



Naftna industrija Srbije A.D.

**Interim Condensed Financial Statements
(Unaudited)**

31 March 2016

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

Naftna industrija Srbije A.D.
Interim Condensed Financial Statements
(Unaudited)
31 March 2016

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STATEMENT OF FINANCIAL POSITION

(All amounts are in 000 RSD, unless otherwise stated)

Assets	Note	31 March 2016	31 December 2015
		<i>(unaudited)</i>	
Current assets			
Cash and cash equivalents	6	8,260,166	16,729,893
Short-term financial assets		3,007,877	2,033,844
Trade and other receivables	7	32,492,922	36,645,567
Inventories	8	19,404,564	20,760,398
Current income tax prepayments		1,542,738	1,618,126
Other current assets	9	5,060,427	5,548,275
Assets classified as held for sale		-	21,703
Total current assets		69,768,694	83,357,806
Non-current assets			
Property, plant and equipment	10	219,177,859	217,647,262
Investment property		1,522,298	1,336,060
Other intangible assets		4,263,669	4,373,314
Investments in subsidiaries and joint venture		13,623,069	13,623,069
Trade and other non-current receivables		14,728,767	14,583,568
Long-term financial assets		34,137,142	33,823,202
Deferred tax assets		4,470,423	4,521,729
Other non-current assets	11	3,275,409	3,401,988
Total non-current assets		295,198,636	293,310,192
Total assets		364,967,330	376,667,998
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	12	21,324,440	17,865,941
Trade and other payables	13	26,655,894	29,828,377
Other current liabilities	14	4,012,790	5,782,078
Other taxes payable	15	9,378,552	9,484,109
Provisions for liabilities and charges		2,242,852	2,228,885
Total current liabilities		63,614,528	65,189,390
Non-current liabilities			
Long-term debt	16	88,358,646	99,309,246
Provisions for liabilities and charges		9,390,864	9,154,267
Total non-current liabilities		97,749,510	108,463,513
Equity			
Share capital	17	81,530,200	81,530,200
Reserves		(83,058)	(79,564)
Retained earnings		122,156,150	121,564,459
Total equity		203,603,292	203,015,095
Total liabilities and shareholder's equity		364,967,330	376,667,998

Kirill Kravchenko
Chief Executive Officer
26 April 2016



Anton Fyodorov
Chief Financial Officer

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

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STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts are in 000 RSD, unless otherwise stated)

		Three month period ended	
		31 March	
	Note	2016	2015
		(unaudited)	(unaudited)
Sales of petroleum products and oil and gas sales		29,852,083	42,488,686
Other revenues		2,790,842	1,456,654
Total revenue from sales	5	32,642,925	43,945,340
Purchases of oil, gas and petroleum products	18	(17,713,705)	(26,273,046)
Production and manufacturing expenses	19	(5,873,768)	(4,347,150)
Selling, general and administrative expenses	20	(4,728,171)	(5,018,668)
Transportation expenses		(222,174)	(168,042)
Depreciation, depletion and amortization		(3,288,249)	(2,821,631)
Taxes other than income tax		(885,988)	(1,082,848)
Total operating expenses		(32,712,055)	(39,711,385)
Other expenses, net		237,214	(95,803)
Operating profit		168,084	4,138,152
Net foreign exchange loss		1,179,967	(7,534,947)
Finance income		285,822	328,422
Finance expenses		(825,092)	(868,807)
Total other expense		640,697	(8,075,332)
Profit/(Loss) before income tax		808,781	(3,937,180)
Current income tax expense		(165,784)	(148,162)
Deferred tax (expense) income		(51,306)	26,746
Total income tax expense		(217,090)	(121,416)
Profit/(Loss) for the period		591,691	(4,058,596)
Other comprehensive loss:			
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		(3,494)	312
Other comprehensive (loss/)profit for the period		(3,494)	312
Total comprehensive income/(loss) for the period		588,197	(4,058,284)
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		3.61	(24.89)
Weighted average number of ordinary shares in issue (in millions)		163	163

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

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STATEMENT OF CHANGES IN EQUITY

Three month period ended 31 March 2016 and 2015

(All amounts are in 000 RSD, unless otherwise stated)

