

REPORT ON SUSTAINABLE DEVELOPMENT

2016





NIS
GAZPROM NEFT

**FUTURE
AT WORK**

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INTRODUCTION

We live in changing times. These changes manifest themselves in how we see the world around us and how we approach the work that we do. New risks arise. We have also become increasingly mobile, exchanging information quicker, while distance is no longer a major hindrance to human interaction. These changing times present many challenges, but they also open up new opportunities.

Business is at the frontline of this process, as it has a direct impact on national economies and on social and technological environment. It drives the progress of science, helping to meet the demands of the new-age consumer. For this reason, it is no longer only governments that are responsible for sustainable development, safety and comfort of living. Business is at the helm of this process, permeating all facets of modern life. It is no longer enough to focus on low-hanging fruits. The way in which we have achieved our results and whether these results will last is what is truly essential for our future.

The energy industry progresses very rapidly, with new sectors and players continuously emerging. Modern technology quickly impacts the bottom line and output. In 2016, NIS focused on enhancing the efficiency and effectiveness of its business. We implemented practices to bolster the company's technological and managerial resilience as well as its flexibility in dealing with market changes.

We fully realise our impact on the energy security of Serbia and the entire Balkan region; one of our priorities is to maintain and grow our resource base.

In 2016, NIS's reserves increased by 3.4 percent. We have maintained our level of profitability and continued paying dividends to our shareholders. All our strategic investment projects have received full financing. NIS remains Serbia's largest investor.

Our investment priorities include projects to enhance the refinery capacity and power generation capability of the Pančevo refinery. Once these projects are completed, the enhancements in refining capacity and energy efficiency will help NIS reach the level of Europe's leading refineries. The safety and stability of the Pančevo refinery will be on a par with the best global practices. In 2016, we saw an immense amount of planning and preparations for these projects; this year, we started building.

In 2016, the amine plant became operational; its advanced technology prevents CO₂ emissions, thus contributing to reducing the greenhouse effect. We continued the production and marketing of liquefied natural gas and liquid fuels G-Drive 100 and G-Drive Diesel with advanced specifications.

We are working non-stop on improving the environmental and industrial safety of our businesses. In 2016, we invested around 150 million dinars in environmental projects. The health, safety and environment system covers not only all NIS people, but also more than 1,300 contractor personnel.

We achieved a considerable reduction in the number of industrial accidents, while the LTIF fell by 46%.

NIS owes its stability and success to its people. Our human resource development strategy is to recruit the world's leading specialists and create a working environment that encourages our people to hone their professional skills and realise their creative potential. Engagement of the younger generation is an important part of our work. Five years ago, NIS started the Energy of Knowledge initiative, which has grown over the years to include over 1,000 school and university students. For many years, NIS has been a reliable partner for the government and local communities by promoting the social and economic development in the territories where the company operates. The focus is on programmes designed to improve the quality of life, develop infrastructure and realise economic and social potential.

We are proud that NIS is the first company in Serbia to have integrated sustainable development principles into its business model. The annual sustainable development report is just the tip of the iceberg, underpinned by our daily systematic work. It is not about boosting our image: I am talking about an effective tool that allows us to plan, achieve and evaluate our progress, see the needs of our customers and keep our business resilient to the challenges at the roughest of times.

Kirill Tyurdenev,
General Director
NIS j.s.c. Novi Sad



ON THE REPORT AND REPORTING PRINCIPLES

Materiality Matrix

The Report focuses on challenges that the NIS business operation faced during 2016 and on the topics crucial to the business, both from the Company's perspective and those of stakeholders, as defined in the Materiality Matrix.

Audits of the Materiality Matrix are conducted biannually, using a structured process which involves key stakeholders. This ensures that the defined topics represent the most significant points of the Company's operations and future.

The Company maintains an active dialogue with stakeholders and regularly considers all the topics crucial to both sides. This Report includes additional indicators that are relevant both for the NIS business operation and stakeholders and which exceed the requirements of the general reporting level defined by the GRI G4 standards.

The following methodological rules and principles of GRI guidelines were used as the basis for the preparation and drafting of the Report:

Materiality

By adhering to the materiality principle in the selection of topics, the Report also includes the topics that can have fundamental impact on the assessment and decisions of the management bodies and stakeholders.

The results of research, undertaken in the form of interviews with all stakeholders - as well as issues on Sustainable Development of other international oil and gas companies, and topics which are relevant for all the stakeholders and recommended by the GRI guidelines - were all used as the basis for the preparation of the Materiality Matrix.

Inclusion

The Report represents all stakeholders. Communication with them is set out in the chapter "Dialogue with Stakeholders".

Sustainability

The Report contains data and activities of NIS on the territory of the Republic of Serbia. The Report presents the plans reflecting Company's commitment to sustainable development.

Completeness

The data presented in the Report refers to 2016 and where possible, comparative data for 2015 is included. Financial and economic indicators are derived from the consolidated financial statement (source: 2016 Annual Report, NIS).

The Report presents 81 indicators describing the activities of NIS related to the topics that are crucial for the Company's business operation as defined in the materiality matrix.

Balance

Information contained in the 2016 Report reflects the results and achievements of the Company as well as the challenges encountered by NIS during the year. Impartial presentation of information provides an opportunity for both positive and negative assessments.

Comparability

The Report has been prepared in accordance with the GRI guideline reporting methodology, which enabled comparison with previous NIS Sustainable Development Reports as well as with reports of other companies in Serbia and abroad.

Accuracy

NIS strives to present qualitative and quantitative data in its reports to the highest possible degree of accuracy. The Report lists the sources and methodology used for the collection of data, while financial and economic data can be found in the NIS 2016 Annual Report.

Timeliness

This Report is published annually and makes it possible for all stakeholders to make timely decisions about the Company and its business operation.

Clarity

The Report is suitable for all stakeholders owing to its clear and accessible wording. The specific nature of NIS business activity makes it difficult to achieve absolute clarity, particularly relating to environmental protection. All terms and abbreviations that may be unclear are explained in the glossary.

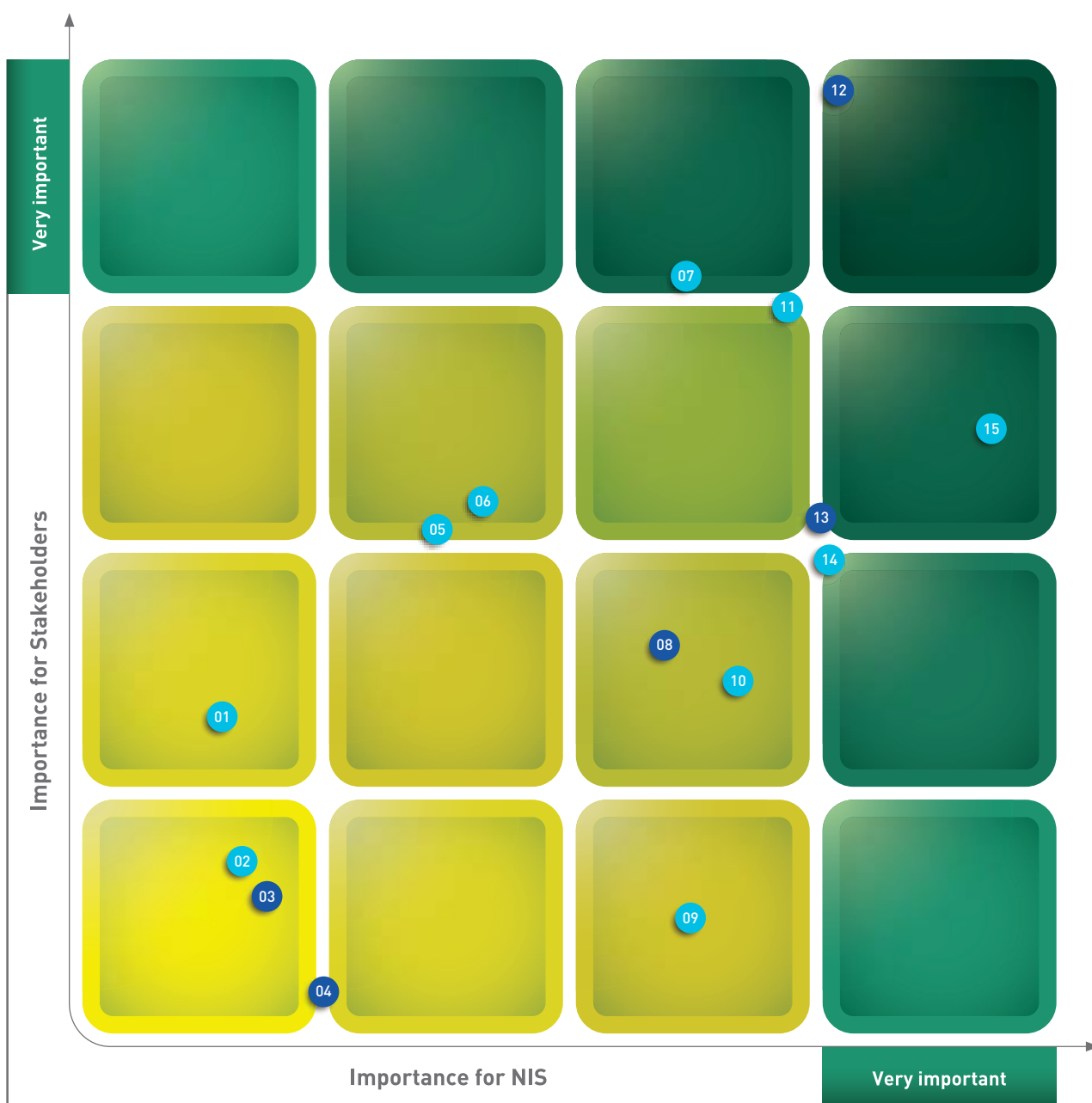
Reliability

The assessment of compliance of the Report with GRI guidelines as well as the accuracy of the listed information has been verified by independent auditing company Ernst & Young in Serbia.

- 01 Legal issues
- 02 Transportation management
- 03 Supplier relation management
- 04 Lobbying
- 05 Relations with employees
- 06 Energy consumption management
- 07 Investment into the local community
- 08 Corruption
- 09 Corporate governance
- 10 Customer relation management
- 11 Product Quality
- 12 Environmental impact
- 13 Occupational health and safety
- 14 Oil and gas reserves
- 15 Economic indicators

● Topic is covered internally

● Topic is covered internally and externally



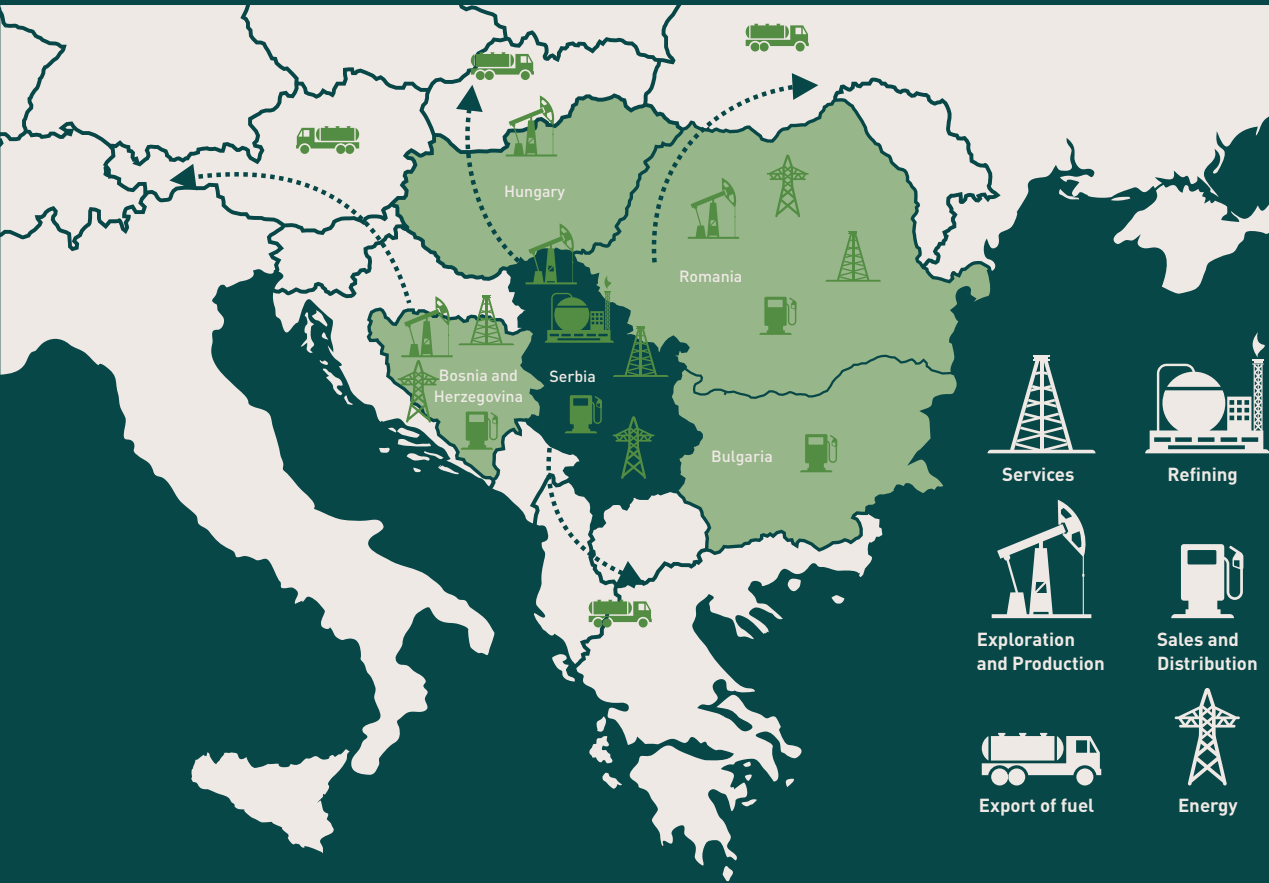
COMPANY PROFILE

Innovations are the basis of NIS business philosophy. These are particularly expressed through the application of new and clean technologies, as befits a leader in protecting the environmental and working conditions. On its journey of transformation from a typical oil and gas company to a comprehensive energy provider, NIS has invested over €15m in electricity generation and has built 14 mini power plants.

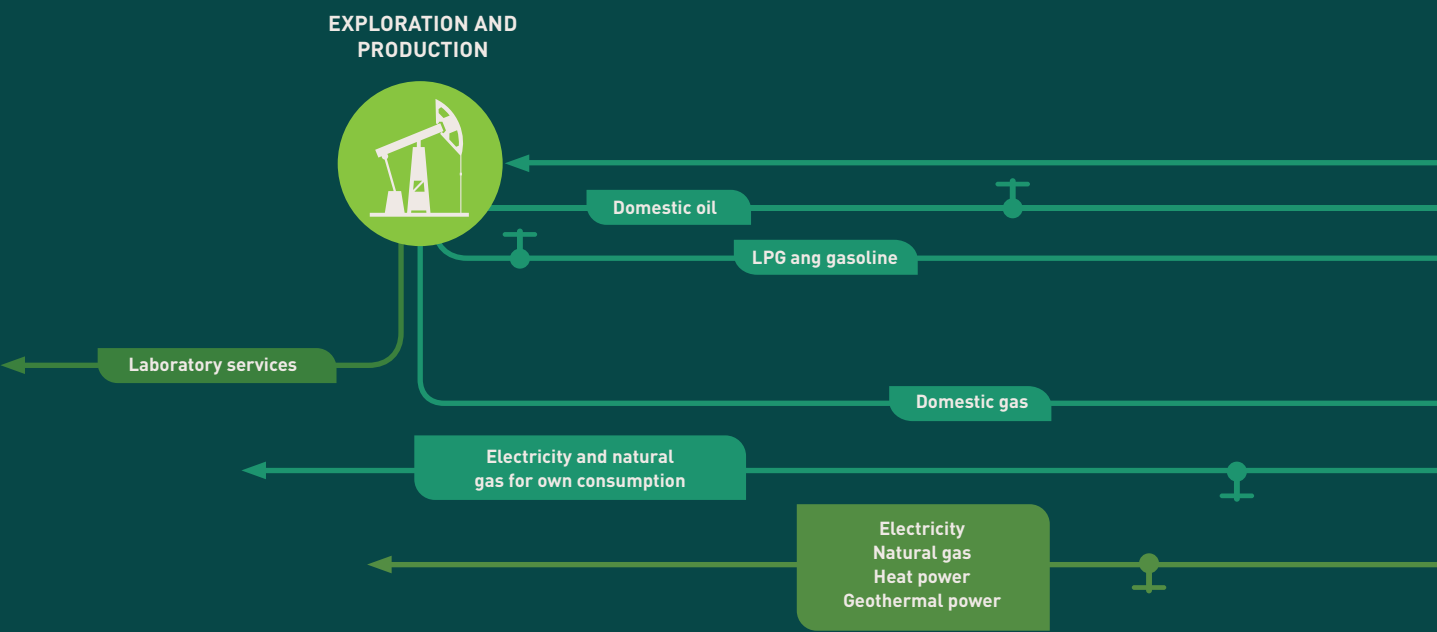


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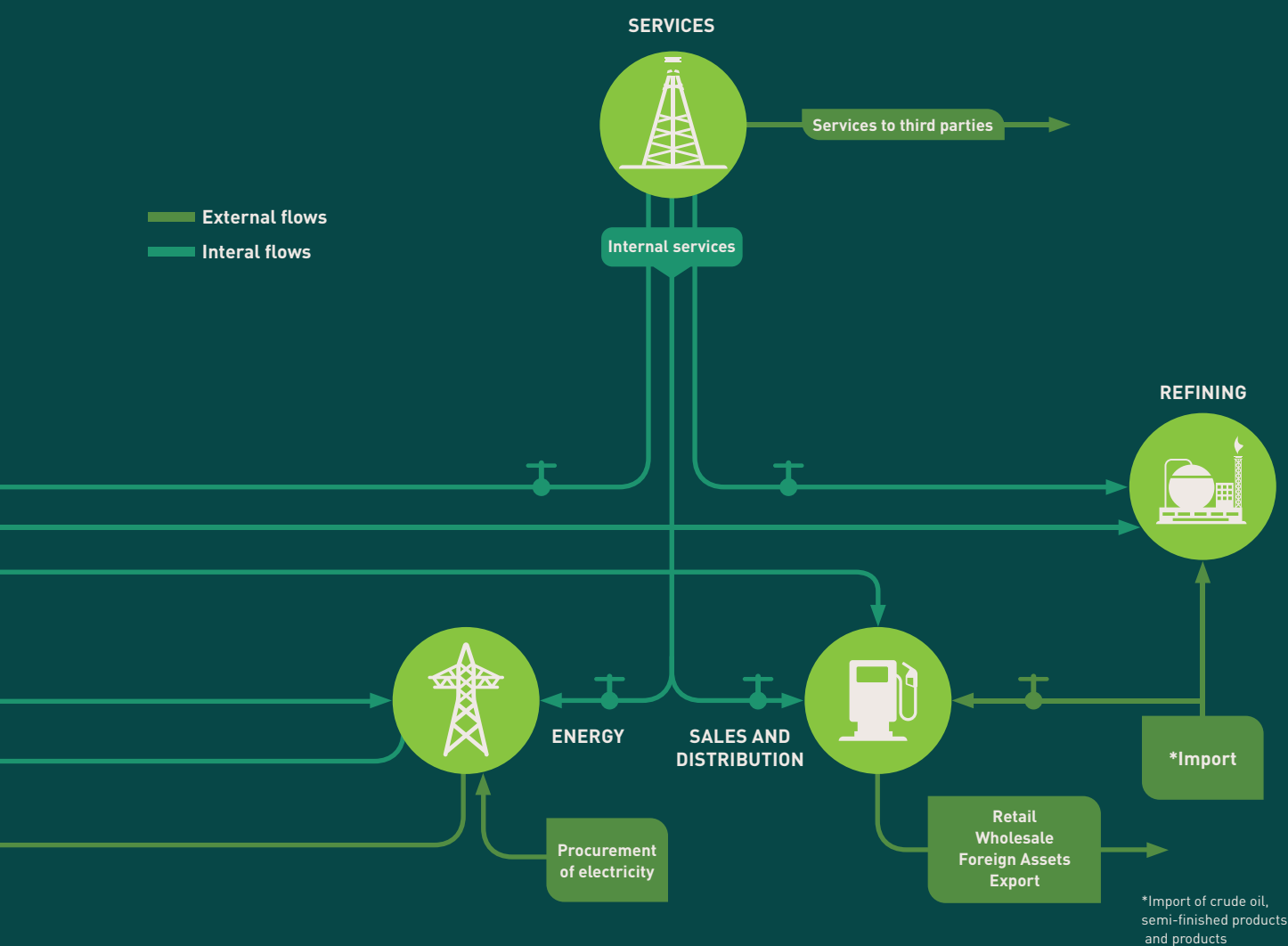


Business Model



NIS Group

The NIS Group is one of the largest vertically integrated energy systems in southeast Europe. The main business activities of NIS Group are the exploration, production and refining of oil and natural gas, sales of a wide range of petroleum and natural gas products as well as implementation of projects in the areas of petrochemicals and energy production.



NIS Group Business Structure



* 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.rs/o-nama/grupa/#c88>.

We are all connected!



 **NIS** FUTURE
GAZPROM NEFT AT WORK

MEET NIS FAMILY
OF BRANDS



MISSION, VISION, VALUES

MISSION

By responsible use of natural resources and the state-of-the-art technology, supply the people of the Balkan region with the energy for making progress.

VISION

NIS will be a recognisable leader of the Balkan region in its field of business activity, owing to the dynamics of sustainable development and efficiency increase, by showing a high level of social and environmental responsibility as well as contemporary standards of providing services to the clients.

VALUES

Professionalism

Acquiring up-to-date knowledge in order to permanently increase the level of professional expertise and the ability to implement it in specific business processes.

Positive Attitude and Cooperation

Readiness to participate in multifunctional groups and projects, eagerness to meet demands of colleagues from other units of the company, willingness to exchange information, ability to work in teams.

Initiative and Responsibility

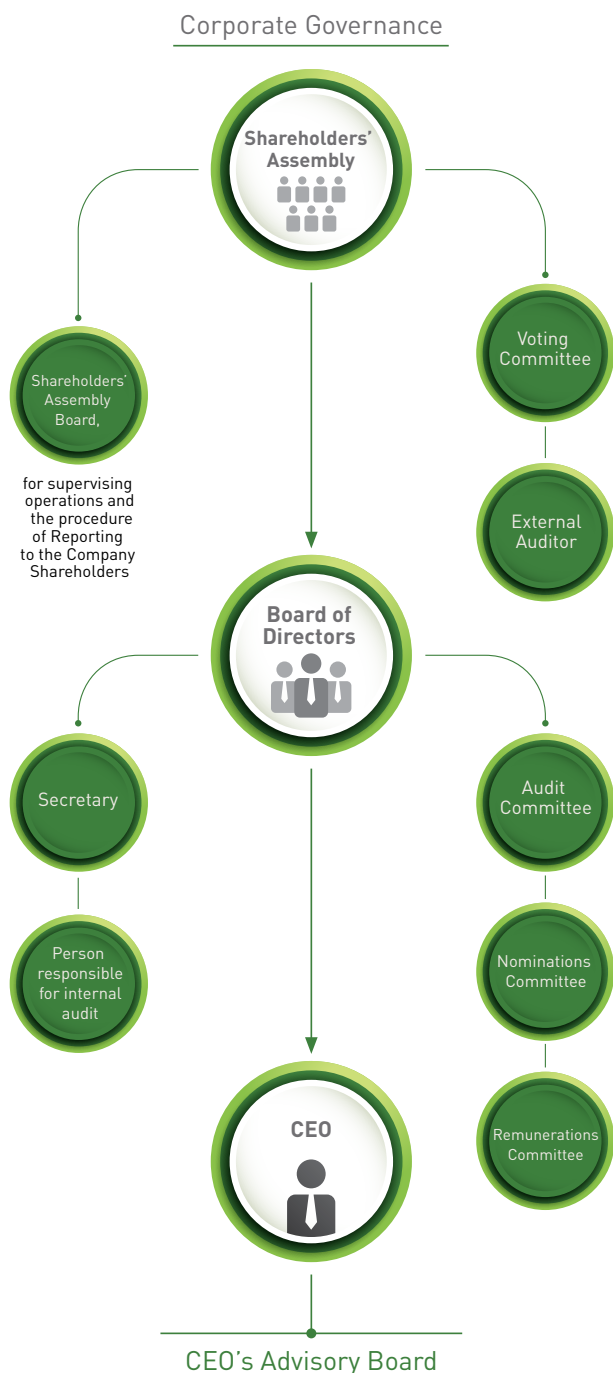
Finding and proposing new solutions, both in the area of work responsibilities, as well as in the area of Company's interests.

Shared Results

Joint efforts in achieving visible and meaningful results, a desire to succeed accompanied by inescapable mutual assistance and cooperation of employees.



Corporate Governance



NIS is committed to constantly applying high standards in the field of corporate management based on internationally accepted principles and experiences of international best practice.

The Company has established a single-tier management system. This is based on the central role being in the hands of the Board of Directors, which is responsible for implementing goals set and for achieving results. Shareholders exercise their rights and control primarily through the Shareholders' Assembly. The provisions of the Statute provide a complete and clear delineation of the scope of activities of the Board of Directors as opposed to the scope of activities of the Shareholders' Assembly, Chief Executive Officer and of the bodies established by management.

Business stability and progress of NIS mainly depends on efficient, accountable and transparent corporate governance. Such an approach to management confirms the tendency to create value for shareholders, while also gaining the confidence of domestic and foreign investors, business partners, employees and the general public.

The strategic goals of the Company in the field of corporate governance are:

- professional and responsible governance;
- efficiency of governance bodies which act in the Company's best interests and its shareholders in order to increase the assets and the value of the Company, and
- high levels of transparency and publicity in all its operations.

Fulfilment of these goals provides:

- efficient implementation and protection of shareholders' rights and interests of the Company;
- fair and equitable treatment of shareholders;
- responsibility of the Company bodies to the shareholders;
- transparency in the operation and decision-making of governance bodies;
- professional and ethical behaviour of its governance bodies;
- timely, complete and accurate reporting and disclosure of all relevant information;
- efficient control over financial and business activities of the Company in order to protect the rights and legitimate interests of shareholders, and
- development of business ethics and corporate social responsibility.

Awards and Recognitions

In 2016, NIS received several awards and recognition in Serbia and in the region.

- These included receiving **"The Best of Serbia 2016"** Award in two categories:

- Best Corporate Brand (NIS ad Novi Sad), and
- Best Merchandise Brand (NIS Petrol) in the category of "Manufactured Goods and Business Services"

These were awarded by the Serbian Chamber of Commerce in cooperation with the Ministry of Trade, Tourism and Telecommunications.

- The **St. Sava Award** for the programme, "Energy of Knowledge" was presented by the Ministry of Education, Science and Technological Development.
- NIS was also presented with the **"Corporate Super brands"** award - first place - in the category of "Energy for 2015/2016" by TGI International.
- NIS has been included in the **"CSR Index Serbia"** list - the first national platform for assessing corporate social responsibility in Serbia. This is awarded by the Responsible Business Forum and Smart kolektiv, with the support of USAID.
- The first prize in **Talent Management in Serbia for 2016** was awarded by Stanton Chase International, an international company for Executive Search.
- NIS was the **Bronze Winner of SAP Quality Award for cooperation of IT organisation and business functions**, through the Customer Centre of Expertise programme.
- **The first prize for business excellence** in the sector of services in the exploration and production of oil and gas for 2015, in the category of small enterprises in the oil and gas sector, for Naftagas - Oilfield Services, an NIS subsidiary in Timisoara. This award was made by the Commercial, Industrial and Agricultural Chamber of Timis County, Romania.
- **Silver Plaque** for the best relationship with investors in 2016 was awarded by the Belgrade Stock Exchange
- **Recognition for ten years of strategic partnership with IATA-**, the International Air Transport Association.
- **Recognition for the Most Humane Environment** to the Association of Voluntary Blood Donors in NIS - Naftagas, awarded by the Red Cross in Serbia.
- **Further accolades include acknowledgment for support for the functioning of the Fund for Gifted Students**, for hiring the top five students from technical faculties with study programmes of interest to the Company's business operation. **Acknowledgment for support for the University of Novi Sad**, to the Science Festival and other activities aimed at improving science and education system. This was awarded by the University of Novi Sad.
- **Honorary badge "For friendship and cooperation"** for a significant contribution to the development and promotion of cordial Russian-Serbian relations, awarded to Kirill Kravchenko, NIS CEO, Alexander Dybal, a member of Gazprom Neft Board of Directors and the NIS Company. The award was made by the Federal state agency "Rossotrudnichestvo" in Russia.
- **Gold medal** for outstanding merits in linking and strengthening cultural and economic ties of the Russian Federation and the Republic of Serbia, awarded to Alexander Dybal, a member of Gazprom Neft Board of Directors. This was awarded by the President of the Republic of Serbia.
- **Gold medal for outstanding contributions** to public service, the economy and the strengthening of friendly ties between the Republic of Serbia and the Russian Federation, awarded to Kirill Kravchenko as the long-running CEO of one of the largest energy companies in the region. Kravchenko has achieved remarkable results in fostering economic cooperation between the two countries as well as developing friendly, cultural and humanitarian ties between Serbia and Russia. The award was made by the President of the Republic of Serbia
- **Recognition for the best manager in the field of corporate security in 2015** to the Director of Corporate Security Division, Saša Todorović. Awarded by the Serbian Association of Managers of Corporate Security.

Membership

The **World Petroleum Council** is the largest and oldest non-governmental organisation in the field of oil and gas. Its national body is the **National Petroleum Committee of Serbia**, whose founder was NIS, which was founded by NIS in March 2011. The objective of this body is to improve activities in the oil and gas industry in the field of sustainable development.

