsidiaries excluded.

Company Governance System

The Company 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 implementation of set goals and achievement of results, while shareholders exercise their rights and control primarily through the Shareholders’ Assembly.

The provisions of the Articles fully and clearly differentiate between the scope of work of the Board of Directors and the scope of work of the Shareholders’ Assembly, General Director of the Company and the bodies appointed by corporate governance bodies.

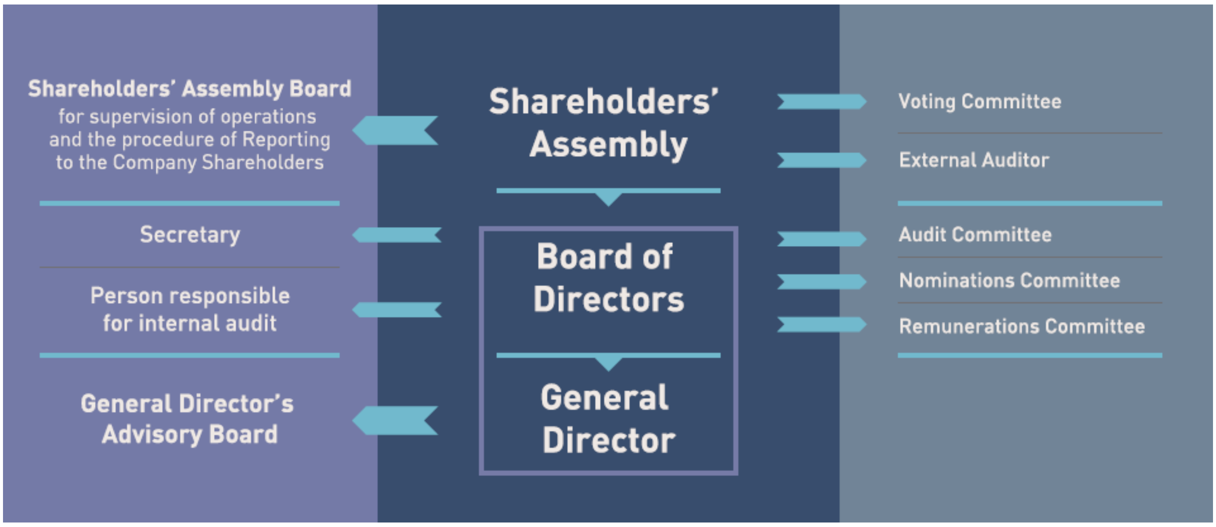


Chart no. 1*: Corporate Bodies of NIS j.s.c. Novi Sad*

Shareholders’ Assembly

As the highest authority of the Company, the Shareholders’ Assembly is consisted of all shareholders.

Board of Directors

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.

At the 9th Shareholders’ Assembly meeting of the NIS j.s.c. Novi Sad Shareholders' Assembly, held on June 27th, 2017, the following persons were appointed the members of the Board of Directors: Vadim Yakovlev, Kirill Tyurdenev, Danica Drašković, Alexey Yankevich, Kirill Kravchenko, Alexander Krylov, Nikola Martinović, Wolfgang Ruttenstorfer, Anatoly Cherner, and Stanislav Shekshnia.

The members elect the Board of Directors’ Chairperson, while the functions of the Board of Directors’ Chairperson and the General Director are separated.

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 30th, 1970 in Sharkan, USSR.

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 10.02.2009 and he was elected Chairman of the NIS j.s.c. Novi Sad Board of Directors as of 31.07.2009.

Kirill Tyurdenev
General Director of NIS j.s.c. Novi Sad
Member of NIS j.s.c. Novi Sad Board of Directors

Born on April 19th, 1977 in USSR.

He graduated with honours on Faculty for International Relations with Bachelor's degree and later with Master's degree in International Law (with specialization) at Moscow State Institute of International Relations (MGIMO). He also obtained a Master of Law (LL.M) degree from the University of Manchester. Completed executive education programme at international business school INSEAD and London Business School. From 2000 through 2004, worked for A.T. Kearney and Unilever. In 2004 he joined McKinsey & Co. From 2007 through 2012, he worked for SIBUR Mineral Fertilizers as Deputy CEO for Strategy and Corporate Development. In 2012 joined JSFC Sistema, as Executive Vice-President and Executive Board Member. Before joining NIS j.s.c. Novi Sad, he occupied the position of the President and Board Chair in United Petrochemical Company, which, at that time, was part of JSFC Sistema Group, and as Chairman of the Board of Directors of Ufaorgsintez. He took the position of First Deputy of General Director for Refining and Sales at NIS j.s.c. Novi Sad in April 2016. He was appointed General Director of NIS j.s.c. Novi Sad on March 22nd, 2017.

Mr Tyurdenev was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 8 December 2016.

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

Born on November 14th, 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 01.04.2009 to 18.06.2013, Ms. Danica Drašković was a member of the NIS j.s.c. Novi Sad Board of Directors, being re-elected on 30.06.2014.

Alexey Yankevich
Member of NIS j.s.c. Novi Sad Board of Directors
Member of Audit Committee[6]
Deputy CEO for Economics and Finance at PJSC "Gazprom Neft"

Born on December 19th, 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 o.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 PJSC "Gazprom Neft" for Economics and Finance Since March 2012.

Mr. Yankevich was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 18.06.2013.

Kirill Kravchenko
Member of Nominations Committee[7]
Deputy CEO for Foreign Asset Management at PJSC "Gazprom Neft"

Born on May 13th, 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. As of March 2009, he holds the position of Deputy CEO for Overseas Assets Management in PJSC "Gazprom Neft". Since February 2009 until March 22nd, 2017 he was General Director of NIS j.s.c. Novi Sad.

Mr. Kravchenko was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 10.02.2009.

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 17th, 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 SP "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 29.11.2010.

[6] The mandate of the members of Board of Directors' Committees expired on June 27th, 2017.
[7] The mandate of the members of Board of Directors' Committees expired on June 27th, 2017.

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

Born on December 3rd, 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 to 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 BoD from 2004 to 2008, and he was re-elected on 10.02.2009.

Wolfgang Ruttenstorfer
Independent Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Audit Committee[8]

Born on October 15th, 1950 in Vienna, Austria.

In 1976, he graduated from the Economics and Business Administration at the Vienna University of Economics and business, and he holds a PhD degree.

Mr. Ruttenstorfer's career started in the Austrian company OMV in 1976. In 1985, he was transferred to the Planning and Control Department and in 1989; he became responsible for the strategic development of the OMV Group. Being appointed Marketing Director in 1990, he became a member of the Executive Board in 1992, and was in charge of finance and chemical products. By early 1997, he was a member of the OMV EB, when he was appointed Deputy Minister of Finance. On 01.01.2000, he was re-appointed a member of the OMV EB in charge of finance, a function he performed by April 2002. He was in charge of gas affairs by December 2006. In the period from 01.01.2002 to 31.03.2011, Mr. Ruttenstorfer was the Chairman of the Executive Board of the OMV Group. Mr. Ruttenstorfer was or still is member of Board of Directors of companies such as VIG, Roche, RHI AG and Telekom Austria.

He was elected Independent member of the NIS j.s.c. Novi Sad Board of Directors as of 20.04.2012.

Anatoly Cherner
Member of NIS j.s.c. Novi Sad Board of Directors
Member of Remuneration Committee[9]
Deputy Chairman of the Executive Board, Deputy CEO for logistics, refining and sales in PJSC "Gazprom Neft"

Born on August 27th, 1954 in Groznyy, USSR.

Mr. Cherner graduated from Groznyy Oil Institute in 1976 with a degree in chemical oil and gas engineering. In the same year he was employed at the Sheripov Groznyy Refinery, starting as an operator to become refinery director in 1993. In 1996, he joined SlavNeft as Head of the Oil and Oil Products Trading Department and was later appointed Vice-Chairman of the company. 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 10.02.2009.

[8] The mandate of the members of Board of Directors' Committees expired on June 27th, 2017.
[9] The mandate of the members of Board of Directors' Committees expired on June 27th, 2017.

Stanislav Shekshnia
Independent Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Remuneration Committee[10]
Member of Nominations Committee[11]
Professor at the International Business School INSEAD

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

Mr. Sheknia 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 ZND, Chief Operational Director of Vimpelkom, Director of Personnel Management in OTIS Elevator, Central and East Europe. He has been a member of LLC SUEK and c.j.s.c. Vimpelkom-R Boards of Directors.

Mr. Sheknia was elected Independent member of the NIS j.s.c. Novi Sad Board of Directors as of 21.06.2010.

Total amount of remunerations paid out to BoD members in first six months of 2017, RSD net

Members of BoD	58,997,891

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

Name	Number of shares	% of total number of shares
Nikola Martinović	224	0.0001%

Membership of the Board of Directors or Supervisory Boards of other Companies

Vadim Yakovlev	• JSC NGK "Slavneft" • JSC "SN-MNG" • LTD "GPN Development"(Chairman of BoD) • JSC "Gazprom Neft-NNG" (Chairman of BoD) • LTD "Gazprom Neft-East" (Chairman of BoD) • LTD "Gazprom Neft-Hantos" (Chairman of BoD) • LTD "Gazprom Neft-NTC" (Chairman of BoD) • FLLC "Gazprom Neft-Orenburg" (Chairman of BoD) • LTD "Gazprom Neft-Sahalin" • Salim Petroleum Development N.V. (Supervisory Board member) • JSC "Tomskneft" VNK (Chairman of BoD) • LLC "Gazprom neft Shelf" (Chairman of BoD)
Kirill Tyurdenev	-
Danica Drašković	-
Alexey Yankevich	• JSC "NGK Slavneft" • JSC "Gazprom Neft – Aero" • LTD "Gazprom Neft – SM" • LTD "Gazprom Neft Biznis-Servis" • "Gazprom Neft Lubricants" Italy • LTD "Gazprom Neft Marin Bunker" • LLC "Gazprom Neft Shelf"
Kirill Kravchenko	• Vice-Chairman of the National Oil Committee of the Republic of Serbia • Serbian Tennis Federation BoD Member • SAM BoD Member – Serbian Association of Managers

[10] The mandate of the members of Board of Directors' Committees expired on June 27th, 2017.
[11] The mandate of the members of Board of Directors' Committees expired on June 27th, 2017.

Alexander Krilov	• JSC “Gazprom Neft-Novosibirsk” • JSC “Gazprom Neft-Tumen” • JSC “Gazprom Neft-Ural” • JSC “Gazprom Neft-Yaroslavlye” • JSC “Gazprom Neft-Northwest” • LTD “Gazprom Neft Asia” • LTD “Gazprom Neft - Tajikistan" • LTD “Gazprom Neft - Kazakhstan" • LTD “Gazprom Neft - Centre” • JSC “Gazprom Neft - Terminal” • LTD “Gazprom Neft – Regional sales“ • JSC “Gazprom Neft – Transport” • LTD “Gazprom Neft – Krasnoyarsk” • LTD “Gazprom Neft – Corporate Sales” • LLC “Gazprom Neft – Belnefteprodukt” • JSC “Gazprom Neft – Alternative Fuels” • LTD “ITSK”
Nikola Martinović	-
Wolfgang Ruttenstorfer	• “Flughafen Wien” AG, Vienna, Member of the Supervisory Board • “RHI” AG, Vienna, Member of the Supervisory Board • Telekom Austria, Chairman of the Supervisory Board
Anatoly Cherner	• JSC NGK “Slavneft” • JSC “Gazprom Neft-ONPZ” • JSC “Slavneft-JANOS” • JSC “Gazprom Neft –MNPZ” • JSC “Gazprom Neft-Aero” • CJSC “St. Petersburg’s International Commodities and resources Exchange” • LTD “Gazprom Neft –SM” • LTD “Gazprom Neft Marin Bunker” • LTD “Gazprom Neft – Logistics” (Chairman of BoD) • JSC “Mozirski NPZ” • „Gazprom Neft Lubrikants Italy“ • LTD "Gazprom Neft - Catalytic Systems" (Chairman of BoD)
Stanislav Shekshnia	• Dentsu Aegis Network Russia (Member of BoD) • NLMK (Member of BoD) • LTD “Russian Fishery Company” (Member of BoD)

Board of Directors' Committees

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

The term of office of the members of the Board of Directors Committees expired by the date of the 9th Shareholders' Assembly meeting of the NIS j.s.c. Novi Sad, i.e. by June 27th, 2017, by which date the aforesaid committees had the following composition:

- Audit Committee:
  - Wolfgang Ruttenstorfer, Chairman,
  - Alexey Yankevich, member and
  - Nenad Mijailović, member.
- Remuneration Committee:
  - Stanislav Shekshnia, Chairman,
  - Anatoly Cherner, member and
  - Zoran Grujčić, member.
- Nominations Committee:
  - Goran Knežević, Chairman,
  - Kirill Kravchenko, member and
  - Stanislav Shekshnia, member.

The Board of Directors shall appoint the new members of the aforesaid committees as soon as possible, for the new term of office, including that it may, if required, establish also other permanent or ad hoc committees to deal with the issues relevant for the work of the Board of Directors.

Shareholders' Assembly Board

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 Shareholders' Assembly of the Company, which provides assistance to the Shareholder's Assembly with respect to its activities and consideration of issues within its scope of competence. Members of the Shareholders' Assembly Board are responsible for their own work to the Shareholders' Assembly, which appoints them to and relieves them from their duty.

Members of Shareholders' Assembly Board as of June 30th, 2017

Nenad Mihajlović
Chairman of Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders
Member of the Audit Committee[12]

Born on October 14th, 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 Geneve, JP Morgan London, 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 and Economy 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 BoD from 18.06.2013 to 30.06.2014.

He was appointed Chairman of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 30.06.2014.

[12] The mandate of the members of Board of Directors' Committees expired on June 27th, 2017.

Zoran Grujičić
Member of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad
Member of Remuneration Committee[13]

Born on July 28th, 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. Since 01.10.2012 to January 2016, he had served as Advisor to the Sales and Distribution Director. Since February 2016 he has served as Advisor to the Function for External Affairs and Government Relations Director.

He was appointed member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 30.06.2014.

Alexey Urusov
Member of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad
Director of Economics and Corporate Planning Department in PJSC "Gazprom Neft"

Born on November 17th, 1974 in Tyumen, USSR.

Mr. Urusov graduated from the Tyumen State 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 control, 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. Since 2012 and nowadays is employed as a Director of economics and corporate planning with PJSC "Gazprom Neft".

He was appointed member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 25.06.2012.

A total amount of remunerations paid out to SAB members in first six months of 2017, net RSD

Members of SAB	9,997,083

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

Name	Number of shares	% of total number of shares
Nenad Mijailović	5	0.000003066%

Membership of the Board of Directors or Supervisory Boards of other Companies

Nenad Mijailović	-
Zoran Grujičić	-
Alexey Urusov	• Member of the Supervisory Board of Gazpromneft Marine Bunker Balkan S.A.

[13] The mandate of the members of Board of Directors' Committees expired on June 27th, 2017.

General Director

The Board of Directors appoints one of its executive members to act as the General Director. General Director coordinates the activities of the executive members of the Board of Directors and organizes the Company's activities. In addition to this, 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 j.s.c. Novi Sad.

General Director of NIS j.s.c. Novi Sad is Mr Kirill Tyurdenev.

The Advisory Board of General Director

Advisory Board of General Director is an expert body that provides assistance to the General Director in the performance of his activities and in consideration of issues within General Director's scope of competence. Composition of the Advisory Board of General Director has been determined by the General Director's Decision and it is comprised by the General Director's First Deputy for exploration and production, Heads of all Blocks and Functions within the Company, General Director's Deputy for petrochemical operations and Regional Director of NIS j.s.c. Novi Sad for Romania. Advisory Board 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), Advisory Board addresses issues related to strategy and development policy, the basic principles of which are established by the Shareholders' Assembly and the Company's Board of Directors.

Transactions Involving Personal Interest and Non-Competition

Transactions Involving Personal Interest - A person entrusted with special duties at the Company, in accordance with the Law, must notify the Board of Directors without delay of any personal interest (or interests of its related parties) in a legal transaction concluded by the Company, or a legal action undertaken by the Company.

Non-Competition – 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.

By entering into Agreement on Providing for Mutual Rights and Obligations with the Company, members of the Board of Directors become additionally informed of their obligation to notify the Company in the event of entry into legal transactions with the Company, as well as non-competition obligation with respect to the Company and other specific duties of the members of the Board of Directors..

Related Party Transactions

In first six months of 2017, NIS Group entered into business partnerships with its related legal entities. The most important related party transactions were made based on supply/delivery of crude oil, petroleum products and electric energy. An outline of related party transactions is shown in the Notes to the Financial Statements.

Risk Management

Integrated Risk Management System

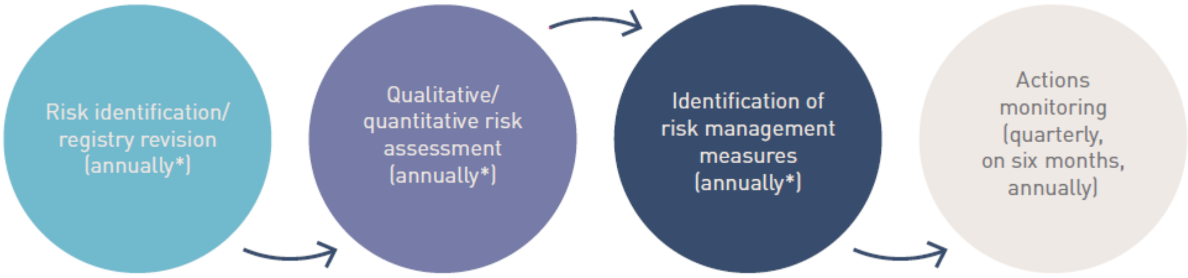
NIS has set its objectives in relation to risk management and established an integrated risk management system (IRMS).

The aim of the Company in the area of risk management is to increase effectiveness and efficiency of administrative decisions using the analysis of accompanying risks, as well as to provide maximum effectiveness and efficiency of risk management measures during implementation of issued decisions. IRMS is represents set of process, methodological framework and instruments aimed at ensuring the efficiency and effectiveness of the risk management process in the NIS.

Company objectives in the area of risk management are achieved through realization of the following tasks:

- Setting up the risk management culture in the Company, in order to reach common understanding of basic principles and approaches to risk management by both the management and the employees;
- Defining and developing a systematic approach to identification and assessment of risk that are present in the Company's business operation, both in general, and in certain area of business activities;
- Motivating exchange of risk related information between organizational units of the Company and the shared definition of risk management measures;
- Forwarding systematic risk related information to managerial bodies of the Company.

IRMS Process Flow at NIS



*Or as needed.

The system is founded on the principle that different management levels have different risks assigned to them to manage depending on projected financial impact of those risks. Such approach allows for identifying the areas of responsibility for risk governance and oversight at all management levels and for ensuring that suitable action plans are prepared for managing key risks, at the level of organisational units and NIS as a whole.

The parent company has set up the Section for monitoring of risk management system, which coordinates the process and ensures its continuous development.

Furthermore, management systems, organisational structure, processes, standards and other internal regulations, the Code of Corporate Governance and the Code of Business Ethics all together form an internal control system which provides guidance on how to conduct NIS' operations and manage associated risks in an effective manner.

IRMS Integration into Business Planning Process

Key risks, associated with corporate targets, are identified by the management and adopted by the Board of Directors through adoption of the Company's business plans. Risk assessment is part of the business planning process and information on key risks - estimated financial effect of the risks, management strategies, risk management actions and the funds needed for realising the actions - are incorporated into the adopted business plans.

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

Operational Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
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 of NIS. This largely depends on the outcome of geological research activities aiming to increase 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 NIS' resource base growth.	Measured implemented to the end of risk reduction are: execution of new 3D seismic testing through application of the top-notch wireless technology, selection of candidates for exploratory drilling based on complex seismic/geological data interpretation, program expertise for geological-exploratory works by major shareholder and selection of the most perspective wells, accompanied by application of the state of the art exploration methods. With the aim of reducing risks, special attention has been focused on good preparation of implementation projects and quality monitoring during execution of geological-exploratory works. In order to reduce license related risks, geological-exploratory works have been executed in accordance with dynamics defined by Projects of Geological Exploration, and provisions of the Law on Mining and Geological Exploration, which, among other things, also regulates the area of oil and gas exploration and production.