(unaudited)

Balance as at 1 January 2015

Profit / (loss) for the period

Other comprehensive income / (loss)

Change in value of available-for-sale financial assets

Total comprehensive income (loss) for the period

Balance as at 31 March 2015

Balance as at 1 January 2016

Profit / (loss) for the period

Other comprehensive income / (loss)

Change in value of available-for-sale financial assets

Total comprehensive income / (loss) for the period

Balance as at 31 March 2016

	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2015	81,530,200	(42,277)	113,098,379	194,586,302
Profit / (loss) for the period	-	-	(4,058,596)	(4,058,596)
Other comprehensive income / (loss)				
Change in value of available-for-sale financial assets	-	312	-	312
Total comprehensive income (loss) for the period	-	312	-	312
Balance as at 31 March 2015	81,530,200	(41,965)	109,039,783	190,528,018
Balance as at 1 January 2016	81,530,200	(79,564)	121,564,458	203,015,094
Profit / (loss) for the period	-	-	591,691	591,691
Other comprehensive income / (loss)				
Change in value of available-for-sale financial assets	-	(3,494)	-	(3,494)
Total comprehensive income / (loss) for the period	-	(3,494)	-	(3,494)
Balance as at 31 March 2016	81,530,200	(83,058)	122,156,149	203,603,291

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

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STATEMENT OF CASH FLOWS

(All amounts are in 000 RSD, unless otherwise stated)

	Three month period ended 31 March	
	2016	2015
	(unaudited)	(unaudited)
Cash flows from operating activities		
Profit/ (Loss) before income tax	808,781	(3,937,180)
Adjustments for:		
Finance costs	825,092	868,807
Finance income	(285,822)	(328,422)
Depreciation, depletion and amortization	3,288,249	2,821,631
Adjustments for other provisions	72,963	85,796
Allowance for doubtful accounts	258,820	793,412
Net unrealised foreign exchange (gain)/losses	(243,204)	6,057,606
Other non-cash items	426	(177,425)
	3,916,524	10,121,405
Changes in working capital:		
Trade and other receivables	4,029,149	2,535,009
Inventories	1,347,433	10,507,709
Other current assets	(234,076)	980,822
Trade payables and other current liabilities	(4,531,016)	(14,039,035)
Other taxes payable	(122,123)	401,304
	489,367	385,809
Income taxes paid	(73,831)	(1,050,859)
Interest paid	(759,036)	(782,915)
Interest received	190,880	126,593
	(641,987)	(1,707,181)
Net cash generated by operating activities	4,572,685	4,862,853
Cash flows from investing activities		
Loans issued	(2,937,891)	(3,850,257)
Loan proceeds received	2,096,904	3,320,614
Capital expenditures	(5,100,152)	(7,542,102)
Proceeds from sale of property, plant and equipment	78,884	45,152
	(5,862,255)	(8,026,593)
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from borrowings	2,606,096	15,918,666
Repayment of borrowings	(9,789,484)	(11,646,491)
	(7,183,388)	4,272,175
Net cash (used in)/generated by financing activities		
Net (decrease) increase in cash and cash equivalents	(8,472,958)	1,108,435
Effect of foreign exchange on cash and cash equivalents	3,231	139,776
Cash and cash equivalents as of the beginning of the period	16,729,893	5,338,023
Cash and cash equivalents as of the end of the period	8,260,166	6,586,234

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

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016

(All amounts are in 000 RSD, unless otherwise stated)

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") Company is a vertically integrated oil company operating predominantly in Serbia. The Company's principal activities include:

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

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

The Company is an open joint stock company, listed on the prime market on the Belgrade Stock Exchange.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

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

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

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

The results for the three month period ended 31 March 2016 are not necessarily indicative of the results expected for the full year.

2.2. Changes in significant accounting policies

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

(All amounts are in 000 RSD, unless otherwise stated)

2.3. Application of new IFRS

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

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

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

3.1. Impact of recent crude oil volatility

In the line with recent changes in the crude oil price on the world market, management of the company continues to monitor the crude oil price fluctuation and its influence on business performance in order to adequately take measure to mitigate impact if the negative trends on the market continue.

