QUARTERLY REPORT

for first quarter

2018

The Quarterly Report for First Quarter of 2018 presents a factual overview of NIS Group's activities, development and performance in first three months of 2018. The Report covers and presents data for NIS Group, comprising NIS j.s.c. Novi Sad and its subsidiaries. If the data pertain only to certain individual subsidiaries or only NIS j.s.c. Novi Sad, it is so noted in the Report. The terms: 'NIS j.s.c. Novi Sad' and 'the Company' denote the parent company NIS j.s.c. Novi Sad, whereas the terms 'NIS' and 'NIS Group' pertain to NIS j.s.c. Novi Sad with its subsidiaries.

The Quarterly Report is compiled in Serbian, English and Russian. In case of any discrepancy, the Serbian version shall be given precedence.

The Quarterly Report for First Quarter of 2018 is also available online on the corporate website. For any additional information on NIS Group, visit the corporate website www.nis.eu.

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Foreword

NIS continued with the implementation of strategic projects in the first quarter of 2018 and invested RSD 7.8 billion significantly more than in the same period last year when investments amounted to RSD 4.7 billion. The majority of investments were made in the field of exploration and production of oil and gas, as well as in the modernisation of refining capacities of NIS. Thus, in Oil Refinery Pančevo, the construction of delayed coking unit within 'Bottom of the Barrel' project continued. More than EUR 300 million will be invested in this project. In addition, the modernisation of part of the Bitumen Plant has been successfully completed which contributed to the production automation and also improved safety at work and environmental protection. NIS also continued to improve the quality of service for its consumers and added new benefits for users of loyalty payment card 'On the Road with Us'.

At the same time the liabilities for public revenues growth trend continued and in this period NIS's liabilities for public revenues[1] amounted to RSD 43.2 billion, which is almost RSD 8 billion more than in the first quarter of 2017. The debt towards banks amounted to USD 628.6 million at the end of reporting period, compared to USD 653.4 million at the end of last year. NIS realised net profit of RSD 3.7 billion in first three month of 2018, while EBITDA indicator amounted to RSD 8.9 billion.

When it comes to operational indicators, the total volume of oil and gas production amounted to 329 thousand tonnes of oil equivalent. In the same period, NIS continued to improve the results in the field of crude oil refining, as well as in the segment of petroleum products sales and distribution. Thus, in the first three months of 2018, a total of 786 thousand tonnes of oil and semi-finished products were refined, compared to 765 thousand tons from the same period last year. At the same time, the total petroleum products sales volume reached 765 thousand tonnes compared to 714 thousand from the first quarter of last year. Production of electricity in NIS capacities amounted to 43,613 MWh.

In addition to business development, NIS continued to invest in the community in which it operates. Thus, among other things, a donation of more than RSD 16 million was given to the Institute for Health Care of Children and Youth of Vojvodina in Novi Sad, and the funds are intended for the purchase of modern medical devices and equipment. Donation for the Institute was collected in a joint action of NIS, its employees and consumers. In February, NIS and the Ministry of Education, Science and Technological Development of the Republic of Serbia signed a Memorandum of Cooperation that envisages joint action in the field of science and education, which is a new step for NIS in supporting the improvement of educational infrastructure in our country. NIS also expressed its corporate responsibility in Romania, where the subsidiary, NIS Petrol, received the Oradea Award for the Local Social Responsibility Program 'Rising rural Romania'. In addition, NIS continued to contribute to the improvement of the business culture in Serbia and the exchange of best practices and for the 10th time in a row held a Forum of Executives on which a special emphasis was placed on the development of the segment of human health, safety at work and environmental protection.

By the end of the year NIS will remain focused on improving financial results and operational indicators, implementing strategic investments, increasing operational efficiency, introducing and implementing innovative solutions and modern equipment in all business segments, as well as further transformation of the organizational structure in accordance with the Strategy and business goals of NIS Group.

[1] Taxes, fees, charges and other public revenue calculated for the reporting period. The figure is inclusive of the liabilities of NIS for taxes and other public revenue in Serbia and other countries of operation.

Business Report

Highlights

January – March

- All activities aimed at obtaining the use permit for Ostrovo gas field finished (a document from the Ministry of Mining and Energy is expected).
- 15 development wells and 1 exploratory well were drilled in Serbia in the first quarter.
- Drilling of Majd-x-2 exploration well completed.
- 3D seismic mobilization completed in Romania, *Ex*-3 Block.
- 10 platform semi-trailers and 2 low-bed semi-trailers put into operation.
- Bitumen unit revamped.
- A new gas ejector GB-2202 commissioned.
- A concrete structure for the coking reactor as well as reactor structure were constructed as a part of the ‘Bottom of the Barrel’ Project.
- The reactor structure constructed within the ‘Bottom of the Barrel’ Project.
- A fuel oil flow control system installed in the Energy Plant in Pančevo, which enabled significant energy savings.
- Rebranding was completed at 2 PS ‘12 February’ (NIS Petrol brand) and ‘Vojvoda Misic’ (GAZPROM brand).
- Two new products of their own brand were introduced (G-Drive chewing gum ‘Spearmint’ and ‘Peppermint’).
- A new payment function of the ‘‘On the Road with Us’’ card has been introduced.
- After the rebranding, petrol station Bagrdan was put into operation on March 14, 2018.
- NIS and the Ministry of Education, Science and Technological Development of the Republic of Serbia signed a Memorandum of Cooperation that envisaged joint operations in the fields of science and education.
- NIS representatives handed over a donation to the Institute for Health Protection of Children and Youth of Vojvodina in Novi Sad for procurement of new medical equipment.

NIS Group

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 main production capacities are located in the Republic of Serbia, while the Group operates in 10 countries around the world and employs an international team of experts.

NIS's goal is to be the fastest-growing energy system in the Balkans and a role model for business efficiency and sustainable development.

Business activities

Business activities of NIS Group are organized within the parent company, NIS j.s.c. Novi Sad, through five Blocks and nine Functions that support main activities. The Blocks are: Exploration and Production, Services, Refining, Sales and Distribution and Energy.

The activities of **Exploration and Production** cover exploration, production, infrastructure and operational support to production, oil and gas reserve management, oil and gas reservoir engineering, and major exploration and production projects.

The majority of NIS's oil deposits are in Serbia, but NIS is also carrying out exploration in Bosnia and Herzegovina, Hungary and Romania. NIS's oldest foreign concession is in Angola, where oil exploitation started as far back as in 1985.

This Block operates an Elemir-based plant for the preparation 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. A natural gas treatment Amine Plant operates within, applying the HiPACT technology. The Elemir-based plant is the first HiPACT plant in Europe, and the gas processing method completely prevents carbon dioxide emissions into the air.

The subsidiary NTC NIS Naftagas d.o.o. Novi Sad provides scientific and technical support to the main activities of the Block, while being the development and innovation centre of the entire NIS, at the same time.

Services provide oil and gas exploration and production services 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. Moreover, the Services Block provides cargo transport and equipment operation services, as well as passenger transport and vehicle rental services. NIS has its own servicing capacities, which fully meet the Group's demands and allow NIS to provide services to third parties. All this is delivered through the 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 processing 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. The Block's refining complex includes a production plant in Pančevo[2]. Maximum design capacity of the refining plants in Pančevo equals 4.8 million tonnes 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. At Pančevo Oil Refinery, a 'Bottom of the Barrel' plant with delayed coking technology is under construction. This capital investment is part of the second stage of modernisation, after the realisation of which Pančevo Refinery will produce greater quantities of white petroleum products, as well as a new product - coke, which is now imported into Serbia.

Sales and Distribution cover foreign and domestic trading, wholesaling and retail sale of petroleum and non-fuel products. As separate businesses, NIS develops aviation fuel supply, bunkering, lubricants and bitumen sale and distribution.

NIS operates the largest retail network in Serbia and its petrol stations are active in the countries of the region as well - in Bosnia and Herzegovina, Bulgaria and Romania. In Serbia and in the region, NIS manages a network of over 400 retail sites and has two brands in the market with two brands: the mass market NIS Petrol and the premium GAZPROM brand.

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, trades in electricity, sets up and carries out strategic energy projects, and develops and implements energy efficiency improvement projects. This Block develops and implements energy projects within NIS Group and analyses and evaluates investment projects in Serbia's energy sector under strategic partnership projects. The implementation of the TE-TO Pančevo project is in progress[3].

On 8 locations on oil and gas fields, NIS has small power plants with a total installed capacity of 13.8 MW[4]. Some small power plants also generate thermal energy, meeting the consumption requirements of their own facilities. The electricity output is mostly marketed. In addition to small power plants, NIS produces electrical and thermal energy at the Energy Plant Pančevo having a generator capacity of 10.7 MW. Electrical and thermal energy at the Energy Plant are used entirely for the Pančevo Oil Refinery purposes.

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[5], while other functions are centralised[6]. One of the General Director's Deputy is in charge of petrochemicals operations.

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[2] Novi Sad Oil Refinery is closed and its design capacity of 2.5 million tonnes per year is currently not being used. By virtue of the decision of the General Director dated 1 March 2016, this facility was placed under the management and responsibility of the Sales and Distribution Block.

[3] In TE-TO Pančevo d.o.o. Pančevo, NIS has a share of 49% through *Serbskaya Generaciya* d.o.o. Novi Sad.

[4] Maximum capacityof small power plants is 14.5 MW.

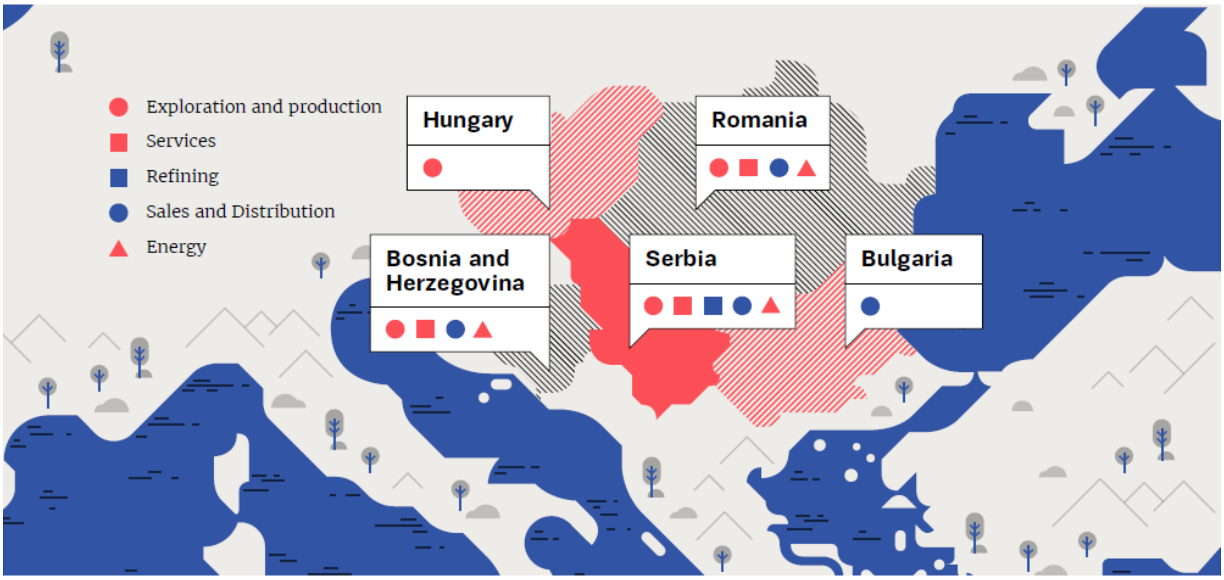
[5] Finance, Economics, Planning and Accounting, Strategy and Investments, Material and Technical and Service Support and Capital Investments, Organisational Affairs and HSE.

[6] Legal and Corporate Affairs, Corporate Security, External and Governmental Relations and Public Relations, and Internal Audit (Internal Audit is organisationally subordinate to the General Director, whereas the person responsible for internal audit reports to the Audit Committee of the Board of Directors).

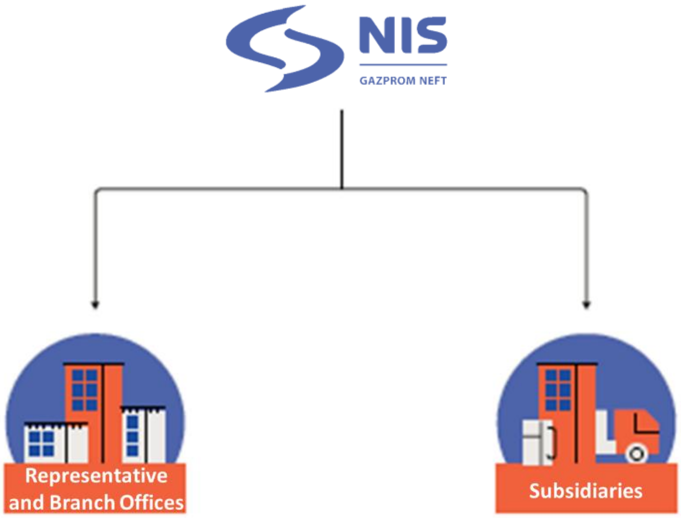
NIS Worldwide

Business development in the region is one of the strategic goals of NIS. Following its strategy to become the leader in the region, NIS began expanding its operations to the countries of the region in 2011. Regional expansion started in two main directions - in the field of oil and gas exploration and production (in Bosnia and Herzegovina, Hungary and Romania) and through the development of a retail network (in Bulgaria, Bosnia and Herzegovina and Romania). In addition, NIS is also active in the field of electricity trade, where, apart from the Serbian market, it is present in the markets of Bosnia and Herzegovina, Romania, Slovenia and Hungary.

Through its subsidiaries and representative offices, NIS is present in 10 countries.



NIS Group Business Structure



Representative and Branch Offices

- Turkmenistan Branch Office
- Branch Offices in Serbia[7]
- 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

[7] 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. The list of petrol stations which are registered as branches is available at http://ir.nis.eu/en/corporate-governance/group-structure/.

Risk Management

Integrated Risk Management System

Risk is a likely future event that can exert negative or, potentially, positive influence on the achievement of the Company's objectives.

NIS has set its risk management objectives and established an integrated risk management system (IRMS). The Company's objective in the field of risk management is to increase the effectiveness and efficiency of management decisions through the analysis of the risks that accompany them, as well as to ensure maximum effectiveness and efficiency of risk management measures during the implementation of the decisions taken.

The IRMS is a set of processes, methodological framework and instruments aimed at ensuring the efficiency and effectiveness of the risk management process at NIS.

The Company's risk management objectives are met through the performance of the following tasks:

- Establishing a risk management culture at the Company in order to reach a common understanding of the basic risk management principles and approaches by management and employees;
- Defining and establishing a systemic approach to identifying and assessing the risks that exist in the Company's operations, both in general and in certain areas of business;
- Encouraging the exchange of information on risks among the corporate organisational units and jointly defining risk management measures;
- Providing systematic information on risks to the corporate governing bodies.

IRMS Business Process Flow at NIS

*or as needed

The system's underlying principle is that different management levels have been entrusted with managing different risks depending on projected financial impact of those risks. Such approach allows for identifying the areas of responsibility for risk management and oversight at all management levels and for ensuring the preparation of suitable action plans for managing key risks, at the level of organisational units and NIS as a whole.

In the parent company, a Section for Risk Management System Monitoring was established to coordinate and continuously develop this business process.

Furthermore, integrated management systems, organisational structure, business 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 effectively.

At NIS risks are identified and assessed NIS by analysing data sources, conducting inspections, holding interviews, risk sessions, etc. and according to the levels (Company, Blocks/Functions, Organisational units, Subsidiaries/Large Projects/Business Units, Assets, Projects/Plants, Units of Equipment).

IRMS in Business Planning Process

Key risks, associated with corporate goals, are identified at all levels in NIS and endorsed by the Board of Directors through the adoption of business plans. Risk assessment is an integral part of the business planning process, while information on key risks – estimated financial effect of the risks, management strategies, risk management actions and the funds needed to carry out the actions forms an integral part of the adopted business plans.

Through its operations, the Group is exposed to operational and market risks, state regulation and policy risks, and financial risks.

Operational Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Project Risks	
With respect to geological research, the goal of NIS Group is to increase the resource base and output. 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 resource base growth.	The measures applied in order to reduce the risks are the implementation of new 3D seismic exploration using the latest wireless technology, the selection of candidates for exploratory drilling based on complex seismic and geological interpretation of data, the expertise of the geological exploration programme by the largest shareholder and the selection of the most promising wells using state-of-the-art exploration methods. In order to reduce the risks, special attention is paid to good preparation of projects for implementation and quality monitoring during the geological exploration. In order to reduce the licensing risks, geological exploration is carried out in accordance with the schedule defined by the Geological Exploration Projects and the provisions of the Law on Mining and Geological Exploration which, among other things, regulates the field of exploration and production of oil and gas.

Market Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
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 use some of the commodity hedging instruments in the 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 to reduce a 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 favourable 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 intergovernmental agreements, from paying customs duties at import, based on preferential status; • Expansion of the supplier portfolio, successful cooperation with EU companies, growing competitiveness in import tenders 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 the most optimum economic effects and indicators; • Occasional benchmarking to examine 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.

State Regulation and Policy Risks

RISK DESCRIPTION	RISK MANAGEMENT ACTIONS
Risk of EU and US Economic Restrictions on Gazprom Neft Group	
The economic restrictions imposed by the EU and the USA 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 for 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 the 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. In this way, funds are provided to finance the long-term development of NIS despite the limitations of the sanctions regime.

Financial Risks	
RISK DESCRIPTION	**RISK MANAGEMENT ACTIONS**
Foreign Exchange Risk	
NIS Group operates in an international setting and is thus exposed to the risk of fluctuating foreign currency exchange rates arising from business transactions in different currencies, primarily USD and EUR. The risk involves future trade transactions and recognised assets and liabilities.	The risks relating to changes in the national currency exchange rate against the USD 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 USD or EUR. Other actions include balancing of the foreign exchange equilibrium in terms of adjusting the currencies in which export transactions are denominated to the currencies of foreign liabilities; managing the currency structure of the loan portfolio etc.
Interest Rate Risk	
NIS Group is exposed to the risk of change in interest rate both in terms of its bank loans and fund placement.	NIS j.s.c. Novi Sad takes out loans with commercial banks at floating interest rates and performs sensitivity analysis against interest rate changes and assesses if taking out of a loan at a flat interest rate is required to a certain extent. Funds in the form of intercompany loans/credits to third parties are placed at floating interest rates whereas funds in the form of tied or a vista deposits are placed at 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). In this respect, income and cash flows from bank deposits are largely independent of changes in base interest rates, while in the case of placements in the form of credits/loans, the exposure to the risk of base interest rate change (EURIBOR, LIBOR, etc.) is higher.
Credit Risks	
Arises in relation to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans given to third parties, and exposure to wholesale and retail risks, including outstanding 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 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 for the benefit of NIS j.s.c. Novi Sad). Regarding accounts receivable, there is a credit limit methodology in place which serves to define the level of exposure in relation to individual customers, depending on their financial indicators.
Liquidity Risk	
A liquidity risk involves a risk of NIS Group encountering difficulty in meeting its liabilities. It is the risk of not having suitable sources to finance NIS Group's business activities.	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). Projection of liquidity takes into account the Group's debt repayment schedules, compliance with contractual terms and internally-set goals, and is based on daily cash flow projections for the entire NIS Group, which form a basis for deciding on raising external loans, in which case adequate bank financing sources are secured within the allowable limits set by PJSC 'Gazprom Neft'.

Aiming to increase liquidity and decrease dependence on external financing sources, as well as to decrease NIS Group's costs of financing, 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[8].

Since mid-September 2014, NIS j.s.c. Novi Sad has been exposed to the risk of limited external financing capacities due to the imposition of sectoral sanctions by the EU and the USA on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU. Namely, the sanctions prevent NIS j.s.c. Novi Sad from borrowing from the EU or US banks for a period longer than 30 days, i.e. 60 days respectively. The exception foreseen by the EU sanctions refers to the possibility of borrowing for a period longer than 30 days from EU banks exclusively if the loan is intended for the payment of non-sanctioned goods and services imported from the EU.

In order to acquire necessary funds for future transactions NIS negotiated/contracted new credit lines with Serbian, Russian and Arabian banks for general purpose 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 regular repayment of loans in 2018 and 2019, as well as for early repayment of loans in order to improve the portfolio (lowering the average cost of financing and extending the average portfolio maturity.

During 2017, the first stage of the loan portfolio restructuring process was carried out (first such restructuring since the introduction of the sanctions in 2014). Loans granted under favourable terms were used to repay loans with shorter maturities and high interest rates (mainly USD loans whose price increased significantly due to the USD LIBOR trends), which helped to reduce the average price of loan portfolio and extend the average maturity of the portfolio. The process of restructuring the credit portfolio continued during the first quarter of 2018 thanks to the new bank limits granted during the tender conducted in December 2017, as well as the new bank offers received by the end of the first quarter of 2018. The bank limits will be used in line with the exemptions provided under the sanctions regime for the import of 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 its portfolio before their maturity and thereby practically restructure maturity of its credit portfolio (increase the share of long-term loans in the portfolio or extent the average credit portfolio term), with a smaller share of dollar-denominated loans which carry a risk of increased base rate (USD LIBOR). Furthermore, new loans in EUR will be taken out at more favourable interest rates (as opposed to the EU sanctions, USD loans are not possible due to the USA sanctions, which do not provide for exemptions), 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)

[8] 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.

Business Enviroment

The World

Oil

In the first quarter, *Brent* crude oil remained above 60 dollars per barrel, and occasionally reached 70 dollars per barrel. This is the third consecutive quarter of growth and the longest period since 2011.

