Annual Report 2017

FUTURE
AT WORK

2017 Annual Report

NIS GAZPROM NEFT FUTURE AT WORK

1 Business Report

Referral to another part of this Report or to other reports of NIS Group.

Referral to the corporate website www.nis.eu

The Annual Report for 2017 presents a factual overview of NIS Group's activities, development and performance in 2017. The Report covers and presents data for NIS Group, comprising NIS j.s.c. Novi Sad and its subsidiaries. If the data pertain only to certain individual subsidiaries or only NIS j.s.c. Novi Sad, it is so noted in the Report. The terms: 'NIS j.s.c. Novi Sad' and 'the Company' denote the parent company NIS j.s.c. Novi Sad, whereas the terms 'NIS' and 'NIS Group' pertain to NIS j.s.c. Novi Sad with its subsidiaries.

The Annual Report provides a concise and integrated overview of the financial and non-financial achievements of NIS Group in 2017 and shows how the Group's strategic goals, corporate governance, achieved results and realised potential, in conjunction with the external environment, lead to generating the value in the short, medium and long term.

The Annual Report is compiled in Serbian, English and Russian. In case of any discrepancy, the Serbian version shall be given precedence.

The Annual Report for 2017 is also available online on the corporate website. For any additional information on NIS Group, visit the corporate website www.nis.eu.

The Annual Report contains information explained in more detail in other sections of this Report, other reports or on the corporate web pages. There is also a glossary at the end of the Report with explanation of the abbreviations and acronyms used.

2 Financial Statements

3 Statement of Individuals Responsible for the Preparation of Financial Statements

4 Appendices

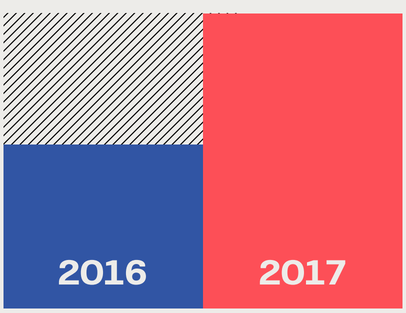
1.01 NIS Group in 2017

Net profit RSD

27 bn

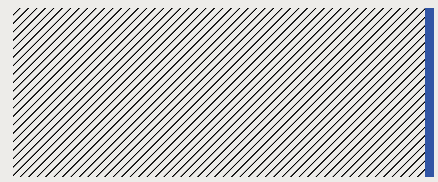
80%

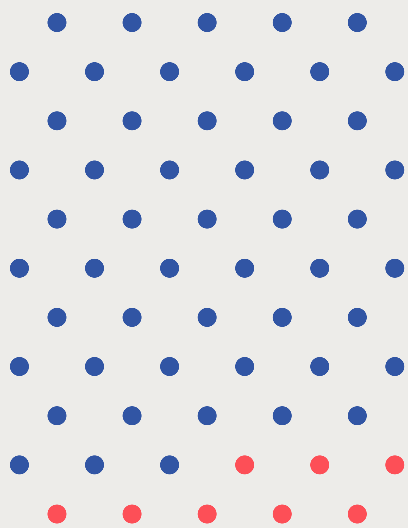
higher year-on-year



Investment growth of

2%



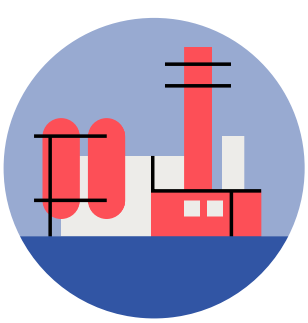


52

development and

8

exploration wells drilled in Serbia in 2017



Start of active phase in the construction of the Delayed Coking Unit as part of 'Bottom of the Barrel' Project

Refining volume

3,605

thousand tonnes –

9%

more than last year

Sales volume

3,507

thousand tonnes –

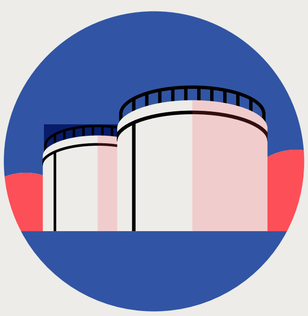
5%

more than last year

Strategy

2025

✓ *adopted*



Increase in hydrocarbon reserves of

3.1%

Retail network development – 11 petrol stations reconstructed, 3 new petrol stations commissioned and Bagrdan petrol station purchased

Awards

Ministry of Education, Science and Technological Development awarded NIS j.s.c. Novi Sad with St Sava Award for its contribution to the education in the Republic of Serbia through the ‘Energy of Knowledge’ corporate programme.

• • •

NIS declared the ‘National Champion’ in the category of Environmental Protection and Sustainable Development as part of the European Business Awards competition.

• • •

The Chamber of Commerce and Industry of Serbia awarded NIS with two awards in the category ‘Manufactured Goods and Business Services’ for the best corporate brand and the best merchandise brand ‘NIS Petrol’ as part of ‘The Best from Serbia’ Award.

• • •

NISOTEC brand won the Great Champion Trophy of the 84th International Agricultural Fair in Novi Sad for the top quality of motor and hydraulic oils, as well as seven grand prix gold medals and three gold medals for the quality of NISOTEC products.

• • •

NIS won the Gold Stevie International Business Award in the category of specialised websites for providing information to investors and shareholders.

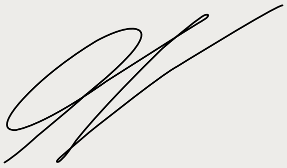
• • •

NIS declared the supreme champion of business excellence, achieving the highest score in the history of prestigious ‘Oscar of Quality’ business award.

• • •

For the fifth time, NIS received the Golden Plaque Award of the Belgrade Stock Exchange for the best investor relations in 2017, competing with 17 domestic and regional companies.

Vadim Yakovlev
Chairman of Board of Directors
of NIS j.s.c. Novi Sad



Letter to Shareholders

Dear Friends,

As a successful and dynamic year for NIS, 2017 has become a significant milestone in our history. It saw strategic directions for the development of NIS defined and the cornerstone laid for implementing large projects aimed at improving our competitiveness in an ever-more demanding market.

The current reality and the accelerating rate of development in new technologies are bringing continuous transformations globally, creating new challenges for our business. Rapid development in the IT sector greatly changes both the expectations and the behaviour of our consumers, while continuous innovation reforms not only production methods but also how processes of conventional markets operate on global and regional levels.

In 2017 we set our focus on sustaining profitability and improving operational efficiency. Accordingly, we developed a business model that reflected low oil prices and new macroeconomic realities. This enabled us to return excellent financial results by the end of the year as well as initiating and strengthening important partnerships and to formulate the future strategic direction.

Improving results

The significant financial growth during 2017 is the result of the total commitment to business activities by all employees, from the top management to operating personnel. NIS net profit increased by 80 per cent compared to 2016 reaching RSD 27 billion. We invested a total of RSD 26.5 billion, while fiscal charges reached RSD 171 billion, 5 per cent more than the previous year. This is the fifth consecutive year that NIS delivered high returns for its shareholders; in 2017 over RSD 4 billion were paid in dividends.

Continuous modernisation

During last year, NIS proved success in all its business directions. The implementation of the vast programme of production modernisation continued. We began the works for the Bottom of the Barrel project at the Pančevo Oil Refinery, where implementation envisages investments in excess of EUR 300 million. The start-up of the Delayed Cocking Unit complex, set for 2019, will enable the NIS processing complex to become one of the most up-to-date and efficient refining capacities in South-East Europe.

NIS also made further investments in increasing the environmental protection level at the Pančevo Oil Refinery. In 2017, the refinery became the first energy complex in Serbia to receive the IPPC permit, an international certificate that confirms that production processes comply with European standards for environmental protection.

Our retail network also underwent further modernisation. In 2017, we opened fourteen[1] new petrol stations, all of which fully meet the latest environmental, safety and construction standards. Following further expansion of the petrol station network, the quality of the offering for clients was also improved; the loyalty programme was actively improved and the branded fuel line was expanded.

1 *11 petrol stations were reconstructed and 3 new ones were built in 2017.*

There was also a new step in the field of energy projects; as part of a joint venture with 'Gazpromenergo Holding', we signed a contract with the Shanghai Electric Group for the construction of Combined Heat and Power Plant Pančevo. The scale of investment envisaged for this project is approximately EUR 180 million. Applying contemporary combined-cycle technology will deliver a high level of environmental safety for the new Combined Heat and Power Plant, covering the majority of the electricity consumption at the Pančevo Oil Refinery. Any remaining capacity will be directed towards boosting Serbia's energy security.

NIS also continued its successful business activities in the Balkans region. We concentrated on developing our retail network within Bosnia and Herzegovina, Bulgaria and Romania. In Romania, we completed the drilling of the Teremia 1000 exploration well, delivering promising results.

Reliable partner

However, it is not operational results alone that make NIS the leading company in Serbia. In 2017, NIS remained the reliable partner of local communities, implementing programmes to improve the quality of life in the regions where the NIS operates, supporting educational, cultural, sport activities and organising significant social events.

Also during last year, our social responsibility programme benefitted from an investment of approximately RSD 370 million. We proved ourselves as leaders in the area of social responsibility in Serbia. We are particularly proud of organising a social event where employees and customers raised a large contribution for the University Childrens' Hospital 'Tiršova' in Belgrade. These will be used to procure new medical equipment for the hospital.

As ever, we gave significant attention to implementing personal development programmes, including those to attract and support young specialists.

In 2017, a new Collective Agreement was established. This is one of the best in Serbia, demonstrating a true declaration of mutual understanding between employer and employee.

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

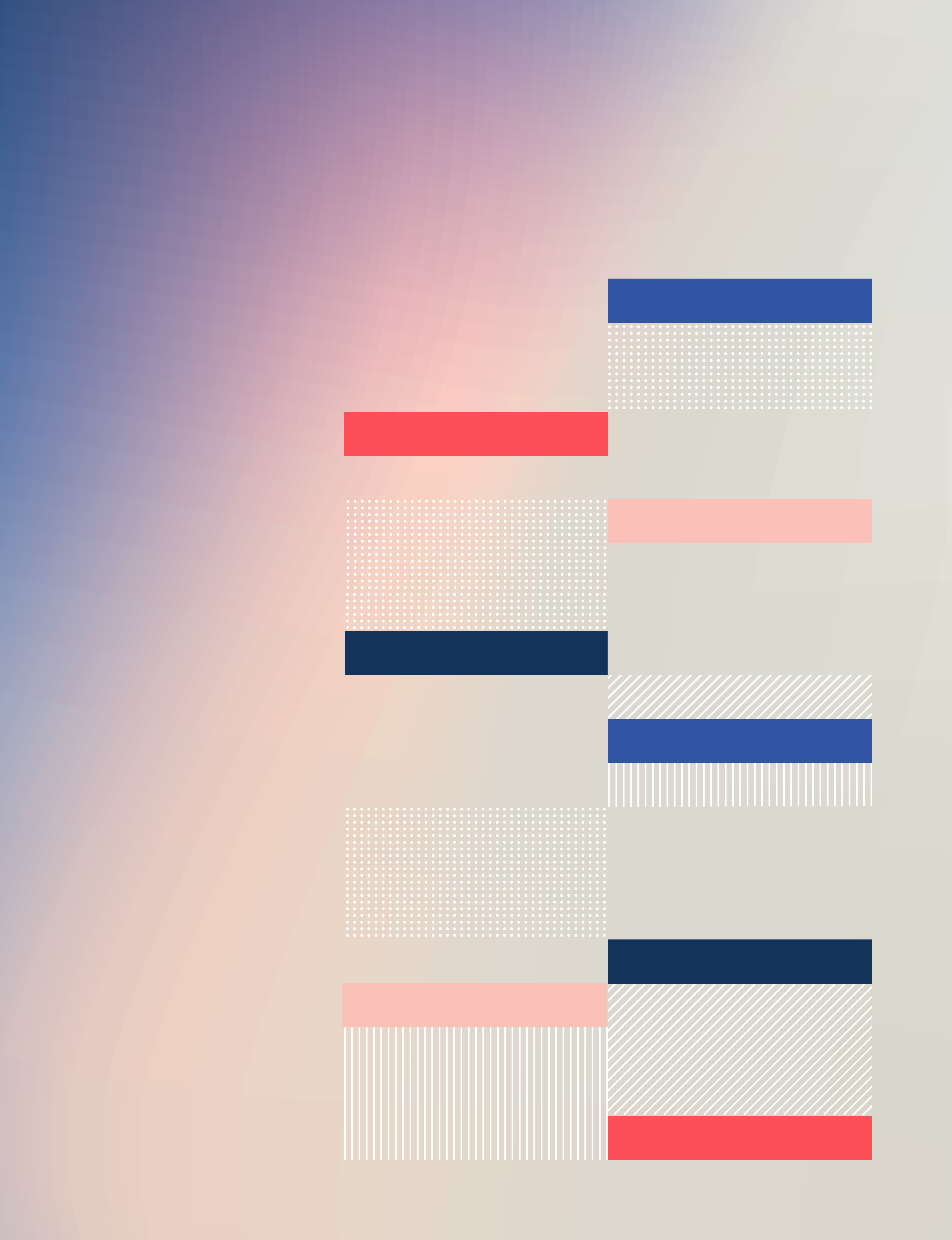
Vision of development

Finally, we concluded 2017 by establishing a new development strategy to 2025 for NIS. This laid the foundation for further development, with the goal of increasing value for both shareholders and employees as well as those communities where NIS operates. First, we will invest in Exploration and Production, thus preserving the trend of expanding hydrocarbon reserves, increasing refining efficiency, modernising the retail network and generating electrical energy.

The results we have achieved to date display our ability to turn challenges into business success. This shows that today, NIS is a company with clear vision for its development trajectory. This is confirmed by the development plan we have adopted, as well as our devotion and the pioneering approach to work shown by all our employees. We are demonstrating the future at work.

1

Business Report



1.01 Independent Auditor’s Report on the Compliance of the Business Report with Financial Statements

pwc

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT

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

We have audited the standalone financial statements of Naftna Industrija Srbije a.d. Novi Sad (hereinafter – the Company) for the year ended 31 December 2017 disclosed in the Annual Report on pages 162 to 239, and issued the Auditor's opinion on 28 February 2018, which has been disclosed on page 161. We have also audited the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017 disclosed in the Annual Report on pages 244 to 327, and issued the Auditor's opinion on 28 February 2018, which has been disclosed in the Annual Report on page 243 (collectively referred to as the financial statements).

Report on Company's Annual Report

We have verified that other information included in the Company's Annual Report for the year ended 31 December 2017 is consistent with the abovementioned financial statements. The Board of Directors is responsible for the accuracy of the information contained in the Company's Annual Report. Our responsibility is to express, based on our verification procedures, an opinion on the consistency of the Annual Report with the financial statements.

Auditor's responsibility

We conducted our verification procedures in accordance with the Law on Auditing and auditing regulation effective in the Republic of Serbia. This regulation requires that we plan and perform the verification procedures to obtain reasonable assurance about whether other information included in the Annual Report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, other information included in the Annual Report of Naftna Industrija Srbije a.d., Novi Sad for the year ended 31 December 2017 is consistent, in all material respects, with the information contained in the financial statements.

PricewaterhouseCoopers d.o.o. Beograd

Milivoje Nešović
Licensed auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 10 April 2018

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

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. 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 language version of our report takes precedence over this translation.

Independent Auditor's Report on the Annual Report has been given after performed audit of the electronic version of the Annual Report for 2017, published on the corporate website of the Company.

1.02 Highlights

January – March

- Old Klaus facility revitalised in order to increase the volume of 'Kirkuk' crude oil refining.
- NIS declared the 'National Champion' in the category of 'Environmental Protection and Sustainable Development' in the European Business Awards competition.
- The Teremia 1000 test well drilled in Romania.
- 3D seismic project - 'South Banat I' completed.
- Within the 'Best of Serbia' recognition awarded by the Chamber of Commerce and Industry of Serbia, NIS won two awards in the category 'Manufactured Goods and Business Services' – for the best corporate brand and the best merchandise brand – 'NIS Petrol'.
- Board of Directors of NIS j.s.c. Novi Sad appointed Kirill Tyurdenev the General Director.
- NIS j.s.c. Novi Sad and German chemical company BASF signed Business and Technology Cooperation Agreement on improving the quality of NIS production programme and developing the petroleum product production technology.
- NIS donated funds for the purchase of medical equipment to the University Children's Hospital 'Tiršova' in Belgrade.

April – June

- Compressed natural gas production and wholesale facilityin the gas field ‘Ostrovo’ commissioned in a ceremony.
- Representatives of the Bureau Veritas certification body presented the NIS j.s.c. Novi Sad management with certificates for five management systems verifying their compliance with international ISO standards.
- 3D seismic project – ‘Turija III’ completed.

July – September

- Building permit obtained and construction started as part of project Work Package 1[1] of the ‘Bottom of the Barrel’ Project.
- EPCm contract for Work Package 2[2] signed with the selected contractor for the ‘Bottom of the Barrel’ Project.

1 *Construction of a delayed coking unit and its auxiliary units: amine regeneration, sour water stripper with phenol removal unit.*

2 *Reconstruction of existing plants connected to the delayed coking plant such as MHC/DHT, LPG, SRU.*

October – December

- Steel construction contractor for Work Package 1[3] of the 'Bottom of the Barrel' Project selected.
- IPPC permit for integrated prevention and control of environmental pollution obtained.
- 3D seismic project – 'Morović' completed, 3D seismic project 'South Banat II' launched.
- NIS paid dividends to its shareholders for the fifth consecutive year, allocating 25 percent of the 2016 net profit, i.e. RSD 4.021 billion for this purpose.
- Loyalty programme 'On the Road with Us' introduced in all GAZPROM and NIS Petrol petrol stations in Bosnia and Herzegovina.
- Beginning of the construction of the 'Bottom of the Barrel' facility with delayed coking technology marked in a ceremony at the Oil Refinery in Pančevo.
- Contract for the construction of a combined heating and power plant in Pančevo signed between TE-TO Pančevo d.o.o. Pančevo (NIS has a 49 percent stake) and China's Shanghai Electric Group.
- Euro Diesel first exported to third parties abroad – first export to the Macedonian market.
- As part of the 'Together for Community' competition, NIS supported 42 projects that will help to improve the quality of life in 11 towns and municipalities throughout Serbia, allocating RSD 110.5 million for these projects.

3 *Construction of delayed coking plant and its auxiliary plants: amine regeneration, sour water stripper with phenol removal unit.*

- NIS and the international consultancy IHS Markit, organised a CEEC Scout Meeting in Banja Luka, one of the largest regional gatherings of the representatives of oil and gas companies operating in Central and Eastern Europe, as well as the Caspian region.
- Board of Directors of NIS j.s.c. Novi Sad adopted the Integrated Corporate Development Strategy of NIS by 2025.
- Reconstruction of the petrol station 'Zrenjanin 7' completed.
- NIS's 'Energy of Knowledge' programme of co-operation with scientific and educational institutions celebrated its fifth anniversary.

Highlights Following the Reporting Date

No significant events which require disclosure in this Report, occurred after the reporting date.

1.03 NIS Group

Group Profile

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

Countries of operation in the picture on page 23

The main production capacities are located in the Republic of Serbia, while the Group operates in 10 countries around the world and employs an international team of experts.

NIS's goal is to be the fastest-growing energy system in the Balkans and a role model for business efficiency and sustainable development.

History

1945
The Oil and Petroleum Product Trading Company was founded.

1949
The Oil Exploration and Production Company 'Naftagas' was founded. The first natural gas reservoirs were discovered.

1952
The first oil field was discovered in the north of the country – near Jermenovci in the Banat district.

1953
An intensified construction of first petrol stations started in Serbia's major cities.

1963
The construction of the first main gas pipeline connecting all oil fields with the City of Pančevo, where the first refinery was to be constructed, was completed.

1968
Oil refineries were put into operation in the cities of Novi Sad and Pančevo. 'Velebit' oil reservoir was discovered.

1985
Oil exploitation commenced in Angola and this was the first time NIS entered into a concession agreement in a foreign country.

1991
The public enterprise 'Petroleum Industry of Serbia' was established.

1930 1940 1950 1960 1970

Business Activities

Business activities of NIS Group are organized within the parent company, NIS j.s.c. Novi Sad, through five Blocks and ten Functions that support main activities. The Blocks are: Exploration and Production, Services, Refining, Sales and Distribution and Energy.

The activities of **Exploration and Production** cover exploration, production, infrastructure and operational support to production, oil and gas reserve management, oil and gas reservoir engineering, and major exploration and production projects.

The majority of NIS's oil deposits are in Serbia, but NIS is also carrying out exploration in Bosnia and Herzegovina, Hungary and Romania. NIS's oldest foreign concession is in Angola, where oil exploitation started as far back as in 1985.

This Block operates an Elemir-based plant for the preparation of natural gas, production of LPG and natural gasoline and CO_2 capture, which has a design capacity of 65,000 tonnes of LPG and natural gasoline per year. A natural gas treatment Amine Plant operates within, applying the HiPACT technology. The Elemir-based plant is the first HiPACT plant in Europe, and the gas processing method completely prevents carbon dioxide emissions into the air.

The subsidiary NTC NIS Naftagas d.o.o. Novi Sad provides scientific and technical support to the main activities of the Block, while being the development and innovation centre of the entire NIS, at the same time.

Services provide oil and gas exploration and production services through geophysical surveying, well construction, completion and workover, and

1980 · 1990 · 2000 · 2010 · 2020

1999
NATO bombing, during which NIS suffered human and material losses.

2005
NIS gained the status of a joint stock company.

2009
The Russian company PJSC 'Gazprom Neft' became majority shareholder in NIS. Beginning of modernisation of the refining complex.

2010
NIS became an open joint stock company listed on the Belgrade Stock Exchange.

2011
NIS started its regional expansion.

2012
Completion of the first stage of modernisation of the Oil Refinery in Pančevo. The first GAZPROM premium brand petrol station was opened in a ceremony in Belgrade.

2013
NIS started transforming into an energy system.

2017
Beginning of an active stage in the construction of the 'Bottom of the Barrel' plant with delayed coking technology.
Contract for the construction of a combined heat and power plant in Pančevo signed between TE-TO Pančevo d.o.o. Pančevo and China's Shanghai Electric Group.

performance of special operations and measurement on wells. The Block also delivers equipment maintenance services and the construction and maintenance of oil and gas systems and facilities. Moreover, the Services Block provides cargo transport and equipment operation services, as well as passenger transport and vehicle rental services. NIS has its own servicing capacities, which fully meet the Group's demands and allow NIS to provide services to third parties. All this is delivered through the subsidiaries Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad. Services have expanded the business into foreign markets: Bosnia and Herzegovina, Romania and Russia.

Refining is responsible for processing crude oil and other raw materials and for producing petroleum products. It produces a broad range of petroleum products: from motor and energy fuels to feedstock for the petrochemicals industry, and other petroleum products. The Block's refining complex includes a production plant in Pančevo[1]. Maximum design capacity of the refining plants in Pančevo equals 4.8 million tonnes per year. Following the construction of the Mild Hydrocracking and Hydrotreating Unit (MHC/DHT) in 2012, NIS now produces fuel that meets EU quality standards. At Pančevo Oil Refinery, a 'Bottom of the Barrel' plant with delayed coking technology is under construction. This capital investment is part of the second stage of modernisation, after the realisation of which Pančevo Refinery will produce greater quantities of white petroleum products, as well as a new product - coke, which is now imported into Serbia.

Sales and Distribution cover foreign and domestic trading, wholesaling and retail sale of petroleum and non-fuel products.

Number of retail sites on page 57

NIS operates the largest retail network in Serbia and its petrol stations are active in the countries of the region as well - in Bosnia and Herzegovina, Bulgaria and Romania. In Serbia and in the region, NIS manages a network of over 400 retail sites and has two brands in the market with two brands: the mass market NIS Petrol and the premium GAZPROM brand.

As separate businesses, NIS develops aviation fuel supply, bunkering, lubricants and bitumen sale and distribution.

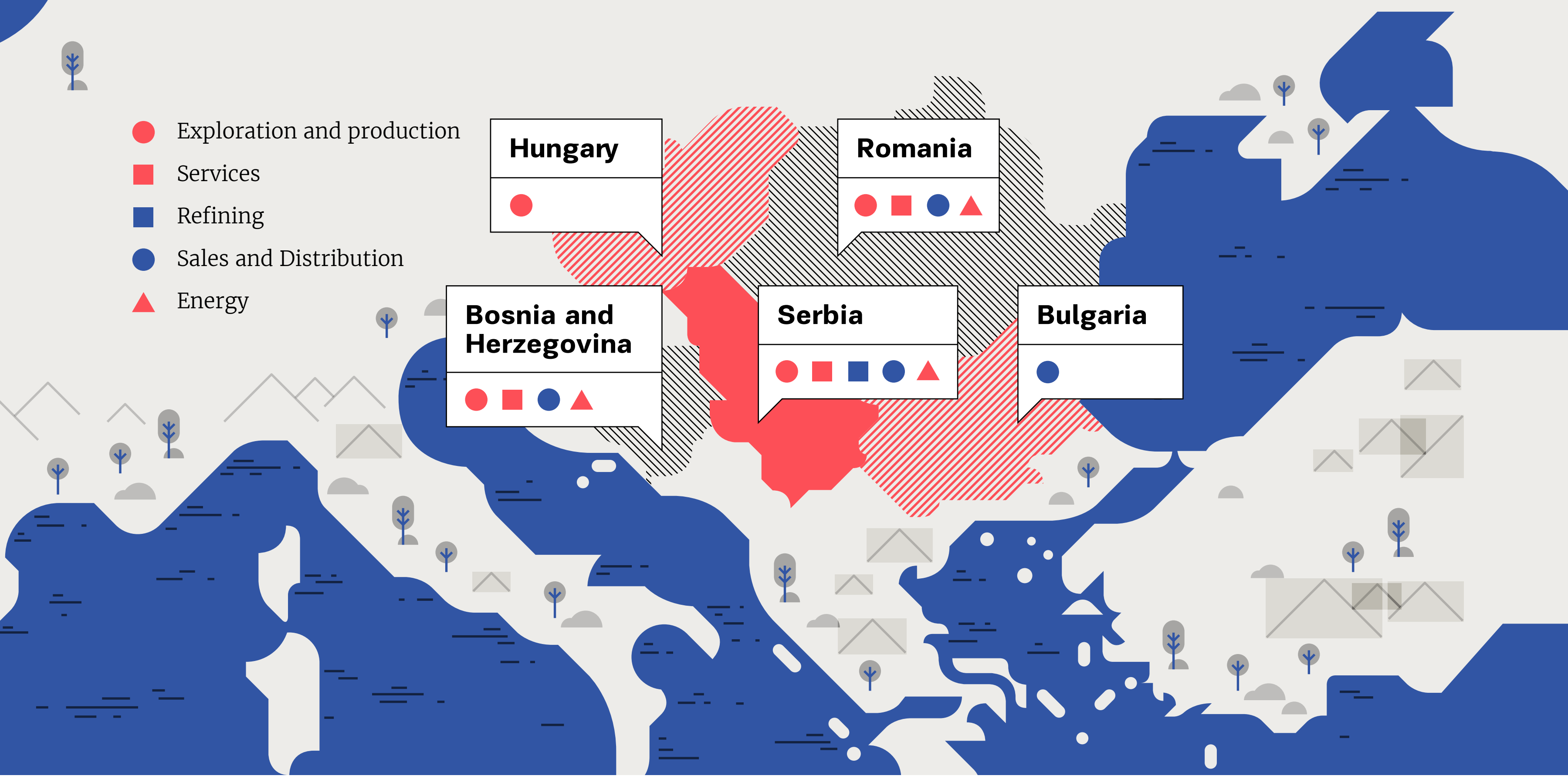
All fuel types are subject to regular, rigorous laboratory testing and comply with national and international standards. The introduction of state-of-the-art technologies has increased the network's operational efficiency.

Energy produces electricity and thermal energy from conventional and renewable sources, produces and sells compressed natural gas, sells natural gas, trades in electricity, sets up and carries out strategic energy projects, and develops and implements energy efficiency improvement projects.

This Block develops and implements energy projects within NIS Group and analyses and evaluates investment projects in Serbia's energy sector under strategic partnership projects.

In late October 2017, a contract was signed for the construction of a combined thermal and power plant in Pančevo between TE-TO Pančevo d.o.o.

1 *Novi Sad Oil Refinery is closed and its design capacity of 2.5 million tonnes per year is currently not being used. By virtue of the decision of the General Director dated 1 March 2016, this facility was placed under the management and responsibility of the Sales and Distribution Block.*



Pančevo[2] and China's Shanghai Electric Group. Further implementation of this project is planned in 2018, while the completion of construction and the start of exploitation are planned for the fourth quarter of 2019.

On 8 locations on oil and gas fields, NIS has small power plants with a total installed capacity of 13.8 MW[3]. Some small power plants also generate thermal energy, meeting the consumption requirements of their own facilities. The electricity output is mostly marketed. In addition to small power plants, NIS produces electrical and thermal energy at the Energy Plant Pančevo having a generator capacity of 10.7 MW. Electrical and thermal energy at the Energy Plant are used entirely for the Pančevo Oil Refinery purposes.

The main activities are supported by ten Functions of the parent company – NIS j.s.c. Novi Sad. Five of the ten supporting Functions are partially de-centralised and have functionally subordinate departments within Blocks[4], while other functions are centralised[5]. One of the General Director's Deputy is in charge of petrochemicals operations.

NIS Worldwide

Business development in the region is one of the strategic goals of NIS. Following its strategy to become the leader in the region, NIS began expanding its operations to the countries of the region in 2011. Regional expansion started in two main directions - in the field of oil and gas exploration and production (in Bosnia and Herzegovina, Hungary and Romania) and through the development of a retail network (in Bulgaria, Bosnia and Herzegovina and Romania). In addition, NIS is also active in the field of electricity trade, where, apart from the Serbian market, it is present in the markets of Bosnia and Herzegovina, Romania, Slovenia and Hungary.

Through its subsidiaries and representative offices, NIS is present in 10 countries.

NIS Group organisational structure on page 26

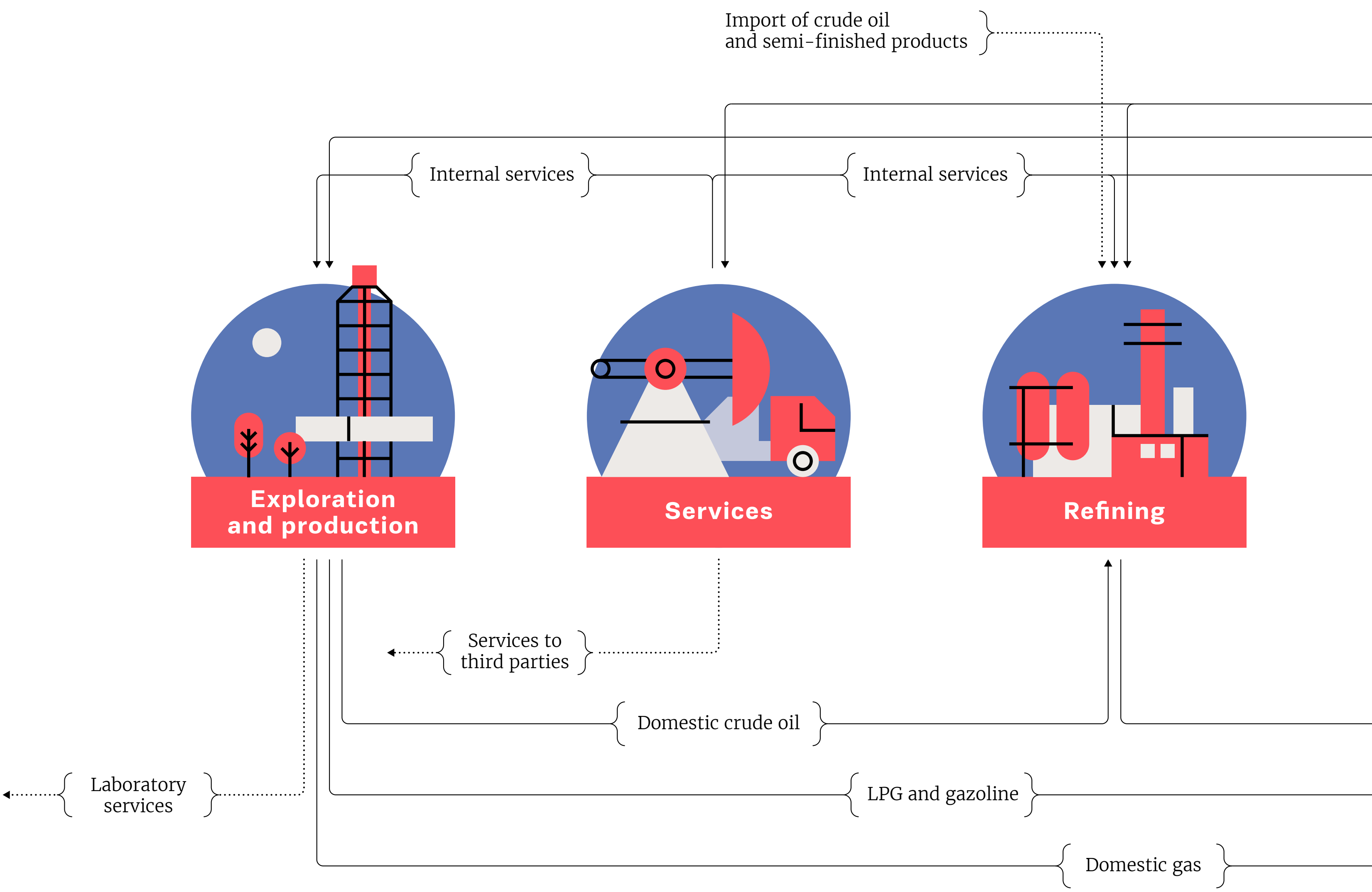
2 *NIS holds a 49% percent stake in TE-TO Pančevo d.o.o. through the company Serbskaya Generaciya d.o.o. Novi Sad.*

3 *Maximum capacityof small power plants is 14.5 MW.*

4 *Finance, Economics, Planning and Accounting, Strategy and Investments, Material and Technical and Service Support and Capital Investments, Organisational Affairs and HSE.*

5 *Legal and Corporate Affairs, Corporate Security, External and Governmental Relations, Public Relations and Communication, and Internal Audit (Internal Audit is organisationally subordinate to the General Director, whereas the person responsible for internal audit reports to the Audit Committee of the Board of Directors).*

Business Model



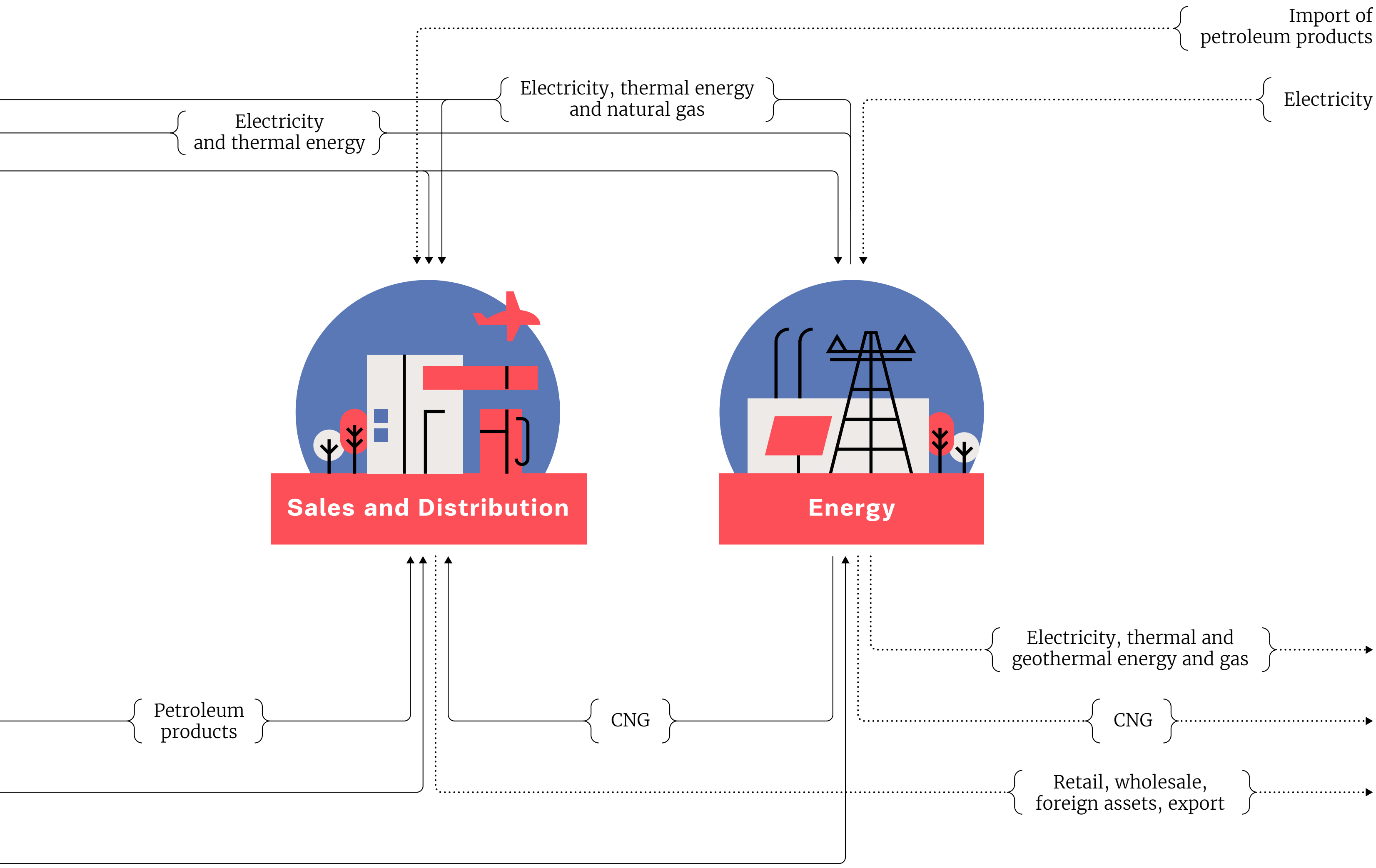
Intersegment Pricing

The concept of intersegment pricing methodology is based on the market principle and the 'one product, one intersegment price' principle.

The 'one product, one intersegment price' principle means that the movement of a product among different profit centres within NIS is valued at a single price, irrespective of which profit centres the movement involves.

Intersegment prices serve to generate internal revenues among NIS's operating segments and are set so as to reflect the market position of each operating segment.

- Intersegment price of domestic oil is set according to the so-called 'export parity price'.
- Intersegment price of natural gas corresponds with the selling price of natural gas at which NIS sells natural gas to PE Srbijagas.
- Intersegment prices of petroleum products and natural gas products are set according to the following principles:
  - Import parity price – the principle used for calculating the transfer prices of products which can be freely imported and the products which are their direct substitutes,



- Export parity price is used for products which are exported only or exported in a certain quantity,

- Other petroleum products - those which do not fall into either of the above two groups (import parity price, export parity price) according to their specific properties – are characterised by the fact that they are sold to a small number of known buyers, for which the selling prices are stipulated by annual or long-term contracts, or they represent an alternative to other products (straight-run naphtha, jet fuel, propylene).

Products:

- Natural gas
- Compressed natural gas
- Motor fuels
- Aviation fuels
- Bunker fuels
- Energy fuels
- Oils and lubricants
- Bitumen
- Fuel oils
- Petrochemical products
- Other products

NIS Group Business Structure

NIS
GAZPROM NEFT

Representative and Branch Offices

- Turkmenistan Branch Office
- Branch Offices in Serbia*
- Angola Representative Office
- Bulgaria Representative Office
- Croatia Representative Office
- Kingdom of Belgium Representative Office
- Bosnia and Herzegovina Representative Office
- Hungary Representative Office
- Romania Representative Office
- Russian Federation Representative Office

Subsidiaries

- O Zone a.d. Beograd
  - NIS Energowind d.o.o. Beograd
- Naftagas – Naftni servisi d.o.o. Novi Sad
- Naftagas – Tehnički servisi d.o.o. Zrenjanin
- Naftagas – Transport d.o.o. Novi Sad
- NTC NIS – Naftagas d.o.o. Novi Sad
- NIS Oversees o.o.o. St. Petersburg
- NIS Petrol EOOD Sofia
- NIS Petrol SRL Bucharest
- NIS Petrol d.o.o. Banja Luka
  - G – Petrol d.o.o. Sarajevo
- Pannon Naftagas kft Budapest
- Jadran Naftagas d.o.o. Banja Luka
- NIS-Svetlost d.o.o. Bujanovac

** Under the Law on Tourism of the Republic of Serbia, if a company does not operate in hospitality as its core activity, the company is obliged to form a branch, i.e. premises outside its registered seat, and register it accordingly or otherwise establish an organisational unit that is registered in the Tourism Registry. To this end, the Company registered all petrol stations where it provides hospitality services as separate branches. The list of petrol stations which are registered as branches is available at http://ir.nis.eu/en/corporate-governance/group-structure/.*

NIS j.s.c. Novi Sad Organisational Structure

NIS
GAZPROM NEFT

Corporate centre

Representative and Branch Offices

Exploration and Production Block

- Oil and Gas Exploration Department
- Department for Geological Research and Reservoir Engineering
- Department for Drilling and Workover
- Capital Construction Department
- Department for Perspective Development and Foreign Assets
- PEC Department
- Oilfield Services Management Department
- HR Sector
- HSE Sector
- Project Activities Centre
- Operational Management System (OMS) Project Office
- Project Office Romania

Services Block

- Chief Engineer
- PEC Department
- Oilfield Services Management Centre
- MT and SS Sector
- HR Sector
- HSE Sector
- Operational Management System (OMS) Project Office

Refining Block

- PEC Department
- Department for Development and Investment
- Production Department
- Technical Department
- HSE Department
- Sector for MT and SS
- HR Sector
- Operational Management System (OMS) Project Office

Sales and Distribution Block

- Commercial Affairs
- Retail
- Business Development
- Department for Sales Coordination
- Logistics Department
- PEC Department
- Organisational Affairs Department
- MT and SS Sector
- Department for Quality, PS and Warehouse Operation Control
- HSE Sector
- Potable Water Production Plant

Energy Block

- Electricity Trade Department
- Department for Trading and Managing Natural Gas Portfolio
- Energy Facilities Exploitation Department
- PEC Department
- Investment Projects Support Department*
- Development Department*
- HSE Sector
- MTSS and CC Sector
- Project Office Pančevo*

** Under the responsibility of the Deputy Director of the Block for the implementation of investment projects*

Mission

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

Vision

Vertically integrated energy company NIS j.s.c. Novi Sad will be recognizable leader of the Balkan region in its field of business activity, owing to the dynamics of sustainable development and efficiency increase, by showing a high level of social and environmental responsibility as well as contemporary standards of providing services to the clients.

Value Statements

Professionalism

Acquiring up-to-date knowledge with a view to building on professional expertise continually; ability to implement it in specific business processes.

Initiative and Responsibility

Finding and proposing new solutions, both in terms of work duties and, more broadly, the Company's interests.

Positive Attitude and Cooperation

Readiness to join multifunctional groups and projects and to respond to requests from colleagues from other organisational units; readiness for knowledge exchange and team work.

Shared Results

Working together to achieve tangible and outstanding results, striving towards success with prerequisite mutual assistance and cooperation from employees.

1.04 Strategy

Strategy 2025

For several years already, the oil industry has been at a turning point caused primarily by a low price of oil, but also the long-awaited change in the way in which people and goods are transported, as well as the change of fuel to be used for transport. In 2017, owing to the temporary alliance of OPEC countries and the Russian Federation, the price of oil finally stabilised and halted the trend of high volatility. In the long run, however, it is expected to stay below the level that provider for more stable business operations in the period from 2011 to 2014.

In this period of major changes for the oil industry, NIS successfully responded to the challenges of the business environment and managed to maintain a satisfactory level of profitability and operating indicators. In 2017, a new Integrated Corporate Strategy 2025 was adopted, which will provide further growth, as well as profitability for shareholders, employees and the wider community.

The main strategic goals of NIS are:

- Preserve production and resource base growth indicators,
- Increase the depth and efficiency of refining,
- Boost the sales of petroleum products through own sales channels and modernise the retail network,
- Diversifythe business by building new electricity generation capacities,
- Optimise operating performance.

Exploration and Production

Most of the investments planned by NIS by 2025 will be allocated for the exploration and production segment. In the upcoming period, NIS expects a slight decline in base oil and gas production compared to 2016, but it will be compensated for by the existing reservoirs engineering, geological exploration in Serbia, further development of the most profitable foreign concessions, primarily in Romania, as well as a steady operational efficiency increase.

Refining

Information on the status of the 'Bottom of the Barrel' project on page 56

The development of NIS refining through the modernisation of the Oil Refinery in Pančevo and the increase in energy and operational efficiency in this segment is one of the main tasks of NIS by 2025. The Pančevo Oil Refinery has already started the construction of the 'Bottom of the Barrel' facility with delayed coking technology, a project worth more than €300 million and one of the largest investments in Serbia in the coming years. The operation of new facilities will contribute to increasing the depth of refining, and product structure will be diversified and changed for the benefit of white products and an increase in the quantity of products that meet European quality standards.

Sales and Distribution

The strategy lays down modernisation of the retail network and an increase in its profitability by growing of branded fuel sales and developing additional businesses, as well as an increase in the efficiency and volume of wholesaling and development in foreign sales markets. In the following period, NIS will devote itself to the development and improvement in operating the specialised product business lines – aviation fuels, lubricants and bunker fuels – through raising the level of specialised logistics and improving the quality of products and related services.

Energy

The growth of electricity production and the increase in the efficiency of the Energy Block are the main goals of NIS in the energy segment. Key projects in this business segment will be the construction of a new combined heat and power plant in Pančevo, further growth of electricity production from small power plants, development of wind turbine generation, with plans to significantly increase trade in electricity.

Operational efficiency programmes in all parts of NIS will continue to be a key source of raising the level of business success in the coming period and will remain one of the main strategic goals in the conditions of a complex business environment.

Success as a Strategy

In 2017, NIS significantly improved its financial results compared with the previous year, investing RSD 26.5 billion on further development.

The successful fiscal year, with net profit up by

80%

year-on-year, was crowned with the adoption of the NIS 2025 Development Strategy. This provides the foundation for further development in a challenging macroeconomic environment.

It is our aim to turn challenges into business successes and create new value for our shareholders, staff and the community where we operate.

1.05 Risk Management

Integrated Risk Management System

Risk is a likely future event that can exert negative or, potentially, positive influence on the achievement of the Company's objectives.

NIS has set its risk management objectives and established an integrated risk management system (IRMS). The Company's objective in the field of risk management is to increase the effectiveness and efficiency of management decisions through the analysis of the risks that accompany them, as well as to ensure maximum effectiveness and efficiency of risk management measures during the implementation of the decisions taken.

The IRMS is a set of processes, methodological framework and instruments aimed at ensuring the efficiency and effectiveness of the risk management process at NIS.

IRMS Business Process Flow at NIS

The system's underlying principle is that different management levels have been entrusted with

The Company's risk management objectives are met through the performance of the following tasks:

- Establishing a risk management culture at the Company in order to reach a common understanding of the basic risk management principles and approaches by management and employees;
- Defining and establishing a systemic approach to identifying and assessing the risks that exist in the Company's operations, both in general and in certain areas of business;
- Encouraging the exchange of information on risks among the corporate organisational units and jointly defining risk management measures;
- Providing systematic information on risks to the corporate governing bodies.

managing different risks depending on projected financial impact of those risks. Such approach allows for identifying the areas of responsibility for risk management and oversight at all management levels and for ensuring the preparation of suitable action plans for managing key risks, at the level of organisational units and NIS as a whole.

In the parent company, a Section for Risk Management System Monitoring was established to coordinate and continuously develop this business process.

Furthermore, integrated management systems, organisational structure, business processes, standards and other internal regulations, the Code of Corporate Governance and the Code of Business Ethics all together form an internal control system which provides guidance on how to conduct NIS' operations and manage associated risks effectively.

At NIS risks are identified and assessed NIS by analysing data sources, conducting inspections, holding interviews, risk sessions, etc. and according to the levels (Company, Blocks/Functions, Organisational units, Subsidiaries/Large Projects/Business Units, Assets, Projects/Plants, Units of Equipment).

IRMS in Business Planning Process

Key risks, associated with corporate goals, are identified at all levels in NIS and endorsed by the Board of Directors through the adoption of business plans.

Risk assessment is an integral part of the business planning process, while information on key risks – estimated financial effect of the risks, management strategies, risk management actions and the funds needed to carry out the actions forms an integral part of the adopted business plans.

Through its operations, the Group is exposed to operational and market risks, state regulation and policy risks, and financial risks.

Operational Risks

Risk Description	Risk Management Actions
Project Risks	
With respect to geological research, the goal of NIS Group is to increase the resource base and output. This largely depends on the outcome of geological research activities aiming to increase the number of active wells in the country and abroad. The main risk in oil and gas exploration and production ensues from failure to prove estimated reserves and, consequently, failure to achieve planned resource base growth.	The measures applied in order to reduce the risks are the implementation of new 3D seismic exploration using the latest wireless technology, the selection of candidates for exploratory drilling based on complex seismic and geological interpretation of data, the expertise of the geological exploration programme by the largest shareholder and the selection of the most promising wells using state-of-the-art exploration methods. In order to reduce the risks, special attention is paid to good preparation of projects for implementation and quality monitoring during the geological exploration. In order to reduce the licensing risks, geological exploration is carried out in accordance with the schedule defined by the Geological Exploration Projects and the provisions of the Law on Mining and Geological Exploration which, among other things, regulates the field of exploration and production of oil and gas.

Market Risks

Risk Description	Risk Management Actions
Price Change Risk	
In view of its core activity, NIS Group is exposed to price change risks, namely the price of crude oil and petroleum products, which affect the value of stock and margins in oil refining, which in turn affects future cash flows.	These risks are partly offset by adjusting petroleum product selling prices against the changes in oil and petroleum product prices. The need to use some of the commodity hedging instruments in the Group's subsidiaries, including NIS j.s.c. Novi Sad as a subsidiary, is at the discretion of Gazprom Neft Group. In addition, the following actions are undertaken to reduce a potentially negative impact of the risk: • Annual planning based on multiple scenarios, plan follow-up and timely adjustment of operating plans for crude oil procurement; • Regular sessions of NIS j.s.c. Novi Sad Committee in charge of crude oil purchase/sale to discuss all major subjects related both to crude oil purchase and sale (sale of Angola-Palanca crude oil); • Tendency to enter into long-term crude oil purchase contracts at favourable commercial terms, with longer payment terms on an open account basis and sales contracts which would exempt NIS j.s.c. Novi Sad, in line with current intergovernmental agreements, from paying customs duties at import, based on preferential status; • Expansion of the supplier portfolio, successful cooperation with EU companies, growing competition in tenders for importing and more prominent progress regarding purchase prices; • Expansion/diversification of the crude oil basket for prospective import, provision of samples of the crude oil types that have not been processed by the Pančevo Oil Refinery; • Continuous effort to optimise processes and striving to achieve the most optimum economic effects and indicators; • Occasional benchmarking to examine the market and price trends, that is, to analyse the commercial capacities of major prospective suppliers of crude oil, renowned companies which are dominant and reliable in crude oil trading.

State Regulation and Policy Risks

Risk Description	Risk Management Actions
Risk of EU and US Economic Restrictions on Gazprom Neft Group	
The economic restrictions imposed by the EU and the USA on Gazprom Neft Group brought about risks to the prospects for long-term development because of the limitation of loan arrangements with commercial banks from some of the EU- and USA-based bank groups.	NIS continuously follows international developments, assessing consequences for the business and undertaking appropriate actions to have NIS exempted from the EU sanctions. In addition, in accordance with allowed exceptions from the imposed sanctions (long-term loans are possible only if they are intended for funding the import of goods and services from the EU); NIS' operations continuously adjust to this option by increasing the volume of imported goods and services from EU suppliers. In this way, funds are provided to finance the long-term development of NIS despite the limitations of the sanctions regime.

Financial Risks

Risk Description	Risk Management Actions
Foreign Exchange Risk	
NIS Group operates in an international setting and is thus exposed to the risk of fluctuating foreign currency exchange rates arising from business transactions in different currencies, primarily USD and EUR. The risk involves future trade transactions and recognised assets and liabilities.	The risks relating to changes in the national currency exchange rate against the USD is partly neutralised through natural hedging of petroleum product selling prices, which are adjusted to these changes. Risk management instruments are also used, such as forward transactions on the foreign exchange market, which help reduce the impact of foreign currency losses in the event of depreciation of the national currency against the USD or EUR. Other actions include balancing of the foreign exchange equilibrium in terms of adjusting the currencies in which export transactions are denominated to the currencies of foreign liabilities; managing the currency structure of the loan portfolio etc.
Interest Rate Risk	
NIS Group is exposed to the risk of change in interest rate both in terms of its bank loans and fund placement.	NIS j.s.c. Novi Sad takes out loans with commercial banks at floating interest rates and performs sensitivity analysis against interest rate changes and assesses if taking out of a loan at a flat interest rate is required to a certain extent. Funds in the form of intercompany loans/credits to third parties are placed at floating interest rates whereas funds in the form of tied or a vista deposits are placed at flat interest rates. The funds are placed as deposits in line with the credit limit methodologies of commercial banks (the funds are reciprocally placed only with major commercial banks from which NIS j.s.c. Novi Sad takes out loans and/or credit/documentary lines). In this respect, income and cash flows from bank deposits are largely independent of changes in base interest rates, while in the case of placements in the form of credits/loans, the exposure to the risk of base interest rate change (EURIBOR, LIBOR, etc.) is higher.
Credit Risks	
Arises in relation to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans given to third parties, and exposure to wholesale and retail risks, including outstanding debt and assumed liabilities.	Credit risk management is established at the level of NIS Group. With respect to credit limits, banks are ranked based on the adopted methodologies applicable to major and other banks, in order to determine the maximum exposure of NIS j.s.c. Novi Sad to the bank at any given time (through deposits, documentary instruments: bank guarantees, Letters of Credit, etc. – issued for the benefit of NIS j.s.c. Novi Sad). Regarding accounts receivable, there is a credit limit methodology in place which serves to define the level of exposure in relation to individual customers, depending on their financial indicators.

Financial Risks

Risk Description	Risk Management Actions
Liquidity Risk	
A liquidity risk involves a risk of NIS Group encountering difficulty in meeting its liabilities. It is the risk of not having suitable sources to finance NIS Group's business activities.	NIS Group continually monitors liquidity in order to provide sufficient cash to meet its operational, investment and financial performance requirements. To this end, it is continually contracting and securing sufficient credit and documentary lines while maintaining the maximum allowable level of credit exposure and meeting the commitments under commercial bank arrangements (covenants). Projection of liquidity takes into account the Group's debt repayment schedules, compliance with contractual terms and internally-set goals, and is based on daily cash flow projections for the entire NIS Group, which form a basis for deciding on raising external loans, in which case adequate bank financing sources are secured within the allowable limits set by PJSC 'Gazprom Neft'. Aiming to increase liquidity and decrease dependence on external financing sources, as well as to decrease NIS Group's costs of financing, the cash pooling system was introduced on 1 January 2014 for the purpose of liquidity management, which involves centralised management of liquidity and financing of the part of NIS Group in the Republic of Serbia[1]. Since mid-September 2014, NIS j.s.c. Novi Sad has been exposed to the risk of limited external financing capacities due to the imposition of sectoral sanctions by the EU and the USA on the largest Russian-owned energy companies and their subsidiaries incorporated outside the EU. Namely, the sanctions prevent NIS j.s.c. Novi Sad from borrowing from the EU or US banks for a period longer than 30 days, i.e. 60 days respectively. The exception foreseen by the EU sanctions refers to the possibility of borrowing for a period longer than 30 days from EU banks exclusively if the loan is intended for the payment of non-sanctioned goods and services imported from the EU. In order to acquire the necessary financial means for the following period, NIS negotiated/contracted new credit lines with Serbian, Russian and Arabian banks for general purposes funding and with Serbia-based European banks for funding imports from the EU (financing for a period longer than 30 days is allowed if the subject of financing is the import of goods or services from the EU), thus ensuring the necessary funds for 2017 and in part for 2018. During 2017, the first stage of the loan portfolio restructuring process was carried out (first such restructuring since the

1 *NIS j.s.c. Novi Sad and subsidiaries Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Transport d.o.o. Novi Sad and NTC NIS Naftagas d.o.o. Novi Sad.*

Financial Risks

Risk Description	Risk Management Actions
Liquidity Risk	
	introduction of the sanctions in 2014). Loans granted under favourable terms were used to repay loans with shorter maturities and high interest rates (mainly USD loans whose price increased significantly due to the USD LIBOR trends), which helped to reduce the average price of loan portfolio and extend the average maturity of the portfolio. The process of loan portfolio restructuring will continue in 2018 thanks to the new banking limits granted on the tender conducted in December 2017. The bank limits obtained will be used in accordance with the allowed exceptions stipulated under the sanction regime for the purpose of importing goods and services from the EU, which will enable NIS to use liquidity surpluses from loans granted under favourable terms to repay the loans under unfavourable terms in its portfolio before their maturity and thereby practically restructure its credit portfolio (maturity increasing the share of long-term loans in the portfolio, i.e. extend the average loan portfolio term), the share of dollar-denominated loans, which carry a risk of increased base rate (USD LIBOR), will be decreased, new loans in EUR will be taken out at more favourable interest rates, all within the allowed loan limits, and in the next 3 years the Company's cash flow will be unburdened for investments in this period (especially the 'Bottom of the Barrel' Project).

Innovation for Development

NIS believes that the continuous introduction and application of innovative technologies in all areas of business operation represent the most efficient way to respond to the demands of the modern market.

Innovation is the basis of the NIS business philosophy; this is evident in how it applies new and clean technologies, as befits the leader in environmental and workplace protection.

The NIS leadership position in the market is based on applying modern technologies in the field of oil and gas exploration and production, constructing modern refining facilities, modernising its retail network, implementing innovative energy projects and continuously improving the quality of goods and services it offers.

