NIS A.D. – Naftna industrija Srbije
Novi Sad

Consolidated financial statements

31 December 2014

Novi Sad, 4 March 2015

KPMG d.o.o. Beograd
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TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS

NIS A.D. NOVI SAD

We have audited the accompanying consolidated financial statements of NIS a.d. Novi Sad ("the Company"), which comprise the consolidated balance sheet as at 31 December 2014, the consolidated income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and true and fair view of these consolidated financial statements in accordance with accounting regulations effective in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing of the Republic of Serbia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and true and fair view of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Matični broj:17148656
PIB: 100058593
Račun: 265-1100310000190-61
KPMG d.o.o. Beograd je jednočlano društvo.

TRANSLATION

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting regulations effective in the Republic of Serbia.

Other Matter

The consolidated financial statements of the Company as at and for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 18 February 2014.

Belgrade, 4 March 2015

KPMG d.o.o. Beograd

(L.S.)

James Thornley
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Belgrade, 4 March 2015

DRUŠTVO ZA KONSALTING I REVIZIJU D.O.O. KPMG 1 BEOGRAD

(L.S.)

KPMG d.o.o. Beograd

James Thornley
Certified Auditor

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CONSOLIDATED BALANCE SHEET

ASSETS	Note	31 December 2014	31 December 2013
NON-CURRENT ASSETS			
INTANGIBLE ASSETS			
Development investments		3,833,142	-
Concessions, licenses, software and other rights		3,450,505	3,783,900
Goodwill		1,957,895	1,962,138
Other intangible assets		1,316,121	590,496
Intangible assets under development		11,129,968	9,721,366
Total intangible assets	6	**21,687,631**	**16,057,900**
PROPERTY, PLANT AND EQUIPMENT			
Land		17,580,286	17,034,488
Buildings		100,525,669	85,383,690
Machinery and equipment		66,499,520	61,126,150
Investment property		1,381,832	1,414,364
Other Property, Plant and Equipment		89,380	90,179
Construction in progress		33,128,517	31,878,734
Investments in leased PP&E		373,188	40,027
Advances for PP&E		2,439,523	6,451,163
Total property, plant and equipment	7	**222,017,915**	**203,418,795**
LONG-TERM FINANCIAL INVESTMENTS			
Investments in joint ventures	8	1,008,221	1,008,221
Investments in other legal entities and other available for sales financial assets		222,686	200,660
Other long-term financial investments	9	1,234,591	1,164,299
Total long-term investments		**2,465,498**	**2,373,180**
LONG-TERM RECEIVABLES			
Receivables arising out of finance lease contracts		12,044	11,433
Total long-term receivables		**12,044**	**11,433**
Total non-current assets		**246,183,088**	**221,861,308**
DEFFERED TAX ASSETS	10	**7,834,203**	**9,776,757**

(continued)

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CONSOLIDATED BALANCE SHEET (continued)

ASSETS (continued)	Note	31 December 2014	31 December 2013
CURRENT ASSETS			
INVENTORY			
Materials, spare parts and tools		22,414,418	25,264,845
Work in progress		5,755,021	4,787,759
Finished goods		7,477,570	8,131,485
Goods for sale		3,483,957	2,475,891
Advances for inventory and services		423,383	546,479
Total inventories	11	**39,554,349**	**41,206,459**
TRADE RECEIVABLES			
Domestic trade receivables – other related parties		13,004,338	12,284,032
Foreign trade receivables – other related parties		36,398	3,537
Trade receivables - domestic		34,970,060	39,224,346
Trade receivables - foreign		1,234,075	1,063,170
Total trade receivables	12	**49,244,871**	**52,575,085**
RECEIVABLES FROM SPECIFIC OPERATIONS		**323,954**	**163,502**
OTHER RECEIVABLES	13	**3,046,977**	**335,488**
SHORT TERM FINANCIAL INVESTMENTS			
Short term loans - domestic		2,021	1,928
Other short-term investments		2,205,616	2,152,810
Total short-term financial investments	14	**2,207,637**	**2,154,738**
CASH AND CASH EQUIVALENTS	15	**8,326,704**	**8,707,774**
VALUE ADDED TAX		**163,230**	**1,939,549**
PREPAYMENTS AND ACCRUED INCOME	16	**7,778,221**	**6,907,729**
Total current assets		**110,645,943**	**113,990,324**
TOTAL ASSETS		**364,663,234**	**345,628,389**
OFF-BALANCE SHEET ASSETS	17	**120,440,876**	**94,164,460**
EQUITY AND LIABILITIES			
EQUITY			
SHARE CAPITAL	18.1	**81,550,674**	**81,550,757**
UNREALIZED PROFIT FROM SECURITIES AND OTHER COMPREHENSIVE INCOME ITEMS		**312,137**	**18,144**
UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPREHENSIVE INCOME ITEMS		**(616,921)**	**(232,531)**
RETAINED EARNINGS			
Retained earnings from previous years		74,536,170	39,269,033
Retained earnings from current year		27,838,444	48,347,696
Total retained earnings		**102,374,614**	**87,616,729**
Total equity	18	**183,620,504**	**168,953,099**

(continued)

CONSOLIDATED BALANCE SHEET (continued)

EQUITY AND LIABILITIES (continued)	Note	31 December 2014	31 December 2013
LONG-TERM PROVISIONS AND LIABILITIES			
LONG-TERM PROVISIONS			
Provision for environmental rehabilitation		7,454,505	7,474,615
Provisions for employee benefits		892,488	3,928,160
Provisions for litigations		665,591	791,468
Total long-term provisions	19	**9,012,584**	**12,194,243**
LONG-TERM LIABILITIES			
Liabilities to parent companies and subsidiaries		42,194,756	45,323,621
Long-term loans - domestic		6,761,523	6,571,376
Long-term loans - foreign		44,368,774	9,112,786
Financial lease liabilities		198,914	85,608
Other long-term liabilities		64,077	40,486
Total long-term liabilities	20	**93,588,044**	**61,133,877**
Total long-term provisions and liabilities		**102,600,628**	**73,328,120**
DEFFERED TAX LIABILITIES	10	**2,980,602**	**2,337,282**
SHORT-TERM FINANCE LIABILITIES			
Short-term loans - domestic		8,600,083	300,000
Short-term loans - foreign		29	29
Other short-term liabilities		6,101,326	27,618,412
Total short-term finance liabilities	21	**14,701,438**	**27,918,441**
ADVANCES RECEIVED		**1,589,530**	**892,243**
TRADE PAYABLES			
Trade payables – parent and subsidiaries - foreign		20,122,243	9,338,240
Trade payables – other related parties - domestic		830,355	1,534,730
Trade payables – other related parties - foreign		131,258	28,586,819
Trade payables - domestic		6,312,351	7,714,277
Trade payables - foreign		9,343,872	3,134,047
Other operating liabilities		75,660	70,757
Total trade payables	22	**36,815,739**	**50,378,870**
OTHER SHORT-TERM LIABILITIES	23	**9,137,662**	**8,055,634**
LIABILITIES FOR VAT		**187,050**	**61,393**
LIABILITIES FOR OTHER TAXES	24	**7,513,714**	**10,202,079**
ACCRUED EXPENSES	25	**5,516,367**	**3,501,228**
Total short-term liabilities		**75,461,500**	**101,009,888**
TOTAL EQUITY AND LIABILITIES		**364,663,234**	**345,628,389**
OFF-BALANCE SHEET LIABILITIES	17	**120,440,876**	**94,164,460**

The accompanying notes on pages 9 to 69 are an integral part of these consolidated financial statements.

Novi Sad, 4 March 2015

The person responsible for the preparation of consolidated financial statements	M.P.	Legal representative

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(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2014	2013
OPERATING REVENUE			
INCOME FROM SALES OF GOODS			
Income from sales of goods to other related parties on foreign market		66,250	-
Income from sales of goods on domestic market		7,550,326	9,299,590
Income from sales of goods on foreign market		19,269,688	12,551,558
Total income from sales of goods		**26,886,264**	**21,851,148**
INCOME FROM SALES OF PRODUCTS AND SERVICES			
Income from sales of products and services to other related parties on domestic market		23,382,492	35,132,534
Income from sales of products and services to other related parties on foreign market		2,142,288	92,553
Income from sales of products and services - domestic		171,807,782	169,330,715
Income from sales of products and services - foreign		34,099,897	33,014,847
Total income from sales of products and services		**231,432,459**	**237,570,649**
INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS		**7,646**	**806**
OTHER OPERATING INCOME		**231,160**	**133,650**
	5	**258,557,529**	**259,556,253**
OPERATING EXPENSES			
Cost of goods sold		(15,326,614)	(15,449,511)
Work performed by the entity and capitalized		10,498,510	7,981,686
Increase (decrease) in the value of finished goods and work in progress		313,347	(3,102,098)
Cost of material	26	(140,794,695)	(132,262,630)
Cost of fuel and energy		(4,052,031)	(3,296,360)
Employee benefits expense	27	(19,286,286)	(23,612,684)
Cost of production services	28	(14,506,200)	(10,495,572)
Depreciation, deplition and amortization		(12,757,430)	(10,871,986)
Long-term provision expense	29	(366,247)	(1,349,805)
Non-material expense	30	(14,196,337)	(12,527,462)
Total operating expenses		**(210,473,983)**	**(204,986,422)**
OPERATING PROFIT		**48,083,546**	**54,569,831**

(continued)

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED INCOME STATEMENT (continued)

	Note	Year ended 31 December 2014	2013
FINANCE INCOME			
FINANCE INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME			
Finance income - parent company and subsidiaries		2,076,979	454,309
Finance income - other related parties		123,357	1,651,018
Other financial income		18,259	12,416
		2,218,595	**2,117,743**
INTEREST INCOME (from third parties)		**4,238,258**	**5,539,711**
FOREIGN EXCHANGE GAINS (third parties)		**1,332,108**	**6,287,227**
Total finance income	31	**7,788,961**	**13,944,681**
FINANCE EXPENSE			
FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES			
Finance expense - parent company and subsidiaries		(4,557,810)	(1,780,739)
Finance expense - other related parties		(2,865,082)	(565,999)
Other financial expense		(347)	(46)
		(7,423,239)	**(2,346,784)**
INTEREST EXPENSE (from third parties)		**(2,497,209)**	**(2,517,777)**
FOREIGN EXCHANGE LOSS (third parties)		**(10,480,880)**	**(5,458,397)**
Total finance expense	32	**(20,401,328)**	**(10,322,958)**
PROFIT (LOSS) FROM FINANCING OPERATIONS		**(12,612,367)**	**3,621,723**
INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	33	**984,506**	**1,348,403**
LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	34	**(3,938,708)**	**(5,285,784)**
OTHER INCOME	35	**4,866,534**	**3,287,541**
OTHER EXPENSES	36	**(3,513,956)**	**(3,151,293)**
PROFIT BEFORE INCOME TAX		**33,869,555**	**54,390,421**
Current income tax	37	(3,497,767)	(6,195,055)
Deffered tax (expenses) income	37	(2,533,344)	152,330
PROFIT FOR THE YEAR		**27,838,444**	**48,347,696**
Profit for the year			
- attributable to shareholders		27,939,245	48,373,230
- attributable to non-controling interest		(100,801)	(25,534)
		27,838,444	**48,347,696**
Earnings per share			
- Basic	38	0.171	0.297

The accompanying notes on pages 9 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December 2014	2013
NET PROFIT		**27,838,444**	**48,347,696**
OTHER COMPREHENSIVE PROFIT OR LOSS*:*			
Items that will not be reclassified to profit or loss			
Actuarial gains (losses) of post employmet benefit obligations			
- gains		273,088	-
- losses		-	(114,418)
		273,088	**(114,418)**
Items that may be subsequently reclassified to profit or loss			
Gains (losses) from currency translation differences			
- losses		(380,965)	(18,526)
		(380,965)	**(18,526)**
Gains (losses) from change in value of available-for-sale financial assets			
- gains		20,904	14,643
- losses		(3,296)	-
		17,608	**14,643**
Other comprehensive profit or loss before tax		**(90,269)**	**(118,301)**
Other comprehensive profit or loss tax		-	-
Net other comprehensive profit or loss		**(90,269)**	**(118,301)**
TOTAL COMPREHENSIVE INCOME		**27,748,175**	**48,229,395**
- attributable to shareholders		27,748,175	48,229,395

The accompanying notes on pages 9 to 69 are an integral part of these consolidated financial statements.