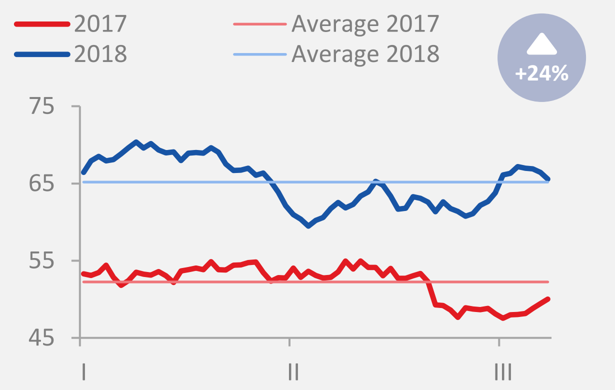


Chart No. 1: *Oil price trend of Urals RMBC type[9], $/bbl*

Efforts by the Organization of Oil Exporting Countries and Russia in limiting production helped restore oil prices. Oil production within *OPEC* fell in March to the lowest level since April last year, due to the problems in the oil industry of Venezuela. 'This Latin American country remains the biggest risk factor for possible interruptions in oil supplies, because of a worsening economic crisis', the International Energy Agency (*IEA*) said in March. Equatorial Guinea, which produced 130,000 barrels a day last month, was not part of the *OPEC* during the observed period, and production of this country was not included in the production at that time. Oil production in Algeria has also dropped by 40,000 barrels per day, while in Libya it has fallen to below a million barrels per day due to the closure of certain oil fields. In Saudi Arabia, the largest producer within *OPEC*, production was reduced by 10 thousand barrels per day compared to the previous period, i.e. to 9.87 million barrels per day. Saudi state oil company Saudi Aramco is looking for new opportunities for investment in the energy chain. Before the planned initial public offering for the sale of shares, the Company is looking for partners to expand operations in the country and abroad. Investigates new investments in Upstream and Downstream, intensifying investment in petrochemical business.

Macroeconomic Trends

According to the IMF report published in April 2018, global GDP growth rose to 3.8% in 2017, with a significant recovery in global trade. The drivers of progress were the recovery of investment in developed economies, the continuation of strong growth in developing countries in Asia, a significant increase in European countries in developing countries and demonstrated signs of recovery of several merchant exporters. It is expected that global growth of this and next year will increase to 3.9%, with the support of a strong impulse, a favourable market environment, flexible financial conditions and the consequences that the expansive fiscal policy in the United States has on domestic and international institutions. A partial recovery in the price of mercantile goods should allow a gradual improvement of the conditions for exporters of these goods.

The euro is steadily holding a ratio of about 1.2 dollar per 1 euro, although US military operations in the Middle East have tightened the dollar for a short time.

Technology is a key driver of revenue and living standards. In addition to the negative side effects of globalization, which are widely discussed, the IMF report highlights the key benefit – the contribution of globalization in the dispersion of growth potentials around the world, partly through the international use

[9] Source: Platts.

of patents and trade, and partly by increasing international competition, which has increased incentives for innovation and adoption of foreign technologies.

The report also indicates changes in the structure of employees in advanced economies. Despite the acceleration of population aging in almost all advanced economies over the past decade, the participation of younger women and older workers has increased, but the participation of young and younger men fell. The analysis suggests that labour market policies and institutions, together with structural changes and an increase in education, represent the bulk of the dramatic increase in female workforce and the number of older workers over the past three decades. At the same time, technological advances, such as automation, although beneficial for the economy as a whole, have moderately influenced the trends of participation.

European lawmakers in the EU Parliament have discussed the EU budget after 2020 and agreed to fund new priorities and to compensate for the budget shortfall after leaving the UK. On March 14, lawmakers voted on the official parliamentary stance to negotiate a new multi-annual EU budget that begins in 2021. The report also points out that in the new multi-annual financial framework; more money should be spent on two pilot programs: Horizon 2020 and Erasmus+, and those investments in the fight against youth unemployment and support for small and medium-sized enterprises should continue. Representatives believe that the current EU spending ceiling should increase from 1% to 1.3% of the EU's gross national income. The EU Parliament has aligned its position with the goals of sustainable development and decided to increase as soon as possible (and by 2027 at the latest) the monetary allocation foreseen for climate preservation to 30%

Serbia

The continuation of the positive trend and growth of Serbia's economic activity is the result of macroeconomic stabilization, fiscal consolidation, improvement of the business environment, increase of capital spending of the state, effects of relaxation of monetary policy, implementation of structural reforms and growth of demand.

GDP growth in 2017 was 1.9% and was governed by all sectors (except agriculture). Excluding the shocks in agriculture and energy since the beginning of the year, the Serbian economy grew at a rate of 3.0%. On the side of expenditures, growth was driven by a strong recovery of private investment and private consumption. Bearing in mind the favourable performance of January indicators, we expect that growth in the first quarter of 2018 will accelerate to 4.0% year on year. Investments in export-oriented sectors will be the main driver of GDP growth of 3.5% in 2018 and 2019.

A surplus of the state budget in 2017 (1.2% of GDP) was recorded and this trend continued in the first two months of 2018. After a sharp fall in public debt in 2017 by more than 10% of GDP, at the beginning of 2018 it fell below 60% of GDP. These results were confirmed by improving the credit rating of the Republic of Serbia (*S&P*, *Fitch* и *Moody's*) at BB with stable prospects for further improvement, as well as the successful completion of the stand-by arrangement, which was precautionary with the IMF.

Inflation drop in the first two months of 2018 – from a central value of 3.0% in December 2017 to a lower target limit (1.5%) in February. Inflation expectations are anchored at the target of 3.0%. The fall in total inflation at the beginning of 2018 was driven primarily by the prices of unprocessed food and energy. The inflation expectations indicator has been continuously low on last year and it is expected that this will remain.

Due to low inflationary pressures, the monetary policy was further relaxed and, after four months, the reference interest rate was again reduced to 3.25% in March. Interest rates, both on dinar and foreign currency loans, are currently at historically lowest levels. Led by demand and supply factors, credit activity recovered further, amounting to 8.0% year on year in February 2018. At the same time, 14.1% of the companies operating in Serbia pointed out the lack of credit as the biggest limitation in the business.

When it comes to foreign trade trends, according to Statistical Office of the Republic of Serbia data, merchandise exports, expressed in euros, increased by 6.7% in February 2018, while imports increased by 12.5%.

Favourable movements in the real sector continued positively to reflect on the labour market where employment and earnings growth is recorded. It was estimated that earnings without taxes and contributions in January 2018, in comparison with the same month of 2017, were nominally higher by 7.2% and in real terms by 5.2%.

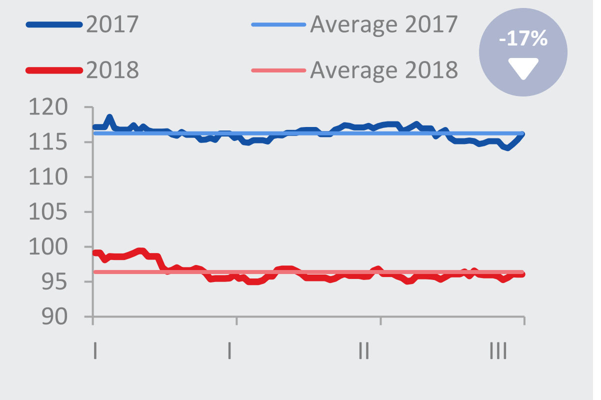


Chart No. 2: *Exchange rate trend, USD/RSD* [10]

- Average USD/RSD exchange rate in first quarter of 2018 was lower by RSD 19.90, i.e. 17% compared to the average exchange rate in the same period of 2017.
- During first three months of 2018, USD/RSD exchange rate fell by RSD 3.03 or 3%.
- During first three months of 2017, USD/RSD exchange rate fell by RSD 1.01 or 1%.

[10] Source: NBS

Performance Analysis

Market Share[11]

Last year, the consumption of motor fuels throughout the region was lower due to the cold weather in January and February. This year there is a negative impact due to increased excise tax and cold weather in March that delayed the beginning of agricultural works to the second quarter.

Consumption of motor fuels in Serbia in the first quarter recorded an increase of 3.2%, primarily due to the growth of diesel fuel. The positive effect of infrastructure and construction works (which unexpectedly took place in January and February due to warm winter) was achieved at the rate of diesel growth, although the expected consumption of gas oil in March due to the postponement of seeding in agriculture was missed.

Market Share in the Serbian Market

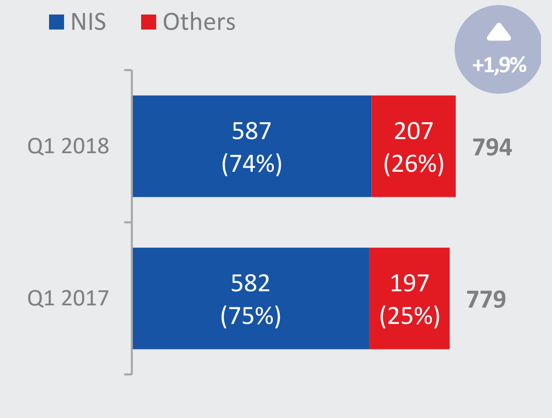


***Chart No. 3**: Volume of the RS petroleum products market[12], in thousand tonnes*

In the first quarter of 2018, the total consumption of petroleum products in Serbia was minimal in relation to the same period of 2017, where significant growth in consumption was recorded only for bitumen and coke, which is related to favorable weather conditions in January and February. The main driver of derivatives consumption was the construction and road industry. A cold wave in March postponed the start of agricultural work.

The main reason for somewhat lower market share in the total consumption of derivatives is the increased import of petrol and lower consumption of oil due to mild winter.

In the first quarter of 2018, the retail market slightly increased compared to 2017, i.e. consumption is higher by 0.3%. The reduction in the consumption of autogas and gasoline has to do with the rise in prices and the change in the structure of the fleet.

NIS's participation in the retail market is stable. Significant contribution to the preservation of the participation is given by numerous marketing projects and improvement of the concept of loyalty.

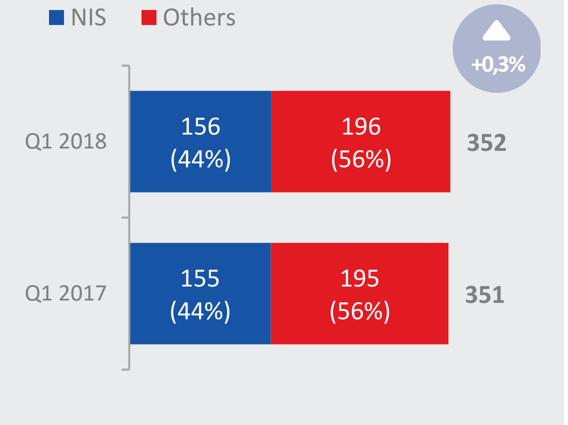


***Chart No. 4**: Volume of the RS motor fuels market[13], in thousand tonnes*

[11] Data sources for projections: for Serbia – Sales and Distribution internal analyses and estimates; for Bulgaria and Romania consumption estimates – PFC and Eurostat; For Bosnia-Herzegovina – PFC and internal estimates.

[12] Data for 2018 are given on the basis of estimates.

[13] The sales of NIS and other competitors include motor fuels (gas, motor fuels, diesel and EL fuel oil used as motor fuel). LPG bottles are not included. Data for 2018 are given on the basis of estimates.

Market Share in Bosnia-Herzegovina, Bulgaria and Romania

Bosnia and Herzegovina

According to the price of fuel in the region (gasoline and diesel), Bosnia and Herzegovina is traditionally listed at the bottom of the list.

After reporting the set of excise laws in Bosnia and Herzegovina, which did not increase excise duties (except for biofuels and biodiversity), road prices increased by 0.15 KM, there was an increase in oil and oil derivatives prices. This increase in prices leads to a chain increase in the prices of other goods and services. By entering into force of the set of excise laws, conditions have been created for the effectiveness of credit agreements concluded by Bosnia and Herzegovina with international financial institutions for the construction of highways and roads. However, the votes of the Steering Committee from the Federation exceed 50 million KM remains unallocated. The long-standing practice under which the Federation received 59%, versus 39% that goes to the Republic of Serbian is controversial.

NIS has 35 petrol stations in Bosnia and Herzegovina[14].

NIS's market share in the total motor fuel market[15] is 13.9%, with an 9.1% retail market share.

Bulgaria

At the beginning of the year, imports were not intense. The situation on the wholesale market is stable and the wholesale price of fuel is low.

On the wholesale market, Lukoil maintains an aggressive pricing policy in order to increase the utilization of the capacity of the refinery in Burgas.

The European Commission has stated that it has asked Bulgaria to harmonize VAT with EU legislation, especially taking into account fuel trading companies and non-business use of the company's assets. At present, small fuel companies are obliged to provide large amounts of money in advance to guarantee their ability to pay a VAT account, while large companies only need to deposit a guarantee for an amount equal to VAT due to their transactions.

NIS has 35 petrol stations in Bulgaria.

NIS's market share in the total motor fuel market is 6.5%, with a retail market share of 4.8%.

Romania

MOL signed a new contract with the Rompetrol Refinery for fuel supplies. MOL currently acquires the bulk of the derivatives for its gas stations on the domestic market and very few imports from Hungary. Kazakh KMG (KazMunaiGas) wants to sell its shares in a Romanian unit to the CEFC. KazMunaiGas postponed until the end of June 2018, selling 51% of its Romanian business KMGI to Chinese CEFC.

SOCAR Petroleum SA, a subsidiary of SOCAR in Romania, has opened up the retail market for 39 gas stations in this country. The gas station is open in Brasov, and SOCAR plans to increase its number of its gas stations in Romania to 100.

NIS has 18 petrol stations in Romania.

NIS's market share in the total motor fuel market is 0.9%, with a retail market share of 1.4%.

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[14] In addition to this number in Bosnia and Herzegovina, there are also 2 more Dealer Owned Dealer Operated petrol stations.

[15] NIS market share is calculated for 37 petrol stations (35 NIS-owned and 2 more DODO petrol stations).

Key Performance Indicators

Indicator	Unit of measure	Q1 2018	Q1 2017	Δ[16]
Urals RCMB	$/bbl	65.1	52.3	+24%
Sales revenue[17]	RSD billion	52.5	50.3	+4%
Net profit	RSD billion	3.7	5.4	-31%
EBITDA[18]	RSD billion	8.9	11.1	-20%
OCF	RSD billion	4.6	4.5	+3%
CAPEX[19]	RSD billion	7.8	4.7	+68%
Accrued liabilities for taxes and other public revenue[20]	RSD billion	43.2	35.6	+21%
Total bank indebtedness[21]	USD million	631	664	-5%
LTIF[22]	number	2.28	1.71	+33%

Operating Indicators

Exploration and Production

		Q1 2018	Q1 2017	Δ[23]
Oil and gas output[24]	Thousand t.o.e.	329	343	-4%
Domestic oil output[25]	Thousand tonnes	217	220	-1%
LTIF[26]	number	2.17	0	100%
EBITDA	RSD billion	7.7	7.4	+4%
CAPEX[27]	RSD billion	3.9	3.1	+26%

The main focus of the Exploration and Production Block in the first quarter of 2018 was to achieve the planned production of hydrocarbons, implement the projects and improve the efficiency of geological and exploration works, as well as to improve the production and technological efficiency by implementing measures aimed at increasing operational efficiency.

In 2018, the Exploration and Production Block plans to increase the hydrocarbon reserves by 0.6%. In the last three years, the success of exploration and development drilling remains at the highest level both in the region and in the parameters of the production assets of Gazprom Neft Group. In 2018, the exploration drilling success rate is about 88%.

[16] 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.

[17] Consolidated operating income.

[18] 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.

[19] CAPEX amounts are exclusive of VAT.

[20] 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.

[21] Total bank indebtedness =Total debt to banks + Letters of Credit. As at 31 March 2018, this was $628.6 million of total debt to banks + $2.3 million in Letters of Credit.

[22] 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.

[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]Domestic oil ouput includes natural gasoline, whereas gas output takes into account commercial gas output and light condensate.

[25] With natural gasoline.

[26] Lost Time Injury Frequency Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.

[27] Financing, exclusive of VAT.

As to geology and reservoir engineering, the focus was on improving the effectiveness of all geological and technological activities, reducing the cost of operations and experimenting with inexpensive methods aimed at increasing the output of oil and applying new technologies and innovative solutions.

Exploratory Drilling and Well Testing

As a part of the implementation of geological and exploration works, the Exploration and Production Block plans to drill 10 exploration wells. The exploration drilling candidates were approved at the Technical Session held at GPN level in February 2018.

In February, the drilling of *Majd-X*-2 was completed. The well is tested and the hydrodynamic logging will be performed. In March, *Is-X*-7 was drilled and as a result of the *Drill Steam Testing*, the oil was obtained and the testing will be performed. The drilling of *Kiz-X*-3 has started. The well sites are prepared for *Lo-X*-2 and *Itj*-1*X*. The well site for *Is-X*-2 is currently being constructed.

3D Seismic Surveys

The implementation of Južni Banat II project is in progress. In the first quarter of 2018, 237 km^2 were shot. In 2018, it is planned to acquire a total of 1.285 km^2 of 3*D* seismic data.

The acquisition of seismic data in the exploration areas of Južni Banat I, Turija III and Morović has been completed and the seismic and geological interpretation of data recorded in the exploration areas of Južni Banat I (755 km^2), Turija III (505 km^2) and Morović (301 km^2) is in progress.

International Projects

At Kiskunhalas exploration block in Hungary, it is planned to abandon the remaining three wells and return the exploration license.

The project for Sever exploration field has been approved, which includes two wells – Teremia 1001 and Teremia 1002 at Ex-7 and Ex-8 blocks. In April, the construction of the drilling rig access roads to Beba Veche Sud well will start and the works are rescheduled due to bad weather conditions. The permitting procedure for seismic and exploration works at Ex-2, Ex-3 and Ex-12 will continue.

The preparation of the project of exploration works is underway in Bosnia and Herzegovina at East Herzegovina block.

Operating Indicators

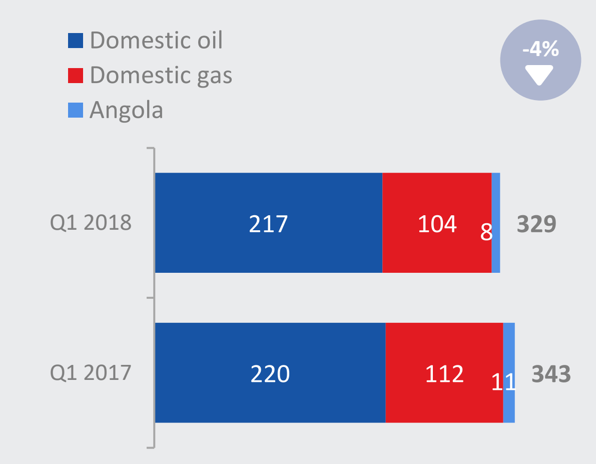

Chart No. 5: *Oil and gas output, thousand t.o.e.*

A total of 329 thousand tons of oil and gas equivalent were produced in the first quarter of 2018.

Services

Indicator	Unit of measure	Q1 2018	Q1 2017	Δ[28]
Wells finished	Number of wells	16	13	+23%
LTIF[29]	%	5.33	3.40	+57%
EBITDA	RSD billion	0.3	0.4	-34%
CAPEX[30]	RSD billion	0.2	0.2	-9%

In the first quarter of 2018, Services drilled 16 wells including Majd-x-2 exploration well. The complex reconstruction works of Bagrdan-Jagodina fuelling stations were completed. In 2018, the EU market presence trend continues and the mobilization of 3D seismic equipment in Romania is completed. Also, in the first quarter, 10 platform semi-trailers and 2 low-bed semi-trailers were put into operation.

Oilfield Services

In the first three months in 2018, Naftagas - Naftni Servisi d.o.o. performed their works with 6 drilling rigs on average. 16 wells were drilled for the Exploration and Production purposes. Furthermore, Majd-x-2 exploration well was successfully drilled, which was a major challenge in the technical and technological sense. In order to increase the penetration rate, the Technical Limits strategy is continuously applied.

The Workover Unit worked on average with 14 workover rigs and carried out 107 well workovers.

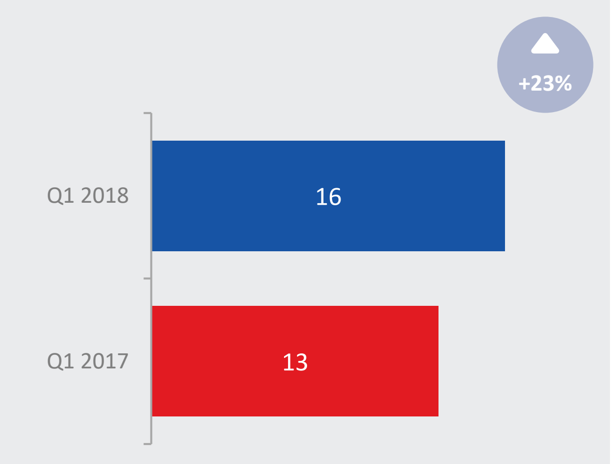

***Chart No. 6:** Number of wells finished*

The Well Services Unit performed 1,666 operations, while the cementation section performed 390 stimulating operations.

The Seismic Services Unit were engaged in Južni Banat 2 project and shot 236.6 km^2 of 3D seismic data for three months.

Technical Services

In the first quarter of 2018, Naftagas – Tehnički servisi d.o.o. Zrenjanin completed the reconstruction of Bagrdan – Jagodina fuelling station. The equipment was overhauled for Naftagas-Naftni servisi d.o.o. and Exploration and Production purposes and the capital workover and rebranding of 9 sucker rods were performed.

The overhaul works were performed during the suspension of operation of refinery units in Pančevo Oil Refinery and the overhaul of *C*-100 was started (atmospheric distillation unit).

[28] 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.
[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] Financing, exclusive of VAT.

Transport

As a process of supporting the activities of all blocks, Naftagas - Transport d.o.o. Novi Sad provided transportation services of passenger, freight, special-purpose and bus vehicles. The total volume of kilometres travelled in the first quarter of 2018 is 6.67 million kilometres.

In early 2018, Naftagas-Transport d.o.o. Novi Sad received a certificate for public and international transportation in accordance with the latest changes in the legislation of the Republic of Serbia.

Refining

Indicator	Unit of measure	Q1 2018	Q1 2017	Δ[31]
Volume of refining of crude oil and semi-finished products	Thousand tonnes	786	765	+3%
LTIF[32]	%	0	0	/
EBITDA[33]	RSD billion	1.1	2.9	-58%
CAPEX[34]	RSD billion	2.7	1.1	+138%

Refining Block achieved financial result of 1.1 billion dinars for first quarter of 2018. Effect of efficiency increase programs on EBITDA was 0.4 billion dinars.

In the first quarter of 2018, a mini overhaul was carried out in February by applying modern equipment cleaning methods.

The structure for two reactors was erected at the Bottom of the Barrel construction site. These are the parts of the equipment in which the coking processes will take place, thus successfully completing one of the milestones in the realization of this investment.