NIS is a member of several associations and Chambers of Commerce in Serbia and abroad, including the:

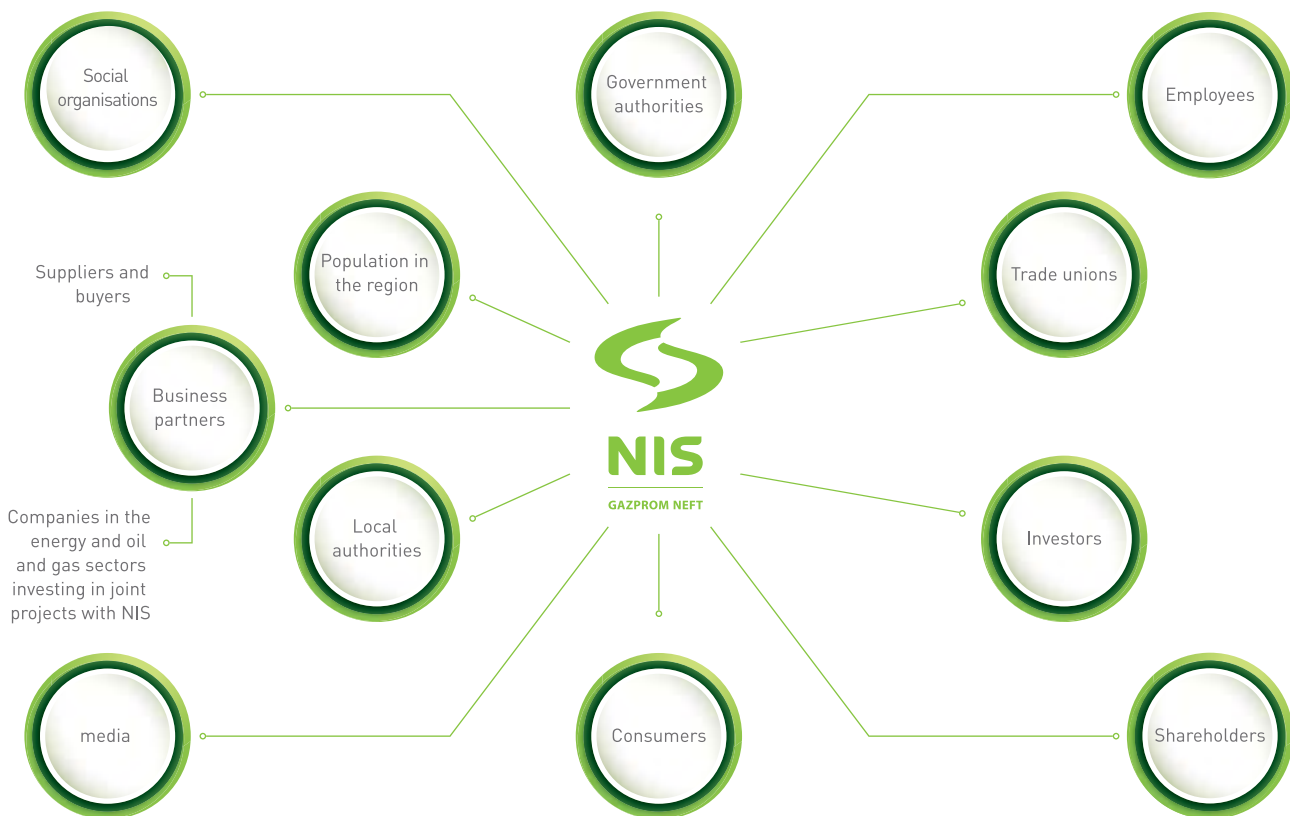
- **National Petroleum Committee of Serbia of the World Petroleum Council (WPC)**, a member since 2011,
- **Foreign Investors Council (FIC)** since 2011,
- **Chamber of Commerce of Serbia**, since 1991,
- **American Chamber of Commerce in Serbia** (AmCham Serbia) since 2014,
- **European Virtual Institute for Integrated Risk Management (EU-VRi)**, since 2007,
- **Bilateral Russian-Romanian Chamber of Commerce** (Camera de Comert Bilateral Romano-Rusa), since 2013, and
- **Petroleum Committee in Bosnia and Herzegovina**, since 2016.

Dialogue with Stakeholders

In its relations with stakeholders, NIS sustains ongoing communication, mutual trust, partnership and open dialogue. Understanding the needs and expectations of stakeholders is fundamental to the Company.

The Company continuously fosters an efficient and mutually beneficial cooperation with government institutions, commercial entities and economic entities, the diplomatic-consular sector, social, religious, political and other non-governmental organisations and associations in Serbia and abroad. Meeting the requirements of European standards in the energy sector, oil and gas industry and ecology remains an imperative for the Company. Experts brought their proficiency in establishing a relevant legal framework within competent ministries.

Key groups with which NIS cooperates are:



Relations with Shareholders and Investors

NIS has developed two-way communication with shareholders and investors. More information on the Company, shareholders' rights and all issues related to shares are available from the contact points below:

- Sector for Relations with Minority Shareholders, **servis.akcionara@nis.eu**
- Special Call Centre for minority shareholders, tel. **(011) 22 000 55**
- Section for Investor Relations, **Investor.Relations@nis.rs**
- Special segment of the corporate website "Investors", **ir.nis.eu**

NIS applies the highest standards in the area of information, while respecting the principles of equal treatment of all users of information. It ensures that published information is available to all interested parties in an equal and easily accessible manner in the shortest possible period. To a great extent this is available via the website **ir.nis.eu**. This publishes all relevant information for shareholders and investors, including presentations of achieved results, financial statements, audit reports, financial calendar, the important news on Company operations, decisions of governance bodies, answers to shareholder FAQs from the previous period, and all necessary information on shares, shareholders' rights and dividends.

Direct communication by investors to the Company's management takes place through regular quarterly presentations of achieved results as well as in the form of meetings with investors and participation in investor conferences. The "Day of Investors" is organised every year, which takes place in Company's premises and where the investing public is presented with important and significant projects. NIS has established an "open door policy" for the representatives of banks, brokerage firms, investment funds as well as financial analysts. This provides the opportunity for the investing public to inform themselves on all important aspects of NIS business.

The Company's priority in its relations with business partners is to respect the code of ethics* and transparency in business. The Company strives to achieve the highest professional standards by deploying streamlined procedures.

In accordance with the Company's strategic commitment to foster ongoing communication and an open dialogue with all stakeholders, the NIS Press Service has made it a priority to provide comprehensive and timely information to the public on the activities of the Company. The media and citizens are informed about business processes, socially responsible projects and major decisions of the NIS management through press releases, statements of Company representatives, information on the corporate website **www.nis.eu** as well as through publishing information via the Company's social media accounts.

Corporate Website

All important information is published on the NIS website in three languages; Serbian, English and Russian. Visitors to the website can also find core data on the Company, a section dedicated to investors, information on NIS products and services and job vacancies offering them the opportunity to become a member of the Company's large team. The website also includes sections dedicated to current tenders, NIS business activities and a section dedicated to suppliers and potential partners of the Company. In 2016, the front page of the website was modernised, which has significantly improved the NIS presence on the internet. The website adjusts for use on all platforms. For example, all reports on sustainable development and on what NIS has achieved in the field of corporate social responsibility are available as PDFs.

In 2010, the Company, decided to make such documents available online for the first time in Serbia. The corporate website also provides access to a current online version of the Report on Sustainable Development, with interactive content adjusted to all platforms.

Consumer Websites

The websites of two retail petrol station networks, NIS Petrol - **nispetrol.rs** and GAZPROM - **gazprom-petrol.rs**, provide information about products, services, promotions and operations of the Company's retail brands. The website of the GAZPROM premium brand is active in four countries where the brand is present (Serbia, Bosnia and Herzegovina, Romania and Bulgaria) and is accessible in the languages of those countries as well as in English.

The website of NIS oil and lubricant brand NISOTEC - **nisotec.rs** - presents the full range of NISOTEC products. In addition to detailed information on oils, lubricants and additive liquids, consumers also have access to a map of retail sites, a list of authorised distributors, recommendations for selecting a product and other useful information. A new search engine has also been designed, which allows users to find recommendations on the appropriate oil or additive liquid from the NISOTEC range of products, based on the vehicle's model and manufacture year.

The website of the loyalty programme "On the Road with Us" - **sanamanaputu.rs** - provides information on the rules of the programme and methods of collecting and using bonus points. The website also includes a calculator for the number of bonus points gained and a map of petrol stations where the programme is active.

* For more information on the code of ethics visit: <https://www.nis.eu/o-nama/informacije-o-kompaniji/kodeks-poslovne-etike>

Social Media

In order to inform the public about its activities through various channels and facilitate interaction with the citizens, in line with current trends, NIS has also expanded its presence on the internet to the most widely used social media platforms. In addition to offering information on the most important events in the Company, (via its presence on social media), NIS wants to engage its followers to take part in various events and provide them with the chance to win gifts and benefits. Visitors can also use social media to obtain more detailed information and insight from a different angle on events and activities of the organisations that NIS participates in.

Consumers can reach with the Company via the free call centre on 08 0000 8888 or by sending an e-mail to: office@nis.eu.

Internal Communications

Providing information to employees and active developing the corporate culture are essential to meeting business objectives and improving business operation. The Company uses various channels of information and a large number of tools for promoting corporate values and key topics. This includes providing timely, open and accurate information to employees on all current topics. These range from business results, development plans, development and training of personnel, safety at work to the social package and other employee benefits that directly affect the development of the corporate culture.

Corporate print media, such as monthly and quarterly magazines, are used to provide information to employees in Serbia and the region. They are published in Serbian and English languages. Employees are also informed through electronic media, most notably via the intranet portal, which has more than 3,000 daily visitors. Other electronic channels include info mail and various types of email notifications. Due to the large number of employees working in the field with

limited access to e-mail, information boards have been set up at more than 400 sites in Serbia to provide information on current topics.

Two-way dialogue between management and employees is crucial for achieving high-quality and transparent communication. In NIS, employee feedback is delivered using various tools, either via CEO meetings with first and second level managers or through meetings between employees and management. Here, everyone has the opportunity to openly discuss all important issues. Employees can also direct questions to management through the section "Questions to Management" in the corporate media.

The existence and operation of "SOS Line for Business Ethics" as a part of the "Feedback" programme prevents the violation of the Code of Business Ethics and is of great importance for developing the corporate culture. A special SOS telephone hotline and e-mail address, allows employees to report suspected violations of the Code, such as cases of corruption, theft, threats, discrimination, mobbing, administrative offenses and situations that endanger the health and safety of people. To facilitate the objective and timely resolution of reports, all cases are checked by the coordinator for implementation of the code of corporate ethics, as an independent body. Decisions on alleged violations of the corporate code as well as on measures to eliminate consequences and prevent repetition of similar incidents, are taken by the board of corporate culture and ethics. This is composed of representatives from various organisational within the Company.

According to the results of the annual sociological research for 2016, levels of employee awareness increased by 25 percent over the previous year. Year -on-year, the results of sociological studies show that employee awareness is growing and that the corporate culture is developing in accordance with the set strategy.

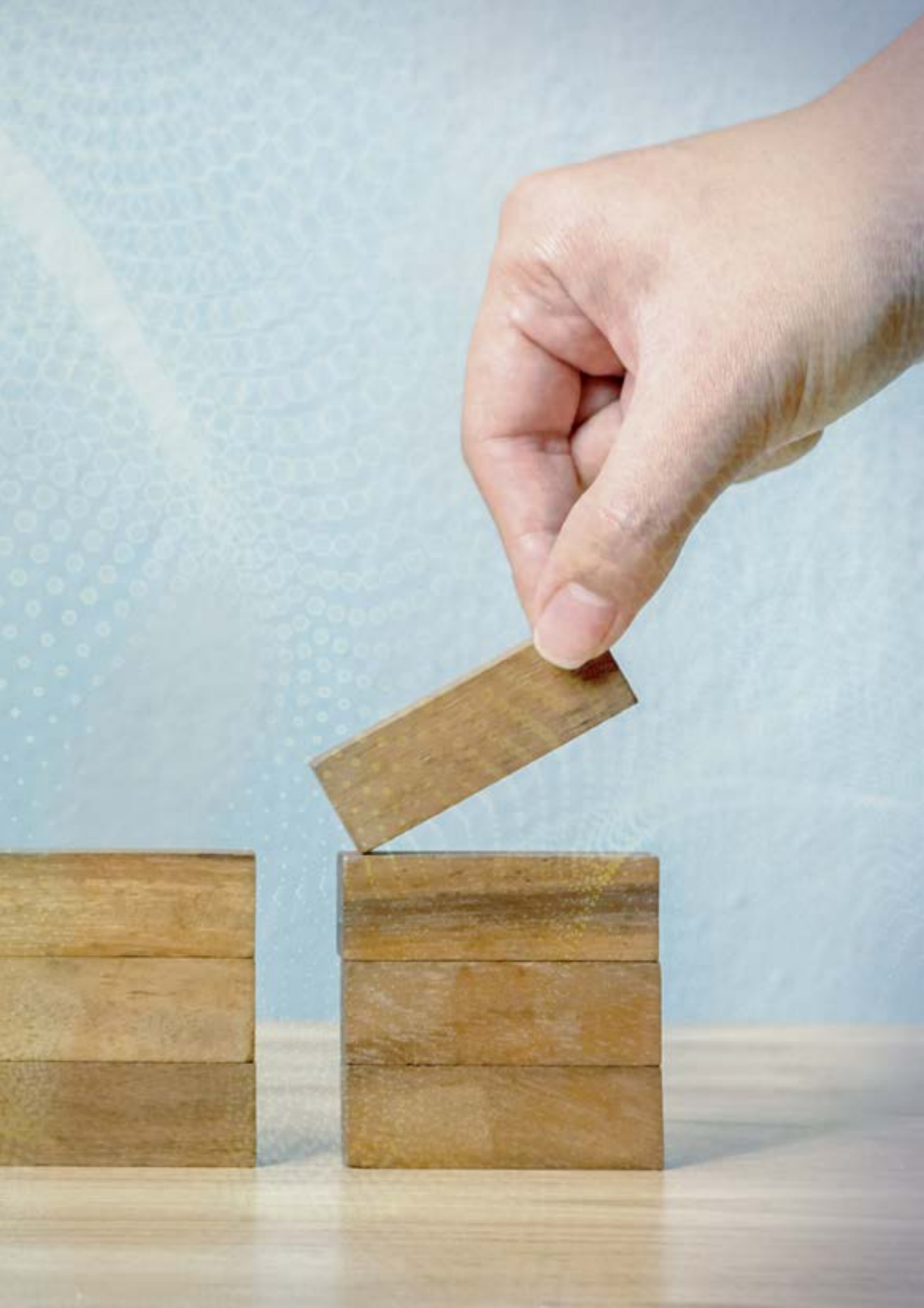




ECONOMIC DEVELOPMENT

NIS's status as a regional energy leader also means that it follows the latest trends in "green" and renewable energy sources, including the use of geothermal energy and wind. In 2016, the Amine plant for the purification of natural gas was put into operation, and is the first - and only - "HiPACT" plant in Europe, the only one of its kind outside Japan.





ECONOMIC DEVELOPMENT

Results of operation

At a time of major turbulence on world oil markets, the entire industry is operating in an environment of uncertainty and low oil prices. NIS has so far successfully responded to the challenges of the business environment maintaining a satisfactory level of profitability while preserving the basic

strategic direction of development. It plans to improve its operations in the future and use different measures to adapt to changing circumstances in the oil business while maximising returns for shareholders.

Direct Economic Value Generated And Distributed in thousand RSD	2015	2016
Directly generated value	211,668,432	193,591,952
Distributed economic value	194,780,981	176,672,190
Operating costs	160,013,799	148,299,864
Employee earnings and other remuneration	18,505,343	18,301,051
Interest on received loans	10,635,513	7,100,837
Taxes*	5,562,079	2,880,635
Investments in the community	64,247	89,803
Increase in the economic value of the Company	16,887,451	16,919,762

* Given amount does not include indirect taxes.



Business Activities

NIS Group's operations are organised in five production blocks (Exploration and Production, Services, Refining, Sales and Distribution and Energy) which are supported by ten business functions within the Corporate Centre.

The **Exploration and Production Block** engages in exploration, production, infrastructure and providing operational support for the production and management of oil and gas reserves, management of development of oil and gas deposits as well as of large projects in the field of exploration and production.

In the field of geological and exploration works in 2016, we discovered a new oil field and two gas deposits, which ensured an increase in hydrocarbon reserves above what was planned. Work continued to be executed on additional comprehensive exploration of perspective sites by the method of 3D Seismics, according to which NIS is a regional leader. An active stage of exploration drilling in Romania and the stage of regional geological exploration in Bosnia and Herzegovina both commenced.

Three scientific and research projects were also implemented. We continued intensive cooperation with Serbian state authorities in the field of fulfilment of legal requirements in deposit exploitation and exploration. Oil and gas production plan was exceeded by 2% and a series of technologies were tested and implemented in order to increase efficiency of the current production program. We set a record in exploitation drilling speed. Application of horizontal drilling technologies, squeeze job, hydraulic fracturing with the reduced proppant volume literally give a new life to mature deposits.

In terms of infrastructure in 2016, the construction of an Amine Plant was completed, improving the quality and increasing the volume of gas production. A positive environmental effect is reflected with the prevention of CO₂ emissions. Also, the construction of the system for liquefaction and dispatch of compressed gas in Ostrovo field was completed, which allowed for the commissioning of the previously unprofitable gas deposit.

The **Oil field Services Block** provides services in the field of exploration and production of oil and gas through geophysical testing, drilling, equipping and workover of wells and conducts special operations and measurements in boreholes. In addition, this Block provides services and maintenance of drilling assets and maintenance of oil and gas systems and facilities. It also provides passenger transport and vehicle rental services as well as freight transport and engagement of working machines. NIS has its own repair service capacities, which both fully meet the needs of the Company and ensure the provision of services to third parties.

The **Refining Block** engages in refining crude oil and other feedstock and in the production of petroleum products. The Block produces a wide range of petroleum products, from motor and energy fuels to feed for petrochemical industry and other petroleum products.

Following the construction of the mild hydrocracking and hydro treating (MHC / DHT) in 2012, NIS has produced motor fuel of European quality standards, currently implements project "Deep Refining", and conducts further modernisation of refining capacities and the construction of a delayed coking unit.

Implementation of project "Deep Refining" continues the trend of the constant innovation and improvement of its plants and processes, all in order to ensure the constant supply of high quality fuels to the Serbian and regional market, but also to introduce new clean energy efficient technologies. The construction of new plants increases the efficiency and depth of refining, which practically means that the production of high-sulphur oil fuel will be suspended, and production of high-quality gasoline and diesel will be increased, which will have a very positive impact on the environmental protection of the whole region. In addition, the new plant will ensure the introduction of coke in the product range, which has been imported so far.

The **Sales and Distribution Block** includes domestic and foreign trade, wholesale trade, retail trade of petroleum products and assorted additional activities. NIS has the largest retail network in Serbia and develops the trade in the region: Bosnia and Herzegovina, Bulgaria and Romania. In the Serbian and regional markets, NIS promotes two brands - NIS Petrol and Gazprom. As separate businesses, NIS develops the supply of aviation fuel, bunkering, sales of lubricants and bitumen.

All types of fuel undergo strict and regular laboratory controls and meet the requirements of national and international standards.

The **Energy Block** engages in electricity and heat generation from conventional and renewable sources, by sale of gas, electricity trade, development and implementation of strategically important energy projects and the development and implementation of projects to improve energy efficiency. This Block also deals with the development and implementation of energy projects within the NIS Group and performs the analysis and evaluation of investment and strategic partnership projects in the Serbian energy sector.

The construction of a CHP in Pančevo, a field investment in cooperation with Gazprom Energoholding, is in progress.

Estimated increase of hydrocarbon reserves reached 3.4 percent in 2016.

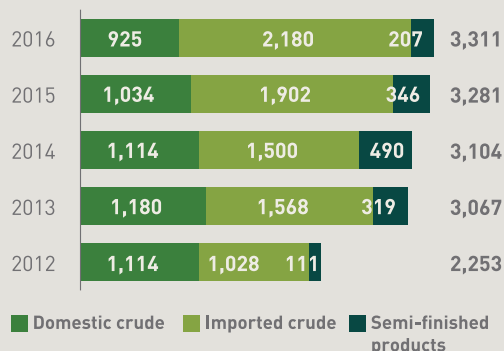


EBITDA *RSD 39,8 billion



Volume of refining, tonnes

+1%



Optimisation of basket of raw materials - refining of new types of crude oil



Volume of sales, tonnes

+3%

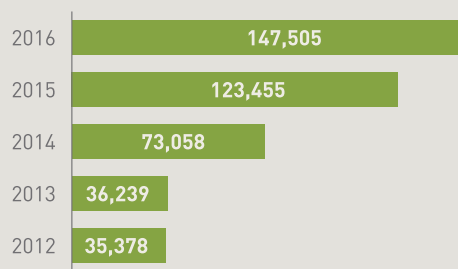


Drilling Department completed 42 wells, instead of 31 planned



Electricity output, MWh

+19%



Volume of electricity trade exceeded 2TWh



Total economic effect of realised measures for increasing operational efficiency to EBITDA indicator in 2016 is RSD 8.6 billion

NET PROFIT

15.0 RSD billion

CAPEX

26.1 RSD billion

Indicator of Lost Time Injury Frequency (LTIF) - 46 percent lower than in 2015

*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.



Corporate Security

During 2016, the Company constantly analysed and evaluated the fundamental risks related to corruption in all organisational units. In addition, permanent monitoring of corruption indicators* was undertaken. These were mainly in the areas of procurement of goods and services, in transactions with customers as well as through the verification of candidates for employment and appointments to managerial and other leadership positions in the Company. This also applies to the process of verifying economic entities when entering into contractual relations and to harmonisation of contractual and normative and methodological documents.

An area of business operation that is particularly exposed to the risk of corruption risk is the procurement of goods and services, since it involves direct communication with suppliers and a significant cash flow; corruption may be initiated either by the supplier and the contracting authority. However, corruption is also possible in the field of customer transactions; this is usually conducted through preferential treatment of so called large customers and by favouritism based on parity, mode of transportation or time of shipment. The most prevalent form of preferential treatment of customers happens by awarding contracts or delivery of large quantities of goods regardless of the outstanding financial obligations arising from previous contracts and deliveries. Based on risk assessment, some cases have been singled out as a particularly serious form of corruption, where persons authorised to draw up commercial contracts deceive managers and others by providing inaccurate or incorrect data in the proposals and the list of compatibility.

In 2016, several indications that referred to possible corruption, particularly in procurement units, were analysed. Based on a risk assessment, a number of potential risks were identified, including:

- abuse of a position of responsibility, including irresponsible treatment of assets of a company; insufficient protection of assets of the Company; incomplete or absence of internal control procedures; failures of line or functional managers; unlawful conduct of employees
- dereliction of duty,
- embezzlement in the service, and
- disclosure of official secrets.

In view of cooperation with a significant number of partners in Serbia, NIS is seen as an example of best practice in this field and has had a positive impact on the business standards of other companies, raising the quality of services. This contributes to improving the business climate in Serbia.

* In the analysis, the term “corruption” is used as defined in the “National Anti-Corruption Strategy”. Corruption is the practice of abuse of authority in the public and private sector with a view to acquiring personal benefit or enabling third parties to acquire such benefits. This involves a broader understanding of the concept of corruption, which cannot be reduced to a general accepted opinion that it involves giving or receiving a bribe, but it also implies any action that originates, partially or fully, from socially unacceptable motives.

Governance bodies

Members of NIS’s governance bodies are made familiar with anti-corruption rules and procedures, through the 2014 Resolution of the CEO adopting the standard form of “Agreement on Anti-Corruption Behaviour”. In addition, members of the governance bodies had an opportunity to familiarise themselves with the Company’s policy in the fight against corruption and fraud, in particular, the clause on compliance with relevant legislation. Members of all management bodies are familiar with the rules and procedures currently implemented in NIS and related to anti-corruption activities. These are: the Board of Directors, Advisory Board Council and Advisory Board as well as members of the Commission Board of Directors (Audit Committee, Appointment Commission and Remuneration Commission).

New Employees

In 2016, familiarisation with anti-corruption policies and procedures has been carried out continuously, so that all new employees are included in the induction training that includes corruption issues. Induction training, entitled “Fight against Corruption and Organised Crime”, on anti-corruption procedures is available for all new employees. This outlines the basic elements of implementing NIS anti-corruption policy, anti-corruption preventive measures, disclosure of corruption and the tasks of the competent section for the provision of support to decision-makers to recognise corruption elements, plus cooperation of individuals with competent state authorities in the prevention of corrupt behaviour.





Employees

In 2016, the Company began training employees on anti-corruption issues. The topics are related to protecting information in business through “Onboarding” training as well as workshops. These covered 437 employees, and seven employees underwent training related to the registration of confidential documents. A total of 15 employees from the CEO’s office have been trained in “Corporate Security Culture - Key Element of the Code of Business Ethics”, which includes taking measures and actions in cases of proven corruption. In addition, any organised form of contact with certain categories of employees is used for guidance and training.

In 2016, competent managers initiated 121 disciplinary proceedings against employees whose acts or omissions caused detrimental consequences for the Company, with corruption as a possible cause. These included two senior managers, ten middle managers and 109 other employees - engineers, technicians and operators. In addition, criminal charges for embezzlement were filed against 30 persons, of whom 27 were third parties and three NIS employees. Typical cases included non-payment of payment orders and their misappropriation, abuse of company cards to gain asset benefits, misappropriation of motor fuel, misappropriation of other tangible assets of the Company (electrical cables, equipment from the site, e.g. boundary pillars, tubing, sheet piles) and conflicts of interest. The Company laid off 28 employees (two middle managers and 26 other employees - engineers, technicians and operators).

Business Partners

NIS concluded agreements on anti-corruption behaviour with all business partners with which it had entered into contractual relationships. This was to preserve and ensure a favourable business environment through preventive and specific action in the fight against corruptive and/or illegal actions and treatment. The CEO’s decision also envisages a procedure in cases where a business partner refuses to sign the agreement. In these cases, NIS informs the competent authorities and – which is followed by taking measures and actions for establishing actual reasons of the refusal of agreement signing, which is then followed by the adoption of a harmonised decision on further actions. The Security Department also undertakes measures within its areas of competence in the field of anti-corruption operation as well as verifying harmonised contracts and the consistency and validity of anti-corruption agreements.

In 2016, there were 132 cases where an existing business cooperation agreement with partners was either terminated or not renewed. The reasons were: failure to meet contracted deadlines and schedule (six cases); failure to meet contractual obligations (two cases); poor quality execution of assumed obligations (two cases); non-compliance of HSE requirements prescribed by law (one case); court procedure against NIS initiated by a business partner (one case); court procedure initiated by NIS against a business partner due to failure to implement contractual obligations (118 cases); related business activities and managing structures with the Company for which the security department does not approve entering into a business relation (one case); abuse in the contract implementation (one case). Of these 132 cases, there were only two (1.51 percent) where the cause of termination or non-renewal of the contract was corruption-based.

Cooperation

Over and above engagement at the internal corporate level, complex activities relating to the affirmation of economic security were also taken in the market in Serbia and in the region. Representatives of the Company actively participated in the Serbian Association of Corporate Security Managers (SACSM) and gave a presentation at the round table organised by the Serbian Chamber of Commerce entitled "Fight against corruption – our method", and thus directly educated managers in public and private corporate sectors. NIS representative also took part in the round table discussion of the 7th International Conference "Days of Corporate Security" in Ljubljana on the topic: "How to Position the Role of Security Management."

Procurement harmonisation process

During the process of harmonising procurement procedures in the Company, the competent department assesses, in detail, potential economic entities with which the Company may enter into a contractual relationship. Simultaneously, financial indicators of a potential client's business operation, professional and technical competence, human resources, the number and subject of potential litigation proceedings (separately in the capacity of a defendant or a prosecutor) are considered as well as previous involvement in activities that may be classified as corrupt.

In 2016, NIS verified a total of 7,542 business entities with which business cooperation was planned. Of these, 92 or 1.22 percent were not approved for a variety of reasons. A non-approved client is one deemed to pose a risk to the Company. Reasons for non-approval of a potential client may include:

- lack of liquidity (current or common),
- cost-inefficiency – the value of the subject of procurement does not match market conditions, while preference is given to doing business with fewer companies,
- uncertainty in business (or potential unreliability), which may imply that a prospective client does not have the necessary references, possess valid certificates necessary for the performance of contractual obligations or have sufficient capacity to perform the task, due to a large number of existing commitments. He/she may also have reduced available labour capacity or does not possess the necessary resources to perform contractual obligations,
- incompetence – an economic entity is not registered to perform the activity envisaged, or it is registered but hires subcontractors that are not registered for the requested activity,
- disloyalty (or potential disloyalty); for example, in the list of references the company provided data about their involvement in similar activities for the benefit of another company that is a Company's competitor, which presents a risk of leaking business information of the Company, or
- conflicts of interest.

The competent department also took part in the harmonisation of 5,442 contracts, of which 124 (2.28 percent) were not approved.

All 826 new suppliers in 2016 were analysed; while consent was withheld for 92 potential contractors deemed to have had an actual or potential negative impact on the Company. Potential clients were analysed from the perspective of corporate protection and a potentially negative impact on the business of the Company. This is conducted prior to the selection of suppliers, thus precluding the possibility of signing the contract where the co-contractor is not approved.

Also taken into account is the attitude of suppliers to contractual commitments and experiences from previous business cooperation; unfairness and abuse in the relations pursuant to the provisions of the law on obligations and business practices and billing invoices for outstanding and unrealised services/works/goods and depreciated material. Links between technical or commercial entities with representatives of the co-contracting parties are also analysed in cases of suspected, actual or potential adverse effects to the Company in the process of procurement activity.

It is indicative that in 2016, three economic entities were not approved to enter into a business relationship with NIS for corruption reasons. In the first case, the owner of the company was arrested for corrupt acts, in the second case the owner of the company expressed corrupt intentions in the auction, while in the third, the company owner was arrested for illegal trade in petroleum products.