Financial Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Market Risks	
Foreign Exchange Risk – NIS Group operates in an international setting and is thus exposed to the risk of volatile foreign currency exchange rates arising from business transactions in different currencies, primarily USD and EUR.	The risks relating to changes in the national currency exchange rate against the US dollar is partly neutralised through natural hedging of petroleum product selling prices, which are adjusted to these changes. Risk management instruments are also used, such as forward transactions on the foreign exchange market, which help reduce the impact of foreign currency losses in the event of depreciation of the national currency against the US dollar or euro. Other actions 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.
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 affect the value of stock 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. The need to apply some of the commodity hedging instruments in 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 multiple scenarios, plan follow-up and timely adjustment of operating plans for crude oil procurement; • Regular sessions of NIS j.s.c. Novi Sad Committee in charge of crude oil purchase/sale to discuss all major subjects related both to crude oil purchase and sale (sale of Angola-Palanca crude oil); • Tendency to enter into long-term crude oil purchase contracts at optimal commercial terms, with longer payment terms on an open account basis and sales contracts which would exempt NIS j.s.c. Novi Sad, in line with current governmental agreements, from paying customs clearance fees at import based on preferential status; • Expansion of the supplier portfolio, successful cooperation with EU companies, growing competition in tenders for importing and more prominent progress regarding purchase prices; • Expansion/diversification of the crude oil basket for prospective import, provision of samples of the crude oil types that have not been processed by the *Pančevo* Oil Refinery; • Continuous effort to optimise processes and striving to achieve

	optimal economic effects and indicators; • Occasional benchmarking to survey the market and price trends, that is, to analyse the 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 new crude oil types which have not been used in NIS refining plants, analysis and consideration of potential commercial terms of procurement.
Interest Rate Risk – NIS Group is exposed to the interest rate risk both in terms of its bank loans and placement of deposits.	NIS j.s.c. Novi Sad takes out loans with commercial banks mostly at floating interest rates and performs sensitivity analysis against interest rate changes and assesses if raising a loan at a flat interest rate is required to a certain extent. Placing of funds in the form of intercompany loans/credits to third parties follows floating interest rates whereas placing of funds in the form of tied or a vista deposits follows flat interest rates. The funds are placed as deposits in line with the credit limit methodologies of commercial banks (the funds are reciprocally placed only with major commercial banks from which NIS j.s.c. Novi Sad takes out loans and/or credit/documentary lines). Consequently, revenues and cash flows from bank deposits are substantially independent of any changes in base interest rates, whereas for placing in the form of granted loans/credits, exposure to the risk of changes in basic interest rates is greater (EURIBOR, LIBOR, etc.).
Credit Risk	
Arises in relation to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans extended to third parties, and exposure to wholesale and retail risks, including unrecoverable debt and assumed liabilities.	Credit risk management is established at the level of NIS Group. With respect to credit limits, banks are ranked based on the adopted methodologies applicable to major and other banks, in order to determine the maximum extent of exposure of NIS j.s.c. Novi Sad to the bank at any given time (through deposits, documentary instruments: bank guarantees, Letters of Credit, etc. – issued to NIS j.s.c. Novi Sad). Regarding accounts receivable, there is a credit limit methodology in place which serves for defining the level of exposure in relation to individual customers, depending on their financial indicators.
Liquidity Risk	
Liquidity risk denotes a risk that the Company will encounter difficulty in meeting its liabilities. It is the risk of not having suitable sources to finance the Group's business operations.	NIS Group continually monitors liquidity in order to provide sufficient cash to meet its operational, investment and financial performance requirements. 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). This type of projection takes into account the Group's debt repayment schedules, compliance with contractual terms and compliance with internally-set goals, and it is based on daily cash flow projections for the entire NIS Group, which form a basis for making decisions regarding raising external loans, in which case adequate bank financing sources are secured within the allowable indebtedness 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, the cash pooling system was introduced on 1 January 2014 for the purpose of liquidity management, which involves centralised management of liquidity and financing of the part of NIS Group in the Republic of Serbia[14]. Since mid-September 2014, NIS j.s.c. Novi Sad Novi Sad has been exposed to the risk of limited external financing capacities due to the imposition of sectorial sanctions by the EU and the U.S.A. on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU. Namely, sanctions do not allow NIS j.s.c. Novi Sad to borrow funds from EU and U.S.A. banks with maturity period longer than 30, i.e. 90 days. The exception foreseen by EU sanction refers to the possibility of borrowing funds from EU banks for period longer than

[14] NIS j.s.c. Novi Sad and subsidiaries Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Transport d.o.o. Novi Sad and NTC NIS Naftagas d.o.o. Novi Sad.

	30 days exclusively if the loan is intended for payment of imports of non-sanctioned goods and services from the EU. With its continuous monitoring of geopolitical situation and capital market trends, timely response and extension of credit lines with banks before the aforesaid sanctions were imposed, NIS managed to secure sufficient limits for documentary business and for credit financing of NIS Group in 2015 and 2016. Furthermore, with the aim of acquiring necessary funds for future transactions NIS negotiated/contracted new credit lines with Serbian and Arabian banks for general purposes funding and with Serbia-based European banks for funding imports from the EU (financing for a period longer than 30 days is allowed if the subject of financing is import of goods or services from the EU), thus ensuring the necessary funds for 2017 and in part for 2018. In the fourth quarter of 2016, the tender for restructuring the credit portfolio of NIS j.s.c. Novi Sad was closed, as well as an additional tender, in the second quarter of 2017, the aim of which was to secure sufficient credit limit for drawing favourable credit from EU banks for a 3-5 year period, for imports from the EU. These sources of funding will be available in 2017 and in 2018 and will be used for payment for imported goods and services from the EU, which will enable NIS to use liquidity surpluses from loans granted under better terms to repay the loans under more unfavourable terms from their portfolio before their maturity and thereby practically restructure maturity of its loan portfolio (greater share of long-term loans in the portfolio, average credit portfolio term is extended), with a smaller share of dollar-denominated loans which carry a risk of increased base rate (USD LIBOR) and a risk of exchange losses, new loans in EUR will be taken out at more favourable interest rates, all within the allowed loan limits, which will unburden the company's cash flow for investments in the next 3 years (especially the “Bottom of the Barrel” Project).

Other Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Risk of Economic Restrictions from the EU and the U.S.A. on Gazprom Neft Group	
The economic restrictions imposed by the EU and the U.S.A. on Gazprom Neft Group brought about risks to the prospects for long-term development because of the limitation of loan arrangements with commercial banks from some of the EU- and USA-based bank groups.	NIS continuously follows international developments, assessing consequences to the business and undertaking appropriate actions to have NIS exempted from the EU sanctions. In addition, in accordance with allowed exceptions from the imposed sanctions (long-term loans are possible only if they are intended for funding import of goods and services from the EU); NIS’ operations continuously adjust to this option by increasing the volume of imported goods and services from EU suppliers. This ensures funding for long term development of NIS despite of the limitations of the sanctions.

Business Environment

The World

At their meeting held in Vienna on May 25th, the members of the Organization of the Petroleum Exporting Countries (OPEC) reached a deal to extend their oil production cut agreement validity, and resume output cap strategy for a further period of nine months, through March 2018.

The production cuts will most probably be also implemented by the non-OPEC countries, starting with the leading producer – Russia, which in agreement with OPEC, reduced its output as of January. Russia and Saudi Arabia agreement has drawn huge attention, being described by the Reuters news agency as „newly-forged, unexpected and galloping partnership of the two countries“. Only a year ago, the two sides had almost no dialogue, while the explicit rivalry of the two leading crude oil suppliers provided better contracts for buyers.

The production cuts have resulted in this year's crude oil price upsurges beyond US$ 50 /barrel every now and then, giving impetus to producers, many of them being highly dependent on revenues coming from energy resources sale.

By the same token, due to the expiry of "hedging", American shale oil and gas producers are in a predicament. In first quarter of 2017 the U.S. producers have reduced their hedging programmes lending themselves to spot markets volatile prices risks, based on the expectations that the prices will continue their growth as OPEC resumes its output cuts strategy in May. However, growing U.S. production changed plans of OPEC and non-OPEC partners and term crude oil prices have lost 15 per cent of their value since this February, increasing the risk for the „non-hedged“ companies of being more exposed to market weaknesses

In contrast to optimism demonstrated in the May meeting, a world's leading global investment giants JP Morgan was the first to, in the wake of the updated agreement, decide to revise its projections of the oil price fluctuations - downwards. This bank's expert team reckons that the crude oil price will again shrink pursuant to the known argument of the growing U.S. shale oil output, as well as – in their reckoning – the agreement's possible failing through before the expiry of the deadline set for next March. Goldman Sachs is of similar expectations. It revised downwards its average crude oil price forecast for this year, notwithstanding the fact that this investment bank has a reputation of the most consistent optimist in theirs oil price projections. Goldman cites similar reasons: potential growth of U.S. shale oil output, new projects and non-compliance with OPEC restrictions.

European Commission has come forward with new set of rules pertaining to road toll collection systems for the entire Europe, which will be based on the distance reflecting carbon dioxide emitted by cars and cargo vehicles. „We are introducing rules on principle user-pays and polluter-pays“, says the EC transportation commissioner. This EC proposal is now awaiting the approval of the members and European Parliament vote. EC claims it will not compel any country to introduce road tolls, adding that the existing ones will have to adhere to certain principles. Measurement and devices standardisation is in store. The so-called "zero emissions" vehicles would be granted a mandatory 75 per cent discount. Passenger traffic accounts for as many as one fifth of EU's noxious gases emissions. Revenues generated by this fee would be spent on transportation infrastructure, its consolidation generated a deficit in the budget amounting to almost EUR 60 billion.

EU-member countries will also have an option of introducing fees intended for limiting levels of noise, congestions or pollution in specially designated areas. The interim period will be set through to 2023 for heavy vehicles and through to 2027 for all other vehicles.

The carbon dioxide emissions tax increase along with reduction measures are also upheld by world's largest oil companies. Together with other USA oil producers ExxonMobil upheld the proposal for significant increase of domestic carbon dioxide emissions tax. This decision came as a surprise to the public, as it directly affects the largest producers, refiners and consumers of fossil fuels. However, such a move may also be viewed as prevention against potential litigations that might be launched by individuals, residential communities and institutions if they succeed in proving that they suffered from irresponsible oil companies' climate strategy.

Royal Dutch Shell has joined a group comprising more than 100 global companies in their support to an appeal made by the G20[15] Task Force to prepare and make public financial consequences arising in the aftermath of climate policy measures. The Task Force has been set up by the *G*20 Financial Stability Board with a mandate to clarify risks to finances of the companies, whose current business strategies will be drastically changed by the strategies appropriate to preventing the overheating of the earth's

[15] World's 20 economically most developed countries.

atmosphere. As for oil companies, the key consequence is an imminent trend of abandoning fossil fuels in favour of alternative ones, first and foremost the renewable energy sources. This information is essential for investors, i.e. companies' shareholders, as they shape the destiny of their investments, which is the principal motive of setting up this task force.

IMF's April report claims that global economic activity is driven by a long awaited cyclical rebound in investment, production and trade. World growth is expected to increase from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. An increasingly vigorous activity, expectations from the growing global demand, diminished deflation pressure and optimistic financial markets also facilitate development. However, structural obstacles to a more vigorous rebound and risk balance, especially in the mid-term period, are still posing major challenges. Report highlights the need for authentic strategies in developed economies and developing markets, so as to solve a great deal of global economy challenges.

Serbia

IMF's most recent assessments made public during its delegation's visit to Serbia this June suggest that the triennial programme has been successfully under way, Serbia accomplishing results that exceed the set goals. Key issues are macroeconomic and fiscal status, public sector reforms, public enterprises reform and entities under restructuring, i.e. Serbia's entire business environment, accomplishing the balance of payments equilibrium and resumption of deregulation in foreign trade exchange. Increase in wages and pensions were announced as topics for next visit.

An acceleration of the growth is expected based on macroeconomic stability, business environment streamlining, increased capital spending of the state, monetary policy relaxation effects in the previous period, implementation of structural reforms and reinvigorated demand.

Real growth of Serbia's quarterly gross domestic product in Q1 2017 compared to previous year's Q1 amounts to 1.2 per cent, as per Serbia's Statistics Bureau.

Core inflation stayed low in second quarter and in June it amounted to 2 per cent. Retail prices of goods and services which are used for personal consumption (consumer price index) in June 2017 in comparison with the same month 2016 grew by 3.6 per cent, while in May in comparison with the same month previous year, they grew by 3.5 per cent.

Industrial production in the period January–May 2017, on the same period 2016, is bigger by 1.2 per cent. In terms of sectors, biggest growth in May 2017 compared to May 2016 was accomplished in the Mining sector (10 per cent), in the Processing industry sector (9.2 per cent).

Export of goods in the period January-May, indicated in euros, grew by 13.4 per cent, and import of goods by 14.4 per cent compared to the same period last year.

Export-import coverage ratio is 77.3 per cent and is below the coverage ratio accomplished in the same period previous year, when it was 78.0 per cent.

In May 2017 in comparison with the same month last year, the average gross and net wages are nominally higher by 7,2 per cent and really higher by 3,6 per cent. Average gross nominal wages in the period January-May 2017 compared to the same period 2016 grew by 4.1 per cent, while gross real wages grew by 0.8 per cent.

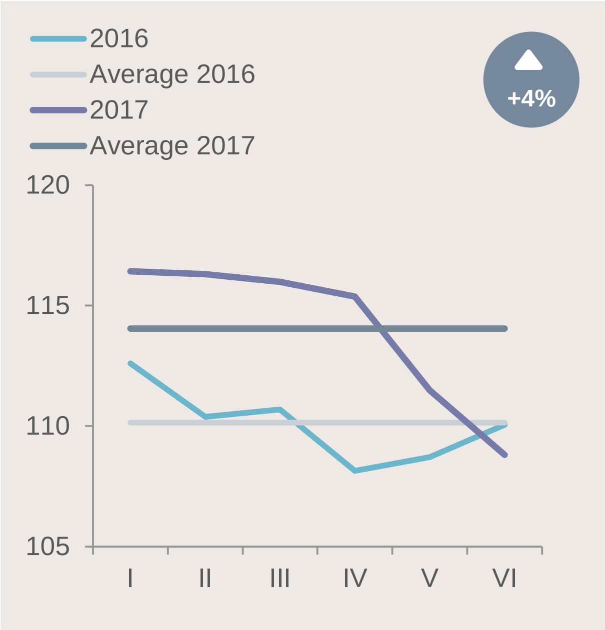


***Chart no. 2:** USD/RSD exchange rate changes*[16]

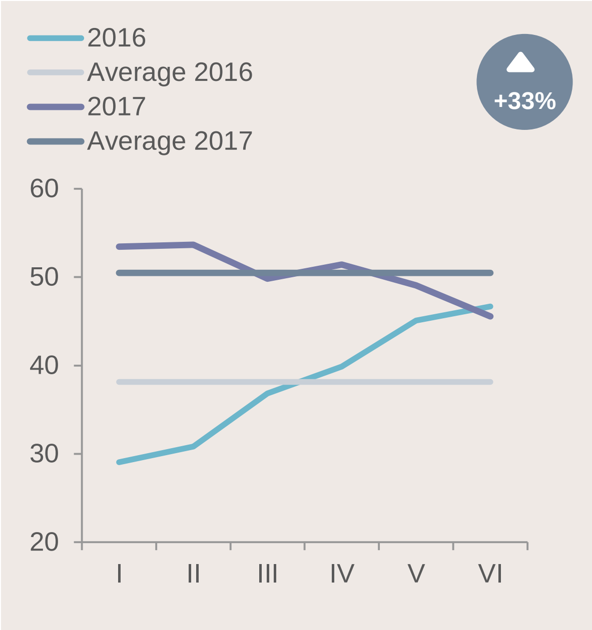


***Chart no. 3**: Urals RCMB oil price, $/bbl*[17]

- Average USD/RSD exchange rate in first six months of 2017 is higher by RSD 3.91, i.e. 3.5% of the first six months of 2016 average.
- In first six months of 2017, the USD/RSD exchange rate declined by RSD 11.49, i.e. 10%.
- In first six months of 2016, the USD/RSD exchange rate declined by RSD 0.18, i.e. 0.2%.

- Average Urals RCMB oil price in first six months of 2017 is higher by 12.44 $/bbl, i.e. 33% of the 2016 average price.
- In first six months of 2017, Urals RCMB oil price declined by 6.93 $/bbl, i.e. 13%.
- In first six months of 2016, Urals RCMB oil price is increased by 12.11 $/bbl, i.e. 35%.

[16] Data source: NBS.
[17] Data source: Platts.

Market Share[18]

Motor fuel consumption in the Region grows on the same period last year due to positive macroeconomic trends.

Fuel consumption grows in transportation segment, processing industry and construction development.

Improved construction development and processing industry performance, as well as transportation growth positively impact Serbia's diesel fuel consumption growth.

The second quarter saw results of stepped up control of base oils imports by inspections and Customs Bureau.

A portion of diesel fuel consumption is returning from the shadow into legal circulation.

Serbia

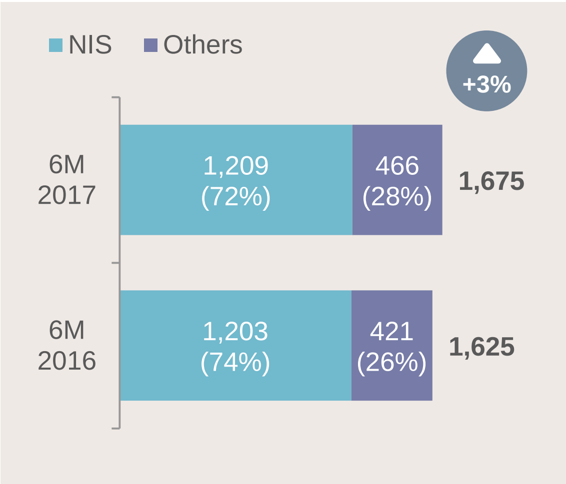


***Chart no. 4**: The volume of overall petroleum products market[19], thousand tonnes*

In the first six months of 2017, Serbia's overall oil products consumption was on the rise compared to the same period 2016, due mostly to the growing consumption of jet fuel, straight-run petrol and motor petrol, Diesel, heating oil fuel oil and lubricants, which is caused mainly by lower oil products prices and major infrastructure works. In the same comparative period the consumption of LPG and bitumen is lower.

NIS sales have a slight growing trend; however, this growth is somewhat slower than the market growth. Growing import of motor petrol and straight-run petrol, as well as Diesel affects NIS share negatively

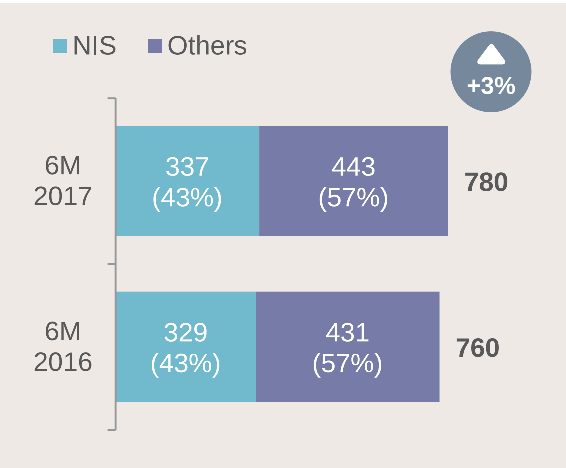


***Chart no. 5**: Retail market of motor fuels in the Republic of Serbia[20], thousand tonnes*

In the first six months of 2017, the overall retail market grew by 2.6% compared to the same period in 2016. NIS retail market share is stable.

Fuel consumption grows due to transportation growth, car fleet and transit traffic boost.

[18] Data sources for projections: for Serbia – Sales and Distribution internal analyses and estimates; for Bulgaria and Romania – PFC and Eurostat; For Bosnia-Herzegovina – PFC and internal estimates.
[19] Data for 2017 were given based on estimates.
[20] The sales of NIS and other competitors include motor fuel (auto gas, gasoline, and diesel). LPG cylinders were not included. Data for 2017 were given based on estimates.

Bosnia and Herzegovina

Bosnia-Herzegovina Parliamentary Assembly has failed in an attempt to amend Excise Duties Law, its Government now seeks a model that would return the motion into the repeat procedure. Notwithstanding this, at this juncture, the balance of power within Bosnia-Herzegovina Parliament suggests that this issue will most probably not be settled until after a new parliamentary majority lines up late next year.

Region's lowest Diesel prices are traditionally in Bosnia-Herzegovina, while petrol in the entire region is cheaper only in the Republic of Macedonia, which continues to create opportunities for trans-border sales.

Low-priced oil products originating in Greece might emerge soon on Bosnia-Herzegovina market.

In Bosnia and Herzegovina, 35[21] NIS petrol stations are active.

NIS share[22] in the total market of motor fuels is 11.7%, whereas in the retail market it amounts to 10.7%.

Bulgaria

Bulgaria's market experiences an obvious decrease of imports in the aftermath of growing refining volumes of the Burgas Refinery. Import accomplished in Q1 2017 was predominantly coming from Romania, while the import of oil products coming from Greece was attractive only every now and then. In certain spells of time in Q2 the import from Greece was being suspended as unprofitable, however the situation is stable currently, import from Greece and Romania going smoothly.

Competition Protection Commission has endorsed measures proposed by six fuel trading companies so as to bring about free market competition. These six companies, specifically: Shell, OMV Bulgaria, Petrol, NIS Petrol, Lukoil and Eko have come up with a proposal to ban communication between staffers in competing refuelling stations, as well as discussing, receiving or providing commercial information within "Bulgaria's oil and gas Association" .

In Bulgaria, 35 NIS petrol stations are active.

NIS share in the total market of motor fuels is 5.5%, whereas in the retail market it amounts to 4.4%.

Romania

The VAT rate reduction from 20% to 19% as of January 1, 2017, resulted in reduced fuel prices and facilitated a slight motor fuel consumption growth.

The OMV Petrol Company and Auchan retail chain from Romania announced forging a partnership that would result in launching shops at Petrom refuelling stations branded as MyAuchan. This pilot project stipulates 15 shops to open before the end of 2017

CNG Producers and Consumers Association have launched an initiative to create the first chain of 9 dedicated refuelling stations before the end of 2019.

Before the end of 2017, the MOL Romania Company plans to put into practice a Fresh Corner concept at its 100 refuelling stations in Romania, constituting a half of the entire pool of this company's refuelling stations in Romania.

In Romania, 18 NIS petrol stations are active.

NIS share in the total market of motor fuels is 0.9%, whereas in the retail market it amounts to 1.4%.