Refining Activities and Volume

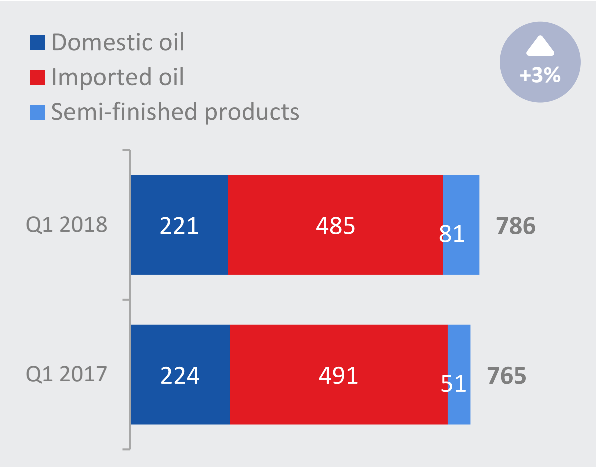

Chart No. 7: Refining volume, thousand tonnes

In the first quarter of 2018, the production of petroleum products increased compared to the same period of the previous year by 3% as a result of market demands (diesel, jet fuel, virgin naphtha, bitumen).

A new gas ejector was commissioned

The *APC system* (*Advanced Process Control*) was implemented on the hydrocracking unit.

The new burners were tested in the vacuum distillation unit.

'Bottom of the Barrel' Project

During the first quarter of 2018, 30 % of 3D models for WP2 (Work Package 2)[35] was reviewed.

[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] Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.

[33] EBITDA of the Refining Block includes the Energy Plant at the Pančevo Refinery, which is eliminated at a consolidated level as the effect of the Energy Plant is also included in the Energy Block's EBITDA.

[34] Financing, exclusive of VAT.

[35] Reconstruction of the existing units connected to the delayed coker. These are: *MHC/DHT*, *LPG*, *SRU*.

The concrete structure for the coking reactor was constructed. The hydro test of the columns of the sour water stripping unit (*SWS*) and amine regeneration unit (*ARU*) was performed.

The structure for two reactors was erected, which is 30 meters high and weighing more than 200 tones, thus successfully completing one of the milestones in the implementation of the Bottom of the Barrel Project.

Overhaul

In January, the bitumen production unit was overhauled and the bitumen loading system was reconstructed without shutting down this production unit.

In mid-February 2018, a mini overhaul was conducted by applying modern equipment cleaning methods. During this scheduled shutdown, the technological line of the hydrogen unit was completely replaced, which will result in higher reliability of operation of this and other refinery processing units. Furthermore, 14 heat exchangers and more than 20 air cooler sections were replaced. The revision and overhaul of four columns were carried out and several technical and technological modifications were made on process units in order to increase the total efficiency of refinery processing and improve the operation the during summer period.

The scheduled workover was completed a day ahead of schedule despite very bad weather conditions and all refinery units are in commercial operation with the stable operation of production units.

The catalysts were replaced on the pyrolytic gasoline hydrodesulphurisation unit.

The overhaul activities have been started on the small atmospheric distillation unit.

Other Projects

The LOTO system is currently being implemented (lockout and tagout equipment) in order to increase the safety at work.

The following investment projects have been put into operation: Installation of On-Line Analysers for Measurements on API Separator and Clarifier Lines in Pančevo Oil Refinery, Modernisation of Bitumen Loading / Unloading Installations at the Tank Car/Tank Truck Loading Terminal in Pančevo Oil Refinery, Application of Antireflective Coating on *C*-300 Furnace.

Sales and Distribution

Indicator	Unit of measure	Q1 2018	Q1 2017	Δ[36]
Total sales volume of petroleum products [37]	Thousand tonnes	765	714	+7%
Sales volume – foreign assets[38]	Thousand tonnes	79	70	+13%
Sales volume of petroleum products in the domestic market [39]	Thousand tonnes	584	572	+2%
Motor fuels[40]	Thousand tonnes	479	436	+10%
Retail[41]	Thousand tonnes	200	200	0%
Internal Sales	Thousand tonnes	4.60	3.54	+32%
LTIF[42]	%	0.58	1.76	-67%
EBITDA	RSD billion	1.6	2.1	-24%
CAPEX[43]	RSD billion	1.0	0.2	+6x

The market conditions in which Sales and Distribution worked in the first three months of 2018 were complex. This was influenced by several factors including: fluctuations in the price of oil on stock exchanges, speculation in stock linked to the expected (and actually delayed) change in excise duty, unfavourable weather conditions in March that delayed the beginning of the agricultural season.

Points of Sale[44] and Logistics

NIS Group has over 400 active retail facilities. The largest number of it, namely 333[45] retail facilities, are located in the Republic of Serbia. In addition to 10 internal petrol stations, NIS owns 323 public petrol stations (of which 19 are in *GAZPROM* brand). In the countries of the region, NIS owns 35[46] 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 the *GAZPROM* brand).

In Serbia after the completion of rebranding work, Bagrdan petrol station (*GAZPROM* brand) was put into operation. The transfer of two gas stations in Nis (‘February 12’ and ‘Vojvode Misica’) was executed, the commissioning of which is expected in April 2018 after the completion of rebranding works (one in *GAZPROM* brand and one in NIS Petrol brand).

Loyalty and Marketing Activities Programmes

In the first quarter of 2018 in Serbia, over 30 marketing activities were realized in order to develop consumer brands, loyalty programs and improve fuel sales and supplementary assortment. Additional promotional activities for increasing sales were implemented at four newly opened petrol stations.

Two new products have been launched in the private brand domain: *G-Drive* energy chewing gum *Spearmint* and *Peppermint*.

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[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] Excluding the internal sales volume (3M 2018: 4.6 thousand tonnes; 3M 2017: 3.54 thousand tonnes).

[38] The sales volume of foreign assets includes sales generated by the subsidiaries of NIS abroad (retail and wholesale).

[39] Domestic market sales includes sales volumes invoiced in local currency (RSD) and does not include sales volumes sold to foreign customers and invoiced in foreign currency.

[40] Total sales of motor fuels in Serbia and in foreign assets.

[41] Total retail in Serbia and in foreign assets.

[42] Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.

[43] Financing, exclusive of VAT.

[44] As at 31 March 2018.

[45] Including Bagrdan petrol station (opened on March 14, 2018).

[46] In addition to 35 petrol stations owned by NIS in Bosnia and Herzegovina, two gas stations operating in *DODO* (*Dealer Owned Dealer Operated*).

Loyalty program 'On the Road with Us' has been developing since the end of 2015 and over 565 thousand cards have been issued by March 31, 2018, and the participation of users of this program in total sales to individuals in the first quarter of 2018 reached 55%. A new payment function of the card 'On the Road with Us' has been introduced which allows users to purchase fuel and supplementary assortment, with a deferred payment of up to 45 days, on all NIS Petrol and *GAZPROM* petrol stations. Since the introduction of new functionality, over 9,000 requests have been submitted, and over 6,800 have been approved. In 2018, the loyalty program with Tehnomanija continues, where the owners of the 'On the Road with Us' card earn bonus points for every purchase. Bonus points can be used exclusively at NIS Petrol and *GAZPROM* petrol stations.

Until March 31, 2018, as part of the loyalty program in Bosnia and Herzegovina, more than 53,707 cards were issued, and the share of users of this program in total sales to individuals reached 41% in the first quarter of 2018. Over 50,060 cards were issued in the program 'With Us on the Road' in Bulgaria until March 31, 2018. Participation of users of this program in total sales to individuals reached 35% in the first quarter of 2018.

The Agro Card Loyalty Program is aimed at farmers and is been developing since the end of 2013. By March 31, 2018, 126,139 cards were realized. During the first quarter of 2018, the system of discounts based on cumulative and quantitative consumption with the NIS Agro Card was revised. Consumers who bought more than 2,000 liters in 2017 have an additional discount of 3 dinars per liter, as well as those who buy 1,000 liters of fuel within a single transaction.

A new 'Antiled' (against ice) product from the NISOTEK brand family for quick de-icing and removal of ice and frost from the windshield, was launched.

Operating indicators[47]

In the first three months of 2018, the turnover growth was 7% compared to the first three months of 2017, so the total turnover amounted to 765 thousand tons.

- Retail sales in Serbia – retail volume growth of 0.3% is the result of the increase in sales of diesel fuel.
- Wholesale in Serbia – growth of 3% for the most part due to motor fuels.
- Exports – growth of 42% because of the growth of exports of motor and non-energy fuels.
- Foreign assets – growth of sales volume by 13% (wholesale channel by 37%).

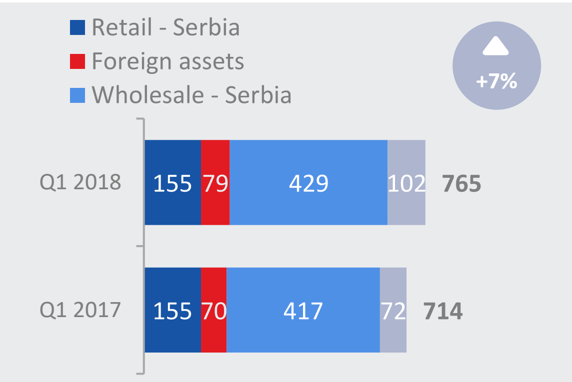


***Chart No. 8:** Volume of sales*[48]*, thousand tonnes*

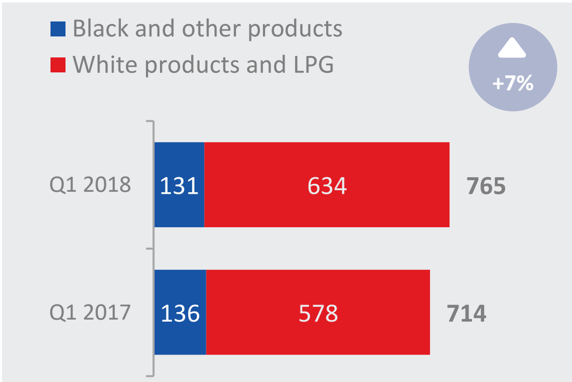


***Chart No. 9**: Structure of sales*[49]*, thousand tonnes*

[47] Excluding internal sales volume (3M 2018: 4.6 thousand tonnes; 3M 2017: 3.54 thousand tonnes).
[48] Excluding internal sales volume (3M 2018: 4.6 thousand tonnes; 3M 2017: 3.54 thousand tonnes).
[49] Excluding internal sales volume (3M 2018: 4.6 thousand tonnes; 3M 2017: 3.54 thousand tonnes).

Energy

Indicator	Unit of measure	Q1 2018	Q1 2017	Δ[50]
Electricity output	MWh	43,613	46,076	-5%
LTIF[51]	%	8.57	0	+100%
EBITDA[52]	RSD billion	0.2	0.3	-27%
CAPEX[53]	RSD billion	0.1	0.1	+62%

The EBITDA from regular operations in the first three months of 2018 amounted to 0.2 billion dinars. The further implementation of TE-TO Pančevo d.o.o. Pančevo project is in progress. The electricity trading volume contracted for 2018 amounts to 1.05 *TWh*. The Energy proceeds with the activities aimed at developing business and improving operational efficiency.

Gas Monetisation

The projects for the construction of small power plants at Kikinda dispatch stations and Majdan gathering and dispatch station are under development. In order to reconstruct Velebit 3 small power plant and with a view to obtaining an incentive price for electricity, the installation of heat accumulators and the construction of a heat substation for the connection to the oil field heating system have been started.

In order to reduce heating costs of consumers in the area of the ex Oil Refinery of Novi Sad (project of decentralisation of the heat source), the main equipment was delivered (10t/h steam boiler) and the reconstruction of the cogenerator of a nominal electric power of 300 *kW* was performed and the preparation of the technical documentation by the selected designer follows the project implementation schedule.

As a part of investment maintenance of the power plant and power system equipment in the Pančevo Oil Refinery, the procedures for procurement and development of project and technical documentation for the works that will be carried out during the refinery overhaul in the first quarter of 2019 have been initiated.

The technical documentation is currently being prepared in order to obtain a building permit for the CNG station construction project at Žarkovo 2 fuelling station (Belgrade) and the tender for the execution of works has been launched. The schedule for the construction of the CNG plant at Block 45 fuelling station in Novi Beograd has been agreed with the Sales and Distribution Block. The implementation is expected in the fourth quarter of 2018. In order to reconstruct the CNG production plant at Palić field, the modification of compressors was contracted and the technical documentation was prepared. It is expected to start the gas compression in the second quarter of 2018.

Trade in Electricity

In the area of electricity trade, NIS is present in the markets of Serbia, Bosnia and Herzegovina, Romania, Slovenia and Hungary. In addition to these markets, NIS also traded on the border with the Former Yugoslav Republic of Macedonia. NIS j.s.c. Novi Sad is finalising the procedure for registration on the Serbian electricity stock market as well as the procedure for registration with the JOA (Joint Auction Office), which allocates cross-border electricity transmission capacity in Central and South East Europe.

[50] 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.

[51] Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.

[52] EBITDA of the Energy Block includes the Energy Plant at the Pančevo Oil Refinery which is eliminated at a consolidated level as the effect of the Energy Plant is also included in the Refining Block’s EBITDA.

[53] Financing, exclusive of VAT.

Operating Indicators

In the first quarter of 2018, a total production of 43.613 MWh of electricity was achieved.

In order to produce electricity at cogeneration units, 9.1 million m^3 of non-commercial gas were used.

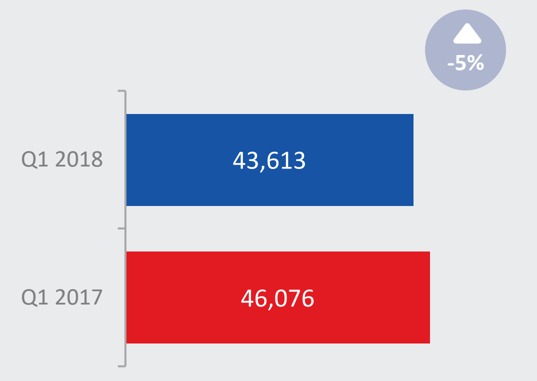


Chart No. 10: *Electricity output, MWh*[54]

Financial indicators

Sales Revenues

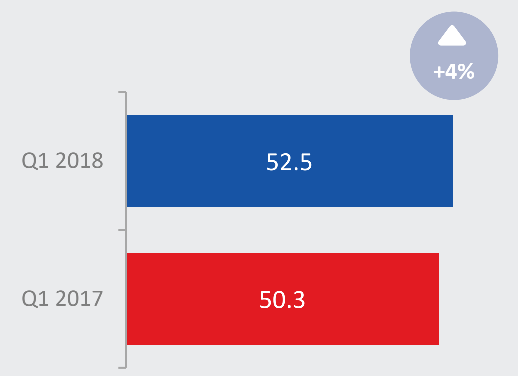


Chart No. 11: *Sales revenues*[55]*, RSD billion*

During the first three months of 2018, NIS achieved a 4-percent growth in sales revenue[56] compared to the same period previous year. This growth was achieved due to an increase in the volume of sales, as well as an increase in the retail prices of petrol and diesel fuels, which was prompted by the rise in crude oil prices in the global market.

EBITDA

EBITDA for first quarter of 2018 was 20% lower than in the previous year and amounted to RSD 8.9 billion.

The main reasons for the decrease include:

- Negative impact of the exchange rate,
- Negative impact of semi-finished products and oil,
- Reduced volume of domestic oil production.

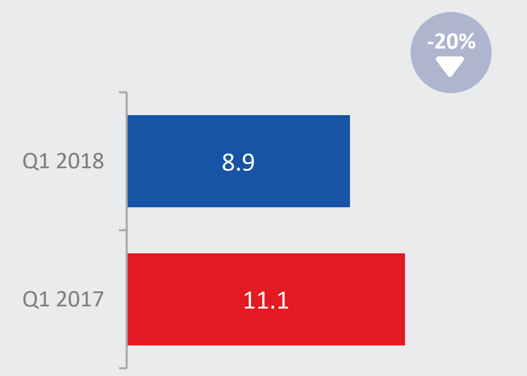


Chart No. 12: *EBITDA, RSD billion*

[54] Including Energy Plant in Pančevo Oil Refinery.
[55] Consolidated operating revenue.
[56] Consolidated operating revenue.

Net Profit

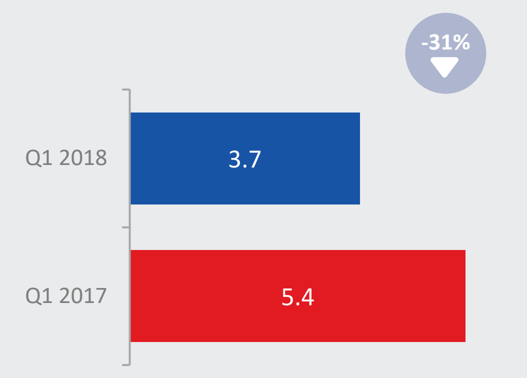


Chart No. 13: *Net profit, RSD billion*

Net profit realised in 2017 is RSD 3.7 billion an 31 percent decrease year-on-year.

- Lower EBITDA,
- Higher depreciation costs.

OCF

In the first quarter of 2017, the operating cash flow amounted to 4.6 billion dinars and was 3% higher than the OCF in the same period in 2017:

- Higher inflows resulting from higher prices of petroleum products,
- Higher liabilities towards the state.
- Higher liabilities towards suppliers
- Lower liabilities for the import of crude oil.

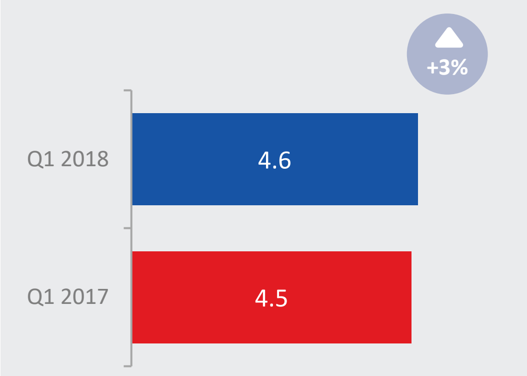


Chart No. 14: *OCF, RSD billion*

CAPEX

In 2018, the main directions of investments are focused on the modernisation of the refining process. As before, the largest investments in the Exploration and Production Block are allocated for the oil and gas production projects. A significant part of investments is allocated for the retail network development projects in the Sales and Distribution Block. In addition, during the first quarter of 2018, NIS invested in the energy and service projects as well as to a number of projects in the corporate centre.

In the first three months of 2018, 7.8 billion dinars were allocated to finance investments, which is 67% more than the amount allocated in the same period in 2017. The increase in financing compared to the previous year directly results from the beginning of the implementation of the refinery process modernization project (Increasing of Refining Depth).

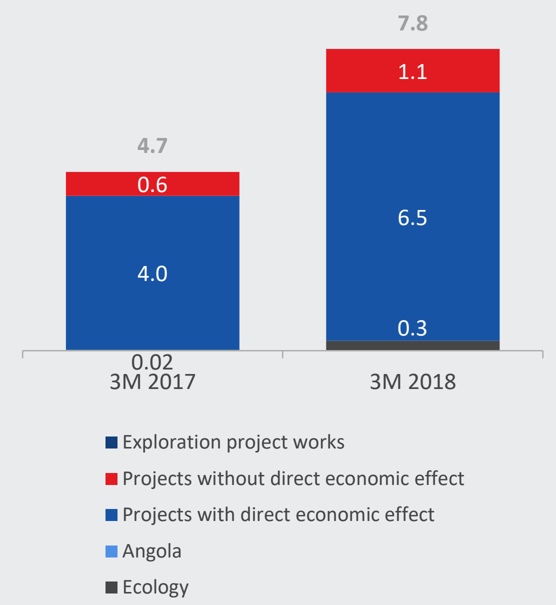


Chart No. 15: *CAPEX by type of project[57], RSD billion*

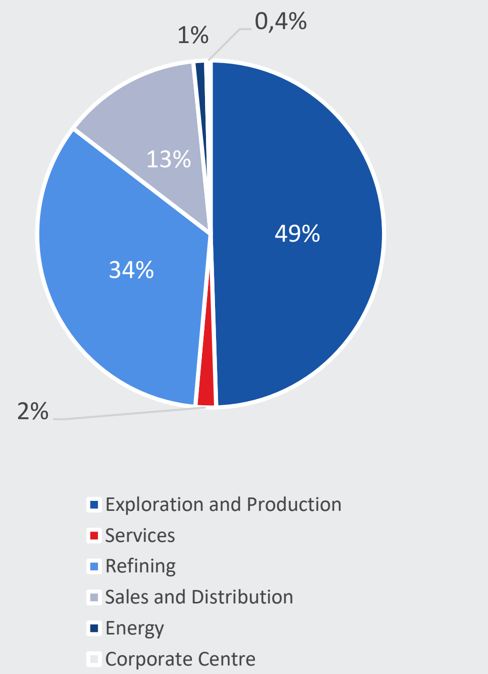


Chart No. 16: *Investments by segment*

Organisational unit	Major projects
Exploration and Production Block	• Drilling of development wells • Investments in geological and technical activities • Investments in basic, development and gas infrastructure • Program of *3D* seismic surveys and drilling of exploration wells in the Republic of Serbia • Investments in concession rights
Services Block	• Projects for the Drilling Unit needs (procurement of BOP equipment) • Projects of the Workover Unit (improvement of the real time current and capital workover monitoring system, procurement of protective equipment in order to increase occupational safety and HSE culture) • Implementation of the projects of the cementing and stimulation section • Technical services and transport projects
Refining Block	• Refining process modernisation • Investment maintenance of the Refining • Investments in environmental projects • Efficiency increase projects
Sales and Distribution Block	• Retail network development in Serbia. Logistics projects (purchase of tank trucks, replacement of fuel dispensers) • Other retail projects (implementation of the *Drive Cafe* concept at fuelling stations)
Energy Block	• Construction of Ostrovo gas gathering station • Energy investment maintenance program • Reliability improvement projects (adaptation of low voltage units in the substations)
Corporate Centre	• Projects with an *IT* component (purchase of software licenses). Implementation of the cSRM user environment for services (material and technical services support and capital construction)

[57] Amounts given in RSD billion, excluding VAT.

Indebtedness

At the end of the first quarter of 2018, a slight reduction in debt to banks was achieved, up to the level of USD 628.6 million, accompanied by an increase in Eurocurrency loans compared to December 31, 2017. Additionally, debt to parent company PJSC 'Gazprom Neft' has been reduced and currently amounts to 244.2 million EUR.