1.06 Business Environment

The World

Oil

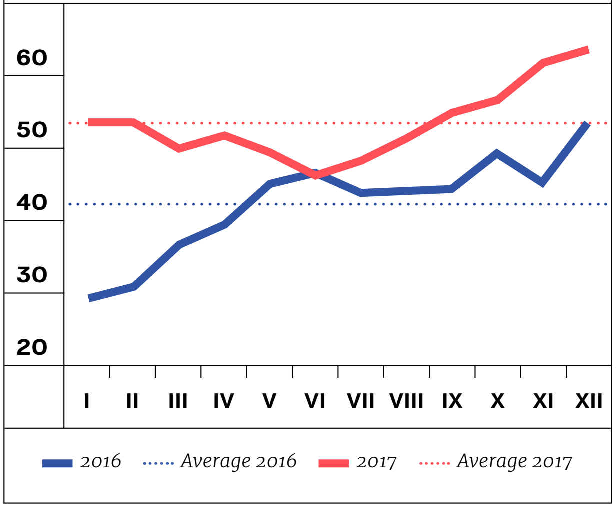
During the year, the Urals RMBC oil price rose from 53 to over 66 USD/bbl, which is an increase of 24%. The average price of this type of oil in 2017 was 27% higher than the average price in previous year. Such an increase in oil prices was achieved in the first place owing to the agreement of OPEC member states and ten producers, non-members, from the leading oil-producing countries, led by Russia.

It was agreed to extend the production reduction agreement by the end of 2018 and to consider the market situation in June of the following year.

At the same time, among the five largest oil producers in the world, only the US is not covered by the OPEC+ agreement, so its oil companies are taking maximum advantage of such a circumstance. During 2017, the number of oil and gas boreholes in the United States increased by 43%, to 931. According to the US Energy Information Administration (EIA), US crude oil production reached 9.77 million barrels per day in December. The EIA envisages that it will continue to grow and thus exceed the previous maximum achieved in 1970. Other analysts have a similar opinion, so US oil may cover most of the expected growth in oil demand in 2018, which will create a major dilemma for the OPEC+ Coalition.

Another factor that will affect the global picture of oil and gas industry in 2018 is the announced transformation of by far the most valuable world company Saudi Aramco into a joint-stock company and sale of 5% shares of this company. This transaction is extremely important for Saudi Arabia's economy,

Oil price trend of Urals RMBC type*, $/bbl **+27%**



* *Source: Platts.*

not only because of the money it will receive from sales, but also because of the creation of a new business culture, as international investors will demand greater level of control and transparency of operations. On the other hand, this transaction will be a reflection of seriousness and commitment of the Saudi Government to the economic reform.

Macroeconomic Trends

According to the IMF report published in October 2017, the projected global growth in 2017 is 3.7%. Global growth forecasts for 2018 and 2019 were reviewed to 3.9%. Growth is supported by an increase in investment, trade and industrial production, with strengthened business operations and consumer confidence. Growth in the third and fourth quarters of 2017 was higher than expected in developed economies, especially in Germany, Japan, Korea and the United States. The key developing country markets (Brazil, China and South Africa) also had growth higher than the forecasted.

EUR strengthened against USD, exceeding the rate of 1 to 1.25 and reaching the highest level in the last three years. Investors are convinced that the European Central Bank will have to tighten the monetary policy. The European Central Bank will keep the current monetary incentive programme as long as needed and interest rates are not very likely to change in 2018.

Countries around the world are pressuring car manufacturers to reduce carbon dioxide emissions, so global car manufacturers are focusing on the production of electric cars and hybrids. Ford announced it would invest $11 billion in electric vehicles in the next five years, which is more than double compared to previous plans, adding that by 2022 the company would offer 16 fully electric vehicles and 24 hybrids. General Motors, Toyota and Volkswagen also announced ambitious plans to produce more electric cars.

The World Bank announced that it would suspend funding for oil and gas exploitation and drilling operations as of 2019, and the French bank BNP Paribas announced that it would stop financing oil projects that pose a major threat to human environment.

The Norwegian state fund should decide whether to conduct the sale announced in 2017, which concerns its shares in the oil and gas industry, including multi-billion stakes in Exxon Mobil, Royal Dutch Shell, Chevron and BP. Other major investors (AXA Group and the Dutch bank ING Group) have already started withdrawing their stakes from the 'dirtiest' parts of industry, such as Canadian Oil Sands. For investors, the possibility of penalties that can outperform the earnings of the largest atmosphere polluters presents a risk to investments. Nevertheless, Dow Jones Newswires notes in its analysis that it is not realistic to forecast any major distancing of investors and funds from the oil and gas industry.

Region

Modernisation of the old infrastructure, energy balance and the initiation of interconnection are common goals of the countries of Central and Eastern Europe gathered in a form of cooperation called '16 + 1', which held a ministerial conference in Bucharest in November. The Republic of China has an interest in engaging in the development of the energy sector of these countries and finding ways of financing, said Deputy Chairman of the National Development and Reform Commission of the People's Republic of China and Head of the National Energy Administration.

The Balkan countries are focusing on clean energy, as they need to create an energy balance. Renewable energy sources are high on the list of priorities of the Central and Eastern Europe countries, which are hoping to work with Chinese companies on smaller projects.

The plans of the countries of the region to increase the number of nuclear power plants in the coming years have revived, and this is one of the moves that reflects the need to reduce carbon dioxide emissions and diversify energy production.

Serbia

The positive trend of Serbia's economic activity continued in 2017 as well. The results confirm that, owing to the achieved macroeconomic stability and the improvement of business and investment environment, positive economic trends continue and the perspective of the Serbian economic growth strengthens. The eighth review of the stand-by arrangement with the IMF was successfully completed, with the assessment that during the arrangement Serbia made significant progress by implementing the agreed economic programme.

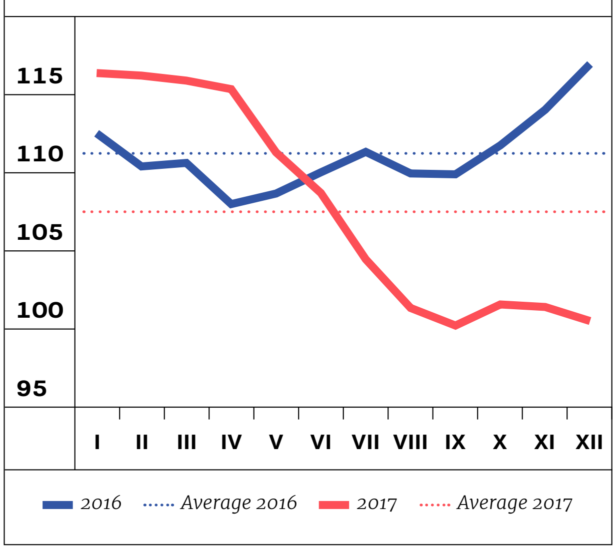
GDP growth in 2017 was driven by an increase in exports resulting from an increase in investment. The Statistical Office of the Republic of Serbia estimates that gross domestic product increased in real terms by 1.9% in 2017, and was primarily driven by industrial production growth of 3.9%. Growth was also reported by the sectors of services, primarily trade, tourism, transport and catering, while agricultural production growth was lower as expected due to adverse weather conditions.

The National Bank of Serbia fulfilled one of its main objectives – the inflation in Serbia has been low and stable for the fifth year in a row. For 2017, the inflation target was lowered from 4±1.5% to 3±1.5%, and throughout the year inflation moved within the limits of this new, lower target, with unchanged inflationary expectations. The annual inflation rate was estimated at 3.0%. In this year's Competitiveness Report of the World Economic Forum, in terms of achieved inflation Serbia retained its first position which it shares with 35 countries. The relative stability of the RSD exchange rate was also preserved in 2017, and the local currency strengthened against EUR by 4% in 2017.

There was a surplus in state budget in 2017, which led to a sharp decline of public debt (from 71.9% in late 2016 to 62.6% in November 2017). These results were confirmed by the improved credit rating (Standard and Poor's, Fitch and Moody's).

The reference interest rate was reduced twice in 2017, in September and October, to 3.5%, which is its lowest level in the inflation targeting regime. This created the conditions for a further decrease in interest rates on new and existing RSD loans, which resulted in significant savings for the economy and citizens.

Exchange rate trend, USD/RSD * -3%



* *Source: NBS*

- Average USD/RSD exchange rate in 2017 was lower by RSD 3.50, i.e. 3% compared to the average exchange rate in 2016.
- During 2017, USD/RSD exchange rate fell by RSD 18.02 or 15%.
- During 2016, USD/RSD exchange rate rose by RSD 5.89 or 5%.

When it comes to foreign trade trends, according to the Statistical Office of the Republic of Serbia, total trade in Serbia, expressed in EUR, increased by 13% compared to the previous year. Commodity export, expressed in EUR, increased by 12%, while import increased by 13.8%. Foreign trade was mainly done with the countries with which Serbia has signed free trade agreements. The share in foreign trade with Member States of the European Union was 64%. After several years of a positive trend, import growth exceeded export growth.

Favourable trends in the real sector continued to positively reflect on the labour market as well, where employment and earnings growth was reported. It was estimated that the 2017 earnings, net of taxes and benefits, were 4.1% higher in nominal terms, and 1.1% in real terms, compared to 2016. The employment rate in the third quarter of 2017 was 48.2%, with the unemployment rate of 12.9%.

Legislative Changes

In 2017, the pace of legislative activity of the competent authorities varied as a result of election cycles and a new composition of the Government. Legislative activities were aimed at further harmonisation of domestic regulations with the European Union regulations in the areas of improving the operation of public administration and improving e-business. In this regard, the National Assembly adopted several important laws in the period observed:

- **The Law on Electronic Document, Electronic Identification and Trusted Services in Electronic Commerce**, the main goal of which is to open up space for more intensive e-business, create the trust of the widest public in the use and exchange of electronic documents, and in the use of trusted services in e-commerce, achieve competitiveness in markets around the world, as well as enable and encourage faster and more efficient operations and reduction in operating costs, develop the market of trusted services, modernise and, by extension, make the work of public authorities and economic entities more efficient.

- **The Law on the National Academy for Public Administration**, which was adopted in order to ensure the comprehensiveness and sustainability of the activities of professional development, standardisation of the processes and expected results, evaluation of all aspects of that process, as well as greater coordination of activities in the system of professional development. This law enables further improvement of the operation of public administration in accordance with the principles of the so-called European administrative space, i.e. providing high-quality services to citizens and businesses.

- **The Law on Amendments to the Law on Civil Servants**, which aims to provide substantial elements for improving the situation vis-à-vis civil servants' professional development and establish relations that regulate, in detail and in a coordinated, comprehensive and methodical manner, all issues important in order to achieve the purpose of civil servants' professional development and make them acquire functional, applicable skills and competence, so they could achieve the overall reform objectives and comply with the principles.knowledge for the implementation of overall reform goals and principles.

In 2017, a number of by-laws of importance for business operations were adopted, such as: Regulation defining the Programme for the Implementation of the Energy Development Strategy of the Republic of Serbia until 2025 with projections until 2030 for the period 2017-2023; Regulation on the Requirements and Procedure for Issuing the Waste Management Permit, as well as the Criteria, Characterisation, Classification and Reporting on Mining Waste; Regulation on the Methodology for Setting the Price of Storing Minimum Reserves of Oil and Petroleum Products in Publicly Owned Warehouses; Rules on the Form, Content and Method of Keeping Records of VAT and on the Form and Content of VAT calculation review, etc.

The above-mentioned regulations were analysed by NIS, through its working body - the Legislation Committee - at the adoption stage, and helped to have the legislation cater to business needs and requirements of energy entities operating in the Republic of Serbia's market.

Apart from the legislation adopted, 2017 also saw the preparation and consideration of several draft laws and by-laws, which are expected to be adopted in 2018. This primarily involves Draft Law on the Procedure for Registration in Real Estate and Line Cadastre, Draft Law on Amendment to the Law on Inland Navigation and Ports, Draft Law on Electronic Government, Draft Law on Disaster Risk Reduction and Emergency Management, Draft Law on Personal Data Protection, Draft Law on Amendment to the Company Law, as well as by-laws for the Law on Mining and Geological Exploration.

NIS will continue to make every effort to be a positive force in shaping the business environment in Serbia, and will particularly point out the necessity to harmonise legislation and strategies to ensure their smooth and complete implementation.

1.07 Performance Analysis

Market Share[1]

Demand for motor fuels in the regional market is increasing with regard to the same period of the last year due to positive macroeconomic trends.

Fuel consumption is increasing in transport, process industry and construction segments.

The motor oil market in Serbia reported a decline in consumption compared to last year. In the segment of petrol and LPG, the fall is mainly due to a change in the structure of the vehicle fleet and a price increase, while in the case of diesel, the positive effect of transport growth and infrastructure works is reduced by a poor agricultural season.

Portion of the consumption of diesel fuel from the grey zone was gradually returning to legal flows especially in the second half of the year as a result of increased control of base oils imports by inspectorates and the Customs Administration.

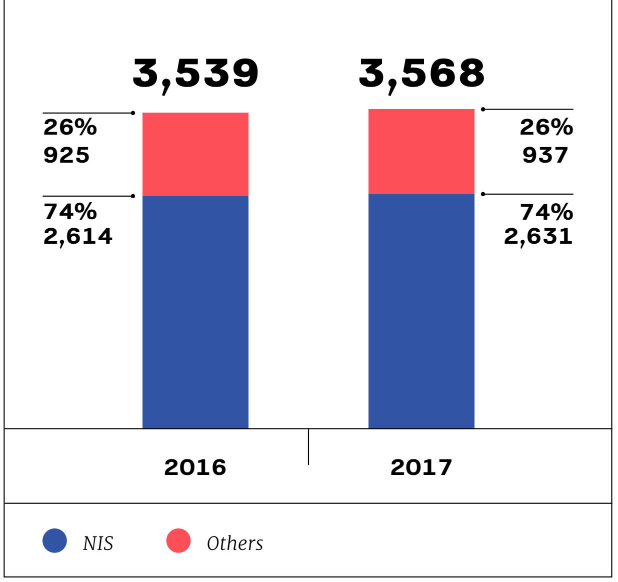
Market Share in the Serbian Market

Total consumption of petroleum products in Serbia grew minimally comparing to 2016, largely due to a growth in the consumption of straight-run naphtha and aviation fuel, which is related to an increasing trend of intercontinental flights, as well as to an increase in consumption of foreign airlines. A decrease in consumption was recorded in the segment of motor fuels and fuel oil.

The market share of NIS in total petroleum products consumption is stable, minimally lower by 0.2 pp compared to 2016, partly as a result of a lower share in motor fuel sales, as well as an increase of share in straight-run naphtha and fuel oil sales.

1 Data sources for projections: for Serbia – Sales and Distribution internal analyses and estimates; for Bulgaria and Romania consumption estimates – PFC and Eurostat; For Bosnia-Herzegovina – PFC and internal estimates.

Volume of the RS petroleum products market*, in thousand tonnes +0.8%



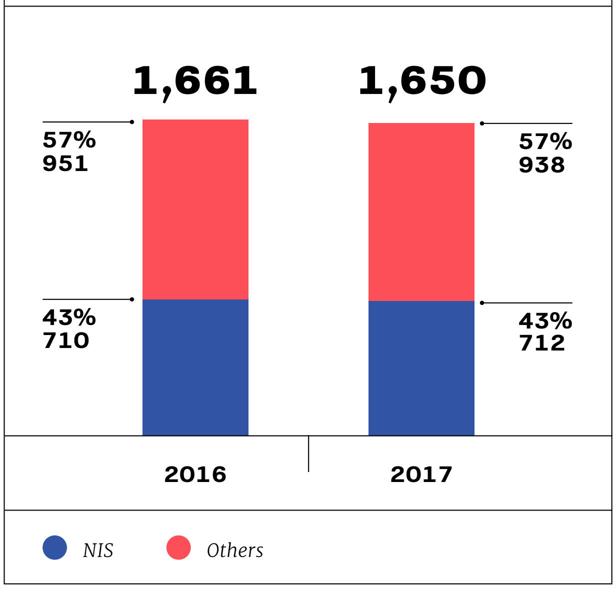
* *Data for 2017 are given on the basis of estimates.*

Retail motor fuels market decreased minimally by 0.6% comparing to 2016. NIS increased its market share in the Republic of Serbia's retail motor fuels market, reporting growth in petrol and diesel sales, and a decline in the sale of Autogas.

The decline in fuel consumption in retail trade comes primarily from the segment of Autogas and is the result of a price increase and fleet structure changes.

Positive growth trends in the transport, infrastructure and industry segments were annulled by the negative effects of a poor agricultural season.

Volume of the RS motor fuels market*, in thousand tonnes **-0.6%**



* *The sales of NIS and other competitors include motor fuels (gas, motor fuels, diesel and EL fuel oil used as motor fuel). LPG bottles are not included. Data for 2017 are given on the basis of estimates.*

Market Share in Bosnia-Herzegovina, Bulgaria and Romania

Bosnia and Herzegovina

When it comes to the price of fuel in the region (petrol and diesel), Bosnia and Herzegovina is traditionally positioned near the bottom of the list.

The Parliamentary Assembly of Bosnia and Herzegovina adopted a set of excise laws. The key change is that there will be no increase in excise duties, except for biofuels and bioliquids. Instead, toll will increase by BAM 0.15 and the funds collected will be used only to construct highways and to construct and reconstruct all other types of roads. Fuel prices are expected to increase, which will prompt a rise in the prices of other goods and services.

NIS has 35 petrol stations in Bosnia and Herzegovina[2].

NIS's market share in the total motor fuel market[3] is 13.9%, with an 11-percent retail market share, which is an increase compared to the previous year.

Bulgaria

In the Bulgarian market there is a tendency towards reducing imports mainly from Romania due to the increased volume of refining at the Burgas refinery. The situation in the wholesale market is stable.

The retail network of Eko-Bulgaria, which is part of the Greek oil company Hellenic Petroleum, is increasing the number of its retail sites in the territory of Bulgaria and is planning to expand the network to 100 petrol stations.

NIS has 35 petrol stations in Bulgaria.

NIS's market share in the total motor fuel market is 5.5%, with a retail market share of 4.3%. NIS's share in the total motor fuel market increased, while its share in the retail market is at the same level as in the previous year.

Romania

In Romania, excise duties on motor fuel increased twice during 2017[4], by 0.13 EUR per litre on both occasions, so the total increase of excise duties is 0.26 EUR per litre. The excise duties were increased in two phases to avoid shock among retail customers due to the expected increase in motor fuel prices. There are political tensions.

The Government of Romania adopted a decision on determining the level of crude oil and/or petroleum product supplies and on approving the manner of transferring obligations to establish and sustain economic operators in 2017. The minimum supplies of crude oil and petroleum products for 2017 were set at 1.31 million t.o.e.

Split VAT payment is mandatory in Romania as of 1 January 2018. Optionally, companies can apply it from October 1. The priority for companies is to

2 I In addition to this number in Bosnia and Herzegovina, there are also 2 more Dealer Owned Dealer Operated petrol stations.

3 NIS market share is calculated for 37 petrol stations (35 NIS-owned and 2 more DODO petrol stations).

4 15 September and 1 October 2017.

adapt their IT systems and solve cash flow difficulties generated by the new VAT payment mechanism.

In the retail market, the MOL and Tiriac Energy expanded their networks.

Oscar is expecting a licence to import products from Serbia.

NIS has 18 petrol stations in Romania.

NIS's market share in the total motor fuel market is 0.9%, with a retail market share of 1.2%, which is an increase compared to the previous year.

RSD 27 bn

Net profit realised in 2017 is RSD 27 billion an 80 percent increase year-on-year.

Key Performance Indicators

Indicator	Unit of measure	2017	2016	Δ[1]
Urals RCMB	$/bbl	53.3	42.1	+27%
Sales revenue[2]	RSD billion	234.7	192.1	+22%
Net profit	RSD billion	27.0	15.0	+80%
EBITDA[3]	RSD billion	47.0	39.8	+18%
OCF	RSD billion	59.0	41.2	+43%
CAPEX[4]	RSD billion	26.5	26.1	+2%
Accrued liabilities for taxes and other public revenue[5]	RSD billion	171.0	163.3	+5%
Total bank indebtedness[6]	USD million	661	666	-1%
LTIF[7]	%	1.59	1.63	-2%

1 *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*

2 *Consolidated operating income.*

3 *EBITDA = Sales revenues (exclusive of excise duties) – costs of inventories (oil, petroleum products and other products) – Operating Expenses (OPEX) – other costs that may be controlled by the management.*

4 *CAPEX amounts are exclusive of VAT.*

5 *Taxes, fees, charges and other public revenue calculated for the reporting period. The overview is inclusive of the liabilities of NIS for taxes and other public revenue in Serbia and other countries of operation.*

6 *Total bank indebtedness =Total debt to banks + Letters of Credit. As at 31 December 2017, this was $656.8 million of total debt to banks + $4.1 million in Letters of Credit.*

7 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The indicator shown refers to NIS j.s.c. Novi Sad with its subsidiaries: Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad.*

Operating Indicators

Exploration and Production

Indicator	Unit of measure	2017	2016	Δ[1]
Oil and gas output[2]	Thousand t.o.e.	1,385	1,463	-5%
Domestic oil output[3]	Thousand tonnes	928	967	-4%
LTIF[4]	%	1.1	0.0	+100%
EBITDA	RSD billion	28.4	21.3	+34%
CAPEX[5]	RSD billion	17.2	17.7	-3%

1 *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*

2 *Domestic oil ouput includes natural gasoline and light condensate, whereas gas output takes into account commercial gas output.*

3 *With natural gasoline and light condensate.*

4 *Lost Time Injury Frequency Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.*

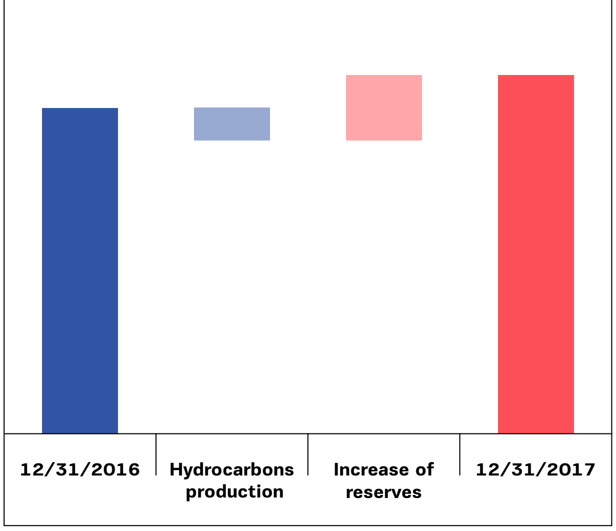
5 *Financing, exclusive of VAT.*

In 2017, the main focus at the Exploration and Production Block was on achieving the planned hydrocarbons output, implementing projects and improving the efficiency of geological exploration, as well as improving production and technological efficiency by implementing operational effectiveness improvement measures.

In 2017, the Exploration and Production Block increased hydrocarbon reserves by 3.1%. In the last three years, the success of exploration and development drilling has remained at the highest level not only in the region, but also among production assets of Gazprom Neft Group. The exploration drilling success coefficient is 77%.

As to geology and reservoir engineering, the focus was on improving the effectiveness of all geological and technological activities, reducing the cost of operations and experimenting with inexpensive methods aimed at increasing the output of oil and applying new technologies and innovative solutions - multiphase fracturing, horizontal drilling, etc.

Estimation of the increase in hydrocarbon reserves in 2017 **+3.1%**



Geological Exploration and Reservoir Engineering

New reservoir engineering technologies were applied in the oilfields ‘Bramalj’ and ‘Majdan-plitko’. Other than that, within the programme of renewed testing of old wells, a deposit was put on stream within the ‘Sirakovo’ oilfield. The programme of commissioning previously inactive wells was successfully resumed.

In terms of Squeeze Cementing, 2 operations were successfully completed at the satellite of the ‘Kikinda-Varoš’ field, thus confirming the good prospects of the field’s main facility.

Exploratory Drilling and Well Testing

Eight wells were drilled as part of geological exploration carried out by the Exploration and Production Block. Three wells are producing, testing confirmed commercial reserves of hydrocarbons for two wells, while one well was abandoned. One well was temporarily closed in due to a high proportion of non-hydrocarbon gases (CO_2 and N_2) in the deposit. Drilling of the Be-3X well was completed. The presence of hydrocarbon gas was confirmed in exploration facilities and a drilling test is to follow. Fracturing was completed in the well Km-X-001/1 and oil flew. Hydrodynamic measurements are in progress.

3D Seismic Surveys

Seismic data acquisition was completed in exploration areas ‘South Banat I’, ‘Turija III’ and ‘Morović’, while ‘South Banat II’ project is being implemented.

A complex seismogeological interpretation of data acquired from the ‘Turija II’ exploration area was completed, as well as the processing of the seismic data acquired in the exploration area ‘South Banat I’, ‘Turija III’ and ‘Morović’, and the interpretation of full-azimuth anisotropic migration ES360 and AVAZ inversion was finalised as part of implementation of R&D development projects. The interpretation of seismic data recorded in the exploration areas ‘South Banat I’ and ‘Turija III’ is in progress.

International Projects

The testing of Kiha-004 well in the Kiskunhalas exploration block in Hungary was completed on 29 December 2017.

The Teremia-1000 well was drilled through, the testing of all 8 intervals in the Ex-7 block was completed, and the well was closed in. The inter-

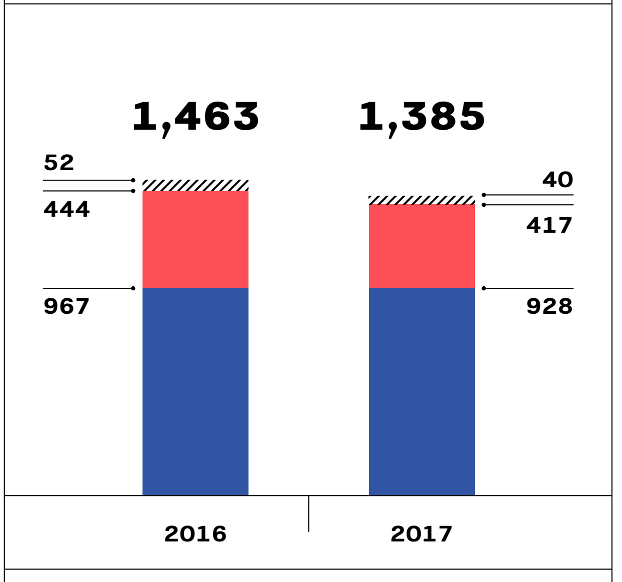
In 2017, the Exploration and Production Block increased hydrocarbon reserves by 3.1%.

vals tested are producing. The approval of the Teremia-1000 trial production programme and further exploration programme on the 'Teremia North' field at the National Agency for Mineral Resources of Romania is under way. Construction of roads for the Beba Veche Sud well location rig started. Permitting process related to seismic and exploration works continues in blocks Ex-2 and Ex-3.

In Bosnia and Herzegovina, hydrodynamic measurements were carried out on the block 'Majevica' and the project for conservation of the Ob-2 well was prepared. Preparation of the exploration project for the East Herzegovina block is in progress. The project was presented at the IHS Markit CEEC Scout Meeting.

Operating Indicators

In 2017, a total of 1,385 thousand t.o.e. of oil and gas was produced.



Services

Indicator	Unit of measure	2017	2016	Δ[1]
Wells finished	Number of wells	61	42	+45%
LTIF[2]	%	2.8	3.3	-15%
EBITDA	RSD billion	1.5	1.1	+42%
CAPEX[3]	RSD billion	0.6	1.1	-45%

1 *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*

2 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million. The indicator shown refers to NIS j.s.c. Novi Sad with its subsidiaries: Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Transport d.o.o. Novi Sad.*

3 *Financing, exclusive of VAT.*

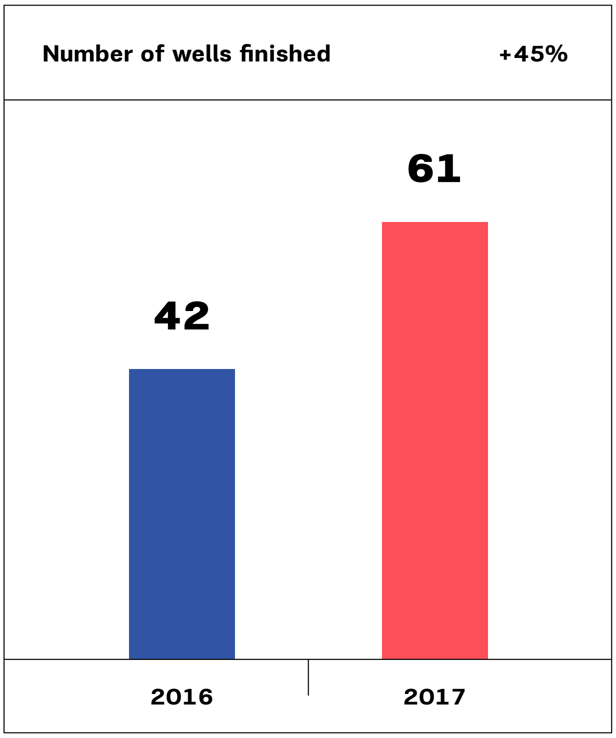
In 2017, the Services Block drilled 61 wells, or 19 more than in the previous year. The increasing efficiency is the result of a higher speed of development drilling, the implementation of operational efficiency improvement programmes and a better organisation of work. The completion of complex works to modernise 'Zrenjanin 7' petrol station is singled out as a noteworthy undertaking. Also, 10 tank trucks for transporting crude oil for the Exploration and Production Block were commissioned this year, which ensures the continuity of crude oil production, early commissioning of wells and rapid change of workplace. This year, the presence in the EU market was maintained by finalising the drilling and completion of the Teremia 1000 well in Romania.

Oilfield Services

In 2017, Naftagas – Naftni servisi d.o.o. Novi Sad carried out works at 5 drilling rigs on average. A total of 61 wells were drilled, 60 in Serbia and 1 in Romania (Teremia-1000) for the Exploration and Production Block. By applying the 'Technical Limits' strategy, the speed of drilling was increased, and by extension, the efficiency itself.

The Workover Department worked with 14 workover rigs on average. In the previous year, 436 wells were worked over, including the capital workover and completion of the Teremia 1000 well in Romania.

In 2017, the Well Workover Unit carried out 6,541 operations and Cementing and Stimulation Unit 1,626 operations. 'South Banat I', 'Turija III' and 'Morović' projects were completed and works on the project of 'South Banat II' started. Furthermore, gravimetric and geomagnetic surveys resumed after several years. At the end of the year, works began on Ex-3 block in Romania.



Technical Services

Naftagas – Tehnički servisi d.o.o. Zrenjanin successfully completed works on workover and drilling rigs as well as capital workover and rebranding of 30 pumpjacks. The reconstruction of R-1 and R-8 tanks in Elemir was completed, as well as the reconstruction of 'Zrenjanin 7' petrol station.

In the third and the fourth quarter of 2017, the workover of the rig S-2400 at the Pančevo Oil Refinery was completed. Also, the EA-4308 heat exchanger was repaired and new burners were installed on the B segment of the BA-2201 furnace of the Vacuum Distillation Plant S-2200 at the Pančevo Oil Refinery.

Transport

To support the activities of all Blocks, Naftagas – Transport d.o.o. Novi Sad provided transport services by passenger, goods and specialised vehicles and buses. Total distance travelled in 2017 is 28.9 million kilometres.

The implemented projects include the procurement of 10 tank trucks with trailers for crude oil transport as required by the Exploration and Production Block, procurement of 2 mobile steam generators for the Exploration and Production Block, procurement of 12 semitrailers for the transport of equipment, materials and means of work of the Services and Exploration and Production blocks, as well as registration and obtaining permits for the transport of dangerous goods (ADR).

Since May 2017 Naftagas - Transport d.o.o. Novi Sad has been certified for international transport and for the purposes of the Services Block (Workover Department), and equipment was transported to Romania (20 rounds).

Refining

Indicator	Unit of measure	2017	2016	Δ[1]
Volume of refining of crude oil and semi-finished products	Thousand tonnes	3,605	3,311	+9%
LTIF[2]	%	1.3	1.2	+6%
EBITDA[3]	RSD billion	15.8	9.9	+59%
CAPEX[4]	RSD billion	5.5	3.8	+45%

1 *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*

2 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.*

3 *EBITDA of the Refining Block includes the Energy Plant at the Pančevo Refinery, which is eliminated at a consolidated level as the effect of the Energy Plant is also included in the Energy Block's EBITDA.*

4 *Financing, exclusive of VAT.*

The operations of the Refining Block in 2017 are best reflected in the financial result of RSD 15.8 billion and financial effects of the operational effectiveness improvement programme in the amount of RSD 2.1 billion.

During 2017, the construction site for the delayed coking unit was opened within the 'Bottom of the Barrel' Project, which marks the beginning of a new development cycle for the refinery and further modernisation of refinery processing.

The Pančevo Oil Refinery obtained IPPC permit concerning integrated pollution prevention and control, which goes to prove that the production process at the Refinery is entirely compliant with the highest domestic and European environmental standards.

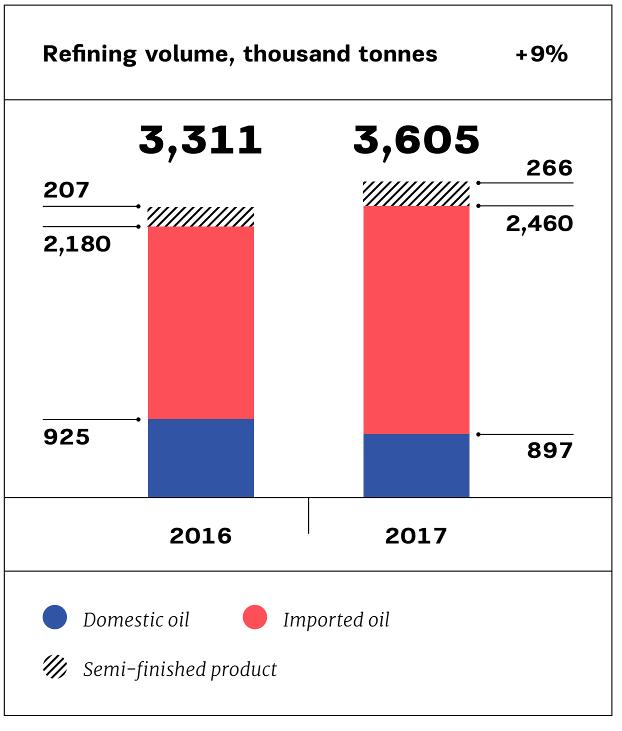
Refining Activities and Volume

Operation at extremely low temperatures early this year was analysed in detail and lessons were drawn for future work under such conditions. MoC procedures were put in place and investment projects were launched to remove bottlenecks in the plant during the winter period. In the third and the fourth quarters of 2017, activities were initiated to implement the projects of investment maintenance for the purpose of preparation for winter.

During 2017, capacity constraints of BA-2101 furnace were removed, and the bottlenecks were given a test run to achieve the maximum capacity of the FCC unit.

A programme of measures for improving the operation of rotating equipment was developed.

In early March, compliance of controlling processes for factory production of polymer modified bitumen with the reference standard EN 14023 was successfully recertified, and also for road bitumen according to EN 12591 standard in early October.



In 2017, a new procedure for issuing work permits - Job Safety Analysis (JSA) started being used, and plans started to be made for the activities on plants subject to downtime in 2018.

Prequalification of contractors for capital workover in 2019 is carried out.

The risk assessment act was reviewed and Mensor representatives carried out an audit, all in order to ensure safety at the refinery.

'Bottom of the Barrel' Project

During 2017, the following was obtained: energy permit, building permit for the construction of a temporary access road, and facility demolition permit.

Preliminary Designs were controlled by the experts of the Review Committee and received a positive opinion, which is a precondition to obtain the Building Permit. A public consultation was held and an approval obtained for the Environmental Impact Study.

Building permit was obtained and construction commenced within the Work Package 1[5] of the 'Bottom of the Barrel' project. EPCm contract was signed for the Work Package 2[6] with the selected contractor.

Permits were obtained for the reconstruction of SRU II, MHC/DHT and Merox plants as part of Work Package 2[7].

The contractor was selected for steel construction, transport and operation of the oversized equipment, the steel construction started being assembled at the construction site, along with the mobilisation of equipment and personnel for operating the oversized equipment within the Bottom of the Barrel' project.

The hydro tests of the columns and reactors (coke drum DC-5301B) were completed, equipment suppliers started transport to the site designated for preliminary assembly (port of Azotara).

5 *Construction of the delayed coking unit and new auxiliary units: for amine regeneration, sour water stripper with phenol removal unit.*

6 *Reconstruction of the existing units connected to the delayed coking unit, namely MHC/DHT, LPG, SRU.*

7 *Reconstruction of the existing units connected to the delayed coking unit, namely MHC/DHT, LPG, SRU.*

60% of the 3D model of the Bottom of the Barrel' project was considered.

Overhaul

Commercial production of bitumen and polymer modified bitumen continued in mid-February 2017, following a successful regular annual overhaul of the Bitumen Unit.

In April 2017, the scheduled overhaul of the Alkylation Unit was completed, including replacement of nineteen pipelines, repair of nine additional lines, implementation of other investment projects and inspection of other equipment at the unit in order to increase its reliability. In July 2017, Visbreaking Unit was overhauled, while FCC unit was repaired and put into operation in August. In September, running repairs were made on S-2400 (diesel fuel dewaxing unit). A SARU unit was overhauled in October, a sulphur granulation plant was put into operation in November, and new burners were installed in the BA-2201B furnace in December.

New equipment maintenance (dry blasting) methods were introduced.

During the third and the fourth quarters, preparations were made for the operation of the plant in winter conditions.

During 2017, 22 tanks at Manipulation were repaired.

LOTO – lock-out and tag-out equipment is being implemented.

Basket of Raw Materials Optimisation

In view of further optimization of the basket of raw materials, the new Novy Port crude is refined.

Other Projects

Damaged thermal insulation was replaced and revitalised on old Claus Unit (S-2450) was performed.

The projects 'DC-2301 Reconstruction' (bottlenecks), 'Introduction of Hydrogen-Rich Gas from S-300 to S-5000' and 'Optimisation of Steam Lines in Manipulation' were completed.

Sales and Distribution

Indicator	Unit of measure	2017	2016	Δ[1]
Total sales volume of petroleum products [2]	Thousand tonnes	3,507	3,340	+5%
Sales volume – foreign assets[3]	Thousand tonnes	338	256	+32%
Sales volume of petroleum products in the domestic market [4]	Thousand tonnes	2,657	2,613	+2%
Motor fuels[5]	Thousand tonnes	2,165	2,090	+4%
Retail[6]	Thousand tonnes	933	907	+3%
LTIF[7]	%	1.2	1.3	-11%
EBITDA	RSD billion	10.3	10.3	-1%
CAPEX[8]	RSD billion	2.1	1.3	+68%

1 *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*

2 *Including the internal sales volume.*

3 *The sales volume of foreign assets includes sales generated by the subsidiaries of NIS abroad (retail and wholesale).*

4 *Domestic market sales includes sales volumes invoiced in local currency (RSD) and does not include sales volumes sold to foreign customers and invoiced in foreign currency.*

5 *Total sales of motor fuels in Serbia and in foreign assets.*

6 *Total retail in Serbia and in foreign assets.*

7 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.*

8 *Financing, exclusive of VAT.*

The Sales and Distribution Block operated under complex market conditions in 2017. This was influenced by several factors, such as: a growth of petroleum product output in the Balkans and a change in the supply and demand balance in favour of supply, increased competition in the petroleum product market in Serbia and weather conditions unfavourable for agricultural works.

However, despite such complex market conditions, the Sales and Distribution Block managed to achieve a 5-percent growth in the total volume and a 3-percent retail growth year-on-year.

Points of Sale[8] and Logistics

NIS Group owns over 400 active retail sites. Most of them, i.e. 333[9] retail sites are located in the Republic of Serbia. In addition to 10 internal petrol stations, NIS owns 323[10] public petrol stations (18 thereof underw GAZPROM brand). In the countries of the region, NIS owns 35[11] petrol stations in Bosnia and

8 *As at 31 December 2017.*

9 *Including the petrol station 'Tošin bunar,' which was put into operation on 15 November 2017 and petrol stations 'Block 45' and 'Block 66a,' which were put into operation on 31 December 2017.*

10 *Including the petrol station 'Tošin bunar,' which was put into operation on 15 November 2017 and petrol stations 'Block 45' and 'Block 66a,' which were put into operation on 31 December 2017.*

11 *In addition to 35 petrol stations owned by NIS in Bosnia and Herzegovina, two DODO (Dealer Owned Dealer Operated) petrol stations are also active.*

Herzegovina (27 under GAZPROM brand), 35 petrol stations in Bulgaria (all of them under GAZPROM brand) and 18 petrol stations in Romania (all of them under GAZPROM brand).

Following the completion of total reconstruction, the following petrol stations were inaugurated in Serbia: Jagodina 2', 'Ruma 1', 'Kikinda 4', 'Novi Pazar 2', 'Jagodina 3', 'Zrenjanin 2', 'Topola', 'Smederevska Palanka 3', 'Petrovac na Mlavi', 'Zrenjanin 7' and 'Kovačica'. Petrol stations 'Block 45', 'Block 66a' (both under GAZPROM brand) and 'Tošin Bunar' (under NIS Petrol brand) were built and put into operation. Bagrdan petrol station was purchased. The plan is to rebrand this petrol station under GAZPROM brand in 2018.

NIS is a reliable supplier of high-quality fuel for domestic and international shipping companies in the Pan-European Corridor VII - the Danube River in four bunkering stations (Belgrade, Novi Sad, Prahovo and Smederevo).

NIS is the leading supplier of airline companies with jet fuel and aviation fuel in Serbia. One sales channel is the supply provided at two international airports, in Belgrade and Niš, the other being wholesaling in the domestic market and export of aviation fuel to regional markets, primarily Romania and Bosnia and Herzegovina.

NIS uses five warehouses for petroleum products[12] and five active warehouses for Liquefied Petroleum Gas[13].

In addition to storage facilities, NIS has gas bottling plants in Belgrade, Čačak, Niš, Novi Sad, and Subotica, with a total annual capacity of 17,500 tonnes.

NIS car fleet has around 600 vehicles, 108 towing vehicles and 56 trailers for petroleum products transport, including tank trucks with the capacity of 8 to 48 tonnes, railway tanks with the capacity of 62, 65, 75 and 77 m^3 for the transport of petroleum products, as well as railway tanks with the capacity of 103 m^3 for the transport of LPG; in addition to tank wagons, NIS also owns its towing vehicles, locomotives (5) and locotractors (4), aviation fuel tanks, as well as tanks for the transport of black petroleum products.

Loyalty and Marketing Activities Programmes

From 31 March 2017, when G-Drive fuel (G-Drive 100 petrol and G-Drive Diesel) was introduced at three NIS Petrol filling stations as a pilot project, by the end of the year (31 December 2017), this fuel was sold at 254 NIS Petrol petrol stations.

In mid-March 2017, G-Drive Diesel fuel was introduced at GAZPROM petrol stations in Bosnia and Herzegovina. G-Drive Diesel has an average share of 35% in the sales of diesel fuels to natural persons (January-December 2017 average).

'On the Road with Us' loyalty programme offers a number of special benefits for the purchase of fuel, goods and services at all NIS Petrol and GAZPROM petrol stations. This programme has been developed since late 2015. By 31 December 2017, nearly 522,000 cards were issued and the programme users made up 50.6% in the total sales to natural persons in December 2017. In July 2017, the programme was joined by Tehnomanija as a partner, awarding the holders of the card 'On the Road with Us' with bonus points for every purchase. The bonus points may be used solely at NIS Petrol and GAZPROM petrol stations.

In July, the loyalty programme entitled 'Together on the Road' was launched in Bosnia and Herzegovina. By 31 December 2017, more than 37,000 cards were issued. 'On the Road with Us' programme was launched in Bulgaria on 15 September 2017, and more than 29,000 cards were issued by 31 December 2017.

Agro Card loyalty programme is intended for farmers and has been developed since the end of 2013. By 31 December 2017, over 125,000 cards were realised. In May 2017, the NIS Agro Card discount scheme was revised.

12 Novi Sad, Smederevo, Niš, Požega and Prahovo.

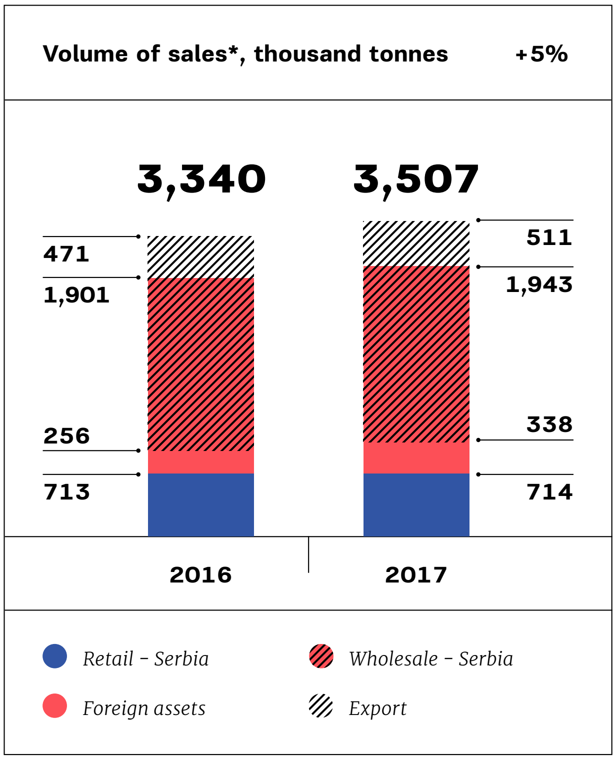
13 Belgrade, Novi Sad, Zrenjanin, Čačak and Niš.

Operating Indicators[14]

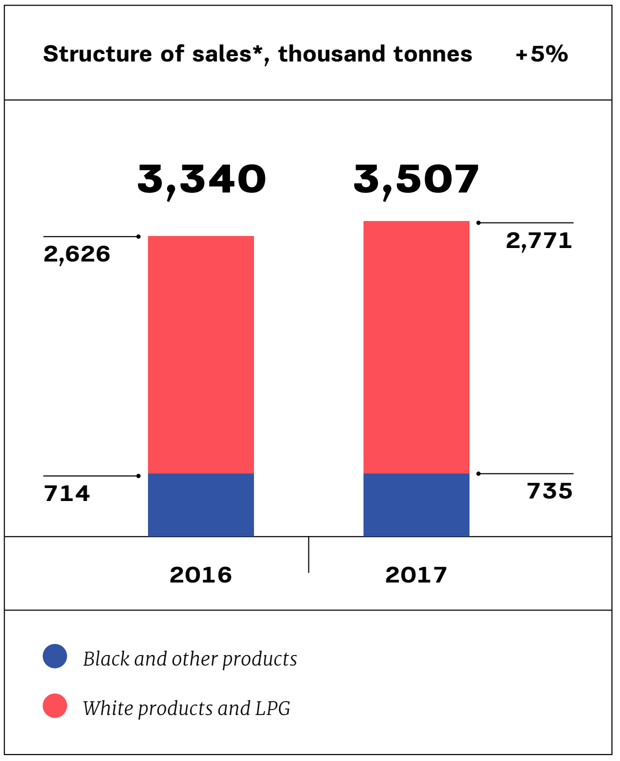
In 2017, the turnover growth was 5% compared to 2016, so the total turnover amounted to 3,507 thousand tonnes.

- Retail in Serbia – retail volume growth of 0.2% resulted from the growth in diesel fuel sales.
- Wholesale in Serbia – growth of 2% mainly due to non-energy fuels.
- Export – growth of 9% as a result of growth in motor and non-energy fuel exports.
- Foreign assets – growth of sales volume of 32% (retail channel – 12% and wholesale channel – 94%).

Despite complex market conditions, the Sales and Distribution Block managed to achieve a 5-percent growth in the total volume.



* Including internal sales within NIS Group i.e. between segments (12M 2017: 15.9 thousand tonnes; 12M 2016: 13.7 thousand tonnes).



* Including internal sales within NIS Group i.e. between segments (12M 2017: 15.9 thousand tonnes; 12M 2016: 13.7 thousand tonnes).

14 Including internal sales within NIS Group i.e. between segments (12M 2017: 15.9 thousand tonnes; 12M 2016: 13.7 thousand tonnes).

Energy

The year 2017 was very successful for the Energy Block. EBITDA from regular operations was nearly one RSD billion. The contract for the construction of a combined heat and power plant in Pančevo was signed between TE-TO Pančevo d.o.o. Pančevo and China's Shanghai Electric Group. The volume of trading in electricity for 2017 is 2.4 TWh. As for trading in gas and compressed natural gas, NIS achieved significant results. Multiple business development and operational effectiveness improvement activities were undertaken.

Indicator	Unit of measure	2017	2016	Δ[1]
Electricity output	MWh	153,772	147,505	+4%
LTIF[2]	%	0.0	2.2	-100%
EBITDA[3]	RSD billion	0.9	7.0[4]	-87%
CAPEX[5]	RSD billion	0.5	1.8	-69%

1 *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*

2 *Lost Time Injury Frequency – Ratio of employee injuries with sick leaves to the total number of working hours multiplied by one million.*

3 *EBITDA of the Energy Block includes the Energy Plant at the Pančevo Oil Refinery which is eliminated at a consolidated level as the effect of the Energy Plant is also included in the Refining Block's EBITDA.*

4 *EBITDA of the Energy Block from regular operations in 2016 was RSD 1.0 billion. In December 2016, outstanding accounts receivable from PE Srbijagas were collected, so the effect of the collection on the Energy Block's EBITDA was RSD 6.0 billion.*

5 *Financing, exclusive of VAT.*

Gas Monetisation

During 2017, an investment project for the construction of the small power plant of 500 kW, Turija 2, was approved. In order to obtain a stimulating price for electrical energy, a technical and economic analysis was performed and a building permit was obtained for the reconstruction of the small power plant Velebit. The delivery and installation of the heat accumulator was contracted and the contractor for the construction of a heat substation and connection to the heating system in the field was selected.

In order to reduce heating costs of electrical loads within the former Novi Sad Oil Refinery, the project of heating source decentralisation was launched in 2017. The delivery and installation of a steam boiler of 10t/h steam production was contracted along with the overhaul of a cogenerator with a nominal electrical capacity of 300 kW. The preparation of technical documentation by the selected designer is under way. The construction of a reverse condensate pipeline was completed.

The construction of a CNG unit in the gas field 'Ostrovo' was completed, and the unit was put into operation on 29 March 2017, when the commercial sale of compressed gas also began. Main equipment was delivered for the project of constructing CNG filling station at the petrol station of 'Žarkovo 2' (Belgrade). The preparation of technical documentation and the process of obtaining permits and approvals are under way. The construction of a compressed natural gas unit at the petrol station 'Block 45' in New Belgrade was approved. Capacity expansion at the petrol station 'Novi Sad 10' by installing an additional dispenser for CNG sale was completed. To implement the project of reconstruction of the CNG production unit in the 'Palić' field, compressor modification and preparation of technical documentation were contracted.

Trade in Electricity

In the area of electricity trade, NIS operates in the markets of Serbia, Bosnia and Herzegovina, Romania, Slovenia and Hungary. In addition to these markets, trading was done on the border with the

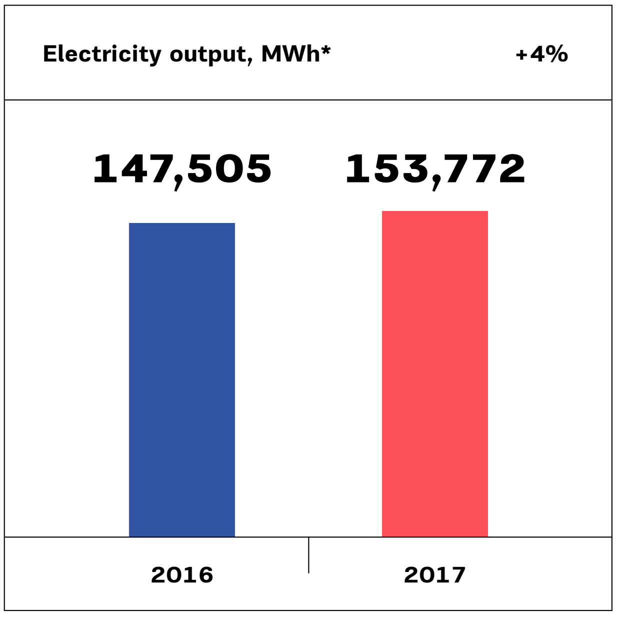
Former Yugoslav Republic of Macedonia. Since the beginning of 2017, activities in the Serbian retail market have been intensified. So far, providing electricity to 8 ultimate consumers has been arranged, whereas by the end of 2016 there were three of them. We expect this trend to continue in the future. NIS j.s.c. Novi Sad is completing the procedure for registration on the Serbian electricity stock market.

The contract for the construction of a combined heat and power plant in Pančevo was signed between TE-TO Pančevo d.o.o. Pančevo and China's Shanghai Electric Group. Multiple business development and operational effectiveness improvement activities were undertaken.

Operating Indicators

In 2017, the total electricity output was 153,772 MWh.

In order to produce electricity at co-generation units, 37.8 million m^3 non-commercial gas was used.



* *Including Energy Plant in Pančevo Oil Refinery.*

RSD 47 bn

EBITDA for 2017 was 18% higher than in the previous year and amounted to RSD 47.0 billion.

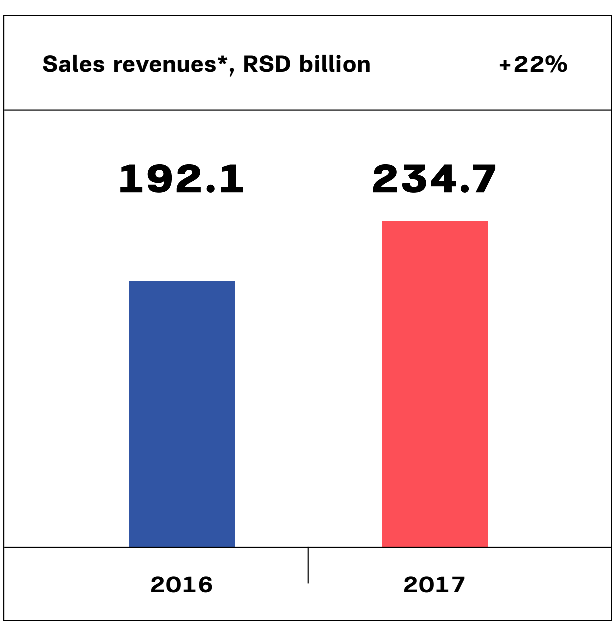
Financial Indicators

Sales Revenues

More information on oil price trends on page 42

During 2017, NIS achieved a 22-percent growth in sales revenue[15] compared to the previous year. This growth was achieved due to an increase in the volume of sales, as well as an increase in the retail prices of petrol and diesel fuels, which on average increased by 9.7% in 2017 compared to 2016 (Euro Premium 95 – + 9.3%; Euro Diesel – + 10%).

The increase in retail prices was prompted by the rise in crude oil prices in the global market.



* *Consolidated operating revenue.*

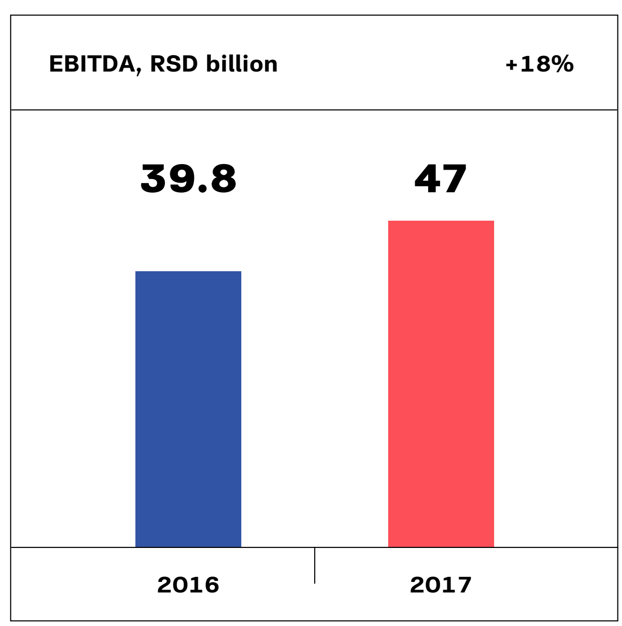
EBITDA

More information on operational efficiency improvement measures on page 71

EBITDA for 2017 was 18% higher than in the previous year and amounted to RSD 47.0 billion.

The main reasons for the increase include:

- The increase in the prices of crude oil and petroleum products, and
- Operational efficiency improvement and cost-cutting measures.



15 *Consolidated operating revenue.*

Net Profit

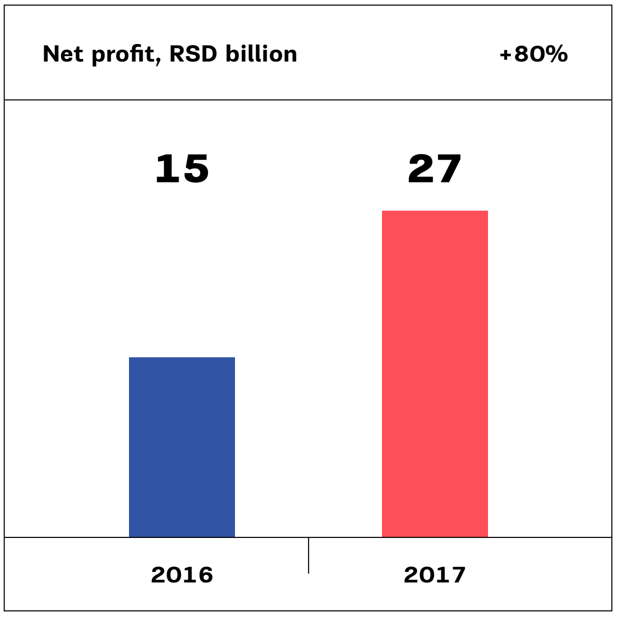
Net profit realised in 2017 is RSD 27 billion an 80 percent increase year-on-year.