In order to eliminate business risks, NIS keeps a list of Unreliable Suppliers, Customers and Contractors, which includes economic entities that have so far failed to meet contractual obligations during the cooperation with the Company (including poor quality of executed works, unfair business cooperation, misuse, etc.)

Of the 132 suppliers that, in 2016 were recorded to have a negative impact on the operations of NIS, four (3.03 percent) were removed from the List of Unreliable Suppliers as a result of improved business climate and elimination of non-compliance and subsequently re-qualified as potential suppliers of the Company.

SOS Line

The NIS Business Ethics Code, which specifically aims to promote anti-corruption in the Company and the SOS line (phone: 021/481 5005, e-mail address: soslinija@nis.eu) provide an opportunity for both employees and stakeholders to respond to cases of non-compliance with agreed rules.

In addition, a special telephone line and e-mail address were introduced for reporting of cases of corruption in the Company (tel: 064/888 5888, e-mail address: dkz.ia@nis.eu).

In 2016, no identified cases of violations of ethical business conduct in the Company were reported through the SOS line



Future Objectives

- Raising employees' awareness and ability to recognise damaging forms of corruption,
- Implementing preventive activities that will improve the business atmosphere and reduce the possibility of corrupt activity,
- Training courses and professional workshops as a form of expert assistance to management in identifying corruption,
- Participating in the development and harmonisation of internal documents with the aim of implementing control mechanisms to reduce the possibilities of corruption,
- Cooperating, improving and coordinating measures and anti-corruption activities with competent state authorities,
- Cooperating, mainly with those company departments whose scope of work includes the implementation of procurement activities but also with the management tasked with the sales of goods and products through the exchange of data. The aim is to assess the need for extended training programmes or workshops aimed at identifying and applying anti-corruption measures,
- Constant monitoring of corruption indicators in the Company and applying measures for reducing corrupt activities in the Company to a minimum.

Suppliers

One basis for maintaining NIS competitiveness in the market is successful cooperation with suppliers. This includes successful completion of procurement processes, i.e. timely provision of the materials and services necessary for implementing production and business processes in the Company.

Geographically, suppliers are classified as follows:

- Local - suppliers from the Republic of Serbia;
- Regional - suppliers from the South East Europe;
- Global - worldwide suppliers.

The **main principles** guiding the implementation of procurement processes are:

- Process cost-effectiveness and efficiency, and
- Bidder competitiveness and equality

These principles and business logic are always accompanied by the standardisation of business processes through adopted documents: rulebooks, policies, standards and instructions. NIS prioritises the competitive selection of suppliers and contractors. In cases where the business situation requires a non-competitive mode of selection, this must be explained by the procurement initiator. The competitive selection is based on the analysis of alternative offers and the selection of a supplier that submitted a technically acceptable and favourable offer in terms of price, delivery/ completion time, warranty period, securities or additional benefits.

Procurement structure excluding Gazprom Neft

Year	Total procurement value in 000 RSD	Number of suppliers of the Company	Total procurement value of local suppliers in 000 RSD	Number of local suppliers	Percentage of procurements from local suppliers - value	Percentage of local suppliers in total number of suppliers
2015	107,907,974	2,535	68,997,656	2,007	64%	79%
2016	136,094,176	2,746	64,276,439	2,188	47%	80%

Procurement structure including Gazprom Neft

Year	Total procurement value in 000 RSD	Number of suppliers of the Company	Total procurement value of local suppliers in 000 RSD	Number of local suppliers	Percentage of procurements from local suppliers - value	Percentage of local suppliers in total number of suppliers
2015	173,673,674	2,536	68,997,656	2,007	40%	79%
2016	165,996,048	2,747	64,276,439	2,188	39%	80%

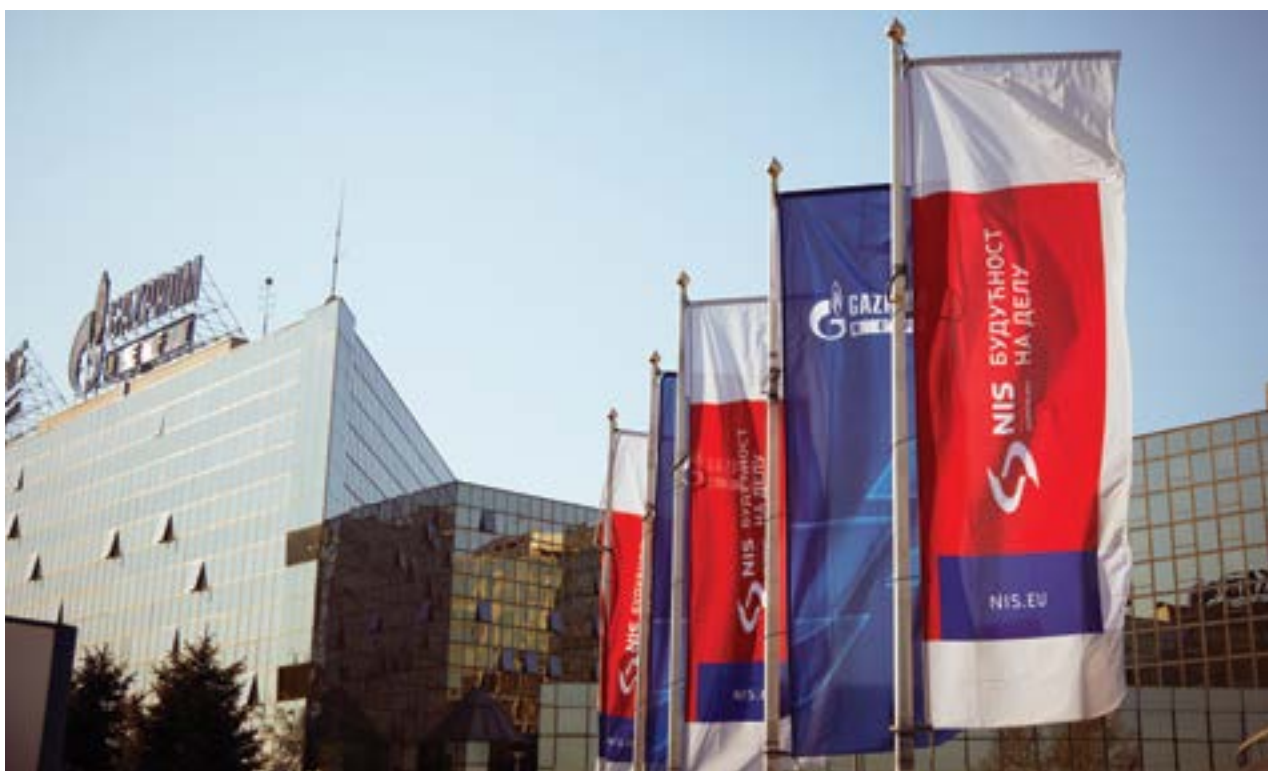
Buyers

After almost a quarter of a century, it is once again possible to fly directly from Serbia to America. A flight from "Nikola Tesla" airport to New York using an Airbus A330 was introduced in 2016, using NIS fuel.

NIS is a leading supplier of jet fuel and aviation gasoline to airline companies in Serbia. The Company is a reliable partner delivering top quality aviation fuel and services to its customers. Jet fuel, intended for use in most aircraft - passenger and cargo planes, is manufactured in sufficient volumes in NIS refining units.

direct to New York
WITH NIS FUEL





Petroleum products quality monitoring

As a part of an ongoing cooperation with state authorities, an NIS project aimed at improving the efficiency of monitoring petroleum product quality in Serbia is currently being implemented.

An important element in the Company's business operation is customer care and satisfaction. For the purpose of monitoring and analysis of customer satisfaction, the Company conducts various types of research.

In 2016, in order to monitor customer/driver satisfaction, a new research study Tracker was launched. This tracks fuel usage and operation of staff at petrol stations along with the habits and attitudes of drivers in the of Serbian, B&H and Bulgarian markets.

Regular users of NIS petrol stations say they are generally satisfied with NIS as their main source for the supply of petroleum products, with a 95 percent satisfaction rate.

An extensive network of petrol stations as well as favourable locations and additional promotions, are all seen as an advantage. The Company is actively striving to turn occasional users into regular ones by providing high-quality services.

In 2016, the Gazprom brand appeared for the first time in Serbia. Since then it has recorded a significant increase in brand recognition and a slight increase in use. The objectives of future development for Gazprom BS are reflected in the development of brand recognition; converting occasional users into regular ones; careful price positioning and selection of locations of petrol stations, while maintaining a premium offer and brand.

The NIS corporate brand has significantly improved its reputation over the years. In 2016, NIS was perceived as a strong, professional and leading company. NIS is now perceived as a responsible company by 32 percent of the population, a considerable advance since 2012.

The corporate reputation of NIS is now clear, with increased trust and an overall positive attitude towards the Company. Also, a growing identity for the corporate brand has been witnessed (99 percent in 2015 and 2016 as compared to 93 percent in 2012), along with increased awareness of the NIS ownership structure and origin of Gazprom.

99%
brand awareness



Product Labelling

As a socially responsible company, NIS has proactively responded to the introduction of the European Union's REACH legislation and pre-registration procedure. It consistently introduces and implements all measures required by the EU and the ECHA (European Chemicals Agency) to protect human health and the environment from risks arising from the use of chemical products. The Company labels its products in accordance with current legislation, providing information on the hazards and potential impact to human health and the environment. Information on the chemical composition and properties of the product, type of storage, product handling, transport and disposal of waste is contained in a safety data sheet and on labels. Elements of product labels, such as pictographs and the corresponding markings and phrases indicating hazardous properties, are shown on packaging.

In 2016, there were no inspection procedures caused by non-compliance with legal regulations, lack of provision of product information labelling and/or of the services of the Company initiated. Neither were there any court proceedings or claims against the Company, i.e. no cases where products and services would impact the safety and health of consumers, nor were there any cases of non-compliance with regulations or proceedings regarding breaches of customer privacy.

Product Liability and Compliance with EU Regulations

The Safety Data Sheet (SDS) is a legally prescribed document that has been mandatory since 2013. It is the main instrument of communication from suppliers to consumers as manufacturers and importers have to provide information about how their substances or mixtures can be used safely

for human health and the environment. The Safety data sheet content is tailored to the needs of professional users and provides them with information about the real predictable physical and chemical hazards arising from the properties of chemicals and their associated risks to human health and the environment. The Safety Data Sheet also contains information relevant to others, such as those engaged in the transport of dangerous goods or that are responding to chemical accidents.

REACH (Registration, Evaluation, Authorisation and Chemicals) is a prerequisite for exporting the Company's products to the European Union. Given that the Company exports a significant portion of its products to the EU, extensive studies and activities were conducted within NIS in order to fulfil the requirements of REACH. All of these are fulfilled in accordance with set deadlines, and a positive decision by the on the registration of substances produced by NIS was received from the ECHA. NIS lubricants are produced from REACH registered substances, and for this reason it was possible to place and sell products on the EU market without disruption.

Future Objectives

- The study of the chemical composition of products that have the lowest possible negative impact on the environment, and
- Providing information and user training on understanding the elements of labelling and their application of instructions on safe use and disposal.

Transport

The last link in the supply chain for petroleum products is the distribution to end-users, where the transport of goods is performed by road freight. A series of precautionary actions are conducted and a clear system of corporate and social responsibility and normative framework has been established, increasing the safety of both employees and other road traffic users in Serbia and the region as well as offering environmental protection.

Modernisation of the NIS fleet resulted in the reduction of the adverse impact of road freight on the environment. The vehicles meet technical requirements in terms of noise, emissions and safety. Emissions have been reduced and average fuel consumption has also been reduced. This in turn has improved the Company's energy efficiency. Optimisation the fleet structure has reduced levels of noise from the drive unit on vehicles, the air flow around the vehicle body and interaction of the tyre tread and road surface of motor vehicles and trailers.

All vehicles used for transporting of dangerous goods hold **ADR certificates**. Therefore, only vehicles fitted with equipment for preventing the discharge of cargo in the event of an accident are used. Sales and Distribution Block also holds an Energy Management certificate, the result of the implementation of measures to monitor and control of electricity consumption and fuel consumption in accord with the requirements of **DIN EN ISO 50001**.

Washing of the interior of the loading space is carried out in an authorised service centre, which holds the necessary licenses from the competent state authorities. By cooperating only with contractors that comply with all relevant legal norms and regulations, NIS ensures improvements to employee health care, the workplace and the environment.

NIS also includes railway and inland waterway transport, which ensures the primary distribution of petroleum products.

Railway tank cars and railway towers owned by NIS are used for the transportation of petroleum products, and they meet RID requirements (Regulation concerning the International Carriage of Dangerous Goods by Rail), legal and international regulations. Washing and maintenance of railway tanks is done in authorised service departments that have all the necessary permits obtained from competent state authorities.

The transport of petroleum products via inland waterways is performed by hiring external shipping companies which provide the transport service. The companies should meet all internal NIS regulations as well as existing state laws and international regulations regarding the transport of dangerous substances in inland waterways.

By adhering to the state regulations concerning the transport of dangerous goods in the railway and inland waterway transport, NIS ensures the improvement of environmental protection and safety of all the participants in the supply chain.



Taxes and Other Public Revenues

A total of accrued public revenue liabilities payable by NIS and its subsidiaries, originating from the NIS organisational structure in Serbia* for 2016 amounted to RSD 145 bln, which is three percent higher than in 2015.

The total of accrued liabilities related to public revenues that NIS Group shall allocate for 2016 is RSD 163 billion, which is seven percent higher than in 2015.

Investments

In 2016, NIS conducted a prioritisation of its investment portfolio. Highly profitable projects were selected, i.e. projects that offered a rapid return on investment as well as those where delay would have a negative effect on the profit generated.

In 2016, RSD 26.09 billion were allocated to finance investment, 14 percent less than the amount allocated in 2015.

The NIS investment programme for 2017 amounts to RSD 28.6 billion, six per cent higher than in 2016. Investments in key development projects remain a priority for NIS as well as increased operational efficiency and preserving the profitability of the business in spite of the complex macroeconomic and market conditions.

NIS also remains committed to implementing measures designed to increase operational efficiency as a key response to adverse market trends.

Construction of the Amine unit has been completed and all necessary permits from the state authorities to operate the newly built unit have been obtained. The technology used in

the unit is one of the most ecologically safe and effective existing technologies but to date has remain unused in the region. This project will significantly cut CO₂ emissions. Operation of the unit in Elemir guarantees the quality of the gas for delivery to the transport system is and additionally protects the environment. By maintaining reservoir pressure, the process increases both gas production and the levels of utilisation of the oil and gas reservoirs of the Company.

This investment significantly increases energy efficiency of the natural gas unit with CCS, which, in turn, will have a positive effect on the environment.

Strategic Goals

NIS began 2017 as a stable system and has a clear vision of where it is going. The business plan adopted for 2017 foresees a secure future for NIS as well as its employees and shareholders. Realisation of these ambitious plans will strengthen its position as a regional leader.

Future priorities for business operations include:

- Increasing the depth and efficiency of refining in Pančevo Oil Refinery,
- A programme of geological exploration works in the oil fields in Serbia and the region,
- Formatting and modernisation of the retail network,
- Increased diversification of business operation through investments in power generation, and
- Regional leadership and optimisation of the maximum performance within the Company.

AMINE WASHING INCREASES THE QUALITY OF GAS

* Naftagas -Oilfield Services, Naftagas - Technical Services, Naftagas - Transport, NTC NIS Naftagas

The total of accrued liabilities related to public revenues

145

RSD billion

CAPEX

26,09

RSD billion



HUMAN RESOURCES

In 2016, NIS became the first company to win the St. Sava Award, awarded by the Ministry of Education, Science and Technological Development, for the Company's contribution to education in Serbia. As well as the, "Energy of Knowledge" programme, which supports high school students and sponsors competitions in mathematics, physics, chemistry and the Russian language, NIS is also recognised for the "NIS Chance" - which promotes youth employment - and "Student Practice" schemes".



HUMAN RESOURCES

High standards in human resource management is an imperative and in 2016, NIS generated verifiable results. A survey of NIS's image as an employer was conducted by an independent agency. The survey included both domestic and international respondents and the results showed that NIS is positioned at the very top in terms of reputation and attractiveness. These findings were underpinned by research undertaken by Infostud among more than 10,000 people. This showed that NIS took second place on a list of the "most desirable employers" in Serbia.

NIS will remain true to its goal - to remain the best and most desirable employer in Serbia - and will continue to pay close attention primarily to attracting, selecting and retaining the best candidates. It does this by providing an environment where employees are able to realise their potential, both through the system of continuous development and via both tangible and intangible rewards.

Equal Opportunities

The equal opportunities principle is consistently applied during employment. This ensures that the candidate selection and employee development is based on professionalism, experience and knowledge. At the same time, the Company forbids all forms of discrimination when selecting candidates and implementing other HR processes.

The Company attaches special significance to gender equality. This is why, during 2016, it set up a committee to address these issues in a structured and systematic way. In NIS there are no employees under 18 years of age.

Regarding forced and child labour and other areas of business, NIS operates fully in accordance with laws and other regulations and ratified international conventions.

Fluctuation in Employee Headcount

	31 Dec. 2015			31 Dec. 2016		
Organisational Unit	Employees	Leasing	Total	Employees	Leasing	Total
Exploration and Production	764	217	981	782	222	1,004
Oilfield Services	100	22	122	84	24	108
Refining	799	40	839	775	30	805
Sales and Distribution	941	2,677	3,618	964	2,796	3,760
Energy	234	19	253	245	20	265
NIS - Professional Services	1,036	453	1,489	1,048	460	1,508
NIS a.d. Novi Sad	3,874	3,428	7,302	3,898	3,552	7,450
Naftagas -Oilfield Services	591	783	1,374	600	770	1,370
Naftagas - Technical Services	396	469	865	396	479	875
Naftagas - Transport	104	257	361	96	272	368
NTC NIS Naftagas	293	29	322	300	23	323
Subsidiaries in the country	1,384	1,538	2,922	1,392	1,544	2,936
Total	5,258	4,966	10,224	5,290	5,096	10,386

According to the balance as of 31 December 2016, NIS a.d, with all associated companies in the country, excluding representative offices, branches, "subsidiaries abroad" and "other subsidiaries" had 5,290 employees, along with 5,096 persons hired through companies with which NIS concluded staff-leasing contracts.

Qualification Structure												
Year		PhD	M.Sc./MA	BSc	College	HS	EL.S	HQ	Q	SQ	NQ	Total
2015	Permanent employment	16	100	2,202	327	1,557	6	248	746	1	-	5,203
	Temporary employment	1	3	33	2	9	-	-	7	-	-	55
	Total	17	103	2,235	329	1,566	6	248	753	1	-	5,258
2016	Permanent employment	14	101	2,237	329	1,520	5	245	735	-	-	5,186
	Temporary employment	2	3	68	4	10	-	-	17	-	-	104
	Total	16	104	2,305	333	1,530	5	245	752	-	-	5,290

* Data on representative offices, branches, subsidiaries abroad and other subsidiaries as well as leasing employees are not included to allow comparability with data for the previous year

Qualification Structure											
Organisational Unit / Qualification	PhD	M.Sc/ MA	BSc	College	HS	EL.S	HQ	Q	SQ	NQ	Total
NIS a.d. Novi Sad	9	86	1,868	277	1,120	2	133	403	-	-	3,898
Subsidiaries in the country	7	18	437	56	410	3	112	349	-	-	1,392
Leasing	-	5	577	373	2,258	112	135	1,614	15	7	5,096
TOTAL:	16	109	2,882	706	3,788	117	380	2,366	15	7	10,386

Gender Structure				
Year		Men	Women	Total
2015	Permanent employment	3,934	1,269	5,203
	Temporary employment	44	11	55
	Total	3,978	1,280	5,258
2016	Permanent employment	3,904	1,282	5,186
	Temporary employment	85	19	104
	Total	3,989	1,301	5,290

* Data on representative offices, branches, subsidiaries abroad and other subsidiaries as well as leasing employees are not included to allow comparison with data for the previous year

Gender Structure			
Organisational Unit /Gender	Men	Women	Total
NIS a.d. Novi Sad	2,770	1,128	3,898
Subsidiaries in the country	1,219	173	1,392
Leasing	3,685	1,411	5,096
TOTAL:	7,674	2,712	10,386

Management-to-Staff Ratio					
Year		No. of Managers		No. of Staff	
		No. of Managers	percent share in total of managers	No. of Staff	percent share in total of employees
2015	Men	220	72.13%	3,758	75.87%
	Women	85	27.87%	1,195	24.13%
	Total	305	100%	4,953	100%
2016	Men	220	72.61%	3,769	75.58%
	Women	83	27.39%	1,218	24.42%
	Total	303	100%	4,987	100%

* Data on representative offices, branches, subsidiaries abroad and other subsidiaries as well as leasing employees are not included to allow comparison with data for the previous year

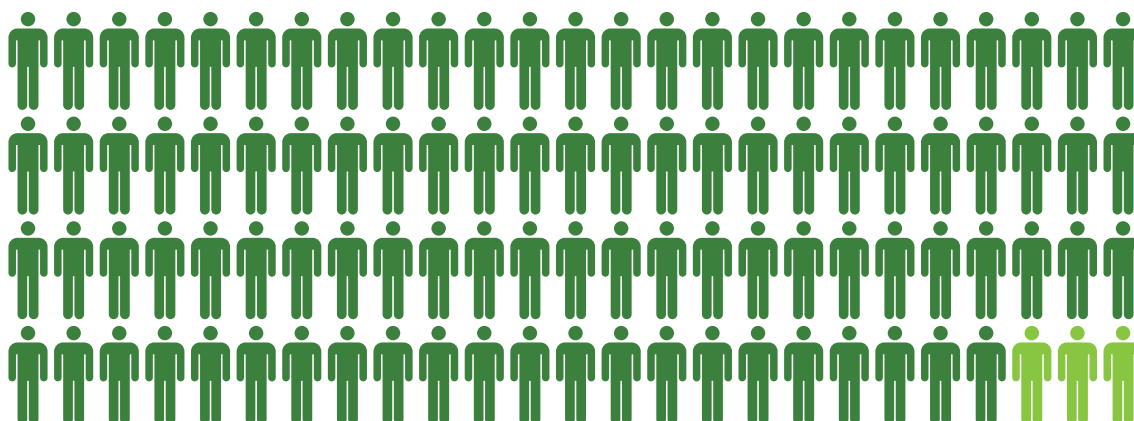
** Manager category include: Top Management, Senior Management and Middle Management. Lower management (department managers and lower) is not included in the manager category.



10.082 No. of Staff



304 No. of Managers





Employees at department director level - age structure, gender structure and nationality

No./Level		CEO	CEO Advisers and Deputies	Function/ Block Director	
Age	NIS a.d. Novi Sad	1	7	15	
	<30	-	-	-	
	30-50	1	4	11	
	>50	-	3	4	
	Representative offices and branches	-	-	-	
	<30	-	-	-	
	30-50	-	-	-	
	>50	-	-	-	
	Local Subsidiaries	-	-	-	
	<30	-	-	-	
	30-50	-	-	-	
	>50	-	-	-	
Gender	NIS a.d. Novi Sad	1	7	15	
	Men	1	5	13	
	Women	-	2	2	
	Representative offices and branches	-	-	-	
	Men	-	-	-	
	Women	-	-	-	
	Local Subsidiaries	-	-	-	
	Men	-	-	-	
	Women	-	-	-	
Nationality	NIS a.d. Novi Sad	1	7	15	
	Domestic	-	3	3	
	Foreign	1	4	12	
	Representative offices and branches	-	-	-	
	Domestic	-	-	-	
	Foreign	-	-	-	
	Local Subsidiaries	-	-	-	
	Domestic	-	-	-	
		-	-	-	
Total		1	7	15	

	Function/Block Director Advisors and Deputies	Subsidiary Director	Department Director	Department Director Advisors and Deputies	Representative Office Director
	12	-	69	2	-
	-	-	-	-	-
	8	-	64	2	-
	4	-	5	-	-
	-	-	-	-	4
	-	-	-	-	-
	-	-	-	-	3
	-	-	-	-	1
	1	4	4	-	-
	-	-	-	-	-
	-	4	3	-	-
	1	-	1	-	-
	12	-	69	2	-
	11	-	53	2	-
	1	-	16	-	-
	-	-	-	-	4
	-	-	-	-	4
	-	-	-	-	-
	1	4	4	-	-
	1	4	2	-	-
	-	-	2	-	-
	12	-	69	2	-
	4	-	43	-	-
	8	-	26	2	-
	-	-	-	-	4
	-	-	-	-	-
	-	-	-	-	4
	1	4	4	-	-
	1	3	2	-	-
	-	1	2	-	-
	13	4	73	2	4

Age Structure								
Year		< 20	20-29	30-39	40-49	50-59	> 60	Total
2015	Management	0	4	120	127	45	9	305
	Staff	0	529	1,383	1,683	1,239	119	4,953
	Total	0	533	1,503	1,810	1,284	128	5,258
2016	Management	0	6	106	131	49	11	303
	Staff	0	470	1,356	1,698	1,306	157	4,987
	Total	0	476	1,462	1,829	1,355	168	5,290

* Data on representative offices, branches, subsidiaries abroad and other subsidiaries as well as leasing employees are not included to allow comparison with data for the previous year

Age Structure							
Organisational Unit /Age	< 20	20-30	30-40	40-50	50-60	> 60	Total
NIS a.d. Novi Sad	-	365	1,137	1,337	949	110	3,898
Local Subsidiaries	-	111	325	492	406	58	1,392
"staff leasing"	31	2,041	1,796	792	383	53	5,096
TOTAL:	31	2,517	3,258	2,621	1,738	221	10,386

Fluctuation in Employee Headcount*						
	Men		Women		Total	
	2015	2016	2015	2016	2015	2016
Employment	95	199	46	87	141	286
Employment Termination	389	191	228	61	617	252

* For subsidiaries abroad and other subsidiaries as well as leasing, employees are not included in the table for either 2015 or 2016, whereas local subsidiaries are.

** For subsidiaries abroad and other subsidiaries as well as leasing, employees are not included in the table for either 2015 or 2016, whereas local subsidiaries are

*** Ratio of new employees and employee headcount at the beginning of the observed period amounted to 5.37 percent

**** Ratio of employees that left the Company and employee headcount at the beginning of the period amounted to 4.74 percent

Fluctuation in Employee Headcount per Age Structure

	< 19		20-29		30-39		40-49		50-59		> 60		Total	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Employment	-	-	60	123	53	103	19	43	6	12	3	5	141	286
Employment terminated	-	-	119	48	116	97	170	51	192	34	20	22	617	252

* For subsidiaries abroad and other subsidiaries as well as "Staff Leasing", employees are not included in the table for either 2015 or 2016, whereas local subsidiaries are

** 2015 does not include data on representative offices and branches, while the data for 2016 does include these data, so the data are not fully comparable.



Dynamics of going on maternity leave and returning to work in 2016

	Employees whose leave began in 2015	Employees returning to work from leave in 2015	Employees whose leave began in 2016	Employees returning to work from leave in 2016	Employees returning to work after maternity leave between 31 Dec. 2015 and 31 Dec. 2016	Remaining number of employees expected to return from maternity leave in 2017 and 2018	Employees leaving the Company within less than a year of returning from maternity leave	Employees returning to work after maternity leave and remaining employed with the Company 12 months after their return
NIS	75	68	56	71	135	64	7	61
Leasing	-	-	119	106	88	134	56	25
Total	-	-	175	177	223	198	63	86

* Data on representative offices, branches, subsidiaries abroad and other subsidiaries as well as leasing employees are not included to allow comparison with data for the previous year.

** In 2016 the right to paternity leave was used by one male employee.



Basis for Termination of Employment

In 2016, 252 employees left NIS. Of that number, 19 of them retired and 71 employees left the Company by mutual agreement with financial compensation. For remaining 162 departees, the basis for leaving was another reason, including termination of the employment contract by the employer, termination of employment contract at the employee's request, completion of a temporary employment contract or the death of the employee.

In 2016, the Company did not implement any redundancy programmes. In the past, the Company endeavoured to provide assistance to employees that leave through redundancy by providing workshops with representatives of the National Employment Service. The purpose of these workshops was to provide a platform for the authorised persons of the Nation-

al Employment Service employees to advise the employees on their rights and opportunities once they leave the Company. The employees were directed to cooperate with the employment counsellor and made aware of the importance of their active role in the job search as well as of active employment measures.

In the event there is a need to transfer an employee to another job or change other important elements of the Employment Contract, the Company is obliged to submit an offer to the employee for the conclusion of an annex to the Employment Contract, with a validity date for stating an opinion on the offer within eight working days of receipt. This offer clarifies and justifies the reasons for the transfer of the employee and the elements of the Employment Contract that are to be changed.

Basis for Termination of Employment	2015	2016
Retirement	9	19
Termination of employment based on mutual agreement, incl. severance package	85	71
Other	523	162
Total	617	252

* For subsidiaries abroad and other subsidiaries as well as leasing, employees are not included in the table, for neither 2015 nor 2016, whereas local subsidiaries are.

* Data for 2015 does not include data on representative offices and branches, and the data for 2016 does include these data, so the data are not fully comparable.

Cooperation with Trade Unions

NIS supports the freedom of trade union association and collective bargaining. Therefore in 2016 it continued its close cooperation with the representative employee trade unions. In 2016, negotiations on Collective Agreement for NIS a.d. Novi Sad and the Collective Agreement of the subsidiary company Naftagas - Transport d.o.o. Novi Sad, were held aimed at harmonising collective agreements with the changes to road transport laws.

In 2016, the largest representative Trade Union in NIS a.d. Novi Sad also registered as a trade union in the two subsidiaries - Technical Services and NTC - and launched an initiative to establish representation, which is a legally-prescribed procedure.

In NIS and in subsidiaries (Naftagas - Oilfield Services, Naftagas - Technical Services, Naftagas - Transport and NTC - NIS Naftagas), there are several representative trade unions:

Number of employees in representative trade unions	2015	2016
Uniform union organisation at NIS a.d.	2,651	2,651
UO Oilfield Services	293	307
UO NTC NIS Naftagas	61	76
UO Special works (Naftagas - Oilfield Services)	199	177
UO Technical Services	221	213
UO Transport	53	44
Total	3,478	3,468

According to the balance as of 31 December 2015, 65 percent of NIS's employees were members of representative trade unions.