Based on the currently available information and crude oil price forecast, management believe that at reporting date there are no indicators of asset impairment.

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after January 1, 2016 or later, and that the Company has not early adopted. The full list of such Standards and interpretations was disclosed in the Financial Statements as of and for the year ended December 31, 2015.

The following new standards were issued during the three months period ended 31 March 2016:

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

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

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

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016

(All amounts are in 000 RSD, unless otherwise stated)

5. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the three month periods ended 31 March 2016 and 2015. Operating segments are components that engaged in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

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

Reportable segment results for the three month period ended 31 March 2016 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	7,650,333	31,588,429	(7,691,940)	31,546,822
Intersegment	7,075,717	616,223	(7,691,940)	-
External	574,616	30,972,206	-	31,546,822
EBITDA (Segment results)	4,230,781	(994,420)	-	3,236,361
Depreciation, depletion and amortization	(1,160,489)	(2,127,760)	-	(3,288,249)
Net foreign exchange gain	15,924	1,164,045	-	1,179,969
Finance expenses, net	(25,045)	(514,225)	-	(539,270)
Income tax	(73,663)	(143,427)	-	(217,090)
Segment profit (loss)	2,970,893	(2,378,769)	-	592,124

Reportable segment results for the three month period ended 31 March 2015 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	13,907,812	43,312,320	(13,274,792)	43,945,340
Intersegment	12,869,978	404,814	(13,274,792)	-
External	1,037,834	42,907,506	-	43,945,340
EBITDA(Segment results)	10,092,105	(3,083,974)	-	7,008,131
Depreciation, depletion and amortization	(777,168)	(2,044,463)	-	(2,821,631)
Impairment losses	-	(43,171)	-	(43,171)
Net foreign exchange loss	(21,100)	(7,513,847)	-	(7,534,947)
Finance expenses, net	(30,839)	(509,546)	-	(540,385)
Income tax	(52,458)	(68,958)	-	(121,416)
Segment profit (loss)	8,924,706	(12,983,302)	-	(4,058,596)

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016

(All amounts are in 000 RSD, unless otherwise stated)

EBITDA for the three month period ended 31 March 2016 and 2015 is reconciled below:

	Three month period ended 31 March	
	2016	2015
(Loss)/Profit for the period	591,691	(4,058,596)
Income tax expenses	217,090	121,416
Finance expenses	825,092	868,807
Finance income	(285,822)	(328,422)
Depreciation, depletion and amortization	3,288,249	2,821,631
Net foreign exchange (gain)/loss	(1,179,967)	7,534,947
Other expense, net	(237,214)	95,803
Other non-operating expense (income), net*	17,242	(47,455)
EBITDA	3,236,361	7,008,131

*Other non-operating expense (income), net mainly relate to fines, penalties and other.

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

	Three month period ended 31 March 2016		
	Domestic market	Export and international sales	Total
Sale of crude oil	438	522,557	522,995
Sale of gas	931,007	-	931,007
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	931,007	-	931,007
Sale of petroleum products	23,900,363	4,497,718	28,398,081
<i>Through a retail network</i>	8,516,704	-	8,516,704
<i>Wholesale activities</i>	15,383,659	4,497,718	19,881,377
Other sales	1,717,060	1,073,782	2,790,842
Total sales	26,548,868	6,094,057	32,642,925

	Three month period ended 31 March 2015		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	829,435	829,435
Sale of gas	3,167,782	-	3,167,782
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	3,167,782	-	3,167,782
Sale of petroleum products	32,422,874	6,068,595	38,491,469
<i>Through a retail network</i>	10,711,869	-	10,711,869
<i>Wholesale activities</i>	21,711,005	6,068,595	27,779,600
Other sales	1,186,742	269,912	1,456,654
Total sales	36,777,398	7,167,942	43,945,340

Out of the amount of 19,881,377 RSD (2015: 27,779,600 RSD) revenue from sale of petroleum products (wholesale), the amount of 2,774,329 RSD (2015: 4,095,230 RSD) are derived from a single domestic customer HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 1,002,913 RSD (2015: 743,628 RSD).