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2014	2013
Cash flows from operating activities		
Sales and advances received	424,322,314	396,553,219
Interest from operating activities	1,000,254	950,931
Other inflow from operating activities	231,160	134,455
Cash inflow from operating activities	425,553,728	397,638,605
Payments and prepayments to suppliers	(196,926,049)	(152,436,633)
Salaries, benefits and other personal expenses	(18,194,798)	(25,262,051)
Interest paid	(3,089,785)	(2,947,527)
Income tax paid	(8,697,928)	(4,122,711)
Payments for other public revenues	(149,051,724)	(137,584,263)
Cash outflow from operating activities	(375,960,284)	(322,353,185)
Net cash from operating activities	**49,593,444**	**75,285,420**
Cash flows from investing activities		
Sale of shares	-	542,617
Proceeds from sale of property, plant and equipment	303,492	238,812
Other financial investments	-	32,000
Cash inflow from investing activities	303,492	813,429
Purchase of intangible assets, property, plant and equipment	(45,300,443)	(64,897,780)
Other financial investments (net outflow)	(5,653)	(1,060,118)
Cash outflow from investing activities	(45,306,096)	(65,957,898)
Net cash used in investing activities	**(45,002,604)**	**(65,144,469)**
Cash flows from financing activities		
Proceeds from long-term borrowings	24,121,300	12,756,382
Proceeds from short-term borrowings	15,810,196	9,240,000
Cash inflow from financing activities	**39,931,496**	**21,996,382**
Repayment of long-term borrowings (net outflow)	(24,397,660)	(10,784,309)
Repayment of short-term borrowings (net outflow)	(7,900,000)	(12,440,000)
Dividend paid	(13,080,705)	(12,364,129)
Cash outflow from financing activities	**(45,378,365)**	**(35,588,438)**
Net cash used in financing activities	**(5,446,869)**	**(13,592,056)**
Net cash outflow	(856,029)	(3,451,105)
Cash and cash equivalents at the beginning of the year	**8,707,774**	**12,069,897**
Currency translation gains on cash	806,734	803,737
Currency translation losses on cash	(331,775)	(714,755)
Cash and cash equivalents at the end of the year	**8,326,704**	**8,707,774**

The accompanying notes on pages 9 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity components				*Other comprehensive income components*			
	Share capital	**Reserves**	**Loss**	**Retained earnings**	**Actuarial gain (loss)**	**Translation reserves**	**Gains (losses) from change in value of available-for-sale financial assets**	**Total Equity**
Balance as at 1 January 2013								
a) debit	**-**	**-**	**398,016**	**-**	**-**	**21,558**	**74,528**	**-**
b) credit	**87,148,630**	**889,424**	**-**	**45,546,708**	**-**	**-**	**-**	**133,090,660**
Changes in period								
a) debit	5,597,873	889,424	-	12,764,972	114,418	18,526	-	-
b) credit	-	-	398,016	54,834,993	-	-	14,643	35,862,439
Balance as at 31 December 2013								
a) debit	**-**	**-**	**-**	**-**	**114,418**	**40,084**	**59,885**	**-**
b) credit	**81,550,757**	**-**	**-**	**87,616,729**	**-**	**-**	**-**	**168,953,099**
Changes in period								
a) debit	83	-	-	13,080,705	-	381,093	3,296	-
b) credit	-	-	-	27,838,590	273,088	-	20,904	14,667,405
Balance as at 31 December 2014								
a) debit	**-**	**-**	**-**	**-**	**-**	**421,177**	**42,277**	**-**
b) credit	**81,550,674**	**-**	**-**	**102,374,614**	**158,670**	**-**	**-**	**183,620,504**

The accompanying notes on pages 9 to 69 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") and its subsidiaries (together refer to as the "Group") is a vertically integrated oil company operating predominantly in Serbia. The Group's principal activities include:

Exploration, production and development of crude oil and gas,

- Production of refined petroleum products,
- Petroleum products and gas trading.

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

The Company is an open joint stock company listed on the Belgrade Stock Exchange, Listing A (Prime Market). The address of the Company's registered office is in Novi Sad, 12 Narodnog fronta Street.

These consolidated financial statements have been approved and authorized for issue by CEO and will be presented to shareholders on the General meeting for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the consolidated financial statements for the year ended 31 December 2013.

2.1. Basis of preparation

These consolidated financial statements for the year ended 31 December 2014 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS :

- The financial statements are prepared in the format prescribed by the Ministry of Finance of the Republic of Serbia,
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

As a result, the accompanying consolidated financial statements cannot be considered as financial statements prepared in full compliance with IFRS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.1. Basis of preparation (continued)

The preparation of financial statements in conformity with the Law on Accounting of the Republic of Serbia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2.2. New accounting standards

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the Group:

- Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group's consolidated financial statements.
- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group has applied the amendment and there has been no significant impact on the Group consolidated financial statements as a result.
- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized.
- Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.2. New accounting standards (continued)

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of consolidated financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's Consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors and the General Manager Advisory Board. The main indicator for assessing performance of operating segments is EBITDA, which is regularly reported to the chief operating decision-maker. The information on segment assets and liabilities are not regularly provided to the chief operating decision-maker.

2.4. Seasonality of Operations

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

2.5. Foreign currency translation

(a) *Functional and presentation currency*

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The Consolidated financial statements are presented in Serbian dinars (“RSD”), which is the Group’s functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents and other monetary assets and liabilities are presented in the Consolidated income statement within ‘finance income or cost’.

(c) *Group’s Companies*

The result and financial position of all group companies whose functional currency is different from the Group's presentation currency are calculated as follows:

I. assets and liabilities are translated into the RSD using the exchange rate as at reporting date;
II. income and expenses are translated at average exchange rates into RSD. All resulting foreign exchange differences are recognized in reserves as separate items in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.6. Principles of consolidation

(a) *Subsidiaries*

Subsidiaries are all entities over which the Company has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases.

Inter-group transactions, balances and unrealized gains on transactions between Group companies are eliminated during the preparation of Consolidated Financial Statements.

Financial statements of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) *Joint Operations and Joint Ventures*

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.
A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:
- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

(c) *Transactions Eliminated on Consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) *Non-controlling interests*

In the Consolidated Financial Statements, non-controlling interests in subsidiaries are presented separately from the Group equity as non-controlling interests.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.7. Business combinations

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group and recognised goodwill or a gain from a bargain purchase. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

2.8. Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ('bargain purchase') is recognized in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, that the Group incurs in connection with a business combination are expensed as incurred.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed (note 6).

2.9. Intangible assets

(a) *Licenses and rights (concessions)*

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

Licenses and rights include Oil and Gas Upstream Exploration Rights, which are amortised in accordance with the terms and conditions of the rights.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.9. Intangible assets (continued)

(b) *Computer software*

Costs associated with computer software primarily include the cost of the implementation of SAP software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised over their estimated useful lives (not to exceed 8 years).

2.10. Exploration for and evaluation of mineral resources

(a) *Exploration and evaluation expenditure*

During the exploration period, costs of exploration and evaluation of oil and natural gas are capitalized until it is proven that oil and gas reserves will not suffice to justify exploration costs. Geological and geophysical costs as well as costs directly associated with exploration are capitalized as incurred. The costs of obtaining exploration rights are capitalised either as part of property, plant and equipment or intangible assets depending on the type of cost. When commercial reserves have been discovered, subsequent to exploration and development investment impairment testing, they are transferred to development of assets either within property, plant and equipment or intangible assets. No depreciation and/or amortisation are charged during the exploration and evaluation phase.

(b) *Development costs of fixed and intangible assets*

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within construction in progress according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortisation are charged during development.

(c) *Oil and gas production assets*

Oil and gas production assets comprise exploration and evaluation tangible assets as well as development costs associated with the production of proved reserves.

(d) *Depreciation/amortization*

Oil and gas properties/intangible assets are depleted using the unit-of-production method. The unit-of production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

(e) *Impairment – exploration and evaluation assets*

Exploration property leasehold acquisition costs are assessed for impairment when there are indications of impairment. For the purpose of impairment testing, exploration property leasehold acquisition costs subject to impairment testing are grouped with existing cash-generating units (CGUs) of related production fields located in the same geographical region.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.10. Exploration for and evaluation of mineral resources (continued)

(f) *Impairment – proved oil and gas properties and intangible assets*

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.11. Property, plant and equipment

As of the date of establishment, the Group's property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and works of art are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Description	Useful lives
Buildings	10 - 50
Machinery and Equipment:	
- Production equipment	7 - 25
- Furniture	5 - 10
- Vehicles	7 - 20
- Computers	5 - 10
Other PP&E	3 - 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/expenses" in the Consolidated income statement (notes 35 and 36).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.12. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13. Investment property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property principally comprises of petrol stations and business facilities rented out for a period exceeding one year.

Investment property is carried at fair value, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the Consolidated income statement as part of Other income/expenses (notes 35 and 36).

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.14. Long–term financial assets

The Group classifies its financial assets in the following categories: long-term loans and receivables and available for sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.14. Long–term financial assets (continued)

2.14.1. Financial assets classification

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets.

(b) *Available for sale financial assets*

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date, in which case they are classified as current assets.

2.14.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group’s right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to fair value measurement gains (losses) in profit or loss for the year (notes 33 and 34).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.14. Long–term financial assets (continued)

2.14.3. Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - Adverse changes in the payment status of borrowers in the portfolio; and
    - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the Consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the Consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.14. Long–term financial assets (continued)

2.14.3. Impairment of financial assets (continued)

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the Consolidated income statement. Impairment losses recognised in the Consolidated income statement on equity instruments are not reversed through the Consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the Consolidated income statement.

2.15. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as Other expense (note 36).

2.16. Trade receivables

Trade receivables are amounts due from customers for products and merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.16. Trade receivables (continued)

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'loss from valuation of assets at fair value through profit and loss' (note 34). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to 'income from valuation of assets at fair value through profit and loss' in the Consolidated income statement (note 33).

2.17. Cash and cash equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value.

2.18. Off-balance sheet assets and liabilities

Off-balance sheet assets/liabilities include: material received from third parties for further processing and other assets not owned by the Group, as well as receivables/payables relating to collaterals received/given such as guarantees and other warrants.

2.19. Share capital

The Company is registered as open joint stock company. Ordinary shares are classified as share capital.