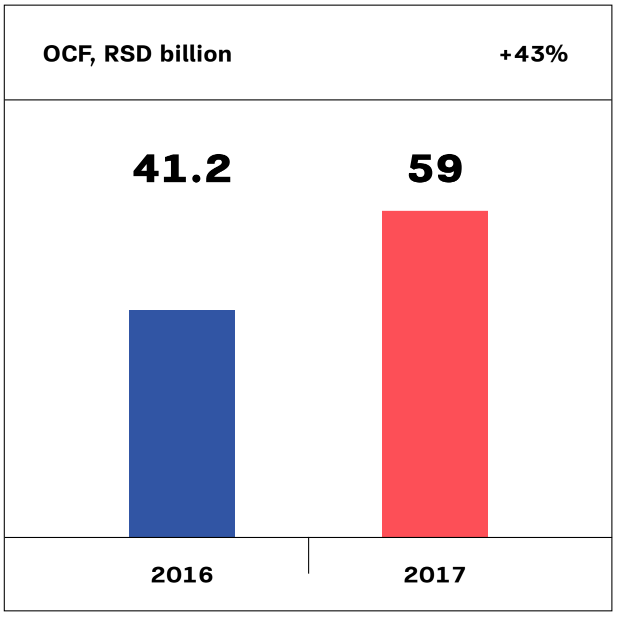
- Increase in the prices of crude oil and petroleum products,
- Operational efficiency improvement and cost-cutting measures,
- Foreign exchange gains.

OCF

In 2017, Operating Cash Flow amounted to RSD 59 billion, a 43-percent increase year-on-year:

- Higher inflows resulting from higher prices of petroleum products,
- Increase in EBITDA.



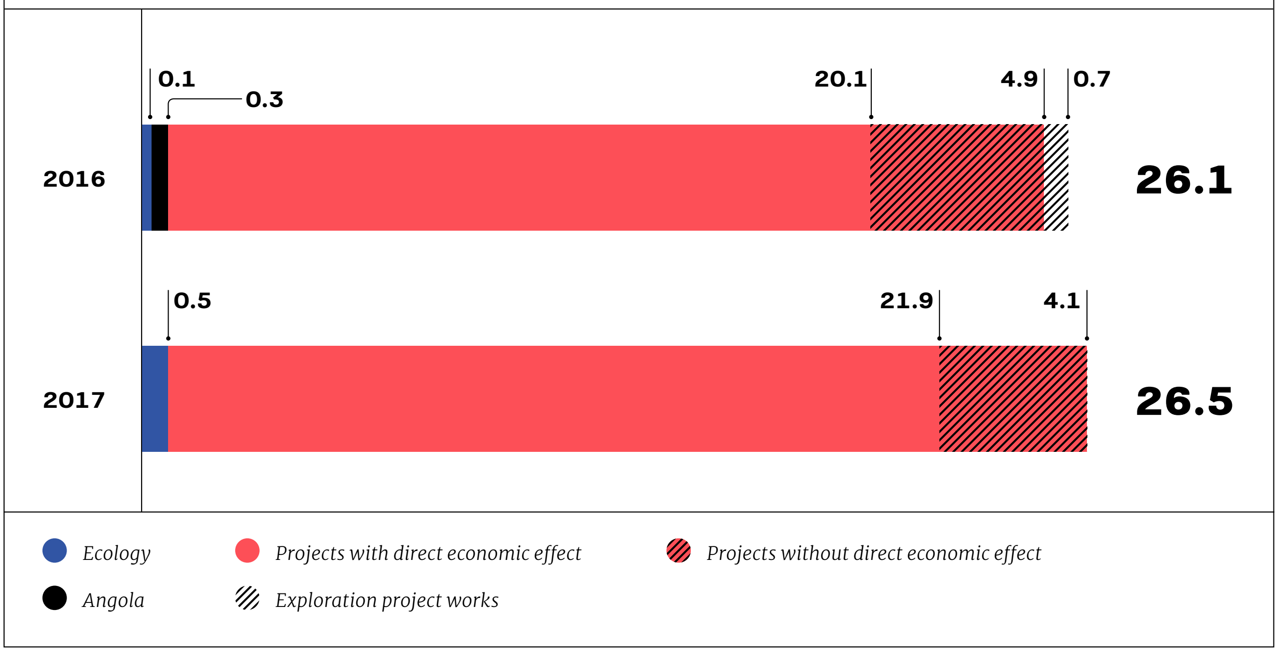


CAPEX

In 2017, the main investments focused on the implementation of oil and gas production projects. A significant portion of investment was allocated to modernise refinery processing. During the year, NIS also invested in sales and distribution, energy and services projects, as well as in a number of projects in the Corporate Centre.

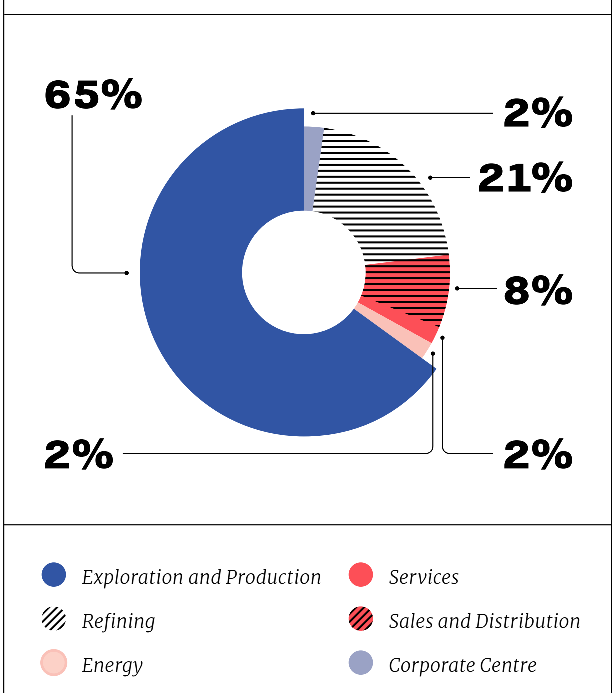
During 2017, RSD 26.53 billion was allocated to finance investments, which is 2% more than allocated in 2016.

CAPEX by type of project*, RSD billion



* *Amounts are given in RSD billion, excluding VAT.*

Investments by segment



RSD 26.5 bn

was allocated to finance investments, which is 2% more than allocated in 2016. In 2017, the main investments focused on the implementation of oil and gas production projects. A significant portion of investment was allocated to modernise refinery processing.

Organisational unit	Major projects
Exploration and Production Block	• Investment in geological and technical activities • Drilling of development wells • Programme of 3D seismic exploration and drilling of exploration wells in the Republic of Serbia • Investment in base infrastructure • Investment in concession rights
Services Block	• Purchase of wireless equipment for 3D seismic acquisition • Transport projects (purchase of semi-trailers) • Modernisation of mud landfill in Novo Miloševo • Purchase of Gravel Pack equipment
Refining Block	• Refinery processing modernisation – continued completion as per 'Bottom of the Barrel' project • Production efficiency boost programme and programme of investment maintenance of Refining Block • Investments concerning environment protection • Projects of compliance with legislative regulations and rules
Sales and Distribution Block	• Development of a retail network in Serbia (construction and reconstruction of petrol stations, purchase of a petrol station) • Logistics projects (major repair of tank wagons, purchase of tank trucks) • Other retail projects (introduction of Drive Cafe concept at petrol stations)
Energy Block	• Project for the construction of a gas-filling station and CNG facilities in the gas field 'Ostrovo' • The Energy Block's investment maintenance programme • Decentralisation and modernisation of the heating source at the Novi Sad Refinery • Reliability improvement projects (adaptation of low voltage installation in substations)
Corporate Centre	• Projects with IT component (consolidation of user IT services, improvement of IT and Data Centre security, changes in IT systems according to business requirements) • Organisation and reconstruction of piping storage space in Elemir

Indebtedness

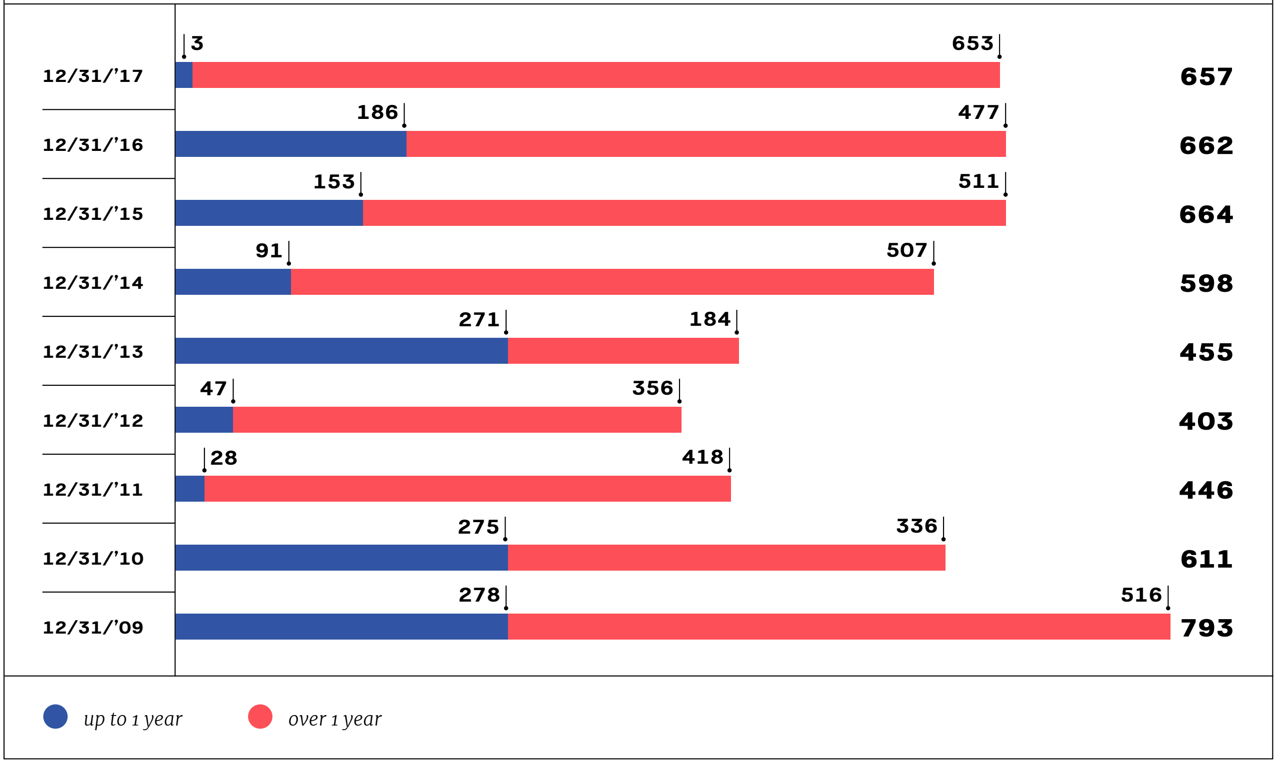
In 2017, the debt towards banks declined slightly to $656.8 million, with an increase in the share of EUR loans compared to the situation as at 31 December 2016. Furthermore, the debt towards the parent company PJSC 'Gazprom Neft' was also reduced, amounting to €255.8 million at present.

Despite limitations imposed by sanctions, NIS successfully implemented the first stage of loan portfolio restructuring in 2017. This was the first such restructuring under sanctions. The results are an extension in the average maturity of portfolio by 1.3 years (to 3.21 years as at 31 December 2017), with a simultaneous reduction of the average borrowing price by 10% compared to 2016 and a change in the currency structure of the portfolio (the share of USD denominated loans was reduced from 51% to 28%). Owing to a tender conducted in December 2017, key NIS partner banks were selected to provide over €300 million in additional sources of long-term funding in 2018 for the implementation of the second stage of restructuring, with additional optimisation of the financing cost, and all within the limits of the allowed debt to EBITDA ratio.

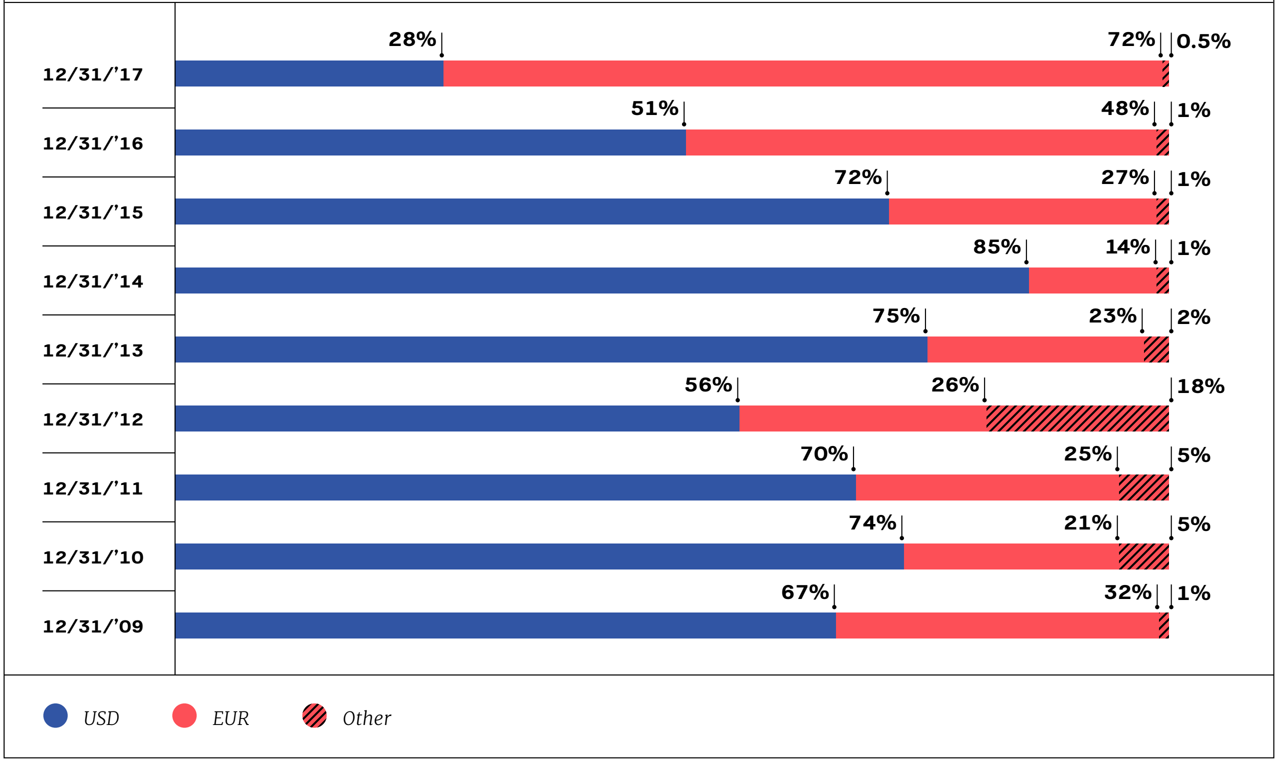
In this way, NIS will virtually release the free cash flow for timely financing of major investment projects (especially the strategically important 'Bottom of the Barrel' Project and other planned investments) in the period 2018 to 2020.

Total bank debt trends with maturity structure, USD mn

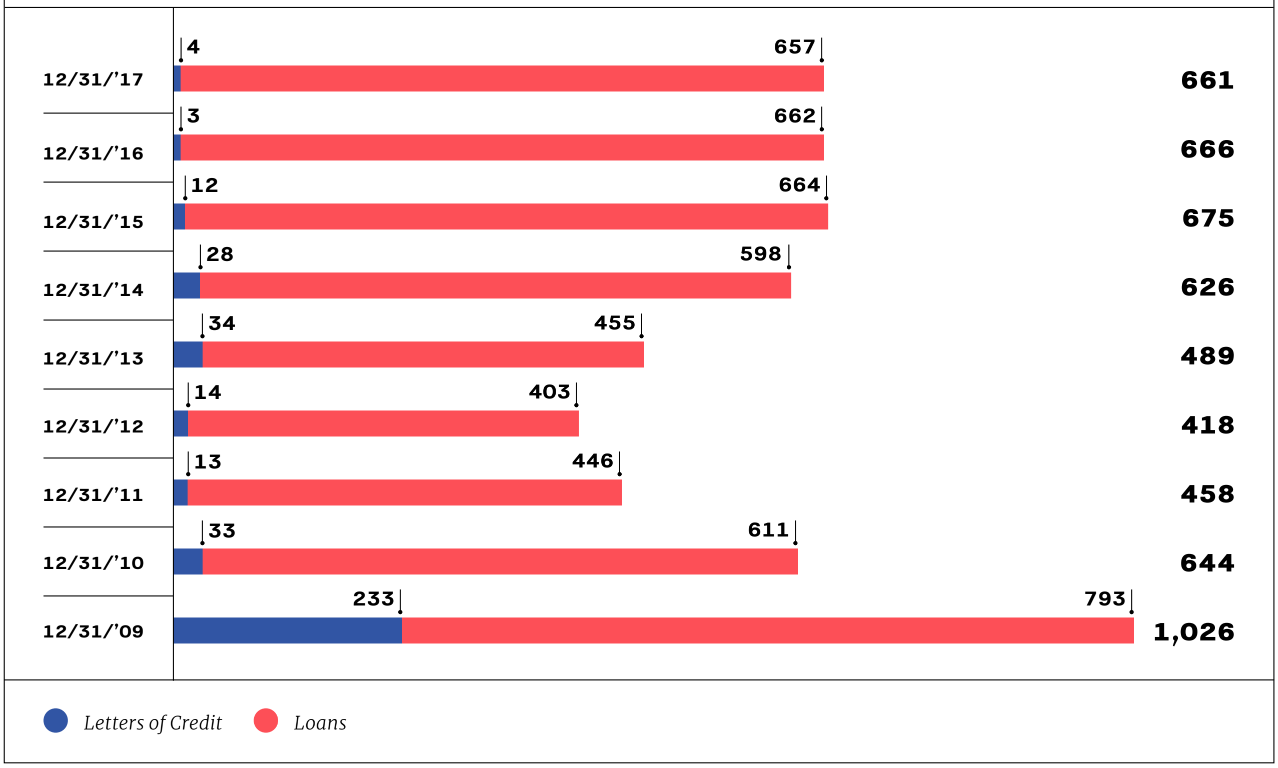
-1%



Total bank debt structure, by currency, in %

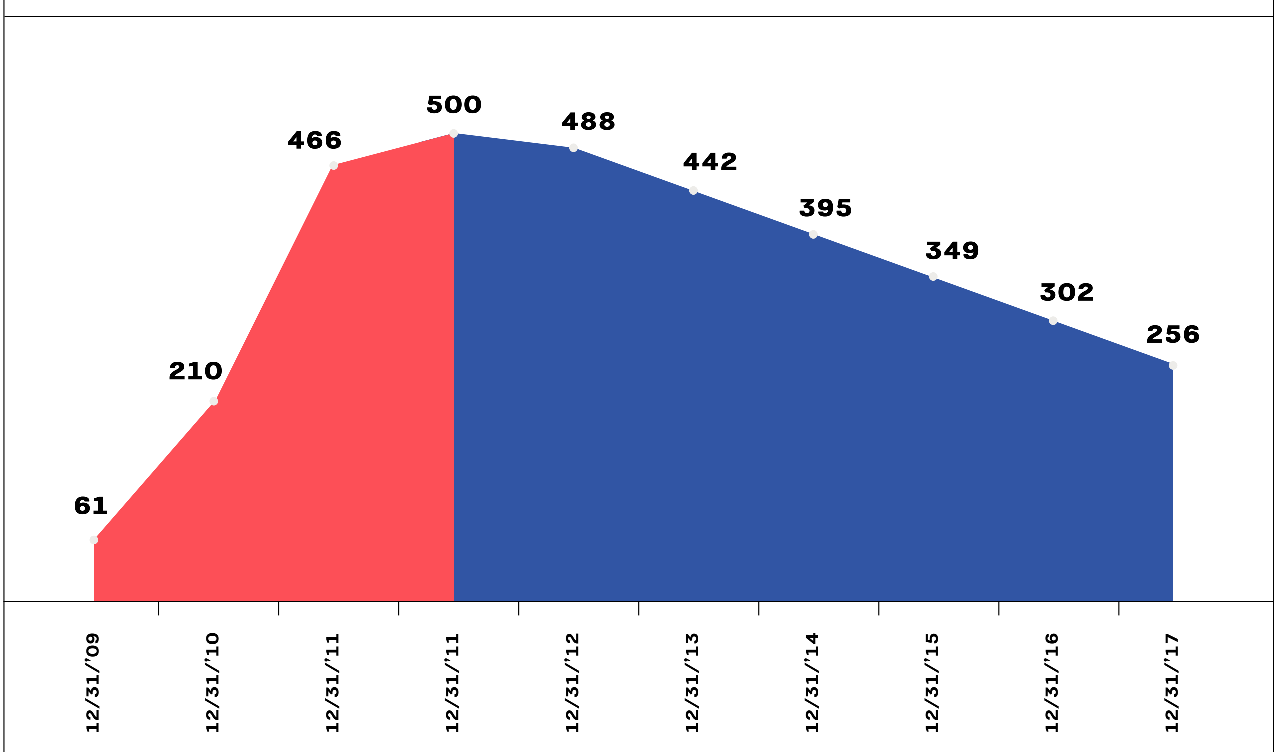


Total bank indebtedness*, USD mn -1%



* *In addition to debt to banks and Letters of Credit NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of $34.2 million, corporate guarantees in the amount of $63.6 million and Letters of Intent signed with banks in the amount of $3.0 million and financial leasing in the amount of $4.37 million as at 31 December 2017.*

GPN loan, EUR mn -15%



Taxes and Other Public Revenue[16]

The total amount of accrued liabilities for public revenue payable by NIS j.s.c. Novi Sad along with the subsidiaries deriving from its organisational structure[17] in Serbia is RSD 144 billion in 2017, which is at the same level as in 2016.

RSD 171 bn

is the total amount of accrued liabilities for public revenue payable by NIS Group in 2017.

The total amount of accrued liabilities for public revenue payable by NIS Group in 2017 is RSD 171 billion, which 5% higher than in 2016.

16 *In RSD billion.*

17 *Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Transport d.o.o. Novi Sad and NTC NIS Naftagas d.o.o. Novi Sad.*

NIS j.s.c. Novi Sad	2017	2016	Δ[1]
Social insurance contributions paid by employer	1.5	1.5	+5%
Corporate tax	3.4	1.8	+87%
Value-added tax	21.8	22.3	-2%
Excise duties	106.4	108.8	-2%
Commodity reserves fee	6.0	6.2	-4%
Customs duties	0.7	0.5	+53%
Royalty	1.2	1.0	+19%
Other taxes	1.3	1.3	+6%
Total	**142.3**	**143.3**	**-1%**
NIS subsidiaries in Serbia [2]			
Social insurance contributions paid by employer	0.5	0.5	+5%
Corporate tax	0.1	0.1	+8%
Value-added tax	1.3	1.0	+29%
Excise duties	-	-	-
Customs duties	0.0	0.1	-33%
Royalty	-	-	-
Other taxes	0.1	0.1	-9%
Total	2.0	1.7	+18%
Total NIS j.s.c. Novi Sad with subsidiaries in Serbia	**144.4**	**145.0**	**0%**
NIS regional subsidiaries and Angola			
Social insurance contributions paid by employer	0.1	0.1	+6%
Corporate tax	2.2	0.3	+8x
Value-added tax	1.5	1.2	+18%
Excise duties	12.9	10.2	+26%
Customs duties	8.3	5.9	+42%
Royalty	-	-	-
Other taxes	0.1	0.1	-9%
Total	25.0	17.8	+41%
Deferred taxes (total for Group)	1.6	0.5	+226%
Total NIS Group [3]	**171.0**	**163.3**	**+5%**

1 *Any potential deviations in percentages and aggregate values result from rounding. The change percentages shown have been obtained on the basis of values not rounded to RSD billion.*

2 *Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Transport d.o.o. Novi Sad and NTC NIS Naftagas d.o.o. Novi Sad.*

3 *Including taxes and other liabilities for public revenues for subsidiaries in the region, corporate tax in Angola and deferred taxes.*

Ratio Indicators[18]

	2017	2016
Profitability ratios		
Gross profit margin (EBITDA margin)[1]	20%	21%
Net profit margin[2]	11%	8%
Return on assets (ROA)[3]	7%	4%
Return on equity (ROE)[4]	13%	8%
Liquidity ratios		
Current ratio[5]	172%	137%
Quick ratio[6]	112%	98%
Net working capital ratio[7]	12%	7%
Leverage ratios		
Leverage coefficient[8]	39%	44%
Net Debt/EBITDA[9]	1.48	2.35

1 *EBITDA/Operating Revenues.*

2 *Net profit/Operating Revenues.*

3 *Net profit/Average Total Assets.*

4 *Net profit/Average Equity.*

5 *Current Assets/Short-term Liabilities.*

6 *(Current Assets – Inventories)/ Short-term Liabilities.*

7 *(Current Assets – Short-term Liabilities)/Total Assets.*

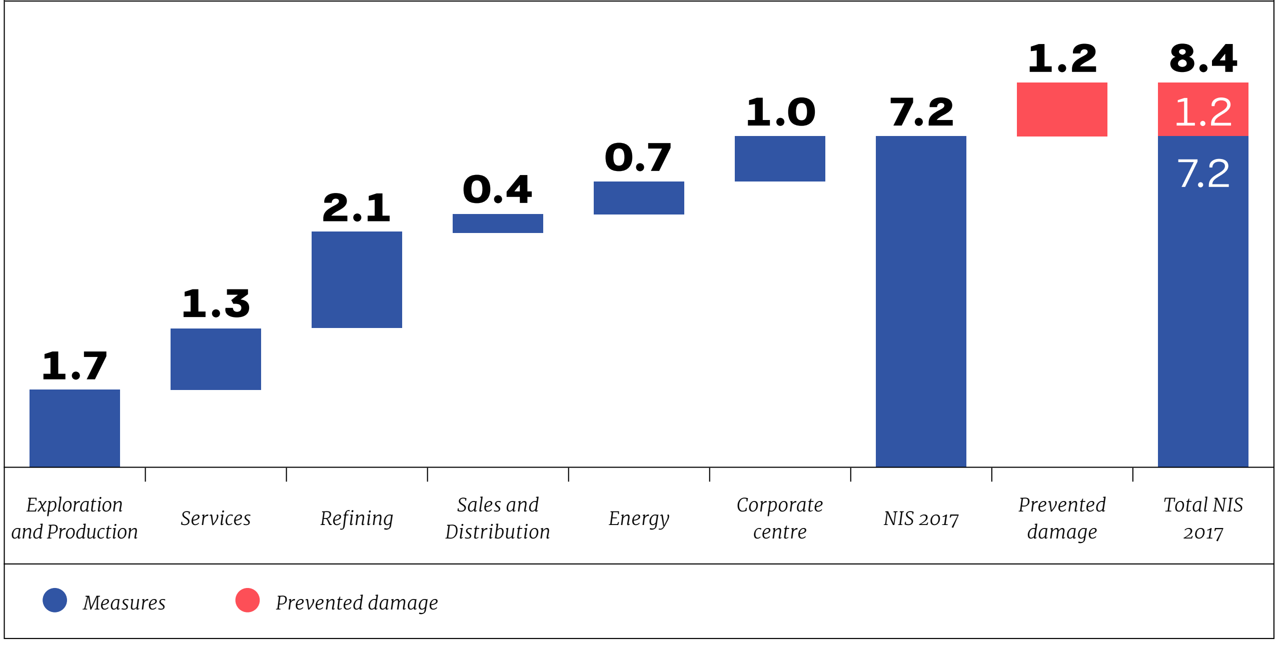
8 *(Long-term Liabilities + Short-term Liabilities)/ Total Assets.*

9 *(Long-term Liabilities + Short-term Financial Liabilities – Cash and Cash Equivalents)/EBITDA.*

18 *Ratio indicators are calculated using data from Consolidated Financial Statements prepared in the form prescribed by Ministry of Finance of Republic of Serbia which does not comply with IAS 1 – 'Presentation of Financial Statements'.*

Operational Efficiency Improvement

Effect of operational efficiency improvement measures on EBITDA, RSD bn



More information on OMS Etalon Programme on page 74

In 2017, the effects of operational efficiency improvement measures also had a significantly positive impact on the financial performance. Throughout the year, business operations were marked by the implementation of operational efficiency improvement measures with a new element in the form of implementation of the Operational Management System (OMS).

The effect of operational efficiency improvement measures on EBITDA in 2017 is RSD 7.2 billion. In addition, the effect from the prevented damage is RSD 1.2 billion.

The incentive programme 'I HAVE AN IDEA!' encourages each staff member to come forward with ideas they think would improve the operation and directly boost efficiency. For approved ideas, we prepared both non-cash and cash rewards, which may reach up to RSD 1,890,000, gross.

993 ideas were put forward within 'I HAVE AN IDEA!' programme in 2017, which generated over RSD 500 million.

The Brand for Pleasant Journeys

NIS maintains its leadership position in the Serbian petroleum product retail market not only on the quality of its fuel but also by investing strongly in equipment, employee training and petrol station location.

In 2017, NIS constructed three new petrol stations in Serbia, refurbished

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more and purchased one. In the Serbian market, it has started selling improved quality LPG from the newly-modernised Pančevo Oil Refinery.

In the regional market, NIS has continued to expand its range of high-quality G-Drive fuels and has launched its loyalty programme in both Bosnia and Herzegovina and Bulgaria.

The Chamber of Commerce and Industry of Serbia recognised NIS for an award in the best corporate brand category for ‘Manufactured Goods and Business Services’ and best merchandise brand for ‘NIS Petrol’.

1.08 OMS - Etalon

One of the important links in building better results and further increasing the efficiency of NIS is the introduction of the Operational Management System - OMS. NIS declared 2017 as the year of OMS Etalon, which represents a set of interconnected management practices, processes and procedures and is designed to ensure maximum operational efficiency through the reliability and safety of production processes and the engagement of all employees in the process of continuous improvement.

Reducing operating costs, effectively managing operational risks and managing an efficient business is achieved by increasing the reliability and safety of production processes, applying best management practices, encouraging creative initiatives and motivating all employees as part of a meaningful and controlled process of continuous improvement.

The operations management cycle establishes a systematic approach to achieving target operational performance indicators. This cycle is coordinated with the process of formulating strategic objectives and business planning, as well as identifying measurable effectiveness (performance) criteria based on the best industrial practices.

The achievement of operational management system objectives is ensured by fulfilling the requirements of three functional groups of elements:

- Umbrella elements - provide the OMS setting and impact the way of thinking and acting, and the commitment of all employees at all levels. These elements are a key factor in the success of OMS implementation and sustainability and include leadership and culture, efficiency management and continuous improvement.

- Basic elements - are focused on people, processes and equipment and include equipment reliability and integrity management, production management, and organisation and competencies management.

- Support elements - processes related to operational risk management, contractor and supplier management, project management, incidents and emergency preparedness management, information and documentation management, change management, and stakeholder expectations management.

During 2017, diagnostics of business operations was conducted and an organisational structure was set up to monitor the OMS implementation. Based on the results of the diagnostics and business process review against the requirements of OMS elements, an Action Plan for process improvement was prepared and a project portfolio was put together within which the improvements will be made.

Leadership and Culture

- *Operational risks management*
- *Contractor and supplier management*
- *Project management*
- *Information, documentation, policy and standard management*
- *Emergency preparedness management*
- *Change management*
- *Managing stakeholder expectations*

Managing the organization and competences	Managing production processes	Managing equipment reliability and integrity
PEOPLE	**USE**	**EQUIPMENT**

Efficiency management and constant development

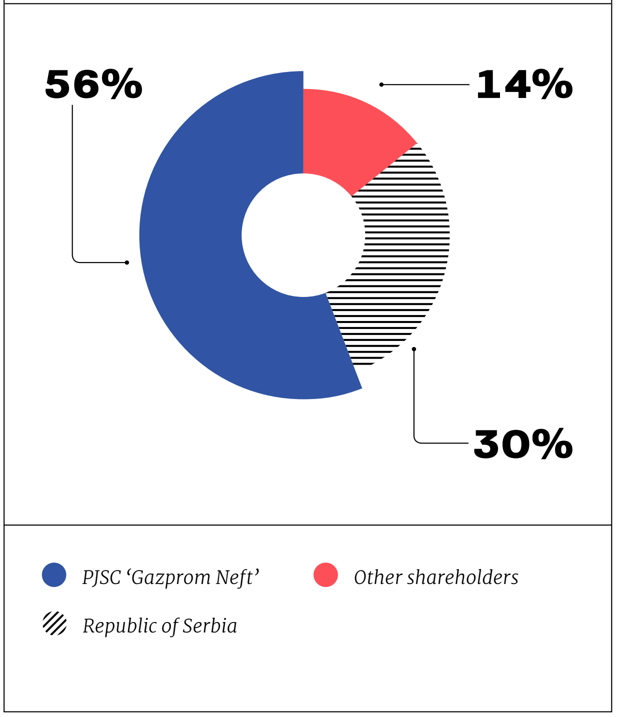
1.09 Securities

Share Capital Structure

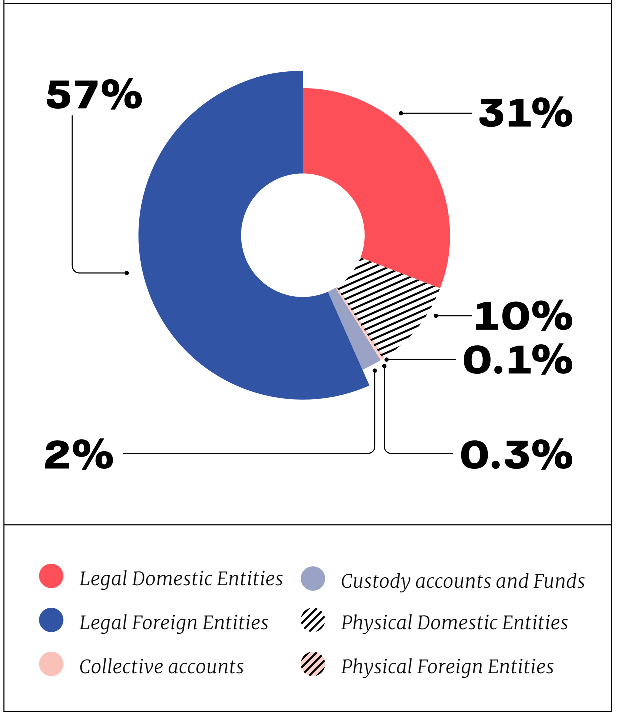
NIS share capital is RSD 81.53 billion and is divided into a total of 163,060,400 shares with a nominal value of 500.00 RSD. All issued shares are ordinary shares, vesting their holders with the following rights:

- Right to participate and vote at the shareholders' assembly meetings, according to one-share-one vote rule;
- Right to dividend in compliance with applicable legislation;
- Right to participate in the distribution of the liquidation remainder or bankruptcy estate in compliance with the bankruptcy law;
- Pre-emption right to buy a new issue of ordinary shares and other financial instruments tradable for ordinary shares, out of new issue;
- Other rights in accordance with the Company Law and corporate documents.

Share Capital structure based on % in Share Capital



Share Capital structure based on entity type



The structure of top 10 shareholders with the largest stake in equity capital is shown in the table below:

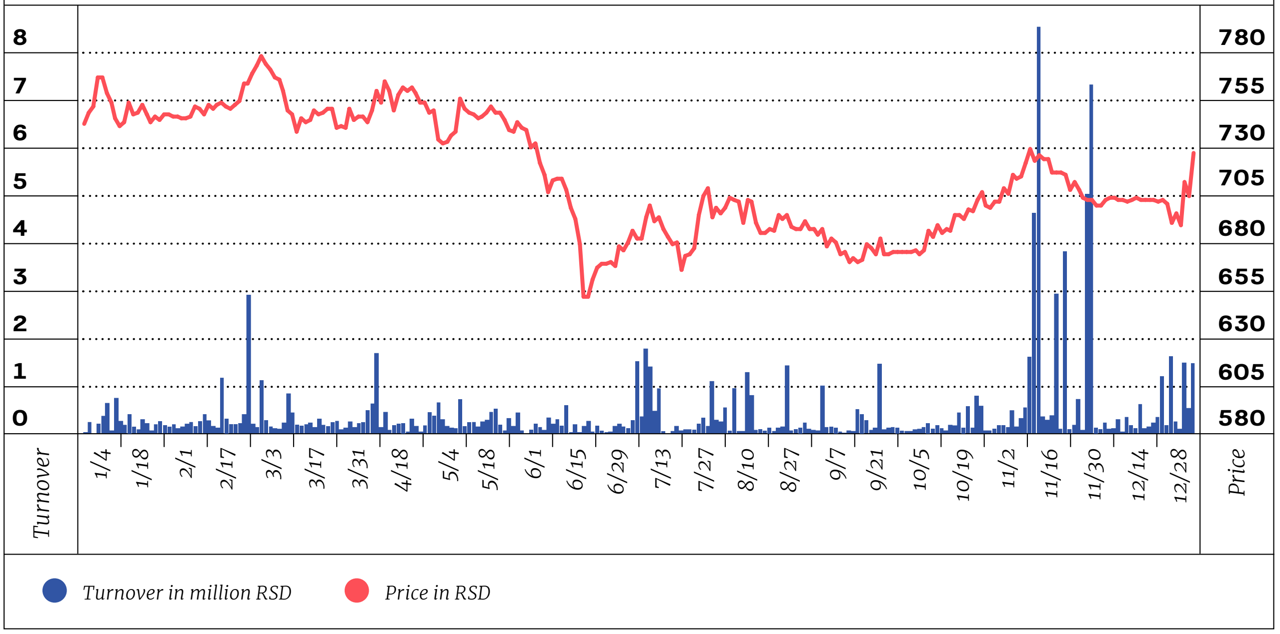
Shareholder	Number of shares	% in share capital
PJSC 'Gazprom Neft'	91,565,887	56.15%
Republic of Serbia	48,712,094	29.87%
Societe Generale banka Srbija a.d. – custody account - fund	1,360,334	0.83%
UniCredit Bank Serbia a.d. – custody account	543,477	0.33%
Societe Generale banka Srbija a.d. – custody account - fund	386,320	0.24%
Global Macro Capital Opportunities	342,465	0.21%
Aktiv-fond d.o.o. Beograd	236,330	0.14%
AWLL Communications d.o.o. Beograd	227,352	0.14%
Keramika Jovanović d.o.o. Zrenjanin	203,824	0.12%
Dunav Osiguranje a.d.o. Beograd	196,517	0.12%
Other shareholders	19,285,800	11.83%
Total number of shareholders as at 31 December 2017:		**2,113,904**

Share Trading and Indicators per Share

NIS j.s.c. Novi Sad shares are listed in the Prime Listing of the Belgrade Stock Exchange

In 2017, there were no acquisitions of treasury shares by the Company.

Price and turnover trends in 2017



Overview of trading in NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in 2017	
Last price (31 December 2017)	RSD 724
Highest price (3 March 2017)	RSD 775
Lowest price (21 June 2017)	RSD 640
Total turnover	RSD 1,060,218,855
Total volume (number of shares)	1,483,530 shares
Total number of transactions	22,982 transactions
Market capitalization as at 31 December 2017	RSD 118,055,729,600
EPS	RSD 170.43
Consolidated EPS	RSD 165.35
P/E ratio	4.2
Consolidated P/E ratio	4.4
Book value as at 31 December 2017	RSD 1,465.51
Consolidated book value as at 31 December 2017	RSD 1,380.17
P/BV ratio	0.5
Consolidated P/BV ratio	0.5

Dividends

NIS j.s.c. Novi Sad dividend policy is based on a balanced approach taking into account the necessity of profit retention for investment funding purposes, the rate of return on invested capital and the amount for dividend payment. The long-term dividend policy stipulates that a minimum of 15% of net profit is to be paid to shareholders in dividends.

When deciding on profit distribution and dividend payment, the corporate management takes into consideration a number of factors, including the financial standing, investment plans, loan repayment obligations, macroeconomic environment and legislation. Each of these factors, either individually or combined, if carrying sufficient weight, may affect the proposed dividend payment.

RSD 4 bn

NIS paid dividends to its shareholders for the fifth consecutive year, allocating 25 percent of the 2016 net profit, i.e. RSD 4.021 billion for this purpose.

	2009	2010	2011	2012	2013	2014	2015	2016
Net profit (loss), RSD bn[1]	(4.4)	16.5[2]	40.6[3]	49.5	52.3	30.6	16.1	16.1
Total amount of dividend, RSD bn	0.00	0.00	0.00	12.4	13.1	7.6	4.0	4.0
Payment ratio	-	-	-	25%	25%	25%	25%	25%
Earnings per share, RSD	-	101.1	249.0	303.3	320.9	187.4	98.8	98.6
Dividend per share, gross, RSD	0.00	0.00	0.00	75.83	80.22	46.85	24.69	24.66
Share price as at 31 December, RSD	-	475	605	736	927	775	600	740
Shareholders' dividend yield, in %[4]	-	-	-	10.3	8.7	6.0	4.1	3.3

1 *Net profit of NIS j.s.c. Novi Sad.*

2 *Net profit used to cover accumulated losses.*

3 *Net profit used to cover accumulated losses.*

4 *Calculated as the ratio of gross dividend and year-end share price.*

Investor Relations

The basic objective of NIS j.s.c. Novi Sad in relations with investors, is to establish and develop a long-term relationship with investors based on trust through transparent information disclosure and a two-way communication. The Company takes a number of steps to make this cooperation as good as possible.

At the end of each quarter, NIS j.s.c. Novi Sad regularly organises presentations of the results achieved, where representatives of top management analyse in detail business operations and the results achieved in direct communication with representatives of the investors. Moreover, NIS j.s.c. Novi Sad takes part in investment conferences organised by Erste Group, Belgrade Stock Exchange and the investment company WOOD&Co. The Company is always willing to arrange one-on-one meetings for those who would like to get more information.

Every year NIS j.s.c. Novi Sad organises Investor Day, which takes place on company premises and on occasion it always presents its major projects. This year, the business results of NIS Group in the first nine months of 2017 and the 'Bottom of the Barrel' project at Pančevo Oil Refinery were the main topics of the sixth annual NIS Investor Day held at the corporate Business Centre in Novi Sad. This was also an opportunity for the participants of the Investor Day to get introduced to a training centre where petrol station staff are trained, as well as the Museum of NIS, which testifies that the history of NIS j.s.c. Novi Sad also happens to be the history of this region's oil and gas exploration and production and petroleum product exploitation and distribution.

http://ir.nis.eu

The special section of the corporate website dedicated to investors and shareholders is also an invaluable source of information for all stakeholders.

This section of the corporate website is regularly updated with the latest performance presentations, financial statements, audit reports, financial calendar, as well as various other presentations and material.

The quality of investor relations fostered by NIS j.s.c. Novi Sad is reaffirmed by two awards given to the Company during 2017. The investor website received Gold Stevie International Business Award in the category of specialised websites for providing information to investors and shareholders and joined the winners of this prestigious competition for the first time. This was yet another international reaffirmation of the Company's good and transparent relations with its investors and shareholders in the long run.

NIS j.s.c. Novi Sad won the Gold Plaque Award of the Belgrade Stock Exchange for the best investor relations in 2017, competing with 17 domestic and regional companies for the coveted award, which the Company won for the fifth time. The decision was made by distinguished financial analysts and a university professor based on assessing 35 criteria of company openness towards the investors.

Overview of Financial Instruments Used by the Group

Due to its exposure to foreign exchange risk, NIS Group practises forward transactions in the foreign exchange market as an instrument for managing this type of risk.

Being the parent company of the entire Gazprom Neft Group, which includes NIS j.s.c. Novi Sad and its subsidiaries, PJSC 'Gazprom Neft' manages commodity hedging instruments at the level of Gazprom Neft Group and decides if it is necessary to use specific commodity hedging instruments.

The quality of investor relations fostered by NIS j.s.c. Novi Sad is reaffirmed by two awards given to the Company during 2017 - Gold Stevie International Business Award and Gold Plaque Award of the Belgrade Stock Exchange.

Rating

Rating

Rating assigned by	Member of Group	Previous rating		Rating score	
		Rating	Date	Rating	Date
Business Registry Agency - Republic of Serbia	-	BB Very good	12 July 2016	BB Very good	1 February 2018
Bisnode d.o.o., Belgrade, Serbia	Dun&Bread-street	5A3 Fair Down	25 January 2017	5A1 Strong Even	30 January 2018
	Bisnode AB, Stockholm, Sweden	C2	25 January 2017	C2	30 January 2018

A Reliable Investing Partner

Transparent relations with its shareholders and comprehensive and timely notification of investors on relevant activities of the Company are part of the NIS strategy.

In 2017, competing with

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domestic and regional companies, NIS received the award from the Belgrade Stock Exchange for best investor relations, the fifth time the company has won this award, while the NIS investor website, ir.nis.eu, received a Gold Stevie International Business Award in the category for specialised websites providing information to investors and shareholders.

For the fifth consecutive year, NIS paid a shareholder dividend, allocating 25 per cent of the 2016 net profit to this, i.e. RSD

4.021

billion.

1.10 Corporate Governance

Statement on Application of Code of Corporate Governance

http://ir.nis.eu/en/corporate-governance/code-of-corporate-governance/

In accordance with Article 368 of the Company Law (hereinafter 'The Law'), NIS j.s.c. Novi Sad hereby states that it applies the Code of Corporate Governance of NIS j.s.c. Novi Sad (hereinafter 'The Code') which is available on the company website. This Statement contains a detailed and comprehensive outline of corporate governance practices implemented by the Company.

http://ir.nis.eu/en/corporate-governance/companys-regulations/

The Code supplements the rules contemplated by the Law and Articles of Association of NIS j.s.c. Novi Sad (hereinafter 'The Articles'), which are to be complied with by the persons responsible for the corporate governance of the Company. The corporate Board of Directors ensures the application of the principles established under the Code, monitors the implementation thereof and the compliance of the company's organisation and actions with the Code and the Law.

Corporate Governance System

The Company has established a one-tier governance system, where the Board of Directors has the central role in the corporate governance. The Board of Directors is responsible for the implementation of the objectives set and the achievement of results, while shareholders exercise their rights and control primarily through the Shareholders' Assembly.

The provisions of the Articles of Association fully and clearly differentiate between the scope of work of the Board of Directors and the scope of work of the Shareholders' Assembly, General Director of the Company and the bodies set up by corporate governance bodies.

Shareholders' Assembly and Shareholders' Rights

As the highest authority of the Company, the Shareholders' Assembly is made up of all shareholders. All NIS j.s.c. Novi Sad shares are ordinary shares that give their owners the same rights, wherein one share carries one vote. The corporate Acts do not impose restrictions that would apply to the number of shares or votes that a person may have at a Shareholders' Assembly meeting.

The Shareholders' Assembly meetings may be ordinary and extraordinary. Ordinary meetings are convened by the Board of Directors no later than six months after the end of a fiscal year. Extraordinary meetings are convened by the Board of Directors at its discretion or at the request of shareholders holding at least 5% of the company shares.

http://ir.nis.eu/corporate-governance/shareholders-assembly/#c41

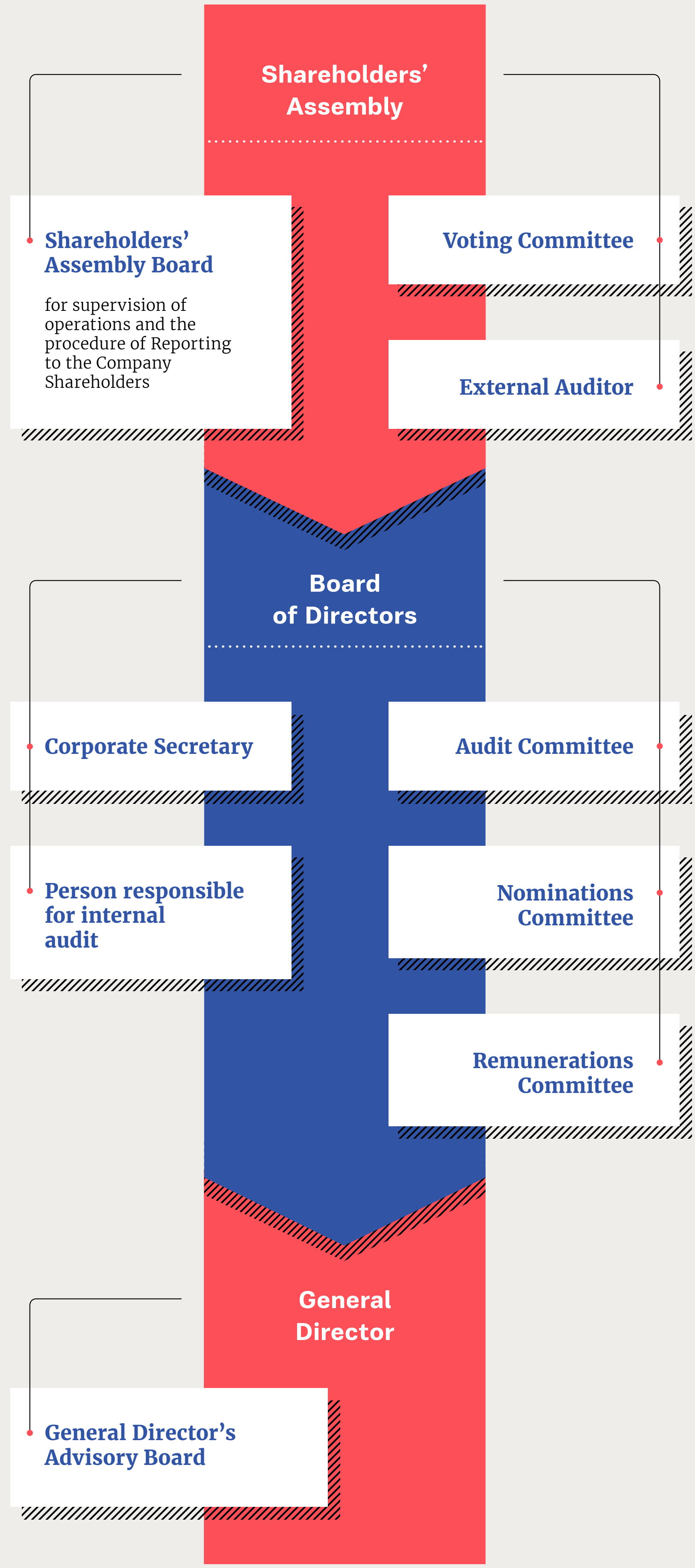
The rules regarding the method of convening meetings, operation and decision-making process of the Shareholders' Assembly, and particularly the issues relating to how shareholders exercise their rights in connection with the Shareholders' Assembly, are laid down in advance and incorporated into the corporate Rules of Procedure of the Shareholders' Assembly, which are made public and available to all shareholders.

A call for a meeting of the Shareholders' Assembly is posted on the corporate website (www.nis.eu), Serbian Business Registers Agency's website (www.apr.gov.rs) and the regulated market website (www.belex.rs) no later than 30 days before the date of an ordinary meeting and 21 days before an extraordinary meeting. At the same time, materials for the Shareholders' Assembly meeting are also made public and available for inspection to each shareholder or their proxy at the company headquarters pending the date of the meeting.

In addition to the information about the meeting time, venue and agenda, the call for a meeting of the Shareholders' Assembly also includes information on how the materials for the meeting have been made available to the shareholders, explanations of the shareholders' rights, manner and deadlines for the exercise of such rights, as well as information on the Shareholders' Day. Furthermore, proxy forms and ballots for voting in absentia, which are also available at the company headquarters, as well as electronic ballots, are also published along with the call.

Any decisions adopted by the Shareholders' Assembly are published on the corporate website together with the Voting Committee's report on voting results, minutes of the Shareholders' Assembly meeting, the list of attendees and invitees and the list of attending and represented company shareholders.

Calls and materials for Shareholders' Assembly meetings, decisions adopted and other documents



Corporate Bodies of NIS j.s.c. Novi Sad

published following a Shareholders' Assembly meeting are available in Serbian, Russian and English.

Special Shareholder Rights

The agreement for the sale and purchase of the shares of NIS j.s.c. Novi Sad, which was entered into on 24 December 2008 between PJSC 'Gazprom Neft' and the Republic of Serbia, stipulates that, as long as the parties to such agreement are shareholders of NIS j.s.c. Novi Sad, neither party shall sell, transfer or otherwise dispose of ownership of the shares package, in part or in its entirety, for the benefit of any third party, unless it previously offers to the other party the option of purchasing the shares package under the same terms as offered by the third party.

In accordance with Article 4.4.1 of the Agreement, as long as the Republic of Serbia is the shareholder holding no less than a 10-percent equity interest, it shall be entitled to such number of members on the Board of Directors as proportional to its equity interest.

Right to Participate in the Operation of the Shareholders' Assembly

The right to participate in and vote at the Shareholders' Assembly meeting is held by all shareholders who own NIS j.s.c. Novi Sad shares on the Shareholders' Day, which is the tenth day prior to the Shareholders' Assembly meeting, based on the records of the Central Securities, Depository and Clearing House.

The right to participate in the operation of the Shareholders' Assembly includes the rights of shareholders to vote and participate in the discussion about the issues on the agenda of the Shareholders' Assembly meeting, including the right to put forward motions, ask agenda-related questions and receive answers in accordance with the Law, Articles of Association and Rules of Procedure of the Shareholders' Assembly, which specifically establish the procedures for exercising such rights.

In accordance with the Articles of Association, the right to personally participate in the Shareholders' Assembly meeting is held by a company shareholder having at least 0.1% shares of the total number of company shares, i.e. a proxy representing at least 0.1% the total number of company shares. Company shareholders who individually hold less than 0.1% the total number of company shares are eligible to participate in the Shareholders' Assembly meeting through a joint proxy, to vote in absentia or to vote electronically, regardless of the number of shares held, whereby all of the above voting methods have the same effect. The stipulation of a threshold for personal participation is due to the fact that the Company has a very large number of shareholders (about 2.1 million) and a threshold in these circumstances is necessary in order not to compromise the efficiency and rationality in terms of planning and holding Shareholders' Assembly meetings.

The Company makes it possible for all shareholders to grant an online proxy and vote online prior to the meeting, wherein the proxy, i.e. the ballot must be signed by a qualified electronic signature in accordance with the law governing electronic signatures.

Proposing Amendments to the Agenda

In accordance with the Articles of Association and the Law, one or more company shareholders holding at least 5% voting shares may put forward a motion to the Board of Directors with additional items for the agenda of the Shareholders' Assembly meeting which are put forward for discussion, as well as additional items put forward to the Shareholders' Assembly for decision-making.

Right to Raise Questions, Obtain Answers and Put Forward Motions

A company shareholder entitled to participate in the Shareholders' Assembly meeting may raise questions relating to the agenda items to be discussed in the Shareholders' Assembly meeting, as well as other company-related questions to the extent to which the answers to such questions are necessary for an adequate assessment of the issues relating to the agenda items of the Shareholders' Assembly meeting. Members of the Board of Directors answer any questions raised.

Voting Majority

As a rule, decisions of the Shareholders' Assembly are adopted by a simple majority of votes of attending company shareholders entitled to vote on the issue concerned, unless the Law, the Articles of Association or other regulations require more votes for certain issues.

Exceptionally, as long as the Republic of Serbia holds at least a 10-percent equity interest, the affirmative vote of the Republic of Serbia is required for the decisions of the Shareholders' Assembly concerning the following issues: adoption of financial statements and audit reports, amendment to the Articles of Association, decrease and increase in capital, status changes, acquisition and disposal of the Company's major assets, changes in core activity, corporate headquarters and dissolution of the Company.

Shareholders' Assembly Activities in 2017

In 2017, 9th Ordinary Shareholders' Assembly meeting was held in Belgrade, at the NIS Business Centre, at 1 Milentija Popovića Street (on 27 June 2017), and no extraordinary meetings were held.

At the 9th ordinary meeting, the Shareholders' Assembly adopted the financial and consolidated financial statements of the Company for the year 2016 with the independent auditor's opinion and appointed the auditor for 2017 (PricewaterhouseCoopers d.o.o. Beograd). In addition, it also adopted the 2016 Annual Report and the Report by independent auditor on the Audit of the Annual Report, the Report on the Analysis of the Operation of the Board of Directors and Committees of the Board of Directors, Annual Report of the Board of Directors of NIS j.s.c. Novi Sad on Accounting Practices, Financial Reporting Practices and Compliance of Business Operations with the Law and Other Regulations and the Report of the Shareholders' Assembly Board. Additionally, the Shareholders' Assembly adopted the Report on Suitability of the Composition of the Board of Directors and Number of Members of the Board of Directors of NIS j.s.c. Novi Sad to the Company Needs, and the Report on Evaluation of the Amount and Structure of Remuneration of the Members of the Board of Directors of NIS j.s.c. Novi Sad, which were prepared with the assistance of external experts.

Apart from this, the Shareholders Assembly adopted the Decision on Profit Distribution for 2016, Dividend Payment and Determination of the Total Amount of Retained Profit of the Company, deciding to allocate 25% net profit earned in 2016 for dividend payment, i.e. to pay a total of RSD 4.021 billion to the company shareholders.

More information on dividend payment on page 79

The Shareholders' Assembly also appointed members of the Board of Directors as well as the Chairman and members of the Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to the Company Shareholders for the current term of office and adopted information on the approval of transactions involving personal interest.

Shareholder Relations and Information Provision

In addition to the reports which NIS, being a public joint stock company, publishes in compliance with legislation and which are publicly available to all interested parties, including reports on business results presented to shareholders at the Shareholders' Assembly meeting, the Company has also developed a two-way communication with shareholders and investors, who are able to obtain all the necessary information on the Company and their rights throughout the year through the Offices for Minority Shareholders Relations in Novi Sad and Belgrade, a separate call centre, an e-mail service through which each shareholder may ask questions and receive answers online, as well as through the Investor Relations Service.

More information on Investor Relations on page 80

Besides, the Company arranges special presentations for shareholders and investors on the most important events and participates in the meetings with investment community representatives. Quarterly performance presentations are regularly attended by representatives of the top management. Both the results of the previous period and future plans and strategies of the Company are discussed in these presentations.

NIS j.s.c. Novi Sad applies the highest standards in terms of information provision, while respecting the principles of equal treatment of all information users and ensuring that the information published is equally and easily accessible to all stakeholders in the shortest time possible, making most use of its corporate website for this purpose. A special segment of the website intended for shareholders and investors contains the most important news, decisions of corporate bodies, responses to the most frequent shareholder questions in the previous period, as well as all relevant information on shares, shareholders' rights and dividends. All information and documents published on the website are available in Serbian, Russian and English. During 2017, the design of this segment of the website was significantly improved and the content was additionally enhanced to improve information provision and make this form of communication user-friendly for shareholders and investors. The mandatory reporting procedure is specified under special company acts governing the method and process of providing information and submitting it to competent authorities.