Implementation of the Collective Agreement, Labour Law and employees' rights in the area of labour relations are exercised, inter alia, through a constructive relationship with the trade union. These include daily consultations and regular meetings with the purpose of presenting the results of business operations and to improve social dialogue as well as through working groups comprising representatives of the trade union and employer, with the objective of monitoring the application of the Collective Agreement.

The Collective Agreement regulates the rights of employees arising from employment, in particular issues relating to health and safety at work, a wide range of rights related to compensation and employee benefits as well as a high level of employees' social security. The participation of trade unions in addressing these issues is of particular importance.

Some of the rights guaranteed in the Collective Agreements and other internal documents of the Company include:

- Special protection of the employees with illnesses as well as employees with disabilities, preventive recuperation of the employees working at high-risk positions, and other employees in order to prevent occupational illnesses and disabilities
- Wide range of solidarity assistance paid out to employees (in case of an illness/death of the employee or a member of their family, damage to their households, birth of a child in families with several children, etc.),
- Scholarships during the regular education of the children of killed and deceased employees,
- Collective employee insurance in case of accidents.

An HR portal has been created to inform the employees on all their rights and terms of the above-mentioned benefits under the Collective Agreement and internal documents of the Company.

Candidate Recruitment and Selection

Recruitment and selection is a process through which the Company searches, in the most transparent and effective manner, for candidates that are best-fitted for a specific position. The Company aim to improve the recruitment process through the development of the team and working methods to allow NIS to hire the best candidates in competition with other successful companies.

Through the 2016 **"Return to Serbia" Programme**, NIS continued to strive to motivate those experts that had obtained their education and work experience abroad to return to Serbia and continue their development at NIS.

The good practice of implementing the **"Student Practice" Programme** continued during 2016 with over 50 students having an opportunity to become familiar with the Company over the summer. In addition, NIS traditionally organises vocational visits for university and secondary school students in order to let them gain knowledge about the Company as a potential future employer. In 2016, the Company was visited by over 540 university and high school students, with visits lasting from one day to two weeks.

NIS Chance

The "NIS Chance" programme, which offers employment to young graduates without professional experience, gave a number of engineers their first jobs in the Company in early 2016 in their area of expertise, one that matches the core activity of the Company. Over 690 employees began their career at the Company as part of this programme, with 32 candidates were employed in programme year 2016/2018.

Professional Development of Employees

In order to ensure that employees are ready to respond to all the challenges they face in everyday business while simultaneously contributing to the development of the Company, NIS continued to invest in development of human resources during 2016. Over RSD 290 million was invested in the employee development and in cooperation with educational and professional institutions. The cost of training of employees amounted to RSD 238 million (not including organisational costs).

YA total of 2,046 trainings were held in cooperation with external providers, with 6,647 participants, along with a significant number of in-house trainings.

In 2016, the total of training hours increased in comparison with 2015 (365,349 vs. 253,522), largely the result of introducing the concept of the Corporate University. An increase in hours of training in 2015 for male employees is largely the result of theoretical and practical trainings at the Technical High School Zrenjanin, primarily aimed at well-workers.



Training costs (million RSD)*	2016
Training costs	238
Costs of training organisation	7
Total training & organisation cost	245

* NIS Novi Sad with subsidiaries was formed in 2012 from the organisational structure of NIS a.d. Novi Sad (NTC NIS - Naftagas d.o.o., Naftagas - Transport d.o.o., Naftagas - Technical Services d.o.o. and Naftagas - Oilfield Services d.o.o.); ;

Training costs (million RSD)*	2009	2010	2011	2012	2013	2014	2015	2016
Costs of professional training	45	72	109	209	265	240	211	232
Costs of consultancy	5	9	35	23	23	11	2	2
Costs of membership fees for professional associations	1	1	2	5,8	2	3	5	4
Total	51	82	146	238	290	254	218	238

* NIS Novi Sad with subsidiaries was formed in 2012 from the organisational structure of NIS a.d. Novi Sad (NTC NIS - Naftagas d.o.o., Naftagas - Transport d.o.o., Naftagas - Technical Services d.o.o. and Naftagas - Oilfield Services d.o.o.); training costs are presented excluding costs of organisation and costs of „Energy of Knowledge“ project.

Training stats	Hours of training per gender		Hours of training per category		Training costs	Total hours
	Male	Female	Managers	Employees	RSD	Total
Total of training hours/training costs	319,304	46,045	37,689	327,660	236,131	365,349
Number of employees	7,674	2,712	304	10,082	10,386	10,386
Average number of hours/average cost	42	17	124	33	22.736	35

In 2016, NIS won the first prize for Talent Management in the competition organised by the Stanton Chase International Company for Executive Search. This prize is awarded to companies that are recognised in the market for high quality talent development programmes and successful cooperation with universities. The NIS concept of a "Corporate University" was declared the best practice in the entire competition.

Corporate University is the concept of continuous development and education of employees. It provides support for employees in developing skills, competencies and knowledge for more efficient and better work performance. Programmes within the NIS Corporate University have been designed in accordance with the specific needs of the Company's business and adjusted to the organisational structure (top/senior/lower management, specialists). The contents of each training result from collaboration with leading business schools in the country and region, partners for training and development and renowned leading lecturers.

More than 1,000 employees in positions ranging from Department Director to Expert Coordinator attended NIS Corporate University programmes during 2016.

Corporate University is proud of the modern and efficient technologies used during the introduction of e-learning content as well as the introductory training for new employees. Following international trends, a modern electronic method of training was developed in order to meet the requirements and presents the content in an engaging and interactive manner. Corporate University programmes are building the skills and abilities of employees and preparing them for further career development within and outside the Company. Throughout the year, employees are trained on issues of stress management, personal efficiency, conflict management, presentation skills, teamwork, team management, situational leadership, leadership skills, coaching and mentoring and many other topics that are important for the development of skills and competencies required in the modern labour market.

The development programme "Leader 2016", which is dedicated to the advancement of employee leadership potential was successfully completed in 2016, with 22 employees successfully completing the programme. Following five training modules, programme participants successfully defended the projects that were assessed as highly significant for the Company before a Commission consisting of the CEO and representatives of the top management. The project DigitalNISation - the culture of innovation in NIS - was declared to be the best among them.

NIS invested heavily in broadening employees' professional knowledge, who acquired knowledge from leading international companies. Major international conferences were attended to gain insights into trends and best practices in the Company's field of operations. In addition, NIS hosted large international companies, such as NExT Schlumberger, IFP Training, PricewaterhouseCoopers and KPMG, which shared their experience with NIS employees.

In cooperation with the Technical School of Zrenjanin, through the programme of professional training, 563 employees from the blocks of Exploration and Production and Services passed the training required to acquire the occupational title of Oil and Gas Unit Operator. The objective is to continue with this type of employee training during 2017.

The programme of Foreign Language Learning is designed to improve employees' fluency in the English, Russian or Serbian languages to help them do their work more efficiently. In 2016, group and individual lessons involved 395 employees.

In 2016, a regular cycle of evaluation of employees by competences was conducted. According to this programme, employees receive a quality and structured feedback on their work over the previous period. In order to improve this process as well as corporate culture, workshops on providing feedback during the employee evaluation process based on competences were organised for managers. These were attended by over 300 managers.

With "Staff Reserve" programme of succession, NIS implemented individual programmes of development of employees who acquired the top level of readiness to assume key positions. The plans specified development goals, which were implemented through coaching or mentoring by managers, participation in projects and in working groups, individual training, training and other development tools in 2016, the concept of employee Career Paths was developed to present the possibilities of career growth and development of employees at the Company, from the beginning of their employment onwards. The concept of a Development Centre for employee competency assessment was designed to provide an objective assessment of their strengths and areas of potential improvement as well as of their potential for advancement.

As part of the Company's initiatives aimed at improving the rights of women and encouraging gender equality when inviting employees to training, the number of women invited to the group was taken into consideration in order to provide equal numbers of male and female participants. One example is the programme "Leader 2016", which was attended by 22 employees, including 7 women, with one woman voted the best performer. This is an important consideration if one takes into account that the Company employs more men than women. In 2016, a female representative of the Company took part in the conference "Women Leaders, Agents of Change in Europe", organised by the Bled School of Management. A confirmation of the fact that the Company strongly supports women in business was also obtained by the external public, and the invitation to participate in a panel on "Women in management positions" at the Conference "Art of HR", organised by Cotrugli Business School, was accepted by our female HR Director. The female Head of CEO's Office took part in the "Vivaldi Forum" at the Mokra Gora School of Management, entitled "Women's Leadership".





In May 2016, NIS became the signatory of “CEO statements on the Women Empowerment Principles (WEPs)” and a champion of this initiative of women’s empowerment which they created together with the UN Global Compact, UN Women and leading world companies. With this, our company committed itself to the application of seven WEP principles in its own business with the aim of:

- Achieving better financial results by increasing talent visibility and labour productivity
- Ensuring long-term competitiveness through the strategic development of the women’s staff
- Promoting gender equality in its own and social environment

Considering it is the WEP signatory, NIS is obliged to annually report on the application of these principles in its operations. In the third quarter of 2016 was established the internal Women’s Network Association which will deal with the application of WEP in NIS. At the end of 2016, this association conducted an initial evaluation of our current level of harmonisation with WEPS by internally populating the “Self-Assessment Questionnaire for Serbian Companies” (created by UN Women Serbia) and on the basis of this questionnaire, the association will plan and propose further steps in 2017 related to this topic.”

Salary Management System

In order to achieve a higher operational efficiency, the Company continues to improving its incentive system and provide working conditions to help make NIS one of the most attractive employers in the region.

NIS continuously works on developing and improving the total employee incentive system, which includes:

- Salary system (basic and variable pay, benefits, premiums, non-financial incentives, etc.),
- Regular assessment of work performance and assessment of employees’ competencies,
- Employee development, and
- Balanced ratio of work hours to leisure time.

This system ensures that all employees are motivated to achieve Company goals through a well-developed incentive system.

Basic Pay

The Collective Agreement, under which the basic salaries of the employees are defined in accordance with the job grade, guarantees that the level of salaries in NIS is the same as that in other leading companies in Serbia. Each grade has a clearly defined range - from the minimum to the maximum amount of the basic salary, regardless of gender.

The salary ranges covering all grades are defined on the referential labour market median, according to research on salaries conducted by independent organisations, which ensures their competitiveness.

The grading system ensures the compliance with principles of internal equality and external competitiveness of employee salaries. Thus, the Company creates an environment and culture where employees, through their work results, can directly influence their salaries and thus, the business performance of the entire Company.

Minimum monthly basic gross salary in NIS as defined under the Collective Agreement, amounts to RSD 45,000 and is considerably higher than the minimum gross salary in Serbia, which amounted to RSD 28,724 in December 2016.

The "NIS Employee Salary Management" standard applied since January 2014 defines a grading system aligned with the international methodology used for job evaluation.

Variable Pay and Bonuses

In NIS, employee work performance is assessed on a monthly, quarterly and annual basis, which is measured through collective and individual results that are assessed with the remuneration system of variable pay. The variable pay is not a legal obligation, however in regards to the employee incentive system and salary management, the strategy of the Company is to motivate and reward efficient employees that achieve both strategic and operational targets.

There are three basic forms of variable pay for the employees in the Company: variable pay in the production and technical organisational units, variable pay in sales and variable pay and annual bonus in administration. Conditions in which every employee has the right and opportunity to influence his/her personal income with his/her work.

The variable pay in production and technical organisational units includes employees from all the Company's blocks except the Sales and Distribution Block. Currently, there are more than ten such variable salary schemes. Each Block is specific; therefore the schemes of variable pay are also different and adjusted to specific businesses. In the Refining Block, the variable pay is paid quarterly, whereas in Exploration and Production; Oilfield Services and Energy blocks it is paid monthly, which depends on the operation process.

Organisational units of the Sales and Distribution Block, which are included in the sales activity, are covered with the same variable pay system. There are two schemes of variable pay in sales - the wholesale and the retail scheme. The employees in retail sales have their variable pay system that represents the participation of the employees in the profit of their petrol station. This type of variable pay is paid on a monthly basis. The employees in wholesale also have their variable pay scheme and annual bonus. Variable pay is based on key performance indicators related to the sales process, is paid quarterly and calculated according to similar conditions as the scheme for variable pay in production and technical organisational units.

When it comes to the motivation of the employees in the Administration (Parent Company and administrative parts in Blocks), there is a scheme of quarterly variable pay and annual bonus. The calculation of quarterly variable pay for the Administration is based on the collective assessment of an organisational unit and (for certain activities) on the achievement of individual objectives by the employees. Collective assessment is based on the fulfilment of key performance indicators of the organisational unit where the employee works. Individual objectives are specifically defined at the level of the employee, but they need to be connected to the objectives of the organisational unit.

The annual bonuses for employees in wholesale and in Administration are based on the assessment of the employees by competencies. The payment of the annual bonus is directly related to the business performance of the Company and organisational unit (in Blocks), i.e., with the realisation of EBITDA. In addition to regular incentive systems, there is a premium system in NIS for special achievements, which is used for motivating proactivity in employees to positively affect the performance of the Company as well as a system of project premiums that is used for rewarding successful work on CAPEX and OPEX projects.

In 2016, the third regular employee competence assessment cycle was undertaken. This included all NIS employees classified into three main categories - managers, specialists and workers. All employees receive quality and structured feedback on assessment results.

Non-financial incentives

In modern business environments, non-financial incentives have become far more significant in the overall motivation of the employees than the purely financial. The goal of non-financial incentives is to show to the employees their social and professional recognition, based on the sense of self-actualisation, respect and affiliation. The fact that the work of the employee is being recognised by others and that the results employees achieved are appreciated is one of the principal motivators. In the Company, the programmes for non-financial incentives are supported by best practices. By creating a positive working atmosphere, open and constructive communication, employees can contribute to creating a corporate culture that motivates employees and thus contributes to better results. Line managers can show their gratitude, respect and trust for their employees through the following programmes:

- "Best Employee of the Month". Each month, at the level of Block, or Function, the best workers are selected and their names are published on the Company's Portal and in the corporate magazine "My NIS".
- "Best Employee of the Year" - based on the value of the Company, the best employees are selected on an annual basis in each Block and Function and promoted by the CEO on the Internal Portal of the Company and in the corporate magazine "My NIS".
- "Bravo Rewarding" - direct-line managers receive a certain number of vouchers (gift cards), which they may distribute to the employees that demonstrate outstanding results and proactivity in their work immediately after a successfully completed activity or task. The main criterion for rewarding the employees is behaviour in accordance with corporate values: professionalism, initiative and responsibility, positive approach and cooperation, common result.
- "Open Door" - this programme implies that senior management defines the time when they are available for the employees that want to ask questions or solve a potential problem with direct communication. The aim of the programme is to improve communication between employees and managers in order to resolve everyday business challenges as efficiently as possible.
- "Discount System" - a programme that envisages certain discounts to NIS's employees for purchases in a number of retail stores where NIS had agreed contracts (discounts for purchase of house appliances, clothes, shoes, travel, health services, etc.)
- "Best in Their Field" - through this programme, the Company recognises and rewards its best employees. The competition is organised annually in production units of Blocks, and can be organised as individual or team competitions.
- "HSE Awards" - a programme intended to increase personal safety and that of colleagues. This programme assesses each implemented HSE activity, suggestions for HSE improvements as well as reporting for medical examinations and HSE trainings.

As in other fields, NIS constantly seeks to improve and develop existing practices. Therefore, in 2016, NIS redefined existing programmes of non-financial incentives and introduced new ones. The range of awards for employees was also expanded. In addition, several workshops were organised for employees in production in November and December where they were informed about the non-financial incentive programmes.



Occupational Health and Safety

The nature of the oil industry demands a high level of concern for health protection and physical safety of the employees, contractors, third parties and the local population. Safe working conditions for all the employees and business partners is one of the Company's strategic objectives and is a high priority area for NIS. The main bearers of responsibility for occupational health and safety are top managers and all level managers. The Company applies prevention principles and strives for continuous improvement of working conditions and reduction in the number of occupational injuries and diseases.

In terms of occupational health and safety, Company standards and existing practice go beyond the existing legal obligations to ensure efficient risk management. To ensure the safety of hired contractors, they are required to strictly adhere to Company standards.

Year 2016 was declared to be an HSE year within NIS. Through the HSE culture improvement programme, NIS's top managers participated as leaders in the field of occupational health and safety in the Company. In 2016, the top management actively toured operational locations as part of MWA (Management Walk Around) visits. A total of 235 MWA visits were made and 400 measures ordered, of which 85 percent were conducted. In the second half of 2016, the focus was directed at HSE risk management in investment projects and at the planning of organisational changes.

Timely identification of HSE risks, definition of adequate measures at an early stage of project planning and monitoring of their application ensures proactive and preventive HSE actions, i.e. eliminating risk of injuries and damaging equipment, processes, environment and the Company's reputation.

Analysis of HSE data and key indicators determined that the measures and activities taken contributed to increasing safety in the Company. The number of traffic accidents (from RAR category), in the period 2015-2016, was reduced by 7 percent, the number of environmental accidents by 71 percent, the number of work injuries with lost days by 45 percent, in spite of conditions of a constant increase in the number of events and transparency of reporting on negative incidents.

For the purpose of increasing the level of traffic safety, NIS began by implementing of the IVMS (In Vehicle Monitoring System) project, which ensures continuous vehicle monitoring. IVMS ensures continuous improvement of the driving style of drivers and vehicle users in NIS, optimal use of the fleet and raises the level of the overall traffic safety.

The Company's long-term commitment to the provision of greater traffic safety of the employees resulted in a lower number of traffic accidents, less property damage, fewer recorded violations, fewer accidents caused by employees and fewer injuries in 2016 compared to 2015 as well as in improved driving style of the employees. Also, there was a reduction in average speed on the roads and RAR coefficients as one of the key HSE indicators.



2016. HSE YEAR

Industrial Safety

The industrial safety management system includes key danger identification processes, risk assessments and management of risks related to processes and process equipment. With the modernisation of production, application of advanced technological solutions and training of employees, such a system ensures adequate prevention, monitoring and a timely and efficient response in emergency situations.

The further development of the established industrial safety system at the Company level continued during 2016.

Fire Protection

- In 2016, Mol (Ministry of Interior) - Sector for Emergency Management - conducted additional categorisation of the fire risk in NIS facilities. Based on the assigned category, NIS, as a legal entity, is obliged to align its operations with the obligations arising from legal regulations covering fire protection.
- In 2016, CAPEX projects were initiated implement the purchase of two fire trucks to meet the needs of FU Kikinda and FU Velebit, at a value of RSD 33 million. Two new fire trucks were delivered to the fire units in 2017, in accordance with the contract.
- Fire Unit Kikinda, with 13 members, was established and began operations on 17 October 2016.
- Fire Unit Velebit with nine members was established and began operations on 1 March 2017.
- Civil protection trustees were defined (the number of trustees increased by more than 50 percent) and improvements in the preventive fire protection system were made. Evacuation drills from business centres were conducted successfully.
- An increase in operational efficiency and effectiveness was achieved through trainings or procurement of new or repair of the existing equipment.

Process Safety

- Detailed (GAP) analyses of the process safety condition were conducted at three locations: Oil Refinery Pančevo, Oil and Gas Preparation and Transport Plant Elemir, including LPG Warehouse and LPG Warehouse Ovča. The aim of the GAP analyses was to examine the process safety condition (according to SD-09.02.02: Process Safety Management System), identify weak points and define the Action Plan for improving the process safety condition.
- As part of the EU "Horizon 2020" programme, the implementation of SmartResilience Project of the European Consortium commenced in early 2016, in partnership with NIS in the field of HSE, which won a competition for the award of EU grant. The project was aimed at improving industrial safety and response in the event of a chemical accident. It envisages a comprehensive analysis of levels of resilience (natural disasters, chemical accidents, etc.)

of eight infrastructure facilities in Europe, so-called "critical infrastructure facilities", which represent the key infrastructure of modern cities. These include the networks of health institutions in Austria, the plumbing network in Sweden, the airport in Budapest (Hungary), the energy infrastructure of the city of Helsinki (Finland), South industrial zone of Pančevo (including an analysis of levels of resilience in the Oil Refinery in Pančevo).

- New process safety documents were adopted and the existing ones revised.
- Seven SEVESO documents have been approved by the competent national authorities so date, while three documents that have been created that are still in the process of obtaining approval.
- Turnaround was successfully conducted in the Oil Refinery Pančevo as well as annual turnaround in the Oil and Gas Preparation and Transport Plant in Elemir.
- Compared with the previous year, no large equipment-related events were recorded as a result of preventive operations and implementation of remedial actions and planned trainings

Emergency Situations

- New NIS emergency situations documents were adopted and the existing ones were revised in accordance with the experience obtained in working in emergency situations, and with planning solutions of defence and rescue forces in the Republic of Serbia. Procedures for specific hazards which occur in case of difficult working conditions in the Company were specified.
- The focus of activities during 2016 was on improving cooperation with the neighbouring SEVESO operators in certain NIS facilities in the field of communication and assistance in case of technical and technological accidents. Several joint drills were undertaken with the participation of and competent state authorities.
- Improved cooperation with the representatives of local self-government and competent state authorities was established in the field of natural disasters.
- The practice of conducting practice drills with teams for response in emergency situations continued. Four joint command and defence and rescue drills were conducted in NIS in 2016, which involved participation of the crisis-catastrophe management team, emergency preparedness and response teams in the Blocks and organisational units in the Blocks in solving the most complex situations in the event of emergency and disruption of continuity of operations. In 2016, Gazprom Neft was included in the electronic HSE event notification system.
- Given that the issue of emergency situations is increasingly topical both in Europe and in this country, the Company recognised the need to train its young experts in this field. For this reason, Company's employees attended the course "System dynamics modelling with application in emergency situations".

Overview of HSE indicators

In 2016, NIS continued its practice of recording HSE indicators from two perspectives; events that are under the direct influence of the Company and events that are outside its direct influence, i.e. NIS-oriented records and contractor-oriented records.

HSE indicators	2015 *	2016
Workplace injuries	153	99
Workplace injuries-with sick leave	55	30
Days of sick leave due to workplace injuries	3,297	2,436
Number of days of absence from work	301,954	309,284
Number of hours of regular operation	18,435,181	18,433,375
Injury rate (IR)	8.30	5.37
Absence rate (AR)	16.38	16.78
Lost days rate (LDR)	0.18	0.13
Numbers of fires	23	26
Number of traffic accident	14	13
Number of environmental accidents	55	16
Number of visits of inspection authorities	902	770
Number of measures undertaken by inspection authorities	354	275

* Data for 2015 are adjusted to those presented in the 2015 Report, which did not include data for subsidiary companies in the country and for staff leasing.

Type of injuries	2015	2016
Employees fall	40	21
Thermal and chemical injuries	9	5
Mechanical injuries	63	34
Traffic	9	10
Long falls	4	2
Other	28	27
Total	153	99

By comparing the values of HSE indicators for 2015 and 2016, data analysis showed a significant improvement in all the categories, notably the indicator of absence from work due to injuries LTIF, which fell by 46 percent (LTI injuries) compared to 2015.

Activities of Boards of Occupational Health and Safety

Considering amendments to the provisions of the Collective Agreement, NIS established new Boards of Occupational Health and Safety (BOHS) in all organisational units:

- BOHS NIS
- BOHS Exploration and Production
- BOHS Refining
- BOHS Sales and Distribution
- BOHS Services
- BOHS Energy

Each of the BOHSs now has seven members (prior to the amendments to the Collective Agreement each had five members) i.e. four employee representatives (labour union) and three employer representatives. In 2016, more than 99 percent of total employees were covered.

Reports on the activities of these Block Boards are submitted to the Board at the NIS corporate level. The Block Boards meet at regular intervals, and their role is highly significant, particularly in the following areas:

- Analysing the situation in the OHS field and proposing measures for its improvement,
- Analysing and conducting periodical machinery and device inspections and controlling physical and chemical hazards of the working environment microclimate; proposing emergency tests and controls were necessary,
- Determining higher risk jobs and for programmes for the protection of the employees at such positions,
- Reviewing employee health reports on the basis of periodic medical check-ups and controlling the frequency of medical check-ups conducted with employees,
- Considering OHS issues and making relevant proposals,
- Reviewing work-related injuries and professional illnesses, their sources and causes and proposing measures for their prevention,
- Reviewing drafts of Special Documents that significantly affect working conditions and occupational health and safety,
- Considering and participating in preparing a Special Document on Personal Protection Equipment and Means,
- Cooperating with professional services in the OHS field and monitoring implementation of the provisions of the agreement regulating this area,
- Proposing and requesting introduction of preventive employee protection measures,
- Mediating in the reimbursement negotiations relating to the damage suffered by the employees due to work-related injuries or professional illnesses, and
- Reviewing other issues significant for achieving employees' occupational health and safety.

In 2016, the NIS top management continued their quarterly theme meetings chaired by the CEO and HSE management, ensuring safe working conditions for all employees and business partners as well as environmental protection.

Regular revision and amendments to the Act on Workplace and Work Environmental Risk Assessment continued during 2016, which defined that NIS has 1,364 risk increased positions among 4,852 engaged employees. NIS strives to reduce the number of already-identified risks with the introduction of technological improvements.

OHS issues are covered within a formal agreement with the labour union and defined in the Collective Agreement. The Company's management and employees improve HSE performances through their personal examples and actions and demonstrate commitment to HSE principles.

Employee benefits do not depend on the duration of the agreement.

Some of the areas covered by the Collective Agreement are:

- Exercising and protection of employees rights,
- Work hours, vacations and leaves,
- Employee redundancy,
- Education, professional trainings and development,
- Occupational Health and Safety,
- Damage reimbursement,
- Accommodation needs, and
- Employee strike rights.

HSE prequalification of contractors

Due to the Company's commitment to doing business by adhering to the principles of socially responsible behaviour, only suppliers (and their subcontractors) that comply with the legislation of the Republic of Serbia have the opportunity to participate in tenders and procurements conducted by the Company.

NIS performs the process of HSE prequalification of suppliers in order to improve practices in the field of OSH, EP and FP. Due to this practice, many suppliers raising the level of safety in their companies. In terms of HSE, contractors also perform duties with a high potentially fatal level of risk. Statistically, the most serious injuries and the largest number of fatal accidents in the world take place during works performed by contractors or sub-contractors.

The companies that deal with exploration, production, refining and distribution of oil and gas are, by the nature of work, those that carry enormous risks. They face situations that may result in catastrophic consequences, including multiple deaths, widespread impact on the environment, significant damage to property, huge economic impact on society and a major impact on the local community. One of the ways of preventing such accidents is to define safety methods for carrying out regular tasks based on immediate risk assessment. This is achieved by developing a complete set of instructions for safe operation on the basis of identified dangers and hazards existing during the performance of standard activities. Safety instructions are created according to the needs of line management as expressed in the Standardisation Plan by introducing new work technologies and remedial measures as a result of investigated HSE events.

HSE Training, Development of HSE Competencies and Raising Employee Awareness

Employee Training

In 2016, activities aimed at increasing knowledge, raising awareness and development of employee competencies continued at all levels. To achieve this, the Company organised a series of both internal and external trainings in the field of HSE.

In addition to fulfilling new legal requirements in terms of training employees in fire protection, the main efforts during 2016 were made in training employees in detecting, reporting and managing risks, training for preparation and response in the event of emergency and trainings related to work at heights.

For the purpose of more efficient implementation of fire protection trainings, the Company equipped the training centre, engaged 11 experienced trainers, created educational materials and obtained a decision from the Mol in July on approving special training of persons involved in fire protection activities. In the second half of the year, the training was attended by 410 employees that then successfully passed the test before the Mol Commission.

Other trainings included those organised and conducted for the purpose of improving the emergency response procedure: these were attended by 757 employees. Emergency response workshops were also attended by the Company's top management.

One of the greatest causes of fatal injuries at work is working at height. Therefore training was particularly focused on employees at operational locations working at height. In 2016, a total of 1,254 employees were trained to work at height and an additional 378 employees were trained to control, use and maintain equipment for protecting against high falls.

Detection, reporting and elimination of unsafe situations and dangers may help prevent and reduce the likelihood of injuries. To improve their competencies, 1,430 employees underwent risk management training, and 823 employees underwent training

in operational observation of activities, equipment and devices. These trainings were aimed at highlighting the main risks in certain organisational parts, raising awareness of the employees of the surrounding dangers, learning how to recognise them and defining adequate remedial measures.

Contractor Training

Given that hired contractors perform different daily activities on Company's locations, special attention was paid to promoting HSE knowledge and skills of hired contractors. During the training, contractors were familiarised with both risks and basic requirements of internal NIS HSE standards and procedures.

Safety motivation

NIS strategic orientation is to ensure to its employees and contractors performing their duties on NIS locations that there is a safe and healthy work environment where no one is exposed to unnecessary risks. Safe operation does not only depend on technical operability of a plant and equipment, but also on employees' competence and processes of HSE prequalification of suppliers.

HSE Campaigns

In 2016, NIS implemented 17 different HSE campaigns divided into the following segments: Health Improvement, Safety and Environmental Protection. These campaigns were conducted in the form of direct dialogues between professionals and the employees, visitors and contractors to the Company, with the execution of specific field activities as well as with the development and distribution of educational posters, brochures and newspapers.