2.20. Earnings per share

The Group calculates and discloses the basic earnings per share. Basic earnings per share is calculated by dividing the net income that belongs to shareholders, the owners of ordinary shares of the Company, by the weighted average number of ordinary shares issued during the period (note 38).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.21. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as cost of provision and charged to Consolidated income statement.

2.22. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.23. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.24. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case deferred tax liability is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in Serbia, where the Group operates and generates taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.25. Employee benefits

(a) *Pension obligations*

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.25. Employee benefits (continued)

(b) *Employee benefits provided by the Collective Agreement*

The Group provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Serbian Treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

(c) *Bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing based on an Individual performance assessment. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

In 2011, the Group started setting-up a long-term incentive program for Group's managers. Following the program's approval, cash incentives will be settle based on the Key Performance Indicators ("KPI") reached over a three-year period. At the end of 2014 Group made decision to introduce new one-year incentive program (note 19).

2.26. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as describe below. The amount of the revenue is not considered to be reliably measurable until all contingences relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales of goods – wholesale*

The Group manufactures and sells oil, petrochemical products and liquified natural gas in the wholesale market. Sales of goods are recognised when the Group has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.26. Revenue recognition (continued)

(a) *Sales of goods – wholesale (continued)*

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term consistent with the market practice.

(b) *Sales – retail*

The Group operates a chain of Petrol Stations. Sales of goods are recognised when the Group sells a product to the customer. Retail sales are usually in cash, fuel coupons or by credit card.

(c) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.27. Leases

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's Consolidated Statement of Financial Position. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

(a) *Right of use of land*

Right of use of land acquired as a part of either acquisition or a separate transaction through payment to a third party or Local Authority is treated as an intangible asset. This acquired intangible assets has an indefinite useful life and is subject to annual impairment testing.

2.28. Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividends are approved by the Group's shareholders.

2.29. Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. All other borrowing costs are expensed in the period in which they are incurred.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Preparing consolidated financial statements required Management to make estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and other facts that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimates is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, management also makes other judgments in the process of applying the accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated financial statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

3.1. Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Accounting measures such as depreciation, depletion and amortization charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the Consolidated financial statements, most notably depreciation, depletion and amortization as well as impairment expenses.

Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Detailed disclosure about Oil and gas reserves was not given as these data prescribed by the law of the Republic of Serbia are classified as a state secret.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.2. Useful Lives of Property, Plant and Equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located.

Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the year.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2014 would be to increase/decrease it by RSD 1,171,551 (2013: RSD 1,007,041).

3.3. Employee benefits

The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to calculate the present value of estimated future cash outflows which are expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Group takes into consideration the interest rates of high-quality corporate bonds which are denominated in the currency in which pension liabilities will be settled and whose maturity dates approximate the maturity date of the related pension liability.

If the discount rate used to calculate the present value of employee benefit obligations had been 7.75% (rather than 6.75%) per year, the past service liability (DBO) would decrease by approx. 10.9% for retirement indemnity and 6.2% for jubilee awards. If the employee salaries were to increase by 4% for 2015 and 3.5% for the financial years from 2016 onwards (rather than 3% for 2015 and 2.5% for the financial years from 2016 onwards) per year, the past service liability (DBO) would increase by approx. 12.7% for retirement indemnity and 6.6% for jubilee awards.

3.4. Decommissioning Obligations (asset retirement obligation and environmental protection)

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.4. Decommissioning Obligations (asset retirement obligation and environmental protection) (continued)

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

If the discount rate used to calculate the present value of decommissioning obligations had been 7.75% (rather than 6.75%) per year, the present liability would have decreased by approx. RSD 481,611 (2013: RSD 418,137).

3.5. Contingencies

Certain conditions may exist as of the date of these Consolidated financial statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 42).

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.6. Economic Environment in the Russian Federation

In July-September 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group.

The U.S. sanctions prohibit any U.S. person, and U.S. incorporated entities (including their foreign branches) or any person or entity in the United States from:

- transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity for a number of Russian energy companies, and
- from providing, exporting, or re-exporting, directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deep water, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory to Russian companies. These sanctions also apply to any entity if 50% or more of its capital is owned, directly or indirectly, separately or in the aggregate, by sanctioned entities, .

The EU sanctions, imposed in July and September 2014, prohibit:

- purchasing, selling, providing investment services for or assistance in the issuance of, or other dealings with transferable securities, money-market instruments and new loans or credit with a maturity exceeding 30 days, issued by / extended to a number of Russian companies, and any legal person, entity or body established outside the Union which are directly or indirectly owned for more than 50% by parent company of the Company, including all entities that comprise NIS Group.

Although sanctions were imposed had an impact on the restructuring of the loan portfolio, the Group has successfully completed the restructuring process without significant additional costs.

The Group continues to assess the impact of the sanctions but currently does not believe they have a significant impact on the Consolidated financial statements.

3.7. Impact of recent crude oil volatility

In the line with recent significant changes in crude oil prices on world oil markets, which occurred in late 2014 and which continued into 2015, management of the Group undertook, in January 2015, a detailed stress sensitivity analysis of the potential impact of the identified price reductions upon the prospective performance of the business and the potential recoverability of relevant assets, for the period up to 31 December 2015.

The stress sensitivity analysis was based on various scenarios built around recent and reasonably expected prospective world crude oil prices, as estimated by reference to internal and external industry reference sources. The results of the analysis lead management to believe that, as of the date of approving these financial statements:

- It is appropriate to adopted the going concern basis of reporting as at 31 December 2014;
- The changes in crude oil prices are short term in the nature. As such, when combined with the Group’s operational characteristics the recent oil price changes were not considered as an asset impairment indicators as of the balance sheet date or the date of issuance of these Consolidated financial statements.

Management will continue to monitor the crude oil price and its influence on business performance in order to mitigate the impact if the negative trends, outside the range of expectation, occur.

4. FINANCIAL RISK MANAGEMENT

4.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk, liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance department within the Function for Economics, Finance and Accounting (further „FEPA") under policies approved by the Board of Directors. The Group's finance department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

In the normal course of its operations the Group has exposure to the following financial risks:

a) market risk (including foreign exchange risk and interest rate risk);
b) credit risk; and
c) liquidity risk.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and EUR. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, responsible persons in the finance department within the FEPA negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day the purchase is made. Foreign exchange risks arise when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group functional currency.

The Group has borrowings denominated in foreign currency mainly in EUR and USD which predominantly expose group to the foreign currency translation risk. Currency exposure arising from the borrowings is managed through the participation of the borrowing denominated in functional currency of the Group in the total credit portfolio.

As at 31 December 2014, if the currency had strengthened/weaken by 15% against the EUR with all other variables held constant, pre-tax profit for the year would have been RSD 7,794,751 (2013: RSD 7,879,158) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2014, if the currency had strengthened/weaken by 15% against the USD with all other variables held constant, pre-tax profit for the year would have been RSD 11,213,395 (2013: RSD 9,255,840) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated borrowings and trade payables.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

Cash flow and fair value interest rate risk

Borrowings withdrawn at variable interest rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (Euribor or Libor) has a proportionate impact on the Group's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2014 would have been RSD 1,048,789 (2013: RSD 833,518) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Credit risk is managed on the Group's level basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Banks are rated only in the case of collateralised receivables on various grounds, as well as based on the banks total exposure to the Group. For domestic banks, if it is bank with who the Group has passive activities the second criterion is applied and if it is a bank with who Group doesn't have cooperation, credit limits are determined based on the defined methodology.

Liquidity risk

Cash flow forecasting is performed as aggregated at the Group's level. The Company's finance function monitors rolling forecasts of the Group's liquidity requirements to ensure It has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the Group over and above balance required for working capital management are invested as surplus cash in time deposits.

The table below analyses the Group's financial liabilities into relevant maturity groupings at the balance sheet.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

Liquidity risk (continued)

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 31 December 2014	Less than 1 year	1 - 5 years	Over 5 years	Total
Borrowings (short-term, current portion and long-term debt)	17,144,386	75,249,622	26,344,676	118,738,684
Trade payables	36,815,739	-	-	36,815,739
	53,960,125	**75,249,622**	**26,344,676**	**155,554,423**

As at 31 December 2013	Less than 1 year	1 - 5 years	Over 5 years	Total
Borrowings (short-term, current portion and long-term debt)	30,165,551	36,832,196	31,176,872	98,174,619
Trade payables	50,378,870	-	-	50,378,870
	80,544,421	**36,832,196**	**31,176,872**	**148,553,489**

4.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio. Net debt to EBITDA is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, other finance income (expenses) net, other non-operating income (expenses).

The Group's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	31 December 2014	31 December 2013
Total borrowings (notes 20 and 21)	108,289,482	89,052,318
Less: cash and cash equivalents (note 15)	(8,326,704)	(8,707,774)
Net debt	99,962,778	80,344,544
EBITDA	63,399,048	68,845,801
Net debt to EBITDA	1.58	1.17

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Capital risk management (continued)

The Group has committed to maintain debt cover ratio of total indebtedness and EBITDA not exceeding 3.0 during the terms of long-term borrowings agreements with certain commercial banks. Group constantly monitoring the established commitments to maintain the height of debt cover ration and there has been no breach of these obligation.

There were no changes in the Group’s approach to capital management during the year.

4.3. Fair value estimation

The fair value of financial instruments traded in an active market (such as available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date.

5. SEGMENT INFORMATION

Presented below is information about the Group’s operating segments for the years ended 31 December 2014 and 2013. Operating segments are components that engaged in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

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

5. SEGMENT INFORMATION (continued)

Reportable segment results for the year ended 31 December 2014 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	80,995,753	255,285,451	(77,723,675)	258,557,529
Intersegment	76,539,271	1,184,404	(77,723,675)	-
External	4,456,482	254,101,047	-	258,557,529
EBITDA (Segment results)	65,683,172	(2,284,124)	-	63,399,048
Depreciation, depletion and amortization	(4,117,888)	(8,639,542)	-	(12,757,430)
Impairment (losses) reversal (note 35 and 36)	(27,346)	115,626	-	88,280
Finance expenses, net	(227,772)	(12,384,595)	-	(12,612,367)
Income tax	(580,889)	(5,450,222)	-	(6,031,111)
Segment profit (loss)	**60,353,697**	**(32,515,253)**	**-**	**27,838,444**

Reportable segment results for the year ended 31 December 2013 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	88,229,399	256,126,869	(84,800,015)	259,556,253
Intersegment	84,664,912	135,103	(84,800,015)	-
External	3,564,487	255,991,766	-	259,556,253
EBITDA (Segment results)	77,917,157	(9,071,356)	-	68,845,801
Depreciation, depletion and amortization	(2,437,895)	(8,434,091)	-	(10,871,986)
Impairment losses (note 35 and 36)	(110,377)	(126,641)	-	(237,018)
Finance expenses, net	(465,665)	4,087,388	-	3,621,723
Income tax	(535,507)	(5,507,218)	-	(6,042,725)
Segment profit (loss)	**72,937,094**	**(24,589,398)**	**-**	**48,347,696**

EBITDA for the year ended 31 December 2014 and 2013 is reconciled below:

	Year ended 31 December	
	2014	2013
Profit for the year	27,838,444	48,347,696
Income tax expenses	6,031,111	6,042,725
Other expenses	3,513,956	3,151,293
Other income	(4,866,534)	(3,287,541)
Loss from valuation of assets at fair value through profit and loss	3,938,708	5,285,784
Income from valuation of assets at fair value through profit and loss	(984,506)	(1,348,403)
Finance expense	20,401,328	10,322,958
Finance income	(7,788,961)	(13,944,681)
Depreciation, depletion and amortization	12,757,430	10,871,986
Other non operating expenses	2,558,072	3,403,984
EBITDA	**63,399,048**	**68,845,801**

*Other non-operating expense, net mainly relate to reversal of impairment, fines, penalties and other.