A mechanism for preventing and resolving potential conflicts between minority shareholders and the Company is also in place. There is a five-member committee to resolve complaints by minority shareholders, which acts in compliance with its Rules of Procedure.

http://ir.nis.eu/usefull-information/#c1745

The Rules, which are available on the corporate website, govern the procedures for minority shareholders to address the Committee, the operation during the meetings, duties and responsibilities of its members and other relevant issues.

Board of Directors

The Board of Directors has a central role in corporate governance. It is collectively responsible for the long-term success of the Company, for setting main business objectives and identifying the company's further courses of development, as well as for identifying and controlling the effectiveness of the corporate business strategy.

Members of the Board of Directors

Members of the Board of Directors are appointed and dismissed by the Shareholders' Assembly. By 27 June 2017, the Board of Directors had 11 members. However, 10 members of the Board of Directors were appointed at the 9th ordinary meeting of the Shareholders' Assembly. The members elect the Board of Directors' Chairperson, with the roles of the Board of Directors' Chairperson and the General Director being separated. Members of the Board of Directors possess an appropriate combination of the required knowledge, skills and experience relevant to the type and scope of business activities conducted by NIS j.s.c. Novi Sad.

Member of the Board of Directors candidates may be proposed by the Nomination Committee or company shareholders owning individually or jointly at least 5% of the Company's shares.

The Board of Directors consists of executive and non-executive directors. Until 22 March 2017, the Board of Directors consisted of two executive members, with the other members of the Board of Directors being non-executive. Since 22 March 2017, it has had one executive member, while the other members are non-executive members, two of whom are also independent members of the Board of Directors meeting special statutory requirements.

The Board of Directors has a considerable number of foreign members with international experience and understanding of the challenges faced by the Company. Of the 10 members of the Board of Directors, six are Russian nationals, two are Serbian nationals, one is a French national, and one is an Austrian national.

Members of the Board of Directors must meet the requirements laid down by law, as well as special requirements laid down by the Articles of Association, whereof they make statements at the beginning of their term of office and are obliged to inform the Company of any changes in their status, especially those that might render them no longer eligible for members of the Board of Directors or which could present a conflict of interest or violate the non-compete obligation.

The term of office of the Board of Directors' members ends at the next ordinary meeting of the Shareholders' Assembly, except in the case of co-optation, when the term of office of co-opted members of the Board of Directors lasts until the first following Shareholders' Assembly meeting. When their term of office expires, every member of the Board of Directors may be reappointed without any restrictions as to the number of terms of office.

Changes in the Composition of the Board of Directors in 2017

At the 9th Ordinary Meeting of NIS j.s.c. Novi Sad held on 27 June 2017, the following members of the Board of Directors were appointed: Vadim Yakovlev, Kirill Tyurdenev, Danica Drašković, Alexey Yankevich, Kirill Kravchenko, Alexander Krylov, Nikola Martinović, Wolfgang Ruttenstorfer, Anatoly Cherner, Stanislav Shekshnia, while Goran Knežević ceased to be a member of the Board of Directors of NIS j.s.c. Novi Sad on the day of the above-mentioned Shareholders' Assembly meeting.

Board of Directors' Members as of 31 December 2017

Vadim Yakovlev

Chairman of NIS j.s.c. Novi Sad Board of Directors
Deputy Chairman of the Executive Board of PJSC "Gazprom Neft", First CEO Deputy, in charge of exploration and production, strategic planning and mergers and acquisitions

Born in 1970.

In 1993, Mr Yakovlev graduated from the Moscow Engineering Physics Institute, Department of Applied Nuclear Physics. Mr Yakovlev graduated from the Faculty of Finance at the International University in Moscow in 1995. Since 1999, he has been a qualified member of the ACCA (the Association of Chartered Certified Accountants). In 2009, he earned a degree from the British Institute of Directors (IoD). During his employment with PricewaterhouseCoopers from 1995 to 2000, Mr Yakovlev held various positions, from Consultant to Audit Manager. In the period 2001 to 2002, he served as Deputy Head of Finance and Economics Department, YUKOS EP c.j.s.c. From 2003 to 2004, he was the CFO of Yugansk Neftegaz, NK Yukos. From 2005 to 2006, Mr Yakovlev held the position of CEO Deputy in charge of economics and finance at SIBUR-Russian Tyres. From 2007 to 2010 he was CEO Deputy in charge of Economics and Finance at PJSC 'Gazprom Neft'. Since 2007, he has been Deputy Chairman of the Executive Board of PJSC 'Gazprom Neft'. From 2010 to 2011, he was the CFO of PJSC 'Gazprom Neft'. Since 2011, he has been the first deputy of the CEO of PJSC 'Gazprom Neft'.

Mr Yakovlev was elected member of the NIS j.s.c. Novi Sad Board of Directors on 10 February 2009. He was elected Chairman of the NIS j.s.c. Novi Sad Board of Directors on 31 July 2009.

Kirill Tyurdenev

General Director of NIS j.s.c. Novi Sad
Member of NIS j.s.c. Novi Sad Board of Directors

Born in 1977.

Graduated with honours from the School of International Relations (Bachelor's Degree with specialisation) and then obtained a Master's Degree in International Law (with specialisation) from the Moscow State Institute of International Relations (MGIMO). Also obtained a Master of Law (LL.M) degree from the University of Manchester. Completed executive education programmes at the international business school INSEAD and London Business School. From 2000 to 2004, worked for A.T. Kearney and Unilever. In 2004, joined McKinsey & Co. From 2007 to 2012, worked as Deputy CEO for Strategy and Corporate Development with SIBUR – Fertilisers. In 2012, joined JSFC Sistema, as Executive Vice-President and Executive Board Member. Before his arrival at NIS, Mr Tyurdenev held the position of the President and Chairman of the Executive Board at United Petrochemical Company, which was being acquired by JSFC Sistema at the time, and as Chairman of the Board of Directors of Ufaorgsintez. In April 2016, he joined NIS in the position of First Deputy of General Director for Refining, Sales and Distribution. Mr Tyurdenev was appointed General Director of NIS j.s.c. Novi Sad on 22 March 2017.

Mr Tyurdenev was elected member of the NIS j.s.c. Novi Sad Board of Directors on 8 December 2016.

Danica Drašković

Member of NIS j.s.c. Novi Sad Board of Directors

Born in 1945.

Ms Drašković graduated from the Faculty of Law, University of Belgrade in 1968. From 1968 to 1990, she worked in the field of finance in the banking sector, and in the field of law and commerce within the economic sector, and as a Belgrade City Magistrate. Ms Drašković is the owner of the publishing house Srpska Reč, founded in 1990. She has authored three books written in the opinion journalism style.

Ms Danica Drašković was a member of the NIS j.s.c. Novi Sad Board of Directors from 1 April 2009 to 18 June 2013, having been re-elected on 30 June 2014.

Alexey Yankevich

Member of NIS j.s.c. Novi Sad Board of Directors
CEO Deputy for Economics and Finance at PJSC 'Gazprom Neft'

Born in 1973.

In 1997, Mr Yankevich graduated from Saint-Petersburg State Electrical Engineering University (LETI), majoring in Optical Instruments and Systems. In 1998, he completed a course at LETI-Lovanium International School of Management in Saint-Petersburg. Mr Yankevich was employed with CARANA, a consulting company from 1998 to 2001. In the period 2001 to 2005, he served as Deputy Head of Planning, Budgeting and Controlling Department at YUKOS RM o.j.s.c. (business unit responsible for logistics and downstream operations). In 2004, he became a Certified Management Accountant (CMA). From 2005 to 2007, he worked as deputy CFO at LLK-International (production and sale of lubricants and special petroleum products; part of the LUKOIL group). From 2007 to 2011, he held the post of Head of Planning and Budgeting Department and was Head of Economics and Corporate Planning Department at PJSC 'Gazprom Neft'. Since August 2011 he has served as acting CEO Deputy for Economics and Finance at PJSC 'Gazprom Neft'. Mr Yankevich has been a member of the Management Board of PJSC 'Gazprom Neft' and Deputy CEO of PJSC 'Gazprom Neft' for Economics and Finance since March 2012.

Mr. Yankevich was elected member of the NIS j.s.c. Novi Sad Board of Directors on 18 June 2013.

Kirill Kravchenko

Member of NIS j.s.c. Novi Sad Board of Directors
CEO Deputy for Organisational Affairs at PJSC 'Gazprom Neft'

Born in 1976.

In 1998, Mr Kravchenko graduated with honours from Lomonosov Moscow State University with a degree in Sociology. He completed postgraduate studies at the same university. He continued his studies at the Open British University (Financial Management) and IMD Business School from 2003 to 2004. He holds a PhD in Economics and is a professor. Mr Kravchenko worked in consulting until 2000. From 2000 to 2004, he held various positions at YUKOS in Moscow and Western Siberia and at Schlumberger (under partnership programme with NK Yukos). In the period 2004 to 2007, he was the Administrative Manager at JSC MHK EuroChem Mineral and Chemical Company. On several occasions, Mr Kravchenko was elected member of the Board of Directors in major Russian and international companies. In April 2007, he was appointed Vice-Chairman at PJSC 'Gazprom Neft'. From January 2008 to March 2009, he was Deputy Chairman of the Management Board of PJSC 'Gazprom Neft', as well as CEO Deputy for Organisational Affairs. In the period from March 2009 until July 2017, he was CEO Deputy of PJSC 'Gazprom Neft' for Foreign Asset Management. Since July 2017 he has been CEO Deputy for Organisational Affairs at PJSC 'Gazprom Neft'. From February 2009 to 22 March 2017, he was General Director of NIS j.s.c. Novi Sad.

Mr Kravchenko was elected member of the NIS j.s.c. Novi Sad Board of Directors on 10 February 2009.

Alexander Krylov

Member of NIS j.s.c. Novi Sad Board of Directors
Director of the Regional Sales Department at PJSC 'Gazprom Neft'

Born in 1971.

In 1992, Mr Krylov graduated from LMU (Leningrad) and in 2004, he graduated from the Faculty of Law of Saint Petersburg State University. In 2007, he earned an MBA degree from Moscow International Business School MIRBIS, specialising in Strategic Management and Entrepreneurship. From 1994 to 2005, Mr Krylov held managerial positions in the field of real estate sales (Chief Executive Officer, Chairman) with the following companies: Russian-Canadian SP Petrobild; c.j.s.c. Alpol. From 2005 to 2007, he was Deputy Head of the Sales Department at Sibur Ltd. Since April 2007 to date, Mr Krylov has been serving as Head of the Petroleum Product Supply Department, Head of the Regional Sales Department and Director of the Regional Sales Department at PJSC 'Gazprom Neft'.

Mr Krylov was elected member of the NIS j.s.c. Novi Sad Board of Directors on 29 November 2010.

Nikola Martinović

Member of NIS j.s.c. Novi Sad Board of Directors

Born in 1947.

Mr Martinović completed his primary education in Feketić, and secondary in Srbobran. He graduated from the Faculty of Economics in Subotica, where he also defended his Master's Thesis, titled 'Transformation of Tax System in Serbia by Implementing VAT'. From 1985 to 1990, he was the CEO of Solid from Subotica, and from 1990 to 1992, he served as Assistant Minister of the Interior of the Republic of Serbia. From 1992 to 2000, Mr Martinović held the position of Assistant CEO of Naftna Industrija Srbije in charge of financial affairs and was the CEO of Naftagas Promet from 1996 to 2000. From 2005 to 31 August 2013, Mr Martinović worked as a Special Advisor at NIS j.s.c. Novi Sad. On 1 September 2013, he was appointed Special Advisor to the CEO of O Zone a.d. Beograd, and from 15 December 2013 until retirement on 17 November 2014, he performed the duties of the Advisor to the Director of NTC NIS Naftagas d.o.o. Novi Sad. He has been a member of the Council of the Governor of the National Bank of Serbia since 22 November 2011.

Mr Martinović was a member of the Naftna Industrija Srbije/NIS j.s.c. Novi Sad BoD from 2004 to 2008, and he was re-elected on 10 February 2009.

Wolfgang Ruttenstorfer

Independent Member of NIS j.s.c. Novi Sad Board of Directors

Born in 1950.

In 1976, he majored in Economics and Business Administration at the Vienna University of Economics and Business. He holds a PhD degree. Mr. Ruttenstorfer's career started with the Austrian OMV in 1976. In 1985, he was transferred to the Planning and Control Department and in 1989, he became responsible for the strategic development of the OMV Group. Being appointed Marketing Director in 1990, he became a member of the Executive Board in 1992 and was in charge of finance and chemical products. He was a member of the OMV EB by early 1997, when he was appointed Deputy Minister of Finance. On 1 January 2000, he was re-appointed a member of the OMV EB, being in charge of finance by April 2002 and gas operations by December 2006. In the period from 1 January 2002 to 31 March 2011, Mr Ruttenstorfer was the Chairman of the Executive Board of the OMV Group. Mr. Ruttenstorfer was or still is a member of the Board of Directors of companies such as VIG, Roche, RHI AG and Telekom Austria.

He was elected Independent Member of the NIS j.s.c. Novi Sad Board of Directors on 20 April 2012.

Anatoly Cherner

Member of NIS j.s.c. Novi Sad Board of Directors
Deputy Chairman of the Executive Board, CEO Deputy for logistics, refining and sales at PJSC ‘Gazprom Neft’

Born in 1954.

Mr Cherner graduated from Grozny Oil Institute in 1976, majoring in Oil and Gas Chemical Engineering. From 1976 to 1993, he was employed with the Sheripov Grozny Refinery, starting as an operator and ending up as a refinery director. In 1996, he joined SlavNeft as Head of the Oil and Petroleum Product Trading Department and was later appointed Vice-Chairman of the company. In April 2006, he was appointed Vice-Chairman for refining and marketing at SibNeft (Gazprom Neft since June 2006).

Mr Cherner was elected member of the NIS j.s.c. Novi Sad Board of Directors on 10 February 2009.

Stanislav Shekshnia

Independent Member of NIS j.s.c. Novi Sad Board of Directors
Professor at the International Business School INSEAD

Born in 1964.

Mr Shekshnia serves as the Chief of Practice at the Talent Performance and Leadership Development Consulting Department. He is the manager of Talent Equity Institute and a senior partner at Ward Howell. He teaches Entrepreneurial Leadership at the International Business School INSEAD. Mr Shekshnia has more than 15 years of hands-on experience in management. He held the following positions: CEO of Alfa Telecom, Chairman and CEO of Millicom International Cellular, Russia and CIS, Chief Operating Officer at Vimpelkom, Head of Personnel Management at OTIS Elevator, Central and East Europe. He was a member of LLC SUEK and c.j.s.c. Vimpelkom-R Boards of Directors.

Mr Shekshnia was elected Independent Member of the NIS j.s.c. Novi Sad Board of Directors on 21 June 2010.

Composition of the Board of Directors as at 31 December 2017

Position	Name and surname	Date of first appointment for BoD	Executive Director	Non-Executive Director	Independent Director	Citizenship
BoD Chairman	Vadim Yakovlev	10 February 2009		X		Russian
General Director	Kirill Tyurdenev	8 December 2016	X			Russian
BoD Member	Alexey Yankevich	18 June 2013		X		Russian
BoD Member	Kirill Kravchenko	10 February 2009		X		Russian
BoD Member	Alexander Krylov	29 November 2010		X		Russian
BoD Member	Nikola Martinović	24 September 2005[1]		X		Serbian
BoD Member	Danica Drašković	1 April 2009[2]		X		Serbian
BoD Member	Wolfgang Ruttenstorfer	20 April 2012		X	X	Austrian
BoD Member	Anatoly Cherner	10 February 2009		X		Russian
BoD Member	Stanislav Shekshnia	21 June 2010		X	X	French

1 *Nikola Martinović was a member of the NIS j.s.c. Novi Sad Management Board (today known as the Board of Directors) from 24 September 2005 to 29 February 2008 and was re-elected a member on 30 September 2008. Prior to his appointment to the Management Board of NIS j.s.c. Novi Sad, he was a member of the Management Board of the public enterprise NIS – Naftna Industrija Srbije from 1 April 2004 to 23 September 2005.*

2 *Danica Drašković was a member of the NIS a.d. Novi Sad Board of Directors (former Management Board) from 1 April 2009 to 18 June 2013 and was reappointed a member of the Board of Directors on 30 June 2014.*

Board of Directors' Activities in 2017

The Board of Directors held 2 meetings with personal attendance of the members and 19 correspondence meetings. Average attendance of members at the meetings of the Board of Directors was 99.24%, with the lowest percentage of attendance at a meeting of the Board of Directors being 90.90%.

In addition to the regular activities such as consideration of the Annual Report of NIS j.s.c. Novi Sad, corporate Financial Statements and Consolidated Financial Statements for 2016, adoption of periodic (quarterly) corporate reports in 2017, convening of a regular shareholders meeting, adoption of the corporate Business Plan, determining the day, procedure and method of dividend payment to company shareholders, the following was also on the agenda of the Board of Directors: decision to approve conversion of a part of the receivables of NIS j.s.c. Novi Sad from HIP Petrohemija a.d. Pančevo into the equity of HIP Petrohemija a.d. Pančevo, to sell the shares of Jubmes banka a.d. Beograd and Dunav osiguranje a.d.o. Beograd, wind up the company branch office in Turkmenistan, terminate the participating interest in DOO Jedinstvo Velika Greda and approve a change in the repayment period of subordinated and financial loans between NIS j.s.c. Novi Sad and the subsidiaries abroad (NIS PETROL EOOD, Republic of Bulgaria, NIS PETROL S.R.L. Romania and NIS PETROL doo Banja Luka, Republic of Srpska). The Board of Directors also appointed a new General Director of the Company, as well as the representative of the company branches in the Republic of Serbia, and also approved several proposals for dismissal and appointment of the company representatives in the bodies of NIS j.s.c. Novi Sad subsidiaries. With a view to achieving the projected objectives of the Company, overviewing company performance and quality of corporate governance, the Board of Directors considered business analyses for the reporting period with forecasts of NIS j.s.c. Novi Sad business operations by the end of 2017 in its quarterly reports, as well as its Report on the Post-Investment NIS j.s.c. Novi Sad Project Monitoring in Serbia and Abroad. In view of reviewing its own performance, the Board of Directors analysed its own work as well and submitted a relevant Report for the 9th Ordinary Meeting of the Shareholders' Assembly. The Board also reviewed the results with reference to key performance indicators for 2016, as well as the system of the key performance indicator evaluation for 2017. The Board of Directors also adopted the Integrated Corporate Development Strategy of NIS j.s.c. Novi Sad for the period by 2025.

In 2017, the Board of Directors rendered 66 decisions, and their enforcement was monitored through periodic reports on the implementation of the decisions and orders of the Board of Directors.

Attendance at the Meetings of the Board of Directors and Board of Directors' Committees

BoD Member	**Board of Directors**		**Audit Committee**		**Remunerations Committee**		**Nominations Committee**	
	% of attendance	**Number of meetings**	**% of attendance**	**Number of meetings**	**% of attendance**	**Number of meetings**	**% of attendance**	**Number of meetings**
Vadim Yakovlev BoD Chairman	100%	21/21	–	–	–	–	–	–
Kirill Tyurdenev[1] General Director	100%	21/21	–	–	–	–	–	–
Alexey Yankevich	100%	21/21	100%	6/6	–	–	–	–
Kirill Kravchenko[2]	100%	21/21	–	–	–	–	100%	1/1
Alexander Krylov	100%	21/21	–	–	–	–	–	–
Nikola Martinović	100%	21/21	100%	–	–	–	–	–
Goran Knežević[3]	91.67%	11/12	–	–	–	–	100%	1/1
Danica Drašković	100%	21/21	–	–	–	–	–	–
Wolfgang Ruttenstorfer	100%	21/21	100%	6/6	–	–	–	–
Anatoly Cherner	100%	21/21	–	–	100%	2/2	–	–
Stanislav Shekshnia	100%	21/21	–	–	100%	2/2	100%	1/1
Members of the BoD's Committees who are not members of the BoD								
Nenad Mijailović	–	–	100%	6/6	–	–	–	–
Zoran Grujičić	–	–	–	–	100%	2/2	–	–

1 *General Director since 22 March 2017.*

2 *General Director until 21 March 2017.*

3 *Member of the Board of Directors and Chairman of Nomination Committee until 27 June 2017.*

Board of Directors' Rules of Procedure and Meetings

The Rules of Procedure of the Board of Directors and Committees of the Board of Directors of the Company (hereinafter 'The Rules of Procedure of the Board of Directors') govern the operation and decision-making process of the Board of Directors and Committees of the Board of Directors of the Company, including the procedure for convening and holding meetings.

The Board of Directors adopts a work plan for each fiscal year which includes all issues to be considered in accordance with the relevant laws and company business needs and establishes the deadlines for these issues to be considered in the meetings of the Board of Directors. In addition to planned issues, the Board of Directors also considers other issues under its competence, as required.

In order for the members of the Board of Directors to be adequately informed before making decisions and to keep up to date with the activities of the Company, the General director and the Management of the Company ensure that the members of the Board of Directors receive timely, accurate and complete information on all issues considered at meetings, as well as on all other important issues concerning the Company. Meetings of the Board of Directors are prepared with the help of the Corporate Secretary and under the supervision of the Chairman of the Board of Directors, so that each member can provide an adequate contribution to the work of the Board of Directors.

The Board of Directors takes decisions by a simple majority of votes of all members of the Board of Directors, except for the decision to co-opt, which is made by a simple majority of votes of attending members, and decisions requiring a different majority under the Law and/or the Articles of Association. Each member of the Board of Directors has one vote.

Board of Directors and Committee Members' Remunerations

Remuneration Policy – In 2016, the Shareholders' Assembly adopted the current Policy for Remunerating Members of the Board of Directors and Members of Committees of the Board of Directors. The Policy provides that the remuneration should be attractive and competitive to attract and retain the persons meeting professional and other criteria required for the Company as members of the Board of Directors and members of the Committees of the Board of Directors. At the same time, the remuneration should not significantly deviate from the compensation paid to members of the Board of Directors and members of the Board of Directors Committees in other companies with the same or similar activities, size and scope of operations.

The remuneration policy provides that remuneration for executive directors is specified under an employment contract or another contract of hire for each executive director of the Company, without them receiving any compensation for membership on the Board of Directors and Committees of the Board of Directors, except for the compensation of costs and professional liability insurance in connection with the membership and work as part of the Board of Directors and its Committees.

Remuneration Structure – The remuneration policy policy stipulates that the remuneration consists of:

- Fixed portion;
- Reimbursement of expenses; and
- Liability insurance of members of the Board of Directors and Committees of the Board of Directors.

Fixed (permanent) portion of the remuneration to members consists of a fixed portion of the annual membership fee for the Board of Directors and the fixed annual fee for participation in the Committees of the Board of Directors. Such type of remuneration includes the fee for the time and effort of the members of the Board of Directors or members of the Committees of the Board of Directors, with respect to their role and is related to the preparation and active participation in the meetings of the Board of Directors or Committees of the Board of Directors, which requires the members to study the documents in advance, be present and take an active part in the meetings.

Reimbursement of expenses – Members of the Board of Directors and Committees of the Board of Directors are entitled to reimbursement for all expenses incurred in connection with their membership on the Board of Directors or Committees of the Board of Directors, within the limits of norms determined by internal corporate acts.

Liability insurance of members of the Board of Directors – Members of the Board of Directors are entitled to liability insurance (Directors & Officers Liability Insurance) in accordance with internal corporate acts.

Amendment to the Remuneration Policy – In order to maintain the remuneration at an appropriate level, the Remuneration Policy is subject to periodic reviews and analyses, and should reflect the needs, abilities and interests of the Company and other changes in relevant criteria. As recommended by the Remuneration Committee, the Shareholders' Assembly Meeting adopted the current Remuneration Policy for the members of the Board of Directors and Committees of the Board of Directors on 28 June 2016, when the previous policy version ceased to apply.

Remuneration Committee Report - At least once a year, the Remuneration Committee prepares a report on the assessment of the amount and structure of remuneration for the Shareholders' Assembly of the Company. Acting within its competence, the Remuneration Committee carried out a 2017 evaluation of the adequacy of the amount and structure of remuneration of members of the Board of Directors against the principles, framework and criteria defined by the current Remuneration Policy. Consequently, it compiled an appropriate Report adopted in the 9th ordinary meeting of the Shareholders Assembly, held on 27 June 2017. Based on the results presented and the analysis of the remuneration market, this Report concludes that the annual amount of the fixed remuneration for non-executive members of the Board of Directors is at the level of the appropriate reference group, that the structure of monetary compensation for independent members of the Board of Directors corresponds to current market practice, and that the fee amount and structure for the members of the Board of Directors is in accordance with the principles, framework and criteria provided for by the current Policy for Remunerating Members of the Board of Directors and Members of Committees of the Board of Directors.

Long-Term Incentive Programme

The long-term incentive programme for non-executive directors and members of governing bodies is subject to separate Rules on the Long-Term Incentive Programme for Non-Executive Directors and Members of Governing Bodies, which lay down the programme's underlying principles and parameters.

The programme is one of the key elements of the incentive system for non-executive directors and members of governing bodies of the Company, aimed at stimulating non-executive directors and members of governing bodies towards the fulfilment of the Company's long-term objectives.

The purpose of the long-term incentive programme is to create a link between the interests of programme participants and the long-term interests of the Company and Company Shareholders, ensure incentives for programme participants enabling a sustainable development of the Company in the long run and the fulfilment of its strategic objectives, which incentives, in turn, reflect the possibilities and requirements of the Company and are tied to the positive performance of the Company during a period sufficient to establish that an added value has been made for Company Shareholders.

The long-term incentive programme is divided into consecutive cycles. Programme parameters and method of inclusion into the programme are defined in advance in the foregoing Rules, whereas the premiums are paid following the completion of a full cycle.

Total amount paid to Board of Directors members in 2017, net RSD	
BoD Members	175,436,178

Induction and Training of the Board of Directors' Members

Upon appointment, members of the Board of Directors are introduced to the Company's operations, allowing them greater insight into how the Company does business, its strategy and plans, the key risks that it faces, and their expedited active involvement in the activities of the Board of Directors. This includes, among other things, becoming familiarised with internal company acts, providing basic information about the Company, corporate governance, persons appointed to managerial positions, information on the corporate performance, business strategy, business plan, objectives, and other information necessary for them to perform their duties.

The Company also organises special programmes for additional training and development and provides special funds for these purposes in cases where members of the Board of Directors express the need for this.

Analysis Of The Board of Directors' Activities

The Board of Directors analyses its work and the work of the Committees on an annual basis in order to identify potential problems and propose measures to improve the work of the Board of Directors.

The work is analysed on the basis of a survey completed by members of the Board of Directors and containing two groups of key questions to evaluate the work of the Board of Directors. The first group comprises criteria for evaluating the work of the Board of Directors with respect to objectives, duties and responsibilities of the Board of Directors, while the second group comprises criteria for evaluating the procedures applied in the work of the Board of Directors.

The evaluation results, based on the responses of members of the Board of Directors to the survey, are presented to the Shareholders' Assembly in a special report.

Strategic Meetings

In strategic meetings during 2017, members of the Board of Directors continued to consider and review both the priority development objectives of the Company, the forecasts of key performance indicators and the assumptions for the long-term development of the Company. The work on developing and approving the updated Corporate Development Strategy by 2025 was intensified, so, at the meeting held on 7 June 2017, members of the Board of Directors discussed the information on the approval status of the Integrated Corporate Strategy of NIS j.s.c. Novi Sad by 2025. The final version of the Strategy was adopted in the meeting of the Board of Directors on 29 November 2017.

Membership in Other Companies' Boards of Directors or Supervisory Boards	
Vadim Yakovlev	• JSC NGK Slavneft • JSC SN-MNG • LTD GPN Development (Chairman of BoD) • JSC Gazprom Neft – NNG (Chairman of BoD) • LTD Gazprom Neft – East (Chairman of BoD) • LTD Gazprom Neft – Hantos (Chairman of BoD) • LTD Gazprom Neft – NTC (Chairman of BoD) • LTD Gazprom Neft – Orenburg (Chairman of BoD) • LTD Gazprom Neft – Sahalin • Salim Petroleum Development N.V. (Supervisory Board member) • JSC Tomskneft VNK (Chairman of BoD) • LTD Gazprom Neft Shelf
Kirill Tyurdenev	–
Alexey Yankevich	• JSC NGK Slavneft • JSC Gazprom Neft – Aero • LTD Gazprom Neft – SM • LTD Gazprom Neft Business-Service (Chairman of BoD) • Gazprom Neft Lubricants Italy SPA (Chairman of BoD) • LTD Gazprom Neft Marine Bunker • LTD Gazprom Neft Shelf
Kirill Kravchenko	• Vice-Chairman of the National Petroleum Committee of the Republic of Serbia • Serbian Tennis Federation (BoD Member) • SAM Managing Board Member – Serbian Association of Managers • LTD ITSK (Chairman of BoD)
Alexander Krylov	• JSC Gazprom Neft – Novosibirsk (Chairman of BoD) • JSC Gazprom Neft – Tyumen (Chairman of BoD) • JSC Gazprom Neft – Ural (Chairman of BoD) • JSC Gazprom Neft – Yaroslavl (Chairman of BoD) • JSC Gazprom Neft – Northwest (Chairman of BoD) • LTD Gazprom Neft Asia (Chairman of BoD) • LTD Gazprom Neft – Tajikistan (Chairman of BoD) • LTD Gazprom Neft – Kazakhstan (Chairman of BoD) • LTD Gazprom Neft – Centre (Chairman of BoD) • JSC Gazprom Neft – Terminal (Chairman of BoD) • LTD Gazprom Neft – Regional sales (Chairman of BoD) • JSC Gazprom Neft – Transport (Chairman of BoD) • LTD Gazprom Neft – Krasnoyarsk (Chairman of BoD) • LTD Gazprom Neft – Corporate Sales (Chairman of BoD) • LTD Gazprom Neft – Belnefteprodukt (Chairman of BoD) • JSC Gazprom Neft – Alternative Fuels (Chairman of BoD) • LTD ITSK • LTD Gazprom Neft – Laboratory (Chairman of BoD)
Nikola Martinović	–
Danica Drašković	–
Wolfgang Ruttenstorfer	• Flughafen Wien AG, Vienna (Member of the Supervisory Board) • RHI AG, Vienna (Member of the Supervisory Board) • Telekom Austria (Chairman of the Supervisory Board)
Anatoly Cherner	• JSC NGK Slavneft • JSC Gazprom Neft – ONPZ (Chairman of BoD) • JSC Slavneft – JANOS • JSC Gazprom Neft – MNPZ • JSC Gazprom Neft – Aero (Chairman of BoD) • JSC Saint-Petersburg International Mercantile Exchange • LTD Gazprom Neft – SM • LTD Gazprom Neft Marine Bunker (Chairman of BoD) • LTD Gazprom Neft – Logistics (Chairman of BoD) • JSC Mozirski NPZ • Gazprom Neft Lubricants Italy SPA • LTD Gazprom Neft - Catalytic Systems (Chairman of BoD) • LTD Automatica-Service (Chairman of BoD)
Stanislav Shekshnia	• Dentsu Aegis Network Russia (Member of BoD) • NLMK (Member of BoD) • LTD Russian Fishery Company (Member of BoD)

Board of Directors' Committees

With a view to ensuring the efficient performance of its activities, the Board of Directors established three standing committees as its advisory and expert bodies providing assistance to its activities, especially in the consideration of issues within its scope of competence, preparation and control of the enforcement of decisions and documents adopted, and performance of certain specialised tasks for the Board of Directors.

The Board of Directors established the following committees:

- Audit Committee
- Remuneration Committee and
- Nomination Committee.

As appropriate, the Board of Directors may establish other standing or *ad hoc* committees to deal with the issues relevant for the activities of the Board of Directors.

Each of the three committees is composed of three members, appointed and relieved of duty by the Board of Directors. One of the members is appointed by the Board of Directors as a Chairperson to manage the activities of the Committee, prepare, convene and chair its meetings, and perform other activities required for the activities within its scope of competence.

Most members of each committee are non-executive directors and at least one member must be an independent director of the Company. The Board of Directors may also appoint persons who do not hold managerial positions at the Company but who have the relevant skills, competencies and professional experience to perform the Committee's activities.

The role, scope of competence and responsibilities of the Committees are defined by the Law and the Rules of Procedure of the Board of Directors, which also provide for the composition, appointment criteria and number of members, term of office, dismissal, work method and other relevant issues relating to the activities of the Board of Directors' committees.

At least once a year, the Board of Directors' Committees are to prepare and submit reports to the Board of Directors on the issues falling within their scope of competence, and the Board of Directors may request that the reports on all or certain issues within their competence be submitted in a shorter period of time.

The Board of Directors and its Committees may make use of the professional advice of independent experts if this is required for an efficient discharge of their obligations.

Audit Committee

In addition to the general requirements regarding the composition of the Board of Directors' Committees, the position of the Chairperson of the Audit Committee must be held by an independent director of the Company, while at least one member must be a certified auditor or a person having relevant knowledge and professional experience in finance and accounting and not being employed by the Company.

The term of office of members of the Audit Committee in the previous term lasted until the 9th Ordinary Shareholders' Assembly meeting of NIS j.s.c. Novi Sad, i.e. until 27 June 2017, by which time this Committee was composed as follows:

- Wolfgang Ruttenstorfer, Chairman of the Audit Committee,
- Alexey Yankevich, Member of the Audit Committee, and
- Nenad Mijailović, Member of the Audit Committee.

Until the end of their term of office in 2017, the Audit Committee held 2 meetings with the personal attendance of the members, and 4 correspondence meetings. Among other things, the Committee analysed the Quarterly Report, Financial Statements and the Consolidated Financial Statements for the first quarter of 2017, giving appropriate recommendations thereon to the Board of Directors of Directors. The Audit Committee also examined the Annual Report, Financial Statements and Consolidated Financial Statements for 2016, as well as the reports of the independent auditor PricewaterhouseCoopers d.o.o. Beograd on the audit of these reports. The Committee gave its opinion on the competence and independence of the auditor PricewaterhouseCoopers d.o.o. Beograd in relation to the Company. Further, the Audit Committee formulated an Annual Plan for Conducting the Internal Audit Procedure at NIS j.s.c. Novi Sad in 2017, discussed the audit findings and significant audit issues for 2016 and monitored the implementation of the auditor's recommendations provided in the letter to the management ('Management Letter Points') of NIS j.s.c. Novi Sad in 2016 as at 28 February 2017. The Audit Committee reviewed the Report of the Internal Audit Function with results of the internal audit of NIS j.s.c. Novi Sad for 2016 and submitted an appropriate report on its activities to the Board of Directors.

Remuneration Committee

The term of office of members of the Remuneration Committee in the previous term lasted until the 9th Ordinary Shareholders' Assembly meeting of NIS j.s.c. Novi Sad, i.e. until 27 June 2017, by which time this Committee was composed as follows:

- Stanislav Shekshnia, Chairman of the Remuneration Committee,
- Anatoly Cherner, Member of the Remuneration Committee, and
- Zoran Grujičić, Member of the Remuneration Committee.

Until the end of their term of office in 2017, the Remuneration Committee held 1 meeting with personal attendance of the members and 1 correspondence meeting. The Committee reviewed the results of fulfilment of key performance indicators for 2016 and prepared a proposal for the fees for the auditor of Financial and Consolidated Financial Statements of NIS j.s.c. Novi Sad for 2017. The Remuneration Committee prepared the Report on Evaluation of the Amount and Structure of Remuneration of Members of the Board of Directors of NIS j.s.c. Novi Sad, which was submitted for consideration to the Shareholders' Assembly, at the meeting held on 27 June 2017. The Committee also submitted an appropriate report on its activities to the Board of Directors.

Nomination Committee

The term of office of members of the Nomination Committee in the previous term lasted until the 9th Ordinary Shareholders' Assembly meeting of NIS j.s.c. Novi Sad, i.e. until 27 June 2017, by which time this Committee was composed as follows:

- Goran Knežević, Chairman of the Nomination Committee,
- Kirill Kravchenko, Member of the Nomination Committee and,
- Stanislav Shekshnia, Member of the Nomination Committee.

Until the end of their term of office in 2017, the Nomination Committee held 1 correspondence meeting. The Nomination Committee prepared a Report on Suitability of the Composition of the Board of Directors and Number of Members of the Board of Directors of NIS j.s.c. Novi Sad to the Needs of NIS j.s.c. Novi Sad, which was submitted for consideration to the Shareholders' Assembly at the meeting held on 27 June 2017, and the Committee also submitted an appropriate report on its activities to the Board of Directors.

Shareholders’ Assembly Board

The Shareholders’ Assembly Board for the Supervision of Operations and the Procedure for Reporting to Company Shareholders (hereinafter ’The Shareholders’ Assembly Board’) is a body of advisors and experts providing assistance to the Shareholder’s Assembly with respect to its activities and consideration of issues within its scope of competence. Members of the Shareholders’ Assembly Board report to the Shareholders’ Assembly, which appoints them and relieves them of duty.

In accordance with the powers provided by the Articles of Association, the Shareholders’ Assembly Board provides its opinion, among other things, on the following matters: reporting to the Shareholders’ Assembly on the application of accounting practices, financial reporting practices at the Company and its subsidiaries; reporting to the Shareholders’ Assembly concerning the credibility and completeness of reports to the company shareholders on relevant facts; proposed methods for profit distribution and other payments to company shareholders; procedures for performing independent audit of the Company’s financial statements; internal audit activities within the Company and assessment of internal audit activities at the Company; proposals for the incorporation or liquidation of companies in which the Company holds a share in equity, as well as the Company’s branch offices; proposals for the acquisition and sale of shares, stakes and/or other interests the Company holds in other companies, and the assessment of how the Company handles complaints filed by company shareholders.

Members of the Shareholders’ Assembly Board as at 31 December 2017

At the 9th Ordinary Shareholders’ Assembly held at 27 June 2017, all members of the Shareholders’ Assembly Board whose term of office ended were re-elected. As a result, there were no changes in the composition of the Shareholders’ Assembly Board in 2017 and its members are as follows:

- Nenad Mijailović (Chairman),
- Zoran Grujičić (Member),
- Alexey Urusov (Member).

Nenad Mijailović

Chairman of the Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders

Born in 1980.

Mr Mijailović graduated from the Faculty of Economics, University of Belgrade in 2003. In 2007, he obtained a Master's Degree from the University of Lausanne, Switzerland. In 2010, he started his PhD studies at the Faculty of Economics, University of Belgrade. In 2011, he obtained an international CFA licence in the field of Finance. From 2003 to 2009, he worked as a finance and banking consultant and manager in the following companies: Deloitte Belgrade, AVS Fund de Compensation Geneve, JP Morgan London, and KBC Securities Corporate Finance Belgrade. From December 2009 to August 2012, Mr Mijailović served as Advisor to the Minister in the Ministry of Economy and Regional Development, Department of Economy and Privatisation. In August 2012, he was appointed Deputy Minister of Finance and Economy of the Republic of Serbia. Since August 2014, he has been serving as the State Secretary in the Ministry of Finance of the Republic of Serbia. Mr Mijailović was a member of NIS j.s.c. Novi Sad BoD from 18 June 2013 to 30 June 2014.

He was appointed Chairman of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders on 30 June 2014.

Zoran Grujičić

Member of the Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders

Born in 1955.

Mr Grujičić graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994, he was employed with Heat Transfer Appliances Plant 'Cer' in Čačak, where he held a variety of positions, including General Manager, Technical Manager, Production Manager and Design Engineer. From May 1994 to February 1998, he served as Advisor to the General Manager of Interkomerc, Belgrade. From February 1998 to June 2004, he was Managing Director of MNG Group d.o.o. Čačak. From June 2004 to February 2007, he was Managing Director of the Trading Company Agrostroj j.s.c. Čačak, Managing Director of the limited partnership company Leonardo from Čačak and Managing Director of the Vojvodina Highway Centre. Since February 2007, Mr Grujičić has been employed with NIS j.s.c. Novi Sad and has held the following positions: Deputy Director of Logistics Department, Jugopetrol; Head of RC Čačak at Retail Department – Čačak Region; Retail Network Development Manager at Development Department, Sales and Distribution. From 1 October 2012 to January 2016, he served as Advisor to the Sales and Distribution Director, and in February 2016, he became Advisor to the Director of External and Governmental Relations. Since October 2017, he has been Advisor to the General director.

He was appointed member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders on 30 June 2014.

Alexey Urusov

Member of the Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders
Director of Economics and Corporate Planning Department at PJSC 'Gazprom Neft'

Born in 1974.

Mr Urusov graduated from the Tyumen State University (specialist in finance) and the University of Wolverhampton in the United Kingdom (BA (Hons) Business Administration). Mr Urusov holds a Master's Degree in Sociology. From 2006 to 2008, he worked as executive vice-president for planning and performance management at the Integra Group. From 2002 to 2006, he worked at TNK-VR. From 2002 to 2003, Mr Urusov was a member of TNK BoD's Group for monitoring and control, and in period from 2004 to 2006 worked as CFO at TNK-VR Ukraine. From 2009 to 2012, Mr Urusov was employed with NIS j.s.c. Novi Sad as Chief Financial Officer. Since 2012, he has been the Director of Economics and Corporate Planning Department at PJSC 'Gazprom Neft'.

He was appointed member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders on 25 June 2012.

Activities of the Shareholders' Assembly Board in 2017

In 2017, the Shareholders' Assembly Board held 9 correspondence meetings. The Shareholders' Assembly Board reviewed the Company's periodic reports: quarterly reports, quarterly financial and consolidated financial statements for the first, second and third quarters of 2017. In addition to the foregoing, the Shareholders' Assembly Board also considered proposals for: approving the conversion of a part of the receivables of NIS j.s.c. Novi Sad from HIP Petrohemija a.d. Pančevo into the equity of HIP Petrohemija a.d. Pančevo, sale of shares of NIS j.s.c. Novi Sad shares in Jubmes banka a.d. Beograd and Dunav osiguranje a.d.o. Beograd, winding up of the Company branch office in Turkmenistan, termination of the participating interest in DOO Jedinstvo Velika Greda and approving a change in the repayment period of subordinated and financial loans between NIS j.s.c. Novi Sad and its subsidiaries abroad (NIS PETROL EOOD, Republic of Bulgaria, NIS PETROL S.R.L. Romania and NIS PETROL doo Banja Luka, Republic of Srpska). In 2017, the Shareholders' Assembly Board made 42 conclusions.

A total amount of fees paid to SAB members in 2017, net RSD	
Members of SAB	**17,371,154**

Membership In Other Companies’ Boards of Directors or Supervisory Boards	
Nenad Mijailović	–
Zoran Grujičić	–
Alexey Urusov	• Gazprom Neft Marine Bunker Balkan S.A. (Member of the Supervisory Board) • AS Baltic Marine Bunker (Member of BoD) • LTD Gazprom Neft – Catalytic Systems (Member of BoD) • LTD Gazprom Neft Energoservice (Member of BoD) • LTD Gazprom Neft Business Service (Member of BoD) • LTD ITSK (Member of BoD) • LTD Noyabrskneftegazsvyaz (Member of BoD)

General Director

The Board of Directors appoints one of its executive members to act as the General Director. General Director coordinates the activities of the executive members of the Board of Directors and organise the Company’s activities. In addition to this, the General Director is responsible for day-to-day management and is authorised to decide on matters which do not fall within the competence of the Shareholders’ Assembly and the Board of Directors. The General Director is a legal representative of NIS j.s.c. Novi Sad.

General Director’s Advisory Board

The General Director’s Advisory Board is a professional body that helps the General Director in their activities and in the consideration of matters within their responsibilities. The General Director decides on the composition of the Advisory Board and its members are General Director first deputies, Directors of Corporate Blocks and Functions, Deputy Director General for Petrochemical Affairs and Regional Director of NIS j.s.c. Novi Sad for Romania. The Advisory Board is managed by the General Director and provides them with assistance in relation to the issues concerning the Company’s operational management. Apart from the issues concerning the Company’s current operations (monthly and quarterly business results, annual business plans, monthly investment plans), the Advisory Board deals with strategy and development policy, the foundation of which is laid by the Shareholders Assembly and the Board of Directors of the Company.

Members of Advisory Board as at 31 December 2017

Vladimir Paltsev
First Deputy of General Director

Andrey Tuchnin
First Deputy of General Director for Downstream

Irek Khabipov
Exploration and Production Director

Valery Proskurin
Services Director

Vladimir Gagić
Refining Director

Alexey Chernikov
Sales and Distribution Director

Ivan Kuznetsov
Acting Energy Director

Goran Stojilković
General Director's Deputy for Petrochemical Operations

Viacheslav Zavgorodnii
General Director's Deputy Strategy and Investments Director

Igor Tarasov
General Director's Deputy
Corporate Security Director

Anton Fedorov
General Director's Deputy
Finance, Economics, Planning and Accounting Director

Sergey Fominykh
General Director's Deputy
Legal and Corporate Affairs Director

Natalia Bylenok
General Director's Deputy
Organisational Affairs Director

Evgeny Kudinov
General Director's Deputy
External and Governmental Relations Director

Vadim Smirnov
Acting General Director's Deputy
Public Relations and Communication Director
NIS j.s.c. Novi Sad Regional Director for Romania

Maxim Kozlovskiy
General Director's Deputy
MTSS and CC Director

Jelena Popara
Internal Audit Director

Ulrich Peball
HSE Director

Biographies of members of the Advisory Board can be found on the corporate website https://www.nis.eu/en/about-us/company-information/management

Activities of the Advisory Board in 2017

In 2017, the General Director Advisory Board of NIS j.s.c. Novi Sad held 27 meetings. Each of them discussed the reports on HSE incidents and initiatives from the previous period, as well as the operating reports of the Block Directors. Operating reports of the Function Directors were reviewed once a month, along with the Operating Plans and Forecasts for Key Performance Indicators, Reports on the Implementation of the Investment Plan for the current month, and a summary of the cumulative results achieved for the previous period. The Company's quarterly performance reports were also presented to the General Director Advisory Board.

Reports on the status of foreign projects, plans and performance of subsidiaries abroad were considered at the meetings of the General Director's Advisory Board every second month in 2017.

The Internal Audit presented reports on the implementation of recommendations pertaining to performed audits, as well as the report on the implementation of key risk management activities.

Besides the aforementioned regular reports, the members of the General Director Advisory Board discussed the corporate business strategy, the results of the inventory of assets and liabilities, as well as the reports on the activities of various corporate committees. One of the most important topics during the previous year had to deal with the project 'Transformation of NIS', which aims to transform the Company into a business system where all key processes are integrated and synchronised and where there is a clear allocation of powers and responsibilities.

Company Management Succession Plan

With a view to reducing potential Company risks and increasing operational efficiency, there are special processes and systems in place to ensure that any vacant top operational management posts can be filled. This includes the delivery of specific training programmes, meaning that continuous investment in the development of knowledge, skills and competencies reduces any potential risk related to key management positions at the Company in the long run.

Additionally, potential successors are assessed and special successor lists are drawn up, specifying their full names, current posts, and plans for their development.

Acquisition and Disposal of Company Shares by Managers and Related Parties

Pursuant to Article 84a of the Law on Capital Market and Corporate Standard 'Ensuring Compliance with Legal Requirements for Insider Information and Maintaining Insider List', all persons acting as managers at the Company are banned from carrying out transactions for their own account or for the account of a third party in relation to equity or debt securities of the Company or other related financial instruments for a period of 30 days prior to the release of the annual, semi-annual or quarterly financial statements. A special written consent of the Company may be given for trading during the ban period if there are any requirements stipulated by law and acts of the Securities Commission.

Moreover, all persons in managerial positions within the Company, as well as their related persons (as defined under such law), must report any acquisition or sale of company shares for their own account to the Securities Commission and the Company within 5 days if the value of the individual acquisitions or sales exceeds RSD 100,000 and if the sum of individual acquisitions or sales in the course of a calendar year exceeds RSD 500,000.

In 2017, the Company received no information about either the acquisition or sale of company shares by members of corporate bodies or persons related thereto.

Number and Percentage Of NIS j.s.c. Novi Sad Shares Owned by BoD Members

Name and surname	Number of shares	% in total number of shares
Nikola Martinović	224	0.0001%

Number and Percentage Of NIS j.s.c. Novi Sad Shares Owned by SAB Members

Name and surname	Number of shares	% in total number of shares
Nenad Mijailović	5	0.000003066%

Internal Audit Activities

The regulatory framework for internal audit at NIS j.s.c. Novi Sad is established under the Company Law, Internal Audit Charter, Internal Audit Standard and other relevant internal regulations.

Internal audit provides services of independent and objective verification and assessment of corporate governance, risk and internal controls management, with the aim of improving processes, adding value and increasing the overall efficiency of the Company. Additionally, consultancy support to management is provided in compliance with the principles of independence and objectivity.

Internal audit activities include:

- Examination and assessment of the adequacy and effectiveness of corporate governance, risk and internal controls management;
- Control of the compliance of Company's operations with the law, other regulations and Company acts;
- Supervision of the implementation of accounting policies and financial reporting;
- Checking the implementation of the risk management policy;
- Monitoring the compliance of the organisation and activities of the Company with the Code of Corporate Governance;
- Evaluation of policies and processes at the Company, as well as proposing the ways to improve them.

Internal audit activities are carried out within the Internal Audit Function. The organisational and functional independence of internal audit is provided by the Internal Audit Charter. The Internal Audit Function, through the person responsible for the internal control of business operations appointed by the Board of Directors, is functionally subordinate to the Audit Committee, with the General Director as its line manager. As a rule, the person in charge of internal control of business operations plays the role of the Director of the Internal Audit Function. The Director of the Internal Audit Function reports twice a year to the Audit Committee on the performance of the Internal Audit Function and the assessment of the internal audit and risk management systems at the Company. Among other things, the Audit Committee is authorised to:

- Adopt the Internal Audit Charter,
- Adopt the Annual Internal Audit Plan,
- Propose the appointment and dismissal of the person in charge of internal control of the Company's operations in accordance with the Company Law, while the Board of Directors of the Company adopts the Decision on the Appointment and Dismissal of said person (who, as a rule, performs the duties of the Director of Internal Audit Function),
- Verify if there is any potential restriction on data access (scope constraints) or resource constraints for performing internal audit activities.
- Monitor the existing risks and measures for managing those risks.

Regarding risk management, the Company has put in place a Risk Management Policy, a Risk Management Standard and Risk Management Methodology Guidelines. Additionally, risk management measures have been developed and their implementation has been monitored continuously. It is at a semi-annu-

al level that the management reviews risk reports, risk register and a list of measures for minimising/eliminating risks in the coming period, including information on the resulting damage from the risks realised and results of the measures taken.

External Auditor

Audit of Financial Statements

In accordance with the Law and Articles of Association, Company Auditor is appointed by the Shareholders' Assembly following a proposal of the Board of Directors. Company Auditor is selected at each ordinary Shareholders' Assembly meeting. Given the fact that NIS j.s.c. Novi Sad is a public joint stock company, the Law on Capital Market stipulates that the legal entity conducting the audit may conduct a maximum of five successive audits of annual financial statements.

The reports on the audit of financial statements and consolidated financial statements of the Company for 2016 were adopted on 27 June 2017 at the 9th Ordinary Shareholders' Assembly meeting, attended by the auditor PricewaterhouseCoopers d.o.o. Beograd, which must be invited to the ordinary Shareholders' Assembly meeting in accordance with the law. On this same occasion, PricewaterhouseCoopers d.o.o. Beograd was selected as the auditor of the 2017 financial statements.

Pursuant to the law, the auditor's statement on independence whereby the auditor confirms its independence in relation to the Company and informs the Audit Committee of the additional services provided by the auditor to the Company was submitted to the Audit Committee. The said statement is part of the material for the 9th ordinary Shareholders Assembly meeting.

Other Services of the Auditor

Apart from auditing the 2017 financial statements and consolidated financial statements, PricewaterhouseCoopers d.o.o. Beograd or its affiliated companies provided NIS with other additional services in 2017. In view of the knowledge and experience required for the provision of such services, it was deemed more efficient to engage PricewaterhouseCoopers d.o.o. Beograd rather than a third party.

Integrated Management System

An integrated management system (IMS) is in place in compliance with the requirements of international standards for management systems (ISO 9001, ISO 14001, OHSAS 18001, ISO 50001, and CAC/RCP 1). The IMS is implemented and developed across the Company, in accordance with the Certification Strategy, the implementation of which is supervised by the IMS Committee.

Business processes are identified and classified across the Company. The defined business processes are mapped in accordance with the Mapping Plan, and the way in which the business processes are implemented is described by appropriate normative and methodological documents in compliance with standardisation plan. KPIs (key performance indicators) are also developed for business processes defined in this way.

Compliance with the above international standards is verified by accredited certification bodies, which issue appropriate certificates following inspection.

Apart from external audits, the Company also conduct internal audits of business processes and management systems in place, according to the annual internal audit programme.

The results of these audits are formalised through reports, based on which business process owners at the Company define measures for eliminating the causes of identified or potential non-conformities, with the aim of continuous improvement of IMS and business operations as a whole.

Transactions Involving Personal Interest and Non-Competition

Transactions Involving Personal Interest – A person entrusted with special duties at the Company in accordance with the law must notify the Board of Directors without delay of any personal interest (or interest of the parties related thereto) in a legal transaction entered into by the Company, i.e. a legal action taken by the Company.

The Company identifies legal transactions and legal actions with related parties to ensure that they only take place if they are not detrimental to Company operations. Legal transactions and legal actions with related parties are authorised by the Board of Directors in compliance with the law.

The Board of Directors submits information on the approval of transactions involving personal interest to the Shareholders' Assembly in its first subsequent meeting.

Non-Competition – To monitor compliance with the non-competition obligation, there is a practice of quarterly surveys of members of the Board of Directors on the circumstances of their current engagement, as well as their memberships on Boards of Directors and Supervisory Boards at other companies. Information on membership in governing bodies of other companies is regularly published in the Company's Annual and Quarterly Reports.

By entering into the Agreement on Providing for Mutual Rights and Obligations with the Company, members of the Board of Directors become additionally informed of their obligation to notify the Company if they happen to enter into legal transactions with the Company, as well as of the non-competition obligation and other specific duties of members of the Board of Directors.

Related-Party Transactions

In 2017, NIS Group entered into business partnerships with its affiliates. The most important related-party transactions were made based on the supply/delivery of crude oil, petroleum products and electricity. An outline of related-party transactions is part of the Notes to the Financial Statements.

Insider Information

Insider trading in shares is strictly prohibited under the penalties imposed by the Law on Capital Market. Therefore, the Company requires that all persons with constant or occasional access to such information fully observe laws, by-laws and corporate regulations pertaining to insider information and confidential information.

The criteria according to which certain persons are deemed insiders, their rights and duties, the obligations of the Company with a view to ensuring the confidentiality of insider information, the procedure for disclosing insider information, as well as the rules relating to the compiling, keeping and updating of a list of insiders, have been specifically governed under internal company regulations.

Code of Conduct

https://www.nis.eu/en/about-us/company-information/code-conduct

NIS Code of Conduct sets out detailed rules and ethical norms defining relationships with colleagues, clients, business partners, government and local self-government authorities, the general public and competitors.

The principles underpinning the Code provide clear recommendations for making ethically balanced decisions in various situations, and the Code defines the norms and rules of conduct based on corporate values, which the Company expects all staff members to adhere to.

All staff members and members of governance bodies of NIS j.s.c. Novi Sad, as well as the persons on a contract of hire with NIS j.s.c. Novi Sad must comply with the Code of Conduct of NIS j.s.c. Novi Sad. They are all obliged to report any illegal or unethical actions related to the Company and representing a violation of the Code.

Corruption and Fraud Prevention Policies

The Company adopted Corruption and Fraud Prevention Policy with a view to preventing and prohibiting involvement in any form of corruption or fraudulent practices.

The Policy ensures requirements for a timely discovery, prevention and minimisation of risks of illegal, unethical and corrupt conduct, based on a unified standard of conduct, values, principles of legal business and basic rules of fight against corruption and fraud.

The Policy stipulates that in the event of any reasonable suspicions with respect to engagement in or preparation of corruptive or fraudulent practice, or in the event of the discovery thereof, all persons are obliged to submit appropriate information via pre-defined and protected communication channels, with confidentiality guaranteed. The Policy defines the measures for protecting the persons submitting such information and how they are implemented, ensuring that the persons reporting corruptive or fraudulent practices via such channels are not in any way jeopardised.

Relations with Stakeholders and Corporate Social Responsibility

More information is provided in the Sustainable Development Report and on page 142 of this Report

In relations with stakeholders, NIS fosters constant communication, mutual trust, partnership and an open dialogue. It is essential for NIS to understand stakeholder requirements and expectations.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A Motivated Collective of Professionals

A well-developed and designed system of material and non-material incentives are what makes the best talents stay with NIS and encourages the best prospects in the labour market to join the collective of around 11,000 employees from 20 countries.

In 2017 alone, the Company invested around RSD

200

million in the professional development of its employees as well as establishing the distance e-learning system through the Corporate University programme.

The Company has also continued to run its programmes 'NIS Chance' which engages more than 100 young experts and 'Summer Traineeship' involving

122

students.

The Collective Agreement, adopted in 2017, provides NIS employees with social security and privileges over and above those stipulated by the law.

1.11 Human Resources

NIS mission is to provide people with energy to move towards an improvement, and its employees are its driver and the key to its success. In order to achieve this synergy, NIS creates a business environment where every employee can realise their full potential with full respect for employee rights laid down under the Labour Law, the Collective Agreement/Work Regulations, internal acts, as well as international instruments such as the UN Declaration of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

It is extremely important for NIS to provide an environment where the principle of prohibition of any form of discrimination is strictly observed. To this end, an Equality Policy was adopted in 2017 to provide such an environment, but also to provide the employees with mechanisms to be used if the Policy principles are violated.

NIS Employer Value Proposition was formulated within the framework of 26 workshops attended by 230 employees in 2017. Key messages for each of the predefined employee target groups (NIS Chance, workers, specialists, managers) were also formulated.

The concept of internal workshops 'Coffee with HR' was developed, with the participation of employees of all levels, where different HR topics are presented and discussed.

Professional Development of Employees

Modern business imposes numerous challenges faced by employees. In order to prepare its employees for responding to business challenges, NIS invests in their development, helps them to improve their potential, and by extension, helps to develop the human resources of the entire NIS Group. RSD 196 million was invested in the development of employee knowledge, skills and competencies in 2017.

