NIS A.D. – Naftna industrija Srbije
Novi Sad

Financial Statements and
Independent Auditor's Report

Novi Sad, 28 February 2017

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

Contents

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Naftna Industrija Srbije a.d. Novi Sad

We have audited the accompanying financial statements of Naftna Industrija Srbije a.d. Novi Sad (the „Company") which comprise the balance sheet as of 31 December 2016 and the income statement, statement of other comprehensive income, statement of changes equity and cash flow statement for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Naftna Industrija Srbije a.d. Novi Sad as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on Accounting and accounting regulation effective in the Republic of Serbia.

Milivoje Nešović
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 February 2017

PricewaterhouseCoopers d.o.o., Omladinskih brigada 88a, 11070 Belgrade, Republic of Serbia
T: +381 11 3302 100, F:+381 11 3302 101, www.pwc.rs

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET

	AOP	Note	31 December 2016	31 December 2015
A. SUBSCRIBED CAPITAL UNPAID	**0001**		**-**	**-**
B. NON-CURRENT ASSETS (0003 + 0010 + 0019+ 0024 + 0034)	**0002**		**289,265,136**	**287,880,166**
I. INTANGIBLE ASSETS (0004+0005+0006+0007+0008+0009)	**0003**	**8**	**15,766,633**	**16,303,592**
1. Development investments	0004		5,473,418	6,153,717
2. Concessions, licenses, software and other rights	0005		2,720,533	3,108,561
3. Goodwill	0006		-	-
4. Other intangible assets	0007		874,016	879,583
5. Intangible assets under development	0008		6,698,666	6,161,731
6. Advances for intangible assets	0009		-	-
II. PROPERTY, PLANT AND EQUIPMENT (0011+0012+0013+0014+0015+0016+0017+0018)	**0010**	**9**	**216,068,737**	**208,385,605**
1. Land	0011		10,468,243	10,446,971
2. Buildings	0012		118,094,110	107,307,311
3. Machinery and equipment	0013		60,403,194	60,680,381
4. Investment property	0014		1,549,663	1,336,060
5. Other property, plant and equipment	0015		74,400	74,877
6. Construction in progress	0016		23,186,943	26,877,361
7. Investments in leased PP&E	0017		271,339	330,035
8. Advances for PP&E	0018		2,020,845	1,332,609
III. BIOLOGICAL ASSETS (0020+0021+0022+0023)	**0019**		**-**	**-**
1. Forest farming	0020		-	-
2. Livestock	0021		-	-
3. Biological assets in production	0022		-	-
4. Advances for biological assets	0023		-	-
IV. LONG-TERM FINANCIAL INVESTMENTS (0025+0026+0027+0028+0029+0030+0031+0032+0033)	**0024**		**48,129,888**	**48,601,981**
1. Investments in subsidiary	0025	10	13,442,631	13,442,631
2. Investments in joint ventures	0026	11	1,038,800	180,438
3. Investments in other legal entities and other available for sales financial assets	0027		148,665	167,358
4. Long term investments in parent and subsidiaries	0028	12	32,413,076	33,502,197
5. Long-term investments in other related parties	0029		-	-
6. Long-term investments - domestic	0030		-	138,633
7. Long-term investments - foreign	0031		-	-
8. Securities held to maturity	0032		-	-
9. Other long-term financial investments	0033	13	1,086,716	1,170,724
V. LONG-TERM RECEIVABLES (0035+0036+0037+0038+0039+0040+0041)	**0034**	**14**	**9,299,878**	**14,588,988**
1. Receivables from parent company and subsidiaries	0035		-	-
2. Receivables from other related parties	0036		-	4,010,546
3. Receivables from sale of goods on credit	0037		-	-
4. Receivables arising out of finance lease contracts	0038		7,872	8,339
5. Claims arising from guarantees	0039		-	-
6. Bad and doubtful receivables	0040		-	-
7. Other long-term receivables	0041		9,292,006	10,570,103
C. DEFFERED TAX ASSETS	**0042**	**15**	**4,059,076**	**4,521,729**

(continued)

The accompanying notes on pages 10 to 57 are an integral part of these financial statements.

BALANCE SHEET (continued)

	AOP	Note	31 December 2016	31 December 2015
D. CURRENT ASSETS (0044+0051+0059+0060+0061+0062+0068+0069+0070)	**0043**		**93,336,342**	**84,266,054**
I. INVENTORY (0045+0046+0047+0048+0049+0050)	**0044**	**16**	**23,541,276**	**20,967,604**
1. Materials, spare parts and tools	0045		13,198,507	9,220,049
2. Work in progress	0046		3,119,239	4,050,154
3. Finished goods	0047		5,638,221	5,540,706
4. Merchandise	0048		1,523,265	1,949,490
5. Assets held for sale	0049		-	21,703
6. Advances for inventory and services	0050		62,044	185,502
II. TRADE RECEIVABLES (0052+0053+0054+0055+0056+0057+0058)	**0051**	**17**	**38,430,002**	**35,328,663**
1. Domestic trade receivables - parents and subsidiaries	0052		1,399,483	1,526,533
2. Foreign trade receivables - parents and subsidiaries	0053		1,620,612	1,350,735
3. Domestic trade receivables - other related parties	0054		675,178	10,799,575
4. Foreign trade receivables - other related parties	0055		994,853	148,105
5. Trade receivables - domestic	0056		32,800,095	20,850,547
6. Trade receivables - foreign	0057		939,781	653,168
7. Other trade receivbles	0058		-	-
III. RECEIVABLES FROM SPECIFIC OPERATIONS	**0059**		**666,552**	**661,724**
IV. OTHER RECEIVABLES	**0060**	**18**	**3,526,414**	**2,633,057**
V. FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS	**0061**		**-**	**-**
VI. SHORT TERM FINANCIAL INVESTMENTS (0063+0064+0065+0066+0067)	**0062**	**19**	**3,519,702**	**1,255,935**
1. Short-term loans and investments - parent companies and subsidiaries	0063		364,481	847,638
2. Short-term loans and investments – other related parties	0064		-	-
3. Short-term loans and investments - domestic	0065		-	-
4. Short-term loans and investments - foreign	0066		-	-
5. Other short-term loans and investments	0067		3,155,221	408,297
VII. CASH AND CASH EQUIVALENTS	**0068**	**20**	**20,053,651**	**16,729,893**
VIII. VALUE ADDED TAX	**0069**		**-**	**-**
IX. PREPAYMENTS AND ACCRUED INCOME	**0070**	**21**	**3,598,745**	**6,689,178**
E. TOTAL ASSETS (0001+0002+0042+0043)	**0071**		**386,660,554**	**376,667,949**
F. OFF-BALANCE SHEET ASSETS	**0072**	**22**	**117,893,750**	**129,976,675**
A. EQUITY (0402+0411-0412+0413+0414+0415-0416+0417+0420-0421)	**0401**		**215,174,642**	**203,015,095**
I. EQUITY (0403+0404+0405+0406+0407+0408+0409+0410)	**0402**		**81,530,200**	**81,530,200**
1. Share capital	0403	23	81,530,200	81,530,200
2. Stakes of limited liability companies	0404		-	-
3. Stakes	0405		-	-
4. State owned capital	0406		-	-
5. Socially owned capital	0407		-	-
6. Stakes in cooperatives	0408		-	-
7. Share premium	0409		-	-
8. Other capital	0410		-	-
II. SUBSCRIBED CAPITAL UNPAID	**0411**		**-**	**-**
III. OWN SHARES	**0412**		**-**	**-**
IV. RESERVES	**0413**		**-**	**-**
V. REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT	**0414**		**80,607**	**-**
VI. UNREALISED GAINS FROM SECURITAS AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	**0415**		**122,912**	**112,925**
VII. UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	**0416**		**66,519**	**79,564**
VIII. RETAINED EARNINGS (0418+0419)	**0417**		**133,507,442**	**121,451,534**
1. Retained earnings from previous years	0418		117,425,573	105,346,867
2. Retained earnings from current year	0419		16,081,869	16,104,667
IX. NON-CONTROLLING INTEREST	**0420**		**-**	**-**
X. LOSS (0422+0423)	**0421**		**-**	**-**
1. Loss from previous years	0422		-	-
2. Loss from current year	0423		-	-

(continued)

The accompanying notes on pages 10 to 57 are an integral part of these financial statements.

BALANCE SHEET (continued)

	AOP	Note	31 December 2016	31 December 2015
B. LONG-TERM PROVISIONS AND LIABILITIES (0425+0432)	**0424**		**102,689,234**	**108,463,513**
I. LONG-TERM PROVISIONS (0426+0427+0428+0429+0430+4031)	**0425**	**24**	**9,365,454**	**9,154,267**
1. Provisions for warranty claims	0426			-
2. Provision for environmental rehabilitation	0427		7,801,828	7,918,238
3. Provisions for restructuring costs	0428		-	-
4. Provisions for employee benefits	0429		1,178,642	850,813
5. Provisions for litigations	0430		384,984	385,216
6. Other long term provisions	0431		-	-
II. LONG-TERM LIABILITIES (0433+0434+0435+0436+0437+0438+0439+0440)	**0432**	**25**	**93,323,780**	**99,309,246**
1. Liabilities convertible to equity	0433		-	-
2. Liabilities to parent and subsidiaries	0434		31,585,938	36,770,682
3. Liabilities to other related parties	0435		-	-
4. Liabilities for issued long-term securities	0436		-	-
5. Long term borrowings - domestic	0437		23,842,201	18,240,935
6. Long-term borrowings - foreign	0438		37,776,368	44,297,629
7. Finance lease liabilities	0439		117,414	-
8. Other long-term liabilities	0440		1,859	-
C. DEFFERED TAX LIABILITIES	**0441**	**15**	**-**	**-**
D. SHORT-TERM LIABILITIES (0443+0450+0451+0459+0460+0461+0462)	**0442**		**68,796,678**	**65,189,341**
I. SHORT-TERM FINANCIAL LIABILITIES (0444+0445+0446+0447+0448+0449)	**0443**	**26**	**22,841,082**	**17,700,395**
1. Short term borrowings from parent and subsidiaries	0444		1,109,630	729,883
2. Short term borrowings from other related parties	0445		-	-
3. Short-term loans and borrowings - domestic	0446		10,468,337	3,553,091
4. Short-term loans and borrowings - foreign	0447		1,721,579	-
5. Liabilities relating to current assets and held-for-sale assets attributable to discounted operations	0448			-
6. Other short term liabilities	0449		9,541,536	13,417,421
II. ADVANCES RECEIVED	**0450**		**1,228,944**	**3,131,988**
III. TRADE PAYABLES (0452+0453+0454+0455+0456+0458)	**0451**	**27**	**24,861,519**	**25,172,093**
1. Trade payables - parent and subsidiaries - domestic	0452		3,163,156	2,418,644
2. Trade payables - parent and subsidiaries - foreign	0453		5,862,793	11,015,359
3. Trade payables - other related parties - domestic	0454		675,393	800,455
4. Trade payables - other related parties - foreign	0455		1,058,865	166,005
5. Trade payables - domestic	0456		5,169,842	5,492,502
6. Trade payables - foreign	0457		8,919,567	5,201,953
7. Other operating liabilities	0458		11,903	77,175
IV. OTHER SHORT-TERM LIABILITIES	**0459**	**28**	**8,068,314**	**8,425,924**
V. LIABILITIES FOR VAT	**0460**		**1,383,017**	**1,227,765**
VI. LIABILITIES FOR OTHER TAXES	**0461**	**29**	**6,989,668**	**7,241,150**
VII. ACCRUED EXPENSES	**0462**	**30**	**3,424,134**	**2,290,026**
E. LOSS EXCEEDING EQUITY (0412+0416+0421-0420-0417-0415-0414-0413-0411-0402)>=0=(0441+0424+0442-0071)>=0	**0463**		**-**	**-**
F. TOTAL EQUITY AND LIABILITIES (0424+0442+0441+0401-0463)>=0	**0464**		**386,660,554**	**376,667,949**
G. OFF-BALANCE SHEET LIABILITIES	**0465**	**22**	**117,893,750**	**129,976,675**

Novi Sad, 28 February 2017

The person responsible for the preparation of financial statements

M.P.