5. SEGMENT INFORMATION (continued)

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

	Year ended 31 December 2014		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	3,605,885	3,605,885
Sale of gas	3,744,856	-	3,744,856
Through a retail network	-	-	-
Wholesale activities	3,744,856	-	3,744,856
Sale of petroleum products	194,215,579	48,911,946	243,127,525
Through a retail network	61,771,841	-	61,771,841
Wholesale activities	132,443,738	48,911,946	181,355,684
Other sales	5,018,971	3,060,292	8,079,263
Total sales	**202,979,406**	**55,578,123**	**258,557,529**

	Year ended 31 December 2013		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	3,553,732	3,553,732
Sale of gas	3,918,192	-	3,918,192
Through a retail network	-	-	-
Wholesale activities	3,918,192	-	3,918,192
Sale of petroleum products	206,159,963	42,031,098	248,191,061
Through a retail network	65,049,672	-	65,049,672
Wholesale activities	141,110,291	42,031,098	183,141,389
Other sales	3,819,140	74,128	3,893,268
Total sales	**213,897,295**	**45,658,958**	**259,556,253**

Out of the amount of RSD 243,127,525 (2013: RSD 248,191,061) revenue from sale of petroleum products (wholesale), the amount of 23,382,492 RSD (2013: 35,132,534 RSD) are derived from a single domestic customer, HIP Petrohemija (note 41). These revenues are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations.

5. SEGMENT INFORMATION (continued)

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 202,979,406 (2013: RSD 213,895,066), and the total of revenue from external customer from other countries is RSD 55,578,123 (2013: RSD 45,658,958). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2014	**2013**
Sale of crude oil	3,605,885	3,553,732
Sale of petroleum products (retail and wholeasle)		
Bulgaria	9,831,025	6,865,297
Bosnia and Herzegovina	7,948,661	8,650,936
Romania	7,833,671	4,972,364
All other markets	23,298,589	21,542,501
	48,911,946	42,031,098
Other sales	3,060,292	74,128
	55,578,123	**45,658,958**

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

Non-current assets, other than financial instruments and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts), by country:

	31 December 2014	**31 December 2013**
Serbia	218,176,386	191,858,955
Bulgaria	8,524,519	7,413,855
Bosnia and Herzegovina	8,296,363	8,247,285
Romania	6,268,690	4,840,894
Hungary	65	664,542
	241,266,023	**213,025,531**

6. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Goodwill	Other intangibles	Intangible assets under development	Total
At 1 January 2013						
Cost	-	5,796,304	1,464,063	437,496	5,535,077	13,232,940
Accumulated amortisation and impairment	-	(2,002,825)	-	(155,460)	(210,002)	(2,368,287)
Net book amount	**-**	**3,793,479**	**1,464,063**	**282,036**	**5,325,075**	**10,864,653**
Year ended 31 December 2013						
Additions	-	651,492	-	134,367	4,598,033	5,383,892
Acquisitions through business combinations	-	36,932	543,457	260,578	-	840,967
Impairment (note 36)	-	-	(42,290)	-	(24,347)	(66,637)
Amortisation	-	(654,195)	-	(144,225)	(3,160)	(801,580)
Transfer from PP&E (note 7)	-	(7,481)	-	-	170,966	163,485
Disposals and write-off	-	-	-	-	(81,068)	(81,068)
Other transfer	-	(36,467)	-	49,287	(281,838)	(269,018)
Translation differences	-	140	(3,092)	8,453	17,705	23,206
Closing net book amount	**-**	**3,783,900**	**1,962,138**	**590,496**	**9,721,366**	**16,057,900**
As at 31 December 2013						
Cost	-	6,472,181	2,004,284	737,003	9,816,673	19,030,141
Accumulated amortisation and impairment	-	(2,688,281)	(42,146)	(146,507)	(95,307)	(2,972,241)
Net book amount	**-**	**3,783,900**	**1,962,138**	**590,496**	**9,721,366**	**16,057,900**
At 1 January 2014						
Cost	-	6,472,181	2,004,284	737,003	9,816,673	19,030,141
Accumulated amortisation and impairment	-	(2,688,281)	(42,146)	(146,507)	(95,307)	(2,972,241)
Net book amount	**-**	**3,783,900**	**1,962,138**	**590,496**	**9,721,366**	**16,057,900**
Year ended 31 December 2014						
Additions	3,873,221	808,150	170,073	100,644	(44,884)	4,907,204
Acquisitions through business combinations	-	-	42,148	-	-	42,148
Impairment (note 36)	-	(533)	(322,848)	(8,065)	(1,503)	(332,949)
Amortisation	(40,080)	(919,463)	-	(77,395)	(4,439)	(1,041,377)
Transfer from PP&E (note 7)	-	-	-	616,451	825,409	1,441,860
Disposals and write-off	-	(749)	-	(153,714)	(332,569)	(487,032)
Other transfers	1	(223,782)	-	223,781	828,398	828,398
Translation differences	-	2,982	106,384	23,923	138,190	271,479
Closing net book amount	**3,833,142**	**3,450,505**	**1,957,895**	**1,316,121**	**11,129,968**	**21,687,631**
As at 31 December 2014						
Cost	3,873,221	7,061,422	2,333,733	1,485,101	11,231,789	25,985,266
Accumulated amortisation and impairment	(40,079)	(3,610,917)	(375,838)	(168,980)	(101,821)	(4,297,635)
Net book amount	**3,833,142**	**3,450,505**	**1,957,895**	**1,316,121**	**11,129,968**	**21,687,631**

Development investments as at 31 December 2014 in the amount of RSD 3,833,142 mostly relate to investments in geological, 2D and 3D seismic explorations on the territory of the Republic of Serbia (2013: RSD 0).

Concessions, patents, licenses, software and other rights as at 31 December 2014 amounting to RSD 3,450,505 mostly relate to investments in the SAP system of RSD 2,011,495 (2013: RSD 2,563,713).

Intangible assets under development as at 31 December 2014 amounting to RSD 11,129,968 (31 December 2013: RSD 9,721,366) mostly relate to investments in explorations (unproved reserves) in amount of RSD 9,465,471 (31 December 2013: RSD 8,458,461).

6. INTANGIBLE ASSETS (continued)

Amortisation amounting to RSD 1,041,377 (2013: RSD 801,580) is included in Operating expenses.

Goodwill acquired through business combinations has been allocated to Downstream (as at 31 December 2014: RSD 42,148 and 31 December 2013: RSD 543,457) related CGUs. Other goodwill additions in amount of RSD 170,073 relates to one gas stations acquired in prior year.

Impairment test for goodwill

Goodwill is monitored by the management on an individual CGU basis and geographical location. The recoverable amount of each CGUs has been determined by independent appraisal based on higher of value-in-use and fair value less cost to disposed calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

The average key assumptions used in value-in use calculations:

	2014	2013
Average gross margin	17%	15%
Growth rate	1%	0%
Discount rate		
- Romania market	9.2%	10.7%
- Bulgaria market	9.7%	10.6%
- Bosnia and Herzegovina market	13.1%	16%

Management determined the budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relation to the relevant CGU. The following is a summary of goodwill allocation:

	Opening	Addition	Impairment	Translation differences	Closing
2014					
Bosnia and Herzegovina	458,686	-	-	25,271	483,957
Romania	546,177	170,073	(322,848)	26,402	419,804
Bulgaria	957,275	42,148	-	54,711	1,054,134
	1,962,138	**212,221**	**(322,848)**	**106,384**	**1,957,895**
2013					
Bosnia and Herzegovina	11,724	434,697	-	12,265	458,686
Romania	495,122	98,448	(23,954)	(23,439)	546,177
Bulgaria	957,217	10,312	(18,336)	8,082	957,275
	1,464,063	**543,457**	**(42,290)**	**(3,092)**	**1,962,138**

The impairment charge of RSD 322,848 (2013:RSD 42,290) arose in a Romania business activity and is recognised as expense in Profit and Loss. (note 36).

In Bulgaria and Bosnia and Herzegovina, the recoverable amount calculated based on value-in-use exceed carrying value.

7. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2013								
Cost	14,856,754	91,567,949	95,863,682	22,681,199	91,447	129,318	2,466,224	227,656,573
Accumulated depreciation and impairment	(692,796)	(26,867,130)	(38,019,485)	(4,315,892)	(1,146)	(126,907)	(21,418)	(70,044,774)
Net book amount	**14,163,958**	**64,700,819**	**57,844,197**	**18,365,307**	**90,301**	**2,411**	**2,444,806**	**157,611,799**
Year ended 31 December 2013								
Additions	1,419,006	17,960,710	13,388,707	15,303,057	19	35,773	13,921,611	62,028,883
Acquisitions through business combinations	1,497,423	2,218,078	630,849	232,080	-	-	-	4,578,430
Impairment charge (note 35 and 36)	-	(232,285)	(15,856)	(65,442)	(332)	-	(8,402)	(322,317)
Depreciation	-	(3,932,662)	(6,132,465)	-	-	(5,279)	-	(10,070,406)
Transfer to intangible assets (note 6)	1,906	850,131	157,179	(1,173,216)	-	515	-	(163,485)
Transfer to investment property	(3,696)	17,689	-	(11,248)	-	-	-	2,745
Disposals and write-off	(68,493)	(324,792)	(273,329)	(1,021,573)	(26)	-	(9,931,132)	(11,619,345)
Other transfers	(51,510)	4,040,649	(4,497,066)	248,736	(14)	-	26,474	(232,731)
Translation differences	75,894	85,353	23,934	1,033	231	6,607	(2,194)	190,858
Closing net book amount	**17,034,488**	**85,383,690**	**61,126,150**	**31,878,734**	**90,179**	**40,027**	**6,451,163**	**202,004,431**
At 31 December 2013								
Cost	17,338,710	118,861,913	93,865,422	35,926,540	91,391	81,375	6,481,062	272,646,413
Accumulated depreciation and impairment	(304,222)	(33,478,223)	(32,739,272)	(4,047,806)	(1,212)	(41,348)	(29,899)	(70,641,982)
Net book amount	**17,034,488**	**85,383,690**	**61,126,150**	**31,878,734**	**90,179**	**40,027**	**6,451,163**	**202,004,431**
Year ended 31 December 2014								
Additions	311,480	20,062,264	12,009,160	3,856,319	-	344,388	5,786,829	42,370,440
Acquisitions through business combinations	-	-	-	1,245,216	-	-	-	1,245,216
Impairment charge (note 35 and 36)	(29,907)	(42,822)	(63,828)	(52,462)	(49)	-	-	(189,068)
Depreciation	-	(5,323,569)	(6,380,450)	-	-	(12,034)	-	(11,716,053)
Transfer to intangible assets (note 6)	-	53,404	1,330	(1,496,594)	-	-	-	(1,441,860)
Transfer from investment property	31,599	70,690	2,588	-	-	-	-	104,877
Disposals and write-off	(112,861)	(248,146)	(114,579)	(1,531,011)	(47)	-	(9,830,700)	(11,837,344)
Other transfers	6,972	194,162	(200,048)	(828,398)	(703)	-	-	(828,015)
Translation differences	338,515	375,996	119,197	56,713	-	807	32,231	923,459
Closing net book amount	**17,580,286**	**100,525,669**	**66,499,520**	**33,128,517**	**89,380**	**373,188**	**2,439,523**	**220,636,083**
At 31 December 2014								
Cost	17,914,415	139,332,185	104,654,098	35,928,308	91,230	426,130	2,468,780	300,815,146
Accumulated depreciation and impairment	(334,129)	(38,806,516)	(38,154,578)	(2,799,791)	(1,850)	(52,942)	(29,257)	(80,179,063)
Net book amount	**17,580,286**	**100,525,669**	**66,499,520**	**33,128,517**	**89,380**	**373,188**	**2,439,523**	**220,636,083**

7. PROPERTY, PLANT AND EQUIPMENT (continued)

a) Property, plant and equipment carried at cost (continued)

In 2014, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 78,399 (2013: RSD 111,522).