A total of 1,843 training events with 6,542 attendants were organised in 2017 in cooperation with external providers. On the other hand, internal training events were attended by over 4,500 people. To broaden their professional knowledge, our employees received the support of leading companies around the world in the fields of: exploration and production (NExT Schlumberger), management (Ward Howell, Cotrugli Business School, LQ, Roscongress, Energy Institute), but also the highest-ranking domestic companies: PricewaterhouseCoopers, KPMG, Management Centre Belgrade, HR Centre, Omega Consulting, ODM, GI Group, Mokra Gora School of Management, Project Management Centre, Chamber of Commerce and Industry of Serbia and many others. The trainings fostered the development of both professional and personal skills, as well as the skills necessary for effective team management.

In 2017, NIS continued to increase efficiency, so Lean Six Sigma trainings were held in priority organisational units. The programme is divided into 3 levels (yellow, green and black belt) and over 320 employees were trained in cooperation with Six Sigma South East Europe, as well as with the help of internal trainers, which is the first step in ensuring maximum operational efficiency, production reliability, security activities and involvement of all employees in the culture of continuous improvement.

NIS constantly implements various programmes for the professional development of employees tailored to the needs of the Blocks.

In order to improve professional skills but also to build team spirit, NIS employees participate in numerous competitions and achieve outstanding results. The competitions are organised at NIS and Gazprom Neft Group level.

Programme	Block	Description
Rotation programme with PJSC Gazprom Neft	Exploration and Production Block	In the period September-December, a rotation for 25 employees of the Exploration and Production Block was realised with the aim of professional training at PJSC ‘Gazprom Neft’ and its subsidiaries in RF. The rotation lasted from two weeks to two months. Geologists, mining and mechanical engineers, HSE and HR specialists participated in the rotation. The employees gained new knowledge, increased professional competence, got themselves acquainted with the best practices in oil industry, and established cooperation with colleagues from Tyumen, Noyabrsk, Orenburg, Khanty-Mansiysk, Megion, St. Petersburg.
Cooperation with the Technical School of Zrenjanin	Exploration and Production Block and Services Block	As part of the vocational training programme, 497 employees completed the training necessary to qualify as Oil and Gas Production Operator. The idea is to continue this kind of employee training in 2018.

During 2017, the Exploration and Production Block held the competition entitled Best in their Profession in four disciplines: Oil and Gas Production Operator, Oil and Gas Preparation Operator, Well Exploration Operato, and Technician-Technologist. 34 employees participated in the competition. The highest-ranking participants took part in the overall Gazprom Neft competition in Khanty-Mansiysk, where two competitors received special awards. The competition Best Technologist, which involved a total of 16 employees, was organised at the Exploration and Production Block for the first time ever.

The most important events that marked the year 2017 in the Services Block are: Project of the Drilling Department in Romania (January-April), Friendship and Sports Day, (May), Day on the River (May), Driver Challenge Competition - traditional competition as part of the Traffic Safety Week, Best in their Profession Competition - experience sharing for the best in their professions, ceremony of key presentation to toolpushers - Drilling and Workover, Well Control training for the employees of Naftagas-Naftni Servisi, Drilling and Workover Department (October-November), Memorial Tournament 'Ilija Jurić' - in memory of the colleague who tragically died in 2016.

This year, Refining Block operators participated in the 'Best in their Profession' competition at the Omsk Refinery. The best employees of the Sales and Distribution Block participated in the following competitions this year:

- Internal 'Best in their Profession' competition held in Belgrade, with a large number of participants (817), i.e. 109 more than in the previous year,
- 'Best in their Profession', interregional competition held in Minsk,
- 'Bitva Komersantov - Hakaton', negotiator tournament held in Crimea.

The Foreign Language Learning programme is designed to hone the employee English, Russian or Serbian language skills and help them to do their work more efficiently. 252 employees were included in group and individual classes in 2017.

NIS Corporate University

During 2017, NIS Corporate University continued to develop the system of continuous learning, improvement of managerial and leadership skills and development of employee competencies to global standards. Development activities are adapted to employees' real requirements through a combined learning approach (Blended Learning Approach), which, apart from traditional classroom training, involves the use of modern tools and methodologies such as e-learning, workshops, sessions and business simulations.

During 2017, NIS Corporate University programmes were attended by more than 1,500 employees in various positions ranging from Department Director to Specialist.

Leadership programmes reflect the career development of employees - from the current to the next level in the organisation. In 2017, the Corporate University focused on increasing the number of subjects covered by training programmes, developing the curriculum and including as many employees as possible in the university programme. The subject matter of every training is the result of cooperation with reputable business schools from the country and the region, training and development partners, and leading lecturers of the training provider.

We continue to develop the coaching and mentoring culture through trainings certified by the Academy of Executive Coaching UK, London (Coaching Skills Certificate) and Coaching and Mentoring International (CMI), London (Mentoring Competences Certificate for mentors).

E-Learning Programmes

Following global trends, in 2017 we continued to create modern online trainings for our employees - E-learning trainings. Owing to modern and efficient technologies, the subject matter of the training is presented in an interesting and interactive way.

The benefits of E-learning trainings were first noticed in the field of Occupational Health and Safety, as well as with respect to the newly employed.

Onboarding Programme

In order for the newly employed to fit into the new working environment easily and quickly at the beginning of their working engagement, they first participate in various onboarding activities. New employees are introduced to business processes, NIS organisational units, business operations and activities as part of Onboarding Training in order to adapt to future work as easily as possible.

Following modern global trends, the onboarding training incorporates an educational video 'Welcome to NIS', which makes it possible for the employees to get acquainted with NIS through 32 educational videos from their workplace.

Talent Development

During the year, Career Development Plans were drawn up both for the administration and for Block employees. A Career Development Plan presents the steps in employee career advancement transparently. Through the steps shown in the Career Development Plan, NIS ensures continuous development of employees at all levels, from entry-level to senior managerial positions.

Throughout the year, a number of Assessment Centres were organised for more than 100 participants to determine the potentials and development areas of the employees in different organisational units and to select and recruit employees.

Training costs[1] (in RSD million)	2017	2016
Costs of professional development	189	232
Costs of consultancy	-	2
Membership fees in professional associations	3	4
Total	**192**	**238**
Costs of training organisation	4	7
Total:	**196**	**245**

1 *NIS j.s.c. Novi Sad with subsidiaries established in 2012 from the organisational structure of NIS j.s.c. Novi Sad (NTC NIS – Naftagas d.o.o. Novi Sad, Naftagas – Transport d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin and Naftagas – Naftni servisi d.o.o. Novi Sad); The costs of training are exclusive of the costs of the 'Energy of Knowledge' project.*

'Energy of Knowledge'

NIS pays special attention to planning and investing in the future - through young people joining NIS and the ones who might apply their knowledge at NIS in the future. Therefore, several projects were launched as part of 'Energy of Knowledge' programme this year to support the development of students' potentials and improve educational conditions in higher education institutions in Serbia.

In January 2017, NIS j.s.c. Novi Sad became the first company to receive the prestigious St. Sava Award for its contribution to education in Serbia through its 'Energy of Knowledge' programme from the Ministry of Education, Science and Technological Development of the Government of the Republic of Serbia.

In order to supplement the curriculum, NIS arranges for its experts to appear as guest lecturers at universities, also organising numerous student visits and student internships both for its scholarship holders and for students of partner educational institutions.

In school year 2016/2017, NIS had 43 agreements in place for awarding scholarships to the most successful students in target faculties at Belgrade and Novi Sad Universities, but also at universities abroad (27 scholarship fellows study at oil and gas universities in the Russian Federation - 3 students from the partner Technical Faculty 'Mihajlo Pupin' at the University of Novi Sad, 5 students from the partner Faculty of Mining and Geology at the University of Belgrade, 5 students from the University of Novi Sad who receive scholarships from the Fund for Gifted Students and 3 students winners of the Knowledge Olympiad). For the entire duration of the programme, NIS invests in scholarship fellows through its annual programmes of compulsory professional traineeships, through participation in summer schools, field visits and employment at NIS once the scholarship period is over. In 2017, NIS recruited 9 of its scholarship holders.

A regular summer traineeship was also arranged this year for 43 NIS scholarship holders, for the duration of 3 weeks to a month at the locations of BC Novi Sad, New Complex in Zrenjanin, Tus-139 and N-3 plant, NTC-Shanghai Novi Sad and Exploration and Production and Services Blocks (Drilling and Workover Departments), as well as for 42 students of the Technical Faculty 'Mihajlo Pupin', Department for Industrial Engineering in Oil and Gas Production. During April, a week-long practice was organised for 2 professors and 8 fourth-year students of undergraduate academic studies at the Faculty of Mining, Geology and Civil Engineering of the University of Tuzla and for 4 students of the Faculty of Mining in Prijedor, University of Banja Luka. In May, within the strategic partnership with the Faculty of Mining and Geology of the University of Belgrade, a week-long professional practice was held at NTC NIS Naftagas d.o.o. Novi Sad for 3 fourth-year students of undergraduate academic studies of the Department of Geophysics.

The 'Energy of Knowledge' programme helped 14 students of the first generation of the study programme 'Industrial Engineering in Oil and Gas Exploitation' from the Technical Faculty 'Mihajlo Pupin' in Zrenjanin to have their professional traineeship at the Ukhta State Technical University. During March, the second full-day visit to NIS and Pančevo Refinery was organised for 30 students of the MBA programme at the University of Yale. Another one-day visit to the New Complex in Zrenjanin and Pančevo Refinery was organised in May 2017 for 39 third-year students and 37 fourth-year students of the study programme 'Oil and Gas Engineering' of the Faculty of Mining and Geology at the University of Belgrade. A one-day visit to the New Complex in Zrenjanin was arranged this year for the professors and 47 first-year students of the Department of Industrial Engineering in Oil and Gas Exploitation at the Technical Faculty 'Mihajlo Pupin', as well as the visit to the oilfield Jermenovci for the professors and 44 second-year students of this Department. A one-day visit to the Pančevo Oil Refinery was organised for 30 third- and fourth-year students of the study programme Petroleum and Petrochemical Engineering at the Faculty of Technology, University of Novi Sad. In December, seven professors of the Faculty of Mining and Geology, University of Belgrade, visited our Science and Technology Centre. As part of cooperation with the Technical School Zrenjanin, 30 second-grade and 30 third-grade students had their professional traineeship at the Training Centre in Zrenjanin,

as well as at the production facilities and sites of drilling and workover rigs. The first generation, i.e. 26 students, of the educational profile ‘Oil and Gas Operator’ completed their three-year education programme this year. Fourteen students were given employment (3 – Exploration and Production Block, 11 – Services Block), while four of the students are in the process of entering into employment with NIS. Also, another visit of Yale University students to NIS was organised in March.

In order to promote natural science, NIS supported and organised three national Knowledge Olympiads in 2017 in the fields of natural sciences: mathematics, IT, physics and chemistry - in cooperation with relevant scientific societies. We were also partners to talented secondary-school students who represented our country at prestigious international Mathematics, Physics and Chemistry Olympiads and achieved excellent winning 5 medals (1 gold and 4 silver) at the International Physics Olympiad, 6 medals (4 silver and 2 bronze) at the International Mathematical Olympiad and 4 medals (1 silver and 3 bronze) at the International Chemistry Olympiad. This year, the programme also supported the finals of the Serbian Robotics Competition at the University of Novi Sad and helped the winners to go to the European Robotics Competition in France.

In addition to Olympiads in natural sciences, special attention was given to activities and projects that help to reaffirm and popularise the Russian language in our country. In cooperation with the Slavic Society of Serbia, the Russian Centre of the Russian Peace Foundation, the RCSC Russian House and the Russian School at the Embassy of the Russian Federation, the fifth NIS Olympiad in the Russian language was organised with a much better response of participating students and schools than in the previous years. We continued to support bilingual teaching and the opening of bilingual Serbian-Russian classes in Serbia. In addition to 5 bilingual classes at the primary school ‘Jovan Popović’ in Novi Sad, lessons in the Russian and Serbian language are organised in another 4 classes at the Grammar School in Aleksinac and 3 classes at the grammar school ‘Jovan Jovanović Zmaj’ in Novi Sad. During this year, new annexes to the Memorandum of Cooperation were signed with these educational institutions. Considering the existing need to recruit more teaching staff and train them professionally and responding to the initiative of three other primary schools to open Serbian-Russian bilingual classes (Primary School ‘Stari Grad’ from Užice, Primary School ‘Kralj Petar’ from Niš and Primary School ‘Žarko Zrenjanin’ from Zrenjanin), NIS continued to actively cooperate with the RCSC Russian House and the Faculty of Education in Sombor, University of Novi Sad, with which Annex 2 to the Memorandum of Cooperation with the Russian Centre for Science and Culture ‘Russian House’ was signed this year. In January 2017, the Russian Language Smart

Classroom was inaugurated at 'Svetozar Marković' Grammar School in Niš. This year, the programme also helped 25 pupils from two bilingual schools from Serbia to go to the camp of the International Children's Centre 'Artek' in Crimea.

In 2017, one of the objectives of the 'Energy of Knowledge' programme was to improve the working conditions in educational institutions in the country, through the adaptation and equipping of IT classrooms and laboratories. In cooperation with the 'Together for Community' programme, a new physics laboratory was opened at the First Belgrade Grammar School, as well as a knowledge park and a science classroom in Niš. In April, the modern laboratory for petroleum and petrochemical engineering was opened in a ceremony at the Faculty of Technology, University of Novi Sad.

For many years now, NIS 'Energy of Knowledge' has been focused on cooperation with universities. This year, Memorandum of Cooperation was signed with the Faculty of Economics of the University of Belgrade for awarding a scholarship to one student in the international programme of undergraduate academic studies 'Economics and Finance', realised in cooperation with the University of London (London School of Economics - LSE). New memoranda of strategic cooperation were also signed this year with the Ministry of Education, Science and Technological Development, Faculty of Philology of the University of Banja Luka, Mihajlo Pupin Institute in Belgrade, Organisation of Serbian Students from Abroad, as well as with the Pirot Grammar School, Technical College in Zrenjanin and 3 secondary vocational schools in Pančevo - Mechanical Engineering School in Pančevo, Electrical Engineering School 'Nikola Tesla' and Technical School '23 May'. New Annexes were signed on the continuation of cooperation with science societies (Chemistry, Physics, Mathematics and Slavic society), with the existing partner faculties within the universities of Novi Sad and Belgrade, as well as with Petnica Research Centre. There was a promotion to feature the continuation of cooperation with the University of Novi Sad.

This was another year that the 'Energy of Knowledge' programme took an active part in conferences about dual education in Serbia, organised with the support of the Ministry of Education, Science and Technological Development and the Chamber of Commerce and Industry of Serbia. In March, NIS hosted the closing BAEKTEL conference, as part of the European TEMPUS project dedicated to merging academic and entrepreneurial knowledge through modern methods of learning and exchange of educational materials. Professional panel discussions were organised, as well as NIS Day at the Technical Faculty 'Mihajlo Pupin', where university students, students of the Technical College in Zrenjanin and many secondary-school students had the opportunity to find out about NIS programmes implemented at this faculty. NIS Day was also organised at the Technical School in Zrenjanin. NIS representatives participated in the delivery of the project of the Faculty of Mechanical Engineering, University of Belgrade, entitled 'Support to Improving the Employability of Young People' through a programme of education and mentoring on basic professional skills for the students. This year, the programme continued to be a partner of the Science Festival dedicated to 'Electricity and Telecommunications', which was organised at the University of Novi Sad. The 'Energy of Knowledge' programme and its scholarship holders took part in the second International Oil and Gas Forum held at the Gubkin Russian State University of Oil and Gas in Moscow, and the 'Energy of Knowledge' programme was also presented at the largest youth festival in Sochi within National Committee of Serbia, supported by the Government of the Republic of Serbia and the Ministry of Youth and Sports of the Republic of Serbia. To celebrate the fifth anniversary of the 'Energy of Knowledge' programme in December 2017, a panel discussion on 'Support to Young Talents Serbia – Mission Impossible, Yes or No?' was organised in cooperation with EXIT Foundation, featuring Mladen Šarčević, Minister of Education, Science and Technological Development of the Republic of Serbia, as well.

Taking Care of Employee Social Status

For its employees NIS provides a degree of social protection higher than required by law, which is regulated by the Collective Agreement and internal acts.

The benefits provided for by the Collective Agreement and internal acts include:

- Special protection for people with disabilities and in the event of occupational diseases, as well as preventative recovery of employees working under special conditions and in the positions for which pensionable service is subject to accelerated retirement scheme, for the purpose of preventing occupational diseases and disability,
- Solidarity assistance entitlement,
- Compensation of damage suffered by the employees as a result of destruction of or damage to residential buildings due to natural disasters and other emergencies,
- Scholarships during full-time education for the children of killed and deceased workers,
- Collective health insurance of employees in the event of major illnesses and surgeries,
- Collective insurance of employees in the event of accidents,
- Addressing employee housing needs by giving housing loan subsidies,
- Voluntary pension insurance.

Material and Non-Material Incentives

In order to improve its performance, NIS continues to improve the employee incentive system and ensures conditions that will allow it to remain one of the most attractive employers in the region.

Three main systems are in place for rewarding employees: variable remuneration in production and technical organisational units, variable remuneration in sales and variable remuneration and annual bonus in administration. Moreover, there is a system of premiums for special achievements at our company, as well as a system of project premiums to reward successful performance in projects.

In today's business environment, non-material incentives are becoming far more important than material ones as part of overall employee motivation. The aim of non-material incentives is to create the sense of self-achievement, respect and being part of the company and thus give employees social and professional recognition. By creating a favourable work climate and fostering open communication and corporate culture, a manager motivates employees and contributes towards better performance.

Non-material motivation comprises the following programmes: Well Done Rewarding, Discount System, Best Employee of the Month/Year, I Have an Idea, etc., which provide employees with an opportunity to take an active part in the company's dealings, and show creativity and initiative.

Recruitment and Selection of Candidates

The underlying principles of our human resource policy make it possible for NIS to guarantee equal opportunities to all employees and potential employees regardless of their gender, religion, political opinion, national or social background, and to eliminate the possibility of any discrimination in all processes. Each candidate decision must be based on objective and relevant criteria, i.e. a candidate's ability to meet job requirements and standards. In 2017, the team of the Recruitment and Selection Sector engaged nearly 1,750 candidates of various profiles.

'NIS Chance' Employment Programme, which has been operating successfully since 2012, is oriented to the profiles that fit our core business with a focus on graduates from technical faculties. A new generation of 'NIS Chance' programme participants signed their employment contracts in April this year. One hundred and nine engineers and operators without any professional experience got an opportunity to become a part of the NIS team. We focused on engineers in the fields of: mining, geology, technology, and mechanical engineering. The success of this programme so far is confirmed by the fact that more than 90% participants have remained with us and that a large number of them have been promoted within the organisation.

This has been another year for NIS to continue the tradition of professional traineeship for the most talented and ambitious students of educational institutions of the Republic of Serbia and internationally accredited educational institutions. One hundred and twenty-two final-year students or fresh graduates were chosen for the summer traineeship programme in a detailed selection process. The candidates mostly include future engineers of mining and geology, mechanical engineers, engineers of technology and electrical engineering, as well economists and legal professionals.

NIS strengthened its position as a desirable employer by its effective presentation at several job fairs, conferences, workshops and round tables, including Virtual Career and Knowledge Days as well as JobFair 2017 and Youth Speak Forum organised by AIESEC.

By setting ambitious objectives in the field of human capital management, we achieve results that deservedly position us among the very best companies, with our good practices becoming role models for other companies.

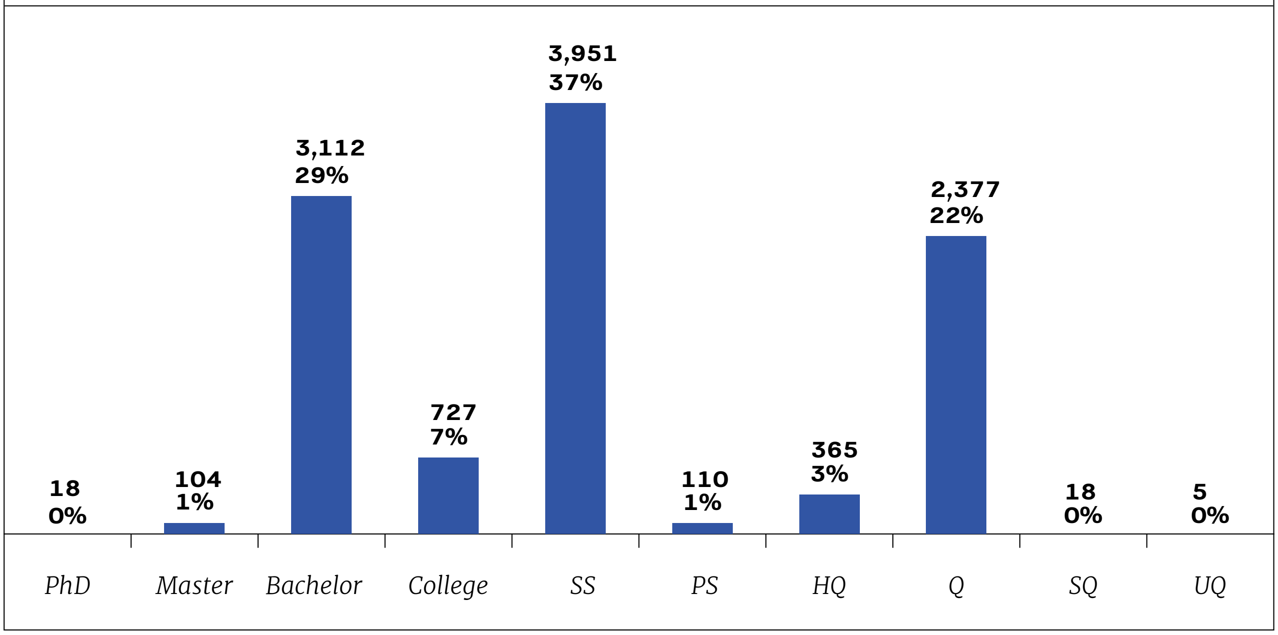
Employee Number and Structure

	31 December 2017			31 December 2016		
Organisational Unit	**Full-time**	**Leasing**	**Total**	**Full-time**	**Leasing**	**Total**
NIS j.s.c. Novi Sad	4,088	3,563	7,651	3,964	3,552	7,516
Exploration and Production Block	802	220	1,022	782	222	1,004
Services Block	88	24	112	84	24	108
Refining Block	836	32	868	775	30	805
Sales and Distribution Block	965	2,799	3,764	964	2,796	3,760
Energy Block	248	26	274	245	20	265
Corporate Centre	1,089	462	1,551	1,048	460	1,508
Representative Offices and Branches	60	0	60	66	0	66
Subsidiaries in Serbia	1,366	1,699	3,065	1,392	1,544	2,936
Naftagas – Naftni servisi d.o.o. Novi Sad[1]	569	889	1,458	600	770	1,370
Naftagas – Tehnički servisi d.o.o. Zrenjanin	391	488	879	396	479	875
Naftagas – Transport d.o.o. Novi Sad	97	292	389	96	272	368
NTC NIS Naftagas d.o.o. Novi Sad	309	30	339	300	23	323
Subsidiaries abroad	70	1	71	90	1	91
NIS Petrol e.o.o.d. Sofia (Bulgaria)	35	0	35	40	0	40
NIS Petrol s.r.l. Bucharest (Romania)	26	0	26	27	0	27
NIS Petrol d.o.o. Banja Luka (B&H)	5	0	5	16	0	16
Jadran Naftagas d.o.o Banja Luka (B&H)	4	0	4	6	0	6
Pannon Naftagas k.f.t. Budapest (Hungary)	0	1	1	1	1	2
Other subsidiaries reflected in consolidated statements	545	110	655	527	102	629
O Zone a.d. Beograd	5	110	115	7	102	109
NIS Overseas o.o.o. Saint Petersburg (RF)	114	0	114	113	0	113
NIS Svetlost d.o.o. Bujanovac	0	0	0	0	0	0
G Petrol d.o.o. Sarajevo (B&H)	426	0	426	407	0	407
TOTAL:	**6,069**	**5,373**	**11,442**	**5,973**	**5,199**	**11,172**

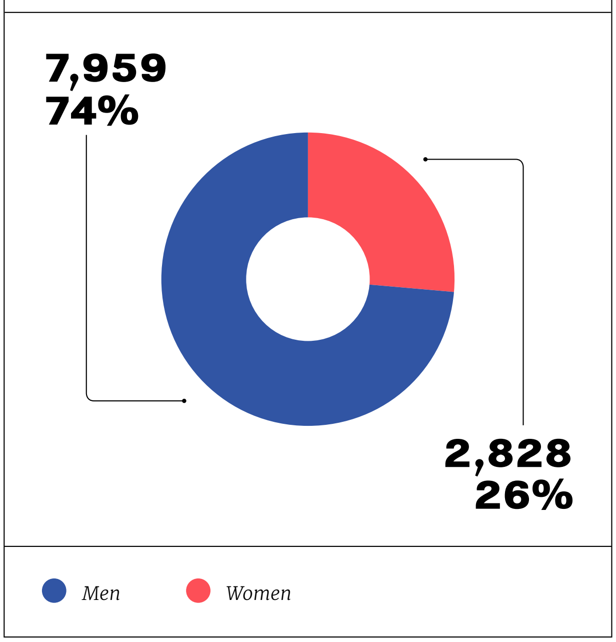
1 *Including employees in Branches.*

Employee Structure in Terms of Qualifications, Gender and Age[1]

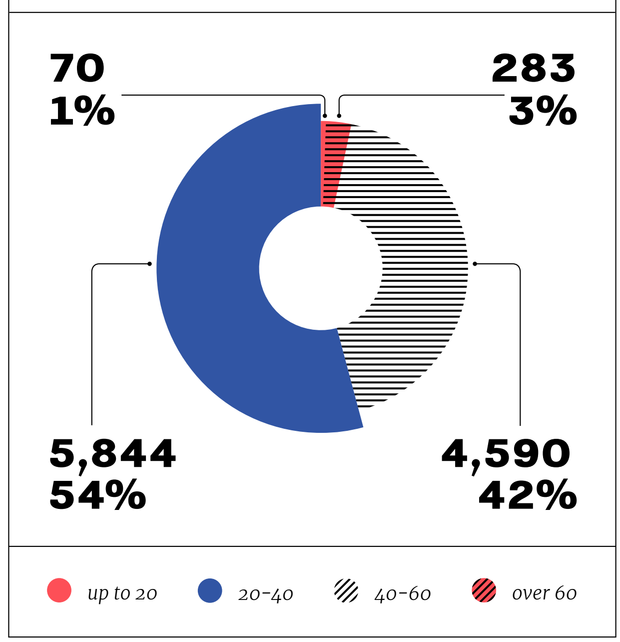
Employee qualification structure



Employee gender structure



Employee age structure



1 *Includes employees and leased employees at NIS a.d. Novi Sad including representative offices and branches, subsidiaries in the country and subsidiaries abroad, except for employees at other subsidiaries being part of consolidation.*

Causes of Employment Termination

In 2017, a total of 256 employees left NIS[1]: 27 employees retired, 86 employees left NIS after termination of employment by mutual agreement, while the employment of 143 people was terminated on other grounds (involuntary termination, voluntary termination, redundancy, death etc.).

Cause of employment termination	NIS j.s.c. Novi Sad[1]	Subsidiaries[2]
Retirement	19	8
Termination by mutual agreement	57	29
Other	82	61
Total	**158**	**98**

1 Including Representative Offices and Branches. Of the total number of terminations, 14 are from Representative Offices and Branches.

2 Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Transport d.o.o. Novi Sad and NTC NIS Naftagas d.o.o. Novi Sad.

1 NIS j.s.c. Novi Sad with the subsidiaries Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Transport d.o.o. Novi Sad and NTC NIS Naftagas d.o.o. Novi Sad.

The Environment Demands the Best

As the regional energy leader, NIS is aware of its responsibility towards its employees, the environment and future generations and remains committed to the HSE policy.

The introduction of 12 Golden HSE rules, training of all employees in their application, together with RSD million invested in implementing environmental

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projects in 2017, provide evidence that work processes without injuries and environmental issues are goals NIS employees strive for each day.

The Pančevo Oil Refinery is the first power generating facility in Serbia to obtain an IPPC permit.

1.12 Environmental Protection, Industrial and Occupational Safety

Safe working conditions for all employees and business partners are one of the strategic objectives of NIS, since it permanently seeks to reduce the number of occupational injuries and diseases. Principles of prevention are continuously applied in order to improve working conditions and reduce the number of HSE incidents. In the field of occupational health and safety, the standards applied by NIS and existing practice exceed the current legal requirements. Business decisions are made in compliance with the requirements of national legislation and above the statutory minimum in order to ensure efficient risk management. Contractor safety is managed and they are required to comply with NIS standards.

NIS j.s.c. Novi Sad has incorporated its approach to environmental protection into the vision and mission, HSE policy and HSE Policy Statement. Responsibility to the environment is reflected in the sustainable use of natural resources, identification of environmental risks, reduction of the impact of production activities on environmental media - air, water and soil, effort to minimise waste generation, recycle and ensure adequate waste disposal, continuous environment monitoring, remediation of historical pollution, improvement of existing processes and investment in environmental projects, while insisting on the application of the best available techniques.

Environmental Protection

Risks were identified, assessed and ranked at NIS level during 2017. Moreover, measures and necessary investments for their implementation were identified in order to eliminate high risks.

In 2017, we continued to improve environmental protection by carrying out environmental projects and investing RSD 479 million in them.

In order to reduce the emissions of SO2 into the air, the Pančevo Oil Refinery is in the process of implementing the project of ejector gas flushing at the Vacuum Distillation Unit. The installation of the CEMS system in the Hydrogen Unit will facilitate continuous monitoring of pollutant emissions into the air, which, in turn, will facilitate constant control of the unit operation.

During 2017, we reached the number of 300 separators at petrol stations (at 89% of petrol stations), since 14 new separators for purifying oily wastewater were installed at petrol stations, and 5 existing separators were replaced during total reconstruction. There are plans to install the missing separators in the upcoming period. A separator with a coalescent filter was installed in the New Service Complex in Zrenjanin, and the wastewater treatment plant at Novo Miloševo waste mud landfill is subject to trial operation.

To further modernise the Pančevo Oil Refinery plants and work processes, in late 2017 we started constructing a 'Bottom of the Barrel' plant to process refinery residue through a delayed coking process. In addition to an increase in the depth of oil processing and production of high-calorie fuel - the coke, which is now an import product, the construction of this plant will significantly reduce the emissions of SO_2, NOx and particulate matters, while also meeting the requirements of the Directive 1999/32/EC relating to a reduction in the sulphur content of certain liquid fuels. Once the plant is completed, the final effect will be a reduction in SO2 emissions in the air in the entire Republic of Serbia as a result of a lower share of fuels high in sulphur content in the market.

In 2017, the following study was completed: Analysis of wastewater treatment plants/equipment at NIS j.s.c. Novi Sad and consideration of the necessity of constructing new and reconstructing/optimising the existing ones in order to meet regulatory requirements in the field of water and environment protection (Institute 'Jaroslav Černi', Belgrade). The Study encompasses all organisational units and prioritises future activities to improve the current situation and comply not only with domestic regulations, amended in 2016, but also with the European legislation in this field.

Preparation of the Study of Geoelectrical Tests at the location of the Petroleum Product Warehouse Novi Sad is underway as per the Project of Analysing the Need for Rehabilitation and Remediation of Groundwater and Soil at the Petroleum Product Warehouse Novi Sad, prepared by NTC NIS Naftagas d.o.o. Novi Sad and the Faculty of Science in Novi Sad, Department of Chemistry, Biochemistry and Environmental Protection. The aim of the Study is to examine the state of groundwater contaminated in the destruction of the Refinery in Novi Sad during the 1999 bombing.

Significant funds have been invested so far to remediate historical pollution and bring the contaminated areas back to their original use. This year, we remediated 14 primary mud pits and one absorptive pool, total area 8,500 m^2. So far, 185 primary mud pits have been remediated with a total area of 127,865 m^2.

As part of HSE process automation, the 'Waste Log Application' was developed to help handling the documents relevant to the waste management process, which users can access from any NIS location. The application allows data search by 25 criteria, creating different user-required and statutory reports.

The model of framework contracts continues to be implemented at the Company and Subsidiary level when contracting waste management services (covering all types of generated waste except for oily waste). This year, the contract with the contractors was concluded for a period of three years (until 2020) with the possibility of concluding annexes for new contractors and new types of waste. Next year, it is expected that this model (framework contracts) will be used to contract oily waste management services and laboratory analysis services.

Constant improvement of the employee and operator competencies continued through training and workshops on chemicals management, waste management, measurements of pollutant emissions in the air, water and soil. Four workshops were held on chemicals management, one workshop on energy efficiency and climate change and one on waste management, one workshop on emissions measurement with accredited laboratories, and a forum of contractors - waste operators.

As the year 2017 was declared the Year of Ecology, it featured corresponding activities: Nature Conservation Day – 11 April, marked by organising an exhibition of photographs of the nature of Vojvodina and screening the film 'The Danube, River of Life' at the Business Centre in Novi Sad, as well as handing out of leaflets on protected areas in Vojvodina in petrol stations as part of the HSE campaign 'Take Care of Nature'. Arranging a 'Working Day for Nature', on the occasion of 5 June, World Environment Day, our volunteers cleaned Rakovac, Dobočaš and Điros streams in Fruška Gora. On 20 October, we gave our contribution to preserving the largest open space of steppe habitats Korn in the Special Nature Reserve Deliblato Sands.

In 2017, about RSD 334.4 million was allocated for environmental protection and water charges and fees.

Overview of charges and fees in 2017	Water charges (RSD mn)	Environmental protection charges and fees (RSD mn)	Total (RSD mn)
NIS j.s.c. Novi Sad	76.7	255.5	332.2
Subsidiaries[1]	0.5	1.8	2.2
Total	**77.2**	**257.2**	**334.4**

1 *Including Naftagas – Naftni servisi d.o.o. Novi Sad, Naftagas – Tehnički servisi d.o.o. Zrenjanin, Naftagas – Transport d.o.o. Novi Sad and NTC NIS Naftagas d.o.o. Novi Sad.*

Industrial Safety

The industrial safety management system includes the key processes of identifying hazards, assessing and managing risks related to production processes and process equipment. Along with the modernisation of production, application of advanced technological solutions and training of employees, such system enables adequate prevention, monitoring, as well as timely and efficient emergency response.

Fire Protection

- A large portion of the planned Fire Protection Plans was prepared.
- NIS j.s.c. Novi Sad complied with fire protection laws and by-laws by taking on members of the firefighting units in Elemir (12) and Niš (6).
- The radio equipment necessary for regular operations and emergency situations was supplemented.
- Funds were provided to purchase a ten-year service of the hydraulic arm and platform in the firefighting unit in Pančevo.
- Funds were provided to purchase thermovision cameras for the firefighting units, which increases the safety of firefighting personnel during intervention, through better insight into the conditions (temperature fields) of the elements subject to intervention.
- Professional training was provided for employees in cooperation with the Russian Ministry of Emergency Situations.
- Employees were trained to design fixed fire protection installations and practical working methods of each of them were controlled. The training was organised by Siemens.
- The equipment for servicing incipient fire extinguishers was relocated from the Belgrade LPG warehouse to the Novi Sad complex.
- Operational efficiency and effectiveness are improved through training and procurement of new equipment or repairs of the existing one.

Process Safety

- A detailed analysis of the process safety status was carried out and system points that require improvement were identified. A number of workshops were held with operational staff, during which various tools for effective risk management and appropriate decision-making, such as HAZID, Bow-tie, ALARP, change management, etc., were practically tested. The workshops were used as an input to update normative and methodological documents and prepare training plans for 2018.
- Transparency significantly increased in the reporting of process safety related incidents, the analysis of which resulted in taking appropriate technical measures. The transparency of minor incidents and near-misses increased as much as 8 times, comparing the 12 months in 2016 are with the 12 months in 2017.

Emergency Situations

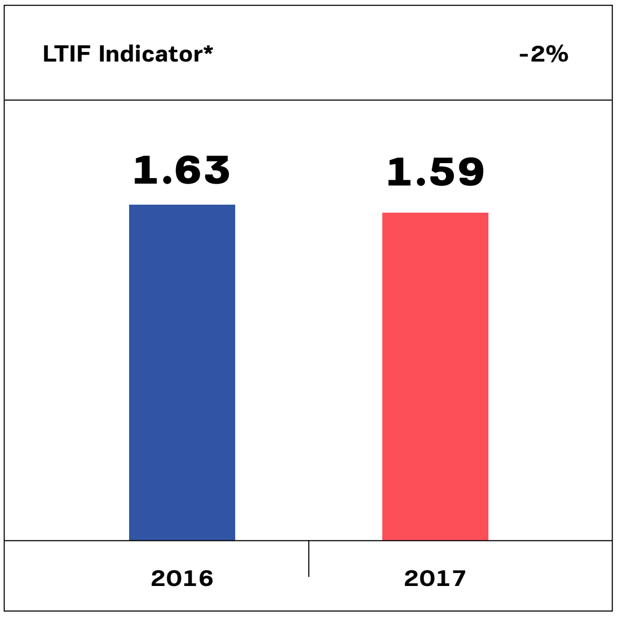
- New documents were adopted and the existing ones were reviewed in the field of emergency situations in NIS, in accordance with the experience gained in emergency situations and planning decisions of emergency operations centres in Serbia. The procedures for certain hazards encountered under difficult working conditions were specified.
- The focus of the activities in 2017 was on improving cooperation with the neighbouring SEVESO operators of certain NIS facilities, concerning the provision of information and assistance in case of technical and technological accidents. Several joint drills were held with the involvement of competent state authorities.
- Better cooperation was achieved with representatives of the local self-government and representatives of competent state authorities in terms of natural disasters.
- The practice of emergency response teams and crews doing practical drills continued. In 2017, four joint command-staff drills were held at NIS, in which the Crisis/Disaster Management Team, emergency preparedness and response teams of Blocks and their organisational units handled the most complex situations in the event of emergencies and disruption in the continuity of operations. PJSC 'Gazprom Neft' was included in the electronic notification system for HSE incidents in 2017.

Occupational Safety

Caring about the safety and protection of health of our employees, contractors, third parties and local population is a priority for NIS. A healthy, safe, capable, ready and motivated employee is not only

an individual objective, but also an objective for the Company. In order to improve occupational health and safety in 2017, the Company published an HSE Occupational Health and Safety Guide, which captures the essence of the experiences gained in this field in the last few years. Golden HSE rules were implemented, working tools for a safe management system were optimised, HSE training system was reviewed and improved, IVMS and RAG+ reporting were implemented and improved. The practice of involving top managers in the field of HSE is still present, and top managers visit operational locations as part of Management Walk-arounds (MWA). During 2017, 258 MWAs were conducted.

In 2017, the LTIF indicator was reduced by 2%. In the 12 months of 2016 and 2017, there were 30 LTI[1] injuries. A greater number of employee working hours in 2017 contributed to the reduction of LTIF indicator despite the fact that the same number of injuries was recorded. The calculation for this indicator in 2017 includes three tragic fatal accidents in which our colleagues were involved during their regular working activities.



* *Ratio between the number of employee injuries with sick leave and total number of working hours multiplied by 1 million (total NIS j.s.c. Novi Sad with subsidiaries Naftagas –Tehnički servisi d.o.o. Zrenjanin, Naftagas – Naftni servisi d.o.o.Novi Sad, Naftagas - Transport d.o.o. NoviSad).*

1 *LTI - Lost Time Injury.*

The first tragic accident occurred in February, when our colleague died in a traffic accident at an intersection in Elemir. The accident happened when a service vehicle failed to stop at the intersection with a right of way road and collided with a third-party car.

The second accident happened following an attempted robbery at the petrol station 'Veliki Mokri Lug 1' in May. While the employee was engaged in her regular work activities in the sales area, an unidentified person fired a shotgun that hit the employee. A few days later, the employee died from the injuries in hospital.

The third fatal accident took place in July 2017. A barrel of a tank truck was tested for hydraulic pressure at the New Service Complex in Zrenjanin. During this activity, one of the four screws holding the manhole cover got broken and the remaining three fell apart. As the cover suddenly opened under pressure, the latch assembly hit the employee in the chest. At the time of the incident, the employee was standing behind the tank manhole. The employee was transported by ambulance to the Emergency Centre in Zrenjanin and was sent to Belgrade then. Unfortunately, the employee did from his injuries on the way to Belgrade.

NIS took a series of steps in order to avoid repeating the above and similar HSE incidents in the future. Detailed HSE investigations were conducted with the participation of top management and corrective measures were imposed to prevent such incidents in the future. Through individual approach of all employees, by respecting Golden HSE rules and reporting all unsafe activities or occurrences, we create safer working conditions for all employees. The said cases remind us that our focus must constantly be on concern for the health and safety of employees, and commitment to environmental protection.

Occupational Safety Risk Management

Normative and methodological documents pertaining to HSE risk management were optimised and streamlined in 2017. New risk assessment tools were introduced into the system, with a focus on the implementation of Job Safety Analysis as one of the tools for direct risk assessment in the course of work activities. In order to improve the quality of risk assessment, a brochure 'Be Smart - Assess Risks' was developed and distributed, with employees receiving comprehensive training. At the end of the year, the Corporate HSE Risk Register was reviewed and updated.

During the year, the emphasis was placed on controlling the implementation of the procedure for managing HSE risks in investment projects, as well as on assessing the risks in the implementation of organisational changes within NIS.

Timely identification of HSE risks, formulation of appropriate control measures and monitoring the implementation thereof ensure proactive and preventive action in the field of HSE, thus eliminating the risk of human injury and damage to equipment, processes, the environment and the reputation of NIS.

Contractor and Third-Party Management

During 2017, NIS worked continuously to improve the process of contractor and third-party management. For the fifth consecutive year, contractors have been successfully managed through the CSM process in order to improve the occupational health and safety, environmental protection and fire protection practice. Owing to that, many contractors have accepted our practice and are applying it in their organisations, thus raising the safety in their companies to a higher level, respecting not only the legal minimum but also the additional requirements imposed by NIS.

The emphasis in 2017 was on the supervision of foreign contractors in order to check compliance with the internal procedures of NIS.

A Forum of Contractors was organised, gathering 85 companies from Serbia.

Two round tables on raising the competencies and motivation of contractors and subcontractors were held as part of the Forum. This was an opportunity for NIS representatives and contractors from various branches of industry - from machine-assembly works to construction industry and transport, to share experience in an open dialogue, present results and new culture improvement ideas.

Objectives for 2018:

- Increasing the efficiency of the CSM process by shifting focus to controlling high-risk activities,
- Streamlining individual stages of pre-qualification process,
- Traditional organisation of a large Forum of Contractors in order to improve communication, share experiences and knowledge, and present good and bad HSE practices,
- Implementing solutions from the OMS programme in terms of technical and HSE requirements.

Employee Health Protection

Caring about the safety and protection of health of our employees, contractors, third parties and local population is a priority and one of strategic objectives of NIS. We give priority to preventive activities, i.e. preventive health care, focusing our activities on these.

Our employee preventive health care is a system of managing health protection and welfare of employees in accordance with the best practice in the industry, statutory requirements NIS internal requirements.

To improve and protect health and prevent occupational injuries and diseases, the Company regularly arranges preliminary and periodic health checks for high-risk jobs. Medical check-ups by GPs and specialists are arranged to prevent chronic and non-communicable diseases and timely detect carcinoma. A framework contract for the provision of medical examination services was concluded with medical institutions in Vojvodina and Belgrade for the first time in 2017.

By analysing the state of health after medical examinations and sick leaves, as well as by continuously monitoring the health of its workers, NIS identifies health risks for the employees, develops measures to eliminate or reduce such risks, informs the employees about those risks and raises their awareness of them.

A number of schedule and unscheduled educational health campaigns were conducted on several locations in 2017. Some of them included:

- Save Life – Give First Aid,
- Motion Can Replace Many Medications, but No Medications Can ever Replace Motion,
- Prevention of Cardiovascular Problems - Prevention of High Blood Pressure,
- Prevention and Management of Emotions at Work: Laughter Yoga,
- Anaemia - Disease of the Modern Age,
- Irregular Menstrual Cycle and Early Menopause, etc.

In order to prevent alcoholism and drug addiction in the workplace and to raise the awareness of employees and managers of the use of alcohol and narcotic drugs, NIS developed a number of preventive activities carried out as part of campaigns and scheduled and unscheduled alcohol tests among the employees and other persons on NIS premises and facilities.

The HSE Function concluded a contract with authorised health institutions for alcohol and narcotic drug tests, thereby authorising them to test the employees for alcohol or narcotic drugs at any given time.

Being a socially responsible group, NIS has been supporting the development of sports activities in the corporate environment since 2012, in order to increase efficiency and productivity through a culture that values, supports and promotes health and well-being of its employees.

Corporate sports are developed is in line with HSE Policy, and the basic elements of support to employees during 2017 were:

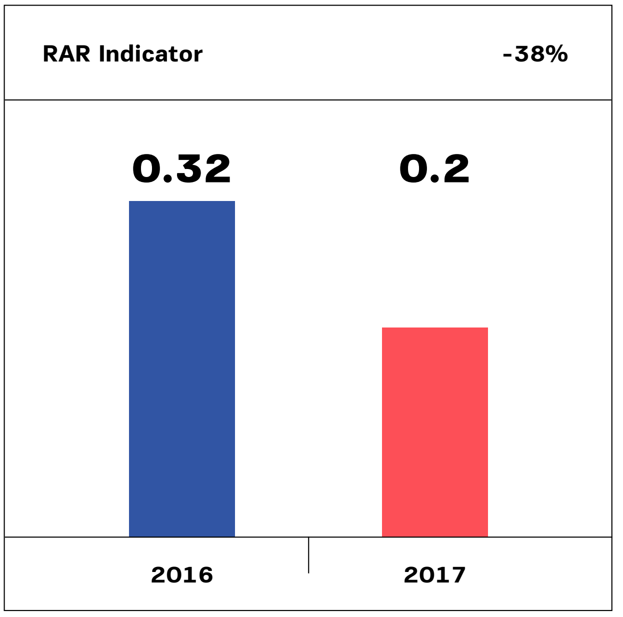
- Recreational activities, engaging over 2,000 employees in 11 cities throughout Serbia in training in order to build up their physical fitness and

- Competition activities, in which more than 200 employees represented the Company both in local sports events and in the region, and international corporate sports events of the Gazprom Neft family in Kyrgyzstan and Russia. NIS's best recreationists won nearly 100 awards and recognitions for their sports results in 10 different sports disciplines.

Traffic Safety

On average, NIS employees travel around 110,000 km on a daily basis, which puts them at a number of risks in traffic. NIS pays a lot of attention to the traffic safety of its employees, so as to minimise the risks. During 2017, a number of activities were undertaken in order to act proactively and preventively, as well as to raise the overall level of traffic safety. Some of the activities included:

- Traffic Safety Week in cooperation with the Ministry of Construction, Transport and Infrastructure, and Road Traffic Safety Agency (445 participants), exploring the following topics:
  - Safe participation of children in traffic
  - Activities for the safe participation of young people in traffic
  - Overview of traffic safety statistics in the Republic of Serbia, with reference to the participation of motorcyclists in traffic and practical training
  - Traffic safety indicators at NIS, transport of dangerous goods, working hours of road traffic crews
  - CNG, tyres, braking systems – impact on traffic safety
  - Driver Challenge 6 – Driver Competition
- Practical and theoretical training for hundreds of drivers and users of NIS vehicles, in cooperation with the Ministry of Defence, at the military field in Kraljevo. Some of them were:
  - Operating freight vehicles in different conditions
  - Eco and safe passenger vehicle driving
  - Operating passenger vehicles in different conditions
  - Operating light-duty off-road vehicles in different conditions, etc.



* *Ratio between traffic accidents and distance travelled (km) multiplied by 1 million.*

Training was organised on 8 occasions in the period from March to December 2017. The total number of participants was 437.

- Implementation and improvement of continuous in-vehicle monitoring (IVMS) with parameters of rapid acceleration and speeding, i.e. introduction of RAG+ reporting (recording of rapid deceleration, acceleration and time spent speeding). A 'Driver Database' was created and put into operation. It is a personal driver file electronic system, where all employees and their managers can see the current driving style status
- Road Traffic Safety Agency participated in the Sports Day of the Refining Block in Kovilovo.
- Quarterly rewards for the best drivers as recognised in the IVMS system and through RAG+ reporting
- Organising campaigns and informing employees of hazards and safe traffic tips (driving in summer and winter conditions, driving under reduced visibility conditions, slippery road, driving when rested, etc.)
- Conducting other activities such as: reporting, informing the management, drafting normative documents, coordinating and planning the activities of organisational units of the Company, auditing the road transport safety system, etc.

All of the above, as well as the achieved results and indicators form an excellent basis for continuing to improve the overall traffic safety system, making it possible to introduce the Road Safety Management System ISO 39001 in the coming period.

As a result of the long-term commitment to improving the safety of employees in traffic, the Company reported a decrease in the number of traffic accidents, material damage, recorded offences, employee guilt over the resulting traffic accident, and injuries. The employee driving style in 2017 improved compared to 2016. The number of recorded offences, average road speed and RAR coefficient as one of the key HSE indicators, decreased.

HSE Motivation

Within its HSE activities, NIS started implementing a special HSE motivation programme in 2012 aimed at raising knowledge and awareness among employees of the importance of work safety, as well as recognising and rewarding the best achievements in the field of security and safety at work at the Company. The number of employees rewarded through the HSE motivation is growing year over year. In the period 2012 to 2017, 6,924 employees were rewarded.

The implementation of the project of HSE Motivation Automation was approved in July 2015, and full implementation was achieved in 2017. Process automation is a prerequisite of a modern company.

HSE Competition

In order to improve HSE culture and actively engage employees with HSE risk management, it was decided to organise an HSE competition in 2017 - The Best Win with Zero. The competition was initiated by PJSC 'Gazprom Neft '.

The winner will be selected and announced, and the employees will be notified thereof through corporate media no later than 1 February 2018. In addition to safer and better work, the most successful competitors will get attractive and valuable prizes.

There are four categories in this competition: HSE Leader, Best HSE Organisational Unit, Best HSE Project and Best HSE Contractor.

RAR = 0.2

As a result of the long-term commitment to improving the safety of employees in traffic, the Company reported a decrease in the number of traffic accidents, material damage, recorded offences, employee guilt over the resulting traffic accident, and injuries.

HSE Indicators

	2017	2016	Change
Injuries	120	99	+21%
Lost Time Injuries and Fatal Injuries	30	30	0%
Fires	27	26	+4%
Road Accidents	8	13	-38%
Environmental Pollution	29	16	+81%
Coefficient of Inspectorates	0.18	0.36	-50%
Site Visits of Inspectorates	903	770	+17%
Actions Imposed as part of Inspection	159	275	-42%

1.13 Corporate Social Responsibility

Corporate social responsibility is not only a strategic orientation of NIS, but above all a reflection of the desire of managers and employees to contribute substantially to improving the quality of life of the communities where NIS operates, as well as to promoting true values in the society.

We at NIS believe that our business success is not complete unless we use it to provide citizens with energy for positive changes. By carefully listening to the growing needs of the community, NIS has been the leading social investor in Serbia for years. In 2017 alone, NIS allocated around RSD 370 million to support sports, culture, education, science and local communities across the country.

Under the corporate slogan 'Future at Work', NIS supports culture and sports events, works hard to improve educational infrastructure, cooperates with 11 local self-governments in Serbia and seeks to improve the quality of life of citizens in these communities. We are particularly proud of our employees, who participate in philanthropic and volunteer activities in significant numbers, showing that they are ready to engage for the common good and focus on supporting socially vulnerable categories and talented young people, as well as to protect the environment. Owing to such an attitude to the welfare of the wider community, in 2017 NIS received St. Sava Award by the Ministry of Education, Science and Technological Development of the Republic of Serbia for its contribution to education, as well as the 'Captain Miša Anastasijević' award for 'Best Corporate Social Responsibility'. When it comes to the 'Best of Serbia' awarded by the Chamber of Commerce and Industry of Serbia, NIS won two awards in the category 'Manufactured Goods and Business Services' - for the best corporate brand and the best merchandise brand - NIS Petrol. In 2017, NIS won the prestigious 'Oscar for Quality' award for business excellence, achieving the highest score in the history of this award. On top of that, NIS employees were rewarded with the most appreciated recognition - smiles of children to whom they handed New Year's and Christmas gifts in several health and social institutions in Serbia.

When it comes to cultural events, this was the second consecutive year for NIS to partner with the Autumn Theatre Festival of the director Emir Kusturica, which promotes theatre and affirms young talented actors and theatre authors.

For five years now, NIS has been supporting the 'Balkan Trafik' Festival in Brussels, an art event promoting the culture and heritage of the Balkans at the EU headquarters.

We were particularly pleased to support the merriest cultural event in Serbia - the International Children's Festival 'Joy of Europe', whose partner we have been for nine years.

In the field of sports, we continued to promote healthy lifestyles and sports values, especially when it comes to a contest between noble and worthy opponents, the desire to work hard to produce results and develop your potential to a maximum. In 2017, NIS continued its long-term cooperation with one of the most successful sports clubs in Serbia, the Basketball Club 'Partizan NIS', whose general sponsor we have been for the last five years.

Next, NIS signed a ten-year contract with the volleyball club 'Vojvodina', the current champion of the state.

We continued to support car racing champion Dušan Borković, a member of the NIS Petrol Racing team, who completed another exciting season.

As a general sponsor, NIS also continued its long-term successful cooperation with the Tennis Association of Serbia. In addition to supporting the top tennis players representing our country in international competitions, we organised 'Open Tennis School' for the sixth consecutive year, an event to promote the 'white' sport among as many children as possible in Serbia. Free-of-charge tennis schools for 3,000 children, run by professional coaches, were held throughout the country.

The campaign 'Sport against Violence', aiming to promote not only tennis but also sports values, team spirit and the culture of non-violence among the youngest as extremely important elements in healthy development of children, continued in cooperation with the Ministry of Education, Science and Technological Development.

In 2017, we celebrated the fifth anniversary of the 'Energy of Knowledge' programme, as part of which NIS successfully cooperates with domestic and foreign educational institutions. This was a celebration of a half decade of our efforts to improve the educational infrastructure in Serbia, support the development of talented individuals and popularise science among young people.

More information about the 'Energy Knowledge' Programme on page 122

In this period, NIS invested €5 million in improving the quality of education and supported the adaptation of more than 40 classrooms and laboratories in schools and faculties throughout Serbia, cooperated with 47 scientific and educational institutions in the country and abroad and gave scholarships to more than 90 students.

Support to health and social care institutions was the focal point of NIS and its employees in 2017. First, the donation of around €136,000 was handed to the University Children's Hospital 'Tiršova' in Belgrade, which was used to purchase eight modern medical machines that will accelerate the treatment of the youngest in this institution. Funds for 'Tiršova' Hospital were raised in a joint campaign of the company, its employees and customers, since the campaign was extended to include NIS retail sites: for each purchase of at least 25 litres of fuel NIS allocated RSD 25 for this clinic. The same principle was used to raise funds for the Institute for Child and Youth Health Care of Vojvodina in late 2017 and early 2018. The donation to this

RSD 110.5 million

Over the past nine years, through the 'Together for the Community' programme NIS supported more than 900 projects, which contributed to the socio-economic development. In 2017, NIS allocated RSD 110.5 million for 42 projects in this programme.

institution will be presented in 2018. NIS also supported the work of the Centre for the Protection of Infants, Children and Youth in Zvečanska Street in Belgrade with about RSD 1.1 million for the video surveillance of the homes in Belgrade. The funds were raised by NIS employees during the celebration of the Company Day, and the company subsequently doubled the funds raised.

In 2017, NIS employees participated in seven volunteer campaigns. In addition to the continuous campaign 'A Bottle Cap for a Smile', employees and representatives of the top management participated in the landscaping of a section of the Botanical Garden, landscaping of 'Đuro Strugar' park in Belgrade, as well as in cleaning up the streams of Fruška Gora. NIS employees also organised a gathering with children in the 'Veternik' Home, participated in cleaning up a section of the Deliblato Sands and prepared New Year's presents for the children treated at the Children's Hospital 'Tiršova' and at the Children's Hospital in Novi Sad, as well as for residents of the Centre in Zvečanska Street in Belgrade. The CEO and top management also participated in packing holiday gifts for the youngest.

In order to help to improve the quality of life in the communities where it operates, this was the ninth year in a row for NIS to continue and deepen its partnership with 11 cities and municipalities in Serbia through the 'Together for the Community' programme. Over the past nine years, NIS supported more than 900 projects which contributed to the socio-economic development of these municipalities and cities, investing over RSD 1 billion in them. In 2017, NIS allocated RSD 110.5 million for the citizens in these communities, which will be used to carry out a total of 42 projects.

The novelty in cooperation is in the past year is that, in concert with representatives of the municipalities and cities, NIS wanted to support the implementation of capital projects in five areas with a long-term significance for the local community, or more specifically: sport, culture, ecology, science/education and public health and social protection.

Based on the cooperation goals, a survey that included citizens of the local communities and inspection of the strategic plans, up to five projects were funded in each city or municipality. The projects, which are vital to the population in those communities, were selected in a competition. Three areas were selected in each local community within which interested parties could submit their proposals.

Through the implementation of these projects, NIS remains a good neighbour to all citizens of the communities where it operates, making it a priority to use its business successes as the energy that drives wider social progress.