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[21] In addition to this number, there are two more petrol stations in Bosnia and Herzegovina, operating by the *DODO* (*Dealer Owned Dealer Operated*) model.

[22] NIS market share was calculated over 37 petrol stations (35 petrol stations owned by NIS and two petrol stations operating by the *DODO* (*Dealer Owned Dealer Operated*) model).

Result Analysis

Key Performance Indicators

Q2 2017	Q2 2016	Δ[23]	Indicator	Unit of measure	6M 2017	6M 2016	Δ[24]
48.7	43.9	+11%	**Urals RCMB**	$/bbl	50.5	38.1	+33%
57.1	46.0	+24%	**Sales revenues**	bn RSD	107.4	81.4	+32%
7.0	2.9	+2x	**Net profit**	bn RSD	12.4	3.1	+4x
11.4	9.4	+21%	**EBITDA**[25]	bn RSD	22.5	13.2	+71%
14.4	5.0	+190%	**OCF**	bn RSD	18.9	8.6	+121%
5.3	4.5	+18%	**CAPEX**[26]	bn RSD	10.0	9.1	+9%
44.7	43.5	+3%	**Accrued liabilities for taxes and other public revenue**[27]	bn RSD	80.3	76.3	+5%
636	680	-6%	**Total bank indebtedness**[28]	mn USD	636	680	-6%
1.6	1.7	-3%	**LTIF**[29]	%	1.6	1.7	-3%

Operating Indicators

Exploration and Production

Q2 2017	Q2 2016	Δ[30]	Indicator	Unit of measure	6M 2017	6M 2016	Δ[31]
349	366	-5%	**Oil and gas production**[32]	thousand t.o.e.	692	743	-7%
232	243	-4%	**Domestic oil production**[33]	thousand tonnes	460	493	-7%
0	0	/	**LTIF**	%	0	0	/
7.1	5.5	+28%	**EBITDA**	bn RSD	14.5	9.7	+49%
4.0	3.6	+9%	**CAPEX**[34]	bn RSD	7.0	7.5	-6%

The main focus of the “Exploration and Production” Block in the second quarter of 2017 referred to achieving the planned production of hydrocarbons, project implementation and improvement of geological and exploration works efficiency, as well as to the improvement of production and technological efficiency by implementing measures for increasing operational efficiency.

In 2017, the focus was on OMS (Operations Management System) implementation with a view of increasing operational efficiency and management efficiency regarding all types of risks, expense reduction and business process optimization. The first half of 2017 ended with no workers injured at work, this meaning that 678 days passed with no workers injured at work in the “Exploration and Production” Block.

Reservoir Development

Major GTA completion trend has been continued in second quarter of 2017.

FHF have been for the first time completed at the oilfields Bramalj and Majdan-plitko. In their wake the number of candidates for FHF and drilling increased. Other than that, within the programme of renewed

[23] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[24] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[25] EBITDA = Sales revenues (exclusive of excise duties) – costs of inventories (oil, petroleum products and other products) – Operating Expenses (OPEX) – other costs that may be controlled by the management.
[26] Financing, VAT excluded.
[27] Taxes, fees, charges and other public revenue calculated for the reporting period. The overview is inclusive of the liabilities of NIS for taxes and other public revenue in Serbia and other countries of operation.
[28] Total bank indebtedness =Total debt to banks + Letters of Credit. As at June 30th,2017, this was USD 659.4 million of total debt + USD 4.3 million in Letters of Credit.
[29] Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The indicator shown refers to NIS j.s.c. Novi Sad with its subsidiaries: Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad.
[30] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[31] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[32] Domestic oil production includes gasoline and light condensate, whereas gas production takes into account commercial production of gas.
[33] With gasoline and light condensate.
[34] Financing, VAT excluded.

testing of old wells, a deposit was put on stream within the Sirakovo oilfield. The programme of completing wells from non-working fluid of previous years has been successfully resumed.

In terms of Squeeze cementing, 2 operations have been successfully completed at the satellite of the Kikinda-Varoš field, thus confirming the good prospects of the field's main facility to introduce injecting of screen at Kikinda-Varoš itself.

On the whole, production indices in the first six months of 2017 spell an optimistic forecast and substantiate additional activities at the well count.

Exploratory drilling and well testing

Geological exploration operations carried out by „Exploration and production" tested and launched output outpost extension well *Is-X*-5. *Ks-X*-1, *Ča*-16 and *Kiz-X*-2 wells have been drilled. The *Ča*-16 well has been launched into the test mode production, while the testing of *Kiz-X*-2 well is under way. Testing of outpost extension well *Km-X*-1 is in the final stage. The specific way of heavy oil accumulation production technology is to be determined.

3D Seismic Surveys

3D seismic survey has been completed in South Banat I and Turija III exploration areas. The works have been carried out within planned completion dates and within allocated budget.

3D seismic data acquisition started in the Morović exploration area.

A complex seismogeological interpretation of data acquired from the Turija II exploration area has been completed. Processing of the seismic data acquired in exploration area South Banat I is in the final stage. The finalization has been under way of the interpretation of full azimuthal anisotropic migration *of* ES360 and AVAZ inversion as part of completing R&D development projects. All activities are carried out in compliance with planned completion dates.

International Projects

At Kiskunhalas exploration block in Hungary, preliminary works for well testing are being executed, which is expected to be conducted in the third quarter.

The Teremia-1000 well at the Ex-7 block is drilled through. Teremia-1000 well testing has been under way, two out of eight planned intervals are complete. The programme approval by the National Agency for Mineral Resources of Romania has been under way. The permitting process started for 3 exploratory wells Ex-7 (1 well) and Ex-8 (2 wells). The permitting process is resumed per blocks Ex-2 and Ex-3.

Reprocessing and reinterpretation has been under way in Bosnia-Herzegovina.

Oil and gas output volume in the first half of 2017 is 7% lower than in the first half of previous year.

Operating Indicators

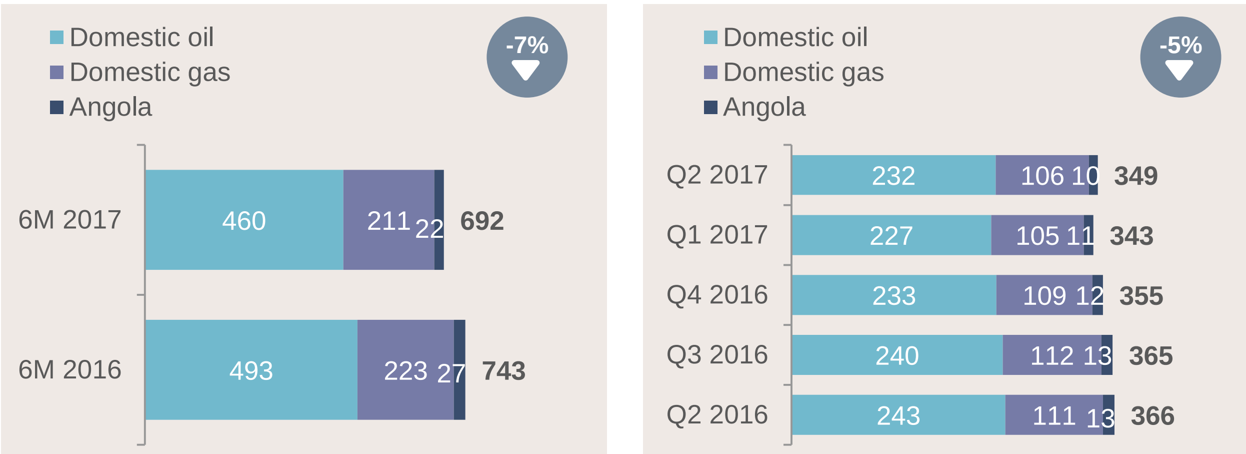


***Chart no. 6**: Oil and gas output, thousand t.o.e.*

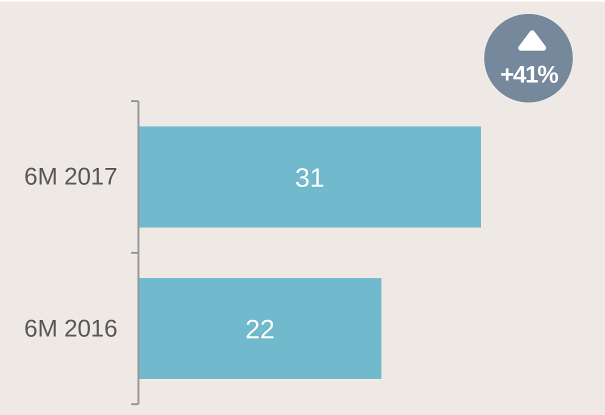
Volume of oil and gas production in first six months of 2017 was down by 7% compared with same period previous year.

Services

Q2 2017	Q2 2016	Δ[35]	Indicator	Unit of measure	6M 2017	6M 2016	Δ[36]
18	10	+80%	**Wells finished**	Number of wells	31	22	+41%
3.3	3.2	+4%	**LTIF**	%	3.3	3.2	+4%
0.9	0.0	+252x	**EBITDA**	bn RSD	1.3	0.3	+4x
0.1	0.0	+157%	**CAPEX**[37]	bn RSD	0.2	0.2	+43%

Oilfield Services

Naftagas - Naftni Servisi carried out works with 5 drilling rigs on average in the first two quarters. 31 new wells have been drilled through, as required by „Exploration and production“ Block. The *Termia*-1000 exploratory well in Romania has been successfully drilled through. „Technical limits“ strategy continued implementation resulted in the increased penetration rate and efficiency.



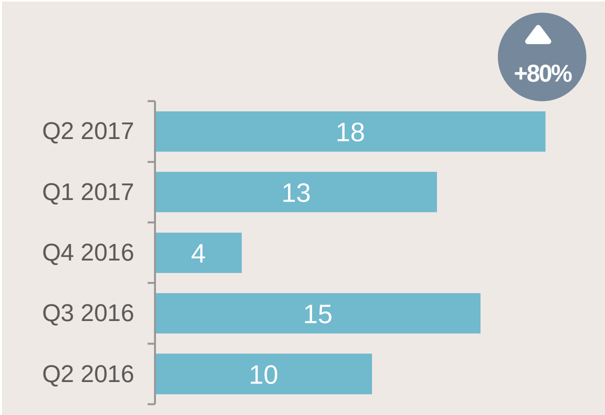


Chart no. 7*: Number of completed wells*

Well Services Production Plant completed 3.238 operations due to the greater number of wells. Seismic services Production Plant has successfully completed South Banat I project, 24 days ahead of schedule and Turija III project 7 days ahead of schedule. Mobilization is over of the seismic crew involved in Morović *3D* project and acquisition started.

In the first six months of 2017 a total of 609.3 km^2 have been surveyed.

Technical Services

Naftagas – Technical Services d.o.o. Zrenjanin successfully executed works on workover rigs CW3 (for the Drilling Department) and CW2 (for works in Romania). Drilling mud system has been made for ID5 Rig. Workover and rebranding of nodding donkies started. All works at Ostrovo Gathering Station were completed.

In second quarter of 2017, all key activities were completed to reinstate the C-2450 sulphur from oil extraction plant and activities were completed in the investment project to increase the reliability of C-2600 plant, comprising the replacement of 19 lines in the Pančevo Refinery.

Transport

Naftagas – Transport d.o.o. Novi Sad, as a support process for all activities of all Blocks, provided transport services by passenger, freight, specialized vehicles and bus transport. Total mileage is 14.1 million kilometres.

There has been a completion of the project to procure 10 tank trucks with trailers for crude oil transportation as required by „Exploration and production“ Block, registration and obtaining Authority to Carry Dangerous Goods (ADR) has been under way.

In addition, significant results were achieved in the field of traffic safety. A system of continuous vehicle and driving behaviour monitoring was implemented according to trends of the leading international companies (RAG+).

[35] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[36] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[37] Financing, VAT excluded.

Refining

Q2 2017	Q2 2016	Δ[38]	Indicator	Unit of measure	6M 2017	6M 2016	Δ[39]
879	974	-10%	**Volume of refining of crude oil and semi-finished products**	thousand tonnes	1,645	1,750	-6%
1.2	2.3	-47%	**LTIF**	%	1.2	2.3	-47%
2.1	4.7	-55%	**EBITDA**[40]	bn RSD	5.0	3.6	+39%
0.9	0.4	+128%	**CAPEX**[41]	bn RSD	2.1	0.7	+195%

Test run performances of the MHC catalyst, which was replaced in the capital workover, were summed up.

Operation at extremely low temperatures early this year was analysed in detail and the lessons were drawn for future work under such conditions. MoC[42] procedures have been initiated, as well as the investment projects for removal of bottlenecks in the unit during the winter period.

At the beginning of March, compliance of controlling processes for factory production of polymer modified bitumen with the referent standard EN 14023 was recertified.

In April 2017, preparations of equipment were made for summer mode of operation. Capacity constraints of BA-2101 furnace were removed, and the test run for bottlenecks to achieve the maximum capacity of FCC unit was performed.

A program of measures for rotating equipment operation improvement was developed.

On the basis of OMS diagnosis from December 2016, a detailed action plan was developed, whose implementation started in 2017. Within the OMS project, a training process started with respect to LEAN basis in the “Refining” Block. The application of LEAN tools for optimization of the scheduled maintenance process has started, as well as the structured touring of the facilities aimed at improving the process efficiency and effectiveness.

HSE training of contractors for the "Bottom-of-the-Barrel" Project have been initiated (Demolition phase). The preparations of the Volunteer Industrial Fire Unit of Pančevo Oil Refinery for the International Firefighters' Olympiad are underway.

Effect of implementation of programme for increasing the operational efficiency amounted to 713,6 million dinars in first six months of 2017.

„Bottom of the Barrel“ Project

The activities of demolition of facilities and installation of CFA test piles at the construction site are underway, for the purposes of the "Bottom-of-the-Barrel" Project.

The energy permit has been obtained, as well as the construction permit for construction of a temporary access road, and the permit for facility demolition.

The Preliminary Design has been reviewed by the Review Commission, which gave a positive opinion, and the construction permit application has been filed. The public presentation related to the request for approval of the Environmental Impact Study was held.

The EPCm contractor for Work Package 2[43] has been selected and the contract is in the process of signing.

The activities for procurement of equipment and selection of the contractor for the execution of the main scope of works are in progress.

Workover

In the middle of February 2017, after successfully executed works within the regular annual overhaul of the Bitumen Unit, commercial production of bitumen and polymer modified bitumen continued.

Regeneration of HDS catalyst and grading replacement at C-400 were performed.

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[38] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[39] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[40] EBITDA of Refining Block includes Energy Plant in Pančevo Refinery which is eliminated on consolidated level as the effect of Energy Plant is also included in EBITDA of Energy Block.
[41] Financing, VAT excluded.
[42] Management of changes.
[43] Reconstruction of the existing units associated with the delayed coking unit, in particular MHC/DHT, LPG, SRU.

In April 2017, the scheduled overhaul of the Alkylation Unit (C-2600) was completed, whereat nineteen pipelines were replaced with new ones, additional nine lines were revamped, including installation of new pumps and inspection of other equipment in the unit.

June 2017, the *SARU* unit overhaul and start-up activities were performed and preparations were made for the scheduled overhaul of C-200 and capital overhaul of C-2400 (dewaxing).

Basket of Raw Materials Optimization

In view of further optimization of the feedstock basket, the new Novy Port crude is refined.

Other Projects

Thermal insulation was installed and repaired at weak points of the units.

Revitalization on old Claus Unit (C-2450) was performed.

The project "DC-2301 Reconstruction" (bottlenecks) has been completed.

The project "Introduction of Hydrogen-Rich Gas from C-300 to C-5000" has been completed.

Operating Indicators

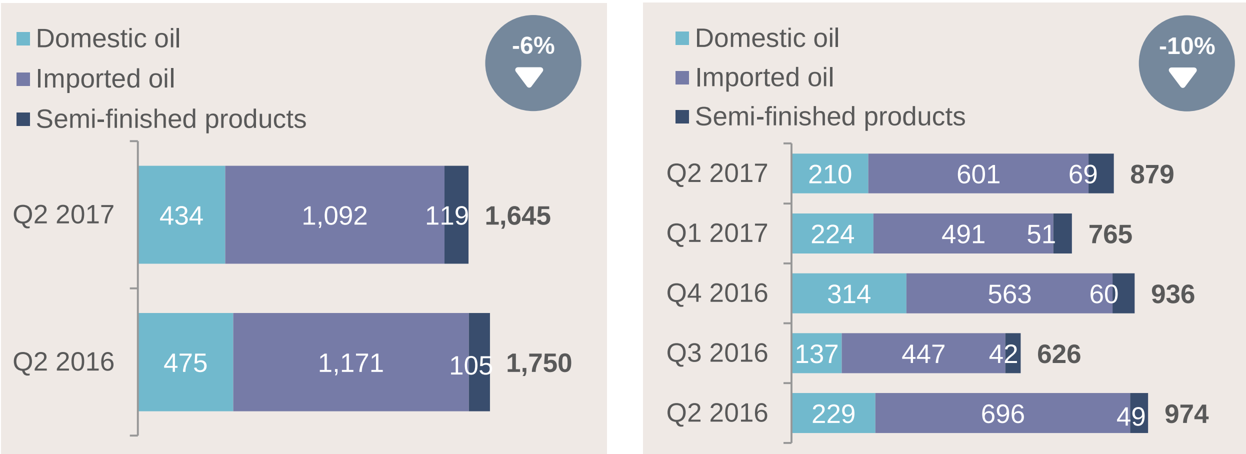


***Chart no. 8**: Refining volume, thousand tonnes*

The volume of refining is the result of meeting market requirements, available stocks and raw materials basket optimization.

Sales and Distribution

Q2 2017	Q2 2016	Δ[44]	Indicator	Unit of measure	6M 2017	6M 2016	Δ[45]
835	850	-2%	**Total sales volume of petroleum products**[46]	thousand tonnes	1,552	1,553	0%
75	67	+12%	**Sales volume – foreign assets**[47]	thousand tonnes	145	123	+18%
634	655	-3%	**Sales volume of petroleum products in the domestic market**[48]	thousand tonnes	1,209	1,217	-1%
525	527	0%	**Motor fuels**[49]	thousand tonnes	963	958	+1%
237	230	+3%	**Retail** [50]	thousand tonnes	440	425	+4%
1.5	1.5	-2%	**LTIF**	%	1.5	1.5	-2%
3.1	2.8	+8%	**EBITDA**	bn RSD	5.2	4.8	+8%
0.1	0.2	-27%	**CAPEX**[51]	bn RSD	0.3	0.2	+30%

Market share in the retail market of petroleum products in Serbia is at the same level as in first six months of 2016.

[44] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[45] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[46] Including the internal sales volume within NIS Group (i.e. between segments).
[47] The sales volume of foreign assets includes sales generated by the subsidiaries of NIS abroad (retail and wholesale).
[48] Includes sales to foreign buyers and not sales on territory of Republic Serbia.
[49] Total sales of motor fuels in Serbia and in foreign assets.
[50] Total retail in Serbia and in foreign assets.
[51] Financing, VAT excluded.

Points of Purchase[52]

NIS Group owns over 400 active points of purchase. Most of them, i.e. 332 points of purchase are located in the Republic of Serbia. In addition to 1 store of LPG cylinders and 10 internal petrol stations, NIS owns 321 public petrol stations (16 thereof in GAZPROM brand).

In the regional countries, NIS owns 35[53] petrol stations in Bosnia and Herzegovina (27 in GAZPROM brand), 35 petrol stations in Bulgaria (all in GAZPROM brand) and 18 petrol stations in Romania (all in GAZPROM brand).

Loyalty Programs and Marketing Activities

Since March 31st, 2017, when G-Drive fuel (G-Drive100 petrol and G-Drive Diesel) was introduced at three NIS Petrol fuelling stations as a pilot project, and as at June 30th, 2017, the sales of this fuel has started at 18 NIS Petrol fuelling stations in total.

In mid-March 2017, G-Drive Diesel fuel was introduced at GAZPROM petrol stations in Bosnia and Herzegovina. G-Drive Diesel reaches average share of 33% in the sales of diesel fuels.

“On the Road with Us” loyalty program offers a number of special benefits for purchases of fuel, goods and services at all NIS Petrol and GAZPROM petrol stations. This program was being developed from the end of 2015 to June 30th, 2017, over 460 thousand cards were issued and natural persons participating in this program took 46% share in the total generated sales.

Agro Card loyalty program was intended for farmers and has been developed from the end of 2013. By June 30th, 2017, over 123 thousand cards were realised. In May 2017, the NIS Agro Card discount scheme was revised.

Operating Indicators[54]

In the first half of 2017, the sales dropped by 0.1% compared to the first half of 2016, and the total sales volumes amounted to 1.552 thousand tons.

- Retail in Serbia - The retail sales went up by 2% as a result of increase in sales of diesel fuel and motor gasoline.
- Wholesale in Serbia - A 2% drop mainly due to a drop in sales of diesel fuel and non-energy products.
- Export - A 7% decrease due to a reduced export of motor fuels and non-energy products.
- Foreign assets - Increase in sales by 18% (retail channel by 8% and wholesale channel by 53%).