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016***(All amounts are in 000 RSD, unless otherwise stated)*

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 26,548,868 RSD (2015: 36,777,398 RSD), and the total of revenue from external customer from other countries is 6,094,057 RSD (2015: 7,167,942 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	
	2016	2015
Sale of crude oil	522,557	829,435
Sale of petroleum products (retail and wholesale)		
Bulgaria	1,016,184	1,114,573
Bosnia and Herzegovina	1,001,973	1,320,138
Romania	441,408	268,911
All other markets	1,919,555	3,364,973
	4,497,718	6,068,595
Other sales	1,073,782	269,912
	6,094,057	7,167,942

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

6. CASH AND CASH EQUIVALENTS

	31 March 2016	31 December 2015
Cash in bank and in hand	8,257,309	10,725,749
Deposits with original maturity of less than three months	-	6,000,000
Cash equivalents	2,857	4,144
	8,260,166	16,729,893

7. TRADE AND OTHER RECEIVABLES

	31 March 2016	31 December 2015
Trade receivables:		
- related parties	3,074,432	3,433,615
- third parties	25,394,073	28,651,802
- state and state owned companies	18,842,309	19,369,662
	47,310,814	51,455,079
Other receivables:		
- state and state owned companies	10,424,734	10,314,622
Accrued assets	654,597	655,179
<i>Less impairment provision for trade and other receivables:</i>		
- third parties	(10,043,917)	(10,001,877)
- state and state owned companies	(15,853,306)	(15,777,436)
	(25,897,223)	(25,779,313)
Total trade and other receivables	32,492,922	36,645,567

NIS a.d.
Notes to the Interim Condensed Financial Statements for the three month period ended
31 March 2016

(All amounts are in 000 RSD, unless otherwise stated)

The ageing of trade and other receivables is as follows:

	31 March 2016	31 December 2015
Neither impaired nor past due	23,671,930	29,966,050
Past due but not impaired:		
within 30 days:	1,867,180	1,935,572
1 to 3 months	1,753,666	1,210,536
3 months to 1 year	1,782,199	118,635
over 1 year	3,417,947	3,414,774
Total	32,492,922	36,645,567

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

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

	31 March 2016	31 December 2015
RSD	39,603,777	43,281,136
EUR	17,335,450	17,635,878
USD	1,450,896	1,507,845
Other	22	21
	58,390,145	62,424,880

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

	Trade & other receivables		
	Third parties	State and state owned companies	Total
As at 1 January 2015	10,201,470	19,522,269	29,723,739
Provision for receivables impairment	125,846	6,576	132,422
Unused amounts reversed	(40,765)	(23,194)	(63,959)
Receivables written off during the year as uncollectible	-	(12,564)	(12,564)
Exchange differences	-	(50,077)	(50,077)
Other	(6,047)	-	(6,047)
As at 31 March 2015	10,280,504	19,443,010	29,723,514
As at 1 January 2016	10,001,877	15,777,436	25,779,313
Provision for receivables impairment	76,659	15,740	92,399
Unused amounts reversed	(57,006)	(925)	(57,931)
Receivables written off during the year as uncollectible	(4,068)	-	(4,068)
Other	26,455	61,055	87,510
As at 31 March 2016	10,043,917	15,853,306	25,897,223

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.

NIS a.d.
Notes to the Interim Condensed Financial Statements for the three month period ended
31 March 2016

(All amounts are in 000 RSD, unless otherwise stated)

8. INVENTORIES

	31 March 2016	31 December 2015
Crude oil	9,927,273	11,069,970
Petroleum products	12,079,055	12,887,574
Materials and supplies	1,922,243	1,428,748
Other	504,060	491,761
Less impairment provision	(5,028,067)	(5,117,655)
	19,404,564	20,760,398

9. OTHER CURRENT ASSETS

	31 March 2016	31 December 2015
Advances paid	384,906	453,622
Deferred VAT	1,861,975	1,741,957
Prepaid expenses	328,175	84,499
Prepaid custom duties	31,968	33,171
Prepaid excise	2,221,683	3,027,852
Other current assets	14,485,707	14,239,128
Less impairment provision	(14,253,987)	(14,031,954)
	5,060,427	5,548,275