Machinery and equipment include the following amounts where the Group is a lessee under a finance lease:

	31 December 2014	31 December 2013
Cost capitalised – finance leases	149,696	149,696
Accumulated depreciation	(77,343)	(62,373)
Net book amount	**72,353**	**87,323**

The management of the Group assesses at each reporting date whether there is an indication that the recoverable amount of property, plant and equipment fell below its book value.

As at 31 December 2014, the Group assessed impairment indicators of cash generating units ("CGU") and concluded that general indications of impairment does not exist. In addition Group has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 189,068 (2013: RSD 322,317).

b) Investment property – carried at fair value

Investment properties are valued at the reporting date at fair value representing the investment property market value.

Movements on the account were as follows:

	2014	2013
As at 1 January	1,414,364	1,367,378
Fair value gains (note 35)	164,761	151,936
Transfer to PP&E carried at cost	(104,877)	(2,745)
Disposals	(93,462)	(108,483)
Other	1,046	6,278
As at 31 December	**1,381,832**	**1,414,364**

As at 31 December 2014, investment properties amounting to RSD 1,381,832 (31 December 2013: RSD 1,414,364) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

7. PROPERTY, PLANT AND EQUIPMENT (continued)

b) Investment property – carried at fair value (continued)

Fair value of investment properties

Valuation of the Group's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2014 and 2013. The revaluation surplus was credited to other income (note 35).

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value measurements at 31 December 2014 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
− Shops and other facilities for rents	-	812,023	-
− Apartments	-	-	-
− Gas stations	-	-	569,808
Total	-	**812,023**	**569,808**

Fair value measurements at 31 December 2013 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
− Shops and other facilities for rents	-	772,952	-
− Apartments	-	131,513	-
− Gas stations	-	-	509,899
Total	-	**904,465**	**509,899**

Valuation techniques used to derive level 2 fair values

Level 2 fair values of shops, apartments and other properties for rent have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

7. PROPERTY, PLANT AND EQUIPMENT (continued)

b) Investment property – carried at fair value (continued)

Fair value measurements using significant unobservable inputs (Level 3)

Level 3 fair values of gas stations have been derived using value-in-use approach where fair value of gas station is determined as the present value of future net benefits which will belong to the Group based on long-term rental contracts. The most significant input into this valuation approach is rental price per gas station.

The key assumptions used for value-in-use calculations:

	2014	**2013**
Long term growth rate	0%	0%
Discount rate	12%	12%

Reconciliation of changes in fair value measurement, assets categorised within Level 3 of the fair value hierarchy:

	2014	**2013**
Assets as at 1 January	509,899	484,850
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	59,909	25,049
Total increase in fair value measurement, assets	59,909	25,049
Assets as at 31 December	**569,808**	**509,899**

c) Oil and gas production assets

Oil and gas production assets comprise of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.10.).

7. PROPERTY, PLANT AND EQUIPMENT (continued)

c) Oil and gas production assets (continued)

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2013						
Cost	6,354,587	5,315,398	11,669,985	53,376,416	118,631	65,165,032
Depreciation and impairment	(3,973)	(304,214)	(308,187)	(20,466,813)	(105,319)	(20,880,319)
Net book amount	**6,350,614**	**5,011,184**	**11,361,798**	**32,909,603**	**13,312**	**44,284,713**
Year ended 31 December 2013						
Additions	7,980,904	19,684,120	27,665,024	-	-	27,665,024
Transfer from asset under construction	(337,362)	(11,484,839)	(11,822,201)	11,812,975	9,226	-
Other transfers	4,808	(11,641)	(6,833)	(894,829)	(9,267)	(910,929)
Impairment	(3,616)	(29,547)	(33,163)	(77,107)	-	(110,270)
Depreciation and depletion	(3,160)	-	(3,160)	(3,031,956)	-	(3,035,116)
Disposals and write-off	(809,340)	(10,229)	(819,569)	-	(28)	(819,597)
Translation differences	28,372	-	28,372	15	-	28,387
	13,211,220	**13,159,048**	**26,370,268**	**40,718,701**	**13,243**	**67,102,212**
As at 31 December 2013						
Cost	13,222,087	13,397,107	26,619,194	58,161,373	33,510	84,814,077
Depreciation and impairment	(10,867)	(238,059)	(248,926)	(17,442,672)	(20,267)	(17,711,865)
Net book amount	**13,211,220**	**13,159,048**	**26,370,268**	**40,718,701**	**13,243**	**67,102,212**
As at 1 January 2014						
Cost	13,222,087	13,397,107	26,619,194	58,161,373	33,510	84,814,077
Depreciation and impairment	(10,867)	(238,059)	(248,926)	(17,442,672)	(20,267)	(17,711,865)
Net book amount	**13,211,220**	**13,159,048**	**26,370,268**	**40,718,701**	**13,243**	**67,102,212**
Year ended 31 December 2014						
Additions	8,004,209	20,994,826	28,999,035	-	-	28,999,035
Transfer from asset under construction	(3,619,756)	(20,246,631)	(23,866,387)	23,866,387	-	-
Other transfers	2,013,886	(527,685)	1,486,201	445,480	(81)	1,931,600
Impairment	(1,503)	(15,526)	(17,029)	(10,222)	(49)	(27,300)
Depreciation and depletion	(4,439)	-	(4,439)	(3,763,379)	-	(3,767,818)
Disposals and write-off	(1,691,582)	(139,622)	(1,831,204)	(31,006)	(15)	(1,862,225)
Translation differences	157,847	-	157,847	174	-	158,021
	18,069,882	**13,224,410**	**31,294,292**	**61,226,135**	**13,098**	**92,533,525**
As at 31 December 2014						
Cost	18,087,173	13,477,995	31,565,168	82,284,653	33,457	113,883,278
Depreciation and impairment	(17,291)	(253,585)	(270,876)	(21,058,518)	(20,359)	(21,349,753)
Net book amount	**18,069,882**	**13,224,410**	**31,294,292**	**61,226,135**	**13,098**	**92,533,525**

8. INVESTMENTS IN JOINT VENTURE

In 2013 the Group has acquired 50% of interest in a joint venture, Energowind doo which is intended to be used as a vehicle for operation of future wind farm ''Plandiste'' with total capacity of 102 MW. Energowind is jointly controlled by the Group and Asporta Limited, Cyprus. On the date of the issuance of these Consolidated Financial Statements there have been no significant business activities. The carrying value of the investment as of 31 December 2014 is RSD 1,008,221 (31 December 2013: RSD 1,008,221) and is included in the Consolidated Balance Sheet.

Energowind d.o.o. is a private company and there is no available quoted market price.

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

9. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2014	31 December 2013
Other LT placements	998,376	863,518
LT loans given to employees	1,155,943	1,083,092
Less: Impairment	(919,728)	(782,311)
	1,234,591	**1,164,299**

Loans to employees as at 31 December 2014 amounting to RSD 1,155,943 (31 December 2013: RSD 1,083,092) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly installments.

The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Group could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 4,99% for loans denominated in EUR, and 15.85% for loans denominated in RSD (2013: 5.62% p.a.).

The maximum exposure to credit risk at the reporting date is the nominal value of loans given to employees. This credit risk exposure is limited, as the monthly installments of these loans are withheld from employees' salaries.

10. DEFERRED TAX ASSETS AND LIABILITIES

	Provisions	Carrying value of PP&E vs Tax base	Total
Deferred tax liabilities			
As at 1 January 2013	-	**(2,422,241)**	**(2,422,241)**
Origination and reversal of temporary differences (note 37)	-	163,860	163,860
Acquisition of subsidiary	-	(76,799)	(76,799)
Translation difference	-	(2,102)	(2,102)
As at 31 December 2013	**-**	**(2,337,282)**	**(2,337,282)**
Origination and reversal of temporary differences:			
- charged to the income statement (note 37)	-	(590,790)	(590,790)
- charged to other comprehensive income	(48,193)	-	(48,193)
Translation difference	-	(4,337)	(4,337)
As at 31 December 2014	**(48,193)**	**(2,932,409)**	**(2,980,602)**

	Provisions	Impairment loss	Investment credit	Total
Deferred tax assets				
As at 1 January 2013	251,121	799,319	8,737,847	9,788,287
Origination and reversal of temporary differences (note 37)	57,168	(36,440)	(32,258)	(11,530)
As at 31 December 2013	**308,289**	**762,879**	**8,705,589**	**9,776,757**
Origination and reversal of temporary differences (note 37)	(282,758)	(82,219)	(1,577,577)	(1,942,554)
As at 31 December 2014	**25,531**	**680,660**	**7,128,012**	**7,834,203**

The recognition of deferred tax assets was based on a five-year business plan of the Group and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

Investment credits represent 20% qualifying of capital investments made up to 31 December 2013 in accordance with tax legislation of the Republic of Serbia, which can be utilized in 10 years period.