Legal representative

The accompanying notes on pages 10 to 57 are an integral part of these financial statements.

INCOME STATEMENT

	AOP	Note	Year ended 31 December 2016	2015
INCOME FROM REGULAR OPERATING ACTIVITIES				
A. OPERATING INCOME (1002+1009+1016+1017)	**1001**	**7**	**177,913,601**	**199,861,276**
I. INCOME FROM THE SALE OF GOODS (1003+1004+1005+1006+1007+1008)	**1002**		**17,604,116**	**11,371,895**
1. Income from sales of goods to parent and subsidiaries on domestic market	1003		104,341	220,251
2. Income from sales of goods to parent and subsidiaries on foreign market	1004		130,677	5,649
3. Income from the sale of goods to other related parties on domestic market	1005		579	-
4. Income from the sale of goods to other related parties on foreign market	1006		8,408,639	554,085
5. Income from sale of goods on domestic market	1007		8,461,623	10,572,062
6. Income from sale of goods on foreign market	1008		498,257	19,848
II. INCOME FROM SALES OF PRODUCTS AND SERVICES (1010+1011+1012+1013+1014+1015)	**1009**		**159,965,290**	**188,275,933**
1. Income from sales of products and services to parent and subsidiaries on domestic market	1010		865,469	1,123,270
2. Income from sales of products and services to parent and subsidiaries on foreign market	1011		7,896,816	8,217,634
3. Income from sales of products and services to other related parties on domestic market	1012		13,809,239	17,570,375
4. Income from sales of products and services to other related parties on foreign market	1013		710,618	256,269
5. Income from sales of products and services – domestic	1014		118,567,760	137,270,539
6. Income from sales of products and services – foreign	1015		18,115,388	23,837,846
III. INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS	**1016**		**4,239**	**3,169**
IV. OTHER OPERATING INCOME	**1017**		**339,956**	**210,279**
B. OPERATING EXPENSES (1019-1020-1021+1022+1023+1024+1025+1026+1027+1028+1029)>=0	**1018**		**161,310,384**	**175,937,047**
I. COST OF GOODS SOLD	1019		16,584,345	10,086,127
II. WORK PERFORMED BY THE ENTITY AND CAPITALIZED	1020		2,091,986	972,678
III. INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1021		-	-
IV. DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1022		833,400	3,285,252
V. COST OF MATERIAL	1023		87,048,696	107,736,687
VI. COST OF FUEL AND ENERGY	1024		3,864,723	3,474,079
VII. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	1025		13,919,752	13,864,222
VIII. COST OF PRODUCTION SERVICES	1026	31	16,319,955	13,986,539
IX. DEPRECIATION, DEPLETION AND AMORTIZATION	1027	8,9	13,578,551	12,101,263
X. COST OF LONG-TERM PROVISIONING	1028		712,472	771,994
XI. NON-PRODUCTION COSTS	1029	32	10,540,476	11,603,562
C. OPERATING GAIN (1001-1018)>=0	**1030**		**16,603,217**	**23,924,229**
D. OPERATING LOSS (1018-1001)>=0	**1031**		**-**	**-**

(continued)

INCOME STATEMENT (continued)

	AOP	Note	Year ended 31 December 2016	2015
E. FINANCE INCOME (1033+1038+1039)	**1032**	**33**	**4,153,094**	**4,437,415**
I. FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME (1034+1035+1036+1037)	1033		1,836,082	2,336,657
1. Finance income - parent company and subsidiaries	1034		1,816,340	2,259,332
2. Finance income - other related parties	1035		16,522	8,805
3. Share of profit of associates and joint ventures	1036		-	-
4. Other financial income	1037		3,220	68,520
II. INTEREST INCOME (from third parties)	1038		1,033,686	650,898
III. FOREIGN EXCHANGE GAINS (third parties)	1039		1,283,326	1,449,860
F. FINANCE EXPENSES (1041+1046+1047)	**1040**	**34**	**8,796,821**	**14,671,061**
I. FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES (1042+1043+1044+1045)	1041		2,060,116	3,633,441
1. Finance expense - parent company and subsidiaries	1042		2,031,235	3,618,789
2. Finance expense - other related parties	1043		20,577	10,227
3. Share of loss of associates and joint ventures	1044		-	-
4. Other financial expense	1045		8,304	4,425
II. INTEREST EXPENSE (from third parties)	1046		2,958,264	3,357,792
III. FOREIGN EXCHANGE LOSSES (third parties)	1047		3,778,441	7,679,828
G. PROFIT FROM FINANCING OPERATIONS (1032-1040)	**1048**		**-**	**-**
H. LOSS FROM FINANCING OPERATIONS (1040-1032)	**1049**		**4,643,727**	**10,233,646**
I. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**1050**	**35**	**6,517,073**	**7,102,453**
J. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**1051**		**273,186**	**416,034**
K. OTHER INCOME	**1052**	**36**	**1,772,257**	**2,341,163**
L. OTHER EXPENSES	**1053**	**37**	**1,374,090**	**2,262,281**
M. OPERATING PROFIT BEFORE TAX (1030-1031+1048-1049+1050-1051+1052-1053)	**1054**		**18,601,544**	**20,455,884**
N. OPERATING LOSS BEFORE TAX (1031-1030+1049-1048+1051-1050+1053-1052)	**1055**		**-**	**-**
O. NET INCOME ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS	**1056**		**-**	**-**
P. NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS	**1057**		**-**	**-**
Q. PROFIT BEFORE TAX (1054-1055+1056-1057)	**1058**		**18,601,544**	**20,455,884**
R. LOSS BEFORE TAX (1055-1054+1057-1056)	**1059**		**-**	**-**
II. INCOME TAX				
I. CURRENT INCOME TAX	1060	38	2,061,271	3,762,995
II. DEFERRED TAX EXPENSE FOR THE PERIOD	1061	38	1,098,923	588,222
III. DEFERRED TAX INCOME FOR THE PERIOD	1062	38	640,519	-
S. PERSONAL INCOME PAID TO EMPLOYER	**1063**		**-**	**-**
T. NET PROFIT (1058-1059-1060-1061+1062)	**1064**		**16,081,869**	**16,104,667**
V. NET LOSS (1059-1058+1060+1061-1062)	**1065**			
I. NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1066			-
II. NET INCOME ATTRIBUTABLE TO THE OWNER	1067		16,081,869	16,104,667
III. NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1068		-	-
IV. NET LOSS ATTRIBUTABLE TO THE OWNER	1069		-	-
V. EARNINGS PER SHARE				
1. Basic earnings per share	1070		0.099	0.099
2. Diluted earnings per share	1071		-	-

The accompanying notes on pages 10 to 57 are an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

	AOP	Note	Year ended 31 December 2016	2015
A. NET PROFIT/(LOSS)				
I. PROFIT, NET (AOP 1064)	**2001**		**16,081,869**	**16,104,667**
II. LOSS, NET (AOP 1065)	**2002**		**-**	**-**
B. OTHER COMPREHENSIVE PROFIT OR LOSS				
a) Items that will not be reclassified to profit or loss				
1. Changes in the revaluation of intangible assets, property, plant and equipment				
a) increase in revaluation reserves	2003		80,607	-
b) decrease in revaluation reserves	2004		-	-
2. Actuarial gains (losses) of post employment benefit obligations				
a) gains	2005		9,987	793
b) losses	2006		-	-
3. Gains and losses arising from equity investments				
a) gains	2007		-	-
b) losses	2008		-	-
4. Gains or losses arising from a share in the associate's other comprehensive profit or loss				
a) gains	2009		-	-
b) losses	2010		-	-
b) Items that may be subsequently reclassified to profit or loss				
1. Gains (losses) from currency translation differences				
a) gains	2011		-	-
b) losses	2012		-	-
2. Gains (losses) on investment hedging instruments in foreign business				
a) gains	2013		-	-
b) losses	2014		-	-
3. Gains and losses on cash flow hedges				
a) gains	2015		-	-
b) losses	2016		-	-
4. Gains (losses) from change in value of available-for-sale financial assets				
a) gains	2017		13,045	-
b) losses	2018		-	37,287
I. OTHER COMPREHENSIVE PROFIT BEFORE TAX (2003+2005+2007+2009+2011+2013+2015+2017)-(2004+2006+2008+2010+2012+2014+2016+2018)>=0	2019		103,639	-
II. OTHER COMPREHENSIVE LOSS BEFORE TAX (2004+2006+2008+2010+2012+2014+2016+2018)-(2003+2005+2007+2009+2009+2011+2013+2015+2017)>=0	2020		-	36,494
III. TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD	2021		-	-
IV. TOTAL NET COMPREHENSIVE PROFIT (2019-2020-2021)>=0	**2022**		**103,639**	**-**
V. TOTAL NET COMPREHENSIVE LOSS (2020-2019+2021)>=0	**2023**		**-**	**36,494**
C. TOTAL NET COMPREHENSIVE PROFIT				
I. TOTAL COMPREHENSIVE PROFIT, NET (2001-2002+2022-2023)>=0	2024		16,185,508	16,068,173
II. TOTAL COMPREHENSIVE LOSS, NET (2002-2001+2023-2022)>=0	2025		-	-
D. TOTAL NET COMPREHENSIVE PROFIT / (LOSS) (2027+2028)=АОП 2024>=0 или АОП 2025>0	**2026**		**16,185,508**	**16,068,173**
1. Attributable to shareholders	2027		16,185,508	16,068,173
2. Attributable to non-controling interest	2028		-	-

