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.
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.

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

* 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.
EBITDA *RSD 39.8 billion

Volume of refining, tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic crude</th>
<th>Imported crude</th>
<th>Semi-finished products</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>925</td>
<td>2,180</td>
<td>207</td>
</tr>
<tr>
<td>2015</td>
<td>1,034</td>
<td>1,902</td>
<td>346</td>
</tr>
<tr>
<td>2014</td>
<td>1,114</td>
<td>1,500</td>
<td>490</td>
</tr>
<tr>
<td>2013</td>
<td>1,180</td>
<td>1,568</td>
<td>319</td>
</tr>
<tr>
<td>2012</td>
<td>1,114</td>
<td>1,028</td>
<td>111</td>
</tr>
</tbody>
</table>

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

Volume of sales, tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail Serbia</th>
<th>Foreign assets</th>
<th>Wholesale Serbia</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>712</td>
<td>254</td>
<td>1,900</td>
<td>472</td>
</tr>
<tr>
<td>2015</td>
<td>681</td>
<td>194</td>
<td>1,903</td>
<td>475</td>
</tr>
<tr>
<td>2014</td>
<td>643</td>
<td>157</td>
<td>1,781</td>
<td>509</td>
</tr>
<tr>
<td>2013</td>
<td>674</td>
<td>84</td>
<td>1,822</td>
<td>497</td>
</tr>
<tr>
<td>2012</td>
<td>597</td>
<td>4</td>
<td>1,525</td>
<td>270</td>
</tr>
</tbody>
</table>

Drilling Department completed 42 wells, instead of 31 planned

Electricity output, MWh

<table>
<thead>
<tr>
<th>Year</th>
<th>MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>147,505</td>
</tr>
<tr>
<td>2015</td>
<td>123,455</td>
</tr>
<tr>
<td>2014</td>
<td>73,058</td>
</tr>
<tr>
<td>2013</td>
<td>36,239</td>
</tr>
<tr>
<td>2012</td>
<td>35,378</td>
</tr>
</tbody>
</table>

Volume of electricity trade exceeded 2TMWh

Estimated increase of hydrocarbon reserves reached 3.4 percent in 2016.

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

*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.

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**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 government 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 outline 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.

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* 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.
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.
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.

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.
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

Procurement structure excluding Gazprom Neft

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

Procurement structure including Gazprom Neft

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

Future Objectives

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.

• 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