Deferred VAT as at 31 March 2016 amounting to 1,861,975 RSD (31 December 2015: 1,741,957 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 31 March 2016 amounting to 2,221,683 RSD (31 December 2015: 3,027,852 RSD) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

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

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

	Advances paid	Other current assets	Total
As at 1 January 2015	239,845	20,751,218	20,991,063
Provision for receivables impairment	377	733,477	733,854
Unused amounts reversed	(1,986)	(6,919)	(8,905)
Other	(827)	(37,236)	(38,063)
As at 31 March 2015	237,409	21,440,540	21,677,949
As at 1 January 2016	268,119	13,763,835	14,031,954
Provision for receivables impairment	-	228,648	228,648
Unused amounts reversed	(2,750)	(2,830)	(5,580)
Write off	-	(1,035)	(1,035)
As at 31 March 2016	265,369	13,988,618	14,253,987

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016

(All amounts are in 000 RSD, unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2015						
Cost	73,455,117	114,595,855	31,255,519	17,838,728	40,592,464	277,737,683
Depreciation and impairment	(19,210,617)	(32,895,538)	(13,279,118)	(7,941,703)	(2,782,803)	(76,109,779)
Net book value	54,244,500	81,700,317	17,976,401	9,897,025	37,809,661	201,627,904
Period ended 31 March 2015						
Additions	3,329,062	1,797,959	693,938	61,159	(980,079)	4,902,039
Impairment	-	-	-	-	(14,258)	(14,258)
Depreciation	(770,277)	(1,415,502)	(298,721)	(138,086)	-	(2,622,586)
Transfer (to) from intangible assets	(21,781)	-	-	-	(40,096)	(61,877)
Transfer (to) from investment property	-	-	(2,877)	-	-	(2,877)
Disposals and write-off	(92,609)	(4,330)	(7,679)	(53,008)	(36,916)	(194,542)
Other transfers	(888)	(1,621)	911	991	-	(607)
	56,688,007	82,076,823	18,361,973	9,768,081	36,738,312	203,633,196
As at 31 March 2015						
Cost	76,700,747	116,369,950	31,923,609	17,839,256	39,476,303	282,309,865
Depreciation and impairment	(20,012,740)	(34,293,127)	(13,561,636)	(8,071,175)	(2,737,991)	(78,676,669)
Net book value	56,688,007	82,076,823	18,361,973	9,768,081	36,738,312	203,633,196
As at 1 January 2016						
Cost	98,224,109	120,288,251	32,971,933	17,494,322	34,916,617	303,895,232
Depreciation and impairment	(22,749,386)	(38,800,866)	(14,182,435)	(8,139,485)	(2,375,798)	(86,247,970)
Net book value	75,474,723	81,487,385	18,789,498	9,354,837	32,540,819	217,647,262
Period ended 31 March 2016						
Additions	3,596,056	99,745	1,181,856	42,681	(282,527)	4,637,811
Impairment	-	-	-	-	(16,150)	(16,150)
Depreciation	(1,151,681)	(1,407,592)	(329,956)	(143,707)	-	(3,032,936)
Transfer to / from intangible assets	-	-	-	-	(4,988)	(4,988)
Transfer to / from investment property	-	-	(3,866)	(1,688)	-	(5,554)
Disposals and write-off	(1,977)	(9,113)	(10,365)	(7,286)	(18,845)	(47,586)
Other transfers	(11,514)	96,995	(110,951)	25,470	-	-
	77,905,607	80,267,420	19,516,216	9,270,307	32,218,309	219,177,859
As at 31 March 2016						
Cost	101,792,833	120,524,894	33,786,619	17,586,761	34,606,747	308,297,854
Depreciation and impairment	(23,887,226)	(40,257,474)	(14,270,403)	(8,316,454)	(2,388,438)	(89,119,995)
Net book value	77,905,607	80,267,420	19,516,216	9,270,307	32,218,309	219,177,859

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016

(All amounts are in 000 RSD, unless otherwise stated)