11. INVENTORY

	31 December 2014	31 December 2013
Materials, spare parts and tools	28,559,616	32,143,369
Work in progress	5,755,021	4,787,759
Finished goods	7,477,570	8,131,485
Goods for sale	3,494,419	2,536,369
Advances	668,211	799,549
*Less:*provision	(6,400,488)	(7,192,072)
	39,554,349	**41,206,459**

11. INVENTORY (continued)

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of Advances	Total
Balance as of 1 January 2013	**7,394,952**	**373,071**	**7,768,023**
Provision for inventories and advances (note 36)	139,379	16,165	155,544
Unused amounts reversed (note 35)	(455,074)	(9,659)	(464,733)
Receivables written off during the year as uncollectible	-	(131,230)	(131,230)
Other	(140,254)	4,722	(135,532)
Balance as of 31 December 2013	**6,939,003**	**253,069**	**7,192,072**
Provision for inventories and advances (note 36)	9,025	5,688	14,713
Unused amounts reversed (note 35)	(216,837)	(13,116)	(229,953)
Receivables written off during the year as uncollectible	-	(989)	(989)
Other	(575,531)	176	(575,355)
Balance as of 31 December 2014	**6,155,660**	**244,828**	**6,400,488**

12. TRADE RECEIVABLES

	31 December 2014	31 December 2013
Other related parties - domestic	13,004,338	12,284,032
Other related parties - foreign	36,398	3,537
Trade receivables domestic – third parties	47,435,227	51,702,966
Trade receivables foreign – third parties	1,342,216	1,174,338
Less: Impairment	(12,573,308)	(12,589,788)
	49,244,871	**52,575,085**

The ageing of trade receivables is as follows:

	31 December 2014	31 December 2013
Neither impaired nor past due	24,034,163	28,250,375
Past due but not impaired:		
within 30 days	4,098,982	5,409,615
1 to 3 months	2,025,111	4,040,201
3 months to 1 year	8,338,053	5,585,322
over 1 year	10,748,562	9,289,572
Total	**49,244,871**	**52,575,085**

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

12. TRADE RECEIVABLES (continued)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	31 December 2014	31 December 2013
RSD	59,705,725	63,936,761
EUR	465,225	548,176
USD	876,000	425,793
Other	771,229	254,143
	61,818,179	**65,164,873**

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

	Trade receivables		
	Individually impaired	Collectively impaired	**Total**
As at 1 January 2013	**8,907,656**	**4,034,522**	**12,942,178**
Provision for receivables impairment (note 34)	237,257	282,088	519,345
Unused amounts reversed (note 33)	(2,936)	(719,131)	(722,067)
Receivables written off during the year as uncollectible	-	(99,562)	(99,562)
Other	(715,332)	665,226	(50,106)
As at 31 December 2013	**8,426,645**	**4,163,143**	**12,589,788**
Provision for receivables impairment (note 34)	81,045	237,253	318,298
Unused amounts reversed (note 33)	-	(302,657)	(302,657)
Receivables written off during the year as uncollectible	-	(264,395)	(264,395)
Other	(3,474)	235,748	232,274
As at 31 December 2014	**8,504,216**	**4,069,092**	**12,573,308**

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement (note 36). Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

13. OTHER RECEIVABLES

	31 December 2014	31 December 2013
Interest receivables	13,492,221	10,419,050
Receivables from employees	88,782	87,210
Income tax prepayment	2,672,130	37,283
Other receivables	7,552,779	7,498,568
Less: Impairment	(20,758,935)	(17,706,623)
	3,046,977	**335,488**

13. OTHER RECEIVABLES (continued)

Movements on the provision for other receivables :

	Interest receivables	Other receivables	Total
As at 1 January 2013	**5,867,321**	**7,326,588**	**13,193,909**
Provision for other receivables impairment (note 34)	4,737,697	7,569	4,745,266
Unused amounts reversed (note 33)	(183,807)	(844)	(184,651)
Receivables written off during the year as uncollectible	(51,766)	(336)	(52,102)
Other	-	4,201	4,201
As at 31 December 2013	**10,369,445**	**7,337,178**	**17,706,623**
Provision for other receivables impairment (note 34)	3,604,591	1,616	3,606,207
Unused amounts reversed (note 33)	(391,242)	(2,225)	(393,467)
Receivables written off during the year as uncollectible	(159,538)	(1,106)	(160,644)
Other	-	216	216
As at 31 December 2014	**13,423,256**	**7,335,679**	**20,758,935**

14. SHORT-TERM FINANCIAL ASSETS

	31 December 2014	31 December 2013
ST loans and placements - Domestic	2,021	1,928
Other ST financial placements	10,358,008	9,980,425
Less: Impairment	(8,152,392)	(7,827,615)
	2,207,637	**2,154,738**

Other ST financial placements as at 31 December 2014 amounting to RSD 10,358,008 (31 December 2013: RSD 9,980,424) mainly relate to current portion of rescheduled receivables in amount of RSD 10,353,617 (31 December 2013: RSD 9,913,994). They are provided for in the amount of RSD 8,152,392 (2013: RSD 7,827,615).

Movements on the provision for short-term financial assets:

	Other ST financial placement-Recheduled receivables	Total
As at 1 January 2013	**5,820,064**	**5,820,064**
Reclassification from non-current to current part	1,591,471	1,591,471
Exchange differences	416,080	416,080
As at 31 December 2013	**7,827,615**	**7,827,615**
Unused amounts reversed (note 34)	(106,562)	(106,562)
Exchange differences	431,339	431,339
As at 31 December 2014	**8,152,392**	**8,152,392**

15. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Cash in bank and in hand	5,064,178	6,065,857
Deposits with original maturity of less than three months	1,351,870	771,950
Cash with restriction	1,655,104	1,651,099
Cash equivalents	255,552	218,868
	8,326,704	**8,707,774**

Cash with restriction as of 31 December 2014 amounting to RSD 1,655,104 (31 December 2013: RSD 1,651,099) mainly relates to deposited funds on escrow account in accordance with share purchase agreement with Energowind doo (through which the operation of future wind farm ''Plandiste' will be managed) in amount of RSD 1,636,805 (31 December 2013: RSD 1,650,878) .

16. PREPAYMENTS AND ACCRUED INCOME

	31 December 2014	31 December 2013
Deferred input VAT	1,632,682	2,236,598
Prepaid expenses	137,615	136,118
Prepaid excise duty	4,256,208	1,364,295
Housing loans and other prepayments	1,751,716	3,170,718
	7,778,221	**6,907,729**

Deferred input VAT as at 31 December 2014 amounting to RSD 1,632,682 (31 December 2013: RSD 2,236,598) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 4,256,208 (31 December 2013: RSD 1,364,295) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

17. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2014	31 December 2013
Issued warranties and bills of exchange	75,764,106	44,546,397
Received warranties and bills of exchange	27,794,515	34,202,644
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	6,329,184	5,103,758
Third party merchandise in NIS warehouses	4,423,596	4,315,685
Assets for oil fields liquidation in Angola	771,785	638,286
	120,440,876	**94,164,460**

18. EQUITY

	Equity attributable to owners of the Group								Non-controlling interest	Total equity
	Share capital	Other capital	Reserves	Retained earnings (loss)	Translation reservas	Unrealised gains (losses) from securities	Actuarial gain (loss)	Total		
Balance as at 1 January 2013	**81,530,200**	**5,597,873**	**889,424**	**45,185,341**	**(20,544)**	**(74,528)**	**-**	**133,107,766**	**(17,106)**	**133,090,660**
Profit for the year	-	-	-	48,373,230	-	-	-	48,373,230	(25,534)	48,347,696
Gains from securities	-	-	-	-	-	14,643		14,643	-	14,643
Other transfers	-	(5,597,873)	(889,424)	6,487,297	-	-	-	-	-	-
Dividend distribution	-	-	-	(12,364,129)	-	-	-	(12,364,129)	-	(12,364,129)
Actuarial losses	-	-	-	-	-	-	(114,418)	(114,418)	-	(114,418)
Other	-	-	-	(2,830)	(17,746)	-	-	(20,576)	(777)	(21,353)
Balance as at 31 December 2013	**81,530,200**	**-**	**-**	**87,678,909**	**(38,290)**	**(59,885)**	**(114,418)**	**168,996,516**	**(43,417)**	**168,953,099**
Balance as at 1 January 2014	81,530,200	-	-	87,678,909	(38,290)	(59,885)	(114,418)	168,996,516	(43,417)	168,953,099
Profit for the year	-	-	-	27,939,245	-	-	-	27,939,245	(100,801)	27,838,444
Gains from securities	-	-	-	-	-	17,608	-	17,608	-	17,608
Dividend distribution	-	-	-	(13,080,705)	-	-	-	(13,080,705)	-	(13,080,705)
Actuarial gain	-	-	-	-	-	-	273,088	273,088	-	273,088
Other	-	-	-	38	(372,247)	-	-	(372,209)	(8,821)	(381,030)
Balance as at 31 December 2014	**81,530,200**	**-**	**-**	**102,537,487**	**(410,537)**	**(42,277)**	**158,670**	**183,773,543**	**(153,039)**	**183,620,504**

18.1. SHARE CAPITAL

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

Share capital as of 31 December 2014 and 31 December 2013 comprise of 163,060,400 of ordinary shares.

On June 30, 2014 the annual general shareholders meeting of the Group approved dividend for 2013 in amount of 80,22 RSD per share.

19. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2013	7,972,086	861,383	3,000,520	1,042,854	814,047	13,690,890
Charged to the income statement (note 29 and 32)	589,423	195,000	17,535	521,427	381,063	1,704,448
New obligation incurred and change in estimates	962,855	-	-	-	-	962,855
Release of provision (note 35)	(303,653)	(112,396)	(451,170)	-	-	(867,219)
Actuarial loss charged to other comprehensive income	-	-	114,418	-	-	114,418
Settlement	(157,673)	(253,893)	(135,497)	(42,202)	(37,858)	(627,123)
Other	-	-	5,884	-	-	5,884
As at 31 December 2013	**9,063,038**	**690,094**	**2,551,690**	**1,522,079**	**1,157,252**	**14,984,153**
As at 1 January 2014	9,063,038	690,094	2,551,690	1,522,079	1,157,252	14,984,153
Charged to the income statement (note 29 and 32)	52,371	32,947	329,300	-	-	414,618
New obligation incurred and change in estimates	(14,377)	-	-	-	-	(14,377)
Release of provision (note 35)	-	-	(1,565,729)	(812,189)	(48,009)	(2,425,927)
Actuarial gain charged to other comprehensive income	-	-	(321,281)	-	-	(321,281)
Settlement	(75,421)	(152,437)	(115,426)	(608,044)	(167,626)	(1,118,954)
Other	-	(245)	186	-	2,963	2,904
As at 31 December 2014	**9,025,611**	**570,359**	**878,740**	**101,846**	**944,580**	**11,521,136**

Analysis of total provisions:

	31 December 2014	**31 December 2013**
Non-current	9,012,584	12,194,243
Current	2,508,552	2,789,910
	11,521,136	**14,984,153**

(a) *Decommissioning*

The Group's Management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells based on previous experience in similar projects.

19. LONG – TERM PROVISIONS (continued)

(b) *Environmental protection*

The Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 570,359 (31 December 2013: RSD 690,094) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) *Long-term incentive program*

In 2011, the Group started setting-up a long-term incentive program for Group managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2014 the management made an assessment of present value of liabilities related to new one-year employee incentives in amount of RSD 101,846 (31 December 2013: RSD 1,522,079).

(d) *Legal claims provisions*

As at 31 December 2014, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group released provision for litigation amounting to RSD 48,009 (2013: RSD 381,063, charge) for proceedings which were assessed that won't have negative outcome. The Group estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2014.