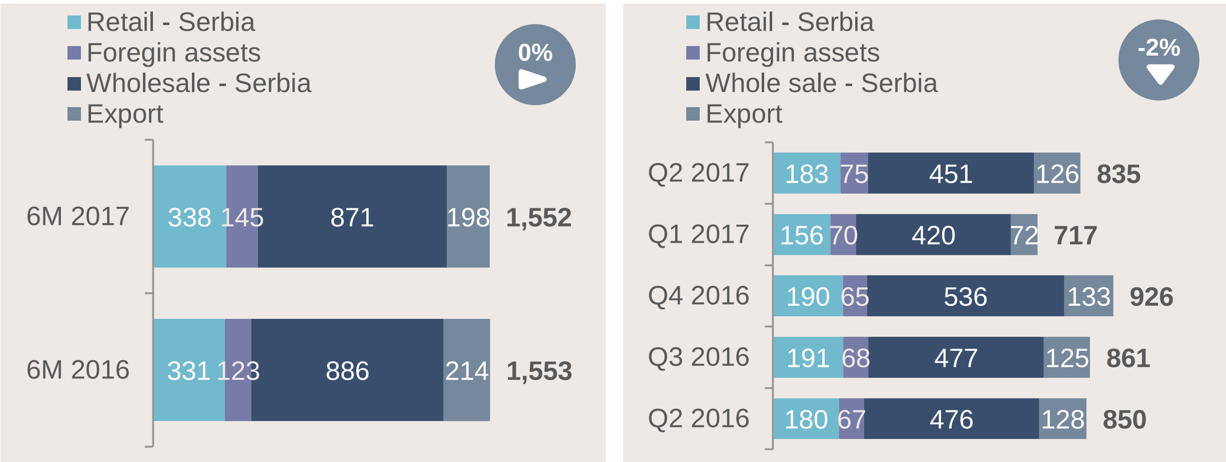


Chart no. 9: *Volume of sales*[55]*, thousand tonnes*

[52] As at June 30th, 2017.
[53] In addition to 35 petrol stations owned by NIS in Bosnia and Herzegovina, two petrol stations operating by the DODO (Dealer Owned Dealer Operated) model are also active.
[54] Including internal sales within NIS Group i.e. between segments (6M 2017: 7.5 thousand tonnes; 6M 2016: 6.1 thousand tonnes).
[55] Including internal sales within NIS Group i.e. between segments (6M 2017: 7.5 thousand tonnes; 6M 2016: 6.1 thousand tonnes).

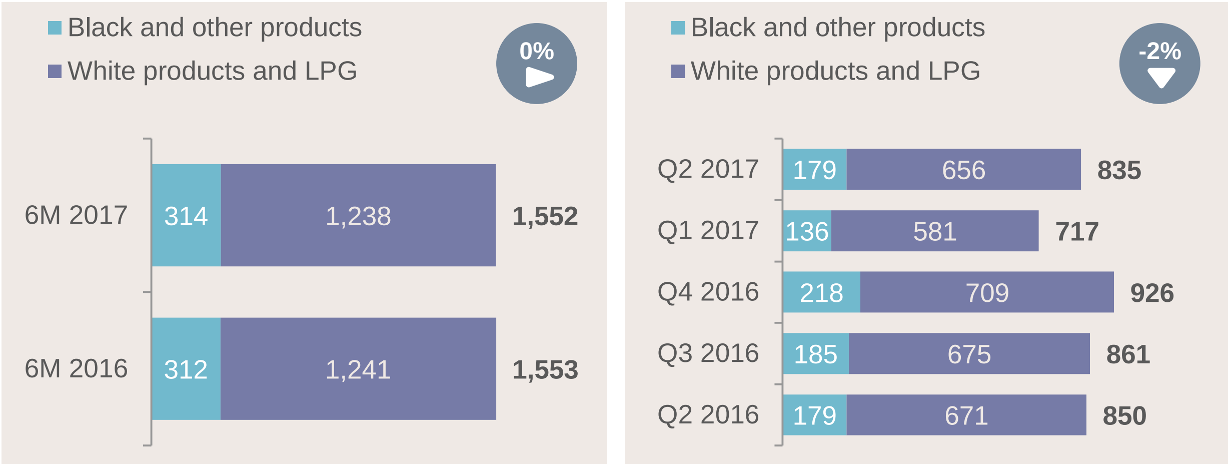


***Chart no. 10**: Structure of sales[56], thousand tonnes*

Energy

Q2 2017	Q2 2016	Δ[57]	Indicator	Unit of measure	6M 2017	6M 2016	Δ[58]
37,700	34,289	+10%	**Electricity Generation**	MWh	83,776	74,336	+13%
0	0	/	**LTIF**	%	0	0	/
0.2	0.2	+49%	**EBITDA**	bn RSD	0.5	0.5	+4%
0.1	0.1	-48%	**CAPEX[59]**	bn RSD	0.1	0.3	-60%

The first half of 2017 was very successful for the “Energy” Block. EBITDA of regular operation amounts to 4.8 million dollars. The contract quantity of electricity sale for 2017 amounts to 2.47 TWh. Further activities for business development and operational efficiency continue.

Gas Monetization

Negotiations started with a view to complete the Novo Miloševo small scale power plant construction project based on BOOT model (Build, Own, Operate, Transfer). The negotiations are expected to be completed and project approved before the end of 2017. Gas combustion has been tested in the internal combustion engines at manufacturers – potential equipment suppliers.

The optimum power is being selected for Turija 2 small scale power plant, as well as project design documents for the approval at the session of Block’s IC[60]. Invitation to bid for delivery of principal equipment and procurement of project design service is planned for Q3 2017, its launch for Q3 2018.

A feasibility study has been completed for the reconstruction of Velebit 3 small scale power plant and the construction permit has been obtained. Works are expected to start before the end of 2017.

With a view to reduce the cost of heat supply to consumers in Novi Sad Refinery, a heat source decentralization project has been drafted and approved. Following a feasibility study the optimum solution has been selected. Documentation has been prepared to procure a steam boiler, service of project design and repair of Adorjan cogeneration unit. Procurement will be completed in Q3 2017. The construction of return condensate pipeline will commence in Q3 2017. All works are scheduled to be complete in Q2 2018.

CNG plant construction is complete at the Ostrovo gas field, its test run took place on March 29th, 2017 and commercial gas sales started. The plant’s capitalization along with its permanent operation permit is expected in Q4 2017. Factory testing of equipment is complete concerning CNG filling point construction project at the Žarkovo 2 refuelling station (Belgrade). Works are expected to be complete by late 2017. In addition to this location, Sales and Distribution has granted an approval for the CNG plant to be located in Belgrade’s “Block 45” residential block. Project completion has been approved after the completion of technical assignment for procuring the principal equipment. Works are expected to be complete by late

[56] Including internal sales within NIS Group i.e. between segments (6M 2017: 7.5 thousand tonnes; 6M 2016: 6.1 thousand tonnes).
[57] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[58] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[59] Financing, VAT excluded.
[60] Investment Committee.

2017. The selection of contractors has been under way to expand the capacity by fitting in an additional combined CNG dispensing unit at the Novi Sad 10 refuelling station. Works will be completed by late 2017.

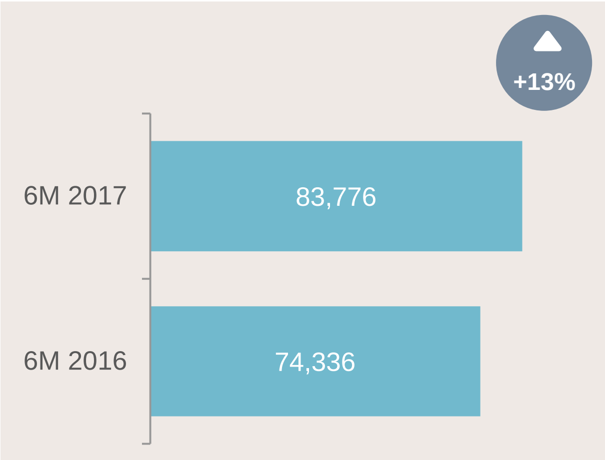
Electricity Trade

In the area of electricity trade, NIS operates in the markets of Serbia, Bosnia and Herzegovina, Romania, Slovenia and Hungary. In addition to these markets, trade was performed on the border with the Former Yugoslav Republic of Macedonia. Since the beginning of 2017, activities in the Serbian retail market have been intensified. So far providing supplies to 8 end users has been arranged, whereas by the end of 2016 there were three of them. We expect this trend to continue in the future. During the first quarter of 2017, NIS j.s.c. Novi Sad began the procedure for registration on the Serbian electricity stock market. In the same period, NIS Petrol s.r.l. Bucharest began the procedure for registration on the Hungarian electricity stock market.

Operating Indicators

In the first half of 2017, total production amounting to 83,776 MWh of electricity was achieved.

In order to produce electricity at cogeneration units, 19.1 million m^3 of non-commercial gas were used.



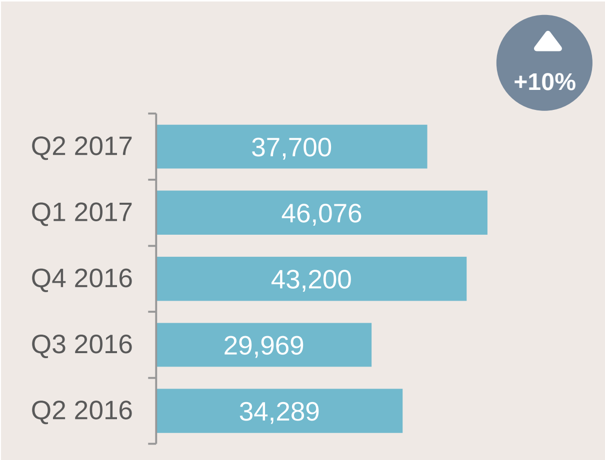


***Chart no. 11**: Electricity output, MWh*[61]

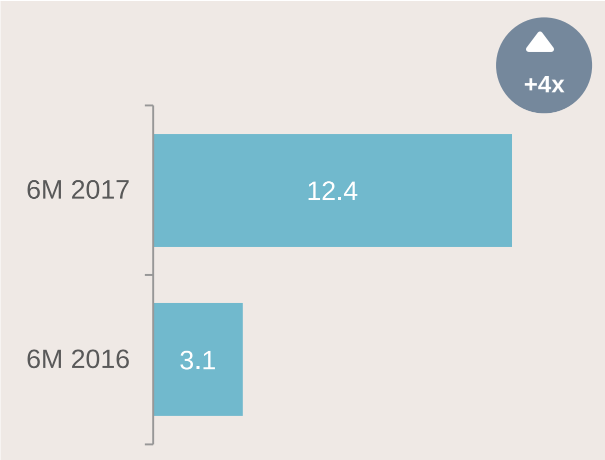
[61] Including Power Plant Pančevo (10.7 MWe).

Financial Indicators

Net profit

Net profit for the first half of 2017 was many times higher than the net profit generated in the same period last year and amounted to 12.4 billion dinars.

- The growth of prices of crude oil and petroleum products,
- Measures for improving operational efficiency and reduction of costs,
- Positive net foreign exchange differences.



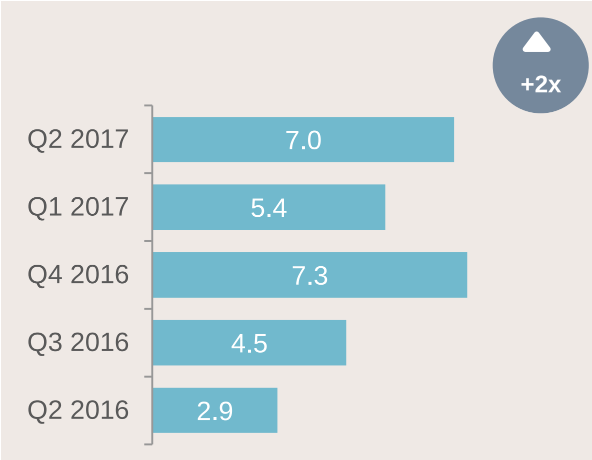
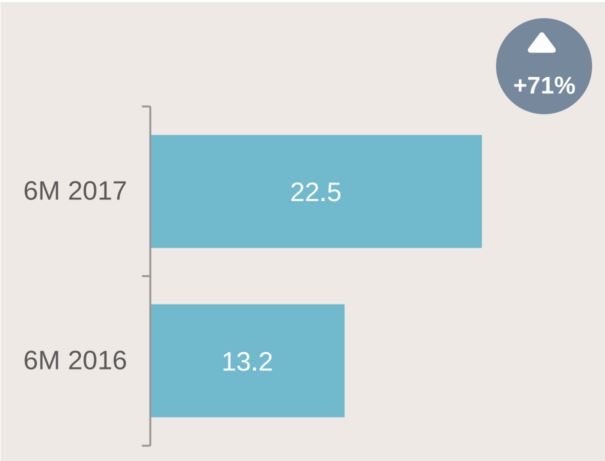


Chart no. 12*: Net profit, bn RSD*

EBITDA

EBITDA for the first six months of 2017 was 71% higher than in the first six months of 2016 and amounted to 22.5 billion dinars.

- The growth of prices of crude oil and petroleum products,
- Measures for improving operational efficiency and reduction of costs.



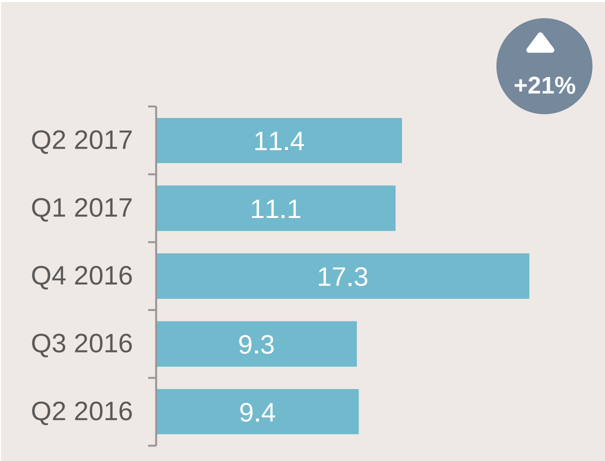


Chart no. 13*: EBITDA, bn RSD*

OCF

In the first six months of 2017, operating cash flow amounted to 18.9 billion dinars and was greater than the one in the same period of 2016 by 121%.

- Higher inflows resulting from higher prices of petroleum products,
- Growth of EBITDA.

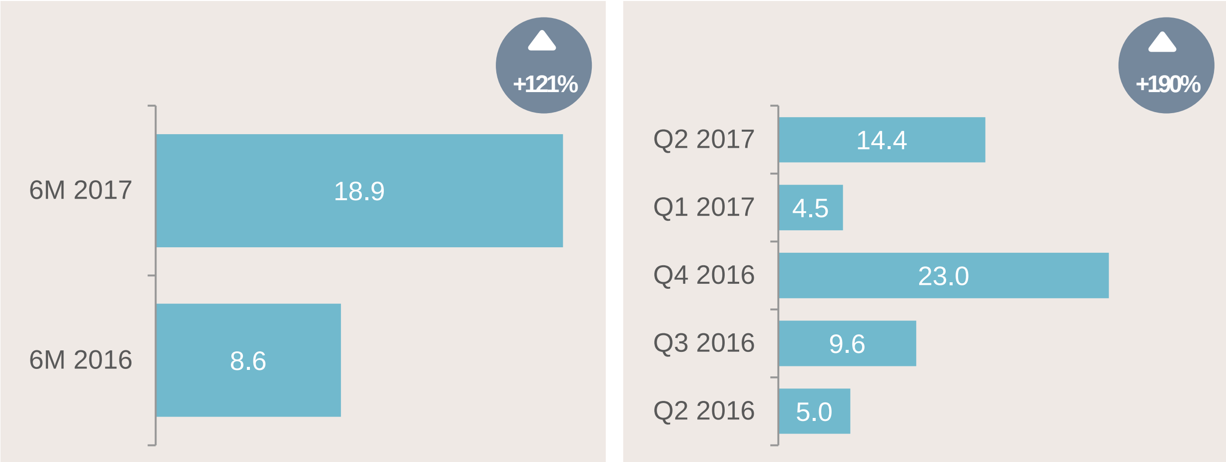


***Chart no. 14**: OCF, bn RSD*

CAPEX

At the 16th meeting of the Board of Directors held on December 16th, 2016, the business plan for 2017 and the medium-term investment program were adopted, presenting an investment plan for CAPEX in the period 2017 - 2019.

In 2017, the main directions of investments are focused on the implementation of projects in oil and gas production, refining, energy projects, projects in sales and distribution, as well as a number of projects in the repair services and professional services.

During the first six months of 2017, 9.96 billion dinars was allocated to finance investments, which is 9% more than the amount allocated in 2016.

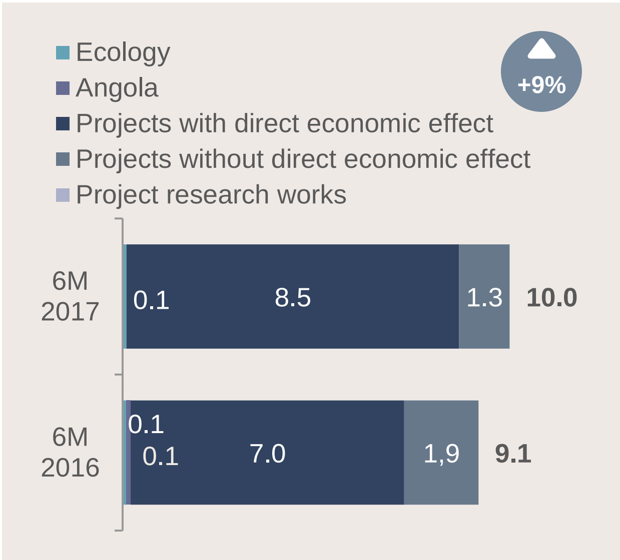


***Chart no. 15**: CAPEX[62], bn RSD*

The most significant investments in oil and gas production in the first six months of 2017 were: investment in geological-technical measures, drilling of development wells, investment in infrastructure projects, program of 3D seismic explorations and drilling of exploration wells in the Republic of Serbia and investments in concession rights.

Most of the investments in the Refining Block were allocated for the modernization of refinery processing, for the start of the phase of the implementation of the project "Development of Refining Processing (Increasing of Processing Depth)", which is aimed at maximum utilization of the capacity and infrastructure of Pančevo Oil Refinery. Furthermore, there are significant investments in the program to increase production efficiency, the program of the projects for the adjustment of legal norms, as well as investment maintenance program, and investments related to environmental protection.

In the field of sales and distribution, the most significant investments were in reconstruction of fuelling stations in Serbia and logistics projects.

[62] Financing, VAT excluded.

Indebtedness

In the first six months of 2017, the debt to banks slightly reduced to the level of USD 634 million, including a small increase in the EUR currency credit as opposed to December 31st, 2016. In addition, the debt to parent company "Gazprom Neft" PJSC also decreased and currently amounts to EUR 279 million.

Negotiations with banks and other financial institutions are continuously performed, as well as finding long-term financial sources and financial sources that are not limited by sanctions, in order to ensure the restructuring of the portfolio in terms of maturity, currency and prices, and all within the allowed limits of the debt and EBITDA ratio.