410

employees attended fire protection training and then successfully passed the test before the Mol Commission

1,254

employees were trained to work at height

757

employees attended trainings for the purpose of improving the emergency response procedure

378

employees were trained to control, use and maintain equipment for protecting against high falls

1,430

employees underwent risk management training

823

employees underwent training in operational observation of activities, equipment and devices

Overview of HSE trainings	Number of attendants	Total time
M1 - Introductory HSE training	5,205	13,694
M2 - Workplace training	14,296	29,183
M3 - HSE system management training	5,775	9,996
M4 - External training	2,140	111,895
Total	27,416	164,768

Overview of held trainings for contractors in 2016 per organisational unit	Number of hired contractors - attendants of the introduction HSE training for contractors
Energy	1,443
HSE Function	570
Exploration and Production	1,561
Sales and Distribution	1,914
Refining	6,824
Services	740
NTC	283
TOTAL	13,335

HSE Quiz

In 2016, an HSE Quiz was conducted in three cycles with an aim of educating employees on the issue of recognising hazards, and provide knowledge of HSE rules and procedures in an engaging, colourful and interactive manner. Before the start of the quiz, the employees received educational material to enable them to revise or learn something new and to prepare themselves to provide better answers. The questions occurred during the first log on to the computer of the day. In this manner, about 4,500 employees from all organisational units were included; at the end of each cycle, the employees with the best results were rewarded.

Improvement of HSE Culture and HSE Management System in the Company

For purpose of raising the occupation safety level and improving HSE culture in the Company, 2016 in NIS was declared to be the "HSE Year", following the example of Gazprom Neft. The level of safety is, without doubt, constantly on the increase owing to the efforts of all Company's employees. However, the dynamics of indicators shows that the progress remains insufficient. For this reason, implementation of the project for improving occupational health and safety culture, industrial safety and environmental protection began in 2016 as well as work on creating a new development strategy.

NIS assumed responsibility for implementing the "Goal ZERO" vision. With this, the Company will strive to achieve an objective of zero injuries and damage inflicted on people, environment and property during the execution of works. This vision is based on the belief that every accident or injury is preventable.

Programmes were adopted and teams created for implementing the project of improving HSE culture and HSE management system in NIS for ten HSE elements: Leadership and Culture, Risk Assessment and Mitigation, Policy and Procedures, Organisation and Responsibility, People and Resources, Incident Management, Contractors Management, Stakeholders Engagement, Performance Management and Equipment Reliability. Implementation of activities as well as time limits from the adopted programmes were monitored at monthly and quarterly meetings where leaders of the elements reported on the status, challenges and important achievements.

Key results of the project for improving the HSE culture in 2016 were adoption of **12 Golden HSE Rules**, improved cooperation with the competent state authorities and local communities, adoption of the HSE competence matrix for "Refining", completed external benchmarking and the GAP analysis, developed methodology and instructions for the calculation of costs of HSE incidents.

For the purpose of further improving the HSE culture in the Company, certain activities will be executed as part of other projects, plans and programmes and also as part of the regular activities of the organisational units.

RESPONSIBILITY TOWARDS THE COMMUNITY





In 2016, as part of the programme “Together for the Community”, NIS supported 106 projects in 11 local governments where it operates: Belgrade, Novi Sad, Niš, Pančevo, Zrenjanin, Kikinda, Novi Bečej, Žitište, Kanjiža, Srbobran and Čačak. Partnership relations with local communities are intensified through support for projects in the field of sports, culture, environmental protection, science and social protection.

RESPONSIBILITY TOWARDS THE COMMUNITY

Future at Work

The development of the communities where the Company does business is one of NIS's strategic objectives, which was maintained in spite of the many challenges on the global oil market in 2016. The Company's desire is to be a reliable partner of organisations and individuals in those regions. For this purpose, the Company initiated a dialogue with all stakeholders, enabling NIS to examine the essential needs of the environment in which it operates as well as to initiate positive changes in the society and to encourage others to engage in the welfare of the entire environment. Partnerships between NIS and the communities where it operates is reflected, inter alia, in its determination to hire as many local people as possible, particularly those young professionals that will be carriers of future development of the Company. Convinced that knowledge is the foundation of success, the Company has spent years investing in improving educational conditions. We fund talented students and provide many of them with the opportunity to make their first professional steps within NIS. In addition, the Company's business policy is to cooperate with a large number of domestic suppliers, contributing to the economic development of the whole country and also to transfer NIS's best business practices to its partners. NIS is also committed to continuously working on improving its employees at all the levels. For this purpose, it organises a number of internal and external trainings that will enable them to respond to all business challenges.

An important part of the partnership with the community is NIS's responsible attitude towards the occupational health and safety of its employees and associates as well as towards environmental protection. NIS will continue to work on improving working conditions and reducing an adverse environmental impact. To this end, the Company ascribes great significance to introducing new technologies that, in addition to improving business processes, also have an important environmental impact.

In addition to environmental its responsibility, NIS will - despite the crisis in the oil sector - continue with its responsible attitude towards the community. In accordance with its slogan "Future in Action", it will continue investing in education, supporting culture and art and further promoting sporting values and providing assistance to those who need it. NIS employees will continue contributing to the prosperity through humanitarian projects, voluntary actions and social engagement. NIS implements socially responsible projects through five corporate programs: "Energy of Sports", "Culture without Limits", "Energy of Knowledge", "Humanitarian Projects" and "Together for the Community". Nearly RSD 380 million have been invested in community development through these five programmes during 2016.

Energy of Sport

Promotion of healthy lifestyles, fair competition, continuous progress through training and other sports values are among the main directions of implementation of NIS's policy on social responsibility. Through programme "Energy of Sport", NIS supports top athletes, amateur sports events and activities that contribute to the proper physical and mental development of children.

With an aim to contribute to developing children's sports, NIS supported the organisation of the International Minibasket Festival "Rajko Žižić" for the seventh consecutive time in Belgrade in 2016. This four-day event attracted more than 200 teams and more than 2,000 boys and girls from Serbia and the region, divided into four age groups. The seminar for coaches called "From Minibasket to Basketball" was also held during the tournament.

For basketball, NIS is a multiannual partner of Basketball Club "Partizan" of Belgrade and in the last four years has been the general sponsor of the club, one of the most successful sports clubs in Serbia. Generations of basketball players and coaches originating from Basketball Club "Partizan" left a deep mark on both Serbian and world basketball. By supporting "Partizan", NIS promotes professional sport, the pursuit of excellence and development of team spirit.



NIS is also the general sponsor of the Tennis Association of Serbia, with which it organises a series of events aimed at presenting this sport to the youngest children, where Serbian representatives achieved significant results in recent years, both individually and as a team. Through this partnership, the Company supports the best national male and female tennis players representing Serbia in elite competitions such as the Davis and FED cups. As part of this cooperation, NIS and the Tennis Association of Serbia organised free "Open Tennis School" for children for the fifth consecutive year in 2016. During this event, more than 4,000 children had the opportunity to familiarise themselves with the basics of tennis with the help of a coach.

NIS paid considerable attention to promoting the culture of non-violence and sports competition. Therefore, it continued conducting the campaign "Sport against Violence" during 2016, together with the Tennis Association of Serbia and Ministry of Education, Science and Technological Development. The plan was to continue this campaign during school year 2016/2017 and including more than 300 schools in Serbia. During the previous two school years, this event was attended by more than 30,000 students from 60 schools throughout Serbia.

possible in Brussels, the seat of the EU institutions. The star of the festival in 2016 was famous film director Emir Kusturica, who held a "master class" as an introduction to the screening of his film "Underground".

For the ninth consecutive year, NIS supported the oldest and largest international event of children's creativity, "Joy of Europe". More than 800 children from 19 countries attended the festival. The theme of the children's encounter, who presented the cultural heritage of their countries in interesting stage performances, was a commemoration of 160 years since the birth of notable Serbian and world-renowned scientist Nikola Tesla, with the aim of popularising the work of this great inventor among young people.

In 2016, NIS was a sponsor of the first "Teatar Fest" festival in Morka Gora, which popularises the theatre and theatrical art. The aim of this festival, created by Emir Kusturica, was to provide support for young artists and affirmation of students from theatre academies from Serbia, which are also the goals of NIS's corporate programme "Culture without Limits".

A total of RSD 16 million were invested in the implementation of this programme in 2016.

Nearly

RSD 380 million

have been invested in community development through "Future at work" platform during 2016

For the purpose of promoting professional sport, NIS in 2016 continued its support for the leading national car racing driver and European champion Dušan Borković, member of the NIS Petrol Racing Team. Borković, in return, has achieved great results, fought fairly in competitions and promoted team spirit. In 2016, NIS invested RSD 134 million through programme "Energy of Sport".

Culture without Limits

Support and widespread promotion of true values are some of the most important objectives of NIS's projects relating to social responsibility. Therefore, the programme "Culture without Limits" holds a special place for NIS. This programme also supports artistic events of national and regional importance, cultural institutions, talented young artists and children's creativity events.

In 2016, NIS also supported the "Nišvil" Jazz Festival in the town of Niš for the eighth consecutive time, with 660 musicians from different parts of the world holding 110 concerts in front of more than 100,000 visitors.

In 2016, for the fourth consecutive time, the Company supported the "Balkan Traffic" festival of culture and art of the Balkan countries in Brussels. As NIS is one of the largest companies in the Balkan region, the support for this festival is an expression of a desire to present the culture of the region in the best way



Energy of Knowledge

In 2016, NIS became the first company to receive the prestigious "St. Sava Award" for its contribution to education in Serbia. This was awarded by the Ministry of Education, Science and Technological Development of the Republic of Serbia. The Company pays special attention to young people who come to NIS and to those who could apply their knowledge for NIS in the future. To this end, the "Energy of Knowledge" programme was used in 2016 for initiating a number of projects for helping realise the potential of secondary school and university students.

As part of the cooperation with the Technical School in Zrenjanin, 54 students undertook their vocational practice in NIS. The Technical School in Zrenjanin opened an "Oil Classroom", which NIS equipped with the necessary equipment and tools. The Ministry of Education selected the NIS approach for organising vocational practice for secondary school students as one of initial models of dual education, which will be introduced for the secondary education system in Serbia.

In the field of secondary education, in 2016 NIS organised, together with competent companies, three national 'Olympic Games' of knowledge to promote natural sciences: mathematics, physics and chemistry. The Company was also a partner of talented secondary school students who represented Serbia at the International Olympics in the relevant fields, achieving great results: four gold, 12 silver and 16 bronze medals.

Special attention was paid to those activities and projects that contribute to the reaffirmation and popularisation of the Russian language in Serbia. NIS organised the fourth Russian Language Olympics and continued to support three bilingual Serbian-Russian divisions in Serbian schools (in PS "Jovan Popović" and gymnasium "Jovan Jovanović Zmaj" in Novi Sad and the gymnasium in Aleksinac). Taking into account the existing need to build and professionally train teaching staff, NIS continued its active cooperation with the Faculty of Education in Sombor at the University of Novi Sad and RCSC "Russian House".

In order to improve working conditions and implementation of educational, scientific and research activities, the Company

adapted and equipped 25 computer classrooms and 15 laboratories in schools and faculties in Serbia. Some of the most recently opened facilities in 2016 were the "Oil Classroom" in the Technical School in Zrenjanin and two equipped laboratories for chemistry and physics at the Faculty of Technical Sciences "Mihajlo Pupin" in Zrenjanin. NIS also donated computer equipment to the Faculty of Political Sciences at the University in Belgrade, for the purpose of furnishing the Centre for Russian Studies, and to the Faculty of Education in Sombor at the University in Novi Sad, for the Informatics Classroom.

For many years, the NIS "Energy of Knowledge" has been focused on cooperating with educational institutions, universities, faculties, schools and professional scientific societies. It is continuing its strategic cooperation with universities and faculties both in Serbia and abroad, and has established three new partnerships: with N.I. Lobachevsky State University of Nizhny Novgorod - National Research University (Russia), with the Faculty of Economics at the University in Belgrade and with the organisation of Serbian students abroad.

Cooperation and exchange of existing knowledge with faculties was intensified to help promote partnership relations in implementing training and courses for the employees as well as joint projects. Therefore in 2016, professors from the Faculty of Mechanical Engineering at the University in Belgrade held seminars for the employees-mechanical engineers in "Exploration and Production", "Refining", "Services" and "Energy" as part of the Programme for continuous professional development of members of the Serbian Chamber of Engineers. In addition, lecturers from the same faculty held three more vocational trainings for the employees in "Exploration and Production", "Refining" and "Energy". Professors from the Faculty of Civil Engineering at the University in Belgrade held a seminar, as part of the same programme as well as vocational training for civil engineers in "Exploration and Production".

To supplement the curriculum, NIS organised a series of visiting lectures by experts at faculties and a number of student visits to NIS, including a presentation on NIS Group and business processes as well as a tour of the plants. Student practice was organised from June to October 2016, with 131 students from the University in Belgrade, Novi Sad, Niš and Kragujevac, while field practice was conducted with 177 students from so-called "oil" faculties in Serbia and Bosnia and Herzegovina. Two-week summer practice with training "Main qualification for the operator of an oil and gas production operator" in NIS production plants and complexes was organised, funded by NIS for 25 students that study at the oil and gas faculties in Russia and with two students from the partner Ukhta State Technical University. Other examples of how the Company supports development of students include workshops for active job searches, writing resumes and development of personal and professional competences, which NIS held from November 2014 to November 2016 as a partner in TEMPUS project SIPUS (Strengthening of Internationalisation Policies at Universities in Serbia).

During school year 2016/2017, NIS concluded 43 scholarship agreements with the most successful students attending target faculties at the University in Belgrade and University in Novi Sad and universities abroad (27 students with scholarships at oil and gas universities in Russia and one at the University of Cambridge). In 2016, NIS hired 16 people that had received scholarships.



Science Centre Petnica

One of important partnerships cultivated by NIS is that with Science Centre Petnica. The Company has cooperated continuously with this institution since 2009, which is important for the promotion of science in the Republic of Serbia. Since then, NIS has supported Petnica's work with RSD 12 million every year. Cooperation with Petnica, the most famous centre for creating young scientific talents in Serbia is particularly important for NIS because the company relies on new technologies, innovations and scientific achievements in all its segments of its operations.

In addition to supporting undisturbed implementation of programmes in Petnica (courses, summer schools, camps and seminars), the cooperation agreement between NIS and this institution also envisages visiting lectures for the Company's employees on seminars at the Science Centre, and that Petnica acting as a host for preparing Serbian Olympic teams participating in international competitions in mathematics, physics and chemistry. In 2016, NIS, together with Petnica, enabled employees' children attending primary or secondary school to stay on a two-day seminar in the Science Centre. A total of 33 primary school students enjoyed a scientific adventure in November, who had an opportunity to familiarise themselves with the facilities in Petnica, visit the Petnica Cave and attend thematic lectures and practice in biology, chemistry, physics, geology and archaeology. A total of 25 secondary school students visited the Science Centre for two days in December. All returned with many learnings, positive impressions and newly-established friendships.





Corporate Philanthropy and Volunteerism

In 2016, NIS employees demonstrated their willingness to help those in need and to provide an example of voluntary engagement for general benefit by conducting a series of philanthropic and volunteer actions. Also in 2016, a corporate volunteerism strategy was adopted as an integral part of philanthropy and corporate social responsibility of NIS. In accordance with this document, employees are primarily engaged in activities with the objective of improving living conditions for socially vulnerable categories of the population, providing support to talented young people and environmental protection. NIS employees invested their time or knowledge in accordance with its possibilities and under the slogan "Be the Change You Wish". The objective of corporate volunteer actions is to further develop empathy and initiative among the employees, strengthening team spirit within the Company, encouraging involvement in achieving broad social goals and providing support to vulnerable social categories.

Such an action was undertaken in the Centre for Children and Youth with Mental Disabilities "Veternik" during the Christmas and New Year holidays. NIS employees began by packing and preparing gifts for the residents of the Centre, and then, just before New Year's Eve, they presented gifts in a festive atmosphere and spent time with the children from "Veternik" Centre. The campaign lasting for three days, involved a total of 67 volunteers from the Company. Company volunteers spent a total of 164 volunteer hours, made 533 New Year gifts and most importantly, the children from "Veternik" greeted holidays with a smile.

In addition, during the Company Day in September, NIS employees gathered items for the residents of the Children's Village in Sremska Kamenica. More than 2,000 items were collected during this campaign, ranging from toys and clothing to school supplies and sweets, which can improve daily life of the children in the Village. The items were presented to the children

from the Village by a dozen NIS volunteers and by spending time with them, showed how care for those in need of support is one of the priorities for the volunteer and philanthropic activities of the Company's employees.

In 2016, NIS continued with humanitarian and environmental campaign "Bottle Lids for Smiles" where a total of 500,000 bottle lids were collected. The objective of this activity was to raise funds for helping children with physical or mental disabilities. Lids were collected in all NIS business centres in Belgrade, Novi Sad, Zrenjanin, Pančevo and Niš.

In 2016, the Company and employee philanthropic activities focused on the most sensitive but also the most promising category in our society - children. NIS employees had the chance to select an institution to which they wish to donate funds via the internal corporate portal, as part of the traditional New Year's campaign. The University Children's Hospital "Tiršova" in Belgrade was selected this way, with the objective of improving conditions for treating the youngest in this institution and to ensure modern medical equipment for its operation. To encourage greater involvement, the Company decided to engage in this campaign and match the amount collected by the employees. Following this, the campaign entitled "Festive Magic is in Our Hands" was extended to NIS petrol stations, where the Company donated RSD 25 from every purchase of 25 litres or more of any type of fuel to the needs of Hospital "Tiršova". More than RSD 18 million was collected this way for the University Children's Hospital and for procuring modern medical equipment.

Together for the Community

As a socially responsible company, NIS would like to maintain 'good neighbour' status in all areas where it operates. In line with this objective, the Company has established solid partnerships with the communities where NIS does business and in which it has spent many years working on improving the living conditions of the population, together with local self-governments, institutions, organisations and individuals. The NIS corporate programme, "Together for the

Community" is implemented in cooperation with 11 cities and municipalities throughout Serbia: Belgrade, Novi Sad, Niš, Pančevo, Zrenjanin, Kikinda, Novi Bečej, Žitište, Kanjiža, Srbobran and Čačak. The objective of the programme is not only to provide financial support for the projects proposed by local organisations but also to provide an incentive for the local communities to engage in the activities that contribute to overall prosperity.

The most Important Projects per Segments of Programme "Together for the Community"



- Children's playgrounds in local communities Tanasko Rajić and Ljubić Selo" - constructing and furnishing of the first children's playground in both local communities in Čačak;
- "Baby friendly children's playground" - expanding the playground in day-care centre "Gnezdo" in Kanjiža and furnishing it with additional playground equipment for physical development at an early age;
- "Reconstruction of the basketball court in Novo Miloševo" -reconstructing and refurbishing of the court and thereby improving sports facilities in Novi Bečej;
- "Reconstruction of the physical education gym" - renovating the gym in primary school "Đura Jakšić" to ensure conditions for sports for the pupils and young people of the town of Kikinda.

- Remediation and reconstruction of Academic Cultural and Artistic Society "Ivo Lola Ribar" in Belgrade;
- Remediation of the flat roof of the Puppet Theatre in Niš to improve the level of safety of theatre audience and the staff;
- 19th Pančevo Jazz Festival - affirmation of jazz culture among young people with the performances by music high school students and getting together and exchanging knowledge with international performers in Pančevo;
- Converting old army barracks into museum "TERRA" - restoring army barracks and converting them into a museum in Kikinda;
- "Nikolay Krasnov Remembrance Book" - publishing a remembrance book dedicated to the life and work of Nikolay (Nikola) Krasnov, architect of the Court of the Russian Tsar and organising and holding exhibition dedicated to the artist with related lectures in Belgrade.





- "Microbiology Laboratory of the Public Health Institute in Pančevo" - procuring equipment for improving conditions for increasing the scope and type of environmental testing in Pančevo;
- Hardware and software concept for the collection of metal cans and plastic bottles - encouraging waste collection competition among citizens of Nišby using a metal can and plastic bottle press and with the assistance of hardware and software for counting delivered cans and plastic bottles;
- "For the Cleaner Future" - a campaign involving planting over 1,500 plantings in all populated areas, and placing five trash bins at most frequently-visited areas in Žitište;
- "Making Our Park More Beautiful" - landscaping and furnishing the park in Banatsko Višnjićevo in Žitište and additional landscaping.

- "Reconstruction of Modern Physics Laboratory" - ensuring a functional physics laboratory for conducting modern experiments and lab practice in the First Belgrade Gymnasium;
- "Science - Light as Music" - procuring equipment intended for the students of the Regional Talent Centre "Mihajlo Pupin" in Pančevo;
- "Russian Language Smart Classroom" - reconstructing and converting of the existing Russian language classroom at "Svetozar Marković" Gymnasium in Niš into a multimedia classroom;
- "Knowledge Park - Science in Nature" - refurbishing planted area and installing three-dimensional figures for the Science Park to be used for practical and theoretical science classes in Čačak.



- "A Warm Meal in a Warm Home" - distribution of warm meals to the most vulnerable soup kitchen visitors in their homes in their villages in Kikinda;
- "I Have the Right to Live Healthy" - setting up the first sports and recreational area for outdoor workouts for disabled persons and strengthening inclusion in Srbobran;
- "Together to Sensory Room" - furnishing a specialised room primarily intended for the psychomotor treatment of children and young people with disabilities in primary and secondary school "9th May" in Zrenjanin;
- "Furnishing Relaxation Room for Adults with Autism" in primary and secondary school "Milan Petrović" and the student dorm in Novi Sad;
- "Meet the World by Touch and Movement" - furnishing a specialised room intended for psychomotor treatment of children with disabilities in the School for the Deaf and Hard-of-Hearing "Stefan Dečanski" in Belgrade;

**TOGETHER FOR
THE COMMUNITY**

106 PROJECTS

11 CITIES AND
MUNICIPALITIES

RSD 110.5 MILLION
FINANCIAL
SUPPORT



ENVIRONMENTAL PROTECTION

HSE cornerstone of the international company “objective - zero” implies doing business without causing harm to people, facilities and the environment. the basis of this view is confidence that each incident and injury can be prevented



ENVIRONMENTAL PROTECTION

In 2016, NIS continued to improve environmental protection, implement environmental projects and improve competencies of employees in the field of environmental protection.

Investment environmental projects were implemented to harmonise with the legislation of the Republic of Serbia and European Union. Environmental projects include all environmental and green technologies. Aware that, in the process of European integration the environment represents the most demanding area of negotiation. More than two-thirds of EU legislation refers to the wider field of agriculture and environment. NIS is included in the work of the Negotiating Group 27 (Environmental Protection Chapter). NIS efforts were focused on identifying future obligations resulting from EU legislation requirements and the required funds for complying with EU regulatory requirements.

The Company is included in Working Groups on amendments to the existing regulations and adoption of new regulations in accordance with EU requirements in the field of managing mining waste and climate changes as well as on developing related regulations according to specific EU requirements concerning compliance with EU Directive (VOC Petrol Directive 94/63/EC).

Three studies giving were developed in 2016 to provide a detailed overview of the current situation in "Refining", "Sales and Distribution" and "Exploration and Production" as well as an overview of necessary investments for fully harmonising operation of the plants in these Blocks with the requirements of the regulations and those of the EU concerning the emission of air pollutants, compliance with the requirements of the emission of volatile hydrocarbons and water treatment.

For this purpose, in-house trainings in the fields of chemical management, calculations of emissions of air pollutants, and monitoring and remediation of land and groundwater were conducted by renowned consulting firms from Slovenia and Croatia as well as by the Faculty of Sciences from Novi Sad.

Environmental Protection Investments

NIS demonstrates its environmental responsibility through various projects and significant investments in the field of environmental protection. Equipment was modernised and emission of pollutants significantly reduced. In addition to modern technology, the Company also invested in land rehabilitation, waste disposal and waste water treatment.

Despite the ongoing crisis in the oil industry, allocation of funds for implementing environmental projects continued. In 2016, around RSD 150 million were invested in these projects, whereas investments in green technologies amounted to about RSD 250 million.

Significant environmental projects were implemented during 2016. These included investments in projects for reducing NO_x and SO_x emissions, installing separators for treating oily atmospheric water, finishing reconstruction and modernisation of the dock in the Oil Refinery Pančevo, installing waste water treatment plants on the landfill for waste drilling fluids in Novo Miloševo and investing in green technologies by constructing cogeneration plants. Construction of plants for treating waste water from the mud pool on the landfill for waste drilling fluids in Novo Miloševo began in 2016 within "Services". The objective of this project was to ensure free space for mud disposal, by draining water through the treatment plant in accordance with the conditions of competent institutions. This will provide the opportunity to increase receiving capacities for waste drilling fluids and maximise use of the existing pools.

Separators for the treatment of oily atmospheric water were installed on seven fuel supply stations in "Sales and Distribution", amounting to a total of 286 separators, i.e. 88 percent coverage of the existing stations for the supply of fuel to these plants. Implementation of the project for total reconstruction of EACC and construction of new EACC fulfilled all requirements of regulations relating to highly volatile hydrocarbons; recovering petrol vapour from underground storage tanks for storing fuels and vehicle tanks.

The waste management process in the Company was significantly improved with the introduction of a new concept of permanent waste disposal and by signing the Umbrella Agreement for the permanent disposal of certain types of waste. This approach to contracting dramatically accelerated the waste management process - time to procure permanent disposal services was shortened, handling costs were reduced and more efficient and faster removal of waste from sites was enabled.

Around RSD

**150
million**

were invested for implementing
environmental projects

Total environmental protection expenses in 2016 (in million RSD)	
Waste treatment and management	95.7
Emission treatment	44.5
Costs of procurement and use of emission-related certificates	6.4
Investment in purchase and maintenance of equipment and related costs of professional staff	119.2
Environmental liability insurance	0.02
Costs of rehabilitation (remediation of land)	0.54
Environmental education and training	2.8
External services of environmental impact management	225.9
External services of management system certification	1.5
Additional costs of installing green technologies	250.07
Costs of water use fees	76.1
Costs of environmental charges	156.5
Environmental protection fee	69
Total	1,049.3

Materials Used

Materials used in the production processes originate from non-renewable resources and can be found in the final product, petroleum products, energy sources and drinking water. Due to the nature of the business, the Company does not use recycled materials as raw materials for production. Natural mineral water Jazak is used as a raw material in production and is produced within the Water Bottling Plant.

The geothermal water production trend remained at around the same level, approximately 450,000 m³. Geothermal water was delivered to customers to allow thermal energy for space heating.

The quantities of crude oil required for refining to produce petroleum products and meet market demands are ensured by the production of crude oil on oil fields in the RS, with other required quantities imported. The following table presents raw materials refined by the Company.

Types of crude oil processed in production plants of the Oil Refinery Pančevo are presented in the table below. It is evident that the trend of refining paraffin and naphthenic oil did not significantly change and that the increase in crude oil refining in ORP plants was covered with imported crude, the same as in previous years.

Used materials			
Raw materials/materials	Unit of measure	Quantities used	
		2015	2016
Crude oil - domestic	t	1,033,646	924,560
Crude oil - imported	t	1,901,903	2,179,502
Natural gas *	t	94,177	88,360
Geothermal water**	m ³	458,144	443,409
Raw water**	m ³	30,433	29,109

* For hydrogen production

** Water sold to external customers

Overview of crude oil - domestic and imported per type

Raw material/materials	Unit of measure	Used quantities	
		2015	2016
Crude oil - paraffin light	t	532,416	485,999
Crude oil - paraffin heavy	t	212,160	185,520
Crude oil - paraffin Bosna	t	59	0
Crude oil - naphthenic	t	289,070	253,033
Crude oil - REB	t	1,745,308	1,369,335
Crude oil - Syrian Light Crude Oil	t	0	0
Crude oil - Siberian Light Crude Oil	t	0	0
CPC BLEND	t	156,535	112,687
Crude oil - Kirkuk	t	0	609,574
Crude oil - Forcados	t	0	87,906

Semi-finished products that are presented in the following table are external products used for refining and slop (resulting from processes of refining and handling in refineries).

Overview of Semi-Finished Products

Semi-finished products/materials	Unit of measure	Used quantities	
		2015	2016
Pyrolytic gasoline	t	80,039	96,601
MTBE	t	6,262	9,109
Isobutane and gasoline from Elemir Plant	t	911	2,094
Imported vacuum gas oil (VGO)	t	112,670	11,369
Imported gas oil	t	20,681	0
Imported primary oil fuel	t	0	3,812
Additives and polymer mass	t	1,863	1,151
Slop (including degraded products)	t	28,270	6,436

Packaging materials	Unit of measure	Used quantities	
		2015	2016
Paper and paperboard	t	112	112
Wood	t	117	131
Plastic	t	534	515
Metal container	t	82	111

The largest quantity of packaging used is plastic packaging used for the production and bottling of drinking water "Jazak" in the Company as well as for motor oils.

As a socially responsible company, NIS complies with legislation when marketing and managing packaging and packaging waste.

Hydraulic fracturing is a stimulating method that is often applied in the world, particularly in low-pass deposits. This was for the first time done in 1947 in the USA. In Serbia, this method of hydraulic fracturing has been in use since 1976, when it was for the first time applied in Banatsko-Karadordevo field. Today, fracturing is used on five domestic fields in accordance with the Serbian legislation and all international standards. In terms of the ecological aspect, the application of the method is completely safe, and it includes mandatory testing of the hermetic property of the well before fracturing, which eliminates a possibility of inflow of fluid in watercourses. The operation of hydraulic fracturing in Serbia is conducted by world's largest service companies Schlumberger and Halliburton, which used the latest efficient and safe technologies. All fracturing-related activities are conducted in accordance with company's HSE rules. These activities are carried out at depths exceeding 1,500 meters, and there is no possibility of fracturing to penetrate lower horizons. Almost all leading world oil companies use this method, and in Europe, it is applied in Hungary, Romania, Italy, Russia and other countries.

Energy Consumption

NIS Activities in the Field of Energy Management

As a segment of increased operating efficiency, improving energy efficiency is an important element of the Company's energy policy. This contributes considerably to a stable energy supply, increases energy efficiency and reduces adverse effects on the environment. A systemic approach to energy management, applied in accordance with the requirements of international standard ISO 50.001 (implemented and certified in 2013) ensures the Company uses energy more rationally as well as improving overall energy performance and increasing financial savings when implementing planned projects and organisational-technical measures.

Implementing the projects and measures defined in the Action Plan 2016, as along with additional measures not included in the Action Plan, delivered energy savings of nearly 224 TJ.