The accompanying notes on pages 10 to 57 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	AOP	Note	Year ended 31 December 2016	2015
A. CASH FLOWS FROM OPERATING ACTIVITIES				
I. Cash inflow from operating activities (1 to 3)	**3001**		**354,711,125**	**376,963,023**
1. Sales and advances received	3002		354,203,517	375,199,602
2. Interest from operating activities	3003		167,652	1,553,142
3. Other inflow from operating activities	3004		339,956	210,279
II. Cash outflow from operating activities (1 to 5)	**3005**		**315,578,401**	**327,312,640**
1. Payments and prepayments to suppliers	3006		140,608,837	156,576,208
2. Salaries, benefits and other personal expenses	3007		13,572,040	14,179,455
3. Interest paid	3008		3,088,203	2,998,698
4. Income tax paid	3009		608,298	2,792,016
5. Payments for other public revenues	3010		157,701,023	150,766,263
III. Net cash inflow from operating activities (I - II)	**3011**		**39,132,724**	**49,650,383**
IV. Net cash outflow from operating activities (II - I)	**3012**		**-**	**-**
B. CASH FLOWS FROM INVESTING ACTIVITIES				
I. Cash flows from investing activities (1 to 5)	**3013**		**12,366,002**	**14,879,363**
1. Sale of shares (net inflow)	3014		-	77,056
2. Proceeds from sale of intangible assets, property, plant and equipment	3015		493,930	174,446
3. Other financial investments (net inflow)	3016		11,872,007	14,561,694
4. Interest from investing activities	3017		-	-
5. Dividend received	3018		65	66,167
II. Cash outflow from investing activities (1 to 3)	**3019**		**39,781,878**	**48,741,505**
1. Acquisition of subsidiaries or other business (net outflow)	3020		-	-
2. Purchase of intangible assets, property, plant and equipment	3021		26,525,504	32,717,010
3. Other financial investments (net outflow)	3022		13,256,374	16,024,495
III. Net cash inflow from investing activities (I - II)	**3023**		**-**	**-**
IV. Net cash outflow from investing activities (II - I)	**3024**		**27,415,876**	**33,862,142**
C. CASH FLOWS FROM FINANCING ACTIVITIES				
I. Cash inflow from financing activities (1 to 5)	**3025**		**26,744,150**	**29,956,428**
1. Increase in share capital	3026		-	-
2. Proceeds from long-term borrowings (net inflow)	3027		8,904,810	13,134,218
3. Proceeds from short-term borrowings (net inflow)	3028		17,839,340	16,822,210
4. Other long-term liabilities	3029		-	-
5. Other short-term liabilities	3030		-	-
II. Cash outflow from financing activities (1 to 6)	**3031**		**34,998,343**	**34,359,895**
1. Purchase of own shares	3032		-	-
2. Repayment of long-term borrowings (net outflow)	3033		22,064,580	7,231,990
3. Repayment of short-term borrowings (net outflow)	3034		8,907,802	19,488,525
4. Repayment of other liabilities (net outflow)	3035		-	-
5. Financial lease	3036		-	-
6. Dividend distribution	3037	23	4,025,961	7,639,380
III. Net cash inflow from financing activities (I - II)	**3038**		**-**	**-**
IV Net cash outflow from financing activities (II - I)	**3039**		**8,254,193**	**4,403,467**
D. TOTAL CASH INFLOW (3001+3013+3025)	**3040**		**393,821,277**	**421,798,814**
E. TOTAL CASH OUTFLOW (3005+3019+3031)	**3041**		**390,358,622**	**410,414,040**
F. NET CASH INFLOW (340-341)	**3042**		**3,462,655**	**11,384,774**
G. NET CASH OUTFLOW (341-340)	**3043**		**-**	**-**
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3044**		**16,729,893**	**5,338,023**
I. CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS	**3045**		**239,069**	**794,189**
J. CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS	**3046**		**377,966**	**787,093**
K. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (3042-3043+3044+3045-3046)	**3047**		**20,053,651**	**16,729,893**

The accompanying notes on pages 10 to 57 are an integral part of these financial statements.

(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

	Equity components							
	AOP	Share capital	AOP	Reserves	AOP	Loss	AOP	Retained earnings
Balance as at 1 January 2015								
a) debit	4001	-	4037	-	4055	-	4091	-
b) credit	4002	**81,530,200**	4038	-	4056	-	4092	**112,986,247**
Adjustments of material errors and changes in accounting policies								
a) debit	4003	-	4039	-	4057	-	4093	-
b) credit	4004	-	4040	-	4058	-	4094	-
Restated opening balance as at 1 January 2015								
а) debit (1а+2а-2б)>=0	4005	-	4041	-	4059	-	4095	-
б) credit (1б-2а+2б)>=0	4006	**81,530,200**	4042	-	4060	-	4096	**112,986,247**
Changes in period								
a) debit	4007	-	4043	-	4061	-	4097	7,639,380
b) credit	4008	-	4044	-	4062	-	4098	16,104,667
Balance as at 31 December 2015								
а) debit (3а+4а-4б)>=0	4009	-	4045	-	4063	-	4099	-
б) credit (3б-4а+4б)>=0	4010	**81,530,200**	4046	-	4064	-	4100	**121,451,534**
Adjustments of material errors and changes in accounting policies								
a) debit	4011	-	4047	-	4065	-	4101	-
b) credit	4012	-	4048	-	4066	-	4102	-
Restated opening balance as at 1 January 2016								
а) debit (5а+6а-6б)>=0	4013	-	4049	-	4067	-	4103	-
б) credit (5б-6а+6б)>=0	4014	**81,530,200**	4050	-	4068	-	4104	**121,451,534**
Changes in period								
a) debit	4015	-	4051	-	4069	-	4105	4,025,961
b) credit	4016	-	4052	-	4070	-	4106	16,081,869
Balance as at 31 December 2016								
а) debit (7а+8а-8б)>=0	4017	-	4053	-	4071	-	4107	-
б) credit (7б-8а+8б)>=0	4018	**81,530,200**	4054	-	4072	-	4108	**133,507,442**

(continued)

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

		Other comprehensive income components						
	AOP	Revaluation reserves	AOP	Acturial gain/(loss)	AOP	Gains (losses) from change in value of available-for-sale financial assets	AOP	Total Equity
Balance as at 1 January 2015								
a) debit	**4109**	**-**	**4127**	**-**	**4217**	**42,277**		
b) credit	**4110**	**-**	**4128**	**112,132**	**4218**	**-**	**4235**	**194,586,302**
Adjustments of material errors and changes in accounting policies								
a) debit	4111	-	4129	-	4219	-		
b) credit	4112	-	4130	-	4220	-	4236	-
Restated opening balance as at 1 January 2015								
a) debit (1а+2а-2б)>=0	**4113**	-	**4131**	**-**	**4221**	**42,277**		
b) credit (1б-2а+2б)>=0	**4114**	**-**	**4132**	**112,132**	**4222**	**-**	**4237**	**194,586,302**
Changes in period								
a) debit	4115	-	4133	-	4223	37,287		
b) credit	4116	-	4134	793	4224	-	4238	8,428,793
Balance as at 31 December 2015								
a) debit (3а+4а-4б)>=0	**4117**	-	**4135**	**-**	**4225**	**79,564**		
b) credit (3б-4а+4б)>=0	**4118**	-	**4136**	**112,925**	**4226**	**-**	**4239**	**203,015,095**
Adjustments of material errors and changes in accounting policies								
a) debit	4119	-	4137	-	4227	-		
b) credit	4120	-	4138	-	4228	-	4240	-
Restated opening balance as at 1 January 2016								
a) debit (5а+6а-6б)>=0	**4121**	**-**	**4139**	**-**	**4229**	**79,564**		
b) credit (5б-6а+6б)>=0	**4122**	**-**	**4140**	**112,925**	**4230**	**-**	**4241**	**203,015,095**
Changes in period								
a) debit	4123	-	4141	-	4231	-		
b) credit	4124	80,607	4142	9,987	4232	13,045	4242	12,159,547
Balance as at 31 December 2016								
a) debit (7а+8а-8б)>=0	**4125**	-	**4143**	**-**	**4233**	**66,519**		
б) credit (7б-8а+8б)>=0	**4126**	**80,607**	**4144**	**122,912**	**4234**	**-**	**4243**	**215,174,642**

The accompanying notes on pages 10 to 57 are an integral part of these financial statements.

1. GENERAL INFORMATION

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

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

Other activities primarily include sales of other goods, works and services.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

These financial statements for the year ended 31 December 2016 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 financial statements cannot be considered as financial statements prepared in full compliance with IFRS.

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 Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

At the date of signing financial statements, crude oil price increased since 31 December 2016 to 55.27 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any major fluctuation of crude oil prices.

Subsequent events occurring after 31 December 2016 were evaluated through 28 February 2017, the date these Financial Statements were authorised for issue.

2.2. 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.

2.3. Seasonality of Operations

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

2.4. Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Serbian dinars ("RSD"), which is the Company'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 income statement within 'finance income or cost'.

2.5. 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.

(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).

2.6. 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.

(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.

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

2.7. Property, plant and equipment

As of the date of establishment, the Company'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 Company 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 income statement (notes 36 and 37).

2.8. 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.

2.9. 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 income statement as part of Other income/expenses (notes 36 and 37).

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Company 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.

2.10. Long–term financial assets

The Company 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.

2.10.1. 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.

2.10.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company 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 Company 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 Company'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 income statement (note 35).

2.10.3. Impairment of financial assets

a) *Assets carried at amortised cost*

The Company 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 Company 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 Company, 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 Company 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 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 Company 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 Income Statement.

b) *Assets classified as available for sale*

The Company 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 Company 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 income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the 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 income statement.

2.11. 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 37).

2.12. 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.

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 Company 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'. 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 income statement (note 35).

2.13. 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.

2.14. 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 Company, as well as receivables/payables relating to collaterals received/given such as guarantees and other warrants.

2.15. Share capital

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

2.16. Earnings per share

The Company 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.

2.17. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: the Company 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 income statement.

2.18. 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.19. 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.

2.20. 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 Company 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 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.

2.21. Employee benefits

(a) *Pension obligations*

The Company operates a defined contribution pension plan. The Company pays contributions to publicly administered pension insurance plans on a mandatory basis. The Company 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.

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

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

In 2014, the Company has made decision to introduce new three-year (2015-2017) program for Company's managers which will be settle based on the Key Performance Indicators ("KPI") reached during the program (note 24).

2.22. 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 Company's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Company .

The Company 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 Company'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 Company 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 Company manufactures and sells oil, petrochemical products and liquified natural gas in the wholesale market. Sales of goods are recognised when the Company 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 Company has objective evidence that all criteria for acceptance have been satisfied.

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 Company operates a chain of petrol stations. Sales of goods are recognised when the Company sells a product to the customer. Retail sales are usually in cash, fuel coupons or by credit card.

(c) *Sales of services*

The Company sells oil engineering services. These services are provided on a time and material basis or as a fixed price contract, with contract terms generally accepted in the industry.

Revenue from time and material contracts, typically from delivering engineering services, is recognised under the percentage of completion method. Revenue is generally recognized at the contractual rates. For time contracts, the stage of completion is measured on the basis of labour hours determined as a percentage of total hours to be delivered. For material contracts, the stage of completion is measured on the basis of, and direct expenses are incurred as, a percentage of the total expenses to be incurred.