Despite sanctions, NIS successfully continued the second phase of the credit portfolio restructuring in the first quarter of 2018. This is the first such restructuring under sanctions. The expected results are the extension of the average portfolio maturity followed by a simultaneous reduction of average borrowing costs. In addition, thanks to the tender conducted in December 2017 and in the first quarter of 2018, the key partner banks of NIS were selected, which will provide more than 400 million euros of additional long-term financing sources for the implementation of the second phase of restructuring with the additional optimisation of the financing costs, all within the limits of the allowed debt to EBITDA ratio.

In this way, NIS will virtually release the free cash flow for timely financing of major investment projects (especially the strategically important 'Bottom of the Barrel' Project and other planned investments) in the period 2018 to 2020.

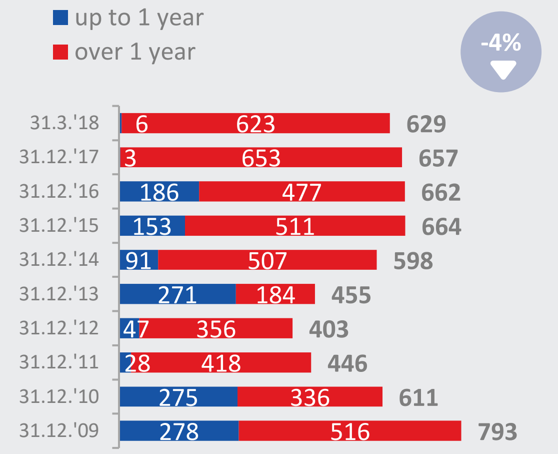


***Chart No. 17:** Total bank debt trends with maturity structure, USD mn*

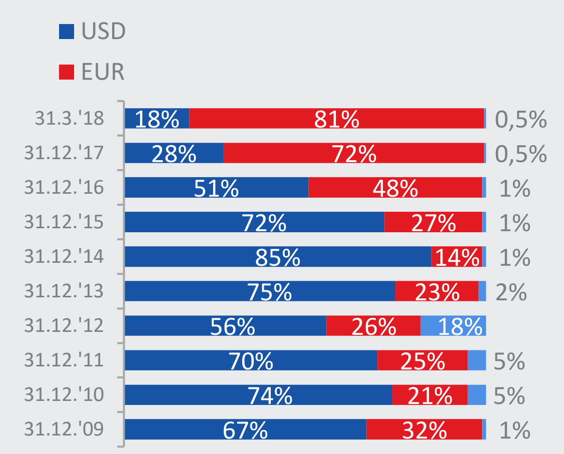


***Chart No. 18**: Total bank debt structure, by currency, in %*

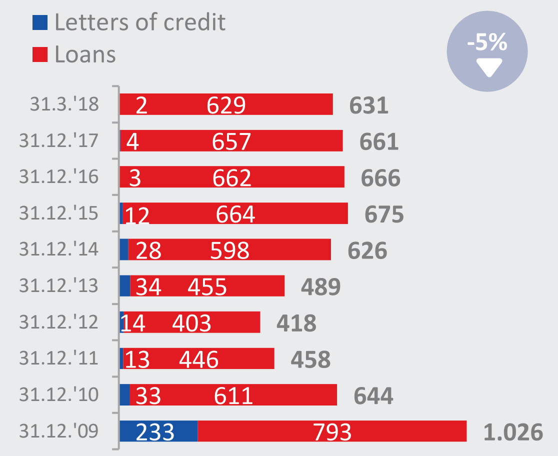


***Chart No. 19:** Total bank indebtedness[58], USD mn*

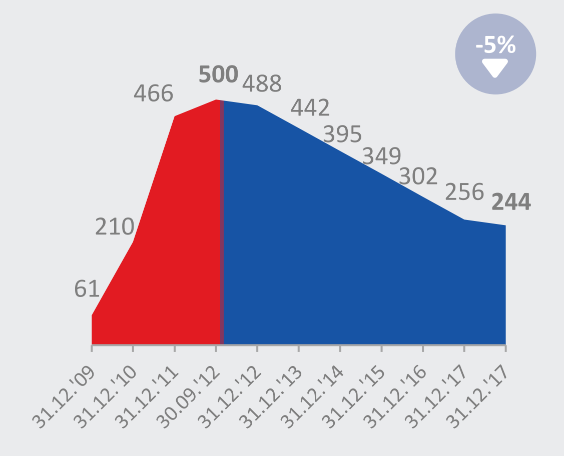


***Chart No. 20**: GPN loan, EUR mn*

[58] In addition to debt to banks and Letters of Credit NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of $31.7 million, corporate guarantees in the amount of $44.6 million and Letters of Intent signed with banks in the amount of $2.0 million and financial leasing in the amount of $7.8 million as at 31 March 2018.

Taxes and Other Public Revenue[59]

The total amount of accrued liabilities for public revenue payable by NIS j.s.c. Novi Sad along with the subsidiaries deriving from its organisational structure[60] in Serbia is RSD 39 billion in first three months of 2018, which is which 28% higher than in same period in 2017.

The total amount of accrued liabilities for public revenue payable by NIS Group in first three months of 2018 is RSD 43.2 billion, which is 21% higher than in same period in 2017.

NIS j.s.c. Novi Sad	Q1 2018	Q1 2017	Δ[61]
Social insurance contributions paid by employer	0.39	0.38	+2%
Corporate tax	0.57	0.79	-27%
Value-added tax	5.21	4.39	+19%
Excise duties[62]	30.49	22.23	+37%
Commodity reserves fee	1.37	1.36	0%
Customs duties	0.08	0.20	-60%
Royalty	0.32	0.30	+5%
Other taxes	0.34	0.32	+6%
Total	**38.77**	**29.97**	**+29%**
NIS subsidiaries in Serbia [63]			
Social insurance contributions paid by employer	0.12	0.12	+5%
Corporate tax	0.03	0.04	-38%
Value-added tax	0.06	0.21	-71%
Excise duties	0.00	0.00	/
Customs duties	0.00	0.01	-100%
Royalty	0.00	0.00	/
Other taxes	0.02	0.02	+15%
Total	**0.23**	**0.40**	-41%
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	**39.00**	**30.37**	**+28%**
NIS regional subsidiaries and Angola			
Social insurance contributions paid by employer	0.01	0.02	-31%
Corporate tax	0.001	0.00	-28%
Value-added tax	0.36	0.40	-10%
Excise duties	2.83	2.81	+1%
Customs duties	0.65	1.60	-60%
Royalty	0.00	0.00	/
Other taxes	0.02	0.02	+4%
Total	**3.87**	**4.85**	**-20%**
Deferred taxes (total for Group)	0.29	0.35	-18%
Total NIS Group [64]	**43.16**	**35.57**	**+21%**

[59] In RSD billion.

[60] 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.

[61] 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.

[62] According to Serbian legislative excise tax is adjusted at the beginning of the year. Due to anticipated changes in this regard excise tax in Q1 2018 was higher compared to Q1 2017.

[63] 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.

[64] Including taxes and other liabilities for public revenues for subsidiaries in the region, corporate tax in Angola and deferred taxes.

Operational Efficiency Improvement

The effect of operational efficiency improvement measures on EBITDA in first three months of 2018 is RSD 1.4 billion.

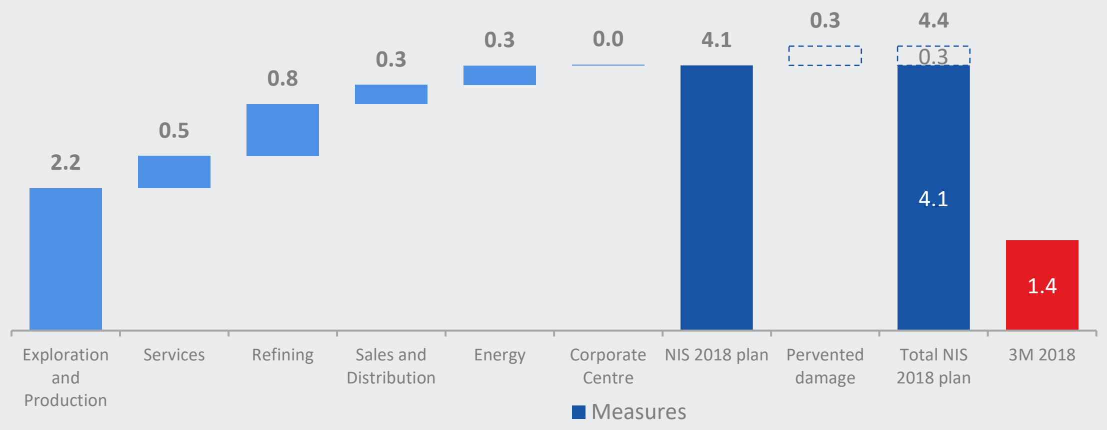


***Chart No. 21**: Effect of operational efficiency improvement measures on EBITDA, RSD bn*

Securities

Share Capital Structure

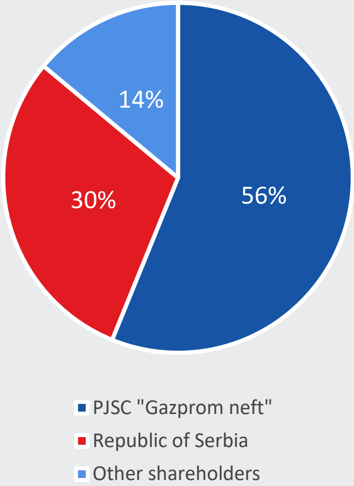


***Chart No. 22:** Share Capital structure based on % in Share Capital*

NIS share capital is RSD 81.53 billion and is divided into a total of 163,060,400 shares with a nominal value of 500.00 RSD. All issued shares are ordinary shares, vesting their holders with the following rights:

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

The structure of top 10 shareholders with the largest stake in equity capital is shown in the table below:

Shareholder	Number of shares	% in share capital
PJSC 'Gazprom Neft'	91,565,887	56.15%
Republic of Serbia	48,712,094	29.87%
Societe Generale banka Srbija a.d. – custody account - fund	1,467,574	0.90%
Societe Generale banka Srbija a.d. – custody account - fund	508,616	0.31%
UniCredit Bank Serbia a.d. – custody account	397,817	0.24%
Global Macro Capital Opportunities	342,465	0.21%
Aktiv-fond d.o.o. Beograd	236,330	0.14%
AWLL Communications d.o.o. Beograd	227,352	0.14%
Keramika Jovanović d.o.o. Zrenjanin	203,824	0.12%
Dunav Osiguranje a.d.o. Beograd	196,517	0.12%
Other shareholders	19,201,924	11.78%
Total number of shareholders as at 31 March 2018:		**2,103,915**

Share Trading and Indicators per Share

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

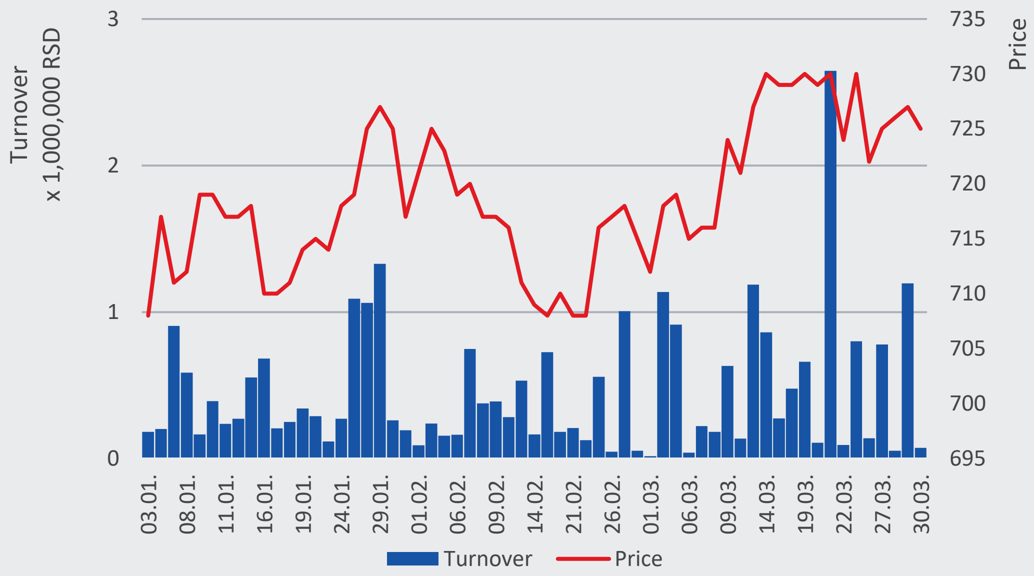


Chart No. 23: *Price and turnover trends*

Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in first quarter of 2018	
Last price (30 March 2018)	725 *RSD*
High (29 January 2018)	750 *RSD*
Low (1 January 2018)	675 *RSD*
Total turnover	289,383,519 *RSD*
Total volume (number of shares)	401,389 shares
Total number of transactions	9,579 transactions
Market capitalization as at 31 March 2018	118,218,790,000 *RSD*
EPS	25.63 *RSD*
Consolidated EPS	22.87 *RSD*
P/E ratio	28.28
Consolidated P/E ratio	31.74
Book value as at 31 March 2018	1,491.15 *RSD*
Consolidated book value as at 31 March 2018	1,403.06 *RSD*
P/BV ratio	0.49
Consolidated P/BV ratio	0.52

In first three months of 2018, there were no acquisitions of treasury shares by the Company.

Dividends

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

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

	2009	2010	2011	2012	2013	2014	2015	2016
Net profit (loss), RSD bn[65]	(4.4)	16.5[66]	40.6[67]	49.5	52.3	30.6	16.1	16.1
Total amount of dividend, RSD bn	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, 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 31 December, RSD	-	475	605	736	927	775	600	740
Shareholders' dividend yield, in %[68]	-	-	-	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 in the foreign exchange market as an instrument for managing this type of risk.

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

[65] Net profit of NIS j.s.c. Novi Sad.

[66] Net profit used to cover accumulated losses.

[67] Net profit used to cover accumulated losses.

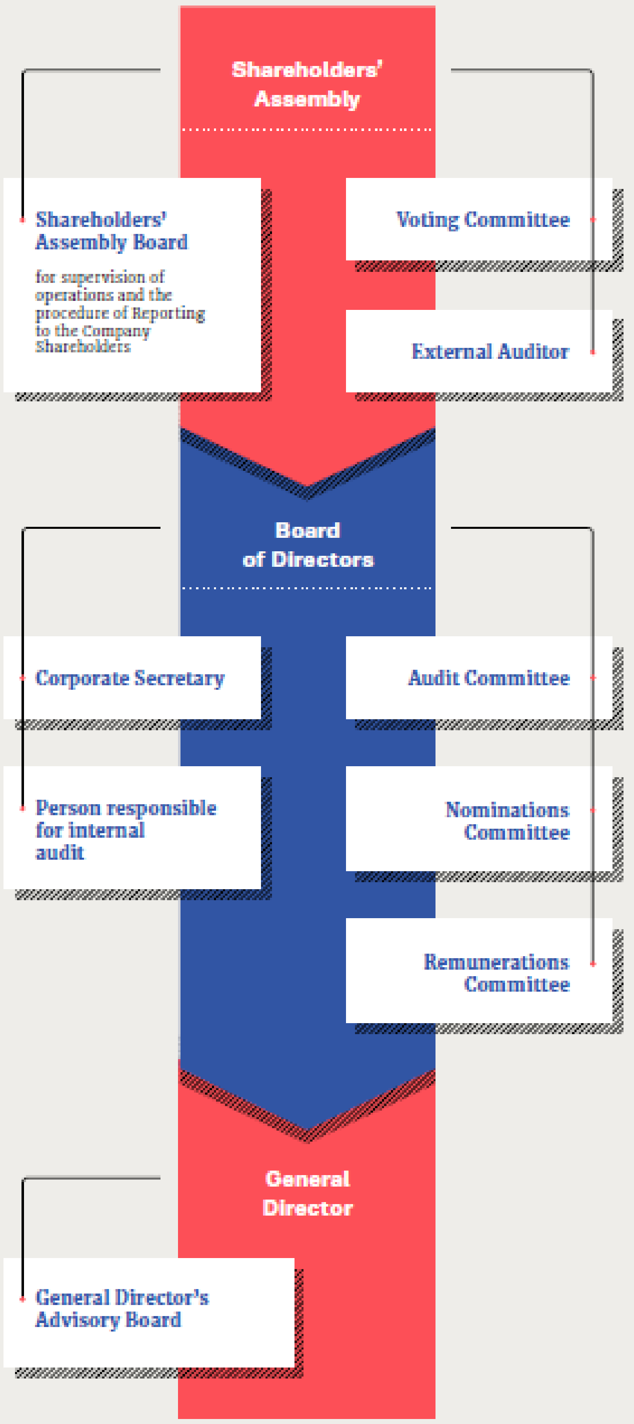
[68] Calculated as the ratio of gross dividend and year-end share price.

Corporate Governance

Corporate Governance System

The Company has established a one-tier governance system, where the Board of Directors has the central role in the corporate governance. The Board of Directors is responsible for the implementation of the objectives set and the achievement of results, while shareholders exercise their rights and control primarily through the Shareholders' Assembly.

The provisions of the Articles of Association 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 set up by corporate governance bodies.



Corporate Bodies of NIS j.s.c. Novi Sad

Shareholders' Assembly and Shareholders' Rights

As the highest authority of the Company, the Shareholders' Assembly is made up of all shareholders. All NIS j.s.c. Novi Sad shares are ordinary shares that give their owners the same rights, wherein one share carries one vote.

Board of Directors

The Board of Directors has a central role in corporate governance. It is collectively responsible for the long-term success of the Company, for setting main business objectives and identifying the company's further courses of development, as well as for identifying and controlling the effectiveness of the corporate business strategy.

The members elect the Chairperson of the Board of Directors, while the functions of the Board of Directors' Chairperson and the General Director are clearly divided.

Members of the Board of Directors

Members of the Board of Directors are appointed and dismissed by the Shareholders' Assembly.

The Board of Directors consists of executive and non-executive directors. The Board of Directors consists of one executive member, with the other members of the Board of Directors being non-executive, two of whom are also independent members of the Board of Directors.

Board of Directors' Members as of 31 March 2018

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 in 1970.

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 (the Association of Chartered 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, from Consultant to Audit Manager. In the period 2001 to 2002, he served as Deputy Head of Finance and Economics Department, YUKOS EP c.j.s.c. From 2003 to 2004, he was the CFO of Yugansk Neftegaz, NK Yukos. From 2005 to 2006, Mr Yakovlev held the position of CEO Deputy in charge of economics and finance at SIBUR-Russian Tyres.

From 2007 to 2010 he was CEO Deputy in charge of Economics and Finance at PJSC 'Gazprom Neft'. Since 2007, he has been Deputy Chairman of the Executive Board of PJSC 'Gazprom Neft'. From 2010 to 2011, he was the CFO of PJSC 'Gazprom Neft'. Since 2011, he has been the first deputy of the CEO of PJSC 'Gazprom Neft'.

Mr Yakovlev was elected member of the NIS j.s.c. Novi Sad Board of Directors on 10 February 2009. He was elected Chairman of the NIS j.s.c. Novi Sad Board of Directors on 31 July 2009.

Kirill Tyurdenev

General Director of NIS j.s.c. Novi Sad

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

Born in 1977.

Graduated with honours from the School of International Relations (Bachelor's Degree with specialisation) and then obtained a Master's Degree in International Law (with specialisation) from the Moscow State Institute of International Relations (MGIMO). Also obtained a Master of Law (LL.M) degree from the University of Manchester. Completed executive education programmes at the international business school INSEAD and London Business School. From 2000 to 2004, worked for A.T. Kearney and Unilever. In 2004, joined McKinsey & Co. From 2007 to 2012, worked as Deputy CEO for Strategy and Corporate Development with SIBUR – Fertilisers. In 2012, joined JSFC Sistema, as Executive Vice-President and Executive Board Member. Before his arrival at NIS, Mr Tyurdenev held the position of the President and Chairman of the Executive Board at United Petrochemical Company, which was being acquired by JSFC Sistema at the time, and as Chairman of the Board of Directors of Ufaorgsintez. In April 2016, he joined NIS in the position of First

Deputy of General Director for Refining, Sales and Distribution. Mr Tyurdenev was appointed General Director of NIS j.s.c. Novi Sad on 22 March 2017.

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

Danica Drašković

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

Born in 1945.

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 economic sector, and as a Belgrade City Magistrate. Ms Drašković is the owner of the publishing house Srpska Reč, founded in 1990. She has authored three books written in the opinion journalism style.

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

Alexey Yankevich

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

CEO Deputy for Economics and Finance at PJSC 'Gazprom Neft'

Born in 1973.

In 1997, Mr Yankevich graduated from Saint-Petersburg State Electrical Engineering University (LETI), majoring in Optical 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 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 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 CEO Deputy 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 of 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 on 18 June 2013.

Kirill Kravchenko

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

CEO Deputy for Organisational Affairs at PJSC 'Gazprom Neft'

Born in 1976.

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 from 2003 to 2004. He holds a PhD in Economics and is a professor. Mr Kravchenko worked in consulting until 2000. From 2000 to 2004, he held various positions at YUKOS in Moscow and Western Siberia and at Schlumberger (under partnership programme with NK Yukos). In the period 2004 to 2007, he was the Administrative Manager at JSC MHK EuroChem Mineral and Chemical Company. On several occasions, Mr Kravchenko was elected member of the Board of Directors in major Russian and international companies. In April 2007, he was appointed Vice-Chairman at PJSC 'Gazprom Neft'. From January 2008 to March 2009, he was Deputy Chairman of the Management Board of PJSC 'Gazprom Neft', as well as CEO Deputy for Organisational Affairs. In the period from March 2009 until July 2017, he was CEO Deputy of PJSC 'Gazprom Neft' for Foreign Asset Management. Since July 2017 he has been CEO Deputy for Organisational Affairs at PJSC 'Gazprom Neft'. From February 2009 to 22 March 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 on 10 February 2009.

Alexander Krylov

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

Director of the Regional Sales Department at PJSC 'Gazprom Neft'

Born in 1971.