Belgrade

- Construction and reconstruction of children's playgrounds in the municipalities of Zvezdara and Zemun
- Landscaping of two public areas
- Support to establishing the Centre for Persons with Late-onset Blindness
- Equipping a sensory room for children with disabilities in motor skills development
- Contribution to the establishment of creative space for a free laboratory in the field of scientific, technological, engineering and mathematical disciplines (STEM)

Novi Sad

- Improvement of the infrastructure of the Observatory at the Petrovaradin Fortress
- Creating conditions for the citizens of Novi Sad to enjoy sporting activities in several locations in the city, including the favourite city beach - Štrand
- Landscaping and revitalisation of the Danube Park

Pančevo

- Modernisation of the building of the local Youth Centre and making it accessible to people with disabilities
- Adaptation of the Laboratory in Technical School '23 May'
- Equipping 'green islands' in local communities
- Adaptation of a part of the National Museum
- Procurement of modern equipment for the Cultural Centre

Kikinda

- Renovation of the kindergarten building in Novi Kozarci
- Adaptation of the sports hall in Mokrin
- Modernisation of sports infrastructure in individual local communities
- Participation in modernizing the National Theatre building

Zrenjanin

- Construction of a tennis court in Elemir
- Improving conditions for the accommodation of young athletes and volleyball training
- Equipping the sports hall in accordance with the International Basketball Organisation standards

Niš

- Complete equipping of the newly built children's haematology & oncology department
- Ensuring better housing conditions for the residents of the Safe House for Women and Children Victims of Domestic Violence
- Construction of sports grounds in the courtyard of the Institute for Youth Upbringing

Čačak

- Construction of a children's playground and a gym in the settlement Ljubić kej
- Building an improvised running track
- Improving the energy efficiency on the building of the Faculty of Technical Sciences

Kanjiža

- Renovation of the sports hall 'Partizan'

Srbobran

- Procurement of modern equipment for the primary school 'Jovan Jovanović Zmaj'
- Equipping a sports facility
- Adaptation of the Youth Office
- Participation in organising sports events
- Improving the conditions for the operation of the Association for the Mentally Challenged

Žitište

- Drilling a well in Hetina so that the whole village could get water
- Support to the Folk Ensemble 'Ilija Preradović'
- Reconstruction and purchase of spotlights for the indoor sports courts in Banatski Dvor, Čestereg and Tork
- Equipping school gyms in Žitište, Torak, Ravni Topolovac and Banatski Dvor

Novi Bečej

- Modernisation of cultural centres in Bočar and Kuman
- Equipping the classroom for technical and IT education in the primary school 'Josif Marinković'
- Procurement of modern equipment for the sports hall

Recognised for community wellbeing

In 2017, the company assigned around RSD 370 million for socially-responsible projects throughout Serbia. In one of its humanitarian initiatives, NIS and its customers collected funds to purchase medical technology for the ‘Tiršova’ Children’s Hospital in Belgrade.

Developing the community where the company conducts its business operations, supporting young talents and promoting the true values of society is the foundation of NIS responsible business operations.

Five years after initiating the ‘Energy of Knowledge’ programme, NIS was awarded the Saint Sava Award, given by the Ministry of Education, Science and Technological Development for its contribution to education in Serbia.

1.14 Communication

Public Relations

More information on Investor Relations on page 80

Informing the media, shareholders, investors and other stakeholders transparently and comprehensively on all significant activities of the Company is a priority in the work of NIS Press Service. The public is informed about the most important activities through press releases, press conferences, press-tours for domestic and foreign journalists, authors of specialised articles and columns. This information is also published on the corporate website www.nis.eu in the Serbian, Russian and English language. NIS Press Service always responds to journalists' questions in a timely fashion, providing good-quality and complete information, while fostering two-way communication with journalists and encouraging them to present their proposals on how to improve the cooperation. NIS Press Service attaches a lot of importance to strengthening the on-line and social networks presence. To this end, the corporate website is adapted for use on all devices, while the website homepage was redesigned according to the latest global trends in that area. Through social networks, NIS fosters active communication with customers and citizens who keep up to date with the Company's activities. NIS has its accounts on the social networks Facebook, LinkedIn, Twitter, Instagram and YouTube to bring the citizens closer to NIS business, make them familiar with the corporate social responsibility projects, and make it possible for them to participate in various activities and sweepstakes. Moreover, NIS Press Service provides continuous support to business and corporate social responsibility projects.

Internal Communications

The active development of corporate culture and employee awareness are crucial for improving performance and reaching the objectives set. For this purpose, NIS internal communications use various channels for disseminating information and many communication tools. Some of the tools are promoting corporate values through internal campaigns and corporate events, as well as cascading current information to each employee through an open dialogue with the management. We are working to develop feedback in the communication between management and employees, offering, for instance, the 'SOS Business Ethics Line' to prevent violations of the Business Ethics Code and the 'Questions to the Management' column in the corporate media.

The main priority of internal communications at NIS is to provide timely, open and accurate information to the employees on all topical issues - business results, development plans, staff development and training, safety at work, social package and other benefits. Print corporate media, such as monthly and quarterly magazines in the Serbian and English language are used to provide information to the employees in Serbia and the region. Besides, info-boards are available at more than 400 locations in Serbia, along with electronic media, which include the Intranet portal, info-mail and various types of email notifications.

The results of the annual sociological research show that employee awareness is growing from year to year, and that corporate culture development reflects the Company's development and the strategy set.

Government Relations

Cooperation with Business Associations

NIS traditionally cooperates with numerous business associations in the Republic of Serbia, seeking to improve the business climate and regulations in the oil industry.

NIS has been cooperating with the Foreign Investors Council (FIC) for many years now. NIS took part in the preparation of the annual edition of the FIC White Book in 2017, which offers information on the current situation, outlines improvements in the previous year and gives recommendations on how to further improve the legal framework in the Republic of Serbia and the conditions for doing business in different industries. Also, NIS actively participates in the FIC's working committees with a focus on individual parts of the wider business environment, such as illicit trade, planning and construction, taxes, etc.

Significant cooperation takes place with the Chamber of Commerce and Industry of Serbia (CCIS) within the Association of Energy and Energy Mining. Additionally, NIS is actively involved in the submission of proposals for improving regulations considered by the CCIS.

NIS also cooperates with the American Chamber of Commerce (AMCHAM) and the National Alliance for Local Economic Development (NALED), primarily in the field of combating illicit trade activities.

Together with the National Petroleum Committee of Serbia - World Petroleum Council (NPCS-WPC), the BLEND4QUALITY project was implemented. The objective of the project is to transfer experience from the European Union related to the quality of petroleum products and fight against illicit trade through the preparation of a study that would incorporate a proposal for improving the regulatory and market environment of the oil and gas sector.

NIS has recognised the importance of cooperation with business associations and intends to continue to engage in joint activities in the future.

Combating Grey Market

Government authorities engaged in a number of important activities aimed at reducing illicit trade and grey market. Closer control by inspectorates over the business operations of economic operators and trade in excisable goods proved to be of particular importance.

In addition, the implementation of the National Programme for Combating Shadow Economy continues through the fulfilment of measures imposed under the Action Plan for the implementation of said programme in 2017, with projections for 2018, as a systematic approach to combating grey market. The action plan envisages more efficient supervision of the grey economy flows, improvement of the fiscal system operation, reduction of the administrative burden for the economy and raising of the awareness of citizens and the economy of the importance of curbing grey economy and motivation for regulatory compliance.

With respect to the measures envisaged by the said Action Plan, we would like to highlight the necessity of full implementation of the Law on Inspection Control as soon as possible. On this note, it is important to harmonise sectoral regulations with the Law on Inspection Control as an umbrella regulation. Improving the efficiency of judicial authorities in prosecuting illicit trade practices is of great importance.

Within the oil and gas sector, import and improper use of base oils continues to be a problem. In 2017, the inspection authorities engaged in unscheduled inspection concerning the import and use of base oils, which led to a significant reduction in import compared to 2016. It is expected that a system solution will be adopted in 2018 to address the control of import and use of base oils.

1.15 Research and Development

The introduction and efficient use of new technologies is one of the priorities of NIS development in all business areas, from production and refining to human resources. Equipment modernisation, innovative approach and application of up-to-date technologies are the prerequisite for progress, competitiveness and regional leadership. NIS constantly modernises its oil and gas business, introduces and upgrades new oil and gas exploitation methods, builds new refining units, automates its operations, and develops and modernises its retail network.

With regard to research and development, NIS has in place the Rules on Planning, Execution, and Control of Innovative, Scientific, Research & Development and Technological Studies at NIS j.s.c. Novi Sad. The Science and Technology Council, which meets at a quarterly level, was set up as part of the General Director's Office. In parallel, a Research and Development Section was established within the Science and Technology Centre and was tasked with the coordination and delivery of research and development projects.

In NIS Group, the research and development activity is organised within the subsidiary NTC NIS Naftagas d.o.o. Novi Sad, which, in synergy with PJSC 'Gazprom Neft', uses resources and technology of the parent company and performs two functions:

- Coordinates science and research activities, and
- Executes science and research activities.

1.16 Further Development

In 2018, NIS is to embark upon active stages in the implementation of two key projects – Bottom of the Barrel and construction of a combined heat and power plant in Pančevo.

Exploration and Production Block

The key task of the Exploration and Production Block in the following year is to maintain production indicators and resource base growth. In addition, it will work towards fulfilling licence obligations and extending the right to exploration. Implementation of GTA projects will also be of great importance.

Services Block

In 2018, the plan is to continue the processes initiated at the Services Block: business optimisation with the OMS programme and operational efficiency improvement, engagement of oilfield services on projects in Romania, 3D seismic works in Serbia, continuation of services rendered for petrol station reconstructions, etc.

Refining Block

The activities of the Refining Block for the following year will focus on operational efficiency improvement, investment realisation and employee training. The most important activities will include the project to construct a delayed coking unit and continuation of construction and assembly works in a part of the basic package, as well as the beginning of construction and assembly works in a part of the Work Package 2[1].

Sales and Distribution Block

In the Sales and Distribution Block, the focus will be on developing the sale of G-Drive fuels and the Drive Cafe concept, as well as on further development and market introduction of products under own trademark.

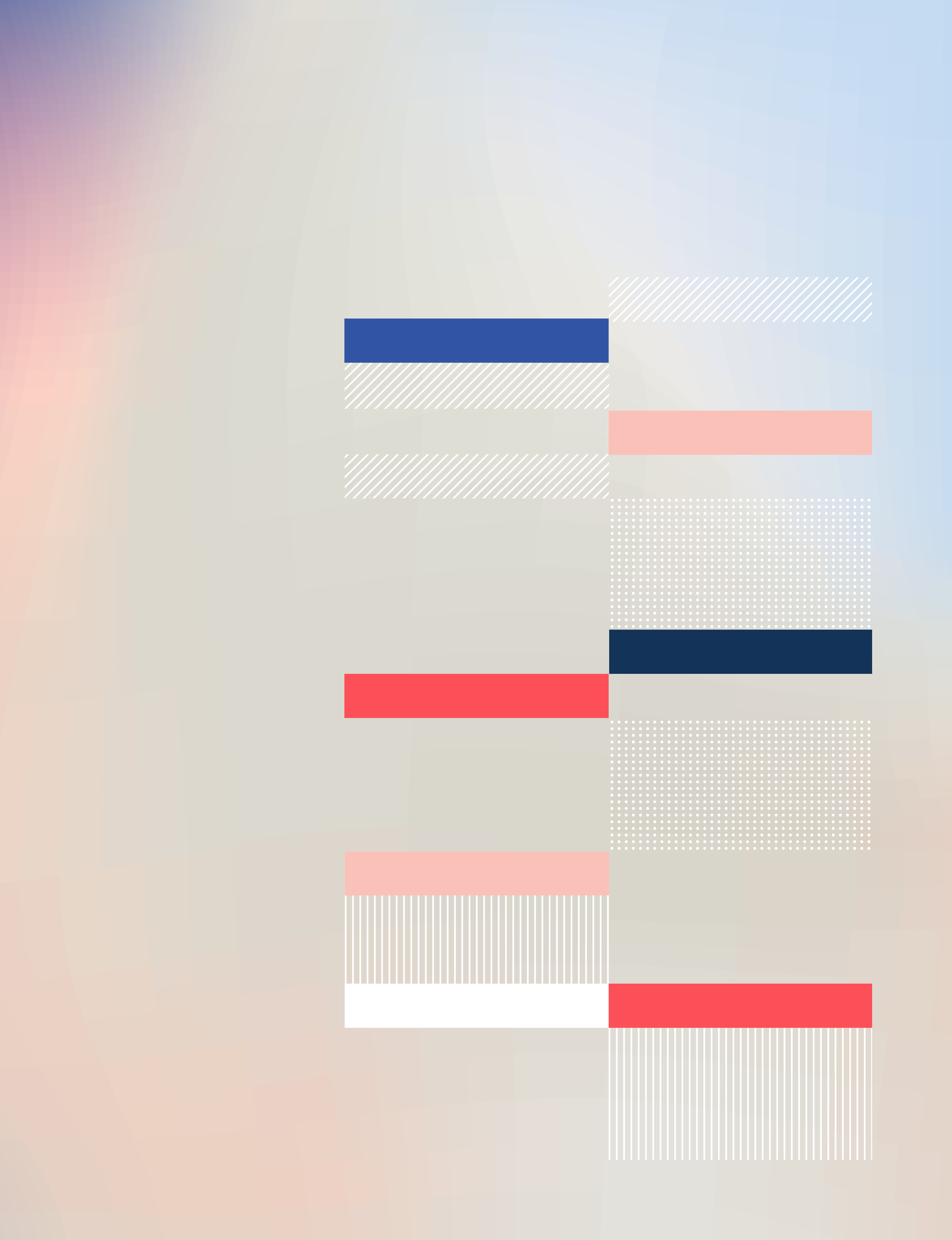
Energy Block

During 2018, the implementation of the project to construct a combined heat and power plant in Pančevo (min. capacity 140 MW) will be continued. Further development of electricity and heat production is expected in the following year. The expansion of CNG retail network is planned - the commissioning of the CNG station 'Žarkovo 2' and the construction of a filling plant at the petrol station 'Block 45', etc.

1 *Reconstruction of the existing units connected with the delayed coking unit, namely MHC/DHT, LPG, SRU.*

2

Financial Statements



2.01 Stand-alone Financial Statements

Auditor’s Report on Stand-Alone Financial Statements

pwc

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 2017 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 Company'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 Company'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 2017, 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 pwc

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 February 2018

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Balance Sheet

Balance Sheet		Note	31.12.2017	31.12.2016
A.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
B.	**NON-CURRENT ASSETS**		**293,522,379**	**289,265,136**
I	**INTANGIBLE ASSETS**	**8**	**16,220,631**	**15,766,633**
1.	Development investments		7,765,207	5,473,418
2.	Concessions, licenses, software and other rights		2,122,944	2,720,533
3.	Goodwill		-	-
4.	Other intangible assets		862,938	874,016
5.	Intangible assets under development		5,469,542	6,698,666
6.	Advances for intangible assets		-	-
II	**PROPERTY, PLANT AND EQUIPMENT**	**9**	**227,612,491**	**216,068,737**
1.	Land		10,328,878	10,468,243
2.	Buildings		127,300,824	118,094,110
3.	Machinery and equipment		60,691,375	60,403,194
4.	Investment property		1,530,356	1,549,663
5.	Other property, plant and equipment		74,400	74,400
6.	Construction in progress		25,312,035	23,186,943
7.	Investments in leased PP&E		263,211	271,339
8.	Advances for PP&E		2,111,412	2,020,845
III	**BIOLOGICAL ASSETS**		**-**	**-**
1.	Forest farming		-	-
2.	Livestock		-	-
3.	Biological assets in production		-	-
4.	Advances for biological assets		-	-
IV	**LONG-TERM FINANCIAL INVESTMENTS**		**49,680,845**	**48,129,888**
1.	Investments in subsidiary	10	13,425,586	13,442,631
2.	Investments in joint ventures	11	1,038,800	1,038,800
3.	Investments in other legal entities and other available for sales financial assets		119,919	148,665
4.	Long term investments in parent and subsidiaries	12	32,024,282	32,413,076
5.	Long-term investments in other related parties		-	-
6.	Long-term investments - domestic		-	-
7.	Long-term investments - foreign		-	-
8.	Securities held to maturity		-	-
9.	Other long-term financial investments	13	3,072,258	1,086,716
V	**LONG-TERM RECEIVABLES**	**14**	**8,412**	**9,299,878**
1.	Receivables from parent company and subsidiaries		-	-
2.	Receivables from other related parties		-	-
3.	Receivables from sale of goods on credit		-	-

in thousand RSD

Balance Sheet		Note	31.12.2017	31.12.2016
4.	Receivables arising out of finance lease contracts		8,412	7,872
5.	Claims arising from guarantees		-	-
6.	Bad and doubtful receivables		-	-
7.	Other long-term receivables		-	9,292,006
C.	**DEFFERED TAX ASSETS**	**15**	**2,487,491**	**4,059,076**
D.	**CURRENT ASSETS**		**104,140,906**	**93,336,342**
I	**INVENTORY**	**16**	**33,758,553**	**23,541,276**
1.	Materials, spare parts and tools		20,495,109	13,198,507
2.	Work in progress		3,961,298	3,119,239
3.	Finished goods		7,998,501	5,638,221
4.	Merchandise		996,337	1,523,265
5.	Assets held for sale		163	-
6.	Advances for inventory and services		307,145	62,044
II	**TRADE RECEIVABLES**	**17**	**29,735,674**	**38,430,002**
1.	Domestic trade receivables - parents and subsidiaries		489,470	1,399,483
2.	Foreign trade receivables - parents and subsidiaries		3,448,578	1,620,612
3.	Domestic trade receivables – other related parties		1,447,646	675,178
4.	Foreign trade receivables - other related parties		1,023,525	994,853
5.	Trade receivables - domestic		22,229,266	32,800,095
6.	Trade receivables - foreign		1,097,189	939,781
7.	Other trade receivbles		-	-
III	**RECEIVABLES FROM SPECIFIC OPERATIONS**		**292,057**	**666,552**
IV	**OTHER RECEIVABLES**	**18**	**2,345,007**	**3,526,414**
V	**FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS**		**-**	**-**
VI	**SHORT TERM FINANCIAL INVESTMENTS**	**19**	**10,381,808**	**3,519,702**
1.	Short-term loans and investments - parent companies and subsidiaries		56,019	364,481
2.	Short-term loans and investments – other related parties		-	-
3.	Short-term loans and investments - domestic		-	-
4.	Short-term loans and investments - foreign		-	-
5.	Other short-term loans and investments		10,325,789	3,155,221
VII	**CASH AND CASH EQUIVALENTS**	**20**	**23,410,724**	**20,053,651**
VIII	**VALUE ADDED TAX**		**-**	**-**
IX	**PREPAYMENTS AND ACCRUED INCOME**	**21**	**4,217,083**	**3,598,745**
E.	**TOTAL ASSETS**		**400,150,776**	**386,660,554**
G.	**OFF-BALANCE SHEET ASSETS**	**22**	**108,101,006**	**117,893,750**

in thousand RSD

Balance Sheet		Note	31.12.2017	31.12.2016
A.	**EQUITY**		**238,967,295**	**215,174,642**
I	**EQUITY**		**81,530,200**	**81,530,200**
1.	Share capital	23	81,530,200	81,530,200
2.	Stakes of limited liability companies		–	–
3.	Stakes		–	–
4.	State owned capital		–	–
5.	Socially owned capital		–	–
6.	Stakes in cooperatives		–	–
7.	Share premium		–	–
8.	Other capital		–	–
II	**SUBSCRIBED CAPITAL UNPAID**		**–**	**–**
III	**OWN SHARES**		**–**	**–**
IV	**RESERVES**		**–**	**–**
V	**REVALUATION RESERVES FROM VALUATION OF INTAN-GIBLES, PROPERTIES, PLANT AND EQUIPMENT**		**81,796**	**80,607**
VI	**UNREALISED GAINS FROM SECURITAS AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**142,480**	**122,912**
VII	**UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**64,014**	**66,519**
VIII	**RETAINED EARNINGS**		**157,276,833**	**133,507,442**
1.	Retained earnings from previous years		129,486,373	117,425,573
2.	Retained earnings from current year		27,790,460	16,081,869
IX	**NON-CONTROLLING INTEREST**		**–**	**–**
X	**LOSS**		**–**	**–**
1.	Loss from previous years		–	–
2.	Loss from current year		–	–
B.	**LONG-TERM PROVISIONS AND LIABILITIES**		**99,411,634**	**102,689,234**
I	**LONG-TERM PROVISIONS**	**24**	**9,660,582**	**9,365,454**
1.	Provisions for warranty claims		–	
2.	Provision for environmental rehabilitation		8,904,782	7,801,828
3.	Provisions for restructuring costs		–	–
4.	Provisions for employee benefits		410,234	1,178,642
5.	Provisions for litigations		345,566	384,984
6.	Other long term provisions		–	–
II	**LONG-TERM LIABILITIES**	**25**	**89,751,052**	**93,323,780**
1.	Liabilities convertible to equity		–	–

in thousand RSD

Balance Sheet		Note	31.12.2017	31.12.2016
2.	Liabilities to parent and subsidiaries		24,796,612	31,585,938
3.	Liabilities to other related parties		-	-
4.	Liabilities for issued long-term securities		-	-
5.	Long term borrowings - domestic		43,049,008	23,842,201
6.	Long-term borrowings - foreign		21,709,377	37,776,368
7.	Finance lease liabilities		196,055	117,414
8.	Other long-term liabilities		-	1,859
C.	**DEFFERED TAX LIABILITIES**	**15**	**-**	**-**
D.	**SHORT-TERM LIABILITIES**		**61,771,847**	**68,796,678**
I	**SHORT-TERM FINANCIAL LIABILITIES**	**26**	**8,199,189**	**22,841,082**
1.	Short term borrowings from parent and subsidiaries		2,298,487	1,109,630
2.	Short term borrowings from other related parties		-	-
3.	Short-term loans and borrowings - domestic		-	10,468,337
4.	Short-term loans and borrowings - foreign		-	1,721,579
5.	Liabilities relating to current assets and held-for-sale assets attributable to discounted operations		-	-
6.	Other short term liabilities		5,900,702	9,541,536
III	**ADVANCES RECEIVED**		**1,374,398**	**1,228,944**
IV	**TRADE PAYABLES**	**27**	**29,393,322**	**24,861,519**
1.	Trade payables - parent and subsidiaries - domestic		2,576,370	3,163,156
2.	Trade payables - parent and subsidiaries - foreign		11,792,424	5,862,793
3.	Trade payables - other related parties - domestic		1,252,736	675,393
4.	Trade payables - other related parties - foreign		1,014,064	1,058,865
5.	Trade payables - domestic		6,874,255	5,169,842
6.	Trade payables - foreign		5,880,471	8,919,567
7.	Other operating liabilities		3,002	11,903
V	**OTHER SHORT-TERM LIABILITIES**	**28**	**8,880,747**	**8,068,314**
VI	**LIABILITIES FOR VAT**		**1,618,629**	**1,383,017**
VII	**LIABILITIES FOR OTHER TAXES**	**29**	**8,506,087**	**6,989,668**
VIII	**ACCRUED EXPENSES**	**30**	**3,799,475**	**3,424,134**
E.	**LOSS EXCEEDING EQUITY**		**-**	**-**
F.	**TOTAL EQUITY AND LIABILITIES**		**400,150,776**	**386,660,554**
G.	**OFF-BALANCE SHEET LIABILITIES**	**22**	**108,101,006**	**117,893,750**

in thousand RSD

Income Statement

Income Statement		Note	Year ended 31 December 2017	2016
INCOME FROM REGULAR OPERATING ACTIVITIES				
A.	**OPERATING INCOME**	**7**	**215,836,203**	**177,913,601**
I	**INCOME FROM THE SALE OF GOODS**		**16,974,716**	**17,604,116**
1.	Income from sales of goods to parent and subsidiaries on domestic market		19,443	104,341
2.	Income from sales of goods to parent and subsidiaries on foreign market		600,892	130,677
3.	Income from the sale of goods to other related parties on domestic market		161	579
4.	Income from the sale of goods to other related parties on foreign market		10,016,171	8,408,639
5.	Income from sale of goods on domestic market		6,276,036	8,461,623
6.	Income from sale of goods on foreign market		62,013	498,257
II	**INCOME FROM SALES OF PRODUCTS AND SERVICES**		**198,452,051**	**159,965,290**
1.	Income from sales of products and services to parent and subsidiaries on domestic market		1,111,629	865,469
2.	Income from sales of products and services to parent and subsidiaries on foreign market		12,560,739	7,896,816
3.	Income from sales of products and services to other related parties on domestic market		21,952,875	13,809,239
4.	Income from sales of products and services to other related parties on foreign market		591,444	710,618
5.	Income from sales of products and services – domestic		137,769,953	118,567,760
6.	Income from sales of products and services – foreign		24,465,411	18,115,388
III	**INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS**		**26,380**	**4,239**
IV	**OTHER OPERATING INCOME**		**383,056**	**339,956**
B.	**OPERATING EXPENSES**		**186,182,516**	**161,310,384**
I	**COST OF GOODS SOLD**		**15,725,908**	**16,584,345**
II	**WORK PERFORMED BY THE ENTITY AND CAPITALIZED**		**967,698**	**2,091,986**
III	**INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES**		**3,202,338**	**-**
IV	**DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES**		**-**	**833,400**
V	**COST OF MATERIAL**		**117,219,414**	**87,048,696**
VI	**COST OF FUEL AND ENERGY**		**2,880,049**	**3,864,723**
VII	**COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES**		**14,361,093**	**13,919,752**
VIII	**COST OF PRODUCTION SERVICES**	**31**	**14,064,332**	**16,319,955**

in thousand RSD

Income Statement		Note	Year ended 31 December 2017	2016
IX	DEPRECIATION, DEPLETION AND AMORTIZATION	8,9	14,188,482	13,578,551
X	COST OF LONG-TERM PROVISIONING		861,981	712,472
XI	NON-PRODUCTION COSTS	32	11,051,293	10,540,476
C.	OPERATING GAIN		29,653,687	16,603,217
D.	OPERATING LOSS		-	-
E.	FINANCE INCOME	33	13,630,527	4,153,094
I	FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME		3,761,830	1,836,082
1.	Finance income - parent company and subsidiaries		3,558,484	1,816,340
2.	Finance income - other related parties		41,754	16,522
3.	Share of profit of associates and joint ventures		-	-
4.	Other financial income		161,592	3,220
II	INTEREST INCOME (from third parties)		1,101,732	1,033,686
III	FOREIGN EXCHANGE GAINS (third parties)		8,766,965	1,283,326
F.	FINANCE EXPENSES	34	7,574,284	8,796,821
I	FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES		3,016,359	2,060,116
1.	Finance expense - parent company and subsidiaries		2,948,723	2,031,235
2.	Finance expense - other related parties		40,043	20,577
3.	Share of loss of associates and joint ventures		-	-
4.	Other financial expense		27,593	8,304
II	INTEREST EXPENSE (from third parties)		2,418,072	2,958,264
III	FOREIGN EXCHANGE LOSSES (third parties)		2,139,853	3,778,441
G.	PROFIT FROM FINANCING OPERATIONS		6,056,243	-
H.	LOSS FROM FINANCING OPERATIONS		-	4,643,727
I.	INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	35	307,888	6,517,073
J.	LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		604,118	273,186
K.	OTHER INCOME	36	931,953	1,772,257
L.	OTHER EXPENSES	37	1,388,866	1,374,090
M.	OPERATING PROFIT BEFORE TAX		34,956,787	18,601,544
N.	OPERATING LOSS BEFORE TAX		-	-
O.	NET INCOME ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS		-	-

in thousand RSD

Income Statement		Note	Year ended 31 December 2017	2016
P.	NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS		-	-
Q.	PROFIT BEFORE TAX		34,956,787	18,601,544
R.	LOSS BEFORE TAX		-	-
S.	INCOME TAX			
I	CURRENT INCOME TAX	38	5,556,879	2,061,271
II	DEFERRED TAX EXPENSE FOR THE PERIOD	38	2,045,123	1,098,923
III	DEFERRED TAX INCOME FOR THE PERIOD	38	435,675	640,519
T.	PERSONAL INCOME PAID TO EMPLOYER		-	-
U.	NET PROFIT		27,790,460	16,081,869
V.	NET LOSS		-	-
I	NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		-	-
II	NET INCOME ATTRIBUTABLE TO THE OWNER		27,790,460	16,081,869
III	NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		-	-
IV	NET LOSS ATTRIBUTABLE TO THE OWNER		-	-
V	EARNINGS PER SHARE			
1.	Basic earnings per share		0.170	0.099
2.	Diluted earnings per share		-	-

in thousand RSD

Statement of Other Comprehensive Income

Statement of Other Comprehensive Income		Note	Year ended 31 December 2017	2016
A.	NET PROFIT (LOSS)			
I	PROFIT, NET		27,790,460	16,081,869
II	LOSS, NET		-	-
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		1,189	80,607
	b) decrease in revaluation reserves		-	-
2.	Actuarial gains (losses) of post employment benefit obligations			
	a) gains		19,568	9,987
	b) losses		-	-

in thousand RSD

Statement of Other Comprehensive Income		Note	Year ended 31 December 2017	2016
3.	Gains and losses arising from equity investments			
	a) gains		–	–
	b) losses		–	–
4.	Gains or losses arising from a share in the associate's other comprehensive profit or loss			
	a) gains		–	–
	b) losses		–	–
b)	***Items that may be subsequently reclassified to profit or loss***			
5.	Gains (losses) from currency translation differences			
	a) gains		–	–
	b) losses		–	–
6.	Gains (losses) on investment hedging instruments in foreign business			
	a) gains		–	–
	b) losses		–	–
7.	Gains and losses on cash flow hedges			
	a) gains		–	–
	b) losses		–	–
8.	Gains (losses) from change in value of available-for-sale financial assets			
	a) gains		2,505	13,045
	b) losses		–	–
I	**OTHER COMPREHENSIVE PROFIT BEFORE TAX**		**23,262**	**103,639**
II	**OTHER COMPREHENSIVE LOSS BEFORE TAX**		**–**	**–**
III	**TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD**		**–**	**–**
IV	**TOTAL NET COMPREHENSIVE PROFIT**		**23,262**	**103,639**
V	**TOTAL NET COMPREHENSIVE LOSS**		**–**	**–**
C.	**TOTAL NET COMPREHENSIVE PROFIT**			
I	**TOTAL COMPREHENSIVE PROFIT, NET**		**27,813,722**	**16,185,508**
II	**TOTAL COMPREHENSIVE LOSS, NET**		**–**	**–**
D.	**TOTAL NET COMPREHENSIVE PROFIT / (LOSS)**		**27,813,722**	**16,185,508**
1.	Attributable to shareholders		27,813,722	16,185,508
2.	Attributable to non-controling interest		–	–

in thousand RSD

Cash Flow Statement

Cash flow statement		Note	2017	2016
			Year ended 31 December	
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I	**CASH INFLOW FROM OPERATING ACTIVITIES**		**404,083,903**	**354,711,125**
1.	Sales and advances received		403,512,757	354,203,517
2.	Interest from operating activities		188,090	167,652
3.	Other inflow from operating activities		383,056	339,956
II	**CASH OUTFLOW FROM OPERATING ACTIVITIES**		**349,374,755**	**315,578,401**
1.	Payments and prepayments to suppliers		169,771,567	140,608,837
2.	Salaries, benefits and other personal expenses		14,188,115	13,572,040
3.	Interest paid		2,877,058	3,088,203
4.	Income tax paid		3,328,363	608,298
5.	Payments for other public revenues		159,209,652	157,701,023
III	**NET CASH INFLOW FROM OPERATING ACTIVITIES**		**54,709,148**	**39,132,724**
IV	**NET CASH OUTFLOW FROM OPERATING ACTIVITIES**		**-**	**-**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I	**CASH FLOWS FROM INVESTING ACTIVITIES**		**7,538,052**	**12,366,002**
1.	Sale of shares (net inflow)		-	-
2.	Proceeds from sale of property, plant and equipment		1,349,434	493,930
3.	Other financial investments (net inflow)		6,188,462	11,872,007
4.	Interest from investing activities		-	-
5.	Dividend received		156	65
II	**CASH OUTFLOW FROM INVESTING ACTIVITIES**		**44,514,493**	**39,781,878**
1.	Acquisition of subsidiaries or other business (net outflow)		-	-
2.	Purchase of intangible assets, property, plant and equipment		28,481,297	26,525,504
3.	Other financial investments (net outflow)		16,033,196	13,256,374
III	**NET CASH INFLOW FROM INVESTING ACTIVITIES**		**-**	**-**
IV	**NET CASH OUTFLOW FROM INVESTING ACTIVITIES**		**36,976,441**	**27,415,876**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			

in thousand RSD

Cash flow statement		Note	Year ended 31 December 2017	2016
I	CASH INFLOW FROM FINANCING ACTIVITIES		48,907,496	26,744,150
1.	Increase in share capital		-	-
2.	Proceeds from long-term borrowings (net inflow)		36,955,269	8,904,810
3.	Proceeds from short-term borrowings (net inflow)		11,952,227	17,839,340
4.	Other long-term liabilities		-	-
5.	Other short-term liabilities		-	-
II	CASH OUTFLOW FROM FINANCING ACTIVITIES		62,879,759	34,998,343
1.	Purchase of own shares		-	-
2.	Repayment of long-term borrowings (net outflow)		35,994,429	22,064,580
3.	Repayment of short-term borrowings (net outflow)		22,795,802	8,907,802
4.	Repayment of other liabilities (net outflow)		-	-
5.	Financial lease		68,459	-
6.	Dividend distribution	23	4,021,069	4,025,961
III	NET CASH INFLOW FROM FINANCING ACTIVITIES		-	-
IV	NET CASH OUTFLOW FROM FINANCING ACTIVITIES		13,972,263	8,254,193
D.	TOTAL CASH INFLOW		460,529,451	393,821,277
E.	TOTAL CASH OUTFLOW		456,769,007	390,358,622
F.	NET CASH INFLOW		3,760,444	3,462,655
G.	NET CASH OUTFLOW		-	-
H.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		20,053,651	16,729,893
I.	CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS		455,440	239,069
J.	CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS		858,811	377,966
K.	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		23,410,724	20,053,651

in thousand RSD

Statement of Changes in Equity

	Equity components			
	Share capital	Reserves	Loss	Retained earnings
Balance as at 1 January 2016				
a) debit	–	–	–	–
b) credit	81,530,200	–	–	121,451,534
Adjustments of material errors and changes in accounting policies				
a) debit	–	–	–	–
b) credit	–	–	–	–
Restated opening balance as at 1 January 2016				
a) debit	–	–	–	–
b) credit	81,530,200	–	–	121,451,534
Changes in period				
a) debit	–	–	–	4,025,961
b) credit	–	–	–	16,081,869
Balance as at 31 December 2016				
a) debit	–	–	–	–
b) credit	81,530,200	–	–	133,507,442
Adjustments of material errors and changes in accounting policies				
a) debit	–	–	–	–
b) credit	–	–	–	–
Restated opening balance as at 1 January 2017				
a) debit	–	–	–	–
b) credit	81,530,200	–	–	133,507,442
Changes in period				
a) debit	–	–	–	4,021,069
b) credit	–	–	–	27,790,460
Balance as at 31 December 2017				
a) debit	–	–	–	–
b) credit	81,530,200	–	–	157,276,833

Other comprehensive income components			Total Equity
Revaluation reserves	Acturial gain/(loss)	Gains (losses) from change in value of available-for-sale financial assets	
–	–	79,564	–
–	112,925	–	203,015,095
–	–	–	–
–	–	–	–
–	–	79,564	–
–	112,925	–	203,015,095
–	–	–	–
80,607	9,987	13,045	12,159,547
–	–	66,519	–
80,607	122,912	–	215,174,642
–	–	–	–
–	–	–	–
–	–	66,519	–
80,607	122,912	–	215,174,642
–	–	–	–
1,189	19,568	2,505	23,792,653
–	–	64,014	–
81,796	142,480	–	238,967,295

in thousand RSD

Notes to the Stand-Alone Financial Statements[1]

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. 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.

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 2017 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.

1 *All amounts are in RSD 000, unless otherwise stated.*

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.

Subsequent events occurring after 31 December 2017 were evaluated through 28 February 2018, 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.

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 2017, the Company has made decision to introduce new three-year (2018-2020) program for Company's managers which will be 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 2017 would be to increase/decrease it by RSD 1,277,411 (2016: RSD 1,188,513).

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 5.65% (rather than 4.65%) per year, the past service liability (DBO) for the Company would decrease by about 10.2% for retirement indemnity and 7.1% 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 11.7% for the retirement indemnity and 7.7% 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 5.65% (rather than 4.65%) per year, the present liability would have decreased by approx. RSD 383,925.

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 66.1 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 standards or amended standards became effective for the Company from 1 January 2017:

- **The amendments to IAS 7 – Statement of Cash Flow** (issued in January 2016 effective for annual periods beginning on or after 1 January 2017) require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Company made disclosure in the Financial statements (note 25).

The following standards or amended standards that became effective for the Company from 1 January 2017 did not have any material impact on the Company:

- **The amendments to IAS 12 – Income Taxes**: Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016 effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IFRS 12 - Disclosure of Interest in Other Entities** included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

5. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2018 or later, and that the Company has not early adopted.

IFRS 9 "Financial Instruments" (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.

Based on the preliminary analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of The Company is not expecting a significant impact on its financial statements from the adoption of the new standard on 1 January 2018. Management of the Company believes that provision in amount of RSD 7,869,845 (note 6.1.); RSD 3,588,655 (note 6.1.) and RSD 11,704,690 (note 6.1.) is sufficient and reflects the right measure of the risks associated with collecting the company's claims taking into account all available information's.

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.

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). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

In accordance with the transition provisions in IFRS 15 the Company has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the financial statements for the year-ending 31 December 2018 which will be the first year when The Company will apply IFRS 15.

The Company plans to apply the practical expedient available for simplified transition method. The Company applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

Based on the preliminary analysis of Company's revenue streams, sales contracts and on the basis of facts and circumstances that exist as at 31 December 2017, the expectation of the Company management is that impact on financial statements, arising from the adoption of the new standard, would be less than 0.3% of sales revenue for the period ended 31 December 2017. The impact mainly relates to reclassification between sales of goods and services.

The Company plans to finish the implementation process in the first half of 2018. The main remaining tasks include changes in accounting policies and accounting instructions, adapting processes so that economic events are considered in terms of IFRS 15 requirements as at the transaction date and preparing disclosures for the financial statements. The Company plans to present the main disclosures arising from IFRS 15 requirements in its interim financial statements as at 30 June 2018.

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. All 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 statement of profit or loss and other comprehensive income. 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.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Company is currently assessing the impact of the new standard on its financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Company is currently assessing the impact of the interpretation on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company is currently assessing the impact of the interpretation on its 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).
- 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).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

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.

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

As of 31 December 2017	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Long-term investments in subsidiaries	-	32,024,282	-	-	32,024,282
Other long-term investments	2,107,572	959,722	4,964	-	3,072,258
Long term receivables	8,412	-	-	-	8,412
Current					
Trade receivables	21,522,594	7,385,002	827,079	999	29,735,674
Receivables from specific operations	83,375	53,319	155,363	-	292,057
Other receivables	97,157	2,245,812	1,193	845	2,345,007
Short term financial investments	7,713,679	2,668,129	-	-	10,381,808
Cash and cash equivalents	11,107,847	3,548,422	8,742,209	12,246	23,410,724
Financial liabilities					
Non-current					
Long-term liabilities	(641)	(71,582,425)	(17,890,189)	(277,797)	(89,751,052)
Current					
Short-term financial liabilities	(2,298,661)	(5,824,653)	(44,061)	(31,814)	(8,199,189)
Trade payables	(16,068,483)	(6,285,561)	(6,976,115)	(63,163)	(29,393,322)
Other short-term liabilities	(8,605,890)	(64,881)	(195,505)	(14,471)	(8,880,747)
Net exposure	**15,666,961**	**(34,872,832)**	**(15,375,062)**	**(373,155)**	**(34,954,088)**

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	3,223,630	321	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
Financial liabilities					
Non-current					
Long-term liabilities	(816)	(53,597,820)	(39,371,389)	(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)
Net exposure	**19,197,258**	**(18,068,917)**	**(40,773,453)**	**(453,592)**	**(40,098,704)**

The following exchange rates applied during the period:

Reporting date spot rate	31 December 2017	31 December 2016
EUR	118.4727	123.4723
USD	99.1155	117.1353

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 2017, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit for the year and equity would have been RSD 1,704,135 (2016: RSD 903,446) higher/lower, mainly as a result of foreign exchange gains/(losses) on translation of EUR – denominated borrowings.

As at 31 December 2017, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit for the year and equity would have been RSD 1,536,848 (2016: RSD 4,077,345) 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 2017 and equity would have been RSD 940,437 (2016: RSD 1,087,907) 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.

Credit exposure related to sales of electricity has systematically monitored based on centrally approved credit limits for each customer, taking into account financial position of customer, past experience and credit security.

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 the second criterion is applied. Sales to retail customers are settled in cash or using credit cards.

Company’s maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the balance sheet is as follows:

	Year ended 31 December	
	2017	**2016**
Long term investments in parent and subsidiaries	32,024,282	32,413,076
Other long-term investments	3,072,258	1,086,716
Long term receivables	8,412	9,299,878
Trade receivables	29,735,674	38,430,002
Receivables from specific operations	292,057	666,552
Other receivables	2,345,007	3,526,414
Short term financial investments	10,381,808	3,519,702
Cash and cash equivalents	23,410,724	20,053,651
Total maximum exposure to credit risk	**101,270,222**	**108,995,991**

Trade and Other receivables

The Company’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- scoring Serbian Business Register Agency, NIS and/or D&B reports;
- amount of registered pledges;
- data on customer’s account blockade;
- history of relationships with the Company;
- planned sales volume;
- duration of relationship with the Company, including ageing profile, maturity and existence of any financial difficulties.

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, advance payment or other security.

The Management of the Company regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Company.

Management believes that not impaired trade and other receivables and other current assets are fully recoverable.

As of 31 December 2017 and 2016, the ageing analysis of short-term trade receivables is as follows:

	31 December 2017			31 December 2016		
	Gross	**Impaired**	**Net**	**Gross**	**Impaired**	**Net**
Not past due	27,477,190	-	27,477,190	35,075,350	-	35,075,350
Past due:						
within 30 days	1,971,504	-	1,971,504	1,351,752	-	1,351,752
1 to 3 months	203,314	(5,941)	197,373	955,916	(23,461)	932,455
3 months to 1 year	311,162	(233,462)	77,700	82,534	(66,734)	15,800
over 1 year	7,642,349	(7,630,442)	11,907	18,385,606	(17,330,961)	1,054,645
Total	**37,605,519**	**(7,869,845)**	**29,735,674**	**55,851,158**	**(17,421,156)**	**38,430,002**

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

	Trade receivables		Total
	Individually impaired	**Collectively impaired**	
As at 1 January 2016	**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**
Provision for receivables impairment	-	406,046	406,046
Unused amounts reversed (note 35)	-	(178,242)	(178,242)
Unwinding of discount (note 33)	-	(164,147)	(164,147)
Receivables written off during the year as uncollectible	-	(140,074)	(140,074)
Unwinding of discount	-	36,498	36,498
Transfer from LT receivables	-	208,808	208,808
Transfer to investment to associates (note 11)	(1,349,735)	(8,362,950)	(9,712,685)
Other	(5,082)	(2,433)	(7,515)
As at 31 December 2017	**2,539,550**	**5,330,295**	**7,869,845**

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. Receivable was collected in accordance with Agreement with Unicredit bank on the transfer of part of receivables for a fee without recourse in 2017 (note 14).

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above less bank quarantines provided as collateral. The other classes within trade and other receivables do not contain impaired assets.

Movements on the Company's impairment provision of long-term other receivables are as follows:

	Long-term other receivables
As at 1 January 2016	**912,967**
Receivables written off during the year as uncollectible	(489,982)
Unwinding of discount (note 34)	296,429
Exchange differences	9,129
As at 31 December 2016	**728,543**
Unused amounts reversed	(159,155)
Unwinding of discount (note 33)	(215,064)
Receivables written off during the year as uncollectible	(132,657)
Exchange differences	(12,859)
Transfer to current part	(208,808)
As at 31 December 2017	**-**

As of 31 December 2017 receivables from sepecific operations amounting RSD 3,880,712 (31 December 2016: RSD 4,650,242) are mostly impaired in the amount of RSD 3,588,655 (31 December 2016: RSD 3,983,690). 96% these receivables are older than 5 years.

As of 31 December 2017 and 2016, the ageing analysis of other receivables were as follows:

	31 December 2017			31 December 2016		
	Gross	**Impaired**	**Net**	**Gross**	**Impaired**	**Net**
Not past due	1,542,588	–	1,542,588	2,823,395	–	2,823,395
Past due:						
within 30 days	21,987	(2,013)	19,974	139,434	(54)	139,380
1 to 3 months	11,111	(970)	10,141	44,627	(9,025)	35,602
3 months to 1 year	328,507	(101,776)	226,731	289,963	(65,205)	224,758
over 1 year	12,145,504	(11,599,931)	545,573	11,979,153	(11,675,874)	303,279
Total	**14,049,697**	**(11,704,690)**	**2,345,007**	**15,276,572**	**(11,750,158)**	**3,526,414**

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2016	**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**
Provision for other receivables impairment	78,218	63,290	141,508
Unused amounts reversed (note 35)	(74,237)	(17)	(74,254)
Receivables written off during the year as uncollectible	(101,760)	(61,632)	(163,392)
Exchange differences	(1,355)	–	(1,355)
Other	1,936	50,089	52,025
As at 31 December 2017	**4,221,472**	**7,483,218**	**11,704,690**

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.

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
As at 31 December 2017					
Borrowings	97,950,241	104,992,540	10,511,792	87,582,192	6,898,556
Trade payables and dividends payable	33,165,632	33,165,632	33,165,632	–	–
	131,115,873	**138,158,172**	**43,677,424**	**87,582,192**	**6,898,556**
As at 31 December 2016					
Borrowings	116,163,003	123,205,302	25,153,685	83,483,835	14,567,782
Trade payables and dividends payable	28,633,826	28,633,826	28,633,826	–	–
	144,796,829	**151,839,128**	**53,787,511**	**83,483,835**	**14,567,782**

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 2017	31 December 2016
Total borrowings	97,950,241	116,163,003
Less: cash and cash equivalents (note 20)	(23,410,724)	(20,053,651)
Net debt	**74,539,517**	**96,109,352**
EBITDA	44,169,691	37,143,408
Net debt to EBITDA	**1.69**	**2.59**

The Company has committed (at the level of Gazprom Neft Group) 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 2017 and 2016. 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.

Reportable segment results for the year ended 31 December 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,927,105	216,969,850	(45,060,752)	215,836,203
Intersegment	41,956,055	3,104,697	(45,060,752)	-
External	1,971,050	213,865,153	-	215,836,203
EBITDA (Segment results)	**28,182,125**	**15,987,566**	**-**	**44,169,691**
Depreciation, depletion and amortization	(5,507,982)	(8,680,500)	-	(14,188,482)
Impairment losses/Revaluation surpluses (note 36 and 37)	2,378	(265,807)	-	(263,429)
Write-off of exploration works (note 9)	(568,493)	-	-	(568,493)
Finance expenses, net	317,956	5,738,287	-	6,056,243
Income tax	(2,177,957)	(4,988,370)	-	(7,166,327)
Segment profit	**20,358,559**	**7,431,901**	**-**	**27,790,460**

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
Write-off 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**

EBITDA for the year ended 31 December 2017 and 2016 is reconciled below:

	Year ended 31 December	
	2017	**2016**
Profit for the year	27,790,460	16,081,869
Income tax expenses	7,166,327	2,519,675
Other expenses	1,388,866	1,374,090
Other income	(931,953)	(1,772,257)
Loss from valuation of assets at fair value through profit and loss	604,118	273,186
Income from valuation of assets at fair value through profit and loss	(307,888)	(6,517,073)
Finance expense	7,574,284	8,796,821
Finance income	(13,630,527)	(4,153,094)
Depreciation, depletion and amortization	14,188,482	13,578,551
Other non operating expenses, net*	327,522	6,961,640
EBITDA	**44,169,691**	**37,143,408**

* *Other non-operating expense, net mainly relate to reversal of impairment, decommissioning and site restoration cost, allowance of receivables and other.*

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

	Year ended 31 December 2017		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	–	1,705,444	1,705,444
Sale of gas	2,314,509	–	2,314,509
Through a retail network	–	–	–
Wholesale activities	2,314,509	–	2,314,509
Sale of petroleum products	157,882,002	35,709,801	193,591,803
Through a retail network	54,723,169	–	54,723,169
Wholesale activities	103,158,833	35,709,801	138,868,634
Sales of electricity	462,216	10,636,249	11,098,465
Other sales	6,880,806	245,176	7,125,982
Total sales	**167,539,533**	**48,296,670**	**215,836,203**

	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	6,172,587	163,319	6,335,906
Total sales	**142,153,206**	**35,760,395**	**177,913,601**

Out of the amount of RSD 138,868,634 (2016: RSD 112,856,753) revenue from sale of petroleum products (wholesale), the amount of RSD 21,947,228 (2016: RSD 13,844,962) are derived from a single domestic customer, HIP Petrohemija. 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 10,015,978 (2016: RSD 8,415,713).

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

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 167,539,533 (2016: RSD 142,153,206), and the total of revenue from external customer from other countries is RSD 48,296,670 (2016: RSD 35,760,395). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2017	**2016**
Sale of crude oil	1,705,444	2,021,495
Sale of petroleum products (retail and wholeasle)		
Bulgaria	8,611,846	5,540,887
Bosnia and Herzegovina	8,550,726	5,206,259
Romania	5,033,530	3,817,547
Croatia	2,677,174	1,952,210
Switzerland	2,642,440	1,668,061
Great Britain	1,953,167	353,776
Macedonia	1,614,993	829,922
Hungary	1,035,140	590,464
All other markets	3,590,785	4,926,012
	35,709,801	24,885,138
Sales of electricity	10,636,249	8,690,443
Other sales	245,176	163,319
	48,296,670	**35,760,395**

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

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Other intangibles	Intangible assets under development	Total
At 1 January 2016					
Cost	6,617,839	7,420,522	972,536	6,249,829	21,260,726
Accumulated amortisation 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**
At 1 January 2017					
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**
Year ended 31 December 2017					
Additions	–	–	–	1,919,942	1,919,942
Transfer from assets under development	2,712,862	374,767	9,865	(3,097,494)	–
Amortization	(421,073)	(972,356)	(20,943)	–	(1,414,372)
Transfer from PP&E (note 9)	–	–	–	29,786	29,786
Disposals and write-off	–	–	–	(81,358)	(81,358)
Closing net book amount	**7,765,207**	**2,122,944**	**862,938**	**5,469,542**	**16,220,631**
As at 31 December 2017					
Cost	9,330,701	8,165,992	960,875	5,515,048	23,972,616
Accumulated amortization and impairment	(1,565,494)	(6,043,048)	(97,937)	(45,506)	(7,751,985)
Net book amount	**7,765,207**	**2,122,944**	**862,938**	**5,469,542**	**16,220,631**

Intangible assets under development as at 31 December 2017 amounting to RSD 5,469,542 (31 December 2016: RSD 6,698,666) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 4,560,631 (31 December 2016: RSD 5,763,672).

9. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment
At 1 January 2016			
Cost	10,748,445	150,010,082	100,887,394
Accumulated depreciation and impairment	(301,474)	(42,702,771)	(40,207,013)
Net book amount	**10,446,971**	**107,307,311**	**60,680,381**
Year ended 31 December 2016			
Additions	60,238	16,836,013	5,938,414
Appraisal effects	-	94,832	-
Impairment charge (note 37)	-	(1,602)	(3,543)
Depreciation	-	(5,765,500)	(6,054,385)
Transfer to intangible assets (note 8)	-	-	-
Transfer to investment property	(5,554)	(131,685)	741
Disposals and write-off	(25,802)	(240,697)	(134,360)
Other transfers	(7,610)	(4,562)	(24,054)
Closing net book amount	**10,468,243**	**118,094,110**	**60,403,194**
At 31 December 2016			
Cost	10,769,717	166,064,135	106,150,666
Accumulated depreciation and impairment	(301,474)	(47,970,025)	(45,747,472)
Net book amount	**10,468,243**	**118,094,110**	**60,403,194**
Year ended 31 December 2017			
Additions	21,014	16,727,218	5,862,771
Impairment charge (note 36 and 37)	(145,510)	(26,637)	(1,006)
Depreciation	-	(6,261,289)	(6,444,494)
Transfer to intangible assets (note 8)	-	-	-
Transfer to investment property	(2,759)	(23,190)	-
Transfer to assets held for sale	(7,958)	(108,920)	(14,522)
Disposals and write-off	(4,152)	(89,520)	(125,516)
Other transfers	-	(1,010,948)	1,010,948
Closing net book amount	**10,328,878**	**127,300,824**	**60,691,375**
At 31 December 2017			
Cost	10,630,202	181,307,667	112,287,936
Accumulated depreciation and impairment	(301,324)	(54,006,843)	(51,596,561)
Net book amount	**10,328,878**	**127,300,824**	**60,691,375**

	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
	29,253,159	76,604	424,741	1,363,418	292,763,843
	(2,375,798)	(1,727)	(94,706)	(30,809)	(85,714,298)
	26,877,361	**74,877**	**330,035**	**1,332,609**	**207,049,545**
	(3,236,860)	–	6,551	3,350,598	22,954,954
	–	–	–	–	94,832
	(25,696)	–	–	(11,213)	(42,054)
	–	–	(65,247)	–	(11,885,132)
	(5,458)	–	–	–	(5,458)
	–	–	–	–	(136,498)
	(437,000)	(477)	–	(2,651,149)	(3,489,485)
	14,596	–	–	–	(21,630)
	23,186,943	**74,400**	**271,339**	**2,020,845**	**214,519,074**
	25,290,900	75,543	431,292	2,062,604	310,844,857
	(2,103,957)	(1,143)	(159,953)	(41,759)	(96,325,783)
	23,186,943	**74,400**	**271,339**	**2,020,845**	**214,519,074**
	2,775,589	–	60,199	2,827,562	28,274,353
	(19,855)	–	–	(3,023)	(196,031)
	–	–	(68,327)	–	(12,774,110)
	(29,786)	–	–	–	(29,786)
	–	–	–	–	(25,949)
	–	–	–	–	(131,400)
	(600,856)	–	–	(2,733,972)	(3,554,016)
	–	–	–	–	–
	25,312,035	**74,400**	**263,211**	**2,111,412**	**226,082,135**
	27,313,677	75,517	491,491	2,148,358	334,254,848
	(2,001,642)	(1,117)	(228,280)	(36,946)	(108,172,713)
	25,312,035	**74,400**	**263,211**	**2,111,412**	**226,082,135**

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 2017, the Company assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.7 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 196,031 (2016: RSD 42,054).

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:

	2017	2016
As at 1 January	**1,549,663**	**1,336,060**
Fair value gains (loss) (note 36 and 37)	7,757	79,957
Transfer from PP&E carried at cost	25,949	136,498
Disposals	(56,089)	(4,432)
Other	3,076	1,580
As at 31 December	**1,530,356**	**1,549,663**

As at 31 December 2017, investment properties amounting to RSD 1,530,356 (31 December 2016: RSD 1,549,663) 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 2017 and 2016. 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 2017 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable input (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements Land and buildings			
– Shops and other facilities for rents	–	872,172	–
– Gas stations	–	–	658,184
Total	**-**	**872,172**	**658,184**

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**

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:

	2017	2016
Long term growth rate	0%	0%
Discount rate	14%	16%

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

	2017	2016
Assets as at 1 January	**631,678**	**541,624**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	3,788	68,043
Transfer from PPE	22,484	17,740
Other	234	4,271
Total increase in fair value measurement, assets	26,506	90,054
Assets as at 31 December	**658,184**	**631,678**

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 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 (note 7)	(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**
As at 1 January 2017						
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**
Year ended 31 December 2017						
Additions	3,188,714	13,479,375	16,668,089	765,325	–	17,433,414
Transfer from asset under construction	(4,059,755)	(14,908,872)	(18,968,627)	18,968,627	–	–
Other transfers	(29,077)	44,180	15,103	(33,137)	–	(18,034)
Impairment	–	(10,703)	(10,703)	–	–	(10,703)
Depreciation and depletion	–	–	–	(5,450,354)	–	(5,450,354)
Unsuccessful exploration expenditures derecognised (note 7)	(568,493)	–	(568,493)	–	–	(568,493)
Disposals and write-off	(71,724)	(39,122)	(110,846)	(49,242)	–	(160,088)
	14,869,649	**2,949,498**	**17,819,147**	**102,643,530**	**1,820**	**120,464,497**
As at 31 December 2017						
Cost	14,874,546	2,951,585	17,826,131	135,319,515	22,129	153,167,775
Depreciation and impairment	(4,897)	(2,087)	(6,984)	(32,675,985)	(20,309)	(32,703,278)
Net book amount	**14,869,649**	**2,949,498**	**17,819,147**	**102,643,530**	**1,820**	**120,464,497**

Unsuccessful exploration expenditures derecognised in the amount of RSD 568,493 mainly relate to exploration assets located in Serbia in the amount of RSD 461,615 due to uncertain viability of commercial production (2016: amount of RSD 1,204,851 mainly relate to exploration assets located in Hungary in the amount of RSD 1,188,909).

10. INVESTMENTS IN SUBSIDIARY

	31 December 2017	31 December 2016
Investments in subsidiaries:		
- In shares	3,457,576	3,457,576
- In stakes	13,389,990	13,368,335
	16,847,566	16,825,911
Less: Provision	(3,421,980)	(3,383,280)
	13,425,586	**13,442,631**

Investments in subsidiaries as at 31 December 2017 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%	2,232,672	(2,232,672)	-
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)	-
		16,847,566	**(3,421,980)**	**13,425,586**

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying value of the investments in associates and joint ventures as of 31 December 2017 and 2016 is presented below:

		Ownership percentage	31 December 2017	31 December 2016
Serbskaya Generaciya	Joint venture	49%	1,038,800	1,038,800
HIP Petrohemija ad Pančevo	Associate	20,86%	11,572,197	-
			(11,572,197)	-
			1,038,800	**1,038,800**

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 the holding company Serbskaya Generaciya, through which they will jointly operate with the Thermal and Heating Power Plant "TETO" Pancevo with a projected capacity of 208 MW. In October 2017 the contract with Shanghai Electric Group Co., Ltd. was signed on a "turnkey" basis and the design phase started. The project will be financed through project financing and is expected to be completed by the end of 2019. During 2016 the Company increased their investment in Serbskaya Generaciya in the amount of RSD 858,362.