Estimated financial savings achieved through implementation of the Action Plan (AP) and executed additional measures for 2016 were around 20 percent higher than those planned for the first year of implementation of the Programme for Energy Savings and Increase in Energy Efficiency (PESIEE) for the period 2016-2018.

Improvements made through the execution of these measures provide a basis for examining and revising the consumption norms used for planning energy consumption in the following period.

The most important projects/measures executed, or execution started, in 2016

Reconstruction of power facilities (Exploration and Production)
Replacement of ESP pumps with in-whole pumps (Exploration and Production)
Installation of heat exchangers "Packinox" on the catalytic reforming plant (Refining)
Replacement of exchangers with more efficient types (Refining)
Control and adjustment of furnaces with regulation (Refining)
Installation of frequency regulation on the electric motors of air coolers (Refining)
Reconstruction of consumer systems Kikinda and Sirakovo (Energy)
Automation of the existing boiler system in NS Energy Plant (Energy)
Installation of the system for reactive power compensation at 30 PS
Replacement of halogen lights with corresponding LED lights in the Business Centre in Novi Sad
Procurement of chillers for cooling the building of the Commercial and Business Centre in Belgrade
Operational measures: <ul style="list-style-type: none"> • Turning off of heating coil during the day in the transitional period • Daily control of leaks on steamlines with drainage and vents • Maintaining optimum temperature on drainage and associated equipment • Rational use and regular servicing of steam pipelines • Maintaining the optimum steam pressure in the system

Energy source	Planned savings in 2016 [GJ]	Achieved savings in 2016. [GJ]	Achieved savings in 2016 [%]
Electricity	38,231.9	34,545.3	90.4
Thermal energy	70,124.9	92,281.5	131.6
Fuels	79,947.4	89,174.8	111.5
+ additional measures	-	7,741.1	-
TOTAL	188,304.2	223,742.7	118.8

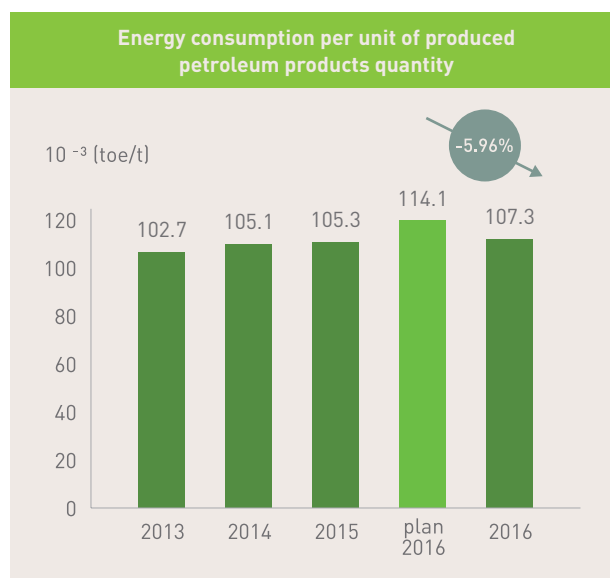
Planned energy consumption in 2016, compared to 2015, increased due to:

- Changes in the structure of fluids and the manner of exploitation of crude oil and gas;
- Increased pressure in the main gas pipelines at the request of Srbijagas;
- Implementation of the programme for fuel quality improvement, and
- Increased use of cost-effective, available fuels from own production, in place of purchasing natural gas.

The largest energy consumers in the Company are "Refining" (67.5 percent of the Company total energy consumption), "Energy" (22.8 percent) and "Exploration and Production" (7.6 percent).

Based on the results of energy control conducted (energy use and consumption analysis) and planned energy consumption for 2016, expected values for defined energy performance indicators (EnPI) were determined. These are used for monitoring implementation of set objectives and performance control (energy performance):

1. Energy consumption per product unit (EnPI at the Company level) in 2016 decreased by almost 6 percent compared to the value planned in 2016.



2. The Energy Intensity Index (EII) is the ratio between the actual energy consumption and standard energy consumption. Standard energy consumption in the Company is based on a projection using the "Solomon" method, taking into account capacity utilisation and process parameters.

Refining has been part of the HSB Solomon Associates LLC programme since 2008. It is the most widely used methodology of comparative analysis of oil refineries in the world, covering over 85 percent of refining capacities in more than 70 countries.

Achieved EII improvement is higher than planned for 2016. Using 2012 as the reference year, in the total increase in energy efficiency was 27 percent in the period 2012-2016.

total increase in energy efficiency
in the period 2012-2016 was

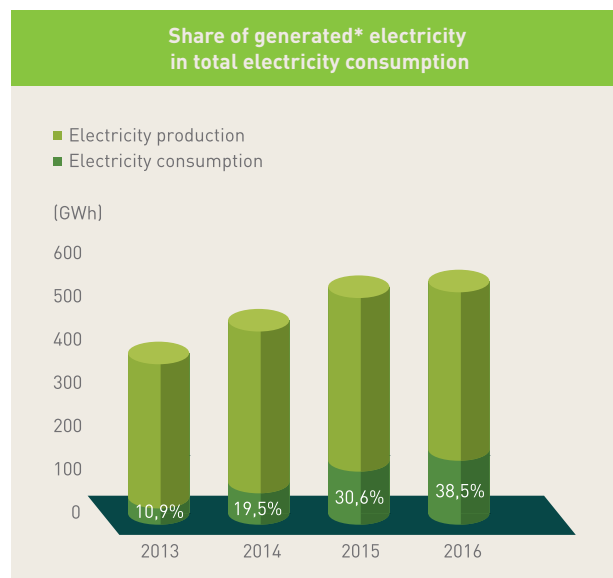
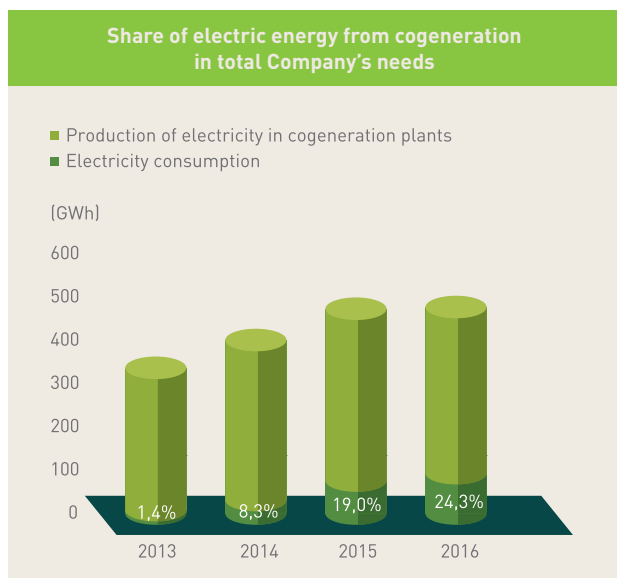
27%

The draft Programme for Energy Savings and Increase in Energy Efficiency in NIS for the period 2017-2019 envisages investments of around RSD 3.5 billion for executing increased energy efficiency measures, with expected energy savings of around 1,706 TJ, i.e. an economic effect of about RSD 5 billion within three years from implementation of planned measures.

In order to maximise use of all potential energy resources in the Company and increase energy efficiency, 14 small cogeneration power plants have been installed between 2013 and today, with electric power of 14.5 MWe. Associated gas, which was previously burned in the flare, is now used to generate power and heat. The share of electricity obtained from cogeneration in the total consumption increased by 5.3 percent compared with 2015.

The application of cogeneration power plants reduces procurement costs of energy resources for infrastructure facilities. It also ensures the presence of the Company on the market, where it has had a presence since 2014. In 2016, sales of electrical power have increased approximately 13 times compared with 2015.

The Company now disposes of its own capacity for electricity generation and meets 38.5 percent of its own needs.



* cogeneration + turbo generator

2017 - 2019

RSD 3.5 billion

for executing increased energy efficiency measures

1,706 TJ

expected energy savings

economic effect of about

RSD 5 billion

within three years from implementation of planned measures

Energy type		Unit of measure	Used quantities		Used quantities GJ		Energy per source (produced/ consumed/sold) for the current year		
			Planned 2016	Used 2016	Planned 2016	Used 2016	Internally produced	Bought from suppliers	Sold
1	Natural gas + associated gas	m ³	250,840,574	194,024,777	8,362,611	6,468,466	375,431,502	-	175,533,784
2	Fuel own consumption (gasoline, diesel)	t	2,955	3,710	136,679	166,999	3,710	-	-
3	Fuel own consumption (fuel oil, refinery gas, coke, torch oil, off gas)	t	373,556	385,080	8,922,185	9,561,233	385,080	-	-
4	LPG	t	262	260	11,544	11,423	260	-	-
5	Steam (shown in height pressure steam)	t	2,278,242	2,213,237	7,818,648	7,572,366	2,338,778	5,874	4,761
6	Electrical energy supplied externally	MWh	370,701	318,625	1,334,525	1,147,051	-	318,625	-
7	Produced electric power	MWh	62,953	68,950	226,629	248,219	147,505	-	78,555
8	Thermal energy	MWh	10,332	9,871	37,196	35,535	-	9,871	-

Activities in the Field of Renewable and Alternative Sources of Energy

The Serbian economy largely depends on fossil, non-renewable sources of energy (oil, coal), which represent a potential threat to the environment. An analysis of potential showed that the sector for development of renewable sources of energy is one of the main contributors to fulfilling environmental protection development plans, power generation and energy efficiency at the global level, and the potential of renewable and alternative sources of energy is a major challenge for the future.

NIS has paid special attention to the development of renewable sources of energy, primarily geothermal energy. Within projects in the field renewable energy sources, geothermal energy has a significant impact on increasing energy efficiency. The objective of the programme is to introduce the practice of using energy rationally and increasing energy efficiency as well as implementing new technologies for reducing energy consumption.

Use of geothermal energy in 2016 was undertaken in nine geothermal systems, i.e. from 12 wells, which fulfilled the total designed capacity of 10 MW.

Gas Monetisation - Production and Sale of Compressed Natural Gas (CNG)

At a time of major changes on the energy market, one energy source that still manages to claim the title of the fuel of the future is compressed natural gas (CNG). CNG is natural gas compressed to a pressure of 220 to 250 bar. The main ingredient is methane, which compared to other derivatives, has the lowest CO₂ emission coefficient and therefore, contributes to preserving environmental quality.

CNG is used both as alternative fuel for all types of vehicles and as an energy source in the industry. There are several reasons why experts still call it the fuel of the future. The main advantage is its energy, i.e. calorific value, which is much higher than other engine fuels as well as its octane number, a criterion of fuel quality. It is favoured because it is the least polluting petroleum product for the environment. In addition to the reduced emissions of damaging gases, CNG does not contain sulphur or toxic additives of organic lead nor benzene. Using this energy source as an engine fuel also significantly reduces noise, by as much as 50 percent compared to diesel engines. Also, prac-

tice has shown that CNG vehicles have greater agility and performance and a longer engine life. In addition, savings from the use of CNG, depending on the type of a vehicle, are up to 50 percent. CNG environmental features are particularly important given that the European Commission adopted a Directive in 2007 where new cars must reduce CO₂ emissions. Substantial savings can be made in citizens' household budget by owning a CNG car. If an average vehicle covers 100 km using around 7.5 l of gasoline, equivalent to about 6.0 l of diesel, the same distance will be covered using around 4.4 kg of CNG. This is more cost-effective than LPG, where vehicles need about 8.6 l of this product to cover 100 km.

In 2016, the Company had two active retail projects, i.e. CNG filling stations at the PS Novi Sad 10 and PS Čačak 1. In 2017, the plan is to commission a CNG plant in gas field Ostrovo for the needs of wholesale, i.e. industrial consumption. Year 2017 will see one more retail CNG project implemented at PS Žarkovo 2 in Belgrade.



Use of Water Resources

Total Quantity of Captured Water by Intake

The use of water resources is a prerequisite for the production and technological processes; for steam production, cooling systems, fire protection provision, cleaning vehicles and equipment and for sanitary purposes. The Company also has processes for bottling spring water and producing refreshing drinks.

Total captured water for Company's needs decreased by 8 percent compared with 2015, due to a reduction in capturing surface water by 14 percent. Capturing groundwater increased by 21 percent and the use of water from the public water supply increased by 27 percent.

Total captured water for Company's needs decreased by

8%

compared with 2015

Quantity and share of captured water per intake	2015 (m³)	Relative share	2016 (m³)	Relative share	2016 /2015. (%)
River water intake	3,588,852	84 %	3,072,412	78 %	- 14 %
Public water intake	428,588	10 %	542,566	14 %	+27 %
Groundwater	263,832	6 %	320,062	8 %	+21 %
Total captured water	4,281,272	100 %	3,935,040	100 %	-8 %

Intakes Significantly Burdened by Water Capturing

A responsible attitude towards water resources is measured not only on the basis of quantity, but also according to its origin and quality. With the use of water from the least sensitive resource, the Company preserves water intended for public water supplies, food industries and agricultural irrigation.

As in the previous years, the majority of water used comes from the least sensitive resources - the Danube River and the Danube-Tisa-Danube Canal (78 percent), while the use of water from public supply systems amounts to 14 percent, with water from wells making up 8 percent. The quality of water taken from the public supply system does not meet, in all cases, requirements for chemical and microbiological quality of drinking water. Where facilities provide poor quality water, employees, consumers and contractors are notified that tap water is not drinkable and bottled water is provided.

Water captured from the Danube for the functioning of the Oil Refinery Pančevo amounted to 2,848,675 m³ in 2016 at a capturing level of 90 l/s. This represents 0.0017 percent of the average annual Danube flow.

Water captured from the Danube-Tisa-Danube Canal for the functioning of Petroleum Products Warehouse in Novi Sad (at the location of former Oil Refinery in Novi Sad) amounted to 254,798 m³ in 2016, at a capturing level of 8 l/s. This represents 0.013 percent of the flow of DTD Canal near Novi Sad.

Capturing the specified quantities of water from the Danube and Danube-Tisa-Danube does not threaten their potentials, considering that this is considerably less than five percent of their average annual flow.

Percentage of Total Quantity of Recycled and Reused Water

In 2016, the amount of recycled water (condensate return, returned from production processes) in the Oil Refinery Pančevo amounted to 1,170,842 t. this allowed the intake of raw water from the Danube to be reduced by 41 percent on the Refinery level (in 2015, it amounted to 35.5 percent), and at NIS level, the total water captured was reduced by 30 percent, the level from the previous year.

Total Water Discharge by Quality and Recipient

The total quantity of waste water is at the same level as in the previous year. The quality of treated waste water is controlled in accordance with legal regulations, and testing is conducted by independent authorised and accredited laboratories.

The largest quantity of waste water is created in the Oil Refinery Pančevo, with an increase of around 9 percent as a consequence of increased refining compared to 2015. The quantity of discharged waste water per ton of refined crude oil in the Oil Refinery Pančevo in 2016 is at the same level as 2015 (in 2015, it amounted to 0.58 m³/t, and in 2016 to 0.60 m³/t).

By the end of 2016, a total of 306 waste water treatment facilities were registered in the Company. In 2016, seven separators for oily atmospheric water were installed on the fuel supply stations in "Sales and Distribution", i.e. waste water is treated in 286 units before it is being discharged. The plan is to install the missing separators, at places where technical and safety conditions for installation are met. One part of the facility does not meet technical conditions for connecting to the public sewerage

or for discharge into a watercourse, therefore, waste water is collected in pump sumps, which are periodically emptied in compliance with regulations.

The quality of treated waste water is tested in accordance with the prescribed schedule, according to the type and quantity of waste water and type of recipient, according to the Plans for environmental monitoring in certain NIS organisational units. At an annual level, independent authorised and accredited laboratories sample and test treated waste water at around 300 measuring points, creating more than 10,000 individual results.

Quantity of Produced and Disposed Layer Water

A considerable amount of layer (reservoir) water is generated during oil and gas production and mining works in wells. This water may contain hydrocarbons and salts originating from the geological formations where they were found. Layer water is treated in order to separate hydrocarbons, suspended and dissolved substances and is injected into the selected unused wells at a specific depth through the preparation and injection system. This ensures that there is no possibility of contaminating geological layers or water resources.



List of discharged waste waters in m³, depending on treatment and recipient

Treatment method	Recipient	2015 (m ³)	2016 (m ³)	2016/2015 (%)
External treatment	Watercourse	1,215,921	1,403,580	+15
Physical, physical-chemical	Watercourse, public sewerage	960,531	766,354	-20%
Sanitary waste water	Public sewerage	43,474	50,302	+ 16
Total		2,219,926	2,220,236	+0.01

Quantity of Produced and Disposed Layer Water (m ³)	2015	2016	2016/2015 (%)
Produced layer water	5,656,228	5,146,612	-9%
Disposed layer water	5,656,228	5,146,612	-9%

Environmental Accidents

Number and Volume of Major Spills

In 2016, NIS additionally improved accident response procedures. All environmental accidents were effectively mediated and all environmental consequences were eliminated. The number of environmental accidents reduced considerably (71 percent) compared to 2015. In 2016, a total 16 environmental accidents were registered, compared with 55 in 2015.

In accordance with the internal classification of HSE events in the Company, all HSE events are divided into four groups: major, medium, minor and potential events. According to the classification, all environmental accidents in 2016 were classified as minor events.

A significant improvement in this field is reflected in the reductions of quantities of substances spilled. The total volume of substances spilled in 2016 amounted to 20 m³, which is 48 percent less than in 2015, when the volume of 41.48 m³.

According to the type of accidents, 15 events were related to the spillage of oil and petroleum products, whereas one event was classified in category "Other". The largest number of environmental accidents were working activities (56 percent), then oil pipeline perforation (19 percent), and technological failures or breakdown (13 percent).

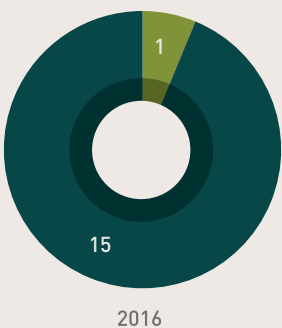
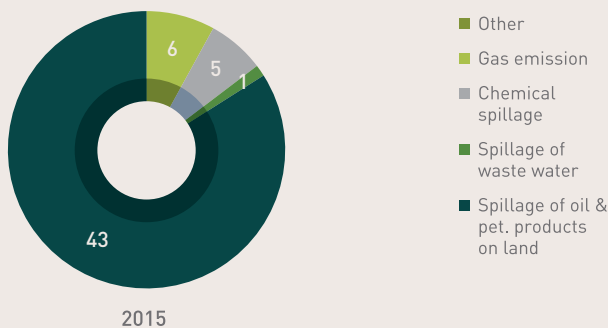
The methodology for calculating HSE costs was developed in 2016 as well as instruction 'HSE expenses - structure of costs and reporting' This was established to define the structure of costs that HSE events incur , how they are monitored, their collection, record-keeping and how HSE costs incurred are reported.

The number of environmental accidents reduced by

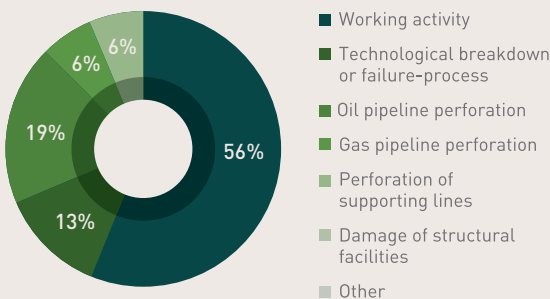
71%

compared to 2015

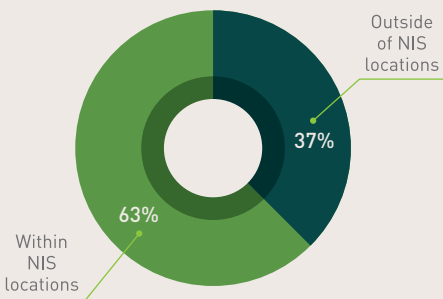
Type of environmental accidents



Causes of environmental accidents



Location of environmental accidents



Impact on Biodiversity

The Number and Percentage of Business Locations on Which Assessment of Impact on Biodiversity is Conducted

The long-term sustainable development of a society is impossible without cultivating and preserving biodiversity. The threat to biological species and ecosystems is higher than ever before, therefore, it is necessary to make additional efforts to preserve the existing biodiversity and revitalise endangered species. As a socially responsible company, NIS pays special attention to environmental protection. In accordance with such strategic commitment, all company's activities are conducted in accordance with applicable legal regulations and permits issued by the competent authorities.

Protected natural resources include national parks, strict and special nature reserves, natural monuments, protected habitats, areas with outstanding features and nature parks. There are a total of 474 protected areas in Serbia, representing approximately 6 percent of the territory. In accordance with European and international standards, the country is also increasing the number and area of protected natural resources, adopting regulations governing these areas and improving their management. Of all the locations where the Company operates, ten in Vojvodina and one in South Serbia are located close to protected areas, which are characterised by extreme geological, biological, ecosystem and /or landscape diversity:



Type of protected natural resource	Name of protected natural resource	Name of NIS facility in the vicinity	Status of NIS facility in 2016
Special nature reserve	Deliblatska Peščara	HTS Devojački Bunar Db - 1/H	In operation
	Deliblatska Peščara	SGS Tilva	Out of operation
	Okanj Lake	Plant for the preparation and transport of oil and gas	In operation
	Okanj Lake	Well Eli-1	Out of operation
	Pašnjaci Velike Droplje	SMS Mokrin West and KS-2 Mokrin West	In operation
	Koviljsko-Petrovaradinski Rit	SSG Novi Sad 6	In operation
Nature park	Palić Lake	HTS Palić (1 Pj - 1/H, Pj - 2/H)	In operation
	Palić Lake	Pć-24	In operation
Natural monument	Junaković Forest	HTS Prigrevica - Junaković Spa (Pb - 1/H)	In operation
	County Park - town garden in Zrenjanin	SSG Zrenjanin 1	In operation
National park	Đerdap	SSG Donji Milanovac	In operation

The Company obtains the opinions and requirements of competent authorities (Institute for Nature Conservation of Serbia and Institute for Nature Protection of Vojvodina Province), which make an integral part of the studies on the assessment

of environmental impact of the project. It also conducts prescribed measures and monitors environmental impacts by identifying the "zero" status and implementing monitoring.

Description of Significant Impacts on Biodiversity in Protected Areas

NIS business activities do not affect biodiversity in protected areas, as these activities are carried out in a very limited number of facilities within or near protected areas and that conditions from decisions obtained on determining nature protection conditions are met. When conducting all the activities, NIS pays special attention to environmental protection, and all the activities are conducted in accordance with the regulations of the Republic of Serbia and permits which NIS obtains from the competent state authorities for conducting its activities.

During 2016, "Exploration and Production" conducted 3D seismic surveys in accordance with the decision on the conditions of nature protection, obtained from the Institute for Nature Protection of Vojvodina Province, in special nature reserves Deliblatska Peščara and Slano Kopovo.

Figures 1 and 2 show the map of the South Banat with the marked protected area - Deliblatska Peščara (green) and wild species habitats (ochre). The map is marked with areas with levels I, II and III of protection of Deliblatska Peščara, where 3D seismic surveys are permitted under conditions of the Institute for Nature Protection of Vojvodina Province.

Figure 3 shows a map of Bečej and Novi Bečej area with marked protected areas - Slano Kopovo and Okanj Lake (red) and areas in the process of being protected - Stara Tisa close to Biserno Ostrvo (yellow), and a marked area where 3D seismic surveys are permitted under conditions of the Institute for Nature Protection of Vojvodina Province.

In 2106, the Institute for Nature Protection of Serbia adopted decisions, at the request of NIS, in accordance with which project and technical documents were created for the use of groundwater in SSG Lozovička Česma and SSG Prnjavor and the project for the demolition of the existing and construction of new SSG in Belgrade in Čarli Čaplin Street.

Habitats that are Protected or Restored

In 2016, activities relating to historic pollution remediation, restoring agricultural land to its original state and eliminating the risk of pollution of land, groundwater and air were continued.

A total of 21 primary mud pits, 13,339 m² in surface, were remediated. Of this total, 11 pits with a total area of 7,865 m² result from historical pollution, while 10 remediated pits, in the total area of 5,474 m², were created in 2016.

Thus, the total of remediated primary mud pits increased to 171, and the total area of re-cultivated land amounts to 119,365 m², i.e. almost 12 ha.



Figure 1: Map of South Banat with marked protected area - Deliblatska Peščara



Figure 2: Map of South Banat with marked protected area - Deliblatska Peščara, with areas marked for having level I, II and III of protection and wild species habitats



Figure 3: Map of Bečej and Novi Bečej area with marked protected areas - Slano Kopovo, Okanj Lake and Stara Tisa close to Biserno Ostrvo

Natural species from the IUCN Red List whose habitats are located in the vicinity of the sites where the Company operates, according to the level of threat

The International Union for Conservation of Nature (IUCN) created its Red List of Threatened Species at the global level. This list provides an overview and criteria of vulnerability for around 49,000 species, sub-species, varieties and sub-populations, based on which threatened species are classified into IUCN categories.

Preservation of protected wild species of plants, animals and fungi in the Republic of Serbia is conducted the relevant laws. These include the Law on Nature Protection, the Rulebook on the proclamation and protection of strictly protected and protected wild species of plants, animals and fungi, and the Rulebook on the criteria for determining habitat types, on habitat types, vulnerable, endangered, rare and habitat types of priority for protection and safety measures for their conservation. Before undertaking any activities, the Company obtains nature protection conditions from the competent authorities, which contain relevant conservation measures, and which NIS strictly adheres to.

According to the data on natural species listed on the IUCN Red List, there is a habitat of strictly protected species of birds - the Great Bustard (*Otis tarda*) in the pastures of the Great Bustard, near Mokrin, in the vicinity of the sites where the Company operates.



119,365 m², i.e. almost

12ha

amounts for the total area
of re-cultivated land

Identity, size, status of protection and biodiversity value of water bodies that are significantly affected by company's water discharge

The Law on Waters defines the concept of protected area as one designed for the protection of habitats or species where an important element of their protection is the maintenance or improvement of water status. This law also introduced an obligation of keeping a Register of protected areas and issuing water acts for protected areas, with increased fees for discharge and pollution if the recipient is a protected area. All NIS activities are harmonised with legal provisions. Regular internal and external monitoring is also conducted.

The Company obtains water acts for the facilities where it

operates and from where it discharges waste water. According to these, there is no information stating that the water bodies into which the Company discharges treated waste water are classified as water bodies with special protection statues and biodiversity value.

Recipients of waste waters generated in the course of Company's operations are public sewage (67 percent of facilities), canals (21 percent of facilities) and watercourses (7 percent of facilities). Less than 5 percent of facilities use lagoons, pump sumps and green surfaces for waste water discharge. The Company performs regular internal and external monitoring of waste waters according to the schedule determined by regulations and water acts.

The International Commission for the Protection of the Danube River (ICPDR) was established in 1998 with the purpose of protecting the Danube water and environment. Serbia is one of the member countries.

The Danube is a watercourse that receives more than 90 percent of all Company's waste waters:

- Treated atmospheric water from the Oil Refinery in Pančevo is discharged to the Azotara canal in the southern industrial zone of Pančevo, which flows into the Danube - 482,234 m³,
- Technological waste water from the Oil Refinery in Pančevo is treated in a waste water treatment plant in HIP PHK, from where it is discharged into the Danube - 1,387,357 m³,
- Treated waste water from the Petroleum Products Warehouse in Novi Sad is discharged indirectly through the public sewage system of the City of Novi Sad - 188,542 m³,
- Treated waste water from the Warehouse in Smederevo is discharged directly into the Danube.



One of the recipients of Company's treated waste waters is Rovača (Veliki Potok) stream, a sensitive watercourse with limited flow in dry periods, which belongs to the water area of Srem, Sava sub-basin and the Danube basin. Its name can be found in documents from the 3rd century as one of the streams of Fruška Gora, which takes water from higher grounds of Fruška Gora to the Sava river. It represents a recipient for treated technological, sanitary and sewage and atmospheric water from the Plant for the production of drinking water in Jazak in an amount of around 18,000 m³ p.a.

The Jegrička is a large tributary to the Tisa river, in a southern loess terrace in Bačka region. It is 65 km long and consists of a series of connected ponds through which water runs to its confluence with the Tisa and from there into the Danube. It is a habitat for many protected plants (white water lilies, marsh fern, water chestnut, bladderwort), and animals (including otter, which is on the Preliminary list of species for the Red Book of Vertebrates of Serbia and globally threatened ferruginous duck). Small amounts of treated waste water from the fuel supply station in Zmajevu are discharged into Jegrička.

Treated waste water, in an amount of around 3,500 m³ p.a. is discharged from the Warehouse of "Sales and Distribution" in Požeška into Skrapež, a category I river in western Serbia. Skrapež is the left tributary of the Đetinja river, 47.7 km long. It rises on the southern slopes of Bukovik and south eastern slopes of Povlen, is formed by the merging of the tributary Sečica and Godljevača, and flows into the Đetinja river in Požeško Polje, from where it runs through Moravica into Zapadna Morava and then to the Danube.

The largest amount of discharged treated waste waters, more than 90 percent, arrives at the Danube directly or via tributaries. Based on the Rulebook on the proclamation and protection of strictly protected and protected wild species of plants, animals and fungi and based on additional information (e.g. www.ekologija.rs), two species of streber, Zingel streber and Zingel zingel, are - due to their reduced numbers - permanently protected species of fish in the Danube. This species belongs to freshwater fish from the perch family, genus Percidae.

Emissions of Pollutants

As a socially responsible company, NIS monitors its emissions of pollutants in line with the requirements of legislation and internal normative and methodological documents. For this purpose, it conducts regular monitoring of the emission of air pollutants, with a series of measures aimed at reducing these emissions are applied in accordance with results and set objectives.

As process furnaces in plants and boilers use combustion of fossil fuels - heating oils and natural gas, basic pollutants, monitoring is organised throughout the year. Amounts of emitted SO₂, NO_x and PM (particulate matter) are.

The total amount of emitted air pollutants presented in the Table shows that the oil and gas production activity emitted 19.12 t NO_x in 2016, and other quantities shown in the Table originate from boiler and production plants for oil refining.