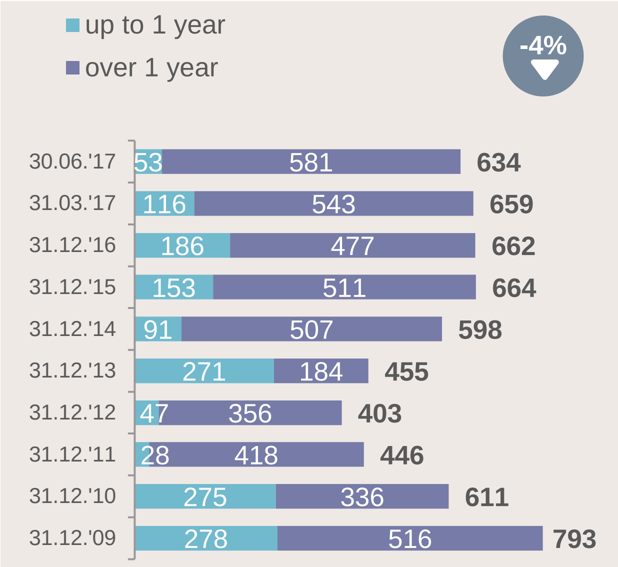


***Chart no. 16**: Total bank debt trends with maturity structure, mn USD*

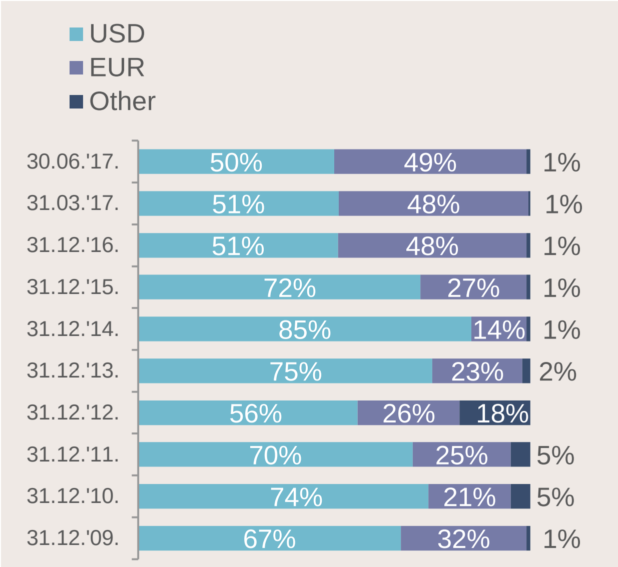


***Chart no. 17**: Total bank debt structure, by currencies, in %*

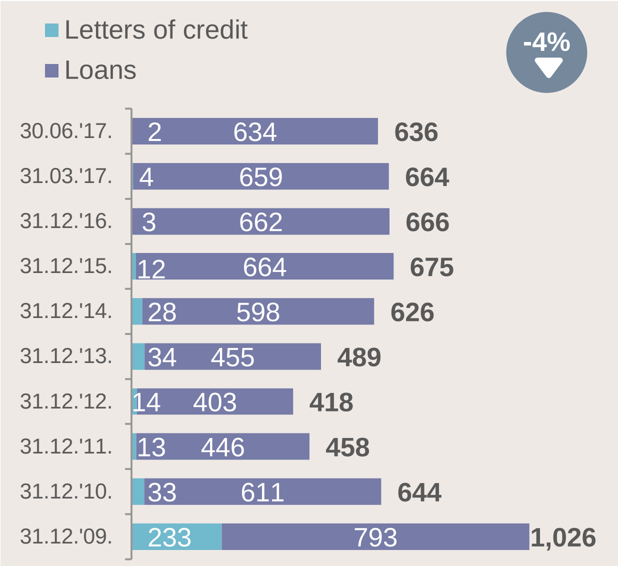


***Chart no. 18**: Total bank indebtedness[63], mn USD*

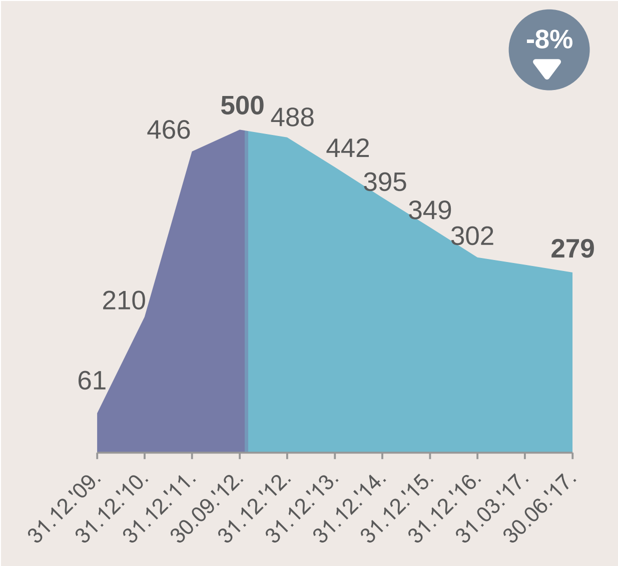


***Chart no. 19**: GPN Loan, mn EUR*

[63] In addition to debt to banks and Letters of Credit, as at June 30th, 2017 NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of USD 40.4 million, corporate guarantees in the amount of USD 66.1 million and signed Letters of Intent in the amount of USD 0.4 million and financial leasing in the amount of USD 3.6 million.

Taxes and other public revenues

Analytical review of accrued liabilities from taxes and other public revenues[64]

NIS j.s.c. Novi Sad	6M 2017	6M 2016	Δ[65]
Social insurance contributions paid by employer	0.76	0.72	+4%
Corporate tax	1.93	0.54	+256%
Value-added tax	10.36	9.49	+9%
Excise duties	49.20	51.91	-5%
Commodity reserves fee	2.83	3.00	-6%
Customs duties	0.33	0.19	+75%
Royalty	0.59	0.47	+26%
Other taxes	0.66	0.63	+4%
Total	**66.65**	**66.94**	**0%**
NIS subsidiaries in Serbia[66]			
Social insurance contributions paid by employer	0.24	0.24	+3%
Corporate tax	0.15	0.01	+980%
Value-added tax	0.66	0.34	+93%
Excise duties	0.00	0.00	-
Customs duties	0.02	0.02	-27%
Royalty	0.00	0.00	-
Other taxes	0.04	0.04	-3%
Total	**1.11**	**0.66**	**+68%**
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	**67.8**	**67.6**	**0%**
NIS Subsidiaries in region and Angola			
Social insurance contributions paid by employer	0.03	0.03	+2%
Corporate tax	1.93	0.09	+2,173%
Value-added tax	0.76	0.57	+32%
Excise duties	5.87	4.89	+20%
Customs duties	3.11	2.87	+9%
Royalty	0.00	0.00	-
Other taxes	0.05	0.05	-8%
Total	**11.76**	**8.50**	**+38%**
Deferred taxes (total for Group)	0.74	0.20	+267%
Total NIS Group[67]	**80.26**	**76.31**	**+5%**

[64] In billions of RSD.
[65] Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.
[66] 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.
[67] Including taxes and other liabilities from public revenues for regional subsidiaries, profit tax in Angola and deferred tax assets.

Ratio Indicators[68]

	6M 2017	6M 2016
Return on total capital (Gross profit/total capital)	8%	2%
Net return on equity (Net profit/shareholders equity)	15%	4%
Operating net profit (operating profit/net sales income[69])	15%	7%
	6M 2017	**FY 2016**
Degree of leverage (short term and long term liabilities/equity)	73%	86%
Degree of leverage (short term and long term liabilities/shareholders equity)	188%	212%
1st degree liquidity (cash and cash equivalents/short term liabilities)	40%	33%
2nd degree liquidity ((current assets – inventories)/short term liabilities)	111%	98%
Net working fund ratio ((current assets – current liabilities)/total assets)	9%	7%

[68] Racio indicators are calculated from financial statements prepared in Accordance with the Law on Accounting of the Republic of Serbia and regulations issued by Ministry of Finance of the Republic of Serbia. These financial statements are disclosed on forms stipulated by the Securities Exchange Commission of the Republic of Serbia on corporate web site in Donwoload section of part for Investors (http://ir.nis.eu/en/download-center/).

[69] Net sales income = Income from sales of goods and services – Costs of goods sold.

Operational Efficiency Improvement

The estimated effect of measures to increase the operational efficiency on EBITDA ratio in 2017 is 6 billion RSD. In addition, the expected effect from the prevented damage is 0.7 billion RSD.

The effect of measures for operational efficiency improvement amounted to 2.8 billion RSD in first six months of 2017.

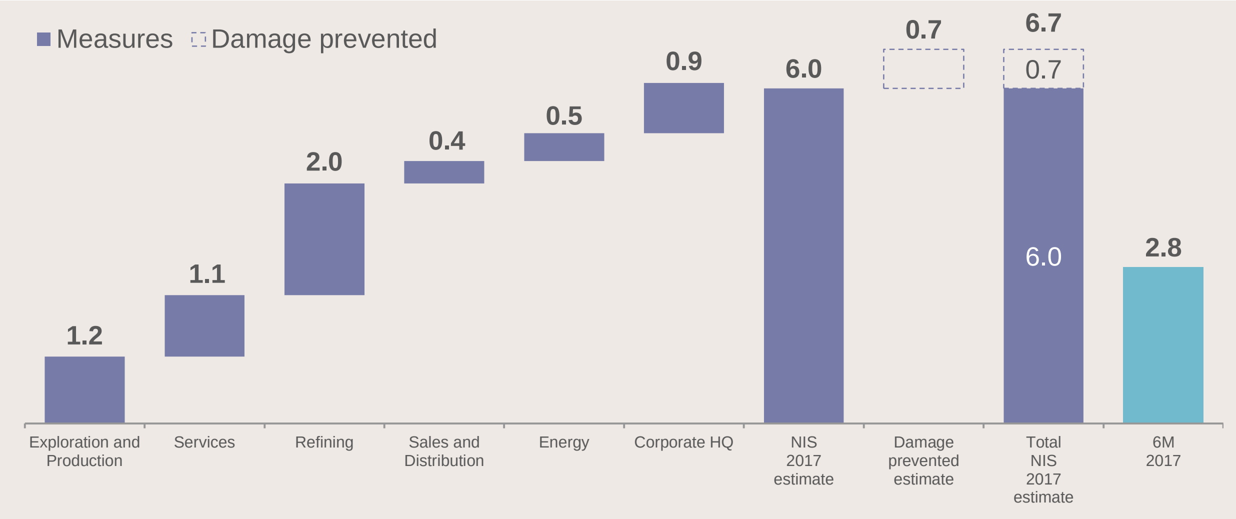


***Chart no. 20**: Effect of operational efficiency improvement measures on the EBITDA indicator*

Securities

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

Shareholder	Number of shares	% of share capital
PJSC „Gazprom Neft“	91,565,887	56.15%
Republic of Serbia	48,712,089	29.87%
Societe Generale banka Srbija a.d. – custody account	1,210,994	0.74%
Unicredit Bank Serbia a.d. – custody account	556,040	0.34%
Aktiv-fond d.o.o	236,330	0.14%
AWLL Communications d.o.o. Belgrade	227,352	0.14%
Global Macro Capital Opportunities	216,465	0.13%
Unicredit Bank Serbia a.d. – collective account	215,038	0.13%
Raiffeisen bank a.d. Belgrade – custody account	212,127	0.13%
Societe Generale banka Srbija a.d. – custody account	205,998	0.13%
Other shareholders	19,702,080	12.08%
Total number of shareholders as at June 30th, 2017:		**2,125,321**

Share Trading and Indicators per Share

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

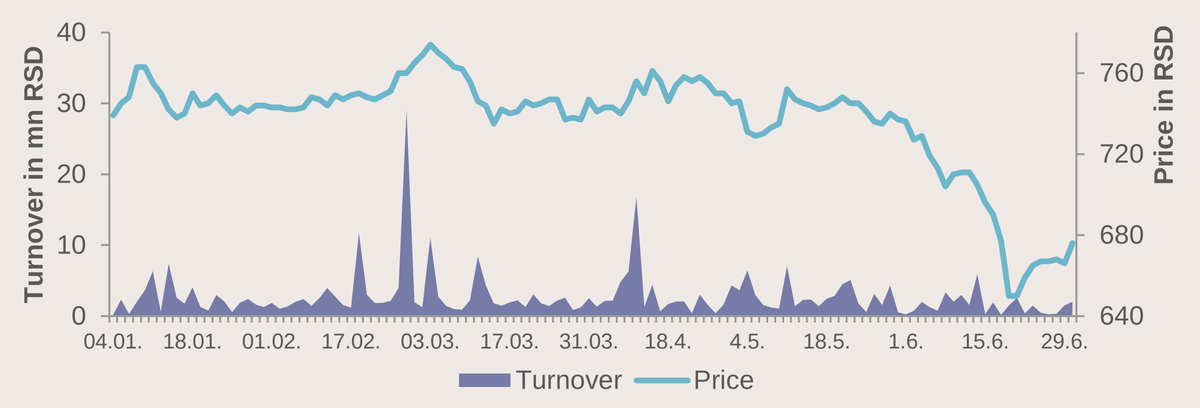


***Chart no. 21**: Price and turnover trends in first six months of 2017*

Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in first six months of 2017	
Last price (June 30th, 2017)	676 RSD
Highest price (March 3rd, 2017)	775 RSD
Lowest price (June 21st, 2017)	640 RSD
Total turnover	329,759,414 RSD
Total volume (number of shares)	443,747 shares
Total number of transactions	11,522 transactions
Market capitalization as at June 30th, 2017	110,228,830,400 RSD
EPS[70]	75.83 RSD
Consolidated EPS[71]	76.15 RSD
P/E ratio	8.9
Consolidated P/E ratio	8.9
Book value as at June 30th, 2017	1,370.79 RSD
Consolidated book value as at June 30th, 2017	1,288.89 RSD
P/BV ratio	0.5
Consolidated P/BV ratio	0.5

In first six months of 2017, there were no acquisitions of treasury shares by the Company.

[70] For six months period ended June 30th, 2017.
[71] For six months period ended June 30th, 2017.

Dividends

	2009	2010	2011	2012	2013	2014	2015	2016
Net profit (loss), bn RSD[72]	(4.4)	16.5[73]	40.6[74]	49.5	52.3	30.6	16.1	16.1
Total amount of dividend, bn RSD	0.00	0.00	0.00	12.4	13.1	7.6	4.0	4.0
Payment ratio	-	-	-	25%	25%	25%	25%	25%
Earnings per share[75]**, RSD**	-	101.1	249.0	303.3	320.9	187.4	98.8	98.6
Dividend per share, gross, RSD	0.00	0.00	0.00	75.83	80.22	46.85	24.69	24.66
Share price as at December 31st, RSD	-	475	605	736	927	775	600	740
Shareholders' dividend yield, in %[76]	-	-	-	10.3	8.7	6.0	4.1	3.3

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" PJSC manages the commodity hedging instruments at the level of Gazprom Neft Group and decides if it is necessary to use specific commodity hedging instruments.

[72] Net profit of NIS j.s.c. Novi Sad.
[73] Net profit used for covering accumulated losses.
[74] Net profit used for covering accumulated losses.
[75] For NIS j.s.c. Novi Sad.
[76] Calculated as the ratio of gross dividend and year-end share price.

Human Resources

NIS employees are the energy that drives us and the key to our success. NIS ensures that each member of its team can realise their potentials and to vouch for an environment where employee rights guaranteed by the Labour Law, Collective Agreement/Work Regulations, Employer's internal acts, as well as the United Nations Universal Declaration of Human Rights and the International Labour Organisation Declaration on Fundamental Principles and Rights at Work are fully respected.

The Policy of Labour and Human Rights was adopted in 2016. NIS insists on application of high standards for fair and safe working environment for all employees and seeks to encourage its suppliers and customers to do business in accordance with the principles set forth in this Policy.

Number of Employees and Employee Structure

Organizational Unit	June 30th, 2017			June 30th, 2016		
	Employees	Leasing	Total	Employees	Leasing	Total
NIS j.s.c. Novi Sad	**4,058**	**3,556**	**7,614**	**3,961**	**3,478**	**7,439**
Exploration and Production	797	217	1,014	781	219	1,000
Services	90	20	110	91	23	114
Refining	853	35	888	786	35	821
Sales and Distribution	961	2,800	3,761	960	2,723	3,683
Energy	246	24	270	242	19	261
The Corporate Headquarters	1,050	460	1,510	1,038	459	1,497
Representative Offices and Branches	61	0	61	63	0	63
Subsidiaries in the country	**1,380**	**1,582**	**2,962**	**1,408**	**1,465**	**2,873**
Naftagas – Naftni servisi	584	811	1,395	610	707	1,317
Naftagas – Tehnički servisi	396	472	868	401	476	877
Naftagas – Transport	95	273	368	103	261	364
NTC NIS Naftagas	305	26	331	294	21	315
Subsidiaries abroad	**86**	**1**	**87**	**96**	**1**	**97**
NIS Petrol, Bulgaria	38	0	38	42	0	42
NIS Petrol, Romania	24	0	24	30	0	30
NIS Petrol, B&H	18	0	18	17	0	17
Jadran Naftagas, B&H	6	0	6	6	0	6
Panon Naftagas, Hungary	0	1	1	1	1	2
Other subsidiaries	**542**	**103**	**645**	**524**	**107**	**631**
O Zone a.d. Beograd	5	103	108	6	104	110
NIS Overseas o.o.o. Saint Petersburg	115	0	115	122	0	122
NIS Svetlost d.o.o. Bujanovac	0	0	0	15	0	15
G Petrol d.o.o. Sarajevo	422	0	422	381	3	384
TOTAL:	**6,066**	**5,242**	**11,308**	**5,989**	**5,051**	**11,040**

Research and Development

System of Managing 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 NTC 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 on Financial Position

	Notes	June 30th, 2017 *(unaudited)*	December 31st, 2016
ASSETS			
Current assets			
Cash and cash equivalents	6	18,674,916	20,053,651
Short-term financial assets	7	8,729,667	4,536,841
Trade and other receivables	8	31,547,709	39,126,567
Inventories	9	23,437,457	23,479,232
Current income tax prepayments		-	128,703
Other current assets	10	5,535,036	5,217,095
Total current assets		**87,924,785**	**92,542,089**
Non-current assets			
Property, plant and equipment	11	228,280,941	224,558,949
Investment property		1,575,679	1,549,663
Intangible assets		3,270,925	3,705,857
Investments in joint venture		1,038,800	
Investments in subsidiaries		13,425,586	
Trade and other non-current receivables		5,800,203	9,294,969
Long-term financial assets		28,376,980	32,576,641
Deferred tax assets		3,309,657	4,059,076
Other non-current assets	12	3,745,742	3,891,821
Total non-current assets		**288,824,513**	**294,118,407**
Total assets		**376,749,298**	**386,660,496**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	13	12,127,445	23,014,915
Trade and other payables	14	24,158,006	30,262,793
Other current liabilities	15	3,830,394	4,213,154
Current income tax payable		2,940,881	
Other taxes payable	16	9,146,883	9,349,638
Provisions for liabilities and charges		1,889,196	1,956,120
Total current liabilities		**54,092,805**	**68,796,620**
Non-current liabilities			
Long-term debt	17	89,652,938	93,321,921
Long-term trade and other payables		1,120	1,859
Provisions for liabilities and charges		9,480,613	9,365,454
Total non-current liabilities		**99,134,671**	**102,689,234**
Equity			
Share capital		81,530,200	81,530,200
Reserves		17,210	14,088
Retained earnings		141,974,412	133,630,354
Total equity		**223,521,822**	**215,174,642**
Total liabilities and shareholder's equity		**376,749,298**	**386,660,496**

In thousand RSD

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

Statement of Profit And Loss and Other Comprehensive Income

	Note	Three months period ended June 30th 2017 (unaudited)	2016 (unaudited)
Sales of petroleum products, oil and gas		90,176,998	69,441,523
Other revenues		7,769,103	6,202,716
Total revenue from sales	5	97,946,101	75,644,239
Purchases of oil, gas and petroleum products		(51,248,089)	(38,561,258)
Production and manufacturing expenses	18	(13,523,111)	(12,636,165)
Selling, general and administrative expenses	19	(9,834,755)	(9,730,005)
Transportation expenses		(496,032)	(513,095)
Depreciation, depletion and amortization		(6,982,502)	(6,630,814)
Taxes other than income tax		(2,007,235)	(1,824,206)
Exploration expenses		(7,452)	-
Total operating expenses		**(84,099,176)**	**(69,895,543)**
Other (expenses) income, net		(234,803)	101,290
Operating profit		**13,612,122**	**5,849,986**
Net foreign exchange gain (loss)	20	4,111,626	(219,696)
Finance income	21	624,673	602,203
Finance expenses	22	(1,375,436)	(1,469,827)
Total other expense		**3,360,863**	**(1,087,320)**
Profit before income tax		**16,972,985**	**4,762,666**
Current income tax expense		(3,858,439)	(617,313)
Deferred tax expense		(749,419)	(195,252)
Total income tax expense		**(4,607,858)**	**(812,565)**
Profit for the period		**12,365,127**	**3,950,101**
Other comprehensive profit (loss):			
Components of other comprehensive income that will not be reclassified to profit or loss, net of tax			
Revaluation of property, plant and equipment transferred to investment property		1,399	-
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		1,723	(2,369)
Other comprehensive profit (loss) for the period		**3,122**	**(2,369)**
Total comprehensive income for the period		**12,368,249**	**3,947,732**
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		**75.85**	**24.21**
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.

Statement of Changes in Equity

Three months period ended June 30th, 2017 and 2016
(unaudited)

	Share capital	Reserves	Retained earnings	Total
Balance as at January 1st, 2016	**81,530,200**	**(79,564)**	**121,564,459**	**203,015,095**
Profit for the period	-	-	3,950,101	3,950,101
Other comprehensive income/(loss)				
Change in value of available-for-sale financial assets	-	(2,369)	-	(2,369)
Total comprehensive income/(loss) for the period	-	(2,369)	3,950,101	3,947,732
Dividend distribution	-	-	(4,025,961)	(4,025,961)
Balance as at June 30th, 2016	**81,530,200**	**(81,933)**	**121,488,599**	**202,936,866**
Balance as at January 1st, 2017	**81,530,200**	**14,088**	**133,630,354**	**215,174,642**
Profit for the period	-	-	12,365,127	12,365,127
Other comprehensive income				
Change in value of available-for-sale financial assets	-	1,723	-	1,723
Revaluation of property, plant and equipment transferred to investment property	-	1,399	-	1,399
Total comprehensive income for the period	-	3,122	12,365,127	12,368,249
Dividend distribution	-	-	(4,021,069)	(4,021,069)
Balance as at June 30th, 2017	**81,530,200**	**17,210**	**141,974,412**	**223,521,822**

In thousand RSD

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

Statement of Cash Flows

		Three months period ended June 30th	
	Note	2017 *(unaudited)*	2016 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before income tax		**16,972,985**	**4,762,666**
Adjustments for:			
Finance expenses	22	1,375,436	1,469,827
Finance income	21	(624,673)	(602,203)
Net unrealised foreign exchange losses (gain)		(3,746,768)	1,733,154
Depreciation, depletion and amortization		6,982,502	6,630,814
Adjustments for other provisions		18,690	237,979
Allowance for doubtful accounts		71,218	253,960
Payables write off		(3,034)	(2,215)
Other non-cash items		133,187	(68,117)
		4,206,558	**9,653,199**
Changes in working capital:			
Trade and other receivables		11,158,749	3,428,025
Inventories		(6,393)	(7,517,487)
Other current assets		(601,539)	(3,214,409)
Trade payables and other current liabilities		(10,197,144)	3,207,179
Other taxes payable		(199,842)	1,122,445
		153,831	**(2,974,247)**
Income taxes paid		(715,385)	(433,013)
Interest paid		(1,536,447)	(1,491,228)
Interest received		477,066	503,454
		(1,774,766)	(1,420,787)
Net cash generated from operating activities		**19,558,608**	**10,020,831**
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans issued		(2,483,056)	(5,853,724)
Loan proceeds received		1,769,695	3,946,267
Capital expenditures		(10,623,061)	(9,831,593)
Proceeds from sale of property, plant and equipment		80,017	282,622
Net cash used in investing activities		**(11,256,405)**	**(11,456,428)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	17	14,034,354	9,425,689
Repayment of borrowings	17	(23,404,395)	(11,822,113)
Repayments of finance lease liabilities	17	(28,262)	-
Net cash used in financing activities		**(9,398,303)**	**(2,396,424)**
Net decrease in cash and cash equivalents		(1,096,100)	(3,832,021)
Effect of foreign exchange on cash and cash equivalents		(282,635)	42,930
Cash and cash equivalents as of the beginning of the period		20,053,651	16,729,893
Cash and cash equivalents as of the end of the period		**18,674,916**	**12,940,802**

In thousand RSD

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

Notes to Stand-alone Financial Statements[77]

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije, Novi Sad (the “Company”) is a vertically integrated oil company operating predominantly in the Republic of 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, and
- Electricity generation and trading.