HIP Petrohemija

In accordance with the laws in force in the Republic of Serbia, at the beginning of October 2017 all the condition were met for the full implementation ofthe earlier prepared plan for restructuring of the company HIP Petrohemija a.d. Pancevo. In accordance with the adopted plan, the structure of the share capital of the company HIP Petrohemija has been changed, whereby NIS increased its equity interest. After conversion, NIS holds, directly more than 20,86% (12,72%) per cent of the voting power of the HIP Petrohemija. Also, NIS has representatives on the BoD and Supervisory boards.

The total amount of fully impaired investments relates to reclassification of impaired receivables in the amount of RSD 9,712, 685 (note 6.1) and reclassification of impaired financial assets available for sale in the amount of RSD 1,859,512.

12. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES

	31 December 2017	31 December 2016
LT loans - Subsidiaries - Domestic	2,966,665	3,086,461
LT loans - Subsidiaries - Foregin	29,057,617	29,343,549
	32,024,282	32,430,010
Less: Impairment	-	(16,934)
	32,024,282	**32,413,076**

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

	Currency	31 December 2017	31 December 2016
Domestic			
O Zone a.d., Belgrade, Serbia	EUR	2,966,665	3,086,461
		2,966,665	3,086,461
Foregin			
NIS Petrol e.o.o.d. Sofija, Bulgaria	EUR	9,472,591	9,504,391
NIS Petrol SRL, Bucharest, Romania	EUR	11,555,915	10,961,059
NIS Petrol d.o.o. Banja Luka, BiH	EUR	7,059,772	7,357,698
Jadran - Naftagas d.o.o. Banja Luka, BiH	EUR	969,339	1,503,467
Pannon Naftagas Kft, Budapest, Hungary	EUR	-	16,934
		29,057,617	29,343,549
		32,024,282	**32,430,010**

Long-term loans to subsidiaries are approved at the variable interest rates (1M and 6M Euribor + 2.9%), for a period of 7 to 10 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 2017	31 December 2016
Other LT investments	2,037,710	10,050
LT loans given to employees	1,034,607	1,076,725
Less: Impairment	(59)	(59)
	3,072,258	**1,086,716**

Other LT investments at 31 December 2017 mainly relates to deposits with original maturity more than 1 year amounting to RSD 2,029,483, with interest rates 4.65% p.a. that will be due in following two years.

Loans to employees as at 31 December 2017 amounting to RSD 1,034,607 (31 December 2016: RSD 1,076,725) 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 2017	31 December 2016
LT receivables - state owned companies	-	10,020,549
LT receivables - finacial lease	20,620	20,620
Less: Impairment	(12,208)	(741,291)
	8,412	**9,299,878**

Decrease in long-term receivables mostly relates to effect of signed contract with Unicredit bank on the transfer of part of receivables for a fee without recourse. The total amount of EUR 67,200,000 transferred in accordance with the Agreement relates to receivables from the Republic of Serbia with the due dates in 2016-2019. All risk and rewards are transferred to Unicredit bank. The payment under the Agreement was made on 17 July 2017 in full.

15. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2017	31 December 2016
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	4,965,971	6,671,740
	4,965,971	6,671,740
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	(2,478,480)	(2,612,664)
	(2,478,480)	(2,612,664)
Deferred tax assets (net)	**2,487,491**	**4,059,076**

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

	2017	2016
At 1 January	**4,059,076**	**4,521,729**
Charged to the income statement (note 38)	(1,609,448)	(458,404)
Charged to other comprehensive income	(652)	(4,247)
Other	38,515	(2)
31 December	**2,487,491**	**4,059,076**

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 2016	**(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)**
Charged to the income statement (note 38)	-	134,394	-	134,394
Charged to other comprehensive income	-	-	(210)	(210)
As at 31 December 2017	**-**	**(2,464,046)**	**(14,434)**	**(2,478,480)**

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
Deferred tax assets					
As at 1 January 2016	**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**
Charged to the income statement (note 38)	13,624	18,935	(1,776,401)	-	(1,743,842)
Charged to other comprehensive income	-	-	-	(442)	(442)
Other	38,515	-	-	-	38,515
As at 31 December 2017	**1,019,695**	**949,128**	**2,985,851**	**11,297**	**4,965,971**

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 2017	31 December 2016
Materials, spare parts and tools	25,436,957	18,227,757
Work in progress	3,961,298	3,119,239
Finished goods	7,998,501	5,638,221
Goods for sale	1,002,172	1,532,478
Advances	566,382	319,986
Less: impairment of inventory	(4,947,683)	(5,038,463)
Less: impairment of advances	(259,237)	(257,942)
	33,758,390	**23,541,276**
Non-current assets held for sale	5,986	-
Less: impairment of assets held for sale	(5,823)	-
	33,758,553	**23,541,276**

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 2016	**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**
Provision for inventories and advances (note 37)	3,097	6,974	-	10,071
Unused amounts reversed (note 36)	(316)	(1,940)	-	(2,257)
Other	(93,561)	(3,739)	5,823	(91,476)
Balance as of 31 December 2017	**4,947,683**	**259,237**	**5,823**	**5,212,743**

17. TRADE RECEIVABLES

	31 December 2017	31 December 2016
Parents and subsidiaries - domestic	492,980	1,399,483
Parents and subsidiaries - foreign	3,448,600	1,620,612
Other related parties - domestic	1,478,469	10,380,560
Other related parties - foreign	1,023,525	994,853
Trade receivables domestic – third parties	30,033,966	40,487,522
Trade receivables foreign – third parties	1,127,979	968,128
	37,605,519	**55,851,158**
Less: Impairment	(7,869,845)	(17,421,156)
	29,735,674	**38,430,002**

Decrease of receivables from other related parties – domestic and related impairment provision mostly relates to transfer of receivables from HIP Petrohemija to investments in associate (note 11). In accordance with the memorandum between the Republic of Serbia and NIS, Commercial Court in Pancevo adopted the Pre-packed Reorganization Plan for HIP Petrohemija in 2017 and at the beginning of October 2017 fully implemented. In accordance with plan, all the remaining claims of creditors accrued by January 31, 2017 were partially written-off and partially converted into the capital. NIS increased its equity interest in HIP Petrohemija to 20.86% (12.72% before the increase) by the conversion of the part of receivables after the write-offs.

18. OTHER RECEIVABLES

	31 December 2017	31 December 2016
Interest receivables	6,446,723	7,587,354
Receivables from employees	83,724	85,195
Income tax prepayment	-	128,703
Other receivables	7,519,250	7,475,320
Less: Impairment	(11,704,690)	(11,750,158)
	2,345,007	**3,526,414**

19. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2017	31 December 2016
ST loans and placements - Parent and subsidiaries	244,465	560,880
ST loans and placements - Domestic	2,019	2,019
Current portion of LT placements - Parent and subsidiaries	2,604,610	2,897,787
Other ST financial placements	7,721,180	257,434
Less: Impairment	(190,466)	(198,418)
	10,381,808	**3,519,702**

Other ST financial placements as at 31 December 2017 mostly relates to deposits with original maturity more than 3 months less than 1 year amounting to RSD 7,645,689, with interest rates from 3.23% to 4.15% p.a. denominated in RSD.

20. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash in bank and in hand	14,432,604	13,010,884
Deposits with original maturity of less than three months	8,670,000	7,000,000
Cash with restriction	68,766	41,783
Cash equivalents	239,354	984
	23,410,724	**20,053,651**

21. PREPAYMENTS AND ACCRUED INCOME

	31 December 2017	31 December 2016
Deferred input VAT	1,099,407	1,004,151
Prepaid expenses	193,927	75,971
Accrued revenue	185,641	11,229
Prepaid excise duty	1,790,447	1,475,539
Housing loans and other prepayments	947,661	1,031,855
	4,217,083	**3,598,745**

Deferred input VAT as at 31 December 2017 amounting to RSD 1,099,407 (31 December 2016: RSD 1,004,151) 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 1,790,447 (31 December 2016: RSD 1,475,539) 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 2017	31 December 2016
Issued warranties and bills of exchange	72,339,683	81,813,447
Received warranties and bills of exchange	15,995,009	15,769,653
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	6,085,575	7,191,930
Third party merchandise in NIS warehouses	6,663,266	6,294,877
Assets for oil fields liquidation in Angola	1,332,018	1,179,546
Other off-balance sheet assets and liabilities	327,765	286,607
	108,101,006	**117,893,750**

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 2017 and 31 December 2016 comprise of 163,060,400 of ordinary shares.

Dividend declared for the year ended 31 December 2016, amounted to RSD 4,021,069 or RSD 24.66 per share. Distributions of dividends were approved on the General Assembly Meeting held on 27 June 2017 and paid on 18 August 2017.

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 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 (note 36)	(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**
As at 1 January 2017	**8,641,302**	**838,655**	**564,890**	**660,942**	**615,786**	**11,321,575**
Charged to the income statement	606,379	–	–	365,922	28,167	1,000,468
New obligation incurred and change in estimates	762,585	–	–	–	–	762,585
Release of provision (note 36)	–	–	(168,854)	–	–	(168,854)
Actuarial loss charged to other comprehensive income	–	–	18,947	–	–	18,947
Settlement	(166,145)	(156,735)	(54,265)	–	(59,119)	(436,264)
As at 31 December 2017	**9,844,121**	**681,920**	**360,718**	**1,026,864**	**584,834**	**12,498,457**

Analysis of total provisions:

	31 December 2017	31 December 2016
Non-current	9,660,582	9,365,454
Current	2,837,875	1,956,121
	12,498,457	**11,321,575**

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 681,919 (31 December 2016: RSD 838,655) 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 2017 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in amount of RSD 1,026,864 (2016: RSD 660,942).

d) *Legal claims provisions*

As at 31 December 2017, 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 28,167 (charged provision in 2016: RSD 81,938) 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 2017.

d) *Provision for employee benefits*

Employee benefits:

	31 December 2017	31 December 2016
Retirement allowances	95,668	71,573
Jubilee awards	265,050	493,317
	360,718	**564,890**

The principal actuarial assumptions used were as follows:

	31 December 2017	31 December 2016
Discount rate	4.65%	7.5%
Future salary increases	2.0%	2.0%
Future average years of service	15	15.2

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2016	**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**
Benefits paid directly	(6,282)	(47,983)	(54,265)
Actuarial loss charged to other comprehensive income	18,947	-	18,947
Debited/credited to the income statement	11,430	(180,284)	(168,854)
Balances as at 31 December 2017	**95,668**	**265,050**	**360,718**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December	
	2017	**2016**
Current service cost	40,457	46,539
Interest cost	38,022	38,420
Curtailment gain	(1,367)	(3,149)
Actuarial gains (jubilee awards)	82,845	(59,435)
Past service cost	(328,811)	-
	(168,854)	**22,375**

25. LONG-TERM LIABILITIES

	31 December 2017	31 December 2016
Long-term loan - Gazprom Neft	30,306,970	37,328,836
Bank loans	65,097,573	65,392,093
Finance lease liabilities	247,210	142,528
Long-term trade payables	-	1,859
Less Current portion (note 26)	(5,900,701)	(9,541,536)
	89,751,052	**93,323,780**

Movements on the Group's liabilities from finance activities are as follows:

	Long-term loans	Short-term loans (note 26)	Finance lease	Total
As at 1 January 2016	**112,726,667**	**4,282,974**		**117,009,641**
Proceeds	8,904,810	17,839,340	-	26,744,150
Repayment	(22,064,580)	(8,907,802)	-	(30,972,382)
Non-cash transactions	-	-	141,395	141,395
Foreign exchange difference	3,154,032	85,034	1,133	3,240,199
As at 31 December 2016	**102,720,929**	**13,299,546**	**142,528**	**116,163,003**
As at 1 January 2017	**102,720,929**	**13,299,546**	**142,528**	**116,163,003**
Proceeds	36,955,269	11,952,227	-	48,907,496
Repayment	(35,994,429)	(22,795,802)	(68,459)	(58,858,690)
Non-cash transactions	-	-	180,607	180,607
Foreign exchange difference	(8,277,226)	(157,483)	(7,466)	(8,442,175)
As at 31 December 2017	**95,404,543**	**2,298,488**	**247,210**	**97,950,241**

a) Long-term loan - Gazprom Neft

As at 31 December 2017 long-term loan - Gazprom Neft amounting to RSD 30,306,970 (2016: RSD 37,328,836), with current portion of RSD 5,510,358 (2016: RSD 5,742,898), 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 2017	31 December 2016
Domestic	43,338,383	27,522,763
Foreign	21,759,190	37,869,330
	65,097,573	65,392,093
Current portion of long-term loans (note 26)	(339,188)	(3,773,524)
	64,758,385	**61,618,569**

The maturity of non-current loans was as follows:

	31 December 2017	31 December 2016
Between 1 and 2 years	23,252,660	13,323,750
Between 2 and 5 years	38,991,710	44,038,904
Over 5 years	2,514,015	4,255,915
	64,758,385	**61,618,569**

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

	31 December 2017	31 December 2016
USD	17,934,250	39,607,915
EUR	46,852,898	25,397,647
RSD	814	977
JPY	309,611	385,554
	65,097,573	**65,392,093**

The Company repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Company has 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 2017 and 31 December 2016 respectively.

c) Financial lease liabilities

Minimum finance lease payments:

	31 December 2017	31 December 2016
Less than one year	58,894	30,803
1-5 years	208,456	128,399
Over 5 years	-	-
Future finance charges on finance leases	(20,140)	(16,674)
Present value of finance lease liabilities	**247,210**	**142,528**

	31 December 2017	31 December 2016
Less than one year	51,155	25,114
1-5 years	196,055	117,414
Over 5 years	-	-
Present value of finance lease liabilities	**247,210**	**142,528**

26. SHORT-TERM FINANCE LIABILITIES

	31 December 2017	31 December 2016
Short-term loans from subsidiaries	2,298,488	1,109,630
Short-term loans	-	12,189,916
Current portion of long-term loans (note 25)	5,900,701	9,541,536
	8,199,189	**22,841,082**

27. TRADE PAYABLES

As at 31 December 2017 payables in a amount of RSD 29.393.322 (31 December 2016: RSD 24,861,519) including payables to parents and subsidiaries-foreign amounting to RSD 11.792.424 (31 December 2016: RSD 5,862,793) mainly relate to payables to the supplier Gazprom Neft, St Petersburg, for the purchase of crude oil.

28. OTHER SHORT-TERM LIABILITIES

	31 December 2017	31 December 2016
Specific liabilities	202,931	277,728
Liabilities for unpaid wages and salaries, gross	845,505	812,019
Interest liabilities	669,586	718,671
Dividends payable	3,772,308	3,772,308
Other payables to employees	1,428,540	475,775
Decommissioning and site restoration costs	1,419,423	1,385,645
Environmental provision	201,836	292,484
Litigation and claims	239,268	230,802
Other current liabilities	101,350	102,882
	8,880,747	**8,068,314**

29. LIABILITIES FOR OTHER TAXES

	31 December 2017	31 December 2016
Excise tax	4,777,490	5,009,938
Contribution for buffer stocks	527,858	601,357
Income tax	1,915,676	-
Other taxes payables	1,285,063	1,378,373
	8,506,087	**6,989,668**

30. ACCRUED EXPENSES

Accrued expenses as at 31 December 2017 amounting to RSD 3,799,475 (31 December 2016: RSD 3,424,134) mainly relate to accrued employee bonuses of RSD 1,746,078 (31 December 2016: RSD 1,627,264).

31. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2017	**2016**
Cost of production services	2,421,156	3,146,363
Transportation services	3,341,470	3,339,230
Maintenance	4,362,285	5,277,845
Rental costs	1,195,482	1,201,047
Fairs	508	7,196
Advertising costs	823,779	861,607
Exploration expenses	624,627	1,247,077
Cost of other services	1,295,025	1,239,590
	14,064,332	**16,319,955**

32. NON-PRODUCTION COSTS

	Year ended 31 December	
	2017	**2016**
Costs of non-production services	6,807,934	6,732,701
Representation costs	128,862	91,863
Insurance premium	486,646	357,749
Bank charges	301,884	231,656
Cost of taxes	1,069,697	1,009,281
Mineral extraction tax	1,202,368	1,014,164
Other non-production expenses	1,053,902	1,103,062
	11,051,293	**10,540,476**

Cost of non-production services for the year ended 31 December 2017 amounting to RSD 6,807,934 (2016: RSD 6,732,701) mainly relate to costs of service organizations of RSD 4,073,804, project management costs of RSD 1,394,632 and consulting service costs of RSD 435,025.

33. FINANCE INCOME

	Year ended 31 December	
	2017	**2016**
Finance income - related parties		
- foreign exchange differences	2,703,009	864,859
- other finance income	897,229	968,003
Interest income	722,521	543,704
Income from discounting of receivables	379,211	489,982
Foreign exchange gains	8,766,965	1,283,326
Other finance income	161,592	3,220
	13,630,527	**4,153,094**

34. FINANCE EXPENSE

	Year ended 31 December	
	2017	**2016**
Finance expenses – related parties		
- foreign exchange differences	2,320,083	1,277,893
- other finance expense	668,683	773,919
Interest expenses	2,279,585	2,542,892
Decommissioning provision: unwinding of the present value discount	138,487	118,944
Provision of trade and other non-current receivables: discount (note 6.1)	-	296,429
Foreign exchange losses	2,139,853	3,778,441
Other finance expense	27,593	8,303
	7,574,284	**8,796,821**

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

	Year ended 31 December	
	2017	**2016**
Reversal of impairment of LT financial investments	540	827
Income from valuation:		
- trade and specific receivables (note 6.1)	233,094	4,429,484
- other receivables (note 6.1)	74,254	2,086,762
	307,888	**6,517,073**

36. OTHER INCOME

	Year ended 31 December	
	2017	**2016**
Gains on disposal - PPE	84,678	355,823
Gains on disposal - materials	31,209	36,886
Surpluses from stock count	406,206	371,085
Payables written off	23,966	61,024
Release of long-term provisions (note 24)	168,854	475,602
Release of impairment:		
- Investment property	16,869	79,957
- Inventory (note 16)	316	3,249
- PPE and other property	2,021	8,808
Penalty interest	116,656	106,199
Other income	81,178	273,624
	931,953	**1,772,257**

37. OTHER EXPENSES

	Year ended 31 December	
	2017	**2016**
Loss on disposal - PPE	192,496	243,100
Shortages from stock count	505,368	503,234
Write-off receivables	24,774	57,464
Write-off inventories	116,246	56,672
Impairment:		
- PPE	196,111	42,054
- Investment property and asset held for sale	43,396	-
- Inventory (note 16)	3,097	41,204
- Other property	6,973	2,242
Other expenses	300,405	428,120
	1,388,866	**1,374,090**

38. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2017	**2016**
Income tax for the year	5,556,879	2,061,271
Deferred income tax for the period		
Origination and reversal of temporary differences (note 15)	1,609,448	458,404
	7,166,327	**2,519,675**

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	
	2017	**2016**
Profit before tax	**34,956,787**	**18,601,544**
Tax calculated at domestic tax rates applicable to profits in the respective countries	5,243,518	2,790,232
Tax effect on:		
Revenues exempt from taxation	(304,646)	(20,311)
Expenses not deductible for tax purposes		
- Tax paid in Angola	2,177,957	250,449
- Other expenses not deductable	232,211	(50,056)
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	1,776,401	672,122
Other tax effects for reconciliation between accounting profit and tax expense	(1,959,114)	(1,095,914)
	7,166,327	**2,546,522**
Adjustment in respect of prior years	-	(26,847)
	7,166,327	**2,519,675**
Effective income tax rate	**20.50%**	**13.55%**

The weighted average applicable tax rate was 20.50% (2016: 13.55%). The increase is caused by a change in the profitability of the Company and due to Global agreement with the Ministry of finance and General Tax administration of the Republic of Angola signed in June 2017 by which Company agreed to pay tax charges for the fiscal years 2002 – 2016.

39. OPERATING LEASES

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

	31 December 2017	31 December 2016
Less than one year	267,034	273,367
1-5 years	383,664	343,303
Over 5 years	149,922	138,121
	800,620	**754,791**

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

	31 December 2017	31 December 2016
Less than one year	751,255	1,137,744
1-5 years	2,866,576	40,972
Over 5 years	215,761	34,799
	3,833,592	**1,213,515**

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

40. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

As of 31 December 2017 the Company has entered into contracts to purchase property, plant and equipment for RSD 11,347,099 (31 December 2016: RSD 5,324,487).

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 681,919 (31 December 2016: RSD 838,655).

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 2017.

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 2017 and 2016, 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 2017 and 31 December 2016 the outstanding balances with related parties were as follows:

	Subsidiary	Parent	Entities under comon control and associates	Total
As at 31 December 2017				
Advances for PPE	97,920	-	-	97,920
Investments in subsidiaries	13,425,586	-	1,038,800	14,464,386
Long-term loans	32,024,282	-	-	32,024,282
Advances for inventory and services	16,239	-	7,754	23,993
Trade receivables	3,938,048	-	2,471,171	6,409,219
Receivables from specific operations	53,803	-	-	53,803
Other receivables	1,201,219	-	-	1,201,219
Short-term investments	2,660,628	-	-	2,660,628
Other current assets	424	-	-	424
Long-term liabilities	-	(24,796,612)	-	(24,796,612)
Short-term financial liabilities	(2,298,487)	(5,510,358)	-	(7,808,845)
Advances received	(1,543)	-	(74,376)	(75,919)
Trade payables	(2,641,454)	(11,727,340)	(2,266,800)	(16,635,594)
Other short-term liabilities	(45,929)	-	-	(45,929)
Accrued expenses	(5,030)	-	-	(5,030)
	48,425,706	**(42,034,310)**	**1,176,549**	**7,567,945**

	Subsidiary	Parent	Entities under comon control and associates	Total
As at 31 December 2016				
Advances for PPE	220,956	–	–	220,956
Investments in subsidiaries	13,442,631	–	1,038,800	14,481,431
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	3,262,268	–	–	3,262,268
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	(3,163,156)	(5,862,793)	(1,734,258)	(10,760,207)
Other short-term liabilities	(41,950)	–	–	(41,950)
	49,342,528	**(43,191,629)**	**949,915**	**7,100,814**

For the year ended 31 December 2017 and 2016 the following transaction occurred with related parties:

	Subsidiary	Parent	Entities under comon control and associates	Total
Year ended 31 December 2017				
Sales revenue	14,292,703	–	32,560,651	46,853,354
Other operating income	35,348	–	604	35,952
Cost of goods sold	(80,279)	–	(10,312,815)	(10,393,094)
Cost of material	(11,594)	(31,926,861)	–	(31,938,455)
Fuel and energy expenses	(1,600)	–	–	(1,600)
Employee benefits expenses	(86,982)	–	–	(86,982)
Production services	(3,645,691)	–	(197,261)	(3,842,952)
Non-material expense	(1,109,830)	(3,000)	(28,348)	(1,141,178)
Finance income	902,565	–	–	902,565
Finance expense	(30,545)	(632,427)	–	(662,972)
Fair value measurement losses	(27,460)	–	–	(27,460)
Other income	1,337	83,321	–	84,658
Other expenses	–	(69,543)	(253)	(69,796)
	10,237,972	**(32,548,510)**	**22,022,578**	**(287,960)**
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)**

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

	Entities under comon control and associates	Other
As at 31 December 2017		
Trade and other receivables (gross)		
- HIP Petrohemija	1,446,685	-
- Srbijagas	-	109,748
- Republika Srbija	-	3,740,763
- Other state owned companies	-	4,936,110
Trade and other payables		
- HIP Petrohemija	(1,252,736)	-
- Srbijagas	-	(77,059)
Other current liabilities		
- HIP Petrohemija	(13,646)	-
	180,303	**8,709,562**
As at 31 December 2016		
Trade and other receivables (gross)		
- HIP Petrohemija	-	10,349,446
- Srbijagas	-	34,142
- Republika Srbija	-	21,764,308
- Other state owned companies	-	3,621,268
Trade and other payables		
- HIP Petrohemija	-	(675,393)
- Srbijagas	-	(141,195)
Other current liabilities		
- HIP Petrohemija	-	(1,567)
	-	**34,951,009**

	Entities under comon control and associates	Other
As at 31 December 2017		
Operating income		
- HIP Petrohemija	21,947,228	-
- Srbijagas	-	782,306
Operating expenses		
- HIP Petrohemija	(195,139)	-
- Srbijagas	-	(926,488)
	21,752,089	**(144,182)**
As at 31 December 2016		
Operating income		
- HIP Petrohemija	-	13,847,087
- Srbijagas	-	1,284,610
Operating expenses		
- HIP Petrohemija	-	(195,479)
- Srbijagas	-	(1,123,794)
	-	**13,812,424**

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 2017 and 2016 the Company recognized RSD 1,029,116 and RSD 864,392, 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.

2.02 Consolidated Financial Statements

Auditor’s Report on Consolidated Financial Statements

pwc

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 consolidated financial statements of Naftna Industrija Srbije a.d. Novi Sad (the „Parent") and its subsidiaries (the „Group") which comprise the consolidated balance sheet as of 31 December 2017 and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2017, 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 pwc

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 February 2018

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Consolidated Balance Sheet

Consolidated Balance Sheet		Note	31.12.2017	31.12.2016
A.	**SUBSCRIBED CAPITAL UNPAID**		**-**	**-**
B.	**NON-CURRENT ASSETS**		**278,528,255**	**276,234,033**
I	**INTANGIBLE ASSETS**	**8**	**22,261,148**	**21,845,039**
1.	Development investments		7,765,207	5,473,418
2.	Concessions, licenses, software and other rights		2,549,083	3,252,535
3.	Goodwill		1,743,490	1,844,850
4.	Other intangible assets		1,170,925	1,249,276
5.	Intangible assets under development		9,032,443	10,024,960
6.	Advances for intangible assets		-	-
II	**PROPERTY, PLANT AND EQUIPMENT**	**9**	**250,948,308**	**241,732,526**
1.	Land		16,849,316	17,283,666
2.	Buildings		134,940,466	126,587,960
3.	Machinery and equipment		69,551,913	70,472,014
4.	Investment property		1,530,356	1,549,663
5.	Other property, plant and equipment		86,623	86,696
6.	Construction in progress		25,649,268	23,663,299
7.	Investments in leased PP&E		271,904	279,562
8.	Advances for PP&E		2,068,462	1,809,666
III	**BIOLOGICAL ASSETS**		**-**	**-**
1.	Forest farming		-	-
2.	Livestock		-	-
3.	Biological assets in production		-	-
4.	Advances for biological assets		-	-
IV	**LONG-TERM FINANCIAL INVESTMENTS**		**5,310,386**	**3,356,590**
1.	Investments in subsidiary		-	-
2.	Investments in joint ventures	10	2,047,021	2,047,021
3.	Investments in other legal entities and other available for sales financial assets		119,919	148,665
4.	Long term investments in parent and subsidiaries		-	-
5.	Long-term investments in other related parties		-	-
6.	Long-term investments - domestic		-	-
7.	Long-term investments - foreign		-	-
8.	Securities held to maturity		-	-
9.	Other long-term financial investments	11	3,143,446	1,160,904
V	**LONG-TERM RECEIVABLES**	**12**	**8,413**	**9,299,878**
1.	Receivables from parent company and subsidiaries		-	-
2.	Receivables from other related parties		-	-

in thousand RSD

Consolidated Balance Sheet		Note	31.12.2017	31.12.2016
3.	Receivables from sale of goods on credit		-	-
4.	Receivables arising out of finance lease contracts		8,413	7,872
5.	Claims arising from guarantees		-	-
6.	Bad and doubtful receivables		-	-
7.	Other long-term receivables		-	9,292,006
C.	**DEFFERED TAX ASSETS**	**13**	**2,197,910**	**3,771,354**
D.	**CURRENT ASSETS**		**106,828,207**	**94,311,133**
I	**INVENTORY**	**14**	**37,322,937**	**27,011,407**
1.	Materials, spare parts and tools		22,868,451	15,303,086
2.	Work in progress		3,961,298	3,119,239
3.	Finished goods		8,084,524	6,014,045
4.	Merchandise		2,002,670	2,399,695
5.	Assets held for sale		163	-
6.	Advances for inventory and services		405,831	175,342
II	**TRADE RECEIVABLES**	**15**	**27,914,176**	**36,717,678**
1.	Domestic trade receivables - parents and subsidiaries		-	-
2.	Foreign trade receivables - parents and subsidiaries		-	-
3.	Domestic trade receivables – other related parties		1,447,646	675,178
4.	Foreign trade receivables - other related parties		1,024,133	1,047,541
5.	Trade receivables - domestic		24,013,778	34,046,147
6.	Trade receivables - foreign		1,428,619	948,812
7.	Other trade receivbles		-	-
III	**RECEIVABLES FROM SPECIFIC OPERATIONS**		**529,292**	**677,079**
IV	**OTHER RECEIVABLES**	**16**	**1,190,740**	**2,500,557**
V	**FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS**		**-**	**-**
VI	**SHORT TERM FINANCIAL INVESTMENTS**	**17**	**7,742,504**	**306,828**
1.	Short-term loans and investments - parent companies and subsidiaries		-	-
2.	Short-term loans and investments – other related parties		-	-
3.	Short-term loans and investments - domestic		72,681	-
4.	Short-term loans and investments - foreign		-	-
5.	Other short-term loans and investments		7,669,823	306,828
VII	**CASH AND CASH EQUIVALENTS**	**18**	**27,075,370**	**22,899,342**
VIII	**VALUE ADDED TAX**		**286,562**	**274,292**
IX	**PREPAYMENTS AND ACCRUED INCOME**	**19**	**4,766,626**	**3,923,950**
E.	**TOTAL ASSETS**		**387,554,372**	**374,316,520**
F.	**OFF-BALANCE SHEET ASSETS**	**20**	**108,361,401**	**118,058,312**

in thousand RSD

Consolidated Balance Sheet		Note	31.12.2017	31.12.2016
A.	**EQUITY**		**225,051,510**	**201,480,512**
I	**EQUITY**	**21**	**81,548,930**	**81,548,930**
1.	Share capital	21.1	81,548,930	81,548,930
2.	Stakes of limited liability companies		–	–
3.	Stakes		–	–
4.	State owned capital		–	–
5.	Socially owned capital		–	–
6.	Stakes in cooperatives		–	–
7.	Share premium		–	–
8.	Other capital		–	–
II	**SUBSCRIBED CAPITAL UNPAID**		**–**	**–**
III	**OWN SHARES**		**–**	**–**
IV	**RESERVES**		**–**	**–**
V	**REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT**		**81,796**	**80,607**
VI	**UNREALISED GAINS FROM SECURITAS AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**212,811**	**183,035**
VII	**UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME**		**64,013**	**662,464**
VIII	**RETAINED EARNINGS**		**143,271,986**	**120,330,404**
1.	Retained earnings from previous years		116,309,335	105,316,978
2.	Retained earnings from current year		26,962,651	15,013,426
IX	**NON-CONTROLLING INTEREST**		**–**	**–**
X	**LOSS**		**–**	**–**
1.	Loss from previous years		–	–
2.	Loss from current year		–	–
B.	**LONG-TERM PROVISIONS AND LIABILITIES**		**100,262,181**	**103,914,491**
I	**LONG-TERM PROVISIONS**	**22**	**9,766,303**	**9,617,973**
1.	Provisions for warranty claims		–	–
2.	Provision for environmental rehabilitation		8,904,782	7,801,828
3.	Provisions for restructuring costs		–	–
4.	Provisions for employee benefits		499,221	1,370,285
5.	Provisions for litigations		362,300	445,860
6.	Other long term provisions		–	–
II	**LONG-TERM LIABILITIES**	**23**	**90,495,878**	**94,296,518**

in thousand RSD

Consolidated Balance Sheet		Note	31.12.2017	31.12.2016
1.	Liabilities convertible to equity		-	-
2.	Liabilities to parent and subsidiaries		24,796,612	31,585,938
3.	Liabilities to other related parties		-	-
4.	Liabilities for issued long-term securities		-	-
5.	Long term borrowings - domestic		43,049,008	23,842,201
6.	Long-term borrowings - foreign		22,210,666	38,504,763
7.	Finance lease liabilities		380,137	316,790
8.	Other long-term liabilities		59,455	46,826
C.	**DEFFERED TAX LIABILITIES**	**13**	**-**	**-**
D.	**SHORT-TERM LIABILITIES**		**62,240,681**	**68,921,517**
I	**SHORT-TERM FINANCIAL LIABILITIES**	**24**	**6,099,584**	**21,732,658**
1.	Short term borrowings from parent and subsidiaries		-	-
2.	Short term borrowings from other related parties		-	-
3.	Short-term loans and borrowings - domestic		-	10,468,337
4.	Short-term loans and borrowings - foreign		-	1,721,608
5.	Liabilities relating to current assets and held-for-sale assets attributable to discounted operations		-	-
6.	Other short term liabilities		6,099,584	9,542,713
II	**ADVANCES RECEIVED**		**1,439,243**	**1,325,012**
III	**TRADE PAYABLES**	**25**	**30,100,904**	**24,465,282**
1.	Trade payables - parent and subsidiaries - domestic		-	-
2.	Trade payables - parent and subsidiaries - foreign		11,727,340	5,818,200
3.	Trade payables - other related parties - domestic		1,252,736	675,393
4.	Trade payables - other related parties - foreign		1,047,572	1,079,842
5.	Trade payables - domestic		9,506,890	7,511,772
6.	Trade payables - foreign		6,561,904	9,367,285
7.	Other operating liabilities		4,462	12,790
IV	**OTHER SHORT-TERM LIABILITIES**	**26**	**9,397,192**	**8,599,455**
V	**LIABILITIES FOR VAT**		**1,853,794**	**1,538,157**
VI	**LIABILITIES FOR OTHER TAXES**	**27**	**9,187,515**	**7,479,910**
VII	**ACCRUED EXPENSES**	**28**	**4,162,449**	**3,781,043**
E.	**LOSS EXCEEDING EQUITY**		**-**	**-**
F.	**TOTAL EQUITY AND LIABILITIES**		**387,554,372**	**374,316,520**
G.	**OFF-BALANCE SHEET LIABILITIES**	**20**	**108,361,401**	**118,058,312**

in thousand RSD

Consolidated Income Statement

Consolidated Income Statement		Note	Year ended 31 December 2017	2016
INCOME FROM REGULAR OPERATING ACTIVITIES				
A.	OPERATING INCOME	7	234,711,482	192,104,367
I	INCOME FROM THE SALE OF GOODS		40,672,602	34,033,041
1.	Income from sales of goods to parent and subsidiaries on domestic market		–	–
2.	Income from sales of goods to parent and subsidiaries on foreign market		–	–
3.	Income from the sale of goods to other related parties on domestic market		155	577
4.	Income from the sale of goods to other related parties on foreign market		10,015,978	8,376,140
5.	Income from sale of goods on domestic market		6,276,844	8,452,437
6.	Income from sale of goods on foreign market		24,379,625	17,203,887
II	INCOME FROM SALES OF PRODUCTS AND SERVICES		193,578,793	157,615,308
1.	Income from sales of products and services to parent and subsidiaries on domestic market		–	–
2.	Income from sales of products and services to parent and subsidiaries on foreign market		–	–
3.	Income from sales of products and services to other related parties on domestic market		21,952,815	13,809,239
4.	Income from sales of products and services to other related parties on foreign market		592,358	839,061
5.	Income from sales of products and services – domestic		138,075,307	118,885,115
6.	Income from sales of products and services – foreign		32,958,313	24,081,893
III	INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS		26,380	4,239
IV	OTHER OPERATING INCOME		433,707	451,779
B.	OPERATING EXPENSES		204,524,657	175,066,413
I	COST OF GOODS SOLD		28,700,433	25,284,968
II	WORK PERFORMED BY THE ENTITY AND CAPITALIZED		10,697,349	11,184,068
III	INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		3,213,109	-
IV	DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES		-	812,321
V	COST OF MATERIAL		121,840,139	91,195,090
VI	COST OF FUEL AND ENERGY		4,035,172	4,966,247
VII	COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES		18,761,914	18,301,051
VIII	COST OF PRODUCTION SERVICES	29	13,918,103	15,791,400

in thousand RSD

Consolidated Income Statement		Note	Year ended 31 December 2017	2016
IX	DEPRECIATION, DEPLETION AND AMORTIZATION	8,9	16,427,278	15,889,177
X	COST OF LONG-TERM PROVISIONING		864,620	727,608
XI	NON-PRODUCTION COSTS	30	13,887,456	13,282,619
C.	OPERATING GAIN		30,186,825	17,037,954
D.	OPERATING LOSS		-	-
E.	FINANCE INCOME	31	12,955,289	3,281,762
I	FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME		2,863,316	883,490
1.	Finance income - parent company and subsidiaries		2,657,706	859,641
2.	Finance income - other related parties		43,951	20,291
3.	Share of profit of associates and joint ventures		-	-
4.	Other financial income		161,659	3,558
II	INTEREST INCOME (from third parties)		1,105,589	1,040,015
III	FOREIGN EXCHANGE GAINS (third parties)		8,986,384	1,358,257
F.	FINANCE EXPENSES	32	8,121,812	9,090,676
I	FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES		3,297,002	2,098,554
1.	Finance expense - parent company and subsidiaries		3,220,819	2,064,063
2.	Finance expense - other related parties		48,590	24,673
3.	Share of loss of associates and joint ventures		-	-
4.	Other financial expense		27,593	9,818
II	INTEREST EXPENSE (from third parties)		2,553,231	3,093,080
III	FOREIGN EXCHANGE LOSSES (third parties)		2,271,579	3,899,042
G.	PROFIT FROM FINANCING OPERATIONS		4,833,477	-
H.	LOSS FROM FINANCING OPERATIONS		-	5,808,914
I.	INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	33	309,387	6,524,108
J.	LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		586,650	283,173
K.	OTHER INCOME	34	1,213,935	1,997,398
L.	OTHER EXPENSES	35	1,737,858	1,825,734
M.	OPERATING PROFIT BEFORE TAX		34,219,116	17,641,639
N.	OPERATING LOSS BEFORE TAX		-	-
O.	NET INCOME ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS		-	-

in thousand RSD

Consolidated Income Statement		Note	Year ended 31 December 2017	2016
P.	**NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS**		**-**	**-**
Q.	**PROFIT BEFORE TAX**		**34,219,116**	**17,641,639**
R.	**LOSS BEFORE TAX**		**-**	**-**
S.	**INCOME TAX**			
I	**CURRENT INCOME TAX**	**36**	**5,640,826**	**2,132,078**
II	**DEFERRED TAX EXPENSE FOR THE PERIOD**	**36**	**2,073,470**	**1,153,890**
III	**DEFERRED TAX INCOME FOR THE PERIOD**	**36**	**457,831**	**657,755**
T.	**PERSONAL INCOME PAID TO EMPLOYER**		**-**	**-**
U.	**NET PROFIT**		**26,962,651**	**15,013,426**
V.	**NET LOSS**		**-**	**-**
I	**NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS**		**-**	**-**
II	**NET INCOME ATTRIBUTABLE TO THE OWNER**		**26,991,074**	**15,037,973**
III	**NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS**		**28,423**	**24,547**
IV	**NET LOSS ATTRIBUTABLE TO THE OWNER**		**-**	**-**
V	**EARNINGS PER SHARE**			
1.	Basic earnings per share		0.166	0.092
2.	Diluted earnings per share		-	-

in thousand RSD

Consolidated Statement of Other Comprehensive Income

Consolidated Statement of Other Comprehensive Income		Note	Year ended 31 December 2017	2016
A.	**NET PROFIT/(LOSS)**			
I	**PROFIT, NET**		**26,962,651**	**15,013,426**
II	**LOSS, NET**		-	-
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		1,189	80,607
	b) decrease in revaluation reserves		-	-
2.	Actuarial gains (losses) of post employment benefit obligations			
	a) gains		12,180	21,546

in thousand RSD

Consolidated Statement of Other Comprehensive Income		Note	Year ended 31 December 2017	2016
	b) losses		–	–
3.	Gains and losses arising from equity investments			
	a) gains		–	–
	b) losses		–	–
4.	Gains or losses arising from a share in the associate's other comprehensive profit or loss			
	a) gains		–	–
	b) losses		–	–
b)	*Items that may be subsequently reclassified to profit or loss*			
1.	Gains (losses) from currency translation differences			
	a) gains		613,542	–
	b) losses		–	133,833
2.	Gains (losses) on investment hedging instruments in foreign business			
	a) gains		–	–
	b) losses		–	–
3.	Gains and losses on cash flow hedges			
	a) gains		–	–
	b) losses		–	–
4.	Gains (losses) from change in value of available-for-sale financial assets			
	a) gains		2,505	13,047
	b) losses		–	–
I	**OTHER COMPREHENSIVE PROFIT BEFORE TAX**		**629,416**	**-**
II	**OTHER COMPREHENSIVE LOSS BEFORE TAX**		**-**	**18,633**
III	**TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD**		**-**	**-**
IV	**TOTAL NET COMPREHENSIVE PROFIT**		**629,416**	**-**
V	**TOTAL NET COMPREHENSIVE LOSS**		**-**	**18,633**
C.	**TOTAL NET COMPREHENSIVE PROFIT**			
I	**TOTAL COMPREHENSIVE PROFIT, NET**		**27,592,067**	**14,994,793**
II	**TOTAL COMPREHENSIVE LOSS, NET**		**-**	**-**
D.	**TOTAL NET COMPREHENSIVE PROFIT / (LOSS)**		**27,592,067**	**14,994,793**
1.	Attributable to shareholders		27,592,067	14,994,793
2.	Attributable to non-controling interest		–	–

in thousand RSD

Consolidated Cash Flow Statement

Consolidated Cash Flow Statement		Note	Year ended 31 December 2017	2016
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I	**CASH INFLOW FROM OPERATING ACTIVITIES**		**440,902,299**	**382,762,574**
1.	Sales and advances received		439,897,897	382,057,884
2.	Interest from operating activities		570,695	252,911
3.	Other inflow from operating activities		433,707	451,779
II	**CASH OUTFLOW FROM OPERATING ACTIVITIES**		**381,865,440**	**341,585,783**
1.	Payments and prepayments to suppliers		179,712,687	147,657,733
2.	Salaries, benefits and other personal expenses		18,675,293	18,128,411
3.	Interest paid		2,844,781	3,074,876
4.	Income tax paid		3,378,983	660,175
5.	Payments for other public revenues		177,253,696	172,064,588
III	**NET CASH INFLOW FROM OPERATING ACTIVITIES**		**59,036,859**	**41,176,791**
IV	**NET CASH OUTFLOW FROM OPERATING ACTIVITIES**		**-**	**-**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I	**CASH FLOWS FROM INVESTING ACTIVITIES**		**2,516,845**	**1,008,030**
1.	Sale of shares (net inflow)		-	-
2.	Proceeds from sale of property, plant and equipment		291,282	832,619
3.	Other financial investments (net inflow)		2,225,407	175,346
4.	Interest from investing activities		-	-
5.	Dividend received		156	65
II	**CASH OUTFLOW FROM INVESTING ACTIVITIES**		**41,697,700**	**29,806,063**
1.	Acquisition of subsidiaries or other business (net outflow)		-	-
2.	Purchase of intangible assets, property, plant and equipment		30,066,617	28,880,458
3.	Other financial investments (net outflow)		11,631,083	925,605
III	**NET CASH INFLOW FROM INVESTING ACTIVITIES**		**-**	**-**
IV	**NET CASH OUTFLOW FROM INVESTING ACTIVITIES**		**39,180,855**	**28,798,033**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I	**CASH INFLOW FROM FINANCING ACTIVITIES**		**36,955,269**	**24,059,274**
1.	Increase in share capital		-	-

in thousand RSD

Consolidated Cash Flow Statement		Note	Year ended 31 December 2017	2016
2.	Proceeds from long-term borrowings (net inflow)		36,955,269	8,904,810
3.	Proceeds from short-term borrowings (net inflow)		-	15,154,464
4.	Other long-term liabilities		-	-
5.	Other short-term liabilities		-	-
II	**CASH OUTFLOW FROM FINANCING ACTIVITIES**		**52,165,268**	**32,693,214**
1.	Purchase of own shares		-	-
2.	Repayment of long-term borrowings (net outflow)		35,994,428	22,064,579
3.	Repayment of short-term borrowings (net outflow)		12,032,433	6,602,674
4.	Repayment of other liabilities (net outflow)		-	-
5.	Financial lease		117,338	-
6.	Dividend distribution	21	4,021,069	4,025,961
III	**NET CASH INFLOW FROM FINANCING ACTIVITIES**		**-**	**-**
IV	**NET CASH OUTFLOW FROM FINANCING ACTIVITIES**		**15,209,999**	**8,633,940**
D.	**TOTAL CASH INFLOW**		**480,374,413**	**407,829,878**
E.	**TOTAL CASH OUTFLOW**		**475,728,408**	**404,085,060**
F.	**NET CASH INFLOW**		**4,646,005**	**3,744,818**
G.	**NET CASH OUTFLOW**		**-**	**-**
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**		**22,899,342**	**19,271,435**
I.	**CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS**		**469,641**	**280,901**
J.	**CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS**		**939,618**	**397,812**
K.	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**27,075,370**	**22,899,342**

in thousand RSD

Consolidated Statement of Changes in Equity

	Equity components			
	Share capital	Loss	Retained earnings	Revaluation reserves
Balance as at 1 January 2016				
a) debit	–	–	–	–
b) credit	81,548,930	–	109,342,939	–
Adjustments of material errors and changes in accounting policies				
a) debit	–	–	–	–
b) credit	–	–	–	–
Restated opening balance as at 1 January 2016				
a) debit	–	–	–	–
b) credit	81,548,930	–	109,342,939	–
Changes in period				
a) debit	–	–	4,025,961	–
b) credit	–	–	15,013,426	80,607
Balance as at 31 December 2016				
a) debit	–	–	–	–
b) credit	81,548,930	–	120,330,404	80,607
Adjustments of material errors and changes in accounting policies				
a) debit	–	–	–	–
b) credit	–	–	–	–
Restated opening balance as at 1 January 2017				
a) debit	–	–	–	–
b) credit	81,548,930	–	120,330,404	80,607
Changes in period				
a) debit	–	–	4,021,069	–
b) credit	–	–	26,962,651	1,189
Balance as at 31 December 2017				
a) debit	–	–	–	–
b) credit	81,548,930	–	143,271,986	81,796

Other comprehensive income components			Total Equity
Acturial gain/(loss)	Gains (losses) from currency translation differences	Gains (losses) from change in value of available-for-sale financial assets	
–	462,113	79,565	–
161,489	–	–	190,511,680
–	–	–	–
–	–	–	–
–	462,113	79,565	–
161,489	–	–	190,511,680
–	133,833	–	–
21,546	–	13,047	10,968,832
–	595,946	66,518	–
183,035	–	–	201,480,512
–	–	–	–
–	–	–	–
–	595,946	66,518	–
183,035	–	–	201,480,512
–	–	–	–
12,180	613,542	2,505	23,570,998
–	–	64,013	–
195,215	17,596	–	225,051,510

in thousand RSD

Notes to the Consolidated Financial Statements[1]

1. GENERAL INFORMATION

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

- Exploration, development and production 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. 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.

These Consolidated 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 consolidated financial statements for the year ended 31 December 2017 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of

1 *All amounts are in RSD 000, unless otherwise stated.*

Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

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

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

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

Subsequent events occurring after 31 December 2017 were evaluated through 28 February 2018, the date these Consolidated 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 Group as a whole is not subject to significant seasonal fluctuation.

2.4. Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents and other monetary assets and liabilities are presented in the consolidated income statement within 'finance income or expense'.

c) *Group's Companies*

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

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

2.5. Principles of consolidation

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

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

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

a) *Joint Operations and Joint Ventures*

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

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

b) *Transactions Eliminated on Consolidation*

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

c) Non-controlling interests

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

2.6. Business combinations

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

2.7. Goodwill

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

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

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed (note 8).

2.8. 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 and Production 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).

2.9. 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.

2.10. Property, plant and equipment

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within “Other income/expenses” in the consolidated income statement (notes 34 and 35).

2.11. 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.

2.12. Investment property

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

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

Investment property is carried at fair value, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

Changes in fair values are recorded in the consolidated income statement as part of Other income/expenses (notes 34 and 35).

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

2.13. Long–term financial assets

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

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

2.13.1. 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.

2.13.2. Recognition and measurement

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

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

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

2.13.3. Impairment of financial assets

a) Assets carried at amortised cost

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

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

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

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

The Group first assesses whether objective evidence of impairment exists.

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

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

b) Assets classified as available for sale

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

2.14. 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 35).

2.15. 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 Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'loss from valuation of assets at fair value through consolidated 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 consolidated income statement (note 33).

2.16. 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.

2.17. Off-balance sheet assets and liabilities

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

2.18. Share capital

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

2.19. Earnings per share

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

2.20. Provisions

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

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

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

2.21. 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 consolidated income statement over the period of the borrowings using the effective interest rate method.

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

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

2.22. 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 rate method.

2.23. Current and deferred income tax

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

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

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

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

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

2.24. Employee benefits

a) Pension obligations

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid.

The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Employee benefits provided by the Collective Agreement

The Group provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in consolidated statement of other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Serbian Treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

c) Bonus plans

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

In 2017, the Group has made decision to introduce new three-year (2018-2020) program for Group's managers which will be based on the Key Performance Indicators ("KPI") reached during the program (note 22).

2.25. Revenue recognition

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

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

a) Sales of goods – wholesale

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

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 sales. No element of financing is deemed present as the sales are made with a credit term consistent with the market practice.

b) Sales – retail

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

c) Sales of services

The Group sells oil and gas 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 direct expenses 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 Group 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 Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.26. Leases

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

Other leases are operating leases and the leased assets are not recognised on the Group's Consolidated Balance Sheet. The total lease payments are charged to consolidated income statement on a straight-line basis over the lease term.

2.27. Dividend distribution

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

2.28. Capitalisation of borrowing costs

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

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

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

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

3.1. Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved 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 consolidated financial statements, most notably depreciation, depletion and amortization as well as impairment expenses.

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

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

3.2. 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 2017 would be to increase/decrease it by RSD 1,481,790 (2016: RSD 1,399,849).

3.3. Impairment of goodwill

Goodwill is tested for impairment annually.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU. The estimated future cash flows include estimation of future costs to produce reserves, future commodity prices, foreign exchange rate, discount rate etc. (Note 8)

3.4. 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 Group 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.

3.5. Employee benefits

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

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to calculate the present value of estimated future cash outflows which are expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Group takes into consideration the interest rates of Serbian Treasury 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 5.65% (rather than 4.65%) per year, the past service liability (DBO) for the whole NIS Group would decrease by about 10.2% for retirement indemnity and 7.1% for jubilee benefit. If pay increased by 1% higher than assumed on an annual basic, than the past service liability (DBO) for the whole NIS Group would increase by amount 11.7% for the retirement indemnity and 7.7% for the jubilee benefit.

3.6. 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 (note 22) is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

If the discount rate used to calculate the present value of decommissioning obligations had been 5.65% (rather than 4.65%) per year, the present liability would have decreased by approx. RSD 383,925.

3.7. Contingencies

Certain conditions may exist as of the date of these consolidated financial statements are issued that may result in a loss to the CompanyGroup, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 38).

3.8. 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 Group performed stress sensitivity analysis of its impact on recoverability of the Group 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 Group's PPE exceed its carrying value.

The Group 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 Group's PPE by 46.3 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 standards or amended standards became effective for the Group from 1 January 2017:

- The amendments to IAS 7 – Statement of Cash Flow (issued in January 2016 effective for annual periods beginning on or after 1 January 2017) require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Group made disclosure in the Consolidated Financial Statements (note 23).

The following standards or amended standards that became effective for the Group from 1 January 2017 did not have any material impact on the Group:

- The amendments to IAS 12 – Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016 effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 - Disclosure of Interest in Other Entities included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

5. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2018 or later, and that the Group has not early adopted.

IFRS 9 "Financial Instruments" (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.

Based on the preliminary analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of The Group is not expecting a significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018. Management of the Group believes that provision in amount of RSD 7,942,578 (trade receivables); RSD 3,923,383 (specific receivables) and RSD 11,687,452 (other receivables) is sufficient and reflects the right measure of the risks associated with collecting the company's claims taking into account all available information's.

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.

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). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when The Group will apply IFRS 15.

The Group plans to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

Based on the preliminary analysis of Group's revenue streams, sales contracts and on the basis of facts and circumstances that exist as at 31 December 2017, the expectation of the Group management is that impact on consolidated financial statements, arising from the adoption of the new standard, would be less than 0.3% of sales revenue for the period ended 31 December 2017. The impact mainly relates to reclassification between sales of goods and services.

The Group plans to finish the implementation process in the first half of 2018. The main remaining tasks include changes in accounting policies and accounting instructions, adapting processes so that economic events are considered in terms of IFRS 15 requirements as at the transaction date and preparing disclosures for the consolidated financial statements. The Group plans to present the main disclosures arising from IFRS 15 requirements in its interim consolidated financial statements as at 30 June 2018.

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. All 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 statement of profit or loss and other comprehensive income. 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 Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Group 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).
- 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).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

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

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

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

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

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

a) *market risk (including foreign exchange risk and interest rate risk);*

b) *credit risk and*

c) *liquidity risk.*

Foreign exchange risk

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

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

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

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

As of 31 December 2017	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Other long-term financial investments	2,107,677	959,722	4,964	71,083	3,143,446
Long term receivables	8,413	-	-	-	8,413
Current assets					
Trade receivables	21,114,139	4,269,578	827,079	1,703,380	27,914,176
Receivables from specific operations	341,232	13,170	155,363	19,527	529,292
Other receivables	151,116	1,014,723	1,227	23,674	1,190,740
Short term financial investments	7,657,613	63,519	-	21,372	7,742,504
Cash and cash equivalents	11,205,666	5,210,861	8,742,852	1,915,991	27,075,370
Financial liabilities					
Non-current					
Long-term liabilities	(283,880)	(72,137,729)	(17,890,187)	(184,082)	(90,495,878)
Current liabilities					
Short-term financial liabilities	(31,813)	(6,022,439)	(44,062)	(1,270)	(6,099,584)
Trade payables	(14,801,961)	(6,905,661)	(7,010,922)	(1,382,360)	(30,100,904)
Other short-term liabilities	(8,986,880)	(142,413)	(195,505)	(72,394)	(9,397,192)
Net exposure	**18,481,322**	**(73,676,669)**	**(15,409,191)**	**2,114,921**	**(68,489,617)**

As of 31 December 2016	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Other long-term financial investments	77,303	1,002,384	7,028	74,189	1,160,904
Long term receivables	7,872	9,292,006	-	-	9,299,878
Current assets					
Trade receivables	23,960,950	11,088,796	507,965	1,159,967	36,717,678
Receivables from specific operations	455,394	37,474	183,610	601	677,079
Other receivables	359,306	2,121,074	342	19,835	2,500,557
Short term financial investments	12,250	294,527	-	51	306,828
Cash and cash equivalents	11,063,921	6,470,898	4,681,789	682,734	22,899,342
Financial liabilities					
Non-current					
Long-term liabilities	(4,166)	(54,367,769)	(39,371,390)	(553,193)	(94,296,518)
Current liabilities					
Short-term financial liabilities	(198)	(21,462,959)	(236,526)	(32,975)	(21,732,658)
Trade payables	(6,845,162)	(9,848,305)	(6,328,574)	(1,443,241)	(24,465,282)
Other short-term liabilities	(8,039,813)	(95,410)	(319,193)	(145,039)	(8,599,455)
Net exposure	**21,047,657**	**(55,467,284)**	**(40,874,949)**	**(237,071)**	**(75,531,647)**

The following exchange rates applied during the period:

Reporting date spot rate	31 December 2017	31 December 2016
EUR	118.4727	123.4723
USD	99.1155	117.1353

Sensitivity analysis

The Group 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 Group's financial statements 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 2017, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit and equity for the year would have been RSD 3,683,833 (2016: RSD 2,773,364) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2017, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit and equity for the year would have been RSD 1,540,919 (2016: RSD 4,087,495) 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 Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (Euribor or Libor) has a proportionate impact on the Group's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit and equity for 2017 would have been RSD 940,437 (2016: RSD 1,087,907) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

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

Credit exposure related to sales of electricity has systematically monitored based on centrally approved credit limits for each customer, taking into account financial position of customer, past experience and credit security.

Banks are rated only in the case of collateralised receivables on various grounds, as well as based on the banks total exposure to the Group. For domestic banks, only the second criterion is applied. Sales to retail customers are settled in cash or using credit cards.

Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the balance sheet is as follows:

	Year ended 31 December	
	2017	**2016**
Other long-term investments	3,143,446	1,160,904
Long term receivables (note 12)	8,413	9,299,878
Trade receivables (note 15)	27,914,176	36,717,678
Receivables from specific operations	529,292	677,079
Other receivables (note 16)	1,190,740	2,500,557
Short term financial investments	7,742,504	306,828
Cash and cash equivalents (note 18)	27,075,370	22,899,342
Total maximum exposure to credit risk	**67,603,941**	**73,562,266**

Trade and Other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- scoring Serbian Business Register Agency, NIS and/or D&B reports;
- amount of registered pledges;
- data on customer's account blockade;
- history of relationships with the Group;
- planned sales volume;
- duration of relationship with the Group, including ageing profile, maturity and existence of any financial difficulties.

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, advance payment or other security.

The Management of the Group regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Group.

Management believes that not impaired trade and other receivables and other current assets are fully recoverable.

As of 31 December 2017 and 2016, the ageing analysis of short-term trade receivables is as follows:

	31 December 2017			31 December 2016		
	Gross	**Impaired**	**Net**	**Gross**	**Impaired**	**Net**
Not past due	25,321,163	–	25,321,163	33,491,655	–	33,491,655
Past due:						
within 30 days	2,128,643	–	2,128,643	1,722,906	–	1,722,906
1 to 3 months	242,422	(5,941)	236,481	1,230,704	(24,637)	1,206,067
3 months to 1 year	383,307	(238,143)	145,164	309,158	(76,890)	232,268
over 1 year	7,781,219	(7,698,494)	82,725	17,453,443	(17,388,661)	64,782
Total	**35,856,754**	**(7,942,578)**	**27,914,176**	**54,207,866**	**(17,490,188)**	**36,717,678**

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

	Trade receivables		Total
	Individually impaired	**Collectively impaired**	
As at 1 January 2016	**6,165,399**	**13,486,068**	**19,651,467**
Provision for receivables impairment	12,149	106,073	118,222
Unused amounts reversed (note 33)	(4,345,232)	(89,800)	(4,435,032)
Receivables written off during the year as uncollectible	(4,220)	(204,174)	(208,394)
Transfer from receivables from specific operations	2,247,189	–	2,247,189
Other	(314,097)	430,833	116,736
As at 31 December 2016	**3,761,188**	**13,729,000**	**17,490,188**
Provision for receivables impairment	3,313	410,845	414,158
Unused amounts reversed (note 33)	(740)	(178,994)	(179,734)
Receivables written off during the year as uncollectible	–	(140,623)	(140,623)
Unwinding of discount (note 31 and 32)	–	(164,147)	(164,147)
Transfer from LT receivables	–	208,808	208,808
Transfer to investment to associates (note 10)	(1,349,735)	(8,362,950)	(9,712,685)
Other	(8,465)	35,078	26,613
As at 31 December 2017	**2,405,561**	**5,537,017**	**7,942,578**

Release of provision during 2016, in the amount of RSD 4,435,032 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. Receivable was collected in accordance with Agreement with Unicredit bank on the trasfer of part of receivables for a fee without recourse in 2017 (note 12).