Oil and gas production assets

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2015						
Cost	15,001,370	11,578,278	26,579,648	73,455,117	22,203	100,056,968
Depreciation and impairment	-	(253,585)	(253,585)	(19,210,617)	(20,358)	(19,484,560)
Net book amount	15,001,370	11,324,693	26,326,063	54,244,500	1,845	80,572,408
Period ended 31 March 2015						
Additions	865,269	3,405,067	4,270,336	-	-	4,270,336
Transfer from asset under construction	-	(3,329,062)	(3,329,062)	3,329,062	-	-
Other transfers	-	(6,092)	(6,092)	(22,669)	(30)	(28,791)
Depreciation and depletion	-	-	-	(770,277)	-	(770,277)
Disposals and write-off	8,176	(32,650)	(24,474)	(92,609)	-	(117,083)
	15,874,815	11,361,956	27,236,771	56,688,007	1,815	83,926,593
As at 31 March 2015						
Cost	15,874,815	11,600,395	27,475,210	76,700,747	22,173	104,198,130
Depreciation and impairment	-	(238,439)	(238,439)	(20,012,740)	(20,358)	(20,271,537)
Net book amount	15,874,815	11,361,956	27,236,771	56,688,007	1,815	83,926,593
As at 1 January 2016						
Cost	16,744,368	7,644,244	24,388,612	98,224,109	22,153	122,634,874
Depreciation and impairment	-	(248,771)	(248,771)	(22,749,386)	(20,311)	(23,018,468)
Net book amount	16,744,368	7,395,473	24,139,841	75,474,723	1,842	99,616,406
Period ended 31 March 2016						
Additions	601,163	3,341,040	3,942,203	171,847	-	4,114,050
Transfer from asset under construction	(3,510)	(3,400,446)	(3,403,956)	3,424,209	-	20,253
Other transfers	23,017	7,986	31,003	(11,514)	-	19,489
Depreciation and depletion	-	-	-	(1,151,681)	-	(1,151,681)
Disposals and write-off	(8,887)	-	(8,887)	(1,977)	1	(10,863)
	17,356,151	7,344,053	24,700,204	77,905,607	1,843	102,607,654
As at 31 March 2016						
Cost	17,356,151	7,592,824	24,948,975	101,792,833	22,152	126,763,960
Depreciation and impairment	-	(248,771)	(248,771)	(23,887,226)	(20,309)	(24,156,306)
Net book amount	17,356,151	7,344,053	24,700,204	77,905,607	1,843	102,607,654

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016***(All amounts are in 000 RSD, unless otherwise stated)***11. OTHER NON-CURRENT ASSETS**

	31 March 2016	31 December 2015
Advances paid for PPE	1,237,210	1,363,418
Prepaid expenses	894,462	908,248
Other assets	1,174,546	1,161,131
Less impairment provision	(30,809)	(30,809)
	3,275,409	3,401,988

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

	31 March 2016	31 December 2015
Short-term loans	6,020,045	4,282,974
Interest liabilities	153,465	165,546
Other Short-term financial liabilities	37	-
Current portion of long-term loans (note 16)	15,147,349	13,417,421
Current portion of finance lease liabilities (note 16)	3,544	-
	21,324,440	17,865,941

13. TRADE AND OTHER PAYABLES

	31 March 2016	31 December 2015
Trade payables		
- related parties	11,664,649	13,600,086
- third parties	11,208,186	12,373,881
Dividends payable	3,772,308	3,772,308
Other accounts payable	10,751	82,102
	26,655,894	29,828,377

As at 31 March 2016 payables to related parties amounting to 11,664,649 RSD (31 December 2015: 13,600,086 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 7,548,451 RSD (31 December 2015: 10,104,805 RSD), mostly for the purchase of crude oil.