Revenue from fixed-price contracts for delivering engineering services is also recognised under the percentage-of-completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

(d) *Sales of electricity*

The Company sells electricity on a short and long term basis with a contract terms generally accepted in the energy industry. Majority of sales are made on a wholesale market without structured trades.

(e) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company 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.

2.23. Leases

Leases under the terms of which the Company 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 Company's Balance Sheet. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

2.24. Dividend distribution

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

2.25. 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 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 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 Company estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved and probable 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 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.

3.2. 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 2016 would be to increase/decrease it by RSD 1,188,513 (2015: RSD 1,079,717).

3.3. Impairment of Non-Derivative Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. Loans and receivables that are not individually significant, are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.
An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

3.4. 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 Company 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 Company 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 8.15% (rather than 7.15%) per year, the past service liability (DBO) for the Company would decrease by about 9.1% for retirement indemnity and 5.8% for jubilee benefit. If pay increased by 1% higher than assumed on an annual basic, than the past service liability (DBO) for the Company would increase by amount 10.4% for the retirement indemnity and 6.2% for the jubilee benefit.

3.5. Decommissioning and environmental protection provision

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.

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 Company'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 8.15% (rather than 7.15%) per year, the present liability would have increased by approx. RSD 263,562 (2015: decreased RSD 339,439).

3.6. Contingencies

Certain conditions may exist as of the date of these financial statements are issued that may result in a loss to the Company, 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 Company or unasserted claims that may result in such proceedings, the Company, 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 Company's 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 Company 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 40).

3.7. Recoverability of carrying amount of Property, Plant and Equipment

In the line with changes in the crude oil price on the world market, management of the Company performed stress sensitivity analysis of its impact on recoverability of the Company PPE and overall business performance. Based on the currently available information and crude oil price forecast obtained from a reputable firm management believe that at reporting date recoverable amount of Company's PPE exceed its carrying value.

The Company assessed crude oil price volatility as main impairment indicator. If the actual crude oil price decrease for 10$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Company's PPE by 172.1 bln RSD.

Management will continue to monitor the crude oil price fluctuation and its influence on business performance in order to adequately take measure to mitigate impact if the negative trends on the market continue.

4. APPLICATION OF NEW IFRS

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

- **IFRS 14, Regulatory Deferral Accounts** (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- **Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11** (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- **Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38** (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- **Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41** (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- **Equity Method in Separate Financial Statements - Amendments to IAS 27** (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- **Annual Improvements to IFRSs 2014** (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- **Disclosure Initiative Amendments to IAS 1** (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- **Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28** (issued in December 2014 and effective for annual periods on or after 1 January 2016).

5. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and that the Company has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. Al l leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Company will present this disclosure in its 2017 financial statements.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's Financial Statements.

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

The Company'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 Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses financial instruments to hedge certain risk exposures.

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

In the normal course of its operations the Company 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 Company 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 Company functional currency.

The Company has borrowings denominated in foreign currency mainly in EUR and USD which predominantly expose Company 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 Company in the total credit portfolio.

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

The carrying values of the Company's financial instruments by currencies they are denominated are as follows:

As of 31 December 2016	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Long-term investments in subsidiaries	-	32,413,076	-	-	32,413,076
Other long-term investments	77,304	1,002,384	7,028	-	1,086,716
Long term receivables	7,872	9,292,006	-	-	9,299,878
Current					
Trade receivables	25,220,003	12,702,034	507,965	-	38,430,002
Receivables from specific operations	400,780	82,162	183,610	-	666,552
Other receivables	302,452	3,223,629	322	11	3,526,414
Short term financial investments	376,777	3,142,925	-	-	3,519,702
Cash and cash equivalents	10,611,235	4,737,144	4,681,654	23,618	20,053,651
Other assets	3,017,569	557,836	22,997	343	3,598,745
Financial liabilities					
Non-current					
Long-term liabilities	(815)	(53,597,820)	(39,371,390)	(353,755)	(93,323,780)
Current					
Short-term financial liabilities	(1,109,799)	(21,462,958)	(236,526)	(31,799)	(22,841,082)
Trade payables	(9,032,098)	(9,527,421)	(6,226,962)	(75,038)	(24,861,519)
Other short-term liabilities	(7,656,452)	(76,079)	(319,154)	(16,629)	(8,068,314)
Other liabilities	(10,097,391)	(8,962)	(1,690,223)	(243)	(11,796,819)
Net exposure	**12,117,437**	**(17,520,044)**	**(42,440,679)**	**(453,492)**	**(48,296,778)**

As of 31 December 2015	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Long-term investments in subsidiaries	-	33,502,197	-	-	33,502,197
Other long-term investments	70,937	1,093,112	6,675	-	1,170,724
Long term receivables	2,440,501	12,148,487	-	-	14,588,988
Other non-current assets	-	138,633	-	-	138,633
Current					
Trade receivables	15,380,535	19,571,995	376,133	-	35,328,663
Receivables from specific operations	443,323	44,022	174,379	-	661,724
Other receivables	1,804,763	827,801	276	217	2,633,057
Short term financial investments	861,028	394,907	-		1,255,935
Cash and cash equivalents	9,546,305	501,122	6,622,074	60,392	16,729,893
Other assets	5,369,765	721,414	597,629	370	6,689,178
Financial liabilities					
Non-current					
Long-term liabilities	(978)	(52,993,282)	(45,960,298)	(354,688)	(99,309,246)
Current					
Short-term financial liabilities	(730,081)	(9,517,023)	(7,427,780)	(25,511)	(17,700,395)
Trade payables	(9,772,132)	(4,790,547)	(10,541,327)	(68,087)	(25,172,093)
Other short-term liabilities	(8,036,122)	(50,121)	(325,383)	(14,298)	(8,425,924)
Other liabilities	(9,630,899)	(8,564)	(1,119,478)	-	(10,758,941)
Net exposure	**7,746,945**	**1,584,153**	**(57,597,100)**	**(401,605)**	**(48,667,607)**

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

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2016	**31 December 2015**
EUR	123.4723	121.6261
USD	117.1353	111.2468

Sensitivity analysis

The Company has chosen to provide information about market and potential exposure to hypothetical gain / (loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis below reflects the hypothetical effect on the Company's financial instruments and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

As at 31 December 2016, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit for the year would have been RSD 876,002 (2015: RSD 79,208) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2016, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit for the year would have been RSD 4,244,068 (2015: RSD 5,759,710) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated borrowings and trade payables.

Cash flow and fair value interest rate risk

Borrowings withdrawn at variable interest rates expose the Company to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Company 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 Company’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 2016 would have been RSD 1,087,907 (2015: RSD 1,097,184) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Credit risk is managed on the Company’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 Company. For domestic banks, if it is bank with who the Company has passive activities the second criterion is applied and if it is a bank with who Company doesn’t have cooperation, credit limits are determined based on the defined methodology.

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

Liquidity risk

Cash flow forecasting is performed as aggregated at the Company's level. The Company's finance function monitors rolling forecasts of the Company'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 time so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company'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 Company over and above the balance required for working capital management is invested as surplus cash in time deposits.

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

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 2016	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
Borrowings	116,164,862	124,223,454	25,584,802	83,766,782	14,871,870
Trade payables (less dividends payable)	21,091,070	21,091,070	21,089,211	1,859	-
	137,255,932	**145,314,524**	**46,674,013**	**83,768,641**	**14,871,870**
As at 31 December 2015					
Borrowings	117,009,641	127,416,009	20,565,882	86,807,690	20,042,437
Trade payables (less dividends payable)	21,399,785	21,399,785	21,399,785	-	-
	138,409,426	**148,815,794**	**41,965,667**	**86,807,690**	**20,042,437**

6.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

	31 December 2016	31 December 2015
Total borrowings (notes 25 and 26)	116,164,862	117,009,641
Less: cash and cash equivalents (note 20)	(20,053,651)	(16,729,893)
Net debt	**96,111,211**	**100,279,748**
EBITDA	37,143,408	44,109,439
Net debt to EBITDA	**2.59**	**2.27**

The Company has committed (at the level of Gazprom Neft Company) 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. Company 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 Company's approach to capital management during the year.

6.3. 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 Company 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 Company 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.

7. SEGMENT INFORMATION

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

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

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

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

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

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

Reportable segment results for the year ended 31 December 2016 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	36,311,772	178,010,012	(36,408,183)	177,913,601
Intersegment	34,048,352	2,359,831	(36,408,183)	-
External	2,263,420	175,650,181	-	177,913,601
EBITDA (Segment results)	**21,303,104**	**15,840,304**	**-**	**37,143,408**
Depreciation, depletion and amortization	(5,231,586)	(8,346,965)		(13,578,551)
Impairment losses/Revaluation surpluses (note 36 and 37)	(4,595)	11,109	-	6,514
Impairment of exploration works (note 9)	(1,204,851)	-	-	(1,204,851)
Finance expenses, net	(252,962)	(4,390,765)	-	(4,643,727)
Income tax	(273,282)	(2,246,393)	-	(2,519,675)
Segment profit (loss)	**15,479,505**	**602,364**	**-**	**16,081,869**

Reportable segment results for the year ended 31 December 2015 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	51,355,327	197,408,632	(48,902,683)	199,861,276
Intersegment	47,547,891	1,354,792	(48,902,683)	-
External	3,807,436	196,053,840	-	199,861,276
EBITDA (Segment results)	**38,284,468**	**5,824,971**	**-**	**44,109,439**
Depreciation, depletion and amortization	(3,649,779)	(8,451,484)	-	(12,101,263)
Impairment losses (note 36 and 37)	(10,965)	(16,750)	-	(27,715)
Finance expenses, net	(154,959)	(10,078,687)	-	(10,233,646)
Income tax	(1,023,893)	(3,327,324)	-	(4,351,217)
Segment profit (loss)	**32,744,433**	**(16,639,766)**	**-**	**16,104,667**

EBITDA for the year ended 31 December 2016 and 2015 is reconciled below:

	Year ended 31 December	
	2016	**2015**
Profit for the year	16,081,869	16,104,667
Income tax expenses	2,519,675	4,351,217
Other expenses	1,374,090	2,262,281
Other income	(1,772,257)	(2,341,163)
Loss from valuation of assets at fair value through profit and loss	273,186	416,034
Income from valuation of assets at fair value through profit and loss	(6,517,073)	(7,102,453)
Finance expense	8,796,821	14,671,061
Finance income	(4,153,094)	(4,437,415)
Depreciation, depletion and amortization	13,578,551	12,101,263
Other non operating expenses, net*	6,961,640	8,083,947
EBITDA	**37,143,408**	**44,109,439**

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

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

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

	Year ended 31 December 2016		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	2,021,495	2,021,495
Sale of gas	3,059,894	-	3,059,894
Through a retail network	35,810	-	35,810
Wholesale activities	3,024,084	-	3,024,084
Sale of petroleum products	132,452,903	24,885,138	157,338,041
Through a retail network	44,481,288	-	44,481,288
Wholesale activities	87,971,615	24,885,138	112,856,753
Sales of electricity	467,822	8,690,443	9,158,265
Other sales	6,168,348	163,319	6,331,667
Total sales	**142,148,967**	**35,760,395**	**177,909,362**

	Year ended 31 December 2015		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	638,494	3,022,528	3,661,022
Sale of gas	6,190,132	-	6,190,132
Through a retail network	-	-	-
Wholesale activities	6,190,132	-	6,190,132
Sale of petroleum products	153,999,399	28,848,600	182,847,999
Through a retail network	49,664,208	-	49,664,208
Wholesale activities	104,335,191	28,848,600	133,183,791
Sales of electricity	370,157	716,582	1,086,739
Other sales	5,768,594	303,621	6,072,215
Total sales	**166,966,776**	**32,891,331**	**199,858,107**

Out of the amount of RSD 112,856,753 (2015: RSD 133,183,791) revenue from sale of petroleum products (wholesale), the amount of RSD 13,844,962 (2015: RSD 23,222,832) are derived from a single domestic customer, HIP Petrohemija (2015: Knez Petrol). These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Gazprom Marketing & Trading Co., Ltd. in the amount of RSD 8,415,713 (2015: RSD 644,591).