Other activities primarily include sales of other goods, works and services.

The Company was established in accordance with the Decision of Government of Republic of Serbia on July 7th, 2005. On February 2nd, 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%. PJSC Gazprom, Russian Federation is the ultimate owner of the Company.

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 2016, 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 2016.

At the date of signing financial statements, crude oil price has decreased since December 31st, 2016 to 50.090 $/barrel. Management is monitoring situation on the market and preparing different scenarios to respond to any major fluctuation of crude oil prices.

Subsequent events occurring after June 30th, 2017 were evaluated through July 26th, 2017, the date these Interim Condensed Financial Statements were authorised for issue.

The results for the six month period ended June 30th, 2017 are not necessarily indicative of the results expected for the full year.

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

[77] 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 December 31st, 2016, except for those described in the Application of new IFRS paragraph.

3. APPLICATION OF NEW IFRS

The following standards or amended standards became effective for the Company from January 1st, 2017:

The amendments to IAS 7 – Statement of Cash Flow (issued in January 2016 effective for annual periods beginning on or after January 1st, 2017)require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Company made disclosure in the Interim CondensedConsolidated Financial Statements (note 16).

The following standards or amended standards that became effective for the Company from January 1st, 2017 did not have any material impact on the Company:

- The amendments to IAS 12 – Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses (issued in January 2016 and effective for annual periods beginning on or after January 1st, 2017).

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after January 1st, 2018 or later, and that the Company has not early adopted. Certain new standards and interpretations have been issued that are mandatory for the Annual periods beginning on January 1st, 2018 or later, and that the Company has not already adopted.

IFRS 9 – Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (either through profit and loss or other comprehensive income), and at amortised cost. The decision is to be made at initial recognition.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only. All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss.

The Company is currently assessing the impact of the new standard on its Financial Statements.

IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018) and Amendments to IFRS 15 (issued in April 2016 and effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The Company is currently assessing the impact of the new standard on its Financial Statements.

IFRS 16 – Leases (issued in January 2016 and replaces the previous IAS 17 Leases, effective for annual periods beginning on or after 1 January 2019 with early adoption permitted in case of implementation of IFRS 15 Revenue from Contracts with Customers). Key features of the standard are:

- IFRS 16 changes the lessees accounting requirements given in IAS 17 and eliminates the classification of leases as either operating leases or finance leases. Instead, introduces a single lessee accounting model where a lessee is required to recognise:
  (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
  (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.
- IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.
- IFRS 16 does not change the accounting for services.

The Company is currently assessing the impact of the new standard on its Financial Statements.

IFRIC 23 – Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019). IFRIC 23 clarifies the accounting for uncertainties in income taxes. The Company is currently assessing the impact of the new interpretation on its Financial Statements.

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 Company's operating segments for the six month periods ended June 30th, 2017 and 2016. Operating segments are components that engage 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 and Energy business activities expenses are presented within the Downstream segment.

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

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

Reportable segment results for the six month period ended June 30th, 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	21,187,795	98,073,203	(21,314,897)	97,946,101
Intersegment	20,169,241	1,145,656	(21,314,897)	-
External	1,018,554	96,927,547	-	97,946,101
EBITDA (Segment results)	14,488,307	6,240,413	-	20,728,720
Depreciation, depletion and amortization	(2,664,671)	(4,317,831)	-	(6,982,502)
Reversal surpluses	-	3,782	-	3,782
Net foreign exchange gain	201,269	3,910,357	-	4,111,626
Finance expenses, net	(57,189)	(693,574)	-	(750,763)
Income tax	(1,906,477)	(2,701,381)	-	(4,607,858)
Segment profit	**9,876,627**	**2,488,500**	**-**	**12,365,127**

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

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

Income tax in Upstream segment increased due to Global agreement with the Ministry of finance and General Tax administration of the Republic of Angola signed in June 2017 by which Company agreed to pay tax contingencies for the fiscal years 2002 – 2016.

EBITDA for the six month period ended June 30th, 2017 and 2016 is reconciled below:

	Six months period ended June 30th,	
	2017	2016
Profit for the period	12,365,127	3,950,101
Income tax expenses	4,607,858	812,565
Finance expenses	1,375,436	1,469,827
Finance income	(624,673)	(602,203)
Depreciation, depletion and amortization	6,982,502	6,630,814
Net foreign exchange (gain) loss	(4,111,626)	219,696
Other expense (income), net	234,803	(101,290)
Other non-operating (income) expense, net	(100,707)	(183,034)
EBITDA	**20,728,720**	**12,196,476**

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

	Six months period ended June 30th,		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	892,095	892,095
Sale of gas	1,395,030	-	1,395,030
Through a retail network	-	-	-
Wholesale activities	1,395,030	-	1,395,030
Sale of petroleum products	73,681,768	14,208,105	87,889,873
Through a retail network	26,361,408	-	26,361,408
Wholesale activities	47,320,360	14,208,105	61,528,465
Sale of electricity	282,426	4,194,374	4,476,800
Other sales	3,192,146	100,157	3,292,303
Total sales	**78,551,370**	**19,394,731**	**97,946,101**

	Six months period ended June 30th, 2017		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	597,730	597,730
Sale of gas	1,491,599	-	1,491,599
Through a retail network	-	-	-
Wholesale activities	1,491,599	-	1,491,599
Sale of petroleum products	56,343,949	11,008,245	67,352,194
Through a retail network	19,404,476	-	19,404,476
Wholesale activities	36,939,473	11,008,245	47,947,718
Sale of electricity	319,440	2,787,679	3,107,119
Other sales	3,010,899	84,698	3,095,597
Total sales	**61,165,887**	**14,478,352**	**75,644,239**

Out of the amount of 61,528,465 RSD (2016: 47,947,718 RSD) revenue from sale of petroleum products (wholesale), the amount of 9,896,305 RSD (2016: 6,690,792 RSD) are derived from a single domestic customer HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Gazprom Marketing & Trading Co., Ltd. in the amount of 4,083,822 RSD (2016: 2,745,188 RSD). These sales were presented within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 2,438,315 RSD (2016: 2,169,254 RSD).

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 78,551,370 RSD (2016: 61,165,887 RSD), and the total of revenue from external customer from other countries is 19,394,731RSD (2016: 14,478,352 RSD).

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

	Six months period ended June 30th	
	2017	2016
Sale of crude oil	892,095	597,730
Sale of petroleum products (retail and wholeasle)		
Bulgaria	3,199,034	2,464,993
Bosnia and Herzegovina	2,717,062	2,441,828
Romania	1,678,890	1,243,573
All other markets	6,613,119	4,857,851
	14,208,105	11,008,245
Sale of electricity	4,194,374	2,787,679
Other sales	100,157	84,698
	19,394,731	**14,478,352**

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

6. CASH AND CASH EQUIVALENTS

	June 30th, 2017	December 31st, 2016
Cash in bank and in hand	6,336,059	13,010,884
Deposits with original maturity of less than three months	12,295,000	7,000,000
Cash held on escrow account	43,089	41,783
Cash equivalents	768	984
	18,674,916	**20,053,651**

7. SHORT-TERM FINANCIAL ASSETS

	June 30th, 2017	December 31st, 2016
Short-term loans	805,389	585,545
Current portion of l;ong-term loans	8,151,066	4,180,584
Less impairment provision	(226,788)	(229,288)
	8,729,667	**4,536,841**

Current portion of long-term loans amounting to 8,151,066 RSD (31 December 2016: 4,180,584 RSD) relates to the current portion of long-term loans given to foreign subsidiaries.

8. TRADE AND OTHER RECEIVABLES

	June 30th, 2017	December 31st, 2016
Trade receivables:		
- related parties	4,354,770	4,484,856
- third parties	25,080,889	30,558,693
- state and state owned companies	13,736,675	15,815,559
	43,172,334	**50,859,108**
Other receivables:		
- state and state owned companies	9,468,982	9,642,293
	9,468,982	**9,642,293**
Accrued assets	289,420	30,013
	52,930,736	**60,531,414**
Less impairment provision for trade and other receivables:		
- third parties	(9,849,951)	(9,841,314)
- state and state owned companies	(11,533,076)	(11,563,533)
	(21,383,027)	**(21,404,847)**
Total trade and other receivables	**31,547,709**	**39,126,567**

The ageing of trade and other receivables is as follows:

	June 30th, 2017	December 31st, 2016
Neither impaired nor past due	27,697,818	35,140,866
Past due but not impaired:		
within 30 days	1,564,995	1,354,435
1 to 3 months	494,348	988,410
3 months to 1 year	309,452	29,816
over 1 year	1,481,096	1,613,040
Total	**31,547,709**	**39,126,567**

Company Management 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:

	June 30th, 2017	December 31st, 2016
RSD	20,393,780	25,650,795
EUR	10,526,636	12,784,196
USD	627,293	691,576
	31,547,709	**39,126,567**

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

	Trade&other receivables		
	Third parties	State and state owned companies	Total
As at January 1st, 2016	10,001,877	15,777,436	25,779,313
Provision for receivables impairment	49,479	47,615	97,094
Release of provision	(43,936)	(34,254)	(78,190)
Receivables written off during the year as uncollectible	(326)	(3,854)	(4,180)
Other	53	113,539	113,592
As at June 30th, 2016	**10,007,147**	**15,900,482**	**25,907,629**
As at January 1st, 2017	9,841,314	11,563,533	21,404,847
Provision for receivables impairment	141,229	21,878	163,107
Release of provision	(131,214)	(18,160)	(149,374)
Receivables written off during the year as uncollectible	(922)	-	(922)
Unwinding of discount	-	(36,303)	(36,303)
Transfer from non-current part	-	208.808	208,808
Exchange differences	1,751	(206,680)	(204,929)
Other	(2,207)	-	(2,207)
As at June 30th, 2017	**9,849,951**	**11,533,076**	**21,383,027**

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.

9. INVENTORIES

	June 30th, 2017	December 31st, 2016
Crude oil	12,470,876	15,067,495
Petroleum products	11,260,307	8,721,079
Materials and supplies	4,159,503	4,086,896
Other	553,674	642,224
Less impairment provision	(5,006,903)	(5,038,462)
	23,437,457	**23,479,232**

10. OTHER CURRENT ASSETS

	June 30th, 2017	December 31st, 2016
Advances paid	324,990	319,986
Deferred VAT	1,251,334	1,004,151
Prepaid expenses	279,762	75,971
Prepaid custom duties	30,709	31,117
Prepaid excise	1,474,859	1,527,393
Other current assets	14,165,115	14,235,708
Less impairment provision	(11,991,733)	(11,977,231)
	5,535,036	**5,217,095**

Deferred VAT as at June 30th, 2017 amounting to 1,251,334 RSD (December 31st, 2016: 1,004,151 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 June 30th, 2017 amounting to 1,474,859 RSD (December 31st, 2016: 1,527,393 RSD) relates to the excise paid for finished products stored in non-excise warehouse.

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

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

	Advances paid	Other current assets	Total
As at January 1st, 2016	**268,118**	**13,763,836**	**14,031,954**
Provision for receivables impairment	-	246,285	246,285
Unused amounts reversed	(2,995)	(10,768)	(13,763)
Receivables written off during the year as uncollectible	-	(9,028)	(9,028)
As at June 30th, 2016	**265,123**	**13,990,325**	**14,255,448**
As at January 1st, 2017	**257,940**	**11,719,291**	**11,977,231**
Increase of provision during the year	5,432	71,274	76,706
Release of provision	(338)	(36,156)	(36,494)
Receivables written off during the year as uncollectible	-	(25,711)	(25,711)
Other	2	(1)	1
As at June 30th, 2017	**263,036**	**11,728,697**	**11,991,733**

The ageing of other current assets is as follows:

	June 30th, 2017	December 31st, 2016
Neither impaired nor past due	5,495,985	5,120,782
Not impaired and past due in the following periods:		
Less than 1 month	3,258	22,090
1 - 3 months	5,175	24,676
3 month - 1 year	2,297	19,481
Over 1 year	28,321	30,066
Total	**5,535,036**	**5,217,095**

11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at January 1st, 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 June 30th, 2016						
Additions	182,825	-	-	-	8,454,362	8,637,187
Transfer from assets under construction	8,345,209	576,307	1,266,758	70,787	(10,259,061)	-
Impairment	-	-	-	-	(16,150)	(16,150)
Depreciation	(2,353,986)	(2,801,341)	(705,579)	(279,048)	-	(6,139,954)
Disposals and write-off	(85,528)	(10,717)	(71,222)	(34,448)	(100,603)	(302,518)
Other transfers	(12,394)	(2,974,900)	2,971,157	(3,986)	1,031	(19,092)
	81,550,849	**76,276,734**	**22,250,612**	**9,108,142**	**30,620,398**	**219,806,735**
As at June 30th, 2016						
Cost	106,584,982	108,678,053	46,073,793	17,446,065	32,977,756	311,760,649
Depreciation and impairment	(25,034,133)	(32,401,319)	(23,823,181)	(8,337,923)	(2,357,358)	(91,953,914)
Net book value	**81,550,849**	**76,276,734**	**22,250,612**	**9,108,142**	**30,620,398**	**219,806,735**
As at January 1st, 2017						
Cost	115,864,815	110,525,127	46,383,755	17,548,942	31,776,922	322,099,561
Depreciation and impairment	(27,422,504)	(35,174,792)	(24,349,626)	(8,489,733)	(2,103,957)	(97,540,612)
Net book value	**88,442,311**	**75,350,335**	**22,034,129**	**9,059,209**	**29,672,965**	**224,558,949**
Period ended June 30th, 2017						
Additions	84,292	-	-	-	10,388,665	10,472,957
Transfer from assets under construction	8,425,105	1,407,219	1,020,711	190,549	(11,043,584)	-
Transfer (to) from intangible assets	-	-	-	-	(31,613)	(31,613)
Transfer (to) investment property	-	-	(17,195)	(2,314)	-	(19,509)
Impairment	-	-	-	-	(1,645)	(1,645)
Depreciation	(2,636,920)	(2,826,057)	(739,565)	(274,787)	-	(6,477,329)
Disposals and write-off	(36,557)	(6,444)	(124,031)	(4,283)	(54,785)	(226,100)
Other transfers	1,544	93	(37,349)	38,026	2,917	5,231
	94,279,775	**73,925,146**	**22,136,700**	**9,006,400**	**28,932,920**	**228,280,941**
As at June 30th, 2017						
Cost	124,237,055	111,900,825	47,028,484	17,626,364	31,014,108	331,806,836
Depreciation and impairment	(29,957,280)	(37,975,679)	(24,891,784)	(8,619,964)	(2,081,188)	(103,525,895)
Net book value	**94,279,775**	**73,925,146**	**22,136,700**	**9,006,400**	**28,932,920**	**228,280,941**

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 January 1st, 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 June 30th, 2016						
Additions	1,027,611	6,117,189	7,144,800	182,825	-	7,327,625
Transfer from asset under construction	(30,671)	(8,314,538)	(8,345,209)	8,345,209	-	-
Other transfers	-	35,173	35,173	(12,394)	1	22,780
Depreciation and depletion	-	-	-	(2,353,986)	-	(2,353,986)
Disposals and write-off	(27,936)	(181)	(28,117)	(85,528)	-	(113,645)
	17,713,372	**5,233,116**	**22,946,488**	**81,550,849**	**1,843**	**104,499,180**
As at June 30th, 2016						
Cost	17,713,372	5,481,509	23,194,881	106,584,982	22,153	129,802,016
Depreciation and impairment	-	(248,393)	(248,393)	(25,034,133)	(20,310)	(25,302,836)
Net book amount	**17,713,372**	**5,233,116**	**22,946,488**	**81,550,849**	**1,843**	**104,499,180**
As at January 1st, 2017						
Cost	12,345,350	7,915,400	20,260,750	115,864,815	22,129	136,147,694
Depreciation and impairment	-	(876)	(876)	(27,422,504)	(20,309)	(27,443,689)
Net book amount	12,345,350	7,914,524	20,259,874	88,442,311	1,820	108,704,005
Period ended June 30th, 2017						
Additions	1,580,178	6,588,238	8,168,416	84,292	-	8,252,708
Transfer from asset under construction	(2,999,387)	(5,425,718)	(8,425,105)	8,425,105	-	-
Other transfers	(28,341)	42,550	14,209	1,544	-	15,753
Depreciation and depletion	-	-	-	(2,636,920)	-	(2,636,920)
Disposals and write-off	(49,780)	(3,019)	(52,799)	(36,557)	-	(89,356)
	10,848,020	**9,116,575**	**19,964,595**	**94,279,775**	**1,820**	**114,246,190**
As at June 30th, 2017						
Cost	10,848,020	9,117,451	19,965,471	124,237,055	22,129	144,224,655
Depreciation and impairment	-	(876)	(876)	(29,957,280)	(20,309)	(29,978,465)
Net book amount	**10,848,020**	**9,116,575**	**19,964,595**	**94,279,775**	**1,820**	**114,246,190**

12. OTHER NON-CURRENT ASSETS

	June 30th, 2017	December 31st, 2016
Advances paid for PPE	2,000,748	2,062,604
Prepaid expenses	735,989	794,251
Other assets	1,053,786	1,076,724
Less impairment provision	(44,781)	(41,758)
	3,745,742	**3,891,821**

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

	June 30th, 2017	December 31st, 2016
Short-term loans	6,022,053	13,299,544
Interest liabilities	105,956	173,834
Current portion of long-term loans (note 17)	5,964,866	9,516,423
Current portion of finance lease liabilities (note 17)	34,570	25,114
	12,127,445	**23,014,915**

14. TRADE AND OTHER PAYABLES

	June 30th, 2017	December 31st, 2016
Trade payables		
- related parties	5,352,659	10,126,021
- third parties	11,003,700	16,349,956
Dividends payable	7,793,378	3,772,308
Other accounts payable	8,269	14,508
	24,158,006	**30,262,793**

As at June 30th, 2017 payables to related parties amounting to 45,352,659 RSD (December 31st, 2016: 10,126,021 RSD) mainly relate to payables to the supplier Naftagas-Naftni servisi d.o.o. Novi Sad, Serbia in the amount of 2,803,981 RSD mostly relate to drilling and overhaul services (December 31st, 2016: Gazprom Neft, St Petersburg in the amount of 5,818,200 RSD mostly for the purchase of crude oil).

15. OTHER CURRENT LIABILITIES

	June 30th, 2017	December 31st, 2016
Advances received	1,301,145	1,228,944
Payables to employees	2,107,987	2,914,402
Accruals and deferred income	402,555	24,297
Other current non-financial liabilities	18,707	45,511
	3,830,394	**4,213,154**

16. OTHER TAXES PAYABLE

	June 30th, 2017	December 31st, 2016
Mineral extraction tax	290,731	241,017
VAT	2,022,795	1,410,486
Excise tax	4,720,450	5,009,938
Contribution for buffer stocks	256,663	601,357
Custom duties	42,603	279,104
Other taxes	1,813,641	1,807,736
	9,146,883	**9,349,638**

17. LONG-TERM DEBT

	June 30th, 2017	December 31st, 2016
Long-term loan - Gazprom Neft	33,725,191	37,328,836
Bank loans	61,742,738	65,392,094
Finance lease liabilities	184,445	142,528
Less Current portion	(5,999,436)	(9,541,537)
	89,652,938	**93,321,921**

Movements on the Company's liabilities from finance activities are as follows:

	Long-term loans	Short-term loans (note 13)	Finance lease	Total
As at 1 January 2016	**112,726,667**	**4,282,974**	**-**	**117,009,641**
Proceeds	2,405,144	7,020,545	-	9,425,689
Repayment	(10,447,013)	(1,375,100)	-	(11,822,113)
Non-cash transactions	-	-	36,237	36,237
Foreign exchange difference (note 20)	903,891	71,261	(54)	975,098
As at 30 June 2016	**105,588,689**	**9,999,680**	**36,183**	**115,624,552**
As at 1 January 2017	**102,720,930**	**13,299,544**	**142,528**	**116,163,002**
Proceeds	9,748,116	4,286,238	-	14,034,354
Repayment	(11,975,534)	(11,428,861)	(28,262)	(23,432,657)
Non-cash transactions	-	-	74,751	74,751
Foreign exchange difference (note 20)	(5,025,583)	(134,868)	(4,572)	(5,165,023)
As at 30 June 2017	**95,467,929**	**6,022,053**	**184,445**	**101,674,427**

(a) Long-term loan - Gazprom Neft

As at June 30th, 2017 long-term loan - Gazprom Neft amounting to 33,725,191 RSD (December 31st, 2016: 37,328,836 RSD), with current portion of 5,620,865 RSD (2016: 5,742,898 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on December 24th, 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until May 15th, 2023.