In 1992, Mr Krylov graduated from LMU (Leningrad) and in 2004, he graduated from the Faculty of Law of Saint Petersburg State University. In 2007, he earned an MBA degree from Moscow International Business School MIRBIS, specialising 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) with the following companies: Russian-Canadian SP Petrobild; c.j.s.c. Alpol. From 2005 to 2007, he was Deputy Head of the Sales Department at Sibur Ltd. Since April 2007 to date, Mr Krylov has been serving as Head of the Petroleum Product Supply Department, Head of the Regional Sales Department 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 on 29 November 2010.

Nikola Martinović

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

Born in 1947.

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 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 Naftna Industrija Srbije in charge of financial affairs and was the CEO of Naftagas Promet from 1996 to 2000. From 2005 to 31 August 2013, Mr Martinović worked as a Special Advisor at NIS j.s.c. Novi Sad. On 1 September 2013, he was appointed Special Advisor to the CEO of O Zone a.d. Beograd, and from 15 December 2013 until retirement on 17 November 2014, he performed the duties of the Advisor to the Director of NTC NIS Naftagas d.o.o. Novi Sad. He has been a member of the Council of the Governor of the National Bank of Serbia since 22 November 2011.

Mr Martinović was a member of the Naftna Industrija Srbije/NIS j.s.c. Novi Sad BoD from 2004 to 2008, and he was re-elected on 10 February 2009.

Wolfgang Ruttenstorfer

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

Born in 1950.

In 1976, he majored in Economics and Business Administration at the Vienna University of Economics and Business. He holds a PhD degree. Mr. Ruttenstorfer's career started with the Austrian 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. He was a member of the OMV EB by early 1997, when he was appointed Deputy Minister of Finance. On 1 January 2000, he was re-appointed a member of the OMV EB, being in charge of finance by April 2002 and gas operations by December 2006. In the period from 1 January 2002 to 31 March 2011, Mr Ruttenstorfer was the Chairman of the Executive Board of the OMV Group. Mr. Ruttenstorfer was or still is a member of the 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 on 20 April 2012.

Anatoly Cherner

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

Deputy Chairman of the Executive Board, CEO Deputy for logistics, refining and sales at PJSC 'Gazprom Neft'

Born in 1954.

Mr Cherner graduated from Grozny Oil Institute in 1976, majoring in Oil and Gas Chemical Engineering. From 1976 to 1993, he was employed with the Sheripov Grozny Refinery, starting as an operator and ending up as a refinery director. In 1996, he joined SlavNeft as Head of the Oil and Petroleum Product Trading Department and was later appointed Vice-Chairman of the company. In April 2006, he was appointed Vice-Chairman for refining and marketing at SibNeft (Gazprom Neft since June 2006). In December 2007 he was appointed Deputy CEO for logistics, refining and sales at PJSC 'Gazprom Neft'.

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

Stanislav Shekshnia

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

Professor at the International Business School INSEAD

Born in 1964.

Mr Shekshnia serves as the Chief of Practice at the Talent Performance and Leadership Development Consulting Department. He is the manager of Talent Equity Institute and a senior partner at Ward Howell. He teaches Entrepreneurial Leadership at the International Business School INSEAD. Mr Shekshnia has more than 15 years of hands-on experience in management. He held the following positions: CEO of Alfa Telecom, Chairman and CEO of Millicom International Cellular, Russia and CIS, Chief Operating Officer at Vimpelkom, Head of Personnel Management at OTIS Elevator, Central and East Europe. He was a member of LLC SUEK and c.j.s.c. Vimpelkom-R Boards of Directors.

Mr Shekshnia was elected Independent Member of the NIS j.s.c. Novi Sad Board of Directors on 21 June 2010.

Total amount paid to Board of Directors members in first quarter of 2018, net RSD	
BoD Members	49,318,688

Membership in Other Companies' Boards of Directors or Supervisory Boards

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 • LTD Gazprom Neft-Hantos (Chairman of BoD) • LTD Gazprom Neft-NTC (Chairman of BoD) • LTD Gazprom Neft-Orenburg (Chairman of BoD) • LTD Gazprom Neft-Sahalin • Salim Petroleum Development N.V. (Supervisory Board member) • JSC Tomskneft VNK (Chairman of BoD) • LTD Gazprom Neft Shelf
Kirill Tyurdenev	• -
Alexey Yankevich	• JSC NGK Slavneft • JSC Gazprom Neft – Aero • LTD Gazprom Neft – SM • LTD Gazprom Neft Business-Service (Chairman of BoD) • Gazprom Neft Lubricants Italy SPA (Chairman of BoD) • LTD Gazprom Neft Marine Bunker • LTD Gazprom Neft Shelf
Kirill Kravchenko	• Vice-Chairman of the National Petroleum Committee of the Republic of Serbia • Serbian Tennis Federation (BoD Member) • SAM Managing Board Member – Serbian Association of Managers • LTD ITSK (Chairman of BoD)
Alexander Krylov	• JSC Gazprom Neft – Novosibirsk (Chairman of BoD) • JSC Gazprom Neft – Tyumen (Chairman of BoD)[69] • JSC Gazprom Neft – Ural (Chairman of BoD) • JSC Gazprom Neft – Yaroslavl (Chairman of BoD) • JSC Gazprom Neft – Northwest (Chairman of BoD) • LTD Gazprom Neft Asia (Chairman of BoD) • LTD Gazprom Neft – Tajikistan (Chairman of BoD) • LTD Gazprom Neft – Kazakhstan (Chairman of BoD) • LTD Gazprom Neft – Centre (Chairman of BoD) • JSC Gazprom Neft – Terminal (Chairman of BoD) • LTD Gazprom Neft – Regional Sales (Chairman of BoD) • JSC Gazprom Neft – Transport (Chairman of BoD) • LTD Gazprom Neft – Krasnoyarsk (Chairman of BoD) • LTD Gazprom Neft – Corporate Sales (Chairman of BoD) • LTD Gazprom Neft – Belnefteprodukt (Chairman of BoD) • JSC Gazprom Neft – Alternative Fuels (Chairman of BoD) • LTD ITSK • LTD Gazprom Neft – Laboratory (Chairman of BoD) • LTD Gazprom Neft – Tumen (Chairman of BoD) • Association Hockey Club 'Avangard' (Chairman of BoD)
Nikola Martinović	-
Danica Drašković	-
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)

[69] The Company is under liquidation.

Anatoly Cherner	• JSC NGK Slavneft • JSC Gazprom Neft – ONPZ (Chairman of BoD) • JSC Slavneft – JANOS • JSC Gazprom Neft – MNPZ (Chairman of BoD) • JSC Gazprom Neft – Aero (Chairman of BoD) • JSC Saint-Petersburg International Mercantile Exchange • LTD Gazprom Neft – SM (Chairman of BoD) • LTD Gazprom Neft Marine Bunker (Chairman of BoD) • LTD Gazprom Neft – Logistics (Chairman of BoD) • JSC Mozirski NPZ • Gazprom Neft Lubricants Italy SPA • LTD Gazprom Neft - Catalytic Systems (Chairman of BoD) • LTD Automatica-Service (Chairman of BoD)
Stanislav Shekshnia	• Dentsu Aegis Network Russia (Member of BoD) • NLMK (Member of BoD) • LTD Russian Fishery Company (Member of BoD)

Number and Percentage of NIS j.s.c. Novi Sad Shares Owned by BoD Members

Name and surname	Number of shares	% in total number of shares
Nikola Martinović	224	0.0001%

Board of Directors' Committees

With a view to ensuring the efficient performance of its activities, the Board of Directors established three standing committees as its advisory and expert bodies providing assistance to its activities, especially in the consideration of issues within its scope of competence, preparation and control of the enforcement of decisions and documents adopted, and performance of certain specialised tasks for the Board of Directors.

The Board of Directors established the following committees:

- Audit Committee
- Remuneration Committee and
- Nomination Committee.

As appropriate, the Board of Directors may establish other standing or *ad hoc* committees to deal with the issues relevant for the activities of the Board of Directors.

Shareholders' Assembly Board

The Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to Company Shareholders (hereinafter 'The Shareholders' Assembly Board') is a body of advisors and experts providing 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 report to the Shareholders' Assembly, which appoints them and relieves them of duty.

Members of the Shareholders' Assembly Board as at 31 March 2018

Nenad Mijailović

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

Born in 1980.

Mr Mijailović graduated from the Faculty of Economics, University of Belgrade in 2003. In 2007, he obtained a Master's Degree from the University of Lausanne, Switzerland. In 2010, he started his PhD studies at the Faculty of Economics, University of Belgrade. In 2011, he obtained an international CFA licence in the field of Finance. From 2003 to 2009, he worked as a finance and banking consultant and manager in the following companies: Deloitte Belgrade, AVS Fund de Compensation Geneve, JP Morgan London, and KBC Securities Corporate Finance Belgrade. From December 2009 to August 2012, Mr Mijailović served as Advisor to the Minister in the Ministry of Economy and Regional Development, Department of Economy and Privatisation. In August 2012, he was appointed Deputy Minister of Finance and Economy of the Republic of Serbia. Since August 2014, he has been serving as the State Secretary 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 June 2013 to 30 June 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 on 30 June 2014.

Zoran Grujičić

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

Born in 1955.

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 MNG Group d.o.o. Čačak. From June 2004 to February 2007, he was Managing Director of the Trading Company Agrostroj j.s.c. Čačak, Managing Director of the limited partnership company Leonardo from Čačak and Managing 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 Logistics Department, Jugopetrol; Head of RC Čačak at Retail Department – Čačak Region; Retail Network Development Manager at Development Department, Sales and Distribution. From 1 October 2012 to January 2016, he served as Advisor to the Sales and Distribution Director, and in February 2016, he became Advisor to the Director of External and Governmental Relations. Since October 2017, he has been Advisor to the General 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 on 30 June 2014.

Alexey Urusov

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

Director of Economics and Corporate Planning Department at PJSC 'Gazprom Neft'

Born in 1974.

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 a Master's Degree in Sociology. From 2006 to 2008, he worked as executive vice-president for planning and performance management at the Integra Group. From 2002 to 2006, he worked at TNK-VR. From 2002 to 2003, Mr Urusov was a member of TNK BoD's Group for monitoring and control, and in period from 2004 to 2006 worked as CFO at TNK-VR Ukraine. From 2009 to 2012, Mr Urusov was employed with NIS j.s.c. Novi Sad as Chief Financial Officer. Since 2012, he has been the Director of Economics and Corporate Planning Department at 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 on 25 June 2012.

Total amount of fees paid to SAB members in first quarter of 2018, net, in RSD	
Members of SAB	3,661,749

Membership in Other Companies' Boards of Directors or Supervisory Boards

Nenad Mijailović	-
Zoran Grujičić	-
Alexey Urusov	• Gazprom Neft Marine Bunker Balkan S.A. (Member of BoD) • AS Baltic Marine Bunker (Member of BoD) • LTD Gazprom Neft – Catalytic Systems (Member of BoD) • LTD Gazprom Neft Energoservice (Member of BoD) • LTD Gazprom Neft Business Service (Member of BoD) • LTD ITSK (Member of BoD) • LTD Noyabrskneftegazsvyaz (Member of BoD)

Number and Percentage of NIS j.s.c. Novi Sad Shares Owned by SAB members

Name and surname	Number of shares	% in total number of shares
Nenad Mijailović	5	0.000003066%

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 organise the Company’s activities. In addition to this, the General Director is responsible for day-to-day management and is authorised to decide 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’s Advisory Board

The General Director’s Advisory Board is a professional body that helps the General Director in their activities and in the consideration of matters within their responsibilities. The General Director decides on the composition of the Advisory Board and its members are General Director first deputies, Directors of Corporate Blocks and Functions, Deputy Director General for Petrochemical Affairs and Regional Director of NIS j.s.c. Novi Sad for Romania. The Advisory Board is managed by the General Director and provides them with assistance in relation to the issues concerning the Company’s operational management. Apart from the issues concerning the Company's current operations (monthly and quarterly business results, annual business plans, monthly investment plans), the Advisory Board deals with strategy and development policy, the foundation of which is laid by the Shareholders Assembly and the Board of Directors of the Company.

Related-Party Transactions

In first three months of 2018, NIS Group entered into business partnerships with its affiliates. The most important related-party transactions were made based on the supply/delivery of crude oil, petroleum products and electricity. An outline of related-party transactions is part of the Notes to the Financial Statements.

Human Resources

NIS mission is to provide people with energy to move towards an improvement, and its employees are its driver and the key to its success. In order to achieve this synergy, NIS creates a business environment where every employee can realise their full potential with full respect for employee rights. It is extremely important for NIS to provide an environment where the principle of prohibition of any form of discrimination is strictly observed. To this end, an Equality Policy was adopted to provide such an environment, but also to provide the employees with mechanisms to be used if the Policy principles are violated.

Employee Number and Structure

	31 March 2018			31 March 2017		
Organisational Unit	**Full-time Employees**	**Leasing**	**Total**	**Full-time Employees**	**Leasing**	**Total**
NIS j.s.c. Novi Sad	**4,095**	**3,650**	**7,745**	**3,976**	**3,542**	**7,518**
Exploration and Production Block	804	220	1,024	782	214	996
Services Block	86	24	110	85	24	109
Refining Block	846	32	878	789	29	818
Sales and Distribution Block	967	2,907	3,874	964	2,790	3,754
Energy Block	247	22	269	247	20	267
Corporate Centre	1,090	445	1,535	1,044	465	1,509
Representative Offices and Branches	55	0	55	65	0	65
Subsidiaries in Serbia	**1,447**	**1,609**	**3,056**	**1,403**	**1,511**	**2,914**
Naftagas – Naftni servisi d.o.o. Novi Sad[70]	649	811	1,460	612	740	1,352
Naftagas – Tehnički servisi d.o.o. Zrenjanin	395	480	875	393	477	870
Naftagas – Transport d.o.o. Novi Sad	97	290	387	95	269	364
NTC NIS Naftagas d.o.o. Novi Sad	306	28	334	303	25	*328*
Subsidiaries abroad	**71**	**1**	**72**	**85**	**1**	**86**
NIS Petrol e.o.o.d. Sofia (Bulgaria)	36	0	36	41	0	41
NIS Petrol s.r.l. Bucharest (Romania)	27	0	27	23	0	23
NIS Petrol d.o.o. Banja Luka (B&H)	5	0	5	16	0	16
Jadran Naftagas d.o.o Banja Luka (B&H)	3	0	3	5	0	5
Pannon Naftagas k.f.t. Budapest (Hungary)	0	1	1	0	1	1
Other subsidiaries reflected in consolidated statements	**545**	**116**	**661**	**538**	**101**	**639**
O Zone a.d. Beograd	5	116	121	7	101	108
NIS Overseas o.o.o. Saint Petersburg (RF)	113	0	113	116	0	116
NIS Svetlost d.o.o. Bujanovac	0	0	0	0	0	0
G Petrol d.o.o. Sarajevo (B&H)	427	0	427	415	0	415
TOTAL:	**6,158**	**5,376**	**11,534**	**6,002**	**5,155**	**11,157**

Causes of Employment Termination

In first three months of 2018, a total of 58 employees left NIS[71]: 6 employees retired, 7 employees left NIS after termination of employment by mutual agreement, while the employment of 45 people was terminated on other grounds (involuntary termination, voluntary termination, redundancy, death etc.).

Cause of employment termination	NIS j.s.c. Novi Sad[72]	Subsidiaries[73]
Retirement	3	3
Termination by mutual agreement	6	1
Other	39	6
Total	**48**	**10**

[70] Including employees in Branches.

[71] NIS j.s.c. Novi Sad with the 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.

[72] Including Representative Offices and Branches.

[73] 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.

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 modernisation, innovative approach and application of up-to-date technologies are the prerequisite for progress, competitiveness and regional leadership. NIS constantly modernises its oil and gas business, introduces and upgrades new oil and gas exploitation methods, builds new refining units, automates its operations, and develops and modernises its retail network.

With regard to research and development, NIS has in place the Rules on Planning, Execution, and Control of Innovative, Scientific, Research & Development and Technological Studies at NIS j.s.c. Novi Sad. The Science and Technology Council, which meets at a quarterly level, was set up as part of the General Director’s Office. In parallel, a Research and Development Section was established within the Science and Technology Centre and was tasked with the coordination and delivery of research and development projects.

In NIS Group, the research and development activity is organised within the 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:

- Coordinates science and research activities, and
- Executes science and research activities.

Financial Statements

Stand-Alone Financial Statements

Statement of Financial Position

	Notes	31 March 2018 *(unaudited)*	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	6	17,014,403	23,410,724
Short-term financial assets	7	10,008,548	11,507,390
Trade and other receivables	8	31,071,502	30,213,371
Inventories	9	30,337,416	33,451,244
Other current assets	10	5,546,434	4,868,561
Non-current assets held for sale		6,828	163
Total current assets		**93,985,131**	**103,451,453**
Non-current assets			
Property, plant and equipment	11	242,030,447	237,108,439
Investment property		1,559,593	1,530,356
Intangible assets		2,878,398	3,082,914
Investments in joint venture		1,038,800	1,038,800
Investments in subsidiaries		13,425,586	13,425,586
Trade and other non-current receivables		2,220	2,222
Long-term financial assets	12	32,295,993	34,188,042
Deferred tax assets		2,201,124	2,487,491
Other non-current assets	13	3,424,424	3,835,469
Total non-current assets		**298,856,585**	**296,699,319**
Total assets		**392,841,716**	**400,150,772**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	14	7,920,512	8,305,932
Trade and other payables	15	29,210,093	34,596,516
Other current liabilities	16	5,134,229	4,880,705
Current income tax payable		1,989,427	1,915,676
Other taxes payable	17	9,330,133	9,235,139
Provisions for liabilities and charges		2,724,705	2,837,875
Total current liabilities		**56,309,099**	**61,771,843**
Non-current liabilities			
Long-term debt	18	83,723,691	89,751,052
Long-term trade and other payables		8,997	-
Provisions for liabilities and charges		9,652,802	9,660,582
Total non-current liabilities		**93,385,490**	**99,411,634**
Equity			
Share capital		81,530,200	81,530,200
Reserves		16,623	17,782
Retained earnings		161,600,304	157,419,313
Total equity		**243,147,127**	**238,967,295**
Total liabilities and shareholder's equity		**392,841,716**	**400,150,772**

All amounts are in 000 RSD, unless otherwise stated

Statement of Profit and Loss and Other Comprehensive Income

		Three-month period ended 31 March	
	Note	2018 *(unaudited)*	2017 *(unaudited)*
Sales of petroleum products, oil and gas		45,608,337	42,887,712
Other revenues		2,853,817	3,124,860
Total revenue from sales	5	**48,462,154**	**46,012,572**
Purchases of oil, gas and petroleum products		(27,708,451)	(23,294,620)
Production and manufacturing expenses	19	(5,751,620)	(5,964,451)
Selling, general and administrative expenses	20	(5,020,861)	(4,679,517)
Transportation expenses		(258,703)	(225,928)
Depreciation, depletion and amortization		(3,866,951)	(3,574,242)
Taxes other than income tax		(1,050,482)	(1,005,738)
Exploration expenses		(15,771)	(7,452)
Total operating expenses		**(43,672,839)**	**(38,751,948)**
Other expenses, net		(72,469)	(185,701)
Operating profit		**4,716,846**	**7,074,923**
Net foreign exchange gain	21	437,341	246,622
Finance income	22	458,002	314,770
Finance expenses	23	(570,592)	(733,466)
Total other income (expense)		**324,751**	**(172,074)**
Profit before income tax		**5,041,597**	**6,902,849**
Current income tax expense		(574,238)	(786,240)
Deferred tax expense		(286,368)	(344,307)
Total income tax expense		**(860,606)**	**(1,130,547)**
Profit for the period		**4,180,991**	**5,772,302**
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		(1,159)	131
Other comprehensive profit (loss) for the period		**(1,159)**	**1,530**
Total comprehensive income for the period		**4,179,832**	**5,773,832**
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
Basic earnings (RSD per share)		25.63	35.41
Weighted average number of ordinary shares in issue (in millions)		163	163

All amounts are in 000 RSD, unless otherwise stated

Statement of Changes in Shareholders’ Equity

Three-month period ended 31 March 2018 and 2017

(unaudited)

	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2017	81,530,200	14,088	133,630,354	215,174,642
Profit for the period	-	-	5,772,302	5,772,302
Other comprehensive income (loss)				
Change in value of available-for-sale financial assets	-	131	-	131
Revaluation of intangible assets, property, plant and equipment transferred to investment property	-	1,399	-	1,399
Total comprehensive income (loss) for the period	-	1,530	5,772,302	5,773,832
Balance as at 31 March 2017	**81,530,200**	**15,618**	**139,402,656**	**220,948,474**
Balance as at 1 January 2018	**81,530,200**	**17,782**	**157,419,313**	**238,967,295**
Profit for the period	-	-	4,180,991	4,180,991
Other comprehensive income (loss)				
Change in value of available-for-sale financial assets	-	(1,159)	-	(1,159)
Total comprehensive income (loss) for the period	**-**	**(1,159)**	**4,180,991**	**4,179,832**
Balance as at 31 March 2018	**81,530,200**	**16,623**	**161,600,304**	**243,147,127**

All amounts are in 000 RSD, unless otherwise stated

Statement of Cash Flows[74]

	Note	Three-month period ended 31 March 2018 (unaudited)	2017 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**5,041,597**	**6,902,849**
Adjustments for:			
Finance expenses	23	570,592	733,466
Finance income	22	(458,002)	(314,770)
Net unrealised foreign exchange (gain) losses		(93,072)	16,553
Depreciation, depletion and amortization		3,866,951	3,574,242
Adjustments for other provisions		58,607	(27,851)
Allowance for doubtful accounts		39,776	9,530
Other non-cash items		83,100	74,611
Operating cash flow before changes in working capital		**4,067,952**	**4,065,781**
Changes in working capital:			
Trade and other receivables		(824,335)	3,852,770
Inventories		3,096,384	(4,007,829)
Other current assets		(709,650)	(349,593)
Trade payables and other current liabilities		(4,633,354)	(4,571,485)
Other taxes payable		94,992	(947,556)
Total effect on working capital changes		**(2,975,963)**	**(6,023,693)**
Income taxes paid		(495,752)	(6)
Interest paid		(553,638)	(789,425)
Interest received		215,149	305,002
Net cash generated from operating activities		**5,299,345**	**4,460,508**
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans issued		(615,079)	(860,529)
Loan proceeds received		546,833	819,714
Capital expenditures[75]		(8,984,885)	(4,826,942)
Proceeds from sale of property, plant and equipment		24,736	23,500
Bank deposits placements, net		3,600,000	-
Net cash used in investing activities		**(5,428,395)**	**(4,844,257)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	18	5,696,131	4,209,440
Repayment of borrowings	18	(11,890,427)	(6,644,210)
Repayments of finance lease liabilities	18	(12,254)	-
Net cash used in financing activities		**(6,206,550)**	**(2,434,770)**
Net decrease in cash and cash equivalents		(6,335,600)	(2,818,519)
Effect of foreign exchange on cash and cash equivalents		(60,721)	(8,926)
Cash and cash equivalents as of the beginning of the period		**23,410,724**	**20,053,651**
Cash and cash equivalents as of the end of the period		**17,014,403**	**17,226,206**

All amounts are in 000 RSD, unless otherwise stated

[74] Group policy is to present cash flow inclusive of related VAT.