Reducing emissions of pollutants is one of the primary environmental protection objectives in the Company's operations. Implementing investment projects to modernise and reconstruct existing plants contributed to mitigating and reducing adverse environmental impacts - emission reduction.

The trend of total NO_x and PM emissions in the air in 2016 are in decline, however, there is evidence of an increased amount of emitted SO₂ which is explained to be the consequence of the use of liquid fuels, heating oils, as predominant fuel in process plants and boilers in 2016, and of increased crude oil refining.

Quantity of Hydrocarbons Discharged into the Air

In 2016, the quantity of burned free and dissolved gas in the flares in "Exploration and Production" amounted to 34,157,127 m³. The estimated quantity of gas released into the atmosphere without burning in plant "Severni Banat " amounted to 89,869 m³.

Compared with the previous year, the amount of burned gas in the flares is considerably lower as a result of increased own consumption in cogeneration plants. In addition there are the quantities of gas processed in the amine plant to extract CO₂ from natural gas in the Oil and Gas Preparation and Transport Plant in Elemir.

Amounts of air pollutants emitted (t/g)	2015	2016
SO ₂ emission	3,464	3,649
NO _x emission	1,064	905
Emission of particular matter (PM)	73	51

Emissions of Greenhouse Gases

According to the existing regulation of the Republic of Serbia, operators are not obliged to report to the competent ministry on GHG emissions from their plants. However, the Draft Law on the GHG Emission Reduction System is being adopted, which will be used to establish a legal framework for monitoring, reporting and verifying GHG emissions. Directive 2003/87/EC, which establishes a scheme for greenhouse gas emissions allowance trading within the Community (EU ETS Directive), will be transposed to the Serbian legislation. Therefore, a preliminary assessment of direct CO₂ emissions was conducted by the Company. This was in accordance with the Regulation on the monitoring and reporting on GHG emissions 601/2012 EC and currently available quality of technical data required for calculating CO₂ emissions from process and combustion plants for the NIS a.d. organisational units which will participate in the EU ETS. This amounted to 1,026,250 t of CO₂ in 2016.

Within one year of the date of adoption of the Law, other by-laws will also be transposed, which will more closely define the methodologies for monitoring, calculating and reporting on CO₂ emissions as well as the future obligations of operators.

For purpose of corporate social responsibility, the Company implements measures for reducing CO₂ emissions by implementing projects to construct cogeneration power plants. These use associated gas, which was previously burned in flares, and now is used for the production of heat and electricity.

In 2016, an increased amount of CO₂ was separated in the amine plant in the Oil and Gas Preparation and Transport Unit in Elemir, which was then transported and injected into the Rusanda deposit (injected 50,563,620 m³ of CO₂) for the purpose of maintaining deposit pressure and increasing production.

NIS will, in the coming period, harmonise its operations with the legislation relating to GHG emission management. In addition, it will harmonise its methods of quantifying all direct and indirect GHG emissions resulting from Company's operation, as well as definition and implementation of mitigation measures, i.e. activities that the Company will undertake in order to reduce and limit GHG emissions.

Reduced Environmental Impact of Products

The Company particularly protects its consumers. In order to reduce environmental impact, NIS produces and sells AdBlue, a 32.5 percent aqueous urea solution used as an agent for reducing certain vehicle exhaust gases, notably nitrogen oxide, by converting it into the harmless gas nitrogen. Nitrogen oxides are hazardous both for the environment and human health. AdBlue is stored in a special vehicle tank, from which it is injected into the exhaust gas treatment device, the so-called SCR (Selective Catalytic Reduction) system.

The project for constructing the amine plant within the production complex of the Oil and Gas Preparation and Transport Unit in Elemir was commenced in September 2013 and implemented in 2016. All the necessary permits from state authorities were obtained for operation of the newly built plant, which will reduce CO₂ quantities in gas produced in NIS to a level of 3 percent, corresponding to the technical requirements for its use in the national gas distribution network of Serbia. Operation of the new plant in Elemir enables harmonisation of gas quality

for delivery to the transmission system, increases gas production and levels of efficiency of Company's oil and gas deposits by maintaining deposit pressure and, additionally, protecting the environment. The development of a product with commercial name NISOTEC KOMPRESOL PAG 150 is completed, and it is intended for the lubrication of industrial compressors of gas such as methane, ethane, propane, carbon dioxide, which is, due to its biodegradability, more than 60% environmentally more acceptable compared to other products with the same purpose. The biodegradability of this product originates from its base foundation made of polyalkylene glycols. Since September 2016, this NISOTEC product has been used for lubricating CO₂ compressors in NIS Amine Plant in Elemir.

Waste Management

Waste management in the Company is in the general interest of the society. Audits of internal normative and methodological documents were conducted to harmonise them with amendments to the Law on Waste Management and improved monitoring of waste flows.

The Company generates significant quantities of various types of waste, both hazardous and non-hazardous. It is committed to developing and building upon its established and sustainable waste management systems.

As a socially responsible company, NIS delivers waste only to the operators with waste management licences obtained from the competent authorities of the Republic of Serbia. In 2016, 12 controls of operators were conducted to ensure that waste was disposed of in compliance with the law and in accordance with the conditions defined in operators' licences.

Hazardous waste generated mostly consisted of mud and sludge as well as oil-contaminated waste resulting from maintenance and cleaning of tanks and separators and from cleaning of oil sewage. Of all types of non-hazardous waste generated in 2016, metal waste accounted for 89 percent of the total.

Different types of waste require different treatment methods. Most waste, primarily metals and packaging, was handed over for recycling, whereas hazardous waste (mud, sludge, and oil-contaminated waste), depending on the concentration of hydrocarbons, was handed over for co-combustion, solidification and bioremediation.

Quantities of waste generated are regularly recorded in Daily Waste Records kept by waste generators - DWR 1 Form, while total quantities of generated and disposed-of waste are reported to the Environmental Protection Agency through their information system.

The waste management process was significantly improved by the introduction of a new concept of contracting waste disposal involving signing umbrella agreements for the disposal of specific types of waste. Such a method of contracting considerably accelerated the waste management process, ensuring shorter procurement times for waste disposal services, reduced costs and faster and more efficient removal of waste from sites.



Waste character	Unit of measure	01/01/2016	Waste generated in 2016	Waste disposed in 2016	12/31/2016
Non-hazardous	t	6,435	6,720	6,907	6,248
Hazardous		396	7,867	7,644	619
Total		6,831	14,567	14,531	6,867

Disposal methods	Unit of measure	2016
Bioremediation	t	2,699
Disposal		382
Recycling		6,774
Warehousing		8
Solidification		832
Co-combustion		3,835

Quantity of Drilling Waste

Drilling waste is non-hazardous waste which consists of a mix of materials from drilled rocks (sandstone, marl, lime-stone, etc.) and drilling mud, a viscous liquid used for flushing out drilled material during well drilling.

In 2016, as part of regular activities related to the drilling of new oil wells, a total of about 20,700 t of waste drilling material was generated. This was disposed of immediately after generation. All waste generated during drilling was collected immediately and disposed of at the Novo Miloševo Waste Mud Landfill.

All the plants used for drilling in 2016 are equipped with the “Dry Location” system (metal or concrete pools used for the collection of waste mud during drilling), i.e. using flocculation systems for recirculating of the liquid phase of drilling mud and its recovery.

In 2016, special attention was paid to improving the operation of the drilling mud service in terms of control of flocculation systems operation, i.e. mechanical drilling mud cleaners, which are used to regenerate and re-cultivate used drilling fluids (REUSE). This reduced the need for producing new drilling mud. As a result, the total amounts of waste generated during drilling (reduction of waste generation per meter of drilled wells) decreased by 7 percent. At 2016 levels, this amounts to around 1,400 tons.

In addition, in 2016 NIS began the practice of covering entire sites with PVC foil during drilling. This raised environmental protection to a higher level by preventing drilling mud contacting the surrounding land even in the event of accidents.

Packaging and Packaging Waste

NIS is obliged to deal with the packaging waste remaining after the use of its products. It must ensure the pickup and collection as well as the re-use, recycling or disposal of, packaging waste. Guided by the provisions of the Law on Packaging and Packaging Waste, the Company hired an operator responsible for the packaging waste management system that holds the appropriate license for performing these activities.

In agreement with the operator, and for the purpose of meeting national objectives set for 2016, the packaging waste that was picked up and collected in 2016 was re-used, recycled or disposed of during the current year.

The Company organised the collection of packaging waste in branded containers (paper and PET packaging and used cans) in all larger NIS facilities.

NIS business operations include production of drinking water in settlement Jazak as well as production of different brands of oils and lubricants in the Lubricants Department in Novi Sad.

Drilling waste decreased by

7%

An overview of the packaging released on the Serbian market in tons		Quantity of packaging released on the market (t)	
		Jazak	Lubricants Department
Plastic	PET	266	71
	Other types of plastic	48	130
Metal	Iron	0	111
Paper and cardboard	Paper and cardboard	58	54
Wood	Pallets	31	100
Total		403	466

Biofuels

Member states of the Energy Community as well as European Union member states are obliged to meet the conditions of the Renewable Energy Directive 2009/28/EC. The completion of the project "Blending of bio components with diesel fuel in the Oil Refinery Pančevo" will allow NIS to fully fulfil the expected requirements relating to diesel fuel in the transport sector, at the moment of enactment of future RS biofuel and bioliquid regulation.

Options for blending bio components into motor fuels are currently being considered in accordance with the applicable National Action Plan for renewable sources of energy. Due to the characteristics of individual bio components for fuels, the blending option is also being considered in the Oil Refinery Pančevo and in certain petroleum products warehouses. In 2016, the Company did not procure or blend bio components into Euro Diesel and consequently Euro Diesel B7 was not produced.

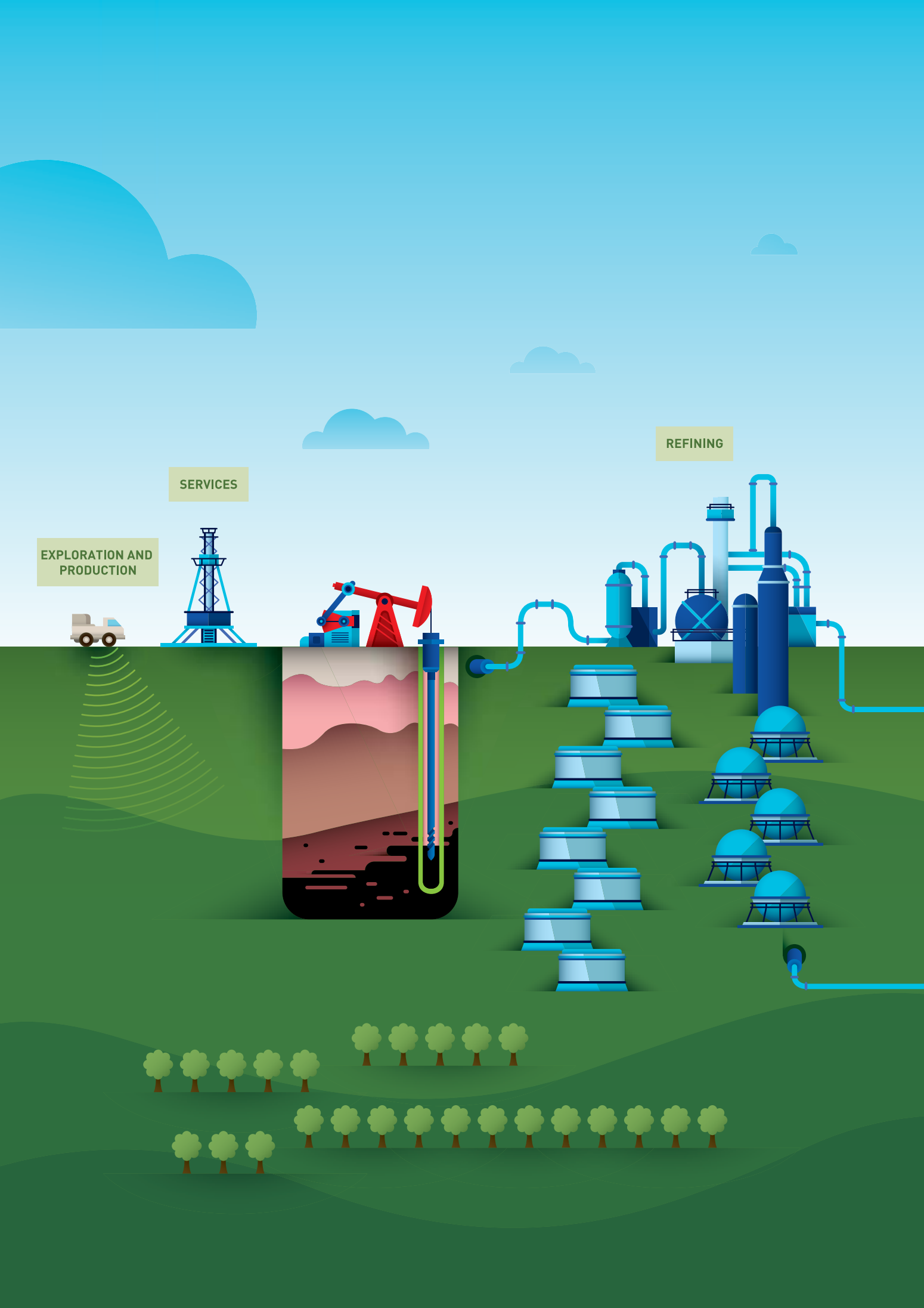
Percentage of new suppliers whose operations were analysed in terms of their attitude towards the environment (EN 32)

This year, for the first time, the Company's Sustainable Development Report covers contractors in terms of environmental protection. All potential contractors should meet pre-qualification criteria in accordance with internally determined procedures, which will give the right to participate in tenders. Documentation submitted by interested contractors in the pre-qualification process should contain certificates that confirm conformity with the requirements of internationally recognised standards, inter alia, with ISO 14001 - Environmental Management System. With the implementation of requirements for this standard, the contractor confirms its commitment to identifying and controlling the environmental impact of its activities, products and services, promoting its attitude towards the environment by reducing an adverse effect and risk of environmental accident. It should also build a good reputation among stakeholders, clients and in the community and institutions.



By the end of 2016, the List of qualified contractors counted 887 legal entities, 286 of which had submitted a valid certificate in accordance with the requirements of ISO 14001 (32 percent). Out of the total of contractors, 729 are from Serbia and 158 from abroad, from more than 30 countries. Around 28 percent (206 contractors) of national companies and 51 percent (80 contractors) of foreign companies submitted ISO 14001 certificates in the pre-qualifications process.

As an environmentally friendly company, and by implementing pre-qualification procedures and defining specific requirements through terms of reference and conclusion of HSE annexes to the agreement with business partners, NIS ensures the execution of works and services in the agreed scope and period, but also in a manner that ensures maximum protection of the environment.

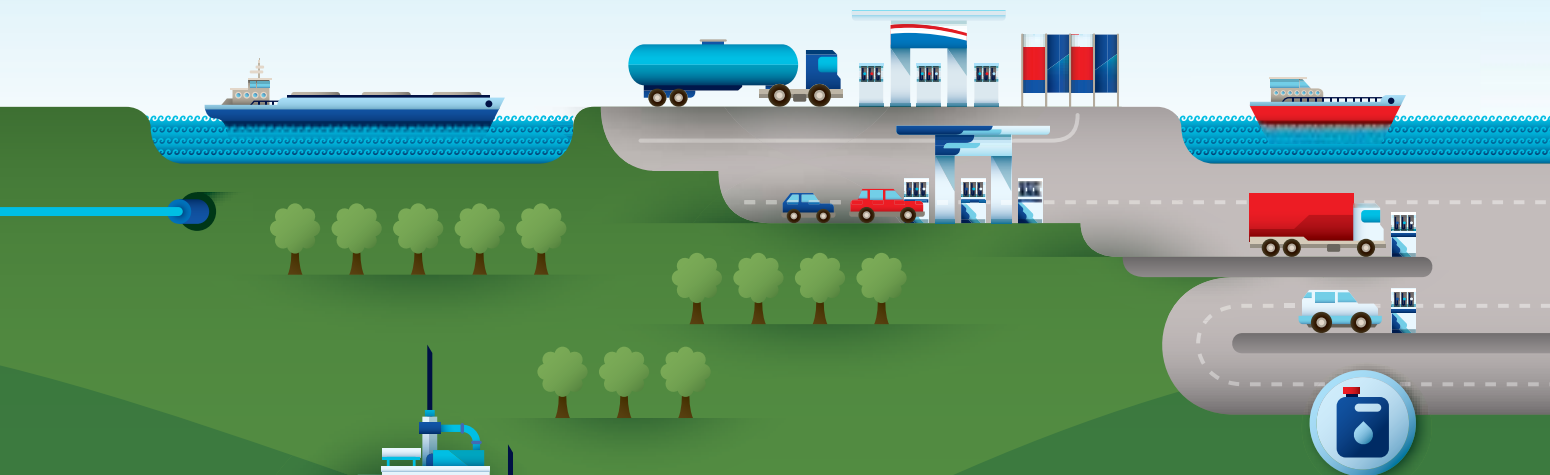


EXPLORATION AND
PRODUCTION

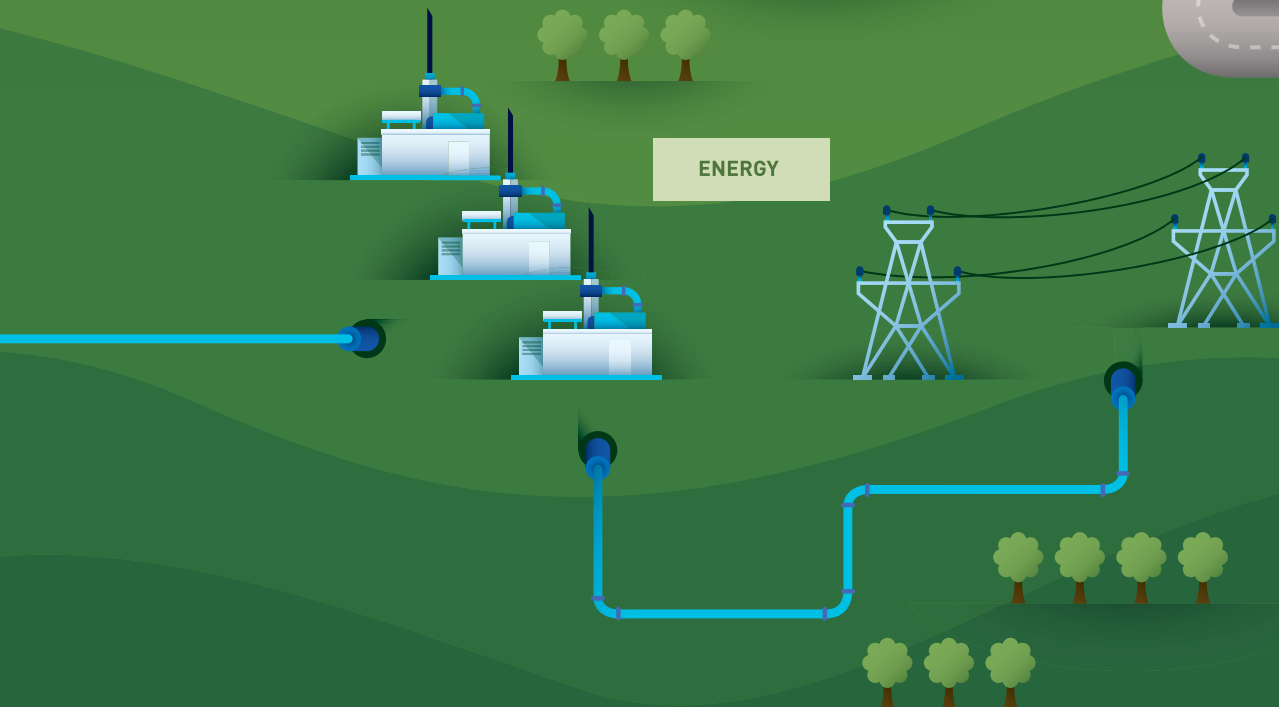
SERVICES

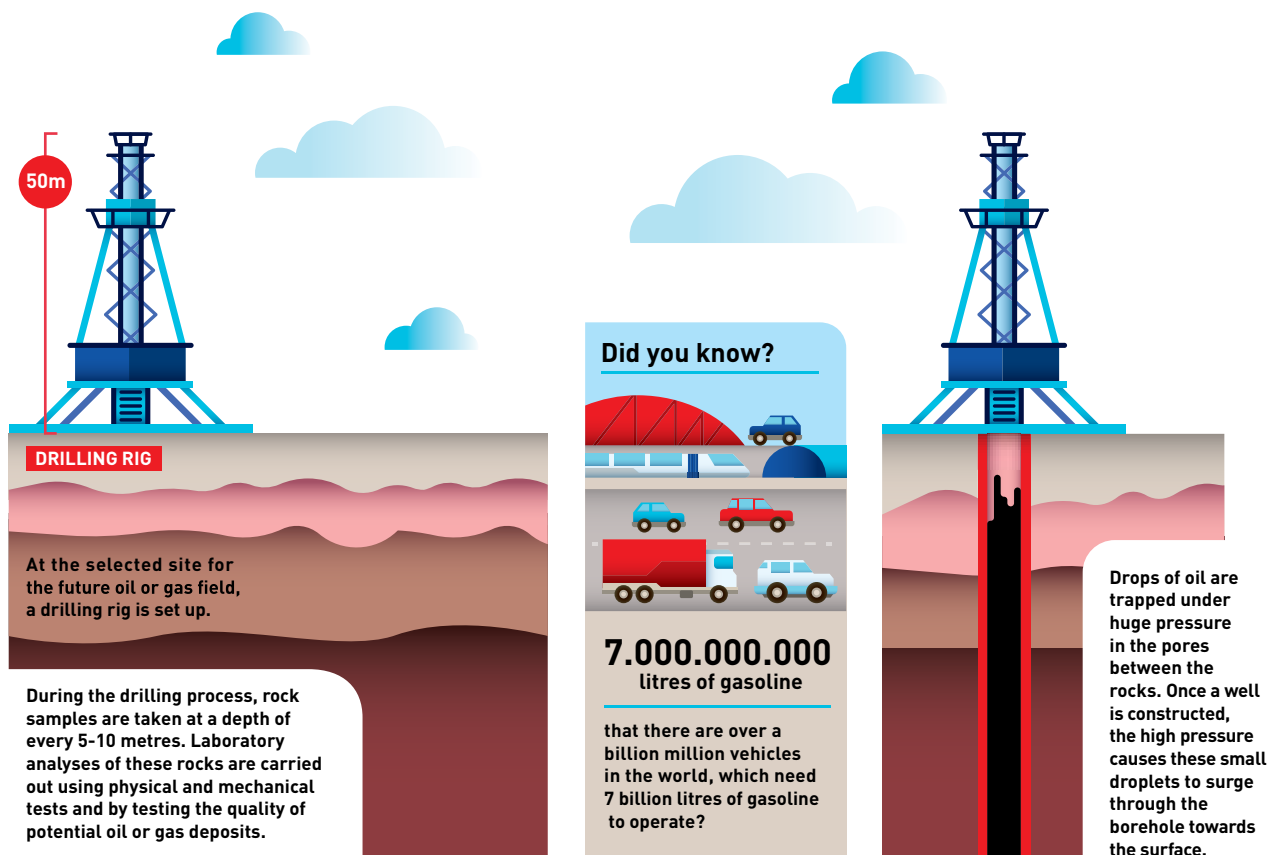
REFINING

SALES AND
DISTRIBUTION

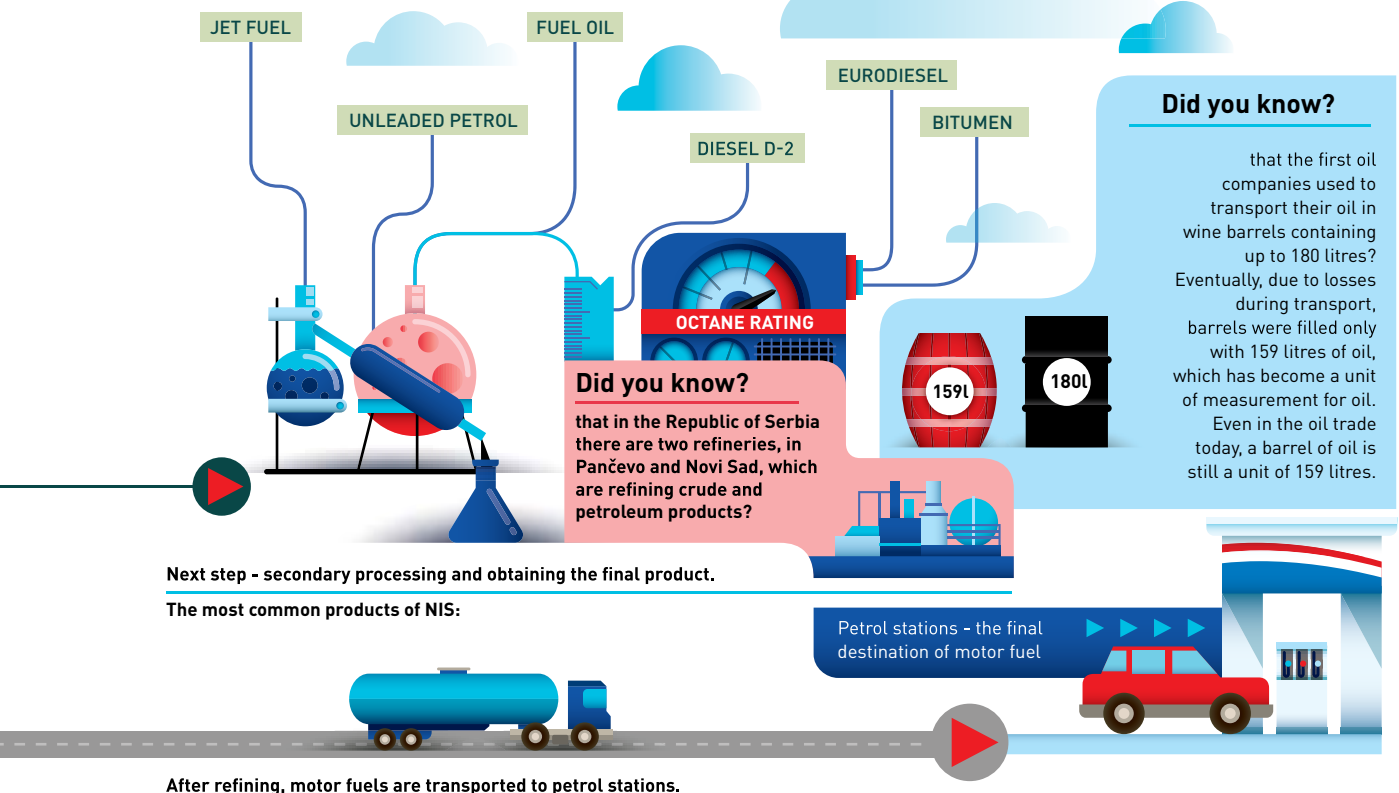


ENERGY





AUTOMOBILE!