(b) Bank loans

	June 30th, 2017	December 31st, 2016
Domestic	27,961,522	27,522,764
Foreign	33,781,216	37,869,330
	61,742,738	65,392,094
Current portion of long-term loans	(344,001)	(3,773,525)
	61,398,737	**61,618,569**

The maturity of bank loans was as follows:

	June 30th, 2017	December 31st, 2016
Between 1 and 2 years	8,059,819	13,323,750
Between 2 and 5 years	50,102,086	44,038,904
Over 5 years	3,236,832	4,255,915
	61,398,737	**61,618,569**

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

	June 30th, 2017	December 31st, 2016
USD	33,716,292	39,607,916
EUR	25,287,224	22,955,261
RSD	2,391,385	2,443,363
JPY	347,837	385,554
	61,742,738	**65,392,094**

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 June 30th, 2017 and December 31st, 2016, respectively.

18. PRODUCTION AND MANUFACTURING EXPENSES

	Six months period ended June 30th, 2017	2016
Employee costs	1,533,129	1,582,691
Materials and supplies (other than purchased oil, petroleum products and gas)	443,215	395,548
Repair and maintenance services	1,769,622	1,817,333
Electricity for resale	4,194,052	2,920,764
Electricity and utilities	741,006	812,813
Safety and security expense	144,050	165,189
Insurance services	141,145	145,582
Transportation services for production	840,637	874,737
Other	3,716,255	3,921,508
	13,523,111	**12,636,165**

19. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months period ended June 30th, 2017	2016
Employee costs	4,646,592	4,527,464
Legal, audit and consulting services	686,757	709,405
Rent expense	64,922	64,970
Business trips expense	141,152	121,964
Safety and security expense	231,218	227,570
Insurance expense	49,375	39,714
Transportation and storage	170,607	312,047
Allowance for doubtful accounts	(46,558)	253,960
Other	3,890,690	3,472,911
	9,834,755	**9,730,005**

20. NET FOREIGN EXCHANGE GAIN

	Six months period ended June 30th, 2017	2016
Net foreign exchange gain (loss) on financing activities including:		
- foreign exchange gain	5,612,771	2,138,530
- foreign exchange loss	(447,748)	(3,113,628)
Net foreign exchange gain (loss) on operating activities	(1,053,397)	755,402
	4,111,626	**(219,696)**

21. FINANCE INCOME

	Six months period ended June 30th, 2017	2016
Interest on bank deposits	165,885	108,995
Interest income on loans issued	458,788	493,208
	624,673	**602,203**

22. FINANCE EXPENSES

	Six months period ended June 30th, 2017	2016
Interest expense	1,588,930	1,600,874
Decommissionning provision: unwinding of discount	67,487	57,709
Trade receivables: discount	(251,367)	(164,863)
Less: interest expense capitalised on qualifying assets	(29,614)	(23,893)
	1,375,436	**1,469,827**

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 December 31st, 2016. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of June 30th, 2017 carrying value of financial assets approximate their fair value.

24. CONTINGENCIES AND COMMITMENTS

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 794,737 RSD (December 31st, 2016: 838,655 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.

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Company has paid all tax liabilities as of June 30th, 2017.

Capital commitments

As of 30 June 2017 the Company has entered into contracts to purchase property, plant and equipment for 5,211,943 RSD (31 December 2016: 5,324,487 RSD).

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. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

In the six month period ended June 30th, 2017 and in the same period in 2016, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

As at June 30th, 2017 and December 31st, 2016 the outstanding balances with related parties were as follows:

	Subsidiaries	Parent	Parent's subsidiaries and associates
As at June 30th, 2017			
Short-term financial assets	8,597,757	-	-
Trade and other receivables	3,480,344	-	874,426
Other current assets	2,802	-	21,057
Investments in subsidiaries and joint ventures	13,425,586	-	-
Long-term financial assets	28,222,040	-	-
Other non-current assets	159,527	-	-
Trade and other payables	(4,443,638)	-	(909,021)
Other current liabilities	(1,457)	-	(38,174)
Short-term debt and current portion of long-term debt	(740,822)	(5,620,865)	-
Long-term debt	-	(28,104,326)	-
	48,702,436	**(33,725,191)**	**(51,712)**
As at December 31st, 2016			
Short-term financial assets	4,565,622	-	-
Trade and other receivables	3,490,003	-	994,853
Other current assets	1,819	-	-
Investments in subsidiaries and joint ventures	16,825,911	-	-
Long-term financial assets	32,430,010	-	-
Other non-current assets	220,956	-	-
Trade and other payables	(3,248,959)	(5,818,200)	(1,058,865)
Other current liabilities	(2,142)	-	(23,091)
Short-term debt and current portion of long-term debt	(1,110,373)	(5,742,898)	-
Long-term debt	-	(31,585,938)	-
	53,172,847	**(43,147,036)**	**(87,103)**

For the six month period ended June 30th, 2017 and 2016 the following transaction occurred with related parties:

	Subsidiaries	Parent	Parent's subsidiaries and associates
Three months period ended June 30th, 2017			
Petroleum products and oil and gas sales	4,914,211	-	243,300
Other Revenues	536,025	-	3,955,576
Purchases of oil, gas and petroleum products	(162,067)	(13,976,780)	(243,302)
Production and manufacturing expenses	(1,541,805)	-	(4,088,792)
Selling, general and administrative expenses	(541,931)	-	(3,159)
Transportation expenses	(44,869)	-	-
Other expenses, net	(22,521)	(4,438)	(47)
Finance income	449,921	-	-
Finance expense	(4,492)	(337,565)	-
	3,572,472	**(14,318,783)**	**(136,424)**
Three months period ended June 30th, 2016			
Petroleum products and oil and gas sales	4,032,019	-	269,062
Other Revenues	329,036	-	2,746,489
Purchases of oil, gas and petroleum products	(4,044,423)	(21,609,732)	(236,564)
Production and manufacturing expenses	(1,814,394)	-	(2,675,951)
Selling, general and administrative expenses	(259,746)	-	(143,585)
Transportation expenses	(42,905)	-	-
Other expenses, net	(21,852)	1,373	(16)
Finance income	16,960	400,427	-
Finance expense	(481,227)	-	-
	(2,286,532)	**(21,207,932)**	**(40,565)**

Transactions with Key Management Personnel

For the six month period ended on June 30th, 2017 and 2016 the Company recognized 491,405 RSD and 394,678 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.

26. SUBSEQUENT EVENTS

On July 13th, 2017, the Company entered into a contract with Unicredit bank on the transfer of part of receivables for a fee without recourse. The total amount of EUR 67,200,000 transferred in accordance with the Agreement relates to receivables from the Republic of Serbia with the due dates in 2016-2019. The payment under the Agreement was made on July 17th, 2017 in full.

Consolidated Financial Statements

Consolidated Statement on Financial Position

	Notes	June 30th, 2017 *(unaudited)*	December 31st, 2016
ASSETS			
Current assets			
Cash and cash equivalents	6	21,273,889	22,899,342
Short-term financial assets		168,168	247,882
Trade and other receivables	7	30,177,069	37,445,000
Inventories	8	26,696,285	26,836,064
Current income tax prepayments		-	126,103
Other current assets	9	6,589,415	5,946,829
Total current assets		**84,904,826**	**93,501,220**
Non-current assets			
Property, plant and equipment	10	256,350,494	253,760,267
Investment property		1,575,679	1,549,663
Godwill and other intangible assets		5,903,837	6,457,971
Investments in joint venture		2,047,021	2,047,021
Trade and other non-current receivables		5,872,817	9,369,158
Long-term financial assets		154,939	163,565
Deferred tax assets		3,012,906	3,771,354
Other non-current assets	11	3,595,165	3,680,642
Total non-current assets		**278,512,858**	**280,799,641**
Total assets		**363,417,684**	**374,300,861**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	12	11,457,222	21,976,571
Trade and other payables	13	22,007,099	29,579,165
Other current liabilities	14	4,459,097	5,234,250
Current income tax payable		3,054,279	-
Other taxes payable	15	10,179,705	10,136,560
Provisions for liabilities and charges		1,902,647	1,979,312
Total current liabilities		**53,060,049**	**68,905,858**
Non-current liabilities			
Long-term debt	16	90,616,726	94,294,661
Long-term trade and other payable		1,120	1,859
Provisions for liabilities and charges		9,573,488	9,617,973
Total non-current liabilities		**100,191,334**	**103,914,493**
Equity			
Share capital		81,530,200	81,530,200
Reserves		(281,686)	(567,083)
Retained earnings		129,136,969	120,731,166
Equity attributable to the Company's owners		**210,385,483**	**201,694,283**
Non-controlling intrest		(219,182)	(213,773)
Total equity		**210,166,301**	**201,480,510**
Total liabilities and shareholder's equity		**363,417,684**	**374,300,861**

In thousand RSD

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

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	Three months period ended June 30th 2017 (unaudited)	2016 (unaudited)
Sales of petroleum products, oil and gas		98,226,646	73,879,723
Other revenues		9,142,288	7,490,753
Total revenue from sales	5	**107,368,934**	**81,370,476**
Purchases of oil, gas and petroleum products		(58,001,808)	(41,792,362)
Production and manufacturing expenses	17	(13,086,007)	(12,413,860)
Selling, general and administrative expenses	18	(10,757,142)	(11,093,552)
Transportation expenses		(497,109)	(516,243)
Depreciation, depletion and amortization		(8,106,994)	(7,826,328)
Taxes other than income tax		(2,375,412)	(2,241,084)
Exploration expenses		(7,452)	-
Total operating expenses		**(92,831,924)**	**(75,883,429)**
Other (expenses) income, net		(228,731)	141,767
Operating profit		**14,308,279**	**5,628,814**
Net foreign exchange gain (loss)	19	4,113,749	(232,269)
Finance income	20	176,234	124,499
Finance expenses	21	(1,426,248)	(1,530,492)
Total other expense		**2,863,735**	**(1,638,262)**
Profit before income tax		**17,172,014**	**3,990,552**
Current income tax expense		(4,012,341)	(641,049)
Deferred tax expense		(743,293)	(202,753)
Total income tax expense		**(4,755,634)**	**(843,802)**
Profit for the period		**12,416,380**	**3,146,750**
Other comprehensive profit (loss):			
Components of other comprehensive income that will not be reclassified to profit or loss, net of tax			
Revaluation of property, plant and equipment transferred to investment property		1,399	-
		1,399	-
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		1,723	(2,369)
Currency translation differences		287,358	(141,049)
		289,081	(143,418)
Other comprehensive loss for the period		**290,480**	**(143,418)**
Total comprehensive profit (loss) for the period		**12,706,860**	**3,003,332**
Profit attributable to:			
- Shareholders of Naftna Industrija Srbije		12,426,872	3,160,154
- Non-controlling interest		(10,492)	(13,404)
Profit for the period		**12,416,380**	**3,146,750**
Total comprehensive income (loss) attributable to:			
- Shareholders of Naftna Industrija Srbije		12,712,269	3,019,531
- Non-controlling interest		(5,409)	(16,199)
Total comprehensive income for the period		**12,706,860**	**3,003,332**
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		76.21	19.38
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 Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

Three months period ended June 30th, 2017 and 2016 (unaudited)

	Equity attributable to the Company owners				Non-controlling interest	Total
	Share capital	Reserves	Retained earnings	Total		
Balance as at January 1st, 2016	**81,530,200**	**(530,528)**	**109,698,142**	**190,697,814**	**(186,134)**	**190,511,680**
Profit (loss) for the period	-	-	3,160,154	3,160,154	(13,404)	3,146,750
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	(2,369)	-	(2,369)	-	(2,369)
Currency translation differences	-	(138,254)	-	(138,254)	(2,795)	(141,049)
Total comprehensive income (loss) for the period	**-**	**(140,623)**	**3,160,154**	**3,019,531**	**(16,199)**	**3,003,332**
Dividend distribution	-	-	(4,025,961)	(4,025,961)	-	(4,025,961)
Balance as at June 30th, 2016	**81,530,200**	**(671,151)**	**108,832,335**	**189,691,384**	**(202,333)**	**189,489,051**
Balance as at January 1st, 2017	**81,530,200**	**(567,083)**	**120,731,166**	**201,694,283**	**(213,773)**	**201,480,510**
Profit (loss) for the period	-	-	12,426,872	12,426,872	(10,492)	12,416,380
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	1,723	-	1,723	-	1,723
Revaluation of property, plant and equipment transferred to investment property	-	1,399	-	1,399	-	1,399
Currency translation differences	-	282,275	-	282,275	5,083	287,358
Total comprehensive income (loss) for the period	**-**	**285,397**	**12,426,872**	**12,712,269**	**(5,409)**	**12,706,860**
Dividend distribution	-	-	(4,021,069)	(4,021,069)	-	(4,021,069)
Balance as at June 30th, 2017	**81,530,200**	**(281,686)**	**129,136,969**	**210,385,483**	**(219,182)**	**210,166,301**

In thousand RSD

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

Consolidated Statement of Cash Flows

	Note	Three months period ended June 30th 2017 *(unaudited)*	2016 *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**17,172,014**	**3,990,552**
Adjustments for:			
Finance expenses	21	1,426,248	1,530,492
Finance income	20	(176,234)	(124,499)
Net unrealised foreign exchange losses (gain)		(4,302,615)	1,096,932
Depreciation, depletion and amortization		8,106,994	7,826,328
Adjustments for other provisions		(128,546)	242,843
Allowance for doubtful accounts		69,510	249,825
Payables write off		(3,164)	(36,310)
Other non-cash items		150,048	(240,325)
		5,142,241	**10,545,286**
Changes in working capital:			
Trade and other receivables		10,850,399	3,506,752
Inventories		54,930	(7,570,181)
Other current assets		(967,497)	(2,489,259)
Trade payables and other current liabilities		(11,305,960)	1,233,685
Other taxes payable		55,850	1,047,623
		(1,312,278)	**(4,271,380)**
Income taxes paid		(742,637)	(466,559)
Interest paid		(1,522,662)	(1,484,073)
Interest received		172,604	239,203
		(2,092,695)	**(1,711,429)**
Net cash generated from operating activities		**18,909,282**	**8,553,029**
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		(11,306,680)	(10,344,606)
Proceeds from sale of property, plant and equipment		87,348	292,094
Other inflow		30,055	22,234
Net cash used in investing activities		**(11,189,277)**	**(10,030,278)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	16	9,748,116	8,382,322
Repayment of borrowings	16	(18,747,899)	(10,447,013)
Repayments of finance lease liabilities	16	(28,262)	-
Net cash used in financing activities		**(9,028,045)**	**(2,064,691)**
Net decrease in cash and cash equivalents		(1,308,040)	(3,541,940)
Effect of foreign exchange on cash and cash equivalents		(317,413)	65,123
Cash and cash equivalents as of the beginning of the period		22,899,342	19,271,435
Cash and cash equivalents as of the end of the period		**21,273,889**	**15,794,618**

in thousand RSD

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

Notes to Consolidated Financial Statements[78]

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije, Novi Sad (the “Company”) and its subsidiaries (together refer to as the “Group”) is a vertically integrated oil company operating predominantly in the Republic of 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, and
- Electricity generation and trading.

Other activities primarily include sales of other goods, works and services.

The Company was established in accordance with the Decision of Government of Republic of Serbia on July 7th, 2005. On February 2nd, 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%. PJSC Gazprom, Russian Federation is the ultimate owner of the Group.

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 2016, 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 2016.

At the date of signing consolidated financial statements, crude oil price has decreased since December 31st, 2016 to 50.090 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any major fluctuation of crude oil prices.

Subsequent events occurring after June 30th, 2017 were evaluated through July 26th, 2017, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the six month period ended June 30th, 2017 are not necessarily indicative of the results expected for the full year.

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

[78] 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 December 31st, 2016, except for those described in the Application of new IFRS paragraph.

3. APPLICATION OF NEW IFRS

The following amended standards became effective for the Group from January 1st, 2017:

The amendments to IFRS 7 – Statement of Cash Flow (issued in January 2016 effective for annual periods on or after January 1st, 2017) require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Group made disclosure in the Interim Condensed Consolidated Financial Statements (note 16).

The following standards or amended standards that became effective for the Group from January 1st, 2017 did not have any material impact on the Group:

- The amendments to IAS 12 – Income Tax: Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016 effective for annual periods beginning on or after January 1st, 2017).

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on January 2017 or later, and that the Group has not early adopted.

IFRS 9 – Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after January 1st, 2018). Key features of the new standard are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (either through profit and loss or other comprehensive income), and at amortised cost. The decision is to be made at initial recognition.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only. All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss.
  The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after January 1st, 2018) and Amendments to IFRS 15 (issued in April 2016 and effective for annual periods beginning on or after January 1st, 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

IFRS 16 – Leases (issued in January 2016 and replaces the previous IAS 17 Leases, effective for annual periods beginning on or after January 1st, 2019 with early adoption permitted in case of implementation of IFRS 15 Revenue from Contracts with Customers). Key features of the standard are:

- IFRS 16 changes the lessees accounting requirements given in IAS 17 and eliminates the classification of leases as either operating leases or finance leases. Instead, introduces a single lessee accounting model where a lessee is required to recognise:
  (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
  (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.
- IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.
- IFRS 16 does not change the accounting for services.

The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

IFRIC 23 – Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after January 1st, 2019). IFRIC 23 clarifies the accounting for uncertainties in income taxes. The Group is currently assessing the impact of the new interpretation on its Consolidated Financial Statements.

The new standards and interpretations are not expected to have significant impact the Group's Interim Condensed Consolidated Financial Statements.

5. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the six month periods ended June 30th, 2017 and 2016. Operating segments are components that engage 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 and Energy business activities expenses are presented within the Downstream segment.

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

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

Reportable segment results for the six month period ended June 30th, 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	21,565,777	108,004,745	(22,201,588)	107,368,934
Intersegment	20,605,221	1,596,367	(22,201,588)	-
External	960,556	106,408,378	-	107,368,934
EBITDA (Segment results)	15,790,638	6,750,439	-	22,541,077
Depreciation, depletion and amortization	(3,320,230)	(4,786,764)	-	(8,106,994)
Reversal surpluses	-	3,782	-	3,782
Net foreign exchange gain	181,980	3,931,769	-	4,113,749
Finance expenses, net	(66,810)	(1,183,204)	-	(1,250,014)
Income tax	(2,065,156)	(2,690,478)	-	(4,755,634)
Segment profit	**10,451,709**	**1,964,671**	**-**	**12,416,380**

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

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

Income tax in Upstream segment increased due to Global agreement with the Ministry of finance and General Tax administration of the Republic of Angola signed in June 2017 by which Group agreed to pay tax contingencies for the fiscal years 2002 – 2016.

EBITDA for the six month period ended June 30th, 2017 and 2016 is reconciled below:

	Six months period ended June 30th,	
	2017	2016
Profit for the period	12,416,380	3,146,750
Income tax expenses	4,755,634	843,802
Finance expenses	1,426,248	1,530,492
Finance income	(176,234)	(124,499)
Depreciation, depletion and amortization	8,106,994	7,826,328
Net foreign exchange (gain) loss	(4,113,749)	232,269
Other expense (income), net	228,731	(141,767)
Other non-operating (income) expense, net	(102,927)	(132,052)
EBITDA	**22,541,077**	**13,181,323**

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

	Six months period ended June 30th,		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	892,095	892,095
Sale of gas	1,390,073	-	1,390,073
Through a retail network	-	-	-
Wholesale activities	1,390,073	-	1,390,073
Sale of petroleum products	73,681,768	22,262,710	95,944,478
Through a retail network	26,361,408	9,923,041	36,284,449
Wholesale activities	47,320,360	12,339,669	59,660,029
Sale of electricity	282,426	4,260,723	4,543,149
Other sales	3,049,987	1,549,152	4,599,139
Total sales	**78,404,254**	**28,964,680**	**107,368,934**

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

In 2016 export and international sales through own retail network within foreign subsidiaries were presented within wholesale activities in the amount of 7,092,180 RSD. Starting from 2017 these sales activities are separated.

Out of the amount of 59,660,029 RSD (2016: 2,390,153 RSD) revenue from sale of petroleum products (wholesale), the amount of 9,896,305 RSD (2016: 6,690,792 RSD) are derived from a single domestic customer HIP Petrohemija. These revenue is attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Gazprom Marketing & Trading Co., Ltd. in the amount of 4,083,822 RSD (2016: 2,745,188 RSD). These sales are presented within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 3,583,112 RSD (2016: 3,241,212 RSD).

The Group is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 78,404,254 RSD (2016: 60,836,610 RSD), and the total of revenue from external customer from other countries is 28,964,680 RSD (2016: 20,533,866 RSD).