[75] CF from investing activities includes VAT in the amount of 1,5 bln RSD (2017: 0,6 bln RSD)

Notes to Stand-Alone Financial Statements[76]

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 7 July 2005. On 2 February 2009 PJSC Gazprom Neft (“Gazprom Neft”) acquired a 51% of the share capital of Naftna Industrija Srbije which became a subsidiary of Gazprom Neft. In March 2011, under the Company’s Share Sale and Purchase Agreement, Gazprom Neft acquired an additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%. 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 2017, 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 2017.

Subsequent events occurring after 31 March 2018 were evaluated through 27 April 2018, the date these Interim Condensed Financial Statements were authorised for issue.

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

The results for the three month period ended 31 March 2018 are not necessarily indicative of the results expected for the full year.

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

2.2. Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Financial Statements are consistent with those applied during the preparation of Financial Statements as of and for the year ended 31 December 2017, 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 Group from 1 January 2018:

- **IFRS 9 Financial Instruments, and**
- **IFRS 15 Revenue from Contracts with Customers.**

4. NEW ACCOUNTING STANDARDS

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

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be 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 statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to have significant impact on the Group’s Interim Condensed Consolidated Financial Statements.

5. SEGMENT INFORMATION

Presented below is information about the Company’s operating segments for the three month periods ended 31 March 2018 and 2017. 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 are presented within the Downstream segment.

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

EBITDA represents the Company's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Company's ongoing 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 three month period ended 31 March 2018 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	10,848,435	48,638,270	(11,024,551)	48,462,154
Intersegment	10,778,981	245,570	(11,024,551)	-
External	69,454	48,392,700	-	48,462,154
EBITDA (Segment results)	**7,694,306**	**879,367**	**-**	**8,573,673**
Depreciation, depletion and amortization	(1,688,769)	(2,178,182)	-	(3,866,951)
Impairment of non-financial assets	(1,041)	(8,256)	-	(9,297)
Net foreign exchange gain	44,865	392,476	-	437,341
Finance income (expenses), net	53,322	(165,912)	-	(112,590)
Income tax	-	(860,606)	-	(860,606)
Segment profit/(loss)	**6,150,779**	**(1,969,788)**	**-**	**4,180,991**

Reportable segment results for the three month period ended 31 March 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	10,413,708	46,495,344	(10,896,480)	46,012,572
Intersegment	10,311,920	584,560	(10,896,480)	-
External	101,788	45,910,784	-	46,012,572
EBITDA (Segment results)	**7,434,414**	**3,207,281**	**-**	**10,641,695**
Depreciation, depletion and amortization	(1,421,232)	(2,153,010)	-	(3,574,242)
Net foreign exchange gain	25,911	220,711	-	246,622
Finance expenses, net	(33,044)	(385,652)	-	(418,696)
Income tax	(45)	(1,130,502)	-	(1,130,547)
Segment profit (loss)	**5,914,265**	**(141,963)**	**-**	**5,772,302**

EBITDA for the three month period ended 31 March 2018 and 2017 is reconciled below:

	Three-month period ended 31 March	
	2018	2017
Profit for the period	4,180,991	5,772,302
Income tax expenses	860,606	1,130,547
Finance expenses	570,592	733,466
Finance income	(458,002)	(314,770)
Depreciation, depletion and amortization	3,866,951	3,574,242
Net foreign exchange gain	(437,341)	(246,622)
Other expense, net	72,469	185,701
Other non-operating income, net	(82,593)	(193,171)
EBITDA	**8,573,673**	**10,641,695**

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

		Three-month period ended 31 March 2018	
	Domestic market	Export and International sales	Total
Sale of crude oil	-	-	-
Sale of gas	419,278	-	419,278
Through a retail network	-	-	-
Wholesale activities	419,278	-	419,278
Sale of petroleum products	36,576,272	8,612,787	45,189,059
Through a retail network	12,267,996	-	12,267,996
Wholesale activities	24,308,276	8,612,787	32,921,063
Sale of electricity	82,246	1,053,778	1,136,024
Other sales	1,667,797	49,996	1,717,793
Total sales	**38,745,593**	**9,716,561**	**48,462,154**

		Three-month period ended 31 March 2017	
	Domestic market	Export and International sales	Total
Sale of crude oil	-	39,207	39,207
Sale of gas	616,096	-	616,096
Through a retail network	-	-	-
Wholesale activities	616,096	-	616,096
Sale of petroleum products	35,597,786	6,634,623	42,232,409
Through a retail network	12,056,311	-	12,056,311
Wholesale activities	23,541,475	6,634,623	30,176,098
Sale of electricity	167,809	1,404,866	1,572,675
Other sales	1,503,357	48,828	1,552,185
Total sales	**37,885,048**	**8,127,524**	**46,012,572**

Out of the amount of 32,921,063 RSD (2017: 30,176,098 RSD) revenue from sale of petroleum products (wholesale), the amount of 5,742,138 RSD (2017: 5,313,361 RSD) are derived from a single domestic customer HIP Petrohemija. These revenue 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 923,759 RSD (2017: 1,293,335 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 1,229,535 RSD (2017: 1,136,767 RSD).

The Company is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 38,745,593 RSD (2017: 37,885,048 RSD), and the total revenue from external customer from other countries is 9,716,561 RSD (2017: 8,127,524 RSD).

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

	Three-month period ended 31 March 2018	2017
Sale of crude oil	-	39,207
Sale of petroleum products (retail and wholesale)		
Bulgaria	2,221,072	1,441,553
Bosnia and Herzegovina	2,129,747	1,387,099
Romania	725,771	455,763
All other markets	3,536,197	3,350,208
	8,612,787	**6,634,623**
Sale of electricity	1,053,778	1,404,866
Other sales	49,996	48,828
	9,716,561	**8,127,524**

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

6. CASH AND CASH EQUIVALENTS

	31 March 2018	31 December 2017
Cash in bank and in hand	9,641,767	14,432,605
Deposits with original maturity of less than three months	7,090,000	8,670,000
Cash held on escrow account	48,089	68,765
Cash equivalents	234,547	239,354
	17,014,403	**23,410,724**

7. SHORT-TERM FINANCIAL ASSETS

	31 March 2018	31 December 2017
Short-term loans	195,466	247,524
Deposits with original maturity more than 3 months less than 1 year	4,084,946	7,645,642
Current portion of long-term investments (note 12)	5,953,733	3,838,872
Less impairment loss provision	(225,597)	(224,648)
	10,008,548	**11,507,390**

As at 31 March 2018 deposits with original maturity more than 3 months less than 1 year amounting to 4,084,946 RSD (31 December 2017: 7,645,642 RSD) relates to bank deposits placements with interest rates from 3,75% to 4,15% p.a. denominated in RSD.

8. TRADE AND OTHER RECEIVABLES

	31 March 2018	31 December 2017
Trade receivables:		
- related parties	3,883,351	5,261,268
- third parties	26,296,696	25,991,656
- state and state owned companies	12,139,483	10,233,306
	42,319,530	**41,486,230**
Accrued assets	198,242	185,641
	42,517,772	**41,671,871**
Less impairment provision for trade and other receivables:		
- third parties	(9,614,107)	(9,594,055)
- state and state owned companies	(1,832,163)	(1,864,445)
	(11,446,270)	**(11,458,500)**
Total trade and other receivables	**31,071,502**	**30,213,371**

The ageing of trade and other receivables is as follows:

	31 March 2018	31 December 2017
Neither impaired nor past due	28,498,541	27,691,406
Past due but not impaired:		
within 30 days	1,901,414	1,992,337
1 to 3 months	219,985	197,904
3 months to 1 year	246,270	121,577
over 1 year	205,292	210,147
Total	**31,071,502**	**30,213,371**

Company management believes that net receivables included in the ageing table above are fully recoverable.

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

	31 March 2018	31 December 2017
RSD	23,795,980	21,791,608
EUR	6,349,680	7,438,322
USD	925,695	982,442
Other	147	999
	31,071,502	**30,213,371**

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

	Trade & other receivables		
	Third parties	State and state owned companies	Total
As at 1 January 2017	**9,841,314**	**11,563,533**	**21,404,847**
Provision for receivables impairment	63,144	11,672	74,816
Release of provision	(75,092)	(15,188)	(90,280)
Receivables written off during the year as uncollectible	(922)	-	(922)
Exchange differences	13	38,833	38,846
As at 31 March 2017	**9,828,457**	**11,598,850**	**21,427,307**
As at 1 January 2018	**9,594,055**	**1,864,445**	**11,458,500**
Provision for receivables impairment	62,243	2,374	64,617
Release of provision	(7,982)	(33,358)	(41,340)
Receivables written off during the year as uncollectible	(9,385)	-	(9,385)
Unwinding of discount (note 23)	-	(26,797)	(26,797)
Exchange differences	(7)	682	675
Other	(24,817)	24,817	-
As at 31 March 2018	**9,614,107**	**1,832,163**	**11,446,270**

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

	31 March 2018	31 December 2017
Crude oil	19,054,608	22,312,814
Petroleum products	10,902,390	11,116,609
Materials and supplies	4,627,859	4,288,895
Other	682,715	680,609
Less impairment provision	(4,930,156)	(4,947,683)
	30,337,416	**33,451,244**

10. OTHER CURRENT ASSETS

	31 March 2018	31 December 2017
Advances paid	565,795	566,382
Deferred VAT	1,411,078	1,099,407
Prepaid expenses	434,412	193,927
Prepaid custom duties	31,863	31,995
Prepaid excise	1,870,244	1,820,845
Other current assets	13,176,680	13,085,751
Less impairment provision	(11,943,638)	(11,929,746)
	5,546,434	**4,868,561**

Deferred VAT as at 31 March 2018 amounting to 1,411,078 RSD (31 December 2017: 1,099,407 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 31 March 2018 amounting to 1,870,244 RSD (31 December 2017: 1,820,845 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 of other current assets are as follows:

	Advances paid	Other current assets	Total
As at 1 January 2017	**257,940**	**11,719,291**	**11,977,231**
Increase of provision during the year	5,659	5,849	11,508
Release of provision	(328)	(2,277)	(2,605)
Receivables written off during the year as uncollectible	-	(25,680)	(25,680)
As at 31 March 2017	**263,271**	**11,697,183**	**11,960,454**
As at 1 January 2018	**259,236**	**11,670,510**	**11,929,746**
Increase of provision during the year	-	22,168	22,168
Release of provision	(466)	(6,620)	(7,086)
Receivables written off during the year as uncollectible	-	(1,191)	(1,191)
Other	-	1	1
As at 31 March 2018	**258,770**	**11,684,868**	**11,943,638**

The ageing of other current assets is as follows:

	31 March 2018	31 December 2017
Neither impaired nor past due	1,307,316	1,214,442
Not impaired and past due in the following periods:		
Less than 1 month	15,889	14,972
1 - 3 months	11,725	25,707
3 month - 1 year	22,230	30,192
Over 1 year	19,721	14,658
Total	**1,376,881**	**1,299,971**

Net amount of other current assets shown in ageing analysis does not include non-financial assets like VAT, excise etc.

11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 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 31 March 2017						
Additions	-	-	-	-	5,258,428	5,258,428
Changes in decommissioning obligations	40,043	-	-	-	-	40,043
Transfer from assets under construction	2,955,133	1,168,149	882,955	111,044	(5,117,281)	-
Transfer to intangible assets	-	-	-	-	(31,479)	(31,479)
Transfer to investment property	-	-	-	(2,314)	-	(2,314)
Impairment	-	-	-	-	(13)	(13)
Depreciation	(1,407,572)	(1,418,914)	(366,488)	(135,546)	-	(3,328,520)
Disposals and write-off	(1,769)	(3,336)	(58,457)	(550)	(38,231)	(102,343)
Other transfers	1,620	8	(19,345)	20,031	10,884	13,198
	90,029,766	**75,096,242**	**22,472,794**	**9,051,874**	**29,755,273**	**226,405,949**
As at 31 March 2017						
Cost	118,822,361	111,683,380	47,095,306	17,669,616	31,859,243	327,129,906
Depreciation and impairment	(28,792,595)	(36,587,138)	(24,622,512)	(8,617,742)	(2,103,970)	(100,723,957)
Net book value	**90,029,766**	**75,096,242**	**22,472,794**	**9,051,874**	**29,755,273**	**226,405,949**
As at 1 January 2018						
Cost	135,319,517	114,239,048	47,083,673	17,694,721	32,591,816	346,928,775
Depreciation and impairment	(32,675,985)	(40,818,582)	(25,487,659)	(8,841,365)	(1,996,745)	(109,820,336)
Net book value	**102,643,532**	**73,420,466**	**21,596,014**	**8,853,356**	**30,595,071**	**237,108,439**
Period ended 31 March 2018						
Additions	-	-	-	-	8,422,232	8,422,232
Acquisitions through business combinations	-	-	-	-	217,660	217,660
Changes in decommissioning obligations	38,197	-	-	-	-	38,197
Transfer from assets under construction	4,039,585	349,144	2,042,613	66,873	(6,498,215)	-
Transfer to investment property	-	-	(38,530)	-	-	(38,530)
Transfer to non-current assets held for sale	-	-	-	(5,260)	-	(5,260)
Impairment	-	-	-	-	(1,043)	(1,043)
Depreciation	(1,674,960)	(1,412,209)	(401,281)	(132,624)	-	(3,621,074)
Disposals and write-off	(4,369)	(27,487)	(3,489)	(987)	(53,906)	(90,238)
Other transfers	(23,320)	26	323,905	(300,547)	-	64
	105,018,665	**72,329,940**	**23,519,232**	**8,480,811**	**32,681,799**	**242,030,447**
As at 31 March 2018						
Cost	139,346,139	114,511,325	49,781,206	17,044,424	34,679,587	355,362,681
Depreciation and impairment	(34,327,474)	(42,181,385)	(26,261,974)	(8,563,613)	(1,997,788)	(113,332,234)
Net book value	**105,018,665**	**72,329,940**	**23,519,232**	**8,480,811**	**32,681,799**	**242,030,447**

Oil and gas production assets

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2017						
Cost	16,633,007	4,162,492	20,795,499	115,864,815	22,129	136,682,443
Depreciation and impairment	-	(876)	(876)	(27,422,504)	(20,309)	(27,443,689)
Net book amount	**16,633,007**	**4,161,616**	**20,794,623**	**88,442,311**	**1,820**	**109,238,754**
Period ended 31 March 2017						
Additions	631,732	3,192,972	3,824,704	-	-	3,824,704
Changes in decommissioning obligations	-	-	-	40,043	-	40,043
Transfer from asset under construction	(241,841)	(2,713,292)	(2,955,133)	2,955,133	-	-
Other transfers	(38,014)	46,494	8,480	1,620	-	10,100
Depreciation and depletion	-	-	-	(1,407,572)	-	(1,407,572)
Disposals and write-off	(34,131)	(2,124)	(36,255)	(1,769)	-	(38,024)
	16,950,753	**4,685,666**	**21,636,419**	**90,029,766**	**1,820**	**111,668,005**
As at 31 March 2017						
Cost	16,950,753	4,686,542	21,637,295	118,822,361	22,130	140,481,786
Depreciation and impairment	-	(876)	(876)	(28,792,595)	(20,310)	(28,813,781)
Net book amount	**16,950,753**	**4,685,666**	**21,636,419**	**90,029,766**	**1,820**	**111,668,005**
As at 1 January 2018						
Cost	10,805,015	6,481,469	17.286.484	135,319,517	22,129	152,628,130
Depreciation and impairment	-	(2,087)	(2,087)	(32,675,985)	(20,309)	(32,698,381)
Net book amount	**10,805,015**	**6,479,382**	**17,284,397**	**102,643,532**	**1,820**	**119,929,749**
Period ended 31 March 2018						
Additions	839,725	2,788,402	3,628,127	-	-	3,628,127
Changes in decommissioning obligations	-	-	-	38,197	-	38,197
Transfer from asset under construction	(647,118)	(3,392,467)	(4,039,585)	4,039,585	-	-
Other transfers	454,188	(452,123)	2,065	(23,320)	-	(21,255)
Impairment	-	(1,041)	(1,041)	-	-	(1,041)
Depreciation and depletion	-	-	-	(1,674,960)	-	(1,674,960)
Disposals and write-off	(41,702)	(1)	(41,703)	(4,369)	-	(46,072)
	11,410,108	**5,422,152**	**16,832,260**	**105,018,665**	**1,820**	**121,852,745**
As at 31 March 2018						
Cost	11,410,108	5,425,280	16,835,388	139,346,139	22,129	156,203,656
Depreciation and impairment	-	(3,128)	(3,128)	(34,327,474)	(20,309)	(34,350,911)
Net book amount	**11,410,108**	**5,422,152**	**16,832,260**	**105,018,665**	**1,820**	**121,852,745**

12. LONG-TERM FINANCIAL ASSETS

	31 March 2018	31 December 2017
Deposits with original maturity more than 1 year	2,053,021	2,029,483
LT loans issued	36,063,236	35,863,153
Available for sale financial assets	186,055	187,311
Other LT placements	26,385	26,567
Less Current portion of LT loans issued (note 7)	(5,953,733)	(3,838,872)
Less provision of other LT placements	(78,971)	(79,600)
	32,295,993	**34,188,042**

13. OTHER NON-CURRENT ASSETS

	31 March 2018	31 December 2017
Advances paid for PPE	1,754,072	2,148,358
Prepaid expenses	673,406	689,450
Other assets	1,033,892	1,034,607
Less impairment provision	(36,946)	(36,946)
	3,424,424	**3,835,469**

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

	31 March 2018	31 December 2017
Short-term loans	1,660,358	2,298,487
Interest liabilities	114,188	106,743
Current portion of long-term loans (note 18)	6,094,389	5,849,547
Current portion of finance lease liabilities (note 18)	51,577	51,155
	7,920,512	**8,305,932**

15. TRADE AND OTHER PAYABLES

	31 March 2018	31 December 2017
Trade payables:		
- related parties	9,815,829	15,429,094
- third parties	15,601,233	15,371,836
Dividends payable	3,772,308	3,772,308
Other accounts payable	20,723	23,278
	29,210,093	**34,596,516**

As at 31 March 2018 payables to related parties amounting to 9,815,829 RSD (31 December 2017: 15,429,094 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 5,104,470 RSD mostly based on purchase of crude oil (31 December 2017: 11,727,340 RSD).

16. OTHER CURRENT LIABILITIES

	31 March 2018	31 December 2017
Advances received	1,144,998	1,374,398
Payables to employees	3,535,693	3,041,616
Accruals and deferred income	441,802	435,851
Other current non-financial liabilities	11,736	28,840
	5,134,229	**4,880,705**

17. OTHER TAXES PAYABLE

	31 March 2018	31 December 2017
Mineral extraction tax	319,573	280,971
VAT	1,589,070	1,668,014
Excise tax	4,782,665	4,777,490
Contribution for buffer stocks	480,728	527,858
Custom duties	282,709	126,946
Other taxes	1,875,388	1,853,860
	9,330,133	**9,235,139**

18. LONG-TERM DEBT

	31 March 2018	31 December 2017
Long-term loan - Gazprom Neft	28,908,039	30,306,970
Bank loans	60,401,030	65,097,574
Finance lease liabilities	560,588	247,210
Other long-term borrowings		
Less Current portion (note 14)	(6,145,966)	(5,900,702)
	83,723,691	**89,751,052**

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

	Long-term loans	Short-term loans (note 14)	Finance lease	Total
As at 1 January 2017	**102,720,930**	**13,299,544**	**142,528**	**116,163,002**
Proceeds	2,103,895	2,105,545	-	4,209,440
Repayment	(2,334,305)	(4,309,905)	-	(6,644,210)
Non-cash transactions	-	-	68,008	68,008
Foreign exchange difference (note 21)	(76,656)	49,223	(339)	(27,772)
As at 31 March 2017	**102,413,864**	**11,144,407**	**210,197**	**113,768,468**
As at 1 January 2018	**95,404,544**	**2,298,487**	**247,210**	**97,950,241**
Proceeds	2,356,535	3,339,596	-	5,696,131
Repayment	(7,912,702)	(3,977,725)	(12,254)	(11,902,681)
Non-cash transactions	-	-	325,625	325,625
Foreign exchange difference (note 21)	(539,308)	-	7	(539,301)
As at 31 March 2018	**89,309,069**	**1,660,358**	**560,588**	**91,530,015**

(a) Long-term loan - Gazprom Neft

As at 31 March 2018 long-term loan - Gazprom Neft amounting to 28,908,039 RSD (31 December 2017: 30,306,970 RSD), with current portion of 5,506,293 RSD (2017: 5,510,358 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) Bank loans

	31 March 2018	31 December 2017
Domestic	45,638,161	43,338,385
Foreign	14,762,869	21,759,189
	60,401,030	65,097,574
Current portion of long-term loans	(588,096)	(339,189)
	59,812,934	**64,758,385**

The maturity of bank loans was as follows:

	31 March 2018	31 December 2017
Between 1 and 2 years	16,826,114	23,252,660
Between 2 and 5 years	40,552,551	38,991,710
Over 5 years	2,434,269	2,514,015
	59,812,934	**64,758,385**

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

	31 March 2018	31 December 2017
USD	10,927,478	17,934,250
EUR	46,210,269	43,891,080
RSD	2,960,403	2,962,633
JPY	302,880	309,611
	60,401,030	**65,097,574**

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 fulfill 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 31 March 2018 and 31 December 2017, respectively.