14. OTHER CURRENT LIABILITIES

	31 March 2016	31 December 2015
Advances received	959,322	3,131,988
Payables to employees	3,029,853	2,624,262
Accruals and deferred income	12,547	13,066
Other current non-financial liabilities	11,069	12,763
	4,012,791	5,782,079

15. OTHER TAXES PAYABLE

	31 March 2016	31 December 2015
Mineral extraction tax	211,180	241,017
VAT	1,980,446	1,311,122
Excise tax	4,428,286	5,707,561
Contribution for buffer stocks	273,262	350,301
Custom duties	685,083	85,278
Other taxes	1,800,295	1,788,830
	9,378,552	9,484,109

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016

(All amounts are in 000 RSD, unless otherwise stated)

16. LONG-TERM DEBT

	31 March 2016	31 December 2015
Long-term loan - Gazprom Neft	41,451,286	42,427,710
Bank loans	62,039,512	70,298,957
Finance lease liabilities	18,741	-
Less Current portion	(15,150,893)	(13,417,421)
	88,358,646	99,309,246

(a) *Long-term loan - Gazprom Neft*

As at 31 March 2016 long-term loan - Gazprom Neft amounting to 41,451,286 RSD (2015: 42,427,710 RSD), with current portion of 5,717,419 RSD (2015: 5,657,028 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) *Bank loans*

	31 March 2016	31 December 2015
Domestic	18,728,812	18,693,335
Foreign	43,310,700	51,605,622
	62,039,512	70,298,957
Current portion of long-term loans	(9,429,930)	(7,760,393)
	52,609,582	62,538,564

The maturity of bank loans was as follows:

	31 March 2016	31 December 2015
Between 1 and 2 years	2,799,680	11,829,773
Between 2 and 5 years	45,121,745	45,785,596
Over 5 years	4,688,157	4,923,195
	52,609,582	62,538,564

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

	31 March 2016	31 December 2015
USD	44,968,756	53,388,078
EUR	16,684,739	16,529,505
RSD	1,103	1,175
JPY	384,914	380,199
	62,039,512	70,298,957

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

The loan agreements contain financial covenants that require the Company's ratio of Indebtedness to EBITDA. Management believes the Company is in compliance with these covenants as of 31 March 2016 and 31 December 2015, respectively.

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016***(All amounts are in 000 RSD, unless otherwise stated)***17. SHARE CAPITAL**

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

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

18. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Three month period ended 31 March	
	2016	2015
Crude oil	15,863,402	19,577,759
Petroleum products	1,850,303	6,695,287
	17,713,705	26,273,046

19. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 31 March	
	2016	2015
Employee costs	790,493	843,933
Materials and supplies (other than purchased oil, petroleum products and gas)	184,985	252,731
Repair and maintenance services	877,858	897,525
Electricity and utilities	1,593,750	737,886
Transportation services for production	415,631	122,886
Other	2,011,051	1,492,189
	5,873,768	4,347,150

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended 31 March	
	2016	2015
Employee costs	2,227,177	2,322,583
Legal, audit, and consulting services	289,962	305,095
Rent expense	29,114	26,124
Business trips expense	40,130	39,380
Safety and security expense	106,755	131,588
Insurance expense	20,384	58,935
Transportation and storage	129,785	312,329
Allowance for doubtful accounts	(13,311)	793,412
Other	1,898,175	1,029,222
	4,728,171	5,018,668

21. FAIR VALUE MEASUREMENT

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

As of 31 March, 2016 carrying value of financial assets approximate their fair value.

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Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016

(All amounts are in 000 RSD, unless otherwise stated)

22. CONTINGENCIES AND COMMITMENTS

Transfer of property ownership

As at 31 March 2016, the Company had ownership and the right to use and possess of 7,935 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

Finance Guarantees

As at 31 March 2016 the total amount of outstanding finance guarantees provided by the Company amounted to 3,654,099 RSD, mostly related to guaranties for customs duties in the amount of 1,913,740 RSD (31 December 2015: 2,348,766 RSD).

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 686,075 RSD (31 December 2015: 687,705 RSD).

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

Other contingent liabilities

As at 31 March 2016, the Company did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Company has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Company's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Company's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed. Taking all of the above into consideration, the Company's Management is of the view that as at 31 March 2016 outflow of resources embodying economic benefits is not probable due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

Tax risks

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Company has paid all tax liabilities as of 31 March 2016.

There were no other material commitments of the Company.