APPENDICES

GRI INDICATORS

Profile	Description	Page number
G4-1	Provide a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	5
G4-3	Report the name of the organization.	12
G4-4	Report the primary brands, products, and services.	13
G4-5	Report the location of the organization's headquarters.	118
G4-6	Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	10
G4-7	Report the nature of ownership and legal form.	16
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	10
G4-9	Report the scale of the organization, including: Total number of employees, Total number of operations, Net sales (for private sector organizations) or net revenues (for public sector organizations), Total capitalization broken down in terms of debt and equity (for private sector organizations), Quantity of products or services provided	26
G4-10	a. Report the total number of employees by employment contract and gender. b. Report the total number of permanent employees by employment type and gender. c. Report the total workforce by employees and supervised workers and by gender. d. Report the total workforce by region and gender. e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	40-42
G4-11	Report the percentage of total employees covered by collective bargaining agreements.	49
G4-12	Describe the organization's supply chain.	31
G4-13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain.	6
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	AR* 30
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	16
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization: Holds a position on the governance body, Participates in projects or committees, Provides substantive funding beyond routine membership dues, Views membership as strategic	18
G4-17	a. List all entities included in the organization's consolidated financial statements or equivalent documents. b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.	11
G4-18	a. Explain the process for defining the report content and the Aspect Boundaries. b. Explain how the organization has implemented the Reporting Principles for Defining Report Content.	6
G4-19	List all the material Aspects identified in the process for defining report content.	7

* 2016 NIS Annual report

Profile	Description	Page number
G4-20	For each material Aspect, report the Aspect Boundary within the organization.	7
G4-21	For each material Aspect, report the Aspect Boundary outside the organization.	7
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	6
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	12
G4-24	Provide a list of stakeholder groups engaged by the organization.	18
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	18
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	18
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	7
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	6
G4-29	Date of most recent previous report (if any).	6
G4-30	Reporting cycle (such as annual, biennial).	6
G4-31	Provide the contact point for questions regarding the report or its contents.	118
G4-32	a. Report the 'in accordance' option the organization has chosen. b. Report the GRI Content Index for the chosen option (see tables below). c. Report the reference to the External Assurance Report, if the report has been externally assured. GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines.	114
G4-33	a. Report the organization's policy and current practice with regard to seeking external assurance for the report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. Report the relationship between the organization and the assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report.	114
G4-34	Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	16
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	14

Indicator	Name of indicator	Page number
EC 1	Direct Economic Value Generated And Distributed	24
EC 2	Financial Implications And Other Risks And Opportunities For The Organization'S Activities Due To Climate Change	74
EC 3	Coverage Of The Organization'S Defined Benefit Plan Obligations	The Company calculates obligations related to severance and pension payments to the employees and for jubilee awards
EC 4	Financial Assistance Received From Government	In 2016, the Company was not a beneficiary of financial assistance received from the Government
EC 5	Ratios Of Standard Entry Level Wage By Gender Compared To Local Minimum Wage At Significant Locations Of Operation	54
EC 6	Proportion Of Senior Management Hired From The Local Community At Significant Locations Of Operation	44
EC 7	Development And Impact Of Infrastructure Investments And Services Supported	64
EC 8	Significant Indirect Economic Impacts, Including The Extent Of Impacts	64
EC 9	Proportion Of Spending On Local Suppliers At Significant Locations Of Operation	32
EN 1	Materials Used By Weight Or Volume	76
EN 2	Percentage Of Materials Used That Are Recycled Input Materials	92
EN 3	Energy Consumption Within The Organization	80
EN 5	Energy Intensity	78
EN 6	Reduction Of Energy Consumption	78
EN 7	Reductions In Energy Requirements Of Products And Services	81
EN 8	Total Water Withdrawal By Source	82
EN 9	Water Sources Significantly Affected By Withdrawal Of Water	82
EN 10	Percentage And Total Volume Of Water Recycled And Reused	82
EN 11	Operational Sites Owned, Leased, Managed In, Or Adjacent To, Protected Areas And Areas Of High Biodiversity Value Outside Protected Areas	85
EN 12	Description Of Significant Impacts Of Activities, Products, And Services On Biodiversity In Protected Areas And Areas Of High Biodiversity Value Outside Protected Areas	86
EN 13	Habitats Protected Or Restored	86
EN 15	Total Number Of Iucn Red List Species And National Conservation List Species With Habitats In Areas Affected By Operations, By Level Of Extinction Risk	90
EN 14	Direct Greenhouse Gas (Ghg) Emissions (Scope 1)	87
EN 20	Emissions Of Ozone-Depleting Substances (Ods)	The Company does not perform production, import or export of ozone-depleting substances
EN 21	No _x , So _x , And Other Significant Air Emissions	88

Indicator	Name of indicator	Page number
EN 22	Total Water Discharge By Quality And Destination	82
EN 23	Total Weight Of Waste By Type And Disposal Method	91
EN 24	Total Number And Volume Of Significant Spills	84
EN 25	Weight Of Transported, Imported, Exported, Or Treated Waste Deemed Hazardous Under The Terms Of The Basel Convention ² Annex I, li, lii, And Viii, And Percentage Of Transported Waste Shipped Internationally	In 2016 there was no transported, imported and exported waste that was deemed hazardous according to the Annex to the Basel Convention I, II, III and VIII
EN 26	Identity, Size, Protected Status, And Biodiversity Value Of Water Bodies And Related Habitats Significantly Affected By The Organization'S Discharges Of Water And Runoff	87
EN 27	Extent Of Impact Mitigation Of Environmental Impacts Of Products And Services	90
EN 28	Percentage Of Products Sold And Their Packaging Materials That Are Reclaimed By Category	92
EN 29	Monetary Value Of Significant Fines And Total Number Of Non-Monetary Sanctions For Non-Compliance With Environmental Laws And Regulations	In 2016, two cases of economic offence were recorded in relation to which a fine in the amount of RSD 1,800,000 was paid on
EN 30	Significant Environmental Impacts Of Transporting Products And Other Goods And Materials For The Organization'S Operations, And Transporting Members Of The Workforce	35
EN 31	Total Environmental Protection Expenditures And Investments By Type	75
LA 1	Total Number And Rates Of New Employee Hires And Employee Turnover By Age Group, Gender And Region	40
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LA 3	Return To Work And Retention Rates After Parental Leave, By Gender	48
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LA 9	Average Hours Of Training Per Year Per Employee By Gender, And By Employee Category	51
LA 10	Programs For Skills Management And Lifelong Learning That Support The Continued Employability Of Employees And Assist Them In Managing Career Endings	49
LA 11	Percentage Of Employees Receiving Regular Performance And Career Development Reviews, By Gender And By Employee Category	54

Indicator	Name of indicator	Page number
LA 12	Composition Of Governance Bodies And Breakdown Of Employees Per Employee Category According To Gender, Age Group, Minority Group Membership, And Other Indicators Of Diversity	In 2016, the Board of Directors consisted of 10 male members and 1 female member, 5 of which are in the age group 30-50, whereas 6 members are over 50 years of age, and none of the members is a minority group member
LA 13	Ratio Of Basic Salary And Remuneration Of Women To Men By Employee Category, By Significant Locations Of Operation	54
HR 3	Total Number Of Incidents Of Discrimination And Corrective Actions Taken	In 2016, no cases of discrimination were identified in the Company
HR 4	Operations And Suppliers Identified In Which The Right To Exercise Freedom Of Association And Collective Bargaining May Be Violated Or At Significant Risk, And Measures Taken To Support These Rights	49
HR 5	Operations And Suppliers Identified As Having Significant Risk For Incidents Of Child Labor, And Measures Taken To Contribute To The Effective Abolition Of Child Labor	40
HR 6	Operations And Suppliers Identified As Having Significant Risk For Incidents Of Forced Or Compulsory Labor, And Measures To Contribute To The Elimination Of All Forms Of Forced Or Compulsory Labor	40
HR 12	Number Of Grievances About Human Rights Impacts Filed, Addressed, And Resolved Through Formal Grievance Mechanisms	In 2016, in the Company was initiated 1 new dispute related to mobbing and 25 procedures from the previous period were determined to exist Out of the total disputes in 2016, 6 from the previous period were completed (all 6 at the expense of the Company) Total value of disputes completed at the expense of the Company amounted to RSD 1,084,000
SO 3	Total Number And Percentage Of Operations Assessed For Risks Related To Corruption And The Significant Risks Identified	28
SO 4	Communication And Training On Anti-Corruption Policies And Procedures	28
SO 5	Confirmed Incidents Of Corruption And Actions Taken	28
SO 6	Total Value Of Political Contributions By Country And Recipient/Beneficiary	According to adopted document "Foreign policy", the official attitude of the Company is not to fund work of political parties
SO 7	Total Number Of Legal Actions For Anti-Competitive Behavior, Anti-Trust, And Monopoly Practices And Their Outcomes	In 2016, there are no cases of initiated proceedings and no disputes were conducted against the Company due to anti-competitive ad monopolistic behaviour

Indicator	Name of indicator	Page number
SO 8	Monetary Value Of Significant Fines And Total Number Of Non-Monetary Sanctions For Non-Compliance With Laws And Regulations	In 2016, no significant fines or monetary sanctions were imposed on the Company due to non-compliance with laws and regulations
SO 9	Percentage Of New Suppliers That Were Screened Using Criteria For Impacts On Society	28
SO 10	Significant Actual And Potential Negative Impacts On Society In The Supply Chain And Actions Taken	28
SO 11	Number Of Grievances About Impacts On Society Filed, Addressed, And Resolved Through Formal Grievance Mechanisms	30
PR 1	Percentage Of Significant Product And Service Categories For Which Health And Safety Impacts Are Assessed For Improvement	25
PR 2	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning The Health And Safety Impacts Of Products And Services During Their Life Cycle, By Type Of Outcomes	In 2016, no sanctions were imposed on the Company due to non-compliance with regulations and voluntary codes concerning impact of products and services on consumers health and safety during the entire life cycle of products and services
PR 3	Type Of Product And Service Information Required By The Organization'S Procedures For Product And Service Information And Labeling, And Percentage Of Significant Product And Service Categories Subject To Such Information Requirements	34
PR 4	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning Product And Service Information And Labeling, By Type Of Outcomes	In 2016, no sanctions were imposed on the Company due to non-compliance with regulations and voluntary codes concerning labelling of products and services
PR 5	Results Of Surveys Measuring Customer Satisfaction	33
PR 6	Sale Of Banned Or Disputed Products	No sales of products that are banned or are the subject of a public debate on certain markets were conducted in the Company in 2016
PR 7	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning Marketing Communications, Including Advertising, Promotion, And Sponsorship, By Type Of Outcomes	In 2016, no sanctions were imposed on the Company due to non-compliance with regulations and voluntary codes concerning marketing communication, advertising, sponsorship and promotions
PR 8	Total Number Of Substantiated Complaints Regarding Breaches Of Customer Privacy And Losses Of Customer Data	In 2016, there were no procedures initiated due to the violation of customer data privacy

Indicator	Name of indicator	Page number
PR 9	Monetary Value Of Significant Fines For Non-Compliance With Laws And Regulations Concerning The Provision And Use Of Products And Services	In 2016, there were no fines imposed for non-compliance with laws and regulations concerning provision of services and use of Company products
OG 1	Volume And Type Of Estimated Proved Reserves And Production	In accordance with the laws of the Republic of Serbia, the Company is not in a position to report on the estimated quantity and value of oil and gas reserves
OG 3	Total Amount Of Renewable Energy Generated By Source	76
OG 5	Volume And Disposal Of Formation Or Produced Water	83
OG 6	Volume Of Flared And Vented Hydrocarbon	89
OG 7	Amount Of Drilling Waste (Drill Mud And Cuttings) And Strategies For Treatment And Disposal	92
OG 8	Benzene, Lead And Sulfur Content In Fuels	Fuels in the Company are produced in accordance with the prescribed quality according to the requirements of the national regulation
OG 10	Number And Description Of Significant Disputes With Local Communities And Indigenous Peoples	In 2016, there were 14 new disputes initiated in the Company due to compensation for damage for unused land or due to re-cultivation and 9 disputes were determined to exist from the previous period. Of the total number of disputes in 2016, one was finalised with the withdrawal of the appeal
OG 12	Operations Where Involuntary Resettlement Took Place, The Number Of Households Resettled In Each And How Their Livelihoods Were Affected In The Process	In 2016, there were no cases of initiated disputes and no disputes were conducted against the Company due to the displacement of population and impact on their life during that process
OG 13	Number Of Process Safety Events, By Business Activity	57
OG 14	Volume Of Biofuels Produced And Purchased Meeting Sustainability Criteria	93

Topic	Indicator	Description	Page number
Economic indicators	EC 1	Direct Economic Value Generated And Distributed	24
	EC 2	Financial Implications And Other Risks And Opportunities For The Organization'S Activities Due To Climate Change	74
	EC 3	Coverage Of The Organization'S Defined Benefit Plan Obligations	The Company calculates obligations related to severance and pension payments to the employees and for jubilee awards
	EC 4	Financial Assistance Received From Government	In 2016, the Company was not a beneficiary of financial assistance received from the Government
	EN 31	Total Environmental Protection Expenditures And Investments By Type	75
Occupational health and safety	LA 5	Percentage Of Total Workforce Represented In Formal Joint Management-Worker Health And Safety Committees That Help Monitor And Advise On Occupational Health And Safety Programs	59
	LA 6	Type Of Injury And Rates Of Injury, Occupational Diseases, Lost Days, And Absenteeism, And Total Number Of Work-Related Fatalities, By Region And By Gender	58
	LA 7	Workers With High Incidence Or High Risk Of Diseases Related To Their Occupation	57
	LA 8	Health And Safety Topics Covered In Formal Agreements With Trade Unions	59
	OG 13	Number Of Process Safety Events, By Business Activity	57
Product Quality	EN 27	Extent Of Impact Mitigation Of Environmental Impacts Of Products And Services	90
	PR 1	Percentage Of Significant Product And Service Categories For Which Health And Safety Impacts Are Assessed For Improvement	25
	PR 3	Type Of Product And Service Information Required By The Organization'S Procedures For Product And Service Information And Labeling, And Percentage Of Significant Product And Service Categories Subject To Such Information Requirements	34
	PR 4	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning Product And Service Information And Labeling, By Type Of Outcomes	In 2016, no sanctions were imposed on the Company due to non-compliance with regulations and voluntary codes concerning labelling of products and services
	PR 6	Sale Of Banned Or Disputed Products	No sales of products that are banned or are the subject of a public debate on certain markets were conducted in the Company in 2016
	OG 8	Benzene, Lead And Sulfur Content In Fuels	Fuels in the Company are produced in accordance with the prescribed quality according to the requirements of the national regulation

Topic	Indicator	Description	Page number
Corporate governance		Is not related to any specific indicator	16
Corruption	SO 3	Total Number And Percentage Of Operations Assessed For Risks Related To Corruption And The Significant Risks Identified	28
	SO 4	Communication And Training On Anti-Corruption Policies And Procedures	28
	SO 5	Confirmed Incidents Of Corruption And Actions Taken	28
Lobbying	SO 6	Total Value Of Political Contributions By Country And Recipient/Beneficiary	According to adopted document "Foreign policy", the official attitude of the Company is not to fund work of political parties
Environmental impact	EN 1	Materials Used By Weight Or Volume	76
	EN 2	Percentage Of Materials Used That Are Recycled Input Materials	92
	EN 8	Total Water Withdrawal By Source	82
	EN 9	Water Sources Significantly Affected By Withdrawal Of Water	82
	EN 10	Percentage And Total Volume Of Water Recycled And Reused	82
	EN 11	Operational Sites Owned, Leased, Managed In, Or Adjacent To, Protected Areas And Areas Of High Biodiversity Value Outside Protected Areas	85
	EN 12	Description Of Significant Impacts Of Activities, Products, And Services On Biodiversity In Protected Areas And Areas Of High Biodiversity Value Outside Protected Areas	86
	EN 13	Habitats Protected Or Restored	86
	EN 14	Total Number Of Iucn Red List Species And National Conservation List Species With Habitats In Areas Affected By Operations, By Level Of Extinction Risk	87
	EN 15	Direct Greenhouse Gas (Ghg) Emissions (Scope 1)	90
	EN 20	Emissions Of Ozone-Depleting Substances (Ods)	The Company does not perform production, import or export of ozone-depleting substances
	EN 21	No _x , So _x , And Other Significant Air Emissions	88
	EN 22	Total Water Discharge By Quality And Destination	82

Topic	Indicator	Description	Page number
Environmental impact	EN 23	Total Weight Of Waste By Type And Disposal Method	91
	EN 24	Total Number And Volume Of Significant Spills	84
	EN 25	Weight Of Transported, Imported, Exported, Or Treated Waste Deemed Hazardous Under The Terms Of The Basel Convention ² Annex I, II, III, And VIII, And Percentage Of Transported Waste Shipped Internationally	In 2016 there was no transported, imported and exported waste that was deemed hazardous according to the Annex to the Basel Convention I, II, III and VIII
	EN 26	Identity, Size, Protected Status, And Biodiversity Value Of Water Bodies And Related Habitats Significantly Affected By The Organization'S Discharges Of Water And Runoff	87
	EN 28	Percentage Of Products Sold And Their Packaging Materials That Are Reclaimed By Category	92
	OG 5	Volume And Disposal Of Formation Or Produced Water	83
	OG 6	Volume Of Flared And Vented Hydrocarbon	89
	OG 7	Amount Of Drilling Waste (Drill Mud And Cuttings) And Strategies For Treatment And Disposal	92
Relations with employees	EC 5	Ratios Of Standard Entry Level Wage By Gender Compared To Local Minimum Wage At Significant Locations Of Operation	54
	EC 6	Proportion Of Senior Management Hired From The Local Community At Significant Locations Of Operation	44
	LA 1	Total Number And Rates Of New Employee Hires And Employee Turnover By Age Group, Gender And Region	40
	LA 2	Benefits Provided To Full-Time Employees That Are Not Provided To Temporary Or Parttime Employees, By Significant Locations Of Operation	50
	LA 3	Return To Work And Retention Rates After Parental Leave, By Gender	48
	LA 4	Minimum Notice Periods Regarding Operational Changes, Including Whether These Are Specified In Collective Agreements	49
	LA 9	Average Hours Of Training Per Year Per Employee By Gender, And By Employee Category	51
	LA 10	Programs For Skills Management And Lifelong Learning That Support The Continued Employability Of Employees And Assist Them In Managing Career Endings	49
	LA 11	Percentage Of Employees Receiving Regular Performance And Career Development Reviews, By Gender And By Employee Category	54

Topic	Indicator	Description	Page number
Relations with employees	LA 12	Composition Of Governance Bodies And Breakdown Of Employees Per Employee Category According To Gender, Age Group, Minority Group Membership, And Other Indicators Of Diversity	In 2016, the Board of Directors consisted of 10 male members and 1 female member, 5 of which are in the age group 30-50, whereas 6 members are over 50 years of age, and none of the members is a minority group member
	LA 13	Ratio Of Basic Salary And Remuneration Of Women To Men By Employee Category, By Significant Locations Of Operation	54
	HR 3	Total Number Of Incidents Of Discrimination And Corrective Actions Taken	In 2016, no cases of discrimination were identified in the Company
	HR 4	Operations And Suppliers Identified In Which The Right To Exercise Freedom Of Association And Collective Bargaining May Be Violated Or At Significant Risk, And Measures Taken To Support These Rights	49
	HR 5	Operations And Suppliers Identified As Having Significant Risk For Incidents Of Child Labor, And Measures Taken To Contribute To The Effective Abolition Of Child Labor	40
	HR 6	Operations And Suppliers Identified As Having Significant Risk For Incidents Of Forced Or Compulsory Labor, And Measures Taken To Contribute To The Elimination Of All Forms Of Forced Or Compulsory Labor	40
Supplier relation management	EC 9	Proportion Of Spending On Local Suppliers At Significant Locations Of Operation	32
	SO 9	Percentage Of New Suppliers That Were Screened Using Criteria For Impacts On Society	28
	SO 10	Significant Actual And Potential Negative Impacts On Society In The Supply Chain And Actions Taken	28
Customer relation management	PR 5	Results Of Surveys Measuring Customer Satisfaction	33
	PR 8	Total Number Of Substantiated Complaints Regarding Breaches Of Customer Privacy And Losses Of Customer Data	In 2016, there were no procedures initiated due to the violation of customer data privacy
Legal issues	PR 9	Monetary Value Of Significant Fines For Non-Compliance With Laws And Regulations Concerning The Provision And Use Of Products And Services	In 2016, there were no fines imposed for non-compliance with laws and regulations concerning provision of services and use of Company products
	EN 29	Monetary Value Of Significant Fines And Total Number Of Non-Monetary Sanctions For Non-Compliance With Environmental Laws And Regulations	In 2016, two cases of economic offence were recorded in relation to which a fine in the amount of RSD 1,800,000 was paid on
	HR 12	Number Of Grievances About Human Rights Impacts Filed, Addressed, And Resolved Through Formal Grievance Mechanisms	In 2016, in the Company was initiated 1 new dispute related to mobbing and 25 procedures from the previous period were determined to exist. Out of the total disputes in 2016, 6 from the previous period were completed (all 6 at the expense of the Company) Total value of disputes completed at the expense of the Company amounted to RSD 1,084,000

Topic	Indicator	Description	Page number
Legal issues	SO 7	Total Number Of Legal Actions For Anti-Competitive Behavior, Anti-Trust, And Monopoly Practices And Their Outcomes	In 2016, there are no cases of initiated proceedings and no disputes were conducted against the Company due to anti-competitive and monopolistic behaviour
	SO 8	Monetary Value Of Significant Fines And Total Number Of Non-Monetary Sanctions For Non-Compliance With Laws And Regulations	In 2016, no significant fines or monetary sanctions were imposed on the Company due to non-compliance with laws and regulations
	SO 11	Number Of Grievances About Impacts On Society Filed, Addressed, And Resolved Through Formal Grievance Mechanisms	30
	PR 2	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning The Health And Safety Impacts Of Products And Services During Their Life Cycle, By Type Of Outcomes	In 2016, no sanctions were imposed on the Company due to non-compliance with regulations and voluntary codes concerning impact of products and services on consumers health and safety during the entire life cycle of products and services
	PR 7	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning Marketing Communications, Including Advertising, Promotion, And Sponsorship, By Type Of Outcomes	In 2016, no sanctions were imposed on the Company due to non-compliance with regulations and voluntary codes concerning marketing communication, advertising, sponsorship and promotions
Oil and gas reserves	OG 1	Volume And Type Of Estimated Proved Reserves And Production	In accordance with the laws of the Republic of Serbia, the Company is not in a position to report on the estimated quantity and value of oil and gas reserves
Investment into the local community	EC 7	Development And Impact Of Infrastructure Investments And Services Supported	64
	EC 8	Significant Indirect Economic Impacts, Including The Extent Of Impacts	64
	OG 10	Number And Description Of Significant Disputes With Local Communities And Indigenous Peoples	In 2016, there were 14 new disputes initiated in the Company due to compensation for damage for unused land or due to re-cultivation and 9 disputes were determined to exist from the previous period. Of the total number of disputes in 2016, one was finalised with the withdrawal of the appeal
	OG 12	Operations Where Involuntary Resettlement Took Place, The Number Of Households Resettled In Each And How Their Livelihoods Were Affected In The Process	In 2016, there were no cases of initiated disputes and no disputes were conducted against the Company due to the displacement of population and impact on their life during that process
Energy consumption management	EN 3	Energy Consumption Within The Organization	80
	EN 5	Energy Intensity	78
	EN 6	Reduction Of Energy Consumption	78
	EN 7	Reductions In Energy Requirements Of Products And Services	81
	OG 3	Total Amount Of Renewable Energy Generated By Source	76
	OG 14	Volume Of Biofuels Produced And Purchased Meeting Sustainability Criteria	93
Transportation management	EN 30	Significant Environmental Impacts Of Transporting Products And Other Goods And Materials For The Organization'S Operations, And Transporting Members Of The Workforce	35

GLOSSARY

Meaning of	abbreviations
REACH	Regulation on registration, evaluation, authorisation and restriction of chemicals
Grade	Level defined for certain tasks as a result of task assessment. Tasks allotted the same grade have approximately the same relative value in the Company, regardless of the function or organisational part they belong to
MAC	Maximum Allowed Concentration
ELV	Emission Limit Value
PCB	Polychlorinated biphenyls
GDP	Gross Domestic Product
GRI	(Global Reporting Initiative) - GRI is an international non-profit organisation founded in 1997 with an aim of achieving the highest quality of corporate reporting on sustainable development.
Stakeholders	All private individuals and legal entities interested in the business activities of the Company that have influence on Company's business results or are under its influence
Directly Generated Value	Income from sale + financial revenue + lease revenue + interest revenue + net result on the basis of the sale of capital assets
Operating costs	Procurement cost of the sold goods + cost of material + other business expenses - various kinds of taxes
Remediation	A term generally used for cleaning and renewal-restoration (re-cultivation, revitalisation, regeneration) of a polluted spot, area or otherwise damaged environment as a result of human activity
EBITDA	Earnings before calculated interests, income taxes, depreciation and amortisation
MHC/DHT	Mild hydrocracking/hydro treating unit
NO ₂	Nitric oxide
SO ₂	Sulphur (IV) oxide
H ₂ S	Hydrogen sulphide
CO ₂	Carbon dioxide
Drilling mud	Drilling fluid with multiple purposes in the wellbore during the drilling of oil wells (bringing the drilled material to the surface, control of the layer pressure, prevention of inflow of layer fluids into the wellbore, prevention of the fall of the bore wall).
Drilling cutting	Particles of drilled rocks carried out by drilling mud from the bottom of the well to the surface.
Waste drilling mud	Spent drilling mud during the well drilling process which is disposed in the primary mud pits near the well.
FCC	Fluid catalytic cracker.
Injuries Rate	(IR) Total of injuries/total of work hours*1000000
Lost days Rate	(ODR) Number of lost days/ number of work hours*1000
Absence rate	(LDR) Sick leave due to work-related injuries/total work hours*1000
Association	Voluntary and NG organisation based on freedom of association of several private individuals or legal entities, founded with a view to achieving or improving certain mutual or common goals and interests, which is not prohibited under the Constitution or any law

Meaning of	abbreviations
CCS	Carbon capture and storage is the process of injecting carbon dioxide and deposit gas for the purpose of increasing use of a deposit and so that carbon dioxide is not emitted in the air
ECHA	European Chemicals Agency
FSS	Fuel supply station
HTS	Hydrothermal system
GGs	Gas gathering station
GMS	Gathering and metering station
FSS	Fuel supply station (petrol station)

INDEPENDENT ASSURANCE STATEMENT

TO THE MANAGEMENT OF NAFTNA INDUSTRIJA SRBIJE A.D. NOVI SAD

The 2016 Corporate Responsibility Report ("the Report") of Naftna Industrija Srbije d.o.o. Novi Sad ("the Company") has been prepared by the Company's management which is responsible for the collection and presentation of the information contained therein. Our responsibility is limited in carrying out a limited assurance engagement on specific scope on the Report, which is prepared in accordance with the "In accordance - Core" option level of the GRI G4 Sustainability Reporting Guidelines ("GRI G4"). Our responsibility in performing our assurance engagement is solely to the management of the Company and in accordance with the terms of reference agreed between us. We neither accept nor we assume any responsibility and for any other purpose to any other person or organization. Any reliance any third party may place on the Report is entirely at its own risk and responsibility.

The Company's management is responsible for the preparation of the Report in accordance with the GRI G4. In particular, the Company's management is responsible for internal controls being designed and implemented to prevent the Report from being materially misstated. In addition, the Company's management is responsible for ensuring that the documentation provided to us is complete and accurate. The Company's management is also responsible for maintaining the internal control system that reasonably ensures that the documentation described above is free from material misstatements, whether due to fraud or error.

WORK SCOPE AND CRITERIA

The assurance engagement has been planned and performed in accordance with the International Standard on Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ("ISAE3000" revised), in order to provide a limited level assurance opinion on:

1. The accuracy and completeness of quantitative data and the plausibility of qualitative information related to the GRI G4 General Standard Disclosures, required for the "In accordance - Core" option.
2. The accuracy and completeness of quantitative data (performance indicators) and plausibility of statements (GRI G4 Disclosures on Management Approach) related to the GRI G4 Specific Standard Disclosures, which correspond to the most material issues, as presented in the Company's materiality analysis.
3. The Report's "In accordance - Core" adherence against the related GRI G4 requirements.

WHAT WE DID TO FORM OUR CONCLUSIONS

In order to form our conclusions we performed (but were not limited to) the steps outlined below:

- Performed interviews with Management executives in order to understand the Company's corporate responsibility processes, policies and activities during the reporting period.
- Reviewed information in order to substantiate data and statements regarding the Company's sustainability performance in 2016, as these are presented in the Report.
- Reviewed the Company's processes for determining material issues to be included in the Report, as well as the coverage of these material issues within the Report, material issues covered by media, and sustainability reports of selected peers.
- Interviewed specialists responsible for managing, collating and reviewing data related to the GRI G4 General and Specific Disclosures under the scope of our engagement, for internal and public reporting purposes.
- Reviewed relevant documentation and reporting systems, including collation tools, templates used, and guidance documents.
- Reviewed the Report for the appropriate presentation of the GRI G4 General and Specific Standard Disclosures under the scope of our engagement, which included discussions of limitations and assumptions relating to the way data are presented.
- Reviewed the GRI G4 Content Index and the references included therein, against the GRI G4 requirements for the "In accordance - Core" option.

LEVEL OF ASSURANCE

Our procedures were designed in order to obtain a limited level of assurance (as set out in ISAE 3000-revised) on which we formed our conclusions. The extent of these procedures is less than those designed to obtain a reasonable level of assurance and therefore a lower level of assurance is obtained.

LIMITATIONS OF OUR REVIEW

- ▶ Our review was limited to the Serbian version of the Report. In the event of any inconsistency in translation between the English, Russian and Serbian versions, as far as our conclusions are concerned, the Serbian version of the Report prevails.
- ▶ We do not provide any assurance relating to future information such as estimates, expectations or targets, or their achievability.
- ▶ The scope of our work did not include any review of third party activities or performance, nor attending any stakeholder engagement activities.
- ▶ Our review did not include testing of the Information Technology systems used or upon which the collection and aggregation of data was based by the Company.

CONCLUSIONS

Based on our review and according to the terms of reference and the limitations of our work, we report the following conclusions. Our conclusions are based on the appropriate application of the selected criteria and should be read in conjunction with the "What we did to form our conclusions" section above.

1. How complete and accurate are the quantitative data and how plausible is the qualitative information related to the GRI G4 General Standard Disclosures under the scope of our engagement?
 - Nothing has come to our attention that causes us to believe that any reporting unit, according to the set boundary and time period stated in the Report, is not included in the quantitative data of the Report related to the GRI G4 General Standard Disclosures under the scope of our engagement.
 - Nothing has come to our attention that causes us to believe that errors or inaccuracies exist in the collation of the qualitative data related to the GRI G4 General Standard Disclosures under the scope of our engagement, or in the transposition of these data to the Report, that would materially affect the way they are presented.
 - We have reviewed information and explanations on selected Management statements (qualitative information) related to the GRI G4 General Standard Disclosures, as these are presented in the Report and no material misstatements came to our attention.
 - Nothing has come to our attention that causes us to believe that materiality analysis is inaccurately presented based on the procedures followed by the Company.
2. How complete and accurate are the quantitative data (performance indicators) and how plausible are the statements (GRI G4 Disclosures on Management Approach) related to the GRI G4 Specific Standard Disclosures under the scope of our engagement?
 - Nothing has come to our attention that causes us to believe that any reporting, according to the set boundary per material issue and the time period stated in the Report, is not included into the quantitative data (performance indicators) of the Report related to the GRI G4 Specific Standard Disclosures under the scope of our engagement.
 - Nothing has come to our attention that causes us to believe that errors or inaccuracies exist in the collation of the data related to the GRI G4 Specific Standard Disclosures under the scope of our engagement, or in the transposition of these data to the Report that would materially affect the way they are presented.
 - We have reviewed information and explanations on selected Management statements (GRI G4 Disclosures on Management Approach) related to the GRI G4 Specific Standard Disclosures, as presented in the Report and no material misstatements came to our attention.
3. Does the Report meet the GRI G4 requirements of the "In accordance - Core" option?
 - Based on our review, nothing has come to our attention that causes us to believe that the Report does not meet the requirements of the "In accordance - Core" option, as presented in the GRI G4 Content Index.

INDEPENDENCE

We conducted our assurance engagement in accordance with International Assurance Standards, particularly ISAE 3000 (revised). These regulations require that we comply with ethical standards and plan and perform our assurance engagement to obtain limited assurance about the specific scope explained above.

We apply International Standard on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements in law or regulation.

We comply with the independence and other ethical requirements of the IESBA Code of Ethics for Professional Accountants, which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Belgrade, 30 June 2017



Olivera Andrijašević
Authorized Auditor
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