19. PRODUCTION AND MANUFACTURING EXPENSES

	Three-month period ended 31 March 2018	2017
Employee costs	811,683	795,346
Materials and supplies (other than purchased oil, petroleum products and gas)	226,601	214,007
Repair and maintenance services	887,795	832,122
Electricity for resale	983,843	1,430,034
Electricity and utilities	449,675	361,874
Safety and security expense	82,743	57,279
Insurance services	70,416	70,383
Transportation services for production	483,574	412,298
Other	1,755,290	1,791,108
	5,751,620	**5,964,451**

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three-month period ended 31 March 2018	2017
Employee costs	2,405,007	2,199,633
Legal, audit and consulting services	283,876	305,958
Rent expense	32,238	32,680
Business trips expense	66,461	56,770
Safety and security expense	108,417	115,588
Insurance expense	22,853	22,468
Transportation and storage	81,699	82,625
Allowance for doubtful accounts	15,947	(53,972)
Other	2,004,363	1,917,767
	5,020,861	**4,679,517**

21. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three-month period ended 31 March 2018	2017
Foreign exchange gain (loss) on financing activities including:		
- foreign exchange gain	735,475	763,332
- foreign exchange loss	(196,174)	(735,560)
Net foreign exchange gain (loss) on operating activities	(101,960)	218,850
	437,341	**246,622**

22. FINANCE INCOME

	Three-month period ended 31 March 2018	2017
Interest on bank deposits	240,681	86,964
Interest income on loans issued	217,321	227,806
	458,002	**314,770**

23. FINANCE EXPENSES

	Three-month period ended 31 March	
	2018	2017
Interest expense	599,345	832,482
Decommissioning provision: unwinding of the present	21,730	33,499
Trade receivables: unwinding of discount	(26,797)	(116,686)
Less: interest expense capitalised on qualifying assets	(23,686)	(15,829)
	570,592	**733,466**

24. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Financial Statements: investment properties and financial investments classified as available for sale. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Financial Statements as of 31 December 2017. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 31 March 2018 the carrying value of financial assets approximates their fair value.

25. BUSINESS COMBINATIONS

In 2018, the Company acquired one petrol station in Serbia. The total consideration paid for acquisition amounted to 205,722 RSD. The fair value of net identifiable asset acquired amounted to 217,660 RSD and remaining amount was recognised as gain on bargain purchase. The acquisition agreements includes only acquisition of petrol station and do not contain any contingent consideration.

26. 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 586,021 RSD (31 December 2017: 681,162 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 31 March 2018.

Capital commitments

As of 31 March 2018 the Company has entered into contracts to purchase property, plant and equipment for 13,100,987 RSD (31 December 2017: 11,347,097 RSD).

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

27. 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 three month period ended 31 March 2018 and in the same period in 2017, 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 31 March 2018 and 31 December 2017 the outstanding balances with related parties were as follows:

As at 31 March 2018	Subsidiaries	Parent company	Parent's subsidiaries and associates
Short-term financial assets	6,099,665	-	-
Trade and other receivables	3,347,042	92	536,295
Other current assets	18,248	-	75,437
Investments in subsidiaries, associates and joint ventures	13,425,586	-	1,038,800
Long-term financial assets	30,109,503	-	-
Other non-current assets	70,589	-	-
Trade and other payables	(3,073,566)	(5,104,470)	(1,637,793)
Other current liabilities	-	-	(1,957)
Short-term debt and current portion of long-term debt	(1,663,993)	(5,506,293)	-
Long-term debt	-	(23,401,746)	-
	48,333,074	**(34,012,417)**	**10,782**

As at 31 December 2017	Subsidiaries	Parent company	Parent's subsidiaries and associates
Short-term financial assets	3,861,747	-	-
Trade and other receivables	3,992,812	-	1,023,525
Other current assets	16,763	-	2,754
Investments in subsidiaries, associates and joint ventures	13,425,586	-	1,038,800
Long-term financial assets	32,024,282	-	-
Other non-current assets	97,920	-	-
Trade and other payables	(2,687,690)	(11,727,340)	(1,014,064)
Other current liabilities	-	-	(60,730)
Short-term debt and current portion of long-term debt	(2,303,209)	(5,510,358)	-
Long-term debt	-	(24,796,612)	-
	48,428,211	**(42,034,310)**	**1,044,942**

For the three month period ended 31 March 2018 and 2017 the following transaction occurred with related parties:

Three month period ended 31 March 2018	Subsidiaries	Parent company	Parent's subsidiaries and associates
Petroleum products and oil and gas sales	3,414,986	-	259,502
Other revenues	200,444	462	929,121
Purchases of oil, gas and petroleum products	(3,428,599)	(17,564,237)	(260,310)
Production and manufacturing expenses	(968,317)	-	(909,956)
Selling, general and administrative expenses	(112,431)	-	(1,035)
Transportation expenses	(23,024)	-	-
Other expenses, net	-	(14,904)	(217)
Finance income	214,666	-	-
Finance expense	(11,413)	(131,075)	-
	(713,688)	**(17,709,754)**	**17,105**

Three month period ended 31 March 2017	Subsidiaries	Parent company	Parent's subsidiaries and associates
Petroleum products and oil and gas sales	2,616,594	-	194,800
Other revenues	248,381	-	1,293,335
Purchases of oil, gas and petroleum products	(83,238)	(4,073,504)	(194,802)
Production and manufacturing expenses	(744,363)	-	(1,341,721)
Selling, general and administrative expenses	(222,512)	-	(1,099)
Transportation expenses	(22,540)	-	-
Other expenses, net	(19,421)	(14,880)	(47)
Finance income	223,236	-	-
Finance expense	(9,983)	(171,568)	-
	1,986,154	**(4,259,952)**	**(49,534)**

Main balances and transactions with state and state owned companies are shown below:

	Parent's subsidiaries and associates	Other
As at 31 March 2018		
Trade and other receivables (gross)		
• *HIP Petrohemija*	3,215,899	-
• *Srbijagas*	-	15,899
• *Republika Srbija*	-	3,740,763
• *Other state owned companies*	-	5,166,922
Trade and other payables		
• *HIP Petrohemija*	(1,154,060)	-
• *Srbijagas*	-	(81,565)
Other current liabilities		
• *HIP Petrohemija*	(1,912)	-
	2,059,927	**8,842,019**
As at 31 December 2017		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,446,685	-
• *Srbijagas*	-	109,748
• *Republika Srbija*	-	3,740,763
• *Other state owned companies*	-	4,936,110
Trade and other payables		
• *HIP Petrohemija*	(1,252,736)	-
• *Srbijagas*	-	(77,059)
Other current liabilities		
• *HIP Petrohemija*	(13,646)	-
	180,303	**8,709,562**

	Parent's subsidiaries and associates	Other
Three month period ended 31 March 2018		
Operating income		
• *HIP Petrohemija*	5,743,022	-
• *Srbijagas*	-	172,037
Operating expenses		
• *HIP Petrohemija*	(50,426)	-
• *Srbijagas*	-	(230,071)
	5,692,596	**(58,034)**
Three month period ended 31 March 2017		
Operating income		
• *HIP Petrohemija*	5,313,361	-
• *Srbijagas*	-	157,339
Operating expenses		
• *HIP Petrohemija*	(46,642)	-
• *Srbijagas*	-	(229,285)
	5,266,719	**(71,946)**

Transactions with state and state owned companies controlled entities mainly relates to sales of petroleum products based on the price lists in force and terms that would be available to third parties.

Transactions with Key Management Personnel

For the three month period ended on 31 March 2018 and 2017 the Company recognized 246,309 RSD and 219,963 RSD, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

Consolidated Financial Statements

Consolidated Statement of Financial Position

	Notes	31 March 2018 (unaudited)	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	6	20,225,819	27,075,370
Short-term financial assets	7	4,147,260	7,666,968
Trade and other receivables	8	29,964,664	28,671,743
Inventories	9	33,580,856	36,916,942
Other current assets	10	6,398,994	5,806,515
Non-current assets held for sale		6,828	163
Total current assets		**94,324,421**	**106,137,701**
Non-current assets			
Property, plant and equipment	11	268,515,672	264,049,497
Investment property		1,559,593	1,530,356
Goodwill and other intangible assets		5,318,624	5,561,145
Investments in associates and joint ventures		2,047,021	2,047,021
Trade and other non-current receivables		73,356	73,411
Long-term financial assets	12	2,186,490	2,163,760
Deferred tax assets		1,911,579	2,197,910
Other non-current assets	13	3,406,095	3,792,519
Total non-current assets		**285,018,430**	**281,415,619**
Total assets		**379,342,851**	**387,553,320**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	14	6,587,203	6,279,124
Trade and other payables	15	28,799,723	35,300,763
Other current liabilities	16	5,970,246	5,589,872
Current income tax payable		2,039,107	1,952,025
Other taxes payable	17	10,214,266	10,270,700
Provisions for liabilities and charges		2,732,456	2,847,147
Total current liabilities		**56,343,001**	**62,239,631**
Non-current liabilities			
Long-term debt	18	84,419,973	90,495,878
Long-term trade and other payables		8,997	-
Provisions for liabilities and charges		9,787,465	9,766,303
Total non-current liabilities		**94,216,435**	**100,262,181**
Equity			
Share capital		81,530,200	81,530,200
Reserves		47,738	40,453
Retained earnings		147,441,881	143,713,351
Equity attributable to the Company's owners		**229,019,819**	**225,284,004**
Non-controlling interest		(236,404)	(232,496)
Total equity		**228,783,415**	**225,051,508**
Total liabilities and shareholder's equity		**379,342,851**	**387,553,320**

All amounts are in 000 RSD, unless otherwise stated

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	Three-month period ended 31 March 2018 *(unaudited)*	2017 *(unaudited)*
Sales of petroleum products, oil and gas		49,025,608	46,486,915
Other revenues		3,458,563	3,778,850
Total revenue from sales	5	**52,484,171**	**50,265,765**
Purchases of oil, gas and petroleum products		(30,579,988)	(26,365,923)
Production and manufacturing expenses	19	(5,862,031)	(6,044,080)
Selling, general and administrative expenses	20	(5,524,978)	(5,143,811)
Transportation expenses		(262,018)	(223,713)
Depreciation, depletion and amortization		(4,411,995)	(4,138,179)
Taxes other than income tax		(1,232,680)	(1,183,568)
Exploration expenses		(15,771)	(7,452)
Total operating expenses		**(47,889,461)**	**(43,106,726)**
Other expenses, net		(80,708)	(152,328)
Operating profit		**4,514,002**	**7,006,711**
Net foreign exchange gain	21	444,356	207,856
Finance income	22	243,554	92,382
Finance expenses	23	(590,577)	(755,944)
Total other income (expense)		**97,333**	**(455,706)**
Profit before income tax		**4,611,335**	**6,551,005**
Current income tax expense		(600,534)	(828,249)
Deferred tax expense		(286,361)	(348,315)
Total income tax expense		**(886,895)**	**(1,176,564)**
Profit for the period		**3,724,440**	**5,374,441**
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		(1,159)	131
Currency translation differences		8,626	7,246
		7,467	7,377
Other comprehensive profit (loss) for the period		**7,467**	**8,776**
Total comprehensive income for the period		**3,731,907**	**5,383,217**
Profit attributable to:			
- Shareholders of Naftna Industrija Srbije		3,728,530	5,379,732
- Non-controlling interest		(4,090)	(5,291)
Profit for the period		**3,724,440**	**5,374,441**
Total comprehensive income (loss) attributable to:			
- Shareholders of Naftna Industrija Srbije		3,735,815	5,389,359
- Non-controlling interest		(3,908)	(6,142)
Total comprehensive income for the period		**3,731,907**	**5,383,217**
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
Basic earnings (RSD per share)		22.87	32.99
Weighted average number of ordinary shares in issue (in millions)		163	163

All amounts are in 000 RSD, unless otherwise stated

Consolidated Statement of Changes in Shareholders' Equity

Three-month period ended 31 March 2018 and 2017
(unaudited)

	Equity attributable to Company's owners				Non-controlling interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
Balance as at 1 January 2017	81,530,200	(567,083)	120,731,166	201,694,283	(213,773)	201,480,510
Profit (loss) for the period	-	-	5,379,732	5,379,732	(5,291)	5,374,441
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	131	-	131	-	131
Revaluation of intangible assets, property, plant and equipment transferred to investment property	-	1,399	-	1,399	-	1,399
Currency translation differences	-	8,097	-	8,097	(851)	7,246
Total comprehensive income (loss) for the period	-	9,627	5,379,732	5,389,359	(6,142)	5,383,217
Balance as at 31 March 2017	**81,530,200**	**(557,456)**	**126,110,898**	**207,083,642**	**(219,915)**	**206,863,727**
Balance as at 1 January 2018	**81,530,200**	**40,453**	**143,713,351**	**225,284,004**	**(232,496)**	**225,051,508**
Profit (loss) for the period	-	-	3,728,530	3,728,530	(4,090)	3,724,440
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	(1,159)	-	(1,159)	-	(1,159)
Currency translation differences	-	8,444	-	8,444	182	8,626
Total comprehensive income (loss) for the period	-	**7,285**	3,728,530	**3,735,815**	**(3,908)**	**3,731,907**
Balance as at 31 March 2018	**81,530,200**	**47,738**	**147,441,881**	**229,019,819**	**(236,404)**	**228,783,415**

All amounts are in 000 RSD, unless otherwise stated

Consolidated Statement of Cash Flows[77]

	Note	Three-month period ended 31 March 2018 (unaudited)	2017 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**4,611,335**	**6,551,005**
Adjustments for:			
Finance expenses	23	590,577	755,944
Finance income	22	(243,554)	(92,382)
Net unrealised foreign exchange (gain) losses		(213,610)	195,651
Depreciation, depletion and amortization		4,411,995	4,138,179
Adjustments for other provisions		88,385	(154,931)
Allowance for doubtful accounts		39,059	9,207
Payables write-offs		(230)	(5,382)
Other non-cash items		89,464	85,538
Operating cash flow before changes in working capital		**4,762,086**	**4,931,824**
Changes in working capital:			
Trade and other receivables		(1,251,765)	3,804,956
Inventories		3,310,080	(3,779,857)
Other current assets		(535,738)	(669,101)
Trade payables and other current liabilities		(5,239,821)	(5,065,385)
Other taxes payable		(53,510)	(610,399)
Total effect on working capital changes		**(3,770,754)**	**(6,319,786)**
Income taxes paid		(578,539)	(10,909)
Interest paid		(541,139)	(781,802)
Interest received		106,395	90,323
Net cash generated from operating activities		**4,589,384**	**4,460,655**
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans issued		(47,250)	-
Loan proceeds received		-	4,952
Capital expenditures[78]		(9,380,521)	(5,225,524)
Proceeds from sale of property, plant and equipment		27,412	26,850
Bank deposits placements, net		3,606,718	-
Other outflow		-	(12,424)
Net cash used in investing activities		**(5,793,641)**	**(5,206,146)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	18	2,356,535	2,103,896
Repayment of borrowings	18	(7,912,701)	(4,374,560)
Repayments of finance lease liabilities	18	(24,425)	-
Net cash used in financing activities		**(5,580,591)**	**(2,270,664)**
Net increase decrease in cash and cash equivalents		(6,784,848)	(3,016,155)
Effect of foreign exchange on cash and cash equivalents		(64,703)	(4,552)
Cash and cash equivalents as of the beginning of the period		27,075,370	22,899,342
Cash and cash equivalents as of the end of the period		**20,225,819**	**19,878,635**

All amounts are in 000 RSD, unless otherwise stated

[77] Group policy is to present cash flow inclusive of related VAT

[78] CF from investing activities includes VAT in the amount of 1,5 bln RSD (2017: 0.6 bln RSD)

Notes to Consolidated Financial Statements[79]

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 was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005. On 2 February 2009 PJSC Gazprom Neft ("Gazprom Neft") acquired a 51% of the share capital of Naftna Industrija Srbije which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired an additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%. 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 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 2017, 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 2017.

Subsequent events occurring after 31 March 2018 were evaluated through 27 April 2018, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

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

The results for the three month period ended 31 March 2018 are not necessarily indicative of the results expected for the full year.

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

2.2. Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Consolidated Financial Statements are consistent with those applied during the preparation of Consolidated Financial Statements as of and for the year ended 31 December 2017, 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 Group from 1 January 2018:

- **IFRS 9 Financial Instruments, and**
- **IFRS 15 Revenue from Contracts with Customers.**

4. NEW ACCOUNTING STANDARDS

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

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be 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 statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to have significant impact on the Group’s Interim Condensed Consolidated Financial Statements.

5. SEGMENT INFORMATION

Presented below is information about the Group’s operating segments for the three month periods ended 31 March 2018 and 2017. 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 are presented within the Downstream segment.

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

EBITDA represents the Group's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Group's ongoing 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 three month period ended 31 March 2018 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	11,072,077	53,033,313	(11,621,219)	52,484,171
Intersegment	11,038,415	582,804	(11,621,219)	-
External	33,662	52,450,509	-	52,484,171
EBITDA (Segment results)	7,993,534	941,929	-	8,935,463
Depreciation, depletion and amortization	(2,014,674)	(2,397,321)	-	(4,411,995)
Impairment of non-financial assets	(1,050)	(8,253)	-	(9,303)
Net foreign exchange gain	47,279	397,077	-	444,356
Finance income (expenses), net	48,220	(395,243)	-	(347,023)
Income tax	(25,456)	(861,439)	-	(886,895)
Segment profit	**6,022,869**	**(2,298,429)**	**-**	**3,724,440**

Reportable segment results for the three month period ended 31 March 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	10,566,147	51,010,101	(11,310,483)	50,265,765
Intersegment	10,491,029	819,454	(11,310,483)	-
External	75,118	50,190,647	-	50,265,765
EBITDA (Segment results)	7,856,081	3,273,317	-	11,129,398
Depreciation, depletion and amortization	(1,754,080)	(2,384,099)	-	(4,138,179)
Net foreign exchange gain	14,071	193,785	-	207,856
Finance expenses, net	(56,179)	(607,383)	-	(663,562)
Income tax	(44,866)	(1,131,698)	-	(1,176,564)
Segment profit (loss)	**6,016,298**	**(641,857)**	**-**	**5,374,441**

EBITDA for the three month period ended 31 March 2018 and 2017 is reconciled below:

	Three-month period ended 31 March	
	2018	2017
Profit for the period	3,724,440	5,374,441
Income tax expenses	886,895	1,176,564
Finance expenses	590,577	755,944
Finance income	(243,554)	(92,382)
Depreciation, depletion and amortization	4,411,995	4,138,179
Net foreign exchange gain	(444,356)	(207,856)
Other expense, net	80,708	152,328
Other non-operating income, net	(71,242)	(167,820)
EBITDA	**8,935,463**	**11,129,398**

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

		Three-month period ended 31 March 2018	
	Domestic market	Export and International sales	Total
Sale of crude oil	-	-	-
Sale of gas	414,676	-	414,676
Through a retail network	-	-	-
Wholesale activities	414,676	-	414,676
Sale of petroleum products	36,373,705	12,237,227	48,610,932
Through a retail network	12,267,996	3,454,356	15,722,352
Wholesale activities	24,105,709	8,782,871	32,888,580
Sale of electricity	82,246	1,040,102	1,122,348
Other sales	1,697,343	638,872	2,336,215
Total sales	**38,567,970**	**13,916,201**	**52,484,171**

		Three-month period ended 31 March 2017	
	Domestic market	Export and International sales	Total
Sale of crude oil	-	39,207	39,207
Sale of gas	611,672	-	611,672
Through a retail network	-	-	-
Wholesale activities	611,672	-	611,672
Sale of petroleum products	35,761,919	10,074,117	45,836,036
Through a retail network	12,056,311	3,910,095	15,966,406
Wholesale activities	23,705,608	6,164,022	29,869,630
Sale of electricity	179,443	1,445,144	1,624,587
Other sales	1,432,927	721,336	2,154,263
Total sales	**37,985,961**	**12,279,804**	**50,265,765**

Out of the amount of 32,888,580 RSD (2017: 29,869,630 RSD) revenue from sale of petroleum products (wholesale), the amount of 5,742,138 RSD (2017: 5,313,361 RSD) are derived from a single domestic customer HIP Petrohemija. These revenue 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 923,759 RSD (2017: 1,293,335 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 1,779,633 RSD (2017: 1,665,337 RSD).

The Group is domiciled in the Republic of Serbia. The revenue from external customers in the Republic of Serbia is 38,567,970 RSD (2017: 37,985,961 RSD), and the total revenue from external customer from other countries is 13,916,201 RSD (2017: 12,279,804 RSD).

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

	Three-month period ended 31 March	
	2018	**2017**
Sale of crude oil	-	39,207
Sale of petroleum products (retail and wholesale)		
Bulgaria	3,493,250	2,999,769
Bosnia and Herzegovina	3,096,030	2,439,619
Romania	2,115,681	1,728,403
All other markets	3,532,266	2,906,326
	12,237,227	10,074,117
Sale of electricity	1,040,102	1,445,144
Other sales	638,872	721,336
	13,916,201	**12,279,804**

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:

	31 March 2018	31 December 2017
Serbia	253,781,970	249,437,031
Bulgaria	7,255,669	7,334,652
Bosnia and Herzegovina	7,316,418	7,401,758
Romania	7,039,816	6,967,529
Hungary	16	28
	275,393,889	**271,140,998**

6. CASH AND CASH EQUIVALENTS

	31 March 2018	31 December 2017
Cash in bank and in hand	10,481,457	15,897,022
Deposits with original maturity of less than three months	8,010,162	9,417,753
Cash held on escrow account	1,499,653	1,521,241
Cash equivalents	234,547	239,354
	20,225,819	**27,075,370**

Cash held on escrow accounts as of 31 March 2018 amounting to 1,499,653 RSD (31 December 2017: 1,521,241 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. According to the Agreement, the Group can withdraw cash at any time.

7. SHORT-TERM FINANCIAL ASSETS

	31 March 2018	31 December 2017
Short-term loans	49,725	2,210
Deposits with original maturity more than 3 months less than 1 year	4,084,993	7,645,689
Other short-term financial assets	14,798	21,325
Less impairment loss provision	(2,256)	(2,256)
	4,147,260	**7,666,968**

As at 31 March 2018 deposits with original maturity more than 3 months less than 1 year amounting to 4,084,993 RSD (31 December 2016: 7,645,689 RSD) relates to bank deposits placements with interest rates from 3,75% to 4,15% p.a. denominated in RSD.