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016***(All amounts are in 000 RSD, unless otherwise stated)***23. RELATED PARTY TRANSACTIONS**

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

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

In the three month period ended 31 March 2016 and in the same period in 2015, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

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

	Subsidiaries	Parent company	Entities under common control	Total
As at 31 March 2016				
Short-term financial assets	2,864,676	-	-	2,864,676
Trade and other receivables	2,981,002	-	93,430	3,074,432
Other current assets	4,932	-	-	4,932
Investments in subsidiaries and joint ventures	16,325,803	-	-	16,325,803
Long-term financial assets	34,567,392	-	-	34,567,392
Other non-current assets	70,299	-	-	70,299
Trade and other payables	(4,047,622)	(7,548,448)	(109,785)	(11,705,855)
Other current liabilities	(4,359)	-	-	(4,359)
Short-term debt and current portion of long-term debt	(407,360)	(5,717,419)	-	(6,124,779)
Long-term debt	-	(35,733,867)	-	(35,733,867)
	52,354,763	(48,999,734)	(16,355)	3,338,674
As at 31 December 2015				
Short-term financial assets	1,946,998	-	-	1,946,998
Trade and other receivables	3,285,510	-	148,105	3,433,615
Other current assets	2,095	-	9,394	11,489
Investments in subsidiaries and joint ventures	16,325,803	-	-	16,325,803
Long-term financial assets	34,175,533	-	-	34,175,533
Other non-current assets	68,269	-	-	68,269
Trade and other payables	(3,470,404)	(10,004,805)	(166,005)	(13,641,214)
Other current liabilities	(6,607)	-	-	(6,607)
Short-term debt and current portion of long-term debt	(731,105)	(5,657,028)	-	(6,388,133)
Long-term debt	-	(36,770,682)	-	(36,770,682)
	51,596,092	(52,432,515)	(8,506)	(844,929)

NIS a.d.**Notes to the Interim Condensed Financial Statements for the three month period ended 31 March 2016***(All amounts are in 000 RSD, unless otherwise stated)*

For the three month period ended 31 March 2016 and 2015 the following transaction occurred with related parties:

	Subsidiaries	Parent company	Entities under common control	Total
Three month period ended 31 March 2016				
Petroleum products and oil and gas sales	(1,663,354)	-	(102,792)	(1,766,146)
Other Revenues	(147,330)	-	(1,066,296)	(1,213,626)
Purchases of oil, gas and petroleum products	78,679	8,992,138	103,070	9,173,887
Production and manufacturing expenses	745,658	(1)	988,415	1,734,072
Selling, general and administrative expenses	261,243	(9)	389	261,623
Transportation expenses	20,798	-	-	20,798
Other expenses, net	9,300	4,579	14	13,893
Finance income	(243,534)	-	-	(243,534)
Finance expense	3,548	207,409	-	210,957
	(934,992)	9,204,116	(77,200)	8,191,924
Three month period ended 31 March 2015				
Petroleum products and oil and gas sales	2,026,503	-	(2,642)	2,023,861
Other Revenues	138,193	-	(26,303)	111,890
Purchases of oil, gas and petroleum products	(17,085)	(12,368,803)	(1,952,154)	(14,338,042)
Production and manufacturing expenses	(860,870)	(3,137)	-	(864,007)
Selling, general and administrative expenses	(232,171)	-	-	(232,171)
Transportation expenses	(5,735)	-	-	(5,735)
Other expenses, net	(48,958)	(11,057)	111,407	51,392
Finance income	275,347	-	-	275,347
Finance expense	-	(255,701)	-	(255,701)
	1,275,224	(12,638,698)	(1,869,692)	(13,233,166)

Key management compensation

Management compensation paid or payable in three month period ended 31 March 2016 and 2015 is shown in the table below:

	Three month period ended 31 March	
	2016	2015
Salaries and other short-term employee benefits	187,691	128,955
	187,691	128,955

24. EVENTS AFTER THE REPORTING DATE

No significant events, which required disclosure in these Interim Condensed Financial Statements, occurred after the reporting date.

Subsequent events occurring after 31 March 2016 were evaluated through 26 April 2016, the date these Interim Condensed Financial Statements were authorised for issue.

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Notes to the Interim Condensed Financial Statements for the three month period ended
31 March 2016

(All amounts are in 000 RSD, unless otherwise stated)

NIS a.d.
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