(e) *Provision for employee benefits*

Employee benefits:

	31 December 2014	**31 December 2013**
Retirement allowances	101,096	703,729
Jubilee awards	777,644	1,847,961
	878,740	**2,551,690**

The principal actuarial assumptions used were as follows:

	31 December 2014	**31 December 2013**
Discount rate	6.75%	6.30%
Future salary increases	2.5%	5.50%
Future average years of service	12.4	14.84

19. LONG – TERM PROVISIONS (continued)

(e) *Provision for employee benefits (continued)*

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2013	836,998	2,163,522	3,000,520
Benefits paid directly	(59,174)	(76,323)	(135,497)
Actuarial loss recognised in the statement of other comprehensive income	114,418	-	114,418
Credited to the income statement	(194,397)	(239,238)	(433,635)
Liability acquired in a business combination	4,722	-	4,722
Translation difference	1,162	-	1,162
Balances as at 31 December 2013	**703,729**	**1,847,961**	**2,551,690**
Benefits paid directly	(26,150)	(89,276)	(115,426)
Actuarial gain recognised in the statement of other comprehensive income	(321,281)	-	(321,281)
Credited to the income statement	(255,388)	(981,041)	(1,236,429)
Translation difference	186	-	186
Balances as at 31 December 2014	**101,096**	**777,644**	**878,740**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December 2014	2013
Current service cost	202,422	230,536
Interest cost	156,808	220,805
Curtailment gain	(265,082)	(357,007)
Actuarial losses (jubilee awards)	(557,749)	-
Amortisation of past service cost	(772,828)	(527,969)
	(1,236,429)	**(433,635)**

20. LONG-TERM LIABILITIES

	31 December 2014	31 December 2013
Long-term loan - Gazprom Neft	47,820,723	50,655,812
Bank loans	51,604,833	37,948,303
Finance lease liabilities	199,737	107,689
Other long-term borrowings	64,078	40,486
Less Current portion	(6,101,327)	(27,618,413)
	93,588,044	**61,133,877**

a) Long-term loan - Gazprom Neft

As at 31 December 2014 long-term loan - Gazprom Neft amounting to RSD 47,820,723 (EUR 395,348,842) (2013: RSD 50,655,812), with current portion of RSD 5,625,967 (2013: RSD 5,332,191), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

b) Bank loans

	31 December 2014	31 December 2013
Domestic	7,175,319	12,048,569
Foreign	44,429,514	25,899,734
	51,604,833	37,948,303
Current portion of long-term loans (note 21)	(474,537)	(22,264,141)
Total	**51,130,296**	**15,684,162**

The maturity of non-current loans was as follows:

	31 December 2014	31 December 2013
Between 1 and 2 years	6,969,316	2,926,308
Between 2 and 5 years	38,525,058	6,871,962
Over 5 years	5,635,922	5,885,892
	51,130,296	**15,684,162**

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

	31 December 2014	31 December 2013
USD	45,401,219	28,343,857
EUR	5,840,104	8,961,940
RSD	1,520	280,783
JPY	361,990	361,723
	51,604,833	**37,948,303**

20. LONG-TERM LIABILITIES (continued)

b) Bank loans (continued)

The fair value of non-current loans and their carrying amounts are equal.

The Group repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Group agreed both fixed and floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor.

Management expects that the Group will be able to fulfil its obligations within agreed timeframe.

The carrying amounts of the Group's bank loans as at 31 December 2014 and 31 December 2013 are presented in the table below:

Creditor	Currency	31 December 2014	31 December 2013
Domestic long-term loans			
Erste bank, Novi Sad	USD	319,049	279,719
Erste bank, Novi Sad	EUR	457,835	454,900
Bank Postanska stedionica, Belgrade	EUR	224,938	225,341
Bank Postanska stedionica, Belgrade	USD	1,728,210	1,526,400
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,443,767	4,459,990
UniCredit bank, Belgrade	USD	-	4,821,436
UniCredit bank, Belgrade	RSD	-	278,900
Other loans	RSD	1,520	1,883
		7,175,319	**12,048,569**
Foreign long-term loans			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	584,396	518,612
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	361,990	361,723
Erste bank, Holland	EUR	-	3,439,263
Erste bank, Holland	USD	6,465,167	5,403,333
VUB (Bank Intesa), Slovakia	USD	14,919,615	8,312,820
NBG bank, Great Britain	USD	4,973,205	2,493,846
Alpha bank, Great Britain	USD	-	3,325,128
Piraeus bank, Great Britain	USD	-	1,662,563
Sberbank Europe AG, Wien, Austria	USD	16,411,577	-
NeftgazInKor, Russian Federation	EUR	403,517	-
Neftegazovaja Inovacionnaja Korporacija, Russian Federation	EUR	310,047	382,446
		44,429,514	**25,899,734**
Less current portion of long-term loans		(474,537)	(22,264,141)
		51,130,296	**15,684,162**

20. LONG-TERM LIABILITIES (continued)

b) Bank loans (continued)

	Currency	Current portion 31 December 2014	Current portion 31 December 2013	Long-term 31 December 2014	Long-term 31 December 2013
Domestic long - term loans					
Erste bank, Novi Sad	USD	17,872	13,070	301,177	266,649
Erste bank, Novi Sad	EUR	25,376	20,972	432,459	433,928
Bank Postanska stedionica, Belgrade	EUR	12,468	12,148	212,470	213,193
Bank Postanska stedionica, Belgrade	USD	95,789	82,030	1,632,421	1,444,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	261,946	248,267	4,181,821	4,211,723
UniCredit bank, Belgrade	USD	-	4,821,436	-	-
UniCredit bank, Belgrade	RSD	-	278,900	-	-
Other loans	RSD	345	369	1,175	1,514
		413,796	5,477,192	6,761,523	6,571,377
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	40,677	30,197	543,719	488,415
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	20,064	16,978	341,926	344,745
Erste bank, Holland	EUR	-	3,439,263	-	-
Erste bank, Holland	USD	-	-	6,465,167	5,403,333
VUB (Bank Intesa), Slovakia	USD	-	8,312,820	14,919,615	-
NBG bank, Great Britain	USD	-	-	4,973,205	2,493,846
Alpha bank, Great Britain	USD	-	3,325,128	-	-
Piraeus bank, Great Britain	USD	-	1,662,563	-	-
Sberbank Europe AG, Wien, Austria	USD	-	-	16,411,577	-
NeftgazInKor, Russian Federation	EUR	-	-	403,517	-
Neftegazovaja Inovacionnaja Korporacija, Russian Federation	EUR	-	-	310,047	382,446
		60,741	16,786,949	44,368,773	9,112,785
		474,537	**22,264,141**	**51,130,296**	**15,684,162**

The loan agreements contain financial covenants that require the Group's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of 31 December 2014 and 31 December 2013, respectively.

c) Financial lease liabilities

Minimum finance lease payments:

	31 December 2014	31 December 2013
Less than one year	66,290	43,614
1-5 years	229,507	97,277
Over 5 years	790,393	382,499
Future finance charges on finance leases	(886,453)	(415,701)
Present value of finance lease liabilities	**199,737**	**107,689**

	31 December 2014	31 December 2013
Less than one year	823	22,081
1-5 years	15,702	13,697
Over 5 years	183,212	71,911
Present value of finance lease liabilities	**199,737**	**107,689**

21. SHORT-TERM FINANCE LIABILITIES

	31 December 2014	31 December 2013
Short-term loans	8,600,111	300,028
Current portion of long-term loans (note 20)	6,100,504	27,596,332
Current portion of finance lease liabilities (note 20)	823	22,081
	14,701,438	**27,918,441**

22. TRADE PAYABLES

	31 December 2014	31 December 2013
Parents and subsidiaries - foreign	20,122,243	9,338,240
Other related parties - domestic	830,355	1,534,730
Other related parties - foreign	131,258	28,586,819
Trade payables domestic – third parties	6,312,351	7,714,277
Trade payables foreign – third parties	9,343,872	3,134,047
Other trade payables	75,660	70,757
	36,815,739	**50,378,870**

As at 31 December 2014 payables to parents and subsidiaries-foreign amounting to RSD 20,122,243 (31 December 2013: RSD 9,338,240) fully relate to payables to the supplier Gazprom Neft, St Petersburg, for the purchase of crude oil.

23. OTHER SHORT-TERM LIABILITIES

	31 December 2014	31 December 2013
Specific liabilities	386,183	332,512
Liabilities for unpaid wages and salaries, gross	1,111,477	56,112
Interest liabilities	667,760	520,438
Dividends payable	3,772,308	3,772,308
Other payables to employees	629,953	672,029
Decommissioning and site restoration costs	1,638,178	1,694,023
Environmental provision	503,287	584,494
Litigation and claims	278,989	365,784
Other current liabilities	149,527	57,934
	9,137,662	**8,055,634**

24. LIABILITIES FOR OTHER TAXES

	31 December 2014	31 December 2013
Excise tax	5,492,646	4,312,273
Income tax	15,435	2,628,730
Liabilities for taxes and custom duties	1,755,409	3,050,302
Other taxes payables	250,224	210,774
	7,513,714	**10,202,079**

25. ACCRUED EXPENSES

Accrued expenses as at 31 December 2014 amounting to RSD 5,516,367 (31 December 2013: RSD 3,501,228) mainly relate to accrued employee bonuses of RSD 1,875,170 (31 December 2013: RSD 1,652,748).

26. COST OF MATERIAL

	Year ended 31 December	
	2014	**2013**
Costs of raw materials	138,821,147	130,671,124
Overheads costs	265,998	193,722
Other costs	1,707,550	1,397,784
	140,794,695	**132,262,630**

27. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December	
	2014	**2013**
Wages and salaries (gross)	15,130,012	15,349,007
Taxes and contributions on wages and salaries paid by employer	2,209,554	2,394,753
Cost of service agreement	594,975	666,003
Cost of other personal wages	61,780	65,641
Fees paid to board of directors and general assembly board	127,144	72,666
Termination costs	395,819	3,375,478
Other personal expenses	767,002	1,689,136
	19,286,286	**23,612,684**

28. COST OF PRODUCTION SERVICES

	Year ended 31 December 2014	2013
Cost of production services	2,613,461	1,839,254
Transportation services	2,928,463	2,519,454
Maintenance	2,906,214	2,072,722
Rental costs	2,318,699	1,189,741
Fairs	11,539	5,917
Advertising costs	971,609	755,081
Exploration expenses	1,680,138	786,216
Cost of other services	1,076,077	1,327,187
	14,506,200	**10,495,572**

29. LONG-TERM PROVISION EXPENSE

	Year ended 31 December 2014	2013
Decommissioning and site restoration costs	36,947	429,780
Employee benefits costs	329,300	538,962
Other provision expense (litigation and claims)	-	381,063
	366,247	**1,349,805**

30. NON-MATERIAL EXPENSES

	Year ended 31 December 2014	2013
Costs of non-production services	8,114,893	6,074,329
Representation costs	115,662	152,509
Insurance premium	581,400	305,264
Bank charges	270,043	254,017
Cost of taxes	1,165,296	1,808,706
Mineral extraction tax	2,234,572	2,472,792
Other non-production expenses	1,714,471	1,459,845
	14,196,337	**12,527,462**

Cost of non-production services for the year ended 31 December 2014 amounting to RSD 8,114,893 (2013: RSD 6,074,329) mainly relate to costs of service organizations of RSD 5,396,888, consulting service costs of RSD 1,059,174, project management costs of RSD 247,157 and certification and supervision costs of RSD 180,425.