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

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

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 142,148,967 (2015: RSD 166,966,776), and the total of revenue from external customer from other countries is RSD 35,760,395 (2015: RSD 32,891,331). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2016	**2015**
Sale of crude oil	2,021,495	3,022,528
Sale of petroleum products (retail and wholeasle)		
Bulgaria	5,540,887	7,430,785
Bosnia and Herzegovina	5,206,259	5,583,102
Romania	3,817,547	3,122,727
All other markets	10,320,445	12,711,986
	24,885,138	28,848,600
Sales of electricity	8,690,443	716,582
Other sales	163,319	303,621
	35,760,395	**32,891,331**

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

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

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Other intangibles	Intangible assets under development	Total
At 1 January 2015					
Cost	3,873,219	6,494,640	971,770	7,714,691	19,054,320
Accumulated amortisation and impairment	(40,079)	(3,428,260)	(96,536)	(88,098)	(3,652,973)
Net book amount	**3,833,140**	**3,066,380**	**875,234**	**7,626,593**	**15,401,347**
Year ended 31 December 2015					
Additions	-	-	-	2,137,190	2,137,190
Transfer from assets under development	2,744,618	924,762	1,281	(3,670,661)	-
Impairment (note 37)	-	(72)	-	-	(72)
Amortization	(402,257)	(883,622)	(18,208)	-	(1,304,087)
Transfer from PP&E (note 9)	-	-	-	68,609	68,609
Other transfers	(21,784)	1,113	21,276	-	605
Closing net book amount	**6,153,717**	**3,108,561**	**879,583**	**6,161,731**	**16,303,592**
As at 31 December 2015					
Cost	6,617,839	7,420,522	972,536	6,249,829	21,260,726
Accumulated amortization and impairment	(464,122)	(4,311,961)	(92,953)	(88,098)	(4,957,134)
Net book amount	**6,153,717**	**3,108,561**	**879,583**	**6,161,731**	**16,303,592**
At 1 January 2016					
Cost	6,617,839	7,420,522	972,536	6,249,829	21,260,726
Accumulated amortization and impairment	(464,122)	(4,311,961)	(92,953)	(88,098)	(4,957,134)
Net book amount	**6,153,717**	**3,108,561**	**879,583**	**6,161,731**	**16,303,592**
Year ended 31 December 2016					
Additions	-	-	-	2,058,076	2,058,076
Transfer from assets under development	-	606,776	17,620	(624,396)	-
Amortization	(680,299)	(994,804)	(18,316)	-	(1,693,419)
Transfer from PP&E (note 9)	-	-	-	5,458	5,458
Disposals and write-off	-	-	(4,871)	(902,203)	(907,074)
Closing net book amount	**5,473,418**	**2,720,533**	**874,016**	**6,698,666**	**15,766,633**
As at 31 December 2016					
Cost	6,617,839	7,812,985	951,010	6,728,622	22,110,456
Accumulated amortization and impairment	(1,144,421)	(5,092,452)	(76,994)	(29,956)	(6,343,823)
Net book amount	**5,473,418**	**2,720,533**	**874,016**	**6,698,666**	**15,766,633**

Intangible assets under development as at 31 December 2016 amounting to RSD 6,698,666 (31 December 2015: RSD 6,161,731) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 5,245,337 (31 December 2015: RSD 4,941,068).

9. 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 2015								
Cost	10,969,423	129,367,760	92,244,112	33,860,460	76,768	400,426	1,629,280	268,548,229
Accumulated depreciation and impairment	(334,129)	(37,681,463)	(35,149,180)	(2,782,803)	(1,850)	(31,723)	(29,257)	(76,010,405)
Net book amount	**10,635,294**	**91,686,297**	**57,094,932**	**31,077,657**	**74,918**	**368,703**	**1,600,023**	**192,537,824**
Year ended 31 December 2015								
Additions	-	100,888	-	26,475,221	-	-	5,005,254	31,581,363
Transfer from assets under development	16,823	20,826,750	9,446,258	(30,305,122)	-	15,291	-	-
Impairment charge (note 37)	-	(206,567)	(8,874)	(106,555)	(2)	-	(1,631)	(323,629)
Depreciation	-	(5,004,485)	(5,730,008)	-	-	(62,683)	-	(10,797,176)
Transfer to intangible assets (note 8)	-	-	-	(68,609)	-	-	-	(68,609)
Transfer to investment property	(101,916)	14,533	-	-	-	-	-	(87,383)
Transfer to non-current assets held for sale	(19,626)	(2,053)	(24)	-	-	-	-	(21,703)
Disposals and write-off	(97,730)	(78,158)	(128,341)	(195,231)	(39)	-	(5,271,037)	(5,770,536)
Other transfers	14,126	(29,894)	6,438	-	-	8,724	-	(606)
Closing net book amount	**10,446,971**	**107,307,311**	**60,680,381**	**26,877,361**	**74,877**	**330,035**	**1,332,609**	**207,049,545**
At 31 December 2015								
Cost	10,748,445	150,010,082	100,887,394	29,253,159	76,604	424,741	1,363,418	292,763,843
Accumulated depreciation and impairment	(301,474)	(42,702,771)	(40,207,013)	(2,375,798)	(1,727)	(94,706)	(30,809)	(85,714,298)
Net book amount	**10,446,971**	**107,307,311**	**60,680,381**	**26,877,361**	**74,877**	**330,035**	**1,332,609**	**207,049,545**
Year ended 31 December 2016								
Additions	-	-	-	19,604,356	-	-	3,350,598	22,954,954
Transfer from assets under development	60,238	16,836,013	5,938,414	(22,841,216)	-	6,551	-	-
Appraisal effects	-	94,832	-	-	-	-	-	94,832
Impairment charge (note 37)	-	(1,602)	(3,543)	(25,696)	-	-	(11,213)	(42,054)
Depreciation	-	(5,765,500)	(6,054,385)	-	-	(65,247)	-	(11,885,132)
Transfer to intangible assets (note 8)	-	-	-	(5,458)	-	-	-	(5,458)
Transfer to investment property	(5,554)	(131,685)	741	-	-	-	-	(136,498)
Disposals and write-off	(25,802)	(240,697)	(134,360)	(437,000)	(477)	-	(2,651,149)	(3,489,485)
Other transfers	(7,610)	(4,562)	(24,054)	14,596	-	-	-	(21,630)
Closing net book amount	**10,468,243**	**118,094,110**	**60,403,194**	**23,186,943**	**74,400**	**271,339**	**2,020,845**	**214,519,074**
At 31 December 2016								
Cost	10,769,717	166,064,135	106,150,666	25,290,900	75,543	431,292	2,062,604	310,844,857
Accumulated depreciation and impairment	(301,474)	(47,970,025)	(45,747,472)	(2,103,957)	(1,143)	(159,953)	(41,759)	(96,325,783)
Net book amount	**10,468,243**	**118,094,110**	**60,403,194**	**23,186,943**	**74,400**	**271,339**	**2,020,845**	**214,519,074**

The management of the Company 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 2016, the Company assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.8 for details. In addition Company has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 42,054 (2015: RSD 323,629).

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:

	2016	2015
As at 1 January	1,336,060	1,381,832
Fair value gains (loss) (note 36 and 37)	79,957	(124,003)
Transfer from PP&E carried at cost	136,498	87,383
Disposals	(4,432)	(17,554)
Other	1,580	8,402
As at 31 December	**1,549,663**	**1,336,060**

As at 31 December 2016, investment properties amounting to RSD 1,549,663 (31 December 2015: RSD 1,336,060) 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.

Fair value of investment properties

Valuation of the Company's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2016 and 2015. The revaluation gain was creditedto other income (note 36).

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 2016 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	-	917,985	-
− Gas stations	-	-	631,678
Total	**-**	**917,985**	**631,678**

Fair value measurements at 31 December 2015 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	-	794,436	-
− Gas stations	-	-	541,624
Total	**-**	**794,436**	**541,624**

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.

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 Company 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:

	2016	2015
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:

	2016	2015
Assets as at 1 January	**541,624**	**569,808**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	68,043	54,431
Transfer from (to) PPE	17,740	(88,469)
Other	4,271	5,854
Total increase (desrease) in fair value measurement, assets	90,054	(28,184)
Assets as at 31 December	**631,678**	**541,624**

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 2.6).

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2015						
Cost	15,001,370	11,578,278	26,579,648	73,455,119	22,203	100,056,970
Depreciation and impairment	-	(253,585)	(253,585)	(19,210,617)	(20,358)	(19,484,560)
Net book amount	**15,001,370**	**11,324,693**	**26,326,063**	**54,244,502**	**1,845**	**80,572,410**
Year ended 31 December 2015						
Additions	4,662,200	17,897,017	22,559,217	100,269	-	22,659,486
Transfer from asset under construction	(3,239,841)	(21,798,085)	(25,037,926)	25,037,926	-	-
Impairment	-	(10,332)	(10,332)	(634)	(2)	(10,968)
Depreciation and depletion	-	-	-	(3,618,330)	(1)	(3,618,331)
Disposals and write-off	(143,302)	-	(143,302)	(56,321)	-	(199,623)
Other transfers	463,942	(17,820)	446,122	(232,689)	-	213,433
	16,744,369	**7,395,473**	**24,139,842**	**75,474,723**	**1,842**	**99,616,407**
As at 31 December 2015						
Cost	16,744,369	7,644,244	24,388,613	98,224,109	22,153	122,634,875
Depreciation and impairment	-	(248,771)	(248,771)	(22,749,386)	(20,311)	(23,018,468)
Net book amount	**16,744,369**	**7,395,473**	**24,139,842**	**75,474,723**	**1,842**	**99,616,407**
As at 1 January 2016						
Cost	16,744,369	7,644,244	24,388,613	98,224,109	22,153	122,634,875
Depreciation and impairment	-	(248,771)	(248,771)	(22,749,386)	(20,311)	(23,018,468)
Net book amount	**16,744,369**	**7,395,473**	**24,139,842**	**75,474,723**	**1,842**	**99,616,407**
Year ended 31 December 2016						
Additions	3,467,461	12,281,926	15,749,387	(9,379)	-	15,740,008
Transfer from asset under construction	(337,919)	(17,751,224)	(18,089,143)	18,089,143	-	-
Other transfers	(2,252,534)	2,517,708	265,174	(20,199)	(15)	244,960
Impairment	-	(4,595)	(4,595)	-	-	(4,595)
Unsuccessful exploration expenditures derecognised	(1,204,851)	-	(1,204,851)	-	-	(1,204,851)
Depreciation and depletion	-	-	-	(4,970,589)	-	(4,970,589)
Disposals and write-off	(6,542)	(54,648)	(61,190)	(121,388)	(7)	(182,585)
	16,409,984	**4,384,640**	**20,794,624**	**88,442,311**	**1,820**	**109,238,755**
As at 31 December 2016						
Cost	16,409,984	4,385,516	20,795,500	115,864,815	22,129	136,682,444
Depreciation and impairment	-	(876)	(876)	(27,422,504)	(20,309)	(27,443,689)
Net book amount	**16,409,984**	**4,384,640**	**20,794,624**	**88,442,311**	**1,820**	**109,238,755**

Unsuccessful exploration expenditures derecognised in the amount of RSD 1,204,851 mainly relate to exploration assets located in Hungary in the amount of RSD 1,188,909, due to uncertain viability of commercial production.