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

	Six months period ended June 30th,	
	2017	**2016**
Sale of crude oil	892,095	597,730
Sale of petroleum products (retail and wholeasle)		
Bulgaria	6,283,423	4,362,556
Bosnia and Herzegovina	5,459,350	3,049,289
Romania	4,389,989	3,432,176
All other markets	6,129,948	4,818,296
	22,262,710	15,662,317
Sale of electricity	4,260,723	2,747,601
Other sales	1,549,152	1,526,218
	28,964,680	**20,533,866**

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:

	June 30th, 2017	December 31st, 2016
Serbia	241,501,067	238,780,068
Bulgaria	7,648,194	7,966,581
Bosnia and Herzegovina	7,717,242	8,052,241
Romania	6,963,449	6,968,931
Hungary	58	80
	263,830,010	**261,767,901**

6. CASH AND CASH EQUIVALENTS

	June 30th, 2017	December 31st, 2016
Cash in bank and in hand	7,207,248	14,110,111
Deposits with original maturity of less than three months	12,545,526	7,188,962
Cash held on escrow account	1,520,347	1,599,285
Cash equivalents	768	984
	21,273,889	**22,899,342**

Cash held on escrow accounts as of June 30th, 2017 amounting to 1,520,347 RSD (December 31st, 2016: 1,599,285 RSD) mostly relates to deposited funds in accordance with the interest in a joint venture through which the operation of future wind farm ''Plandiste' will be managed.

7. TRADE AND OTHER RECEIVABLES

	June 30th, 2017	December 31st, 2016
Trade receivables:		
- related parties	874,441	1,047,541
- third parties	26,763,276	31,723,648
- state and state owned companies	13,736,675	15,815,559
	41,374,392	**48,586,748**
Other receivables:		
- related parties	269,242	220,242
- third parties	13,693	13,986
- state and state owned companies	9,468,982	9,865,845
	9,751,917	**10,100,073**
Accrued assets	319,866	50,243
	51,446,175	**58,737,064**
Less impairment provision for trade and other receivables:		
- third parties	(9,736,030)	(9,728,531)
- state and state owned companies	(11,533,076)	(11,563,533)
	(21,269,106)	**(21,292,064)**
Total trade and other receivables	**30,177,069**	**37,445,000**

The ageing of trade and other receivables is as follows:

	June 30th, 2017	December 31st, 2016
Neither impaired nor past due	26,947,275	33,563,122
Past due but not impaired:		
within 30 days	1,651,055	1,725,053
1 to 3 months	591,582	1,283,108
3 months to 1 year	423,483	277,304
over 1 year	563,674	596,413
Total	**30,177,069**	**37,445,000**

Group management 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:

	June 30th, 2017	December 31st, 2016
RSD	19,017,078	24,499,017
EUR	8,754,419	11,090,173
USD	627,747	691,575
Other	1,777,825	1,164,235
	30,177,069	**37,445,000**

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

	Trade&other receivables		
	Third parties	State and state owned companies	Total
As at January 1st, 2016	9,862,727	15,777,436	25,640,163
Provision for receivables impairment	52,225	47,615	99,840
Release of provisions	(50,103)	(34,254)	(84,357)
Receivables written off during the year as uncollectible	(326)	(3,854)	(4,180)
Excahnge differences	54	113,539	113,593
Other	1,175	-	1,175
As at June 30th, 2016	**9,865,752**	**15,900,482**	**25,766,234**
As at January 1st, 2017	**9,728,531**	**11,563,533**	**21,292,064**
Provision for receivables impairment	142,895	21,878	164,773
Release of provisions	(132,232)	(18,160)	(150,392)
Receivables written off during the year as uncollectible	(922)	-	(922)
Exchange differences	(453)	(206,681)	(207,134)
Unwinding of discount	-	(36,303)	(36,303)
Transfer from non-current part	-	208,808	208,808
Other	(1,788)	-	(1,788)
As at June 30th, 2017	**9,736,030**	**11,533,076**	**21,269,106**

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Consolidated 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

	June 30th, 2017	December 31st, 2016
Crude oil	12,470,876	15,067,495
Petroleum products	11,776,225	9,638,529
Materials and supplies	6,774,486	6,446,355
Other	877,480	1,009,762
Less impairment provision	(5,202,782)	(5,326,077)
	26,696,285	**26,836,064**

9. OTHER CURRENT ASSETS

	June 30th, 2017	December 31st, 2016
Advances paid	439,134	437,325
VAT receivables	365,860	274,292
Deferred VAT	1,595,367	1,251,278
Prepaid expenses	314,046	115,146
Prepaid custom duties	31,185	31,117
Prepaid excise	1,541,381	1,538,828
Other current assets	14,315,422	14,297,606
Less impairment provision	(12,012,980)	(11,998,763)
	6,589,415	**5,946,829**

Deferred VAT as at June 30th, 2017 amounting to 1,595,367 RSD (December 31st, 2016: 1,251,278 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 June 30th, 2017 amounting to 1,541,381 RSD (December 31st, 2016: 1,528,828 RSD) relates to the excise paid for finished products stored in non-excise warehouse.

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

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

	Advances paid	Other current assets	Total
As at January 1st, 2016	270,297	13,772,414	14,042,711
Increase of provision during the year	1,826	246,289	248,115
Release of provision	(2,995)	(10,770)	(13,765)
Other	-	(8,965)	(8,965)
As at June 30th, 2016	**269,128**	**13,998,968**	**14,268,096**
As at January 1st, 2017	**261,983**	**11,736,780**	**11,998,763**
Increase of provision during the year	5,432	71,282	76,714
Release of provision	(340)	(36,163)	(36,503)
Receivables written off during the year as uncollectible	-	(25,709)	(25,709)
Write off	1	(286)	(285)
As at June 30th, 2017	**267,076**	**11,745,904**	**12,012,980**

The ageing of other current assets is as follows:

	June 30th, 2017	December 31st, 2016
Neither impaired nor past due	6,531,792	5,834,710
Not impaired and past due in following periods:		
Less than 1 month	6,894	23,019
1 – 3 months	10,743	26,895
3 months – 1 year	4,943	21,598
Over one year	35,043	40,607
Total	**6,589,415**	**5,946,829**

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at January 1st, 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 June 30th, 2016						
Additions	182,825	-	-	-	9,003,156	9,185,981
Transfer from assets under construction	8,649,614	576,307	1,249,221	134,030	(10,609,172)	-
Impairment	-	-	-	-	(16,150)	(16,150)
Depreciation	(2,871,227)	(2,801,341)	(1,152,792)	(396,101)	(2,531)	(7,223,992)
Disposals and write-off	(72,588)	(10,717)	(71,220)	(36,946)	(103,686)	(295,157)
Other transfers	(4,330)	(2,974,900)	2,972,646	(3,986)	(122,870)	(133,440)
Translation differences	11	1	225,364	-	65,534	290,910
	89,466,973	**76,276,734**	**38,139,827**	**10,683,287**	**34,454,754**	**249,021,575**
As at June 30th, 2016						
Cost	117,609,602	108,678,052	64,994,417	20,021,638	36,835,841	348,139,550
Depreciation and impairment	(28,142,629)	(32,401,318)	(26,854,590)	(9,338,351)	(2,381,087)	(99,117,975)
Net book value	**89,466,973**	**76,276,734**	**38,139,827**	**10,683,287**	**34,454,754**	**249,021,575**
As at January 1st, 2017						
Cost	127,806,623	110,525,127	65,310,661	20,170,463	34,864,554	358,677,428
Depreciation and impairment	(30,936,760)	(35,174,792)	(27,816,298)	(9,600,428)	(1,388,883)	(104,917,161)
Net book value	**96,869,863**	**75,350,335**	**37,494,363**	**10,570,035**	**33,475,671**	**253,760,267**
Period ended June 30th, 2017						
Additions	84,292	-	-	626	10,694,379	10,779,297
Transfer from assets under construction	8,603,201	1,407,219	1,053,179	189,655	(11,253,254)	-
Transfer to investment property	-	-	(17,195)	(2,313)	-	(19,508)
Impairment	-	-	-	-	(1,642)	(1,642)
Depreciation	(3,114,786)	(2,826,057)	(1,173,500)	(393,031)	(2,491)	(7,509,865)
Disposals and write-off	(14,889)	(6,444)	(123,297)	(4,436)	(50,435)	(199,501)
Other transfers	(40,793)	93	(37,349)	36,687	43,149	1,787
Translation differences	11	-	(328,505)	2,314	(134,161)	(460,341)
	102,386,899	**73,925,146**	**36,867,696**	**10,399,537**	**32,771,216**	**256,350,494**
As at June 30th, 2017						
Cost	136,324,917	111,900,824	65,573,918	20,248,995	34,880,573	368,929,227
Depreciation and impairment	(33,938,018)	(37,975,678)	(28,706,222)	(9,849,458)	(2,109,357)	(112,578,733)
Net book value	**102,386,899**	**73,925,146**	**36,867,696**	**10,399,537**	**32,771,216**	**256,350,494**

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 January 1st, 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 June 30th, 2016						
Additions	1,463,361	6,165,361	7,628,722	182,825	-	7,811,547
Transfer from asset under construction	(30,671)	(8,619,517)	(8,650,188)	8,650,188	-	-
Other transfers	-	(72,919)	(72,919)	(4,904)	-	(77,823)
Depreciation and depletion	(2,531)	-	(2,531)	(2,871,227)	-	(2,873,758)
Disposals and write-off	(30,722)	(425)	(31,147)	(72,588)	-	(103,735)
Translation differences	60,564	-	60,564	11	-	60,575
	21,410,610	**5,166,372**	**26,576,982**	**89,466,973**	**11,116**	**116,055,071**
As at June 30th, 2016						
Cost	21,431,001	5,414,765	26,845,766	117,609,602	33,408	144,488,776
Depreciation and impairment	(20,391)	(248,393)	(268,784)	(28,142,629)	(22,292)	(28,433,705)
Net book amount	**21,410,610**	**5,166,372**	**26,576,982**	**89,466,973**	**11,116**	**116,055,071**
As at January 1st, 2017						
Cost	20,139,905	4,274,452	24,414,357	127,806,623	31,406	152,252,386
Depreciation and impairment	(26,494)	(876)	(27,370)	(30,936,760)	(20,312)	(30,984,442)
Net book amount	**20,113,411**	**4,273,576**	**24,386,987**	**96,869,863**	**11,094**	**121,267,944**
Period ended June 30th, 2017						
Additions	1,763,103	6,726,246	8,489,349	84,292	-	8,573,641
Transfer from asset under construction	(2,999,387)	(5,602,645)	(8,602,032)	8.603.201	(1,169)	-
Other transfers	(33,239)	42,550	9,311	(40,793)	1,249	(30,233)
Depreciation and depletion	(2,491)	-	(2,491)	(3,114,786)	(21)	(3,117,298)
Disposals and write-off	(45,229)	(2,678)	(47,907)	(14,889)	-	(62,796)
Translation differences	(123,633)	-	(123,633)	11	(3)	(123,625)
	18,672,535	**5,437,049**	**24,109,584**	**102,386,899**	**11,150**	**126,507,633**
As at June 30th, 2017						
Cost	18,697,432	5,437,925	24,135,357	136,324,917	32,362	160,492,636
Depreciation and impairment	(24,897)	(876)	(25,773)	(33,938,018)	(21,212)	(33,985,003)
Net book amount	**18,672,535**	**5,437,049**	**24,109,584**	**102,386,899**	**11,150**	**126,507,633**

11. OTHER NON-CURRENT ASSETS

	June 30th, 2017	December 31st, 2016
Advances paid for PPE	1,850,171	1,851,425
Prepaid expenses	735,989	794,251
Other assets	1,053,786	1,076,724
Less impairment provision	(44,781)	(41,758)
	3,595,165	**3,680,642**

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

	June 30th, 2017	December 31st, 2016
Short-term loans	5,282,682	12,189,945
Interest liabilities	173,823	243,913
Current portion of long-term loans (note 16)	5,964,866	9,516,423
Current portion of finance lease liabilities (note 16)	35,851	26,290
	11,457,222	**21,976,571**

13. TRADE AND OTHER PAYABLES

	June 30th, 2017	December 31st, 2016
Trade payables		
- related parties	912,272	6,898,039
- third parties	13,286,643	18,893,423
Dividends payable	7,793,378	3,772,308
Other accounts payable	14,806	15,395
	22,007,099	**29,579,165**

As at June 30th, 2017 payables to related parties amounting to 912,272 RSD (December 31st, 2016: 6,898,039 RSD) mainly relate to payables to the supplier Gazprom Marketing & Trading Co., Ltd. in the amount of 909,021 RSD mostly based on electricity trade (31 December 2016: Gazprom Neft, St Petersburg in the amount of 5,818,200 RSD, mostly for the purchase of crude oil).

14. OTHER CURRENT LIABILITIES

	June 30th, 2017	December 31st, 2016
Advances received	1,383,631	1,325,012
Payables to employees	2,650,877	3,551,055
Accruals and deferred income	404,407	309,194
Other current non-financial liabilities	20,182	48,989
	4,459,097	**5,234,250**

15. OTHER TAXES PAYABLE

	June 30th, 2017	December 31st, 2016
Mineral extraction tax	290,731	241,017
VAT	2,333,463	1,565,733
Excise tax	5,183,692	5,395,623
Contribution for buffer stocks	256,663	601,357
Custom duties	62,947	298,878
Other taxes	2,052,209	2,033,952
	10,179,705	**10,136,560**

16. LONG-TERM DEBT

	June 30th, 2017	December 31st, 2016
Long-term loan - Gazprom Neft	33,725,191	37,328,836
Bank and other long-term loans	62,455,656	66,120,490
Finance lease liabilities	379,674	343,080
Other long-term borrowings	56,922	44,968
Less Current portion	(6,000,717)	(9,542,713)
	90,616,726	**94,294,661**

Movements on the Group's liabilities from finance activities are as follows:

	Long-term loans	Short-term loans (note 12)	Finance lease	Total
As at January 1st, 2016	**113,444,171**	**3,553,120**	**199,289**	**117,196,580**
Proceeds	2,405,144	5,977,178	-	8,382,322
Repayment	(10,447,013)	-	-	(10,447,013)
Non-cash transactions	-	-	35,626	35,626
Foreign exchange difference (note 19)	913,835	71,261	2,977	988,073
As at June 30th, 2016	**106,316,137**	**9,601,559**	**237,892**	**116,155,588**
As at January 1st, 2017	**103,449,326**	**12,189,945**	**343,080**	**115,982,351**
Proceeds	9,748,116	-	-	9,748,116
Repayment	(11,975,535)	(6,772,364)	(28,262)	(18,776,161)
Non-cash transactions	-	-	69,428	69,428
Foreign exchange difference (note 19)	(5,041,060)	(134,899)	(4,572)	(5,180,531)
As at June 30th t, 2017	**96,180,847**	**5,282,682**	**379,674**	**101,843,203**

(a) Long-term loan - Gazprom Neft

As at June 30th, 2017 long-term loan - Gazprom Neft amounting to 33,725,191 RSD (December 31st, 2016: 37,328,836 RSD), with current portion of 5,620,865 RSD (2016: 5,742,898 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on December 24th, 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until May 15th, 2023.

(b) Bank and other long-term loans

	June 30th, 2017	December 31st, 2016
Domestic	27,961,522	27,522,764
Foreign	34,494,134	38,597,726
	62,455,656	66,120,490
Current portion of long-term loans	(344,001)	(3,773,525)
	62,111,655	**62,346,965**

The maturity of bank and other long-term loans was as follows:

	June 30th, 2017	December 31st, 2016
Between 1 and 2 years	8,362,182	13,481,072
Between 2 and 5 years	50,512,641	44,609,978
Over 5 years	3,236,832	4,255,915
	62,111,655	**62,346,965**

The carrying amounts of bank and other long-term loans are denominated in the following currencies:

	June 30th, 2017	December 31st, 2016
USD	33,716,292	39,607,916
EUR	28,390,630	26,126,044
RSD	897	976
JPY	347,837	385,554
	62,455,656	**66,120,490**

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 Indebtedness to EBITDA. Management believes the Group is in compliance with these covenants as of June 30th, 2017 and December 31st, 2016, respectively.

17. PRODUCTION AND MANUFACTURING EXPENSES

	Six months period ended June 30th, 2017	2016
Employee costs	2,903,150	2,762,975
Materials and supplies (other than purchased oil, petroleum products and gas)	976,745	1,029,283
Repair and maintenance services	1,330,176	1,419,116
Electricity for resale	4,274,547	2,919,179
Electricity and utilities	1,230,330	1,269,431
Safety and security expense	144,050	165,189
Insurance services	141,145	145,582
Transportation services for production	931,999	1,032,469
Other	1,153,865	1,670,636
	13,086,007	**12,413,860**

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months period ended June 30th, 2017	2016
Employee costs	5,073,732	5,195,676
Legal, audit and consulting services	464,072	489,114
Rent expense	196,155	334,084
Business trips expense	142,263	147,868
Safety and security expense	271,204	255,450
Insurance expense	51,676	53,931
Transportation and storage	103,446	231,880
Allowance for doubtful accounts	(49,294)	249,825
Other	4,503,888	4,135,724
	10,757,142	**11,093,552**

19. NET FOREIGN EXCHANGE GAIN (LOSS)

	Six months period ended June 30th, 2017	2016
Net foreign exchange gain (loss) on financing activities including:		
- foreign exchange gain	5,711,595	2,171,723
- foreign exchange loss	(531,064)	(3,159,796)
Net foreign exchange gain (loss) on operating activities	(1,066,782)	755,804
	4,113,749	**(232,269)**

20. FINANCE INCOME

	Six months period ended June 30th, 2017	2016
Interest on bank deposits	167,366	112,359
Interest income on loans issued	8,868	12,140
	176,234	**124,499**

21. FINANCE EXPENSES

	Six months period ended June 30th, 2017	2016
Interest expense	1,644,309	1,687,700
Decommissioning provision: unwinding of the present value	67,488	57,709
Trade receivables: unwinding of discount	(251,367)	(183,585)
Less: intrest expense capitalised on qualifying assets	(34,182)	(31,332)
	1,426,248	**1,530,492**

22. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Consolidated Financial Statements: investment properties and financial investments classified as available for sale. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Consolidated Financial Statements as of December 31st, 2016. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of June 30th, 2017 carrying value of financial assets approximate their fair value.

23. CONTINGENCIES AND COMMITMENTS

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 794,737 RSD (December 31st, 2016: 838,655 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.

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 June 30th, 2017.

Capital commitments

As of 30 June 2017 the Group has entered into contracts to purchase property, plant and equipment for 5,211,943 RSD (31 December 2016: 5,324,487 RSD) and drilling and exploration works estimated to 57.26 USD million (31 December 2016: 40.17 USD million).

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

24. 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.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

In the six month period ended June 30th, 2017 and in the same period in 2016, 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 June 30th, 2017 and December 31st, 2016 the outstanding balances with related parties were as follows:

	Parent company	Parent's subsidiaries and associates	Joint venture
As at June 30th, 2017			
Trade and other receivables	-	874,441	269,242
Investments in joint ventures	-	-	2,047,021
Trade and other payables	-	(912,272)	-
Other current liabilities	-	(38,137)	-
Short-term debt and current portion of long-term debt	(5,620,865)	-	-
Long-term debt	(28,104,326)	-	-
	(33,725,191)	**(75,968)**	**2,329,956**
As at December 31st, 2016			
Trade and other receivables	-	1,047,541	220,243
Investments in joint ventures	-	-	2,047,021
Trade and other payables	(5,818,200)	(1,079,839)	-
Other current liabilities	-	(23,091)	-
Short-term debt and current portion of long-term debt	(5,742,898)	-	-
Long-term debt	(31,585,938)	-	-
	(43,147,036)	**(55,389)**	**2,316,263**

For the six month period ended June 30th, 2017 and 2016 the following transaction occurred with related parties:

	Parent company	Parent's subsidiaries and associates	Joint venture
Six months period ended June 30th, 2017			
Petroleum products and oil and gas sales	-	243,300	-
Other revenues	-	3,957,544	-
Purchases of oil, gas and petroleum products	(13,976,780)	(243,302)	-
Production and manufacturing expenses	-	(4,110,568)	-
Selling, general and administrative expenses	-	(3,159)	-
Other expenses, net	(4,438)	(47)	-
Finance expense	(337,565)	-	-
	(14,318,783)	**(156,232)**	**-**
Six months period ended June 30th, 2016			
Petroleum products and oil and gas sales	-	269,062	-
Other revenues	-	2,814,476	-
Purchases of oil, gas and petroleum products	(21,699,732)	(269,564)	-
Production and manufacturing expenses	-	(2,675,951)	-
Selling, general and administrative expenses	-	(143,594)	-
Other expenses, net	1,373	(16)	-
Finance expense	(400,427)	-	-
	(22,098,786)	**(5,587)**	**-**

***Transactions* with Key Management Personnel**

For the six month period ended on June 30th, 2017 and 2016 the Group recognized 491,405 RSD and 394,678 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.

25. SUBSEQUENT EVENTS

On July 13th, 2017, the Group entered into a contract with Unicredit bank on the transfer of part of receivables for a fee without recourse. The total amount of EUR 67,200,000 transferred in accordance with the Agreement relates to receivables from the Republic of Serbia with the due dates in 2016-2019. The payment under the Agreement was made on July 17th, 2017 in full.

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Statement of Individuals Responsible for the Preparation of Financial Statements

We hereby state that, to our best knowledge, the interim financial reports have been prepared in compliance with the applicable international financial reporting standards, and also in compliance with the Law on Accounting ("Official Gazette of the Republic of Serbia" no. 62/2013), which requires full scope of IFRS to be applied as well as the regulations issued by the Ministry of Finance of the Republic of Serbia[79] 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 General Director,
Head of Function for Finance,
Economics, Planning and
Accounting
NIS j.s.c. Novi Sad

Branko Mitrović

Director of Accounting Department,
Function for Finance, Economics,
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[79] Due to the difference between these two regulations, these financial statements differ from IFRS in the following respects:

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

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