31. FINANCE INCOME

	Year ended 31 December	
	2014	2013
Finance income - related parties		
- foreign exchange differences	2,197,806	2,105,327
- other finance income	2,530	-
Interest income	4,238,258	5,539,711
Foreign exchange gains	1,332,107	6,287,228
Other finance income	18,260	12,415
	7,788,961	**13,944,681**

32. FINANCE EXPENSE

	Year ended 31 December	
	2014	2013
Finance expenses – related parties		
- foreign exchange differences	6,285,920	1,122,256
- other finance expense	1,136,972	1,224,482
Interest expenses	2,448,838	2,163,134
Amortization of long-term liabilities	48,371	354,643
Foreign exchange losses	10,480,880	5,458,397
Other finance expenses	347	46
	20,401,328	**10,322,958**

33. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 December	
	2014	2013
Reversal of impairment of LT financial investments	17,263	190,629
Income from valuation:		
- trade and specific receivables	467,104	972,314
- short-term investments	393,467	184,651
- other receivables	106,672	809
	984,506	**1,348,403**

34. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 December	
	2014	2013
Loss from valuation:		
- LT financial investments	3,168	6,493
- trade and specific receivables	328,989	533,504
- other receivables	3,606,207	4,745,266
- other	344	521
	3,938,708	**5,285,784**

35. OTHER INCOME

	Year ended 31 December	
	2014	**2013**
Gains on disposal - Intangible assets and PPE	202,270	109,012
Gains on disposal - materials	41,917	20,118
Surpluses from stock count	394,324	385,145
Payables written off	42,257	274,630
Release of long-term provisions	2,425,927	867,219
Gain on bargain purchase (note 39)	455,776	-
Release of impairment:		
- PPE	79,596	143
- investment property	164,761	151,936
- inventory	216,837	455,074
- other property	13,117	9,658
Penalty interest	106,128	523,261
Other income	723,624	491,345
	4,866,534	**3,287,541**

36. OTHER EXPENSES

	Year ended 31 December	
	2014	**2013**
Loss on disposal - Intangible assets and PPE	288,251	647,458
Shortages from stock count	821,895	1,074,361
Write-off receivables	3,133	26,789
Write-off inventories	88,321	79,550
Impairment:		
- IA	332,949	66,637
- PPE	268,664	322,460
- inventory	9,025	139,379
- other property	18,276	18,529
Other expenses	1,683,442	776,130
	3,513,956	**3,151,293**

37. INCOME TAXES

Components of income tax expense:

	Year ended 31 December 2014	Year ended 31 December 2013
Income tax for the year	3,497,767	6,195,055
Deferred income tax for the period (note 10)		
Origination and reversal of temporary differences	2,533,344	(152,330)
	6,031,111	**6,042,725**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Group's profits as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Profit before tax	33,869,555	54,390,421
Tax calculated at domestic tax rates applicable to profits in the respective countries	5,990,376	8,793,869
Tax effect on:		
Revenues exempt from taxation	(315,335)	-
Expenses not deductible for tax purposes	985,182	154,030
Tax losses for which no deferred income tax asset was recognised	1,528,598	9,699
Utilized tax credits	(1,860,025)	(3,012,616)
Other	(285,251)	-
	6,043,545	**5,944,982**
Tax reassessment	(12,434)	97,743
	6,031,111	**6,042,725**
Effective income tax rate	17.81%	11.11%

38. EARNINGS PER SHARE

	Year ended 31 December 2014	Year ended 31 December 2013
Profit attributable to shareholders of Naftna Industrija Srbije	27,939,245	48,373,230
Weighted average number of ordinary shares issued	163,060,400	163,060,400
Basic Earnings per share	**0.171**	**0.297**

39. BUSINESS COMBINATIONS

Acquisition of petrol stations

In 2014 the Group has acquired five petrol stations, four in Bulgaria and one in Serbia. As a result of the acquisitions, the Group is expected to further increase its presence in these markets.

Name of acquiree	Date of acquisition	Percentage of equity interests acquired
Bulgaria		
Bansko	6 June 2014	100%
Čeren Kos	4 June 2014	100%
Ruse	16 June 2014	100%
Haskovo	5 June 2014	100%
Serbia		
SSG Sava Centar	21 July 2014	100%

The following table summarises the consideration paid for acquired PS in the year ended 31 December 2014, the fair value of assets acquired and liabilities assumed.

	Year ended 31 December 2014		
	Bulgaria	**Serbia**	**Total**
Purchase consideration:			
Cash paid	499,235	332,353	831,588
Total purchase consideration	499,235	332,353	831,588
Fair value of net identifiable assets acquired	457,087	788,129	1,245,216
Goodwill	**42,148**	**-**	**42,148**
Gain on bargain purchase	**-**	**(455,776)**	**(455,776)**

Amounts recognized as at acquisition date for each major class of assets acquired and liabilities assumed:

	Bulgaria	**Serbia**	**Total**
Licenses, other than related to O&G activity – land rights	-	626,451	626,451
Property, plant and equipment	457,087	161,678	618,765
Net identifiable assets acquired	**457,087**	**788,129**	**1,245,216**

The acquisition agreements include only acquisition of PS and do not contain any contingent consideration.

In 2013, the Group acquired 3 petrol stations (one in Bulgaria and two in Romania) and 100% of the share capital of OMV Bosnia and Herzegovina. The total consideration paid for above acquisitions amounted to RSD 3,939,086. The fair value of net identifiable asset acquired amounted to RSD 3,395,629 and remaining amount was recognised as goodwill.

40. GROUP ENTITIES

The consolidated financial statements of below listed subsidiaries are consolidated as at 31 December 2014 and 31 December 2013:

Subsidiary	Country of incorporation	Nature of business	Share % 31-Dec 2014	Share % 31-Dec 2013
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
Pannon naftagas Kft, Budapest	Hungary	O&G activity	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-naftni servisi d.o.o., Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o., Novi Sad	Serbia	O&G activity	100	100
Naftagas-tehnicki servisi d.o.o., Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o., Novi Sad	Serbia	Transport	100	100
O Zone a.d., Belgrade	Serbia	Other	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	Trade	100	100
Jadran - Naftagas d.o.o., Banja Luka	Bosnia and Herzegovina	O&G activity	66	66
Jubos, Bor	Serbia	Other	51	51
Svetlost, Bujanovac	Serbia	Trade	51	51

The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The total of 29.87% shares of the Company are owned by the Republic of Serbia, while 13.98% are owned by non-controlling shareholders and are quoted on the Belgrade Stock Exchange. Gazprom, Russian Federation is the ultimate owner of the Company.

During 2014 and 2013, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

As of 31 December 2014 and 31 December 2013 the outstanding balances with related parties were as follows:

	Joint venture	Parent	Entities under common control	Total
As at 31 December 2014				
Investments in joint ventures	1,008,221	-	-	1,008,221
Trade receivables	-	-	36,398	36,398
Other receivables	117,858	-	-	117,858
Long-term liabilities	-	(42,194,756)	-	(42,194,756)
Short-term financial liabilities	-	(5,625,967)	-	(5,625,967)
Advances received	-	-	(12,831)	(12,831)
Trade payables	-	(20,122,243)	(131,258)	(20,253,501)
	1,126,079	**(67,942,966)**	**(107,691)**	**(66,924,578)**
As at 31 December 2013				
Investments in joint ventures	1,008,221	-	-	1,008,221
Trade receivables	-	-	3,537	3,537
Other receivables	11,385	-	-	11,385
Long-term liabilities	-	(45,323,621)	-	(45,323,621)
Short-term financial liabilities	-	(5,332,191)	-	(5,332,191)
Trade payables	-	(9,338,240)	(28,586,819)	(37,925,059)
	1,019,606	**(59,994,052)**	**(28,583,282)**	**(87,557,728)**

41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

For the year ended 31 December 2014 and 2013 the following transaction occurred with related parties:

	Joint venture	Parent	Entities under common control	Total
Year ended 31 December 2014				
Sales revenue	-	-	2,208,538	2,208,538
Cost of goods sold	-	-	(65,868)	(65,868)
Decrease in inventories of finished goods and work in progress	-	-	(1,627,639)	(1,627,639)
Cost of material	-	(109,522)	(94,590,847)	(94,700,369)
Non-material expense	-	(51,132)	(12,974)	(64,106)
Finance expense	-	(1,150,071)	-	(1,150,071)
Other income	-	52,602	202,046	254,648
Other expenses	-	(68,318)	(410,518)	(478,836)
	-	**(1,326,441)**	**(94,297,262)**	**(95,623,703)**
Year ended 31 December 2013				
Sales revenue	-	-	92,553	92,553
Cost of goods sold	-	-	(17,245)	(17,245)
Cost of material	-	-	(114,209,629)	(114,209,629)
Non-material expense	-	(45,889)	-	(45,889)
Finance expense	-	(1,224,655)	-	(1,224,655)
Other income	-	-	297,244	297,244
Other expenses	-	(4,437)	(634,721)	(639,158)
	-	**(1,274,981)**	**(114,471,798)**	**(115,746,779)**

Key management compensation

Management compensation paid in 2014 and 2013 is shown in the table below:

	Year ended 31 December	
	2014	**2013**
Salaries and other short-term benefits	685,322	404,298
	685,322	**404,298**

Main balances and transactions with mayor state owned companies

	31 December 2014	31 December 2013
Receivables – gross		
HIP Petrohemija	13,004,338	12,284,032
Srbijagas	29,289,917	27,124,438
	42,294,255	**39,408,470**
Liabilities		
HIP Petrohemija	(830,355)	(1,534,730)
Srbijagas	(226,896)	(230,099)
	(1,057,251)	**(1,764,829)**
Advances received		
HIP Petrohemija	(7,109)	(7,112)
Srbijagas	(12,806)	(12,806)
	(19,915)	**(19,918)**

41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

Main balances and transactions with mayor state owned companies (continued)

	Year ended 31 December 2014	2013
Operating income		
HIP Petrohemija	23,382,492	35,132,534
Srbijagas	2,926,879	2,176,974
	26,309,371	**37,309,508**
Operating expenses		
HIP Petrohemija	(174,117)	(30,266)
Srbijagas	(751,452)	(1,080,394)
	(925,569)	**(1,110,660)**

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

42. CONTINGENT LIABILITIES

Transfer of property ownership

As at 31 December 2014, the Company had ownership and the right to use and possess of 7,915 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

Finance Guarantees

As at 31 December 2014 the total amount of outstanding finance guarantees provided by the Group amounted to RSD 6,753,935, mostly related to guaranties for customs duties in the amount of RSD 3,454,563 (2013: RSD 2,192,400).

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Group's management recognised an environmental provision in the amount of RSD 570,358 (31 December 2013: RSD 690,094).

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

43. CONTINGENT LIABILITIES (continued)

Other contingent liabilities

As at 31 December 2014, the Group did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Group has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Group's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Group's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed four years ago. Taking all of the above into consideration, the Group's Management is of the view that as at 31 December 2014 outflow of resources embodying economic benefits is not probable due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

44. TAX RISKS

Tax laws of Republic of Serbia are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. The tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years from the transaction date. As at 31 December 2014, Management assessed that the Group had paid all tax liabilities.

45. COMMITMENTS

Leases

Minimum lease payments under non-cancellable operating lease by lessor:

	31 December 2014	31 December 2013
Less than one year	151,533	230,006
1-5 years	206,160	349,778
Over five years	148,888	484,875
	506,581	**1,064,659**

46. COMMITMENTS (continued)

Leases (continued)

Minimum lease payments under non-cancellable operating lease by lessee:

	31 December 2014	31 December 2013
Less than one year	1,020,707	588,323
1-5 years	2,290,408	719,661
Over 5 years	403,808	489,029
	3,714,923	**1,797,013**

Farm-out agreement with East West Petroleum Corporation, Canada

In October 2011, the Group entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in the Timisoara region in Romania. Under the Contract, the Group shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Group will be entitled to 85% of the total production volume of hydrocarbons. Moreover, under the Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Group will act as the Operator and will be in charge of and shall conduct all Joint Operations. Exploration activities are underway. On 31 December 2014 drilling and exploration works for Block 2, 3, 7 and 8 were estimated to USD 50 million.

There were no other material commitments of the Group.

47. EVENTS AFTER THE REPORTING PERIOD

No significant events which required disclosure in these Consolidated financial statements, occurred after the reporting date.

Subsequent events occurring after 31 December 2014 were evaluated through 4 March 2015, the date these Consolidated financial statements were authorised for issue.