10. INVESTMENTS IN SUBSIDIARY

	31 December 2016	31 December 2015
Investments in subsidiaries:		
- In shares	3,457,576	3,457,576
- In stakes	13,368,335	12,868,227
	16,825,911	16,325,803
Less: Provision	(3,383,280)	(2,883,172)
	13,442,631	**13,442,631**

Investments in subsidiaries as at 31 December 2016 relate to the following companies:

Company	Share %	Investment	Impairment	Net book value
O Zone a.d. Belgrade, Serbia	100%	3,457,576	(1,172,263)	2,285,313
NIS Petrol e.o.o.d. Sofija, Bulgaria	100%	28,938	-	28,938
NIS Petrol SRL, Bucharest, Romania	100%	997	-	997
NIS Petrol doo, Banja Luka, BiH	100%	1,030	-	1,030
Pannon Naftagas Kft, Budapest, Hungary	100%	2,211,017	(2,211,017)	-
NTC NIS-Naftagas d.o.o. Novi Sad, Serbia	100%	905,000	-	905,000
Naftagas-Tehnicki servisi d.o.o. Zrenjanin, Serbia	100%	1,177,032	-	1,177,032
Naftagas-Naftni servisi d.o.o. Novi Sad, Serbia	100%	7,300,000	-	7,300,000
Naftagas-Transport d.o.o. Novi Sad, Serbia	100%	1,717,349	-	1,717,349
NIS Oversiz, Moscow, Russia	100%	9,856	-	9,856
Jadran-Naftagas d.o.o. Banja Luka, BiH	66%	71	-	71
Svetlost, Bujanovac, Serbia	51%	17,045	-	17,045
		16,825,911	**(3,383,280)**	**13,442,631**

11. INVESTMENTS IN JOINT VENTURES

The carrying value of the investments in joint venture as of 31 December 2016 and 2015 is presented below:

	Ownership percentage	31 December 2016	31 December 2015
Serbskaya Generaciya	49%	1,038,800	180,438
		1,038,800	**180,438**

The principal place of business of joint venture disclosed above is Republic of Serbia.

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

Serbskaya Generaciya

In 2015 the Company and Centrenergoholding OAO Russian Federation established holding company Serbskaya Generaciya, through which they will jointly operate with Thermal and Heating power plant ''TETO'' Pancevo with projected capacity of 140 MW. On the date of the issuance of these Financial Statements there have been no significant business activities. During 2016 the Company increased their investment in Serbskaya Generaciya in the amount of RSD 858,362.

12. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES

	31 December 2016	31 December 2015
LT loans - Subsidiaries - Domestic	3,086,461	2,904,867
LT loans - Subsidiaries - Foregin	29,343,549	31,270,666
Less: Impairment	(16,934)	(673,336)
	32,413,076	**33,502,197**

Long-term loans to subsidiaries denominated in RSD relate to:

	Currency	31 December 2016	31 December 2015
Domestic			
O Zone a.d., Belgrade, Serbia	EUR	3,086,461	2,904,867
		3,086,461	2,904,867
Foregin			
NIS Petrol e.o.o.d. Sofija, Bulgaria	EUR	9,504,391	11,355,192
NIS Petrol SRL, Bucharest, Romania	EUR	10,961,059	10,131,378
NIS Petrol d.o.o. Banja Luka, BiH	EUR	7,357,698	7,490,872
Jadran - Naftagas d.o.o. Banja Luka, BiH	EUR	1,503,467	1,813,389
Pannon Naftagas Kft, Budapest, Hungary	EUR	16,934	479,835
		29,343,549	31,270,666
		32,430,010	**34,175,533**

Long-term loans to subsidiaries are approved at the variable interest rates (1M and 6M Euribor + 2.9%), for a period of 7 years from the date of payment of the last tranche. The carrying value of long-term loans is equal to their fair value.

13. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2016	31 December 2015
Other LT investments	10,050	1,032,339
LT loans given to employees	1,076,725	1,161,130
Less: Impairment	(59)	(1,022,745)
	1,086,716	**1,170,724**

Loans to employees as at 31 December 2016 amounting to RSD 1,076,725 (31 December 2015: RSD 1,161,130) 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.

14. LONG-TERM RECEIVABLES

	31 December 2016	31 December 2015
LT receivables - state owned companies	10,020,549	15,493,616
LT receivables - finacial lease	20,620	29,311
Less: Impairment	(741,291)	(933,939)
	9,299,878	**14,588,988**

Long-term receivables – state owned companies amounting to RSD 10,020,549 mainly relate to the long-term receivables from the Republic of Serbia in the amount of RSD 9,292,006 according to the debt of Srbijagas and HIP Petrohemija owed to Naftna industrija Srbije takeover and its conversion into public debt (Short-term part of the receivables: note 17).

These receivables were denominated in EUR on the date of the debt takeover.

15. DEFERRED TAX ASSETS AND LIABILITIES

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	31 December 2016	31 December 2015
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	6,671,740	7,257,405
	6,671,740	7,257,405
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(2,612,664)	(2,735,676)
	(2,612,664)	(2,735,676)
Deferred tax assets (net)	**4,059,076**	**4,521,729**

The gross movement on the deferred income tax account is as follows:

	2016	2015
At 1 January	**4,521,729**	**5,110,091**
Charged to the income statement	(458,404)	(588,222)
Charged to other comprehensive income	(4,247)	(140)
Other	(2)	-
31 December	**4,059,076**	**4,521,729**

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	Provisions	Carrying value of PP&E vs Tax base	Revaluation reserve	Total
Deferred tax liabilities				
As at 1 January 2015	**(36,613)**	**(2,687,451)**	**-**	**(2,724,064)**
Charged to the income statement (note 38)	16,825	(28,297)	-	(11,472)
Charged to other comprehensive income	(140)	-	-	(140)
As at 31 December 2015	**(19,928)**	**(2,715,748)**	**-**	**(2,735,676)**
Charged to the income statement (note 38)	-	117,308	-	117,308
Charged to other comprehensive income	-	-	(14,224)	(14,224)
Other	19,928	-	-	19,928
As at 31 December 2016	**-**	**(2,598,440)**	**(14,224)**	**(2,612,664)**

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
Deferred tax assets					
As at 1 January 2015	**25,531**	**680,659**	**7,127,965**	**-**	**7,834,155**
Charged to the income statement (note 38)	933,478	183,363	(1,693,591)	-	(576,750)
As at 31 December 2015	**959,009**	**864,022**	**5,434,374**	**-**	**7,257,405**
Charged to the income statement (note 38)	30,239	66,171	(672,122)	-	(575,712)
Charged to other comprehensive income	(1,762)	-	-	11,739	9,977
Other	(19,930)	-	-	-	(19,930)
As at 31 December 2016	**967,556**	**930,193**	**4,762,252**	**11,739**	**6,671,740**

The recognition of deferred tax assets was based on a five-year business plan of the Company 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.

16. INVENTORY

	31 December 2016	31 December 2015
Materials, spare parts and tools	18,227,757	14,331,033
Work in progress	3,119,239	4,050,154
Finished goods	5,638,221	5,540,706
Goods for sale	1,532,478	1,956,161
Advances	319,986	453,621
Less: impairment of inventory	(5,038,463)	(5,117,655)
Less: impairment of advances	(257,942)	(268,119)
	23,541,276	**20,945,901**
Non-current assets held for sale	-	207,485
Less: impairment of assets held for sale	-	(185,782)
	-	**21,703**
	23,541,276	**20,967,604**

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of Advances	Impairment of Assets held for sale	Total
Balance as of 1 January 2015	5,613,846	239,846	-	5,853,692
Provision for inventories and advances (note 37)	89,439	39,215	-	128,654
Unused amounts reversed (note 36)	(406,016)	(4,439)	-	(410,455)
Transfer from non-current part	-	-	185,782	185,782
Receivables written off during the year as uncollectible	-	(6,503)	-	(6,503)
Other	(179,614)	-	-	(179,614)
Balance as of 31 December 2015	**5,117,655**	**268,119**	**185,782**	**5,571,556**
Provision for inventories and advances (note 37)	41,204	2,237	-	43,441
Unused amounts reversed (note 36)	(3,249)	(8,544)	-	(11,793)
Other	(117,147)	(3,870)	(185,782)	(306,799)
Balance as of 31 December 2016	**5,038,463**	**257,942**	**-**	**5,296,405**

17. TRADE RECEIVABLES

	31 December 2016	31 December 2015
Parents and subsidiaries - domestic	1,399,483	1,530,043
Parents and subsidiaries - foreign	1,620,612	1,350,735
Other related parties - domestic	10,380,560	19,016,180
Other related parties - foreign	994,853	148,105
Trade receivables domestic – third parties	40,487,522	32,107,417
Trade receivables foreign – third parties	968,128	755,895
	55,851,158	**54,908,375**
Less: Impairment	(17,421,156)	(19,579,712)
	38,430,002	**35,328,663**

The ageing of trade receivables is as follows:

	31 December 2016	31 December 2015
Neither impaired nor past due	35,075,350	27,210,041
Past due but not impaired:		
within 30 days	1,351,752	1,671,356
1 to 3 months	932,456	3,245,737
3 months to 1 year	15,801	118,533
over 1 year	1,054,643	3,082,996
Total	**38,430,002**	**35,328,663**

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

The carrying amounts of the Company’s trade receivables are denominated in the following currencies:

	31 December 2016	31 December 2015
RSD	25,220,003	15,380,535
EUR	12,702,034	19,571,995
USD	507,965	376,133
	38,430,002	**35,328,663**

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

	Trade receivables		
	Individually impaired	Collectively impaired	**Total**
As at 1 January 2015	**8,318,085**	**4,183,439**	**12,501,524**
Provision for receivables impairment	118	114,367	114,485
Unused amounts reversed (note 35)	(5,653,229)	(127,963)	(5,781,192)
Receivables written off during the year as uncollectible	-	(188,529)	(188,529)
Transfer from other receivables (note 18)	3,105,067	-	3,105,067
Transfer from ST financial assets	-	8,152,392	8,152,392
Other	210,423	1,420,533	1,630,956
Exchange differences	-	45,009	45,009
As at 31 December 2015	**5,980,464**	**13,599,248**	**19,579,712**
Provision for receivables impairment	5,974	93,167	99,141
Unused amounts reversed (note 35)	(4,339,261)	(88,702)	(4,427,963)
Receivables written off during the year as uncollectible	-	(204,124)	(204,124)
Transfer from receivables from specific operations	2,247,190	-	2,247,190
Other	-	127,200	127,200
As at 31 December 2016	**3,894,367**	**13,526,789**	**17,421,156**

Release of provision during 2016, in the amount of RSD 4,427,963 mainly relate to positive outcome of negotiations between the Company and Serbian Government for collection of receivables from HIP Petrohemija a.d. Pancevo. The negotiations ended in adoption of the Law on taking over the receivables from HIP Petrohemija by the Government. According to the Law, NIS will collect the amount of EUR 105,000,000 in following two years, with the last installment on 15 June 2019. On 30 Dec 2016, the Company received the first installment in the amount of EUR 21,000,000. In addition, the Company reclassified non-current portion in the amount of RSD 9,292,006 (note 14) with proper discounting effect.