8. TRADE AND OTHER RECEIVABLES

	31 March 2018	31 December 2017
Trade receivables:		
- related parties	536,980	1,024,133
- third parties	28,107,170	28,265,729
- state and state owned companies	12,139,483	10,233,306
	40,783,633	**39,523,168**
Other receivables – related parties	269,242	269,242
Accrued assets	248,181	227,630
	41,301,056	**40,020,040**
Less impairment provision for trade and other receivables:		
- third parties	(9,504,229)	(9,483,852)
- state and state owned companies	(1,832,163)	(1,864,445)
	(11,336,392)	**(11,348,297)**
Total trade and other receivables	**29,964,664**	**28,671,743**

The ageing of trade and other receivables is as follows:

	31 March 2018	31 December 2017
Neither impaired nor past due	27,199,828	25,624,198
Past due but not impaired:		
within 30 days	1,766,358	2,156,358
1 to 3 months	226,750	237,143
3 months to 1 year	272,928	146,553
over 1 year	498,800	507,491
Total	**29,964,664**	**28,671,743**

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:

	31 March 2018	31 December 2017
RSD	23,669,330	21,681,702
EUR	3,765,369	4,283,546
USD	925,695	982,442
Other	1,604,270	1,724,053
	29,964,664	**28,671,743**

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

	Trade & other receivables		
	Third parties	State and state owned companies	Total
As at 1 January 2017	**9,728,531**	**11,563,533**	**21,292,064**
Provision for receivables impairment	64,311	11,672	75,983
Release of provision	(75,405)	(15,188)	(90,593)
Receivables written off during the year as uncollectible	(922)	-	(922)
Exchange differences	15	38,833	38,848
Other	20,373	-	20,373
As at 31 March 2017	**9,736,903**	**11,598,850**	**21,335,753**
As at 1 January 2018	**9,483,852**	**1,864,445**	**11,348,297**
Provision for receivables impairment	63,281	2,374	65,655
Release of provision	(8,624)	(33,358)	(41,982)
Receivables written off during the year as uncollectible	(9,385)	-	(9,385)
Exchange differences	(17)	682	665
Unwinding of discount (note 23)	-	(26,797)	(26,797)
Other	(24,878)	24,817	(61)
As at 31 March 2018	**9,504,229**	**1,832,163**	**11,336,392**

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.

9. INVENTORIES

	31 March 2018	31 December 2017
Crude oil	19,054,608	22,312,814
Petroleum products	11,544,481	12,708,119
Materials and supplies	7,010,629	5,918,849
Other	1,056,803	1,085,655
Less impairment provision	(5,085,665)	(5,108,495)
	33,580,856	**36,916,942**

10. OTHER CURRENT ASSETS

	31 March 2018	31 December 2017
Advances paid	640,847	666,931
VAT receivables	329,438	286,562
Deferred VAT	1,604,775	1,419,963
Prepaid expenses	496,742	236,846
Prepaid custom duties	32,182	32,368
Prepaid excise	1,943,117	1,898,628
Other current assets	13,314,330	13,213,771
Less impairment provision	(11,962,437)	(11,948,554)
	6,398,994	**5,806,515**

Deferred VAT as at 31 March 2018 amounting to 1,604,775 RSD (31 December 2017: 1,419,963 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 31 March 2018 amounting to 1,943,117 RSD (31 December 2017: 1,898,628 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 of other current assets are as follows:

	Advances paid	Other current assets	Total
As at 1 January 2017	**261,983**	**11,736,780**	**11,998,763**
Increase of provision during the year	5,659	4,666	10,325
Release of provision	(329)	(2,285)	(2,614)
Receivables written off during the year as uncollectible	-	(25,677)	(25,677)
Other	-	1,371	1,371
As at 31 March 2017	**267,313**	**11,714,855**	**11,982,168**
As at 1 January 2018	**261,100**	**11,687,454**	**11,948,554**
Increase of provision during the year	-	21,055	21,055
Release of provision	(467)	(5,506)	(5,973)
Receivables written off during the year as uncollectible	-	(1,191)	(1,191)
Other	1	(9)	(8)
As at 31 March 2018	**260,634**	**11,701,803**	**11,962,437**

The ageing of other current assets is as follows:

	31 March 2018	31 December 2017
Neither impaired nor past due	1,352,138	1,294,564
Not impaired and past due in the following periods:		
Less than 1 month	18,532	11,365
1 - 3 months	12,584	7,147
3 month - 1 year	26,701	36,055
Over 1 year	78,785	41,710
Total	**1,488,740**	**1,390,841**

Net amount of other current assets shown in ageing analysis does not include non-financial assets like VAT, excise etc.

11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 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 31 March 2017						
Additions	-	-	411	626	5,467,105	5,468,142
Changes in decommissioning obligations	40,043	-	-	-	-	40,043
Transfer from assets under construction	3,037,804	1,168,149	905,520	110,149	(5,221,622)	-
Transfer (to) from intangible assets	645	8	(19,345)	18,692	-	-
Transfer to investment property	-	-	-	(2,314)	-	(2,314)
Impairment	-	-	-	-	(10)	(10)
Depreciation	(1,645,244)	(1,418,914)	(586,085)	(194,882)	(1,268)	(3,846,393)
Disposals and write-off	(1,989)	(3,336)	(59,075)	(549)	(38,767)	(103,716)
Other transfers	(17,720)	-	(566)	-	(1,041)	(19,327)
Translation differences	3	-	54,564	2,317	10,877	67,761
	98,283,405	**75,096,242**	**37,789,787**	**10,504,074**	**33,690,945**	**255,364,453**
As at 31 March 2017						
Cost	130,820,284	111,683,379	66,109,930	20,292,540	35,822,546	364,728,679
Depreciation and impairment	(32,536,879)	(36,587,137)	(28,320,143)	(9,788,466)	(2,131,601)	(109,364,226)
Net book value	**98,283,405**	**75,096,242**	**37,789,787**	**10,504,074**	**33,690,945**	**255,364,453**
As at 1 January 2018						
Cost	147,452,224	114,239,048	65,305,683	20,338,124	36,549,810	383,884,889
Depreciation and impairment	(37,114,232)	(40,818,582)	(29,653,958)	(10,189,787)	(2,058,833)	(119,835,392)
Net book value	**110,337,992**	**73,420,466**	**35,651,725**	**10,148,337**	**34,490,977**	**264,049,497**
Period ended 31 March 2018						
Additions	-	-	-	111	8,477,335	8,477,446
Acquisitions through business combinations	-	-	-	-	217,660	217,660
Changes in decommissioning obligations	38,197	-	-	-	-	38,197
Transfer from assets under construction	4,205,687	349,144	2,048,210	196,653	(6,799,694)	-
Transfer to investment property	-	-	(38,530)	-	-	(38,530)
Transfer to non-current assets held for sale	-	-	-	(5,260)	-	(5,260)
Impairment	-	-	-	-	(1,050)	(1,050)
Depreciation	(1,911,237)	(1,412,209)	(607,495)	(192,725)	(1,202)	(4,124,868)
Disposals and write-off	(3,158)	(27,487)	(3,489)	(1,290)	(53,629)	(89,053)
Other transfers	(23,320)	26	323,905	(300,611)	-	-
Translation differences	3	-	(8,873)	63	440	(8,367)
	112,644,164	**72,329,940**	**37,365,453**	**9,845,278**	**36,330,837**	**268,515,672**
As at 31 March 2018						
Cost	151,645,148	114,511,324	68,002,284	19,815,304	38,364,609	392,338,669
Depreciation and impairment	(39,000,984)	(42,181,384)	(30,636,831)	(9,970,026)	(2,033,772)	(123,822,997)
Net book value	**112,644,164**	**72,329,940**	**37,365,453**	**9,845,278**	**36,330,837**	**268,515,672**

Oil and gas production assets

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 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 31 March 2017						
Additions	745,194	3,286,011	4,031,205	-	-	4,031,205
Changes in decommissioning obligations	-	-	-	40,043	-	40,043
Transfer from asset under construction	(241,841)	(2,795,068)	(3,036,909)	3,037,804	(895)	-
Other transfers	(38,029)	54,140	16,111	(17,075)	975	11
Depreciation and depletion	(1,268)	-	(1,268)	(1,645,244)	(13)	(1,646,525)
Disposals and write-off	(33,121)	(3,137)	(36,258)	(1,989)	-	(38,247)
Translation differences	13,758	(7,646)	6,112	3	-	6,115
	20,558,104	**4,807,876**	**25,365,980**	**98,283,405**	**11,161**	**123,660,546**
As at 31 March 2017						
Cost	20,582,379	4,808,752	25,391,131	130,820,284	32,391	156,243,806
Depreciation and impairment	(24,275)	(876)	(25,151)	(32,536,879)	(21,230)	(32,583,260)
Net book amount	**20,558,104**	**4,807,876**	**25,365,980**	**98,283,405**	**11,161**	**123,660,546**
As at 1 January 2018						
Cost	18,580,168	2,929,684	21,509,852	147,452,224	32,323	168,994,399
Depreciation and impairment	(58,882)	(2,087)	(60,969)	(37,114,232)	(21,223)	(37,196,424)
Net book amount	**18,521,286**	**2,927,597**	**21,448,883**	**110,337,992**	**11,100**	**131,797,975**
Period ended 31 March 2018						
Additions	774,028	2,907,969	3,681,997	-	-	3,681,997
Changes in decommissioning obligations	-	-	-	38,197	-	38,197
Transfer from asset under construction	(647,118)	(3,558,569)	(4,205,687)	4,205,687	-	-
Other transfers	454,188	(452,124)	2,064	(23,320)	(28)	(21,284)
Impairment	-	(1,047)	(1,047)	-	-	(1,047)
Depreciation and depletion	(1,202)	-	(1,202)	(1,911,237)	-	(1,912,439)
Disposals and write-off	(41,702)	(21)	(41,723)	(3,158)	-	(44,881)
Translation differences	(2,593)	-	(2,593)	3	-	(2,590)
	19,056,887	**1,823,805**	**20,880,692**	**112,644,164**	**11,072**	**133,535,928**
As at 31 March 2018						
Cost	19,089,660	1,826,939	20,916,599	151,645,148	31,381	172,593,128
Depreciation and impairment	(32,773)	(3,134)	(35,907)	(39,000,984)	(20,309)	(39,057,200)
Net book amount	**19,056,887**	**1,823,805**	**20,880,692**	**112,644,164**	**11,072**	**133,535,928**

12. LONG-TERM FINANCIAL ASSETS

	31 March 2018	31 December 2017
Deposits with original maturity more than 1 year	2,053,021	2,029,483
Available for sale financial assets	186,055	187,310
Other LT placements	26,385	26,567
Less provision of available for sale financial assets	(67,294)	(67,392)
Less provision of other LT placements	(11,677)	(12,208)
	2,186,490	**2,163,760**

13. OTHER NON-CURRENT ASSETS

	31 March 2018	31 December 2017
Advances paid for PPE	1,735,742	2,105,408
Prepaid expenses	673,406	689,450
Other assets	1,033,893	1,034,607
Less impairment provision	(36,946)	(36,946)
	3,406,095	**3,792,519**

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

	31 March 2018	31 December 2017
Interest liabilities	190,347	179,540
Current portion of long-term loans (note 18)	6,343,964	6,047,159
Current portion of finance lease liabilities (note 18)	52,892	52,425
	6,587,203	**6,279,124**

15. TRADE AND OTHER PAYABLES

	31 March 2018	31 December 2017
Trade payables:		
- related parties	5,588,203	12,774,912
- third parties	19,416,109	18,727,747
Dividends payable	3,772,308	3,772,308
Other accounts payable	23,103	25,796
	28,799,723	**35,300,763**

As at 31 March 2018 payables to related parties amounting to 5,588,203 RSD (31 December 2017: 12,774,912 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 5,104,470 RSD mostly based on purchase of crude oil (31 December 2017: 11,727,340 RSD).

16. OTHER CURRENT LIABILITIES

	31 March 2018	31 December 2017
Advances received	1,255,870	1,439,243
Payables to employees	4,232,062	3,664,823
Accruals and deferred income	469,349	455,538
Other current non-financial liabilities	12,965	30,268
	5,970,246	**5,589,872**

17. OTHER TAXES PAYABLE

	31 March 2018	31 December 2017
Mineral extraction tax	319,573	280,971
VAT	1,732,028	1,913,685
Excise tax	5,266,711	5,258,815
Contribution for buffer stocks	480,728	527,858
Custom duties	299,310	209,018
Other taxes	2,115,916	2,080,353
	10,214,266	**10,270,700**

18. LONG-TERM DEBT

	31 March 2018	31 December 2017
Long-term loan - Gazprom Neft	28,908,039	30,306,970
Bank and other long term loans	61,099,434	65,796,475
Finance lease liabilities	745,588	432,562
Other long-term borrowings	63,768	59,455
Less Current portion (note 14)	(6,396,856)	(6,099,584)
	84,419,973	**90,495,878**

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

	Long-term loans	Short-term loans (note 14)	Finance lease	Total
As at 1 January 2017	**103,449,326**	**12,189,945**	**343,080**	**115,982,351**
Proceeds	2,103,896	-	-	2,103,896
Repayment	(2,334,305)	(2,040,255)	-	(4,374,560)
Non-cash transactions	-	-	68,098	68,098
Foreign exchange difference (note 21)	(73,734)	49,194	(345)	(24,885)
As at 31 March 2017	**103,145,183**	**10,198,884**	**410,833**	**113,754,900**
As at 1 January 2018	**96,103,445**	**-**	**432,562**	**96,536,007**
Proceeds	2,356,535	-	-	2,356,535
Repayment	(7,912,701)	-	(24,425)	(7,937,126)
Non-cash transactions	-	-	337,590	337,590
Foreign exchange difference (note 21)	(539,806)	-	(139)	(539,945)
As at 31 March 2018	**90,007,473**	**-**	**745,588**	**90,753,061**

(a) Long-term loan - Gazprom Neft

As at 31 March 2018 long-term loan - Gazprom Neft amounting to 28,908,039 RSD (31 December 2017: 30,306,970 RSD), with current portion of 5,506,293 RSD (2017: 5,510,358 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) Bank and other long-term loans

	31 March 2018	31 December 2017
Domestic	45,638,177	43,338,384
Foreign	15,461,257	22,458,091
	61,099,434	65,796,475
Current portion of long-term loans	(837,671)	(536,801)
	60,261,763	**65,259,674**

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

	31 March 2018	31 December 2017
Between 1 and 2 years	16,826,114	23,403,612
Between 2 and 5 years	41,001,364	39,342,047
Over 5 years	2,434,285	2,514,015
	60,261,763	**65,259,674**

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

	31 March 2018	31 December 2017
USD	10,927,478	17,934,250
EUR	49,868,290	47,551,800
RSD	786	814
JPY	302,880	309,611
	61,099,434	**65,796,475**

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 fulfill its obligations within agreed timeframe.

The loan agreements contain financial covenants that require the Group's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of 31 March 2018 and 31 December 2017, respectively.

19. PRODUCTION AND MANUFACTURING EXPENSES

	Three-month period ended 31 March	
	2018	2017
Employee costs	1,495,829	1,467,674
Materials and supplies (other than purchased oil, petroleum products and gas)	610,427	469,611
Repair and maintenance services	880,017	618,924
Electricity for resale	966,311	1,482,227
Electricity and utilities	742,264	607,029
Safety and security expense	82,743	57,279
Insurance services	70,416	70,383
Transportation services for production	472,940	463,425
Other	541,084	807,528
	5,862,031	**6,044,080**

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three-month period ended 31 March	
	2018	2017
Employee costs	2,682,805	2,380,535
Legal, audit and consulting services	171,432	220,201
Rent expense	93,570	95,870
Business trips expense	66,611	57,588
Safety and security expense	123,935	134,169
Insurance expense	23,542	23,591
Transportation and storage	34,258	49,731
Allowance for doubtful accounts	15,209	(55,317)
Other	2,313,616	2,237,443
	5,524,978	**5,143,811**

21. NET FOREIGN EXCHANGE GAIN (LOSS)

	Three-month period ended 31 March 2018	2017
Foreign exchange gain (loss) on financing activities including:		
- foreign exchange gain	780,030	763,469
- foreign exchange loss	(240,085)	(738,584)
Net foreign exchange gain (loss) on operating activities	(95,589)	182,971
	444,356	**207,856**

22. FINANCE INCOME

	Three-month period ended 31 March 2018	2017
Interest on bank deposits	240,899	87,811
Interest income on loans issued	2,655	4,571
	243,554	**92,382**

23. FINANCE EXPENSES

	Three-month period ended 31 March 2018	2017
Interest expense	621,498	857,256
Decommissioning provision: unwinding of the present	21,729	33,500
Trade receivables: unwinding of discount	(26,797)	(116,686)
Less: interest expense capitalised on qualifying assets	(25,853)	(18,126)
	590,577	**755,944**

24. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Consolidated Financial Statements: investment properties and financial investments classified as available for sale. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Consolidated Financial Statements as of 31 December 2017. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 31 March 2018 the carrying value of financial assets approximates their fair value.

25. BUSINESS COMBINATIONS

In 2018, the Group acquired one petrol station in Serbia. The total consideration paid for acquisition amounted to 205,722 RSD. The fair value of net identifiable asset acquired amounted to 217,660 RSD and remaining amount was recognised as gain on bargain purchase. The acquisition agreements includes only acquisition of petrol station and do not contain any contingent consideration.

26. 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 610,021 RSD (31 December 2017: 681,162 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 31 March 2018.

Capital commitments

As of 31 March 2018 the Group has entered into contracts to purchase property, plant and equipment for 13,100,987 RSD (31 December 2017: 11,347,097 RSD) and drilling and exploration works estimated to 66.52 USD million (31 December 2017: 58.17 USD million).

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

27. 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 three month period ended 31 March 2018 and in the same period in 2017, 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 31 March 2018 and 31 December 2017 the outstanding balances with related parties were as follows:

As at 31 March 2018	**Parent Company**	**Parent's subsidiaries and associates**	**Joint venture**
Trade and other receivables	92	536,888	269,242
Investments in joint venture and associates	-	-	2,047,021
Trade and other payables	(5,104,470)	(483,733)	-
Other current liabilities	-	(45)	-
Short-term debt and current portion of long-term debt	(5,506,293)	-	-
Long-term debt	(23,401,746)	-	-
	(34,012,417)	**53,110**	**2,316,263**

As at 31 December 2017	Parent Company	Parent's subsidiaries and associates	Joint venture
Trade and other receivables	-	1,024,133	269,242
Investments in joint venture and associates	-	-	2,047,021
Other current assets	-	2,754	-
Trade and other payables	(11,727,340)	(1,047,572)	-
Other current liabilities	-	(60,730)	-
Short-term debt and current portion of long-term debt	(5,510,358)	-	-
Long-term debt	(24,796,612)	-	-
	(42,034,310)	**(81,415)**	**2,316,263**

For the three month period ended 31 March 2018 and 2017 the following transaction occurred with related parties:

Three month period ended 31 March 2018	Parent Company	Parent's subsidiaries and associates	Joint venture
Petroleum products and oil and gas sales	-	259,415	-
Other revenues	462	923,759	-
Purchases of oil, gas and petroleum products	(17,564,237)	(260,222)	-
Production and manufacturing expenses	-	(909,956)	-
Selling, general and administrative expenses	-	(1,035)	-
Other expenses, net	(14,904)	(217)	-
Finance expense	(131,075)	-	-
	(17,709,754)	**11,744**	**-**

Three month period ended 31 March 2017	Parent Company	Parent's subsidiaries and associates	Joint venture
Petroleum products and oil and gas sales	-	194,800	-
Other revenues	-	1,293,335	-
Purchases of oil, gas and petroleum products	(4,073,504)	(194,802)	-
Production and manufacturing expenses	-	(1,350,806)	-
Selling, general and administrative expenses	-	(1,099)	-
Other expenses, net	(14,880)	(47)	-
Finance expense	(171,568)	-	-
	(4,259,952)	**(58,619)**	**-**

Main balances and transactions with state and state owned companies are shown below:

	Parent's subsidiaries and associates	Other
As at 31 March 2018		
Trade and other receivables (gross)		
• *HIP Petrohemija*	3,215,899	-
• *Srbijagas*	-	15,899
• *Republika Srbija*	-	3,740,763
• *Other state owned companies*	-	5,166,922
Trade and other payables		
• *HIP Petrohemija*	(1,154,060)	-
• *Srbijagas*	-	(81,565)
Other current liabilities		
• *HIP Petrohemija*	(1,912)	-
	2,059,927	**8,842,019**
As at 31 December 2017		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,446,685	-
• *Srbijagas*	-	109,748
• *Republika Srbija*	-	3,740,763
• *Other state owned companies*	-	4,936,110
Trade and other payables		
• *HIP Petrohemija*	(1,252,736)	-
• *Srbijagas*	-	(77,059)
Other current liabilities		
• *HIP Petrohemija*	(13,646)	-
	180,303	**8,709,562**

	Parent's subsidiaries and associates	Other
Three month period ended 31 March 2018		
Operating income		
• *HIP Petrohemija*	5,743,022	-
• *Srbijagas*	-	172,037
Operating expenses		
• *HIP Petrohemija*	(50,426)	-
• *Srbijagas*	-	(230,071)
	5,692,596	**(58,034)**
Three month period ended 31 March 2017		
Operating income		
• *HIP Petrohemija*	5,313,361	-
• *Srbijagas*	-	157,339
Operating expenses		
• *HIP Petrohemija*	(46,642)	-
• *Srbijagas*	-	(229,285)
	5,266,719	**(71,946)**

Transactions with state and state owned companies mainly relates to sales of petroleum products based on the price lists in force and terms that would be available to third parties.

Transactions with Key Management Personnel

For the three month period ended on 31 March 2018 and 2017 the Group recognized 246,309 RSD and 219,963 RSD, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

Statement of Individuals Responsible for the Preparation of Financial Statements

We hereby state that, to our best knowledge, the interim financial reports have been prepared in compliance with the applicable international financial reporting standards, and also in compliance with the Law on Accounting ('Official Gazette of the Republic of Serbia' no. 62/2013), which requires full scope of IFRS to be applied as well as the regulations issued by the Ministry of Finance of the Republic of Serbia[80] 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

(Stamp)

Branko Mitrović

Director of Accounting Department,
Function for Finance, Economics,
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[80] 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.