18. OTHER RECEIVABLES

	31 December 2016	**31 December 2015**
Interest receivables	7,587,354	7,203,310
Receivables from employees	85,195	86,293
Income tax prepayment	128,703	1,618,126
Other receivables	7,475,320	7,514,636
Less: Impairment	(11,750,158)	(13,789,308)
	3,526,414	**2,633,057**

Movements on the provision for other receivables :

	Interest receivables	**Other receivables**	**Total**
As at 1 January 2015	**13,422,657**	**7,328,560**	**20,751,217**
Provision for other receivables impairment	93,583	97,586	191,169
Unused amounts reversed (note 35)	(1,315,670)	(1,251)	(1,316,921)
Receivables written off during the year as uncollectible	(2,759,805)	(471)	(2,760,276)
Transfer to trade receivables (note 17)	(3,105,067)	-	(3,105,067)
Other	20,223	8,963	29,186
As at 31 December 2015	**6,355,921**	**7,433,387**	**13,789,308**
Provision for other receivables impairment	87,087	603	87,690
Unused amounts reversed (note 35)	(2,086,047)	(715)	(2,086,762)
Receivables written off during the year as uncollectible	(38,291)	(1,787)	(40,078)
As at 31 December 2016	**4,318,670**	**7,431,488**	**11,750,158**

19. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2016	31 December 2015
ST loans and placements - Parent and subsidiaries	560,880	847,638
ST loans and placements - Domestic	2,019	2,019
Other ST financial placements	3,155,221	408,297
Less: Impairment	(198,418)	(2,019)
	3,519,702	**1,255,935**

20. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in bank and in hand	13,010,884	10,725,749
Deposits with original maturity of less than three months	7,000,000	6,000,000
Cash with restriction	41,783	3,184
Cash equivalents	984	960
	20,053,651	**16,729,893**

21. PREPAYMENTS AND ACCRUED INCOME

	31 December 2016	31 December 2015
Deferred input VAT	1,004,151	1,029,121
Prepaid expenses	75,971	84,499
Accrued revenue	11,229	618,765
Prepaid excise duty	1,475,539	2,943,879
Housing loans and other prepayments	1,031,855	2,012,914
	3,598,745	**6,689,178**

Deferred input VAT as at 31 December 2016 amounting to RSD 1,004,151 (31 December 2015: RSD 1,029,121) 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 1,475,539 (31 December 2015: RSD 2,943,879) 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.

22. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2016	31 December 2015
Issued warranties and bills of exchange	81,813,447	86,246,018
Received warranties and bills of exchange	15,769,653	24,236,941
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	7,191,930	6,830,396
Third party merchandise in NIS warehouses	6,294,877	6,117,283
Assets for oil fields liquidation in Angola	1,179,546	990,870
Other off-balance sheet assets and liabilities	286,607	197,477
	117,893,750	**129,976,675**

23. SHARE CAPITAL

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

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

A dividend in respect of the year ended 31 December 2015 of RSD 24.69 per share, amounting to a total dividend of RSD 4,025,961 was approved by the General Assembly Meeting held on 28 June 2016 and paid on 21 September 2016.

24. 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 2015	**9,025,612**	**557,657**	**597,868**	**101,846**	**868,545**	**11,151,528**
Charged to the income statement	268,070	307,036	73,976	244,309	-	893,391
New obligation incurred and change in estimates	100,888	-	-	-	-	100,888
Release of provision	(49,261)	(4,300)	-	-	(107,650)	(161,211)
Actuarial gain charged to other comprehensive income	-	-	(932)	-	-	(932)
Settlement	(192,943)	(172,688)	(55,374)	(49,372)	(130,136)	(600,513)
As at 31 December 2015	**9,152,366**	**687,705**	**615,538**	**296,783**	**630,759**	**11,383,151**
As at 1 January 2016	**9,152,366**	**687,705**	**615,538**	**296,783**	**630,759**	**11,383,151**
Charged to the income statement	118,944	244,000	22,375	364,159	81,938	831,416
New obligation incurred and change in estimates	(9,332)	-	-	-	-	(9,332)
Release of provision	(433,085)	(42,517)	-	-	-	(475,602)
Actuarial gain charged to other comprehensive income	-	-	(11,749)	-	-	(11,749)
Settlement	(187,591)	(50,533)	(61,274)	-	(96,911)	(396,309)
As at 31 December 2016	**8,641,302**	**838,655**	**564,890**	**660,942**	**615,786**	**11,321,575**

Analysis of total provisions:

	31 December 2016	31 December 2015
Non-current	9,365,454	9,154,267
Current	1,956,121	2,228,884
	11,321,575	**11,383,151**

(a) *Decommissioning*

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

(b) *Environmental protection*

The Company has to comply with environmental protection regulations. At the reporting date Company recorded provision for environmental protection of RSD 838,655 (31 December 2015: RSD 687,705) 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 Company started setting-up a long-term incentive program for Company 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 2016 the management made an assessment of present value of liabilities related to new three-year employee incentives (2015-2017) in amount of RSD 660,942 (2015: RSD 296,783).

(d) *Legal claims provisions*

As at 31 December 2016, the Company assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Company charged provision for litigation amounting to RSD 81,938 (release of provision in 2015: RSD 107,650) for proceedings which were assessed to have negative outcome. The Company estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2016.

(e) *Provision for employee benefits*

Employee benefits:

	31 December 2016	31 December 2015
Retirement allowances	71,573	75,802
Jubilee awards	493,317	539,736
	564,890	**615,538**

The principal actuarial assumptions used were as follows:

	31 December 2016	31 December 2015
Discount rate	7.5%	6.6%
Future salary increases	2.0%	2.5%
Future average years of service	15.2	15.7

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2015	**68,359**	**529,509**	**597,868**
Benefits paid directly	(2,368)	(53,006)	(55,374)
Actuarial gain charged to other comprehensive income	(932)	-	(932)
Credited to the income statement	10,743	63,233	73,976
Balances as at 31 December 2015	**75,802**	**539,736**	**615,538**
Benefits paid directly	(3,251)	(58,023)	(61,274)
Actuarial gain charged to other comprehensive income	(11,749)	-	(11,749)
Credited to the income statement	10,771	11,604	22,375
Balances as at 31 December 2016	**71,573**	**493,317**	**564,890**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December 2016	2015
Current service cost	46,539	49,830
Interest cost	38,420	38,752
Curtailment gain	(3,149)	(5,051)
Actuarial gains (jubilee awards)	(59,435)	(9,555)
	22,375	**73,976**

25. LONG-TERM LIABILITIES

	31 December 2016	31 December 2015
Long-term loan - Gazprom Neft	37,328,836	42,427,710
Bank loans	65,392,093	70,298,957
Finance lease liabilities	142,528	-
Long-term trade payables	1,859	-
Less Current portion	(9,541,536)	(13,417,421)
	93,323,780	**99,309,246**

a) Long-term loan - Gazprom Neft

As at 31 December 2016 long-term loan - Gazprom Neft amounting to RSD 37,328,836 (2015: RSD 42,427,710), with current portion of RSD 5,742,898 (2015: RSD 5,657,028), 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 2016	31 December 2015
Domestic	27,522,763	18,693,335
Foreign	37,869,330	51,605,622
	65,392,093	70,298,957
Current portion of long-term loans (note 26)	(3,773,524)	(7,760,393)
	61,618,569	**62,538,564**

The maturity of non-current loans was as follows:

	31 December 2016	31 December 2015
Between 1 and 2 years	13,323,750	11,829,773
Between 2 and 5 years	44,038,904	45,785,596
Over 5 years	4,255,915	4,923,195
	61,618,569	**62,538,564**

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

	31 December 2016	31 December 2015
USD	39,607,915	53,388,078
EUR	25,397,647	16,529,506
RSD	977	1,174
JPY	385,554	380,199
	65,392,093	**70,298,957**

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

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

26. SHORT-TERM FINANCE LIABILITIES

	31 December 2016	31 December 2015
Short-term loans from subsidiaries	1,109,630	729,883
Short-term loans	12,189,916	3,553,091
Current portion of long-term loans (note 25)	9,541,536	13,417,421
	22,841,082	**17,700,395**

27. TRADE PAYABLES

As at 31 December 2016 payables in a amount of RSD 24,861,519 (31 December 2015: RSD 25,172,093) including payables to parents and subsidiaries-foreign amounting to RSD 5,862,793 (31 December 2015: RSD 11,015,359) mainly relate to payables to the supplier Gazprom Neft, St Petersburg, for the purchase of crude oil.

28. OTHER SHORT-TERM LIABILITIES

	31 December 2016	31 December 2015
Specific liabilities	277,728	359,162
Liabilities for unpaid wages and salaries, gross	812,019	811,581
Interest liabilities	718,671	810,405
Dividends payable	3,772,308	3,772,308
Other payables to employees	475,775	433,281
Decommissioning and site restoration costs	1,385,645	1,609,928
Environmental provision	292,484	311,905
Litigation and claims	230,802	245,543
Other current liabilities	102,882	71,811
	8,068,314	**8,425,924**

29. LIABILITIES FOR OTHER TAXES

	31 December 2016	31 December 2015
Excise tax	5,009,938	5,707,561
Contribution for buffer stocks	601,357	350,301
Other taxes payables	1,378,373	1,183,288
	6,989,668	**7,241,150**

30. ACCRUED EXPENSES

Accrued expenses as at 31 December 2016 amounting to RSD 3,424,134 (31 December 2015: RSD 2,290,026) mainly relate to accrued employee bonuses of RSD 1,627,264 (31 December 2015: RSD 1,401,438).

31. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2016	**2015**
Cost of production services	3,146,363	3,101,503
Transportation services	3,339,230	3,317,450
Maintenance	5,277,845	4,216,545
Rental costs	1,201,047	1,180,355
Fairs	7,196	3,323
Advertising costs	861,607	821,973
Exploration expenses	1,247,077	463,888
Cost of other services	1,239,590	881,502
	16,319,955	**13,986,539**

32. NON-PRODUCTION COSTS

	Year ended 31 December	
	2016	**2015**
Costs of non-production services	6,732,701	7,336,307
Representation costs	91,863	89,518
Insurance premium	357,749	383,059
Bank charges	231,656	227,776
Cost of taxes	1,009,281	1,055,209
Mineral extraction tax	1,014,164	1,424,183
Other non-production expenses	1,103,062	1,087,510
	10,540,476	**11,603,562**

Cost of non-production services for the year ended 31 December 2016 amounting to RSD 6,732,701 (2015: RSD 7,336,307) mainly relate to costs of service organizations of RSD 3,793,903, project management costs of RSD 1,317,665 and consulting service costs of RSD 613,064.

33. FINANCE INCOME

	Year ended 31 December	
	2016	**2015**
Finance income - related parties		
- foreign exchange differences	864,859	1,141,289
- other finance income	968,003	1,126,848
Interest income	1,033,686	650,898
Foreign exchange gains	1,283,326	1,449,860
Other finance income	3,220	68,520
	4,153,094	**4,437,415**

34. FINANCE EXPENSE

	Year ended 31 December	
	2016	**2015**
Finance expenses – related parties		
- foreign exchange differences	1,277,893	2,680,138
- other finance expense	773,919	948,878
Interest expenses	2,542,891	2,323,427
Decommissioning provision: unwinding of the present value discount	118,944	121,397
Provision of trade and other non-current receivables: discount	296,429	912,968
Foreign exchange losses	3,778,441	7,679,828
Other finance expense	8,303	4,425
	8,796,821	**14,671,061**

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

	Year ended 31 December	
	2016	**2015**
Reversal of impairment of LT financial investments	827	495
Income from valuation:		
- trade and specific receivables (note 17)	4,429,484	5,785,037
- other receivables (note 18)	2,086,762	1,316,921
	6,517,073	**7,102,453**

36. OTHER INCOME

	Year ended 31 December	
	2016	**2015**
Gains on disposal - PPE	355,823	148,438
Gains on disposal - materials	36,886	33,467
Gains on disposal - equity instruments and securities	-	61,696
Surpluses from stock count	371,085	231,448
Payables written off	61,024	486,139
Release of long-term provisions (note 24)	475,602	161,211
Release of impairment:		
- Investment property	79,957	-
- Inventory	3,249	406,016
- Other property	8,808	4,438
Penalty interest	106,199	138,190
Other income	273,624	670,120
	1,772,257	**2,341,163**

37. OTHER EXPENSES

	Year ended 31 December	
	2016	**2015**
Loss on disposal - PPE	243,100	226,496
Shortages from stock count	503,234	348,893
Write-off receivables	57,464	14,853
Write-off inventories	56,672	147,712
Impairment:		
- Intangible assets	-	72
- PPE	42,054	323,629
- Investment property	-	124,003
- Inventory	41,204	89,439
- Other property	2,242	39,216
Other expenses	428,120	947,968
	1,374,090	**2,262,281**

38. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2016	**2015**
Income tax for the year	2,061,271	3,762,995
Deferred income tax for the period (note 15)		
Origination and reversal of temporary differences	458,404	588,222
	2,519,675	**4,351,217**

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

	Year ended 31 December	
	2016	**2015**
Profit before tax	**18,601,544**	**20,455,884**
Tax calculated at domestic tax rates applicable to profits in the respective countries	2,790,232	3,068,383
Tax effect on:		
Revenues exempt from taxation	(20,311)	(60,630)
Expenses not deductible for tax purposes	200,393	1,043,733
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	672,122	1,693,591
Other tax effects for reconciliation between accounting profit and tax expense	(1,095,914)	(1,393,860)
	2,546,522	**4,351,217**
Adjustment in respect of prior years	(26,847)	-
	2,519,675	**4,351,217**
Effective income tax rate	13.55%	21.27%

39. OPERATING LEASES

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

	31 December 2016	**31 December 2015**
Less than one year	273,367	195,160
1-5 years	343,303	157,309
Over 5 years	138,121	143,738
	754,791	**496,207**

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

	31 December 2016	**31 December 2015**
Less than one year	1,137,744	1,030,413
1-5 years	40,972	1,068,617
Over 5 years	34,799	-
	1,213,515	**2,099,030**

The Company rents mainly O&G equipment and petrol stations.

40. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

As of 31 December 2016 the Company has entered into contracts to purchase property, plant and equipment for RSD 5,324,487 (31 December 2015: RSD 611,417) and drilling and exploration works estimated to USD 40.17 million (31 December 2015: USD 45 million).

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Company 's management recognised an environmental provision in the amount of RSD 838,655 (31 December 2015: RSD 687,705).

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

Taxes

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

Other contingent liabilities

As at 31 December 2016, the Company did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Company has to pay the difference in tax calculation of USD 66 million related to the additional profit oil for the period from 2002 to 2009. The Company's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Company's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed four years ago. Taking all of the above into consideration, the Company's Management is of the view that as at 31 December 2016 outflow of resources embodying economic benefits is not probable due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

41. RELATED PARTIES TRANSACTIONS

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 2016 and 2015, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

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

	Subsidiary	**Parent**	**Parent's subsidiaries and associates**	**Total**
As at 31 December 2016				
Advances for PPE	220,956	-	-	220,956
Investments in subsidiaries	13,442,631	-	-	13,442,631
Long-term loans	32,413,076	-	-	32,413,076
Trade receivables	3,020,095	-	1,670,031	4,690,126
Receivables from specific operations	224,295	-	-	224,295
Other receivables	1,076,085	-	-	1,076,085
Short-term investments	364,481	-	-	364,481
Other current assets	2,897,787	-	-	2,897,787
Long-term liabilities	-	(31,585,938)	-	(31,585,938)
Short-term financial liabilities	(1,109,630)	(5,742,898)	-	(6,852,528)
Advances received	(2,142)	-	(24,658)	(26,800)
Trade payables	(3,207,752)	(5,818,197)	(1,734,258)	(10,760,207)
Other short-term liabilities	(41,950)	-	-	(41,950)
	49,297,932	**(43,147,033)**	**(88,885)**	**6,062,014**
As at 31 December 2015				
Advances for PPE	68,269	-	-	68,269
Investments in subsidiaries	13,442,631	-	-	13,442,631
Long-term loans	33,502,197	-	-	33,502,197
Trade receivables	2,877,268	-	148,105	3,025,373
Other receivables	984,485	-	-	984,485
Short-term investments	847,638	-	-	847,638
Other current assets	51,810	-	-	51,810
Long-term liabilities	-	(36,770,682)	-	(36,770,682)
Short-term financial liabilities	(729,883)	(5,657,028)	-	(6,386,911)
Advances received	(6,607)	-	(12,470)	(19,077)
Trade payables	(3,429,198)	(10,004,805)	(966,460)	(14,400,463)
Other short-term liabilities	(42,428)	-	-	(42,428)
	47,566,182	**(52,432,515)**	**(830,825)**	**(5,697,158)**

For the year ended 31 December 2016 and 2015 the following transaction occurred with related parties:

	Subsidiary	**Parent**	**Parent's subsidiaries and associates**	**Total**
Year ended 31 December 2016				
Sales revenue	9,016,182	-	9,079,413	18,095,595
Other operating income	34,020	-	-	34,020
Cost of goods sold	(183,208)	-	(8,474,101)	(8,657,309)
Cost of material	(10,254)	(36,864,735)	-	(36,874,989)
Fuel and energy expenses	(2,358)	-	-	(2,358)
Employee benefits expenses	(74,206)	-	-	(74,206)
Production services	(3,905,866)	-	(167,524)	(4,073,390)
Non-material expense	(1,031,648)	-	(45,094)	(1,076,742)
Finance income	1,832,862	-	-	1,832,862
Finance expense	(1,290,742)	(761,070)	-	(2,051,812)
Fair value measurement losses	(35,350)	-	-	(35,350)
Other income	1,113	133,073	-	134,186
Other expenses	(70)	(148,657)	(260)	(148,987)
	4,350,475	**(37,641,389)**	**392,434**	**(32,898,480)**
Year ended 31 December 2015				
Sales revenue	9,566,804	-	811,395	10,378,199
Other operating income	33,067	-	-	33,067
Cost of goods sold	228,234	-	553,999	782,233
Cost of material	(16,748)	(79,766,583)	(1,952,153)	(81,735,484)
Fuel and energy expenses	(2,641)	-	-	(2,641)
Employee benefits expenses	(75,189)	-	-	(75,189)
Production services	(3,724,162)	-	(169,108)	(3,893,270)
Non-material expense	(988,430)	(39,619)	(29,234)	(1,057,283)
Finance income	2,327,852	8,805	-	2,336,657
Finance expense	(2,678,123)	(945,091)	(10,227)	(3,633,441)
Fair value measurement losses	(100,474)	-	-	(100,474)
Other income	1,971	107,223	11	109,205
Other expenses	(53,391)	(95,622)	(19,836)	(168,849)
	4,518,770	**(80,730,887)**	**(815,153)**	**(77,027,270)**

Main balances and transactions with state and mayor state owned companies:

	31 December 2016	31 December 2015
Receivables – gross		
HIP Petrohemija	10,349,446	23,268,304
Srbijagas	34,142	101,306
Republic of Serbia	21,764,308	18,703,814
	32,147,896	**42,073,424**
Liabilities		
HIP Petrohemija	(675,393)	(800,455)
Srbijagas	(141,195)	(372,985)
	(816,588)	**(1,173,440)**
Advances received		
HIP Petrohemija	(1,567)	(12,470)
	(1,567)	**(12,470)**

	Year ended 31 December 2016	2015
Operating income		
HIP Petrohemija	13,847,087	17,580,877
Srbijagas	1,284,610	3,927,429
	15,131,697	**21,508,306**
Operating expenses		
HIP Petrohemija	(195,479)	(169,108)
Srbijagas	(1,123,794)	(933,151)
	(1,319,273)	**(1,102,259)**

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.

Transactions with Key Management Personnel

In the year ended 31 December 2016 and 2015 the Company recognized RSD 864,392 and RSD 425,613, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

NIS a.d. – Naftna industrija Srbije, Novi Sad
Contact information

The Company's office is:

12 Narodnog Fronta St.,
Novi Sad, Republic of Serbia
21000

Telephone: (+ 381 21) 481 1111
e-mail: office@nis.eu

www.nis.eu

Investor relations
e-mail: investor.relations@nis.eu