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above less bank quarantines provided as collateral. The other classes within trade and other receivables do not contain impaired assets.

Movements on the Group's impairment provision of long-term other receivables are as follows:

	Long-term other receivables
As at 1 January 2016	**912,967**
Unwinding of discount (note 31 and 32)	(193,552)
Exchange differences	9,128
As at 31 December 2016	**728,542**
Release of provision	(159,154)
Receivables written off during the year as uncollectible	(132,657)
Exchange differences	(12,860)
Unwinding of discount (note 31 and 32)	(215,064)
Transfer to current part	(208,808)
As at 31 December 2017	**-**

As of 31 December 2017 and 2016, receivables from specific operations amounting RSD 3,923,383 (31 December 2016: RSD 4,467,337) are mostly impaired in the amount of RSD 3,394,091 (31 December 2016: RSD 3,790,258). 96% these receivables are older than 5 years.

As of 31 December 2017 and 2016, the ageing analysis of other receivables were as follows:

	31 December 2017			31 December 2016		
	Gross	**Impaired**	**Net**	**Gross**	**Impaired**	**Net**
Not past due	1,120,164	–	1,120,164	2,393,532	–	2,393,532
Past due:						
within 30 days	13,378	(2,013)	11,365	23,073	(54)	23,019
1 to 3 months	8,117	(970)	7,147	35,922	(9,027)	26,895
3 months to 1 year	137,645	(101,777)	35,868	86,850	(65,253)	21,597
over 1 year	11,598,888	(11,582,692)	16,196	11,697,960	(11,662,446)	35,514
Total	**12,878,192**	**(11,687,452)**	**1,190,740**	**14,237,337**	**(11,736,780)**	**2,500,557**

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2016	**6,331,838**	**7,440,576**	**13,772,414**
Provision for other receivables impairment	82,107	9,414	91,521
Unused amounts reversed (note 33)	(2,086,052)	(715)	(2,086,767)
Receivables written off during the year as uncollectible	(38,291)	(2,184)	(40,475)
Other	(1,323)	1,410	87
As at 31 December 2016	**4,288,279**	**7,448,501**	**11,736,780**
Provision for other receivables impairment	79,215	–	79,215
Unused amounts reversed (note 33)	(74,244)	(16)	(74,260)
Receivables written off during the year as uncollectible	(102,085)	1,966	(100,119)
Other	599	45,237	45,836
As at 31 December 2017	**4,191,764**	**7,495,688**	**11,687,452**

Liquidity risk

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

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

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

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.

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
As at 31 December 2017					
Borrowings	96,595,462	103,637,762	8,412,188	88,135,122	7,090,452
Trade payables and dividends payable	33,873,212	33,873,212	33,873,212	–	–
	130,468,674	**137,510,974**	**42,285,400**	**88,135,122**	**7,090,452**
As at 31 December 2016					
Borrowings	116,029,176	124,087,721	24,476,346	84,520,995	15,090,380
Trade payables and dividends payable	28,237,590	28,237,590	28,237,590	–	–
	144,266,766	**152,325,311**	**52,713,936**	**84,520,995**	**15,090,380**

6.2. Capital risk management

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

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

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

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

	31 December 2017	31 December 2016
Total borrowings (notes 23 and 24)	96,595,462	116,029,176
Less: cash and cash equivalents (note 18)	(27,075,370)	(22,899,342)
Net debt	**69,520,092**	**93,129,834**
EBITDA	46,961,778	39,776,634
Net debt to EBITDA	**1.48**	**2.35**

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

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

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 Group is the current bid price.

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

The carrying amount of trade and other receivables, other current assets and trade and other payable due to their short-term nature is considered to be the same as their fair value. For the majority of the non-current receivables and non-current payables the fair values are also not significantly different to their carrying amounts.

7. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the years ended 31 December 2017 and 2016. Operating segments are components that are engaged in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas and oil field services. Downstream segment (refining and marketing) processes crude oil into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre 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 Group's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Group's on-going operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the year ended 31 December 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,812,695	235,933,159	(45,060,752)	234,685,102
Intersegment	41,956,055	3,104,697	(45,060,752)	-
External	1,856,640	232,828,462	-	234,685,102
EBITDA (Segment results)	**29,987,138**	**16,974,640**	**-**	**46,961,778**
Depreciation, depletion and amortization	(6,821,640)	(9,605,638)	-	(16,427,278)
Impairment losses/Revaluation surpluses (note 35)	(75,245)	(244,237)	-	(319,482)
Write-off of exploration works (note 9)	(568,493)	-	-	(568,493)
Finance income, net	182,294	4,651,183	-	4,833,477
Income tax	(2,256,789)	(4,999,676)	-	(7,256,465)
Segment profit (loss)	**20,407,819**	**6,554,832**	**-**	**26,962,651**

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	36,353,306	192,438,464	(36,691,642)	192,100,128
Intersegment	34,048,352	2,643,290	(36,691,642)	-
External	2,304,954	189,795,174	-	192,100,128
EBITDA (Segment results)	**22,392,045**	**17,384,589**	**-**	**39,776,634**
Depreciation, depletion and amortization	(6,351,069)	(9,538,108)	-	(15,889,177)
Impairment losses/Revaluation surpluses (note 35)	(4,640)	41,731	-	37,091
Write-off of exploration works (note 9)	(1,204,851)	-	-	(1,204,851)
Finance expenses, net	(262,423)	(5,546,491)	-	(5,808,914)
Income tax	(273,282)	(2,354,931)	-	(2,628,213)
Segment profit (loss)	**15,197,681**	**(184,255)**	**-**	**15,013,426**

EBITDA for the year ended 31 December 2017 and 2016 is reconciled below:

	Year ended 31 December	
	2017	**2016**
Profit for the year	26,962,651	15,013,426
Income tax expenses	7,256,465	2,628,213
Other expenses	1,737,858	1,825,734
Other income	(1,213,935)	(1,997,398)
Loss from valuation of assets at fair value through profit and loss	586,650	283,173
Income from valuation of assets at fair value through profit and loss	(309,387)	(6,524,108)
Finance expense	8,121,812	9,090,676
Finance income	(12,955,289)	(3,281,762)
Depreciation, depletion and amortization	16,427,278	15,889,177
Other non operating expenses, net*	347,675	6,849,503
EBITDA	**46,961,778**	**39,776,634**

* *Other non-operating expense, net mainly relate to reversal of impairment, decommissioning and site restoration cost, allowance of receivables and other.*

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

	Year ended 31 December 2017		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	–	1,705,444	1,705,444
Sale of gas	2,306,408	–	2,306,408
Through a retail network	–	–	–
Wholesale activities	2,306,408	–	2,306,408
Sale of petroleum products	157,375,766	51,827,955	209,203,721
Through a retail network	54,723,170	16,011,635	70,734,805
Wholesale activities	102,652,596	35,816,320	138,468,916
Sales of electricity	462,216	11,053,820	11,516,036
Other sales	6,594,438	3,359,055	9,953,493
Total sales	**166,738,828**	**67,946,274**	**234,685,102**

	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	3,052,867	–	3,052,867
Through a retail network	–	–	–
Wholesale activities	3,052,867	–	3,052,867
Sale of petroleum products	131,768,030	36,596,892	168,364,922
Through a retail network	44,481,288	–	44,481,288
Wholesale activities	87,286,742	36,596,892	123,883,634
Sales of electricity	474,398	8,690,443	9,164,841
Other sales	6,303,852	3,192,151	9,496,003
Total sales	**141,599,147**	**50,500,981**	**192,100,128**

In 2016 export and international sales through own retail network within foreign subsidiaries were presented within wholesale activities in the amount of RSD 12,729,699. Starting from 2017 these sales activities are separated.

Out of the amount of RSD 138,468,916 (2016: RSD 123,883,634) revenue from sale of petroleum products (wholesale), the amount of RSD 21,947,228 (2016: RSD 13,844,962) are derived from a single domestic customer, HIP Petrohemija. 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 10,015,978 (2016: RSD 8,415,713).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of RSD 7,701,849 (2016: RSD 7,143,831).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 166,738,828 (2016: RSD 141,599,147), and the total of revenue from external customer from other countries is RSD 67,946,274 (2016: RSD 50,500,981). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2017	**2016**
Sale of crude oil	1,705,444	2,021,495
Sale of petroleum products (retail and wholeasle)		
Bulgaria	14,183,784	10,290,270
Bosnia and Herzegovina	12,757,872	7,769,234
Romania	10,754,460	8,612,276
Croatia	2,677,174	1,952,210
Switzerland	2,642,440	1,668,061
Great Britain	1,953,167	353,776
Macedonia	1,614,993	829,922
Hungary	1,035,140	590,464
All other markets	4,208,925	4,530,679
	51,827,955	36,596,892
Sales of electricity	11,053,820	8,690,443
Other sales	3,359,055	3,192,151
	67,946,274	**50,500,981**

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

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

	31 December 2017	31 December 2016
Serbia	249,437,027	238,780,066
Bulgaria	7,334,652	7,966,581
Bosnia and Herzegovina	7,401,758	8,052,241
Romania	6,967,529	6,968,931
Hungary	28	80
	271,140,994	**261,767,899**

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Goodwill	Other intangibles	Intangible assets under development	Total
At 1 January 2016						
Cost	6,617,839	8,291,324	2,339,301	1,496,540	9,006,680	27,751,684
Accumulated amortisation and impairment	(464,122)	(4,628,461)	(520,925)	(207,671)	(105,715)	(5,926,894)
Net book amount	**6,153,717**	**3,662,863**	**1,818,376**	**1,288,869**	**8,900,965**	**21,824,790**
Year ended 31 December 2016						
Additions	–	–	–	–	2,784,203	2,784,203
Transfer from assets under development	–	735,268	–	19,669	(754,937)	–
Amortization	(680,299)	(1,146,914)	–	(58,407)	(5,066)	(1,890,686)
Transfer to PP&E (note 9)	–	–	–	–	(20,227)	(20,227)
Disposals and write-off	–	(5)	–	(4,869)	(902,203)	(907,077)
Other transfers	–	1,032	–	(1,421)	(14,081)	(14,470)
Translation differences	–	291	26,474	5,435	36,306	68,506
Closing net book amount	**5,473,418**	**3,252,535**	**1,844,850**	**1,249,276**	**10,024,960**	**21,845,039**
As at 31 December 2016						
Cost	6,617,839	8,810,629	2,371,943	1,483,996	10,077,842	29,362,249
Accumulated amortization and impairment	(1,144,421)	(5,558,094)	(527,093)	(234,720)	(52,882)	(7,517,210)
Net book amount	**5,473,418**	**3,252,535**	**1,844,850**	**1,249,276**	**10,024,960**	**21,845,039**
At 1 January 2017						
Cost	6,617,839	8,810,629	2,371,943	1,483,996	10,077,842	29,362,249
Accumulated amortization and impairment	(1,144,421)	(5,558,094)	(527,093)	(234,720)	(52,882)	(7,517,210)
Net book amount	**5,473,418**	**3,252,535**	**1,844,850**	**1,249,276**	**10,024,960**	**21,845,039**
Year ended 31 December 2017						
Additions	–	–	–	345	2,411,927	2,412,272
Transfer from assets under development	2,712,862	427,948	–	57,032	(3,197,842)	–
Amortization	(421,073)	(1,118,170)	–	(65,256)	(4,878)	(1,609,377)
Impairment (note 35)	–	(8,641)	(19,248)	–	–	(27,889)
Transfer to PP&E (note 9)	–	–	–	–	(13,945)	(13,945)
Disposals and write-off	–	(3,729)	–	(3,508)	(81,359)	(88,596)
Other transfers	–	–	–	(48,529)	103,229	54,700
Translation differences	–	(860)	(82,112)	(18,435)	(209,649)	(311,056)
Closing net book amount	**7,765,207**	**2,549,083**	**1,743,490**	**1,170,925**	**9,032,443**	**22,261,148**
As at 31 December 2017						
Cost	9,330,701	9,133,906	2,256,798	1,436,956	9,089,090	31,247,451
Accumulated amortization and impairment	(1,565,494)	(6,584,823)	(513,308)	(266,031)	(56,647)	(8,986,303)
Net book amount	**7,765,207**	**2,549,083**	**1,743,490**	**1,170,925**	**9,032,443**	**22,261,148**

Intangible assets under development as at 31 December 2017 amounting to RSD 9,032,443 (31 December 2016: RSD 10,024,960) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 8,162,735 (31 December 2016: RSD 9,096,426).

Impairment test for goodwill

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

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

	2017	2016
Average gross margin	22.0%	22.0%
Growth rate	1%	1%
Discount rate		
- Romania market	7.56%	7.06%
- Bulgaria market	7.37%	7.05%
- Bosnia and Herzegovina market	12.89%	12.61%

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

	Opening	Addition	Impairment	Translation differences	Closing
2017					
Bosnia and Herzegovina	494,015	-	-	(20,003)	474,012
Romania	307,831	-	-	(19,983)	287,848
Bulgaria	1,043,004	-	(19,248)	(42,127)	981,629
	1,844,850	**-**	**(19,248)**	**(82,113)**	**1,743,489**
2016					
Bosnia and Herzegovina	486,349	-	-	7,666	494,015
Romania	304,895	-	-	2,936	307,831
Bulgaria	1,027,132	-	-	15,872	1,043,004
	1,818,376	**-**	**-**	**26,474**	**1,844,850**

Except recognised impairment loss in Bulgaria in the amount of RSD 19,248, impairment test in Romania and Bosnia and Herzegovina shows that the recoverable amount calculated based on value in use / fair value exceeds carrying value.

If the revised estimated growth rate would be 0,5% instead of 1% and if applied discounted rate would be 1 % higher than management's estimates, the recoverable amount of the each CGU in total still exceeds its carrying amount.

9. PROPERTY, PLANT AND EQUIPMENT

a) *Property, plant and equipment carried at cost*

	Land	Buildings	Machinery and equipment
At 1 January 2016			
Cost	17,491,508	160,380,190	115,619,407
Accumulated depreciation and impairment	(304,230)	(44,291,075)	(44,618,460)
Net book amount	**17,187,278**	**116,089,115**	**71,000,947**
Year ended 31 December 2016			
Additions	–	–	1,212
Transfer from assets under development	60,649	16,946,912	7,366,792
Appraisal effects	–	94,832	–
Impairment charge (note 35)	–	(1,603)	(4,356)
Depreciation	–	(6,278,201)	(7,652,103)
Transfer from intangible assets (note 8)	–	–	102
Transfer to investment property	(5,554)	(131,685)	741
Transfer to non-current assets held for sale	(7,515)	624	169
Disposals and write-off	(25,802)	(247,312)	(209,027)
Other transfers	(20,916)	32,425	(63,724)
Translation differences	95,526	82,853	31,261
Closing net book amount	**17,283,666**	**126,587,960**	**70,472,014**
At 31 December 2016			
Cost	17,587,928	176,704,641	122,136,460
Accumulated depreciation and impairment	(304,262)	(50,116,681)	(51,664,446)
Net book amount	**17,283,666**	**126,587,960**	**70,472,014**
Year ended 31 December 2017			
Additions	–	771,170	
Transfer from assets under development	21,401	15,971,073	6,247,036
Apraisal effects	–	1,399	–
Impairment charge (note 35)	(145,510)	(26,642)	(42,589)
Depreciation	–	(6,763,948)	(7,982,466)
Transfer from intangible assets (note 8)	–	(1,050,204)	1,049,229
Transfer to investment property	(2,759)	(23,190)	–
Transfer to non-current assets held for sale	(7,958)	(108,920)	(14,522)
Disposals and write-off	(4,152)	(93,026)	(154,796)
Other transfers	–	–	48,529
Translation differences	(295,372)	(325,206)	(70,522)
Closing net book amount	**16,849,316**	**134,940,466**	**69,551,913**
At 31 December 2017			
Cost	17,153,246	191,485,363	128,531,892
Accumulated depreciation and impairment	(303,930)	(56,544,897)	(58,979,979)
Net book amount	**16,849,316**	**134,940,466**	**69,551,913**

Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
30,220,489	91,412	457,949	1,360,565	325,621,520
(2,382,658)	(3,708)	(116,910)	(30,809)	(91,747,850)
27,837,831	**87,704**	**341,039**	**1,329,756**	**233,873,670**
20,588,227	–	–	3,612,037	24,201,476
(24,380,904)	–	6,551	–	–
–	–	–	–	94,832
(25,695)	–	–	(11,213)	(42,867)
–	–	(68,187)	–	(13,998,491)
20,125	–	–	–	20,227
–	–	–	–	(136,498)
–	–	–	–	(6,722)
(469,961)	(477)	–	(2,968,348)	(3,920,927)
73,478	–	–	(152,686)	(131,423)
20,198	(531)	159	120	229,586
23,663,299	**86,696**	**279,562**	**1,809,666**	**240,182,863**
25,774,166	87,839	464,720	1,851,425	344,607,179
(2,110,867)	(1,143)	(185,158)	(41,759)	(104,424,316)
23,663,299	**86,696**	**279,562**	**1,809,666**	**240,182,863**
25,197,474	–	–	3,235,708	29,204,352
(22,346,075)	–	64,130	–	(42,435)
–	–	–	–	1,399
(47,382)	–		(3,023)	(265,146)
–	(51)	(71,436)	–	(14,817,901)
13,945	975	–	–	13,945
–	–	–	–	(25,949)
–	–	–	–	(131,400)
(610,047)	(57)	–	(2,973,584)	(3,835,662)
(102,958)	(895)	–	–	(55,324)
(118,988)	(45)	(352)	(305)	(810,790)
25,649,268	**86,623**	**271,904**	**2,068,462**	**249,417,952**
27,681,410	88,653	528,159	2,105,408	367,574,131
(2,032,142)	(2,030)	(256,255)	(36,946)	(118,156,179)
25,649,268	**86,623**	**271,904**	**2,068,462**	**249,417,952**

In 2017, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 75,476 (2016: RSD 57,818).

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

As at 31 December 2017, the Group assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.7 8 for details. In addition Group has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 262,550 (2016: RSD 31,654).

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:

	2017	2016
As at 1 January	**1,549,663**	**1,336,060**
Fair value gains (note 34 and 35)	7,967	79,957
Transfer from PP&E carried at cost	25,949	136,498
Disposals	(56,089)	(4,432)
Other	2,866	1,580
As at 31 December	**1,530,356**	**1,549,663**

As at 31 December 2017, investment properties amounting to RSD 1,530,356 (31 December 2016: RSD 1,549,663) 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 Group's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2017 and 2016. The revaluation gain was credited to other income (note 32).

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 2017 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	–	872,172	–
– Gas stations	–	–	658,184
Total	**–**	**872,172**	**658,184**

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**

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 Group based on long-term rental contracts. The most significant input into this valuation approach is rental price per gas station.

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

	2017	2016
Long term growth rate	0%	0%
Discount rate	14%	16%

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

	2017	2016
Assets as at 1 January	**631,678**	**541,624**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	3,788	68,043
Transfer from PPE	22,484	17,740
Other	234	4,271
Total increase in fair value measurement, assets	26,506	90,054
Assets as at 31 December	**658,184**	**631,678**

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 2.9).

	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 2016						
Cost	19,971,794	7,942,643	27,914,437	108,928,420	33,408	136,876,265
Depreciation and impairment	(21,185)	(248,771)	(269,956)	(25,345,752)	(22,292)	(25,638,000)
Net book amount	**19,950,609**	**7,693,872**	**27,644,481**	**83,582,668**	**11,116**	**111,238,265**
Year ended 31 December 2016						
Additions	5,334,874	11,995,609	17,330,483	–	–	17,330,483
Changes in decommissioning obligations	–	–	–	(9,379)	–	(9,379)
Transfer from asset under construction	(366,515)	(19,154,857)	(19,521,372)	19,521,372	–	–
Other transfers	(3,640,647)	3,831,149	190,502	(112,738)	(15)	77,749
Impairment	–	(4,595)	(4,595)	(45)	–	(4,640)
Unsuccessful exploration expenditures derecognised (note 7)	(1,204,851)	–	(1,204,851)	–	–	(1,204,851)
Depreciation and depletion	(5,066)	–	(5,066)	(5,953,801)	–	(5,958,867)
Disposals and write-off	(6,543)	(87,602)	(94,145)	(158,220)	(7)	(252,372)
Translation differences	51,550	–	51,550	6	–	51,556
	20,113,411	**4,273,576**	**24,386,987**	**96,869,863**	**11,094**	**121,267,944**
As at 31 December 2016						
Cost	20,139,905	4,274,452	24,414,357	127,806,623	31,406	152,252,386
Depreciation and impairment	(26,494)	(876)	(27,370)	(30,936,760)	(20,312)	(30,984,442)
Net book amount	**20,113,411**	**4,273,576**	**24,386,987**	**96,869,863**	**11,094**	**121,267,944**
As at 1 January 2017						
Cost	20,139,905	4,274,452	24,414,357	127,806,623	31,406	152,252,386
Depreciation and impairment	(26,494)	(876)	(27,370)	(30,936,760)	(20,312)	(30,984,442)
Net book amount	**20,113,411**	**4,273,576**	**24,386,987**	**96,869,863**	**11,094**	**121,267,944**
Year ended 31 December 2017						
Additions	5,067,953	12,751,699	17,819,652	–	–	17,819,652
Changes in decommissioning obligations	–	–	–	765,325	–	765,325
Transfer from asset under construction	(4,060,487)	(15,215,542)	(19,276,029)	19,276,924	(895)	–
Impairment	(27,447)	(10,703)	(38,150)	(41,535)	–	(79,685)
Other transfers	(1,184,964)	1,167,608	(17,356)	(52,092)	975	(68,473)
Depreciation and depletion	(4,878)	–	(4,878)	(6,403,068)	(52)	(6,407,998)
Unsuccessful exploration expenditures derecognised (note 7)	(568,493)	–	(568,493)	–	–	(568,493)
Disposals and write-off	(80,243)	(39,041)	(119,284)	(77,455)	(19)	(196,758)
Translation differences	(309,708)	–	(309,708)	30	(3)	(309,681)
	18,945,144	**2,927,597**	**21,872,741**	**110,337,992**	**11,100**	**132,221,833**
As at 31 December 2017						
Cost	19,004,026	2,929,684	21,933,710	147,452,224	32,323	169,418,257
Depreciation and impairment	(58,882)	(2,087)	(60,969)	(37,114,232)	(21,223)	(37,196,424)
Net book amount	**18,945,144**	**2,927,597**	**21,872,741**	**110,337,992**	**11,100**	**132,221,833**

Unsuccessful exploration expenditures derecognised in the amount of RSD 568,493 mainly relate to exploration assets located in Serbia in the amount of RSD 461,615 due to uncertain viability of commercial production (2016: amount of RSD 1,204,851 mainly relate to exploration assets located in Hungary in the amount of RSD 1,188,909).

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

The carrying values of the investments in associates and joint ventures as of 31 December 2017 and 2016 are summarised below:

		Ownership percentage	31 December 2017	31 December 2016
Energowind	Joint venture	50%	1,008,221	1,008,221
Serbskaya Generaciya	Joint venture	49%	1,038,800	1,038,800
HIP Petrohemija ad Pančevo	Associate	20.86%	11,572,197	-
Less Impairment provision			(11,572,197)	-
Total investments			**2,047,021**	**2,047,021**

The principal place of business of joint venture disclosed above is Republic of Serbia. There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

Energowind

In 2013 the Group has acquired 50% of interest in a joint venture, Energowind d.o.o. which is intended to be used as a vehicle for operation of future wind farm ''Plandiste'' with total capacity of 102 MW. On the date of the issuance of these Consolidated Financial Statements there have been no significant business activities. Energowind d.o.o. is a private company and there is no available quoted market price.

Serbskaya Generaciya

In 2015, the Group and Centrenergoholding OAO Russian Federation established the holding company Serbskaya Generaciya, through which they will jointly operate with the Thermal and Heating Power Plant "TETO" Pancevo with a projected capacity of 208 MW. In October 2017 the contract with Shanghai Electric Group Co., Ltd. was signed on a "turnkey" basis and the design phase started. The project will be financed through project financing and is expected to be completed by the end of 2019. During 2016 the Group increased their investment in Serbskaya Generaciya in the amount of RSD 858,362.

HIP Petrohemija

In accordance with the laws in force in the Republic of Serbia, at the beginning of October 2017 all the condition were met for the full implementation ofthe earlier prepared plan for restructuring of the company HIP Petrohemija a.d. Pancevo. In accordance with the adopted plan, the structure of the share capital of the company HIP Petrohemija has been changed, whereby NIS increased its equity interest. After conversion, NIS holds, directly more than 20,86% (before conversion 12,72%) per cent of the voting power of the HIP Petrohemija. Also, NIS has representatives on the BoD and Supervisory boards.

The total amount of fully impaired investments relates to reclassification of impaired receivables in the amount of RSD 9,712,685 (note 6.1) and reclassification of impaired financial assets available for sale in the amount of RSD 1,859,512.

11. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2017	31 December 2016
Deposits with original maturity more than 1 year	2,029,483	-
Other long-term financial investments	79,416	84,239
LT loans given to employees	1,034,606	1,076,724
Less: provision	(59)	(59)
	3,143,446	**1,160,904**

At 31 December 2017 deposits with original maturity more than 1 year amounting to RSD 2,029,483 relate to bank deposit placements with interest rates 4.65% p.a. that will be due in following two years.

Loans to employees as at 31 December 2017 amounting to RSD 1,034,606 (31 December 2016: RSD 1,076,724) 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.

12. LONG-TERM RECEIVABLES

	31 December 2017	31 December 2016
LT receivables - state owned companies	-	10,020,549
LT receivables - finacial lease	20,620	20,620
Less: Impairment	(12,207)	(741,291)
	8,413	**9,299,878**

Decrease in long-term receivables mostly relates to effect of signed contract with Unicredit bank on the transfer of part of receivables for a fee without recourse. The total amount of EUR 67,200,000 transferred in accordance with the Agreement relates to receivables from the Republic of Serbia with the due dates in 2016-2019. All risk and rewards are transferred to Unicredit bank. The payment under the Agreement was made on 17 July 2017 in full.

13. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2017	31 December 2016
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	3,578,507	5,693,395
- Deferred tax assets to be recovered within 12 monts	1,387,464	977,854
	4,965,971	**6,671,249**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(2,768,061)	(2,899,895)
	(2,768,061)	**(2,899,895)**
- Deferred tax assets (net)	**2,197,910**	**3,771,354**

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

	2017	2016
At 1 January		
Charged to the income statement (note 36)	3,771,354	4,268,741
Charged to other comprehensive income	(1,615,639)	(496,135)
Other	14,179	4,449
31 December	28,016	(5,701)
	2,197,910	**3,771,354**

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 2016	**(28,625)**	**(2,959,545)**	**-**	**(2,988,170)**
Charged to the income statement (note 36)	-	79,576	-	79,576
Charged to other comprehensive income	8,697	-	(14,225)	(5,528)
Other	19,928	-	-	19,928
Translation difference	-	(5,701)	-	(5,701)
As at 31 December 2016	**-**	**(2,885,670)**	**(14,225)**	**(2,899,895)**
Charged to the income statement (note 36)	-	130,547	-	130,547
Charged to other comprehensive income	-	-	(210)	(210)
Translation difference	-	1,497	-	1,497
As at 31 December 2017	**-**	**(2,753,626)**	**(14,435)**	**(2,768,061)**

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
Deferred tax assets					
As at 1 January 2016	**958,468**	**864,022**	**5,434,421**	**-**	**7,256,911**
Charged to the income statement (note 36)	30,239	66,171	(672,121)	-	(575,711)
Charged to other comprehensive income	(1,762)	-	-	11,739	9,977
Other	(19,928)	-	-	-	(19,928)
As at 31 December 2016	**967,017**	**930,193**	**4,762,300**	**11,739**	**6,671,249**
Charged to the income statement (note 36)	11,280	18,935	(1,776,401)	-	(1,746,186)
Charged to other comprehensive income	14,831	-	-	(442)	14,389
Other	26,519	-	-	-	26,519
As at 31 December 2017	**1,019,647**	**949,128**	**2,985,899**	**11,297**	**4,965,971**

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

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

The Group did not recognize deferred tax assets in respect of unused tax loss carry forwards in the amount of 886 million RSD (2016: 826 million RSD) that arose mostly in Bosnia, Romania, Bulgaria and Hungary and are available for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group. They have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future.

14. INVENTORY

	31 December 2017	31 December 2016
Materials, spare parts and tools	27,510,780	20,619,950
Work in progress	3,961,298	3,119,239
Finished goods	8,544,853	6,014,045
Goods for sale	2,008,505	2,408,908
Advances	666,931	437,325
Less: impairment of inventory	(5,108,493)	(5,326,077)
Less: impairment of advances	(261,100)	(261,983)
	37,322,774	**27,011,407**
Non-current assets held for sale	5,986	-
Less: impairment of assets held for sale	(5,823)	-
	163	-
	37,322,937	**27,011,407**

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 2016	**5,588,504**	**270,298**	**185,782**	**6,044,584**
Provision for inventories and advances (note 35)	54,051	7,837	-	61,888
Unused amounts reversed (note 34)	(12,505)	(8,544)	-	(21,049)
Receivables written off during year as uncollectible	-	(3,732)	(185,782)	(189,514)
Other	(303,973)	(3,876)	-	(307,849)
Balance as of 31 December 2016	**5,326,077**	**261,983**	**-**	**5,588,060**
Provision for inventories and advances (note 35)	8,431	6,974	5,823	21,228
Unused amounts reversed (note 34)	(896)	(1,939)	-	(2,835)
Receivables written off during year as uncollectible	-	(5,916)	-	(5,916)
Other	(225,119)	(2)	-	(225,121)
Balance as of 31 December 2017	**5,108,493**	**261,100**	**5,823**	**5,375,416**

15. TRADE RECEIVABLES

	31 December 2017	31 December 2016
Other related parties - domestic	1,447,646	10,349,738
Other related parties - foreign	1,024,133	1,047,541
Trade receivables domestic – third parties	31,924,918	41,832,190
Trade receivables foreign – third parties	1,460,057	978,397
	35,856,754	54,207,866
Less: Impairment	(7,942,578)	(17,490,188)
	27,914,176	**36,717,678**

Decrease of receivables from other related parties – domestic and related impairment provision mostly relates to transfer of receivables from HIP Petrohemija to investments in associate (note 11). In accordance with the memorandum between the Republic of Serbia and NIS, Commercial Court in Pancevo adopted the Pre-packed Reorganization Plan for HIP Petrohemija in 2017 and at the beginning of October 2017 fully implemented. NIS increased its equity interest in HIP Petrohemija to 20.86% (12.72% before the increase) by the conversion of the part of receivables after the write-offs.

16. OTHER RECEIVABLES

	31 December 2017	31 December 2016
Interest receivables	5,211,198	6,480,562
Receivables from employees	94,329	90,356
Income tax prepayment	1,053	141,764
Other receivables	7,571,612	7,524,655
Less: Impairment	(11,687,452)	(11,736,780)
	1,190,740	**2,500,557**

17. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2017	31 December 2016
Deposits with original maturity more than 3 months less than 1 year	7,645,689	-
Other short-term financial assets	96,815	306,828
	7,742,504	**306,828**

as at 31 December 2017 deposits with original maturity more than 3 months less than 1 year amounting to RSD 7,645,689 relate to bank deposits placements with interest rates from 3.23% to 4.15% p.a. denominated in RSD.

18. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash in bank and in hand	15,896,738	14,101,298
Deposits with original maturity of less than three months	9,418,037	7,197,776
Cash with restriction	1,521,241	1,599,284
Cash equivalents	239,354	984
	27,075,370	**22,899,342**

Cash with restriction as of 31 December 2017 amounting to RSD 1,521,241 (31 December 2016: RSD 1,599,284) mostly relates to deposited funds in accordance with the interest in a joint venture through which the operation of future wind farm ''Plandiste'' will be managed. According to the Agreement, the Group can withdraw cash at any time.

19. PREPAYMENTS AND ACCRUED INCOME

	31 December 2017	31 December 2016
Deferred input VAT	1,419,963	1,251,278
Prepaid expenses	236,845	115,146
Prepaid excise duty	1,862,790	1,478,182
Housing loans and other prepayments	1,247,028	1,079,344
	4,766,626	**3,923,950**

Deferred input VAT as at 31 December 2017 amounting to RSD 1,419,963 (31 December 2016: RSD 1,251,278) 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 as at 31 December 2017 amounting to RSD 1,862,790 (31 December 2016: RSD 1,478,182) 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.

20. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
Issued warranties and bills of exchange	70,741,005	81,020,116
Received warranties and bills of exchange	17,697,476	16,611,577
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	6,085,575	7,191,930
Third party merchandise in NIS warehouses	6,819,872	6,410,848
Assets for oil fields liquidation in Angola	1,332,018	1,179,546
Other off-balance sheet assets and liabilities	327,765	286,605
	108,361,401	**118,058,312**

21. EQUITY

	Equity attributable to owners of the Group			
	Share capital	Other capital	Reserves	Retained earnings (loss)
Balance as at 1 January 2016	**81,530,200**	**-**	**-**	**109,536,896**
Profit (loss) for the year	-	-	-	15,037,973
Gains from securities	-	-	-	-
Dividend distribution	-	-	-	(4,025,961)
Actuarial gain	-	-	-	-
Revaluation reserves	-	-	80,607	-
Other	-	-	-	2
Balance as at 31 December 2016	**81,530,200**	**-**	**80,607**	**120,548,910**
Balance as at 1 January 2017	**81,530,200**	**-**	**80,607**	**120,548,910**
Profit (loss) for the year	-	-	-	26,991,074
Gains from securities	-	-	-	-
Dividend distribution	-	-	-	(4,021,069)
Actuarial gain	-	-	-	-
Revaluation reserves	-	-	1,189	-
Other	-	-	-	-
Balance as at 31 December 2017	**81,530,200**	**-**	**81,796**	**143,518,915**

21.1. Share Capital

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

Share capital as of 31 December 2017 and 31 December 2016 comprise of 163,060,400 of ordinary shares.

Dividend declared for the year ended 31 December 2016, amounted to RSD 4,021,069 or RSD 24.66 per share. Distributions of dividends were approved on the General Assembly Meeting held on 27 June 2017 and paid on 18 August 2017.

				Non-controlling interest	Total Equity
Translation reservas	**Unrealised gains (losses) from securities**	**Actuarial gain (loss)**	**Total**		
(450,963)	**(79,564)**	**161,245**	**190,697,814**	**(186,134)**	**190,511,680**
–	–	–	15,037,973	(24,547)	15,013,426
–	13,046	–	13,046	–	13,046
–	–	–	(4,025,961)	–	(4,025,961)
–	–	21,547	21,547	–	21,547
–	–	–	80,607	–	80,607
(130,208)	–	(535)	(130,741)	(3,092)	(133,833)
(581,171)	**(66,518)**	**182,257**	**201,694,285**	**(213,773)**	**201,480,512**
(581,171)	**(66,518)**	**182,257**	**201,694,285**	**(213,773)**	**201,480,512**
–	–	–	26,991,074	(28,423)	26,962,651
–	2,505	–	2,505	–	2,505
–	–	–	(4,021,069)	–	(4,021,069)
–	–	12,180	12,180	–	12,180
–	–	–	1,189	–	1,189
603,842	–	–	603,842	9,700	613,542
22,671	**(64,013)**	**194,437**	**225,284,006**	**(232,496)**	**225,051,510**

22. 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 2016	**9,152,369**	**687,702**	**856,168**	**296,783**	**714,001**	**11,707,023**
Charged to the income statement	118,943	243,999	28,337	364,159	95,444	850,882
New obligation incurred and change in estimates	(9,332)	–	–	–	–	(9,332)
Release of provision	(433,086)	(42,517)	(9,116)	–	(24,427)	(509,146)
Actuarial gain charged to other comprehensive income	–	–	(14,077)	–	–	(14,077)
Settlement	(187,593)	(50,531)	(85,915)	–	(104,697)	(428,736)
Other	1	2	17	–	651	671
As at 31 December 2016	**8,641,302**	**838,655**	**775,414**	**660,942**	**680,972**	**11,597,285**
As at 1 January 2017						
Charged to the income statement	606,381	–	1,715	365,922	29,090	1,003,108
New obligation incurred and change in estimates	765,325	–	–	–	–	765,325
Release of provision	–	–	(276,284)	–	(34,298)	(310,582)
Actuarial loss charged to other comprehensive income	–	–	27,011	–	–	27,011
Settlement	(168,127)	(157,493)	(70,714)	–	(72,075)	(468,409)
Other	(3)	–	(84)	–	(201)	(288)
As at 31 December 2017	**9,844,878**	**681,162**	**457,058**	**1,026,864**	**603,487**	**12,613,450**

Analysis of total provisions:

	31 December 2017	31 December 2016
Non-current	9,766,303	9,617,973
Current	2,847,147	1,979,312
	12,613,450	**11,597,285**

a) *Decommissioning*

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

b) *Environmental protection*

The Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 681,162 (31 December 2016: RSD 838,655) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

c) *Long-term incentive program*

In 2011, the Group started setting-up a long-term incentive program for Group managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2017 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in amount of RSD 1,026,864 (2016: RSD 660,942).

d) *Legal claims provisions*

As at 31 December 2017, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group released provision for litigation amounting to RSD 34,272 (2016: RSD 24,427 reversed) for proceedings which were assessed that won't have negative outcome and charged provision for litigation amounting to RSD 29,067 (2016: 95,44) for proceedings which were assessed to have negative outcome. The Group estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2017.

e) *Provision for employee benefits*

Employee benefits:

	31 December 2017	31 December 2016
Retirement allowances	143,027	106,143
Jubilee awards	314,031	669,271
	457,058	**775,414**

The principal actuarial assumptions used were as follows:

	31 December 2017	31 December 2016
Discount rate	4.65%	7.15%
Future salary increases	2.0%	2.0%
Future average years of service	15	14.9

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2016	**109,132**	**747,036**	**856,168**
Benefits paid directly	(3,981)	(81,934)	(85,915)
Actuarial gain charged to other comprehensive income	(14,077)	–	(14,077)
Credited to the income statement	15,052	4,169	19,221
Translation difference	17	–	17
Balances as at 31 December 2016	**106,143**	**669,271**	**775,414**
Benefits paid directly	(8,042)	(62,672)	(70,714)
Actuarial loss charged to other comprehensive income	27,011	–	27,011
Credited to the income statement	17,999	(292,568)	(274,569)
Translation difference	(84)	–	(84)
Balances as at 31 December 2017	**143,027**	**314,031**	**457,058**

The amounts recognized in the Consolidated Income Statement are as follows:

	Year ended 31 December	
	2017	**2016**
Current service cost	53,968	62,084
Interest cost	52,179	53,611
Curtailment gain	(770)	(5,673)
Actuarial gains (jubilee awards)	106,446	(87,414)
Amortisation of past service cost	(486,392)	(3,387)
	(274,569)	**19,221**

23. LONG-TERM LIABILITIES

	31 December 2017	31 December 2016
Long-term loan - Gazprom Neft	30,306,970	37,328,836
Bank and other long-term loans	65,796,475	66,120,490
Finance lease liabilities	432,562	343,080
Other long-term borrowings	59,455	46,825
Less Current portion (note 24)	(6,099,584)	(9,542,713)
	90,495,878	**94,296,518**

Movements on the Group's liabilities from finance activities are as follows:

	Long-term loans	Short-term loans (note 24)	Finance lease	Total
As at 1 January 2016	**113,444,171**	**3,553,120**	**199,289**	**117,196,580**
Proceeds	8,904,811	15,154,463	-	24,059,274
Repayment	(22,064,776)	(6,602,477)	-	(28,667,253)
Non-cash transactions	-	-	141,395	141,395
Foreign exchange difference	3,165,120	84,839	2,396	3,252,355
As at 31 December 2016	**103,449,326**	**12,189,945**	**343,080**	**115,982,351**
As at 1 January 2017	**103,449,326**	**12,189,945**	**343,080**	**115,982,351**
Proceeds	36,955,269	-	-	36,955,269
Repayment	(35,994,594)	(12,032,267)	(117,338)	(48,144,199)
Non-cash transactions	-	-	220,303	220,303
Foreign exchange difference	(8,306,556)	(157,678)	(13,483)	(8,477,717)
As at 31 December 2017	**96,103,445**	**-**	**432,562**	**96,536,007**

a) Long-term loan - Gazprom Neft

As at 31 December 2017 long-term loan - Gazprom Neft amounting to RSD 30,306,970 (2016: RSD 37,328,836), with current portion of RSD 5,510,358 (2016: RSD 5,742,898), 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 and other long-term loans

	31 December 2017	31 December 2016
Domestic	43,338,384	27,522,764
Foreign	22,458,091	38,597,726
	65,796,475	66,120,490
Current portion of long-term loans	(536,801)	(3,773,525)
	65,259,674	**62,346,965**

The maturity of non-current loans was as follows:

	31 December 2017	31 December 2016
Between 1 and 2 years	23,403,612	13,481,072
Between 2 and 5 years	39,342,047	44,609,978
Over 5 years	2,514,015	4,255,915
	65,259,674	**62,346,965**

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

	31 December 2017	31 December 2016
USD	17,934,250	39,607,916
EUR	47,551,800	26,126,044
RSD	814	976
JPY	309,611	385,554
	65,796,475	**66,120,490**

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

The loan agreements contain financial covenants that require the Group's ratio of Consolidated Indebtedness to EBITDA. Management believes the Group is in compliance with these covenants as of 31 December 2017 and 31 December 2016 respectively.

c) *Financial lease liabilities*

Minimum finance lease payments:

	31 December 2017	31 December 2016
Less than one year	97,576	72,779
1-5 years	399,659	326,305
Over 5 years	611,584	623,996
Future finance charges on finance leases	(676,257)	(680,000)
Present value of finance lease liabilities	**432,562**	**343,080**

	31 December 2017	31 December 2016
Less than one year (note 24)	52,425	26,290
1-5 years	203,407	124,217
Over 5 years	176,730	192,573
Present value of finance lease liabilities	**432,562**	**343,080**

24. SHORT-TERM FINANCE LIABILITIES

	31 December 2017	31 December 2016
Short-term loans	-	12,189,945
Current portion of long-term loans (note 23)	6,047,159	9,516,423
Current portion of finance lease liabilities (note 23)	52,425	26,290
	6,099,584	**21,732,658**

25. TRADE PAYABLES

As at 31 December 2017 trade payables in a amount of RSD 30,100,904 (31 December 2016: RSD 24,465,282) including payables to parents and subsidiaries-foreign amounting to RSD 11,727,340 (31 December 2016: RSD 5,818,200) fully relate to payables to the supplier Gazprom Neft, St Petersburg, for the purchase of crude oil and services.

26. OTHER SHORT-TERM LIABILITIES

	31 December 2017	31 December 2016
Specific liabilities	199,075	263,705
Liabilities for unpaid wages and salaries, gross	1,116,595	1,073,870
Interest liabilities	743,499	807,213
Dividends payable	3,772,308	3,772,308
Other payables to employees	1,583,215	646,704
Decommissioning and site restoration costs	1,419,423	1,385,645
Environmental provision	201,836	292,484
Litigation and claims	241,188	235,112
Other current liabilities	120,053	122,414
	9,397,192	**8,599,455**

27. LIABILITIES FOR OTHER TAXES

	31 December 2017	31 December 2016
Excise tax	5,258,815	5,395,623
Contribution for buffer stocks	527,858	601,357
Income tax	1,953,078	15,661
Other taxes payables	1,447,764	1,467,269
	9,187,515	**7,479,910**

28. ACCRUED EXPENSES

Accrued expenses as at 31 December 2017 amounting to RSD 4,162,449 (31 December 2016: RSD 3,781,043) mainly relate to accrued employee bonuses of RSD 1,982,895 (31 December 2016: RSD 1,875,503).

29. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2017	**2016**
Cost of production services	2,198,742	2,812,406
Transportation services	3,723,605	3,444,162
Maintenance	3,426,803	4,070,590
Rental costs	1,666,379	1,971,522
Fairs	508	7,196
Advertising costs	897,000	917,554
Exploration expenses	624,857	1,247,296
Cost of other services	1,380,209	1,320,674
	13,918,103	**15,791,400**

30. NON-PRODUCTION EXPENSES

	Year ended 31 December	
	2017	**2016**
Costs of non-production services	8,466,351	8,231,868
Representation costs	118,253	79,456
Insurance premium	555,345	387,625
Bank charges	360,491	289,472
Cost of taxes	1,247,685	1,206,296
Mineral extraction tax	1,202,368	1,014,164
Other non-production expenses	1,936,963	2,073,738
	13,887,456	**13,282,619**

Cost of non-production services for the year ended 31 December 2017 amounting to RSD 8,466,351 (2016: RSD 8,231,868) mainly relate to costs of service organizations of RSD 6,287,395, consulting service costs of RSD 442,482, security cost of RSD 513,076 and project management costs of RSD 1,394,632 and consulting service costs of RSD 433,978.

31. FINANCE INCOME

	Year ended 31 December	
	2017	**2016**
Finance income - related parties		
- foreign exchange differences	2,701,657	879,932
Interest income	726,378	550,034
Amortisation income – discount of receivables	379,211	489,981
Foreign exchange gains	8,986,384	1,358,257
Other finance income	161,659	3,558
	12,955,289	**3,281,762**

32. FINANCE EXPENSE

	Year ended 31 December	
	2017	**2016**
Finance expenses – related parties		
- foreign exchange differences	2,636,982	1,327,780
- other finance expense	632,427	760,956
Interest expenses	2,414,743	2,677,708
Decommissioning provision: unwinding of the present value discount	138,488	118,943
Provision of trade and other non-current receivables: discount	-	296,429
Foreign exchange losses	2,271,579	3,899,042
Other finance expense	27,593	9,818
	8,121,812	**9,090,676**

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

	Year ended 31 December	
	2017	**2016**
Reversal of impairment of LT financial investments	541	788
Income from valuation:		
– trade and specific receivables (note 6)	234,586	4,436,553
– other receivables (note 6)	74,260	2,086,767
	309,387	**6,524,108**

34. OTHER INCOME

	Year ended 31 December	
	2017	**2016**
Gains on disposal – PPE	103,309	379,232
Gains on disposal – materials	43,423	59,794
Surpluses from stock count	468,984	420,439
Payables written off	39,130	104,158
Release of long-term provisions	310,582	504,682
Release of impairment:		
– Investment property (note 9)	16,869	79,957
– Inventory	896	12,505
– PPE and other property	1,939	8,807
Penalty interest	142,323	125,672
Other income	86,480	302,152
	1,213,935	**1,997,398**

35. OTHER EXPENSES

	Year ended 31 December	
	2017	**2016**
Loss on disposal - PPE	223,329	310,543
Shortages from stock count	584,272	605,785
Write-off receivables	28,767	58,330
Write-off inventories	197,538	85,325
Impairment:		
- Intangible assets (note 8)	27,889	-
- PPE (note 9)	265,146	42,867
- Inventory	8,431	54,051
- Other property	6,974	7,837
- Investment property (note 9)	43,396	-
Other expenses	352,116	660,996
	1,737,858	**1,825,734**

36. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2017	**2016**
Income tax for the year	5,640,826	2,132,078
Deferred income tax for the period (note 12)		
Origination and reversal of temporary differences	1,615,639	496,135
	7,256,465	**2,628,213**

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

	Year ended 31 December	
	2017	**2016**
Profit before tax	**34,219,116**	**17,641,639**
Tax calculated at domestic tax rates applicable to profits in the respective countries	5,358,430	2,646,246
Tax effect on:		
Revenues exempt from taxation	(323,153)	(21,019)
Expenses not deductible for tax purposes		
- Tax paid in Angola	2,177,957	250,449
- Other expenses not deductable	253,836	241,564
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	(66,021)	(434,051)
Other tax effects for reconciliation between accounting profit and tax expense	(144,584)	(30,736)
	7,256,465	**2,652,453**
Adjustment in respect of prior years	-	(24,240)
	7,256,465	**2,628,213**
Effective income tax rate	**21.21%**	**14.90%**

The weighted average applicable tax rate was 21.21% (2016: 14.90%). The increase is caused by a change in the profitability of the Group and due to Global agreement with the Ministry of finance and General Tax administration of the Republic of Angola signed in June 2017 by which Group agreed to pay tax charges for the fiscal years 2002 – 2016.

37. OPERATING LEASES

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

	31 December 2017	**31 December 2016**
Less than one year	278,871	256,812
1-5 years	417,942	349,136
Over 5 years	149,922	138,121
	846,735	**744,069**

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

	31 December 2017	31 December 2016
Less than one year	1,024,584	1,372,745
1-5 years	3,698,384	672,147
Over 5 years	951,109	213,137
	5,674,077	**2,258,029**

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

38. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

As of 31 December 2017 the Group has entered into contracts to purchase property, plant and equipment for RSD 11,347,097 (31 December 2016: RSD 5,324,487) and drilling and exploration works estimated to 58.17 USD million (31 December 2016: 40.17 USD million).

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Group 's management recognised an environmental provision in the amount of RSD 681,162 (31 December 2016: RSD 838,655).

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

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group 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 Group has paid all tax liabilities as of 31 December 2017.

There were no other material commitments and contingent liabilities of the Group.

39. GROUP ENTITIES

The consolidated financial statements of below listed subsidiaries are consolidated as at 31 December 2017 and 31 December 2016:

			Share %	
Subsidiary	**Country of incorporation**	**Nature of business**	**31-Dec 2017**	**31-Dec 2016**
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
Pannon naftagas Kft, Budapest	Hungary	Electricity	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-naftni servisi d.o.o. Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o. Novi Sad	Serbia	O&G activity	100	100
Naftagas-tehnicki servisi d.o.o. Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o. Novi Sad	Serbia	Transport	100	100
O Zone a.d., Belgrade	Serbia	Other	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	Trade	100	100
Jadran - Naftagas d.o.o. Banja Luka	Bosnia and Herzegovina	O&G activity	66	66
Svetlost, Bujanovac	Serbia	Trade	51	51

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

40. 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 2017 and 2016, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

As of 31 December 2017 and 31 December 2016 the outstanding balances with related parties other than state and state owned companieswere as follows:

	Joint venture	Parent	Parent's subsidiaries and associates
As at 31 December 2017			
Investments in associates and joint ventures	2,047,021	–	–
Trade receivables	–	–	2,471,779
Other receivables	269,242	–	–
Payment in advance	–	–	2,754
Long-term liabilities	–	(24,796,612)	–
Short-term financial liabilities	–	(5,510,358)	–
Advances received	–	–	(74,404)
Trade payables	–	(11,727,340)	(2,300,308)
	2,316,263	**(42,034,310)**	**99,821**

	Joint venture	Parent	Parent's subsidiaries and associates
As at 31 December 2016			
Investments in associates and joint ventures	2,047,021	–	–
Trade receivables	–	–	1,047,541
Other receivables	220,243	–	–
Long-term liabilities	–	(31,585,938)	–
Short-term financial liabilities	–	(5,742,898)	–
Advances received	–	–	(23,091)
Trade payables	–	(5,818,200)	(1,079,842)
	2,267,264	**(43,147,036)**	**(55,392)**

For the year ended 31 December 2017 and 2016 the following transaction occurred with related parties:

	Subsidiary	Parent	Parent's subsidiaries and associates
Year ended 31 December 2017			
Sales revenue	–	–	32,561,306
Other operating income	–	–	2,377
Cost of goods sold	–	–	(10,312,815)
Cost of material	–	(31,926,861)	–
Cost of production services	–	–	(197,261)
Non-material expense	–	(3,000)	(116,320)
Finance expense	–	(632,427)	–
Other income	–	83,321	–
Other expenses	–	(69,543)	(253)
	-	**(32,548,510)**	**21,937,034**
Year ended 31 December 2016			
Sales revenue	–	–	23,025,017
Cost of goods sold	–	–	(8,473,522)
Cost of material	–	(36,864,735)	–
Cost of production services	–	–	(113,594)
Non-material expense	–	(10)	(141,857)
Finance expense	–	(2,088,736)	–
Finance income	–	760,956	–
Other income	–	133,073	–
Other expenses	–	(148,657)	(260)
	-	**(38,208,109)**	**14,295,784**

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

	Parent's subsidiaries and associates	Other
As at 31 December 2017		
Trade and other receivables (gross)		
– HIP Petrohemija	1,446,685	–
– Srbijagas	–	109,748
– Republika Srbija	–	3,740,763
– Other state owned companies	–	4,936,110
Trade and other payables		
– HIP Petrohemija	(1,252,736)	–
– Srbijagas	–	(77,059)
Other current liabilities		
– HIP Petrohemija	(13,646)	–
	180,303	**8,709,562**
As at 31 December 2016		
Trade and other receivables (gross)		
– HIP Petrohemija	–	10,349,446
– Srbijagas	–	34,142
– Republika Srbija	–	21,764,308
– Other state owned companies	–	3,621,268
Trade and other payables		
– HIP Petrohemija	–	(675,393)
– Srbijagas	–	(141,195)
Other current liabilities		
– HIP Petrohemija	–	(1,567)
	–	**34,951,009**

	Partent's subsidiaries and associates	Other
As at 31 December 2017		
Operating income		
- HIP Petrohemija	21,947,228	-
- Srbijagas	-	782,306
Operating expenses		
- HIP Petrohemija	(195,139)	-
- Srbijagas	-	(926,488)
	21,752,089	**(144,182)**
As at 31 December 2016		
Operating income		
- HIP Petrohemija	-	13,847,087
- Srbijagas	-	1,284,610
Operating expenses		
- HIP Petrohemija	-	(195,479)
- Srbijagas	-	(1,123,794)
	-	**13,812,424**

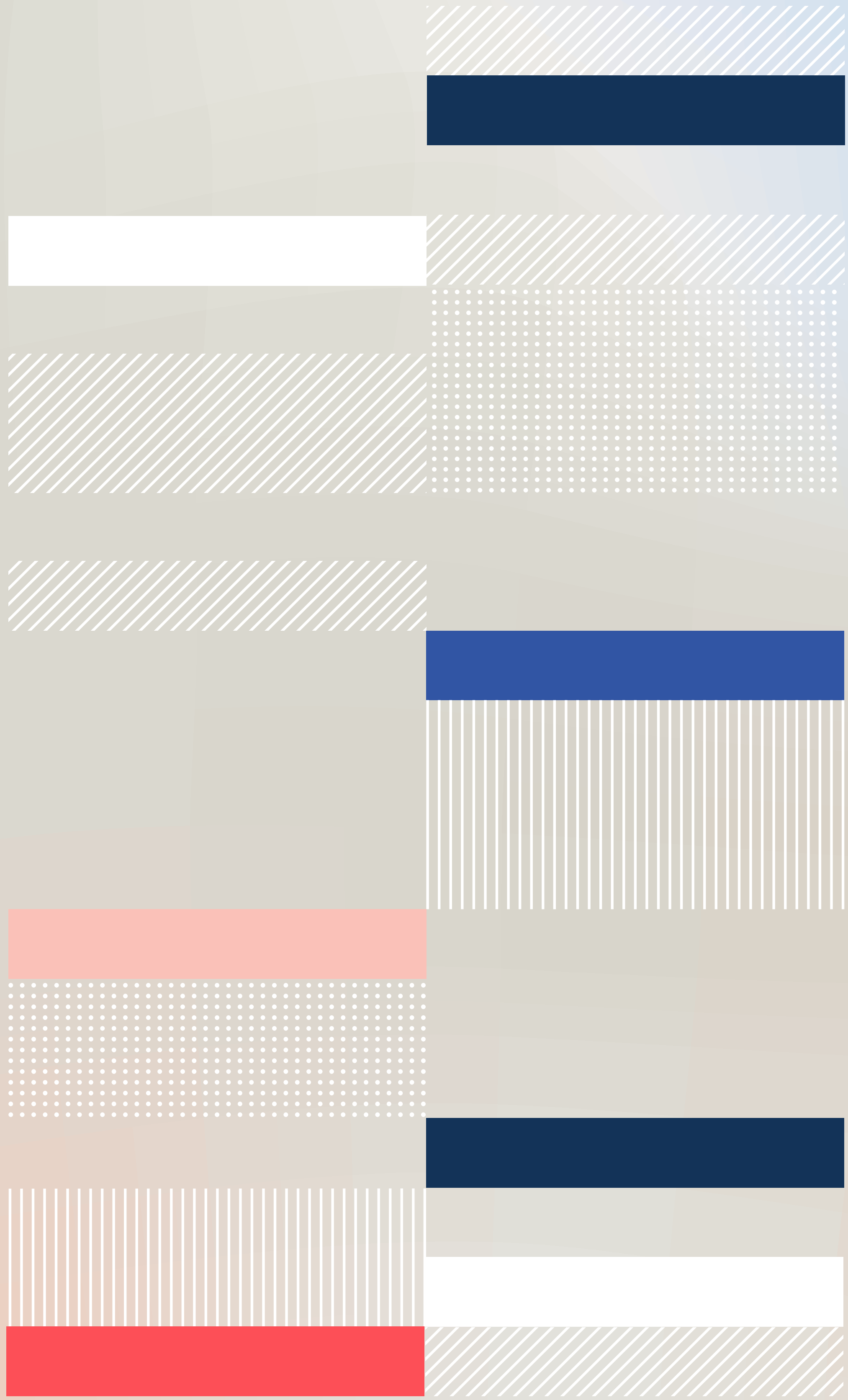
Transactions with state controlled entities mainly relates to sales of petroleum products based on the price lists in force and terms that would be available to third parties.

Transactions with Key Management Personnel

In the year ended 31 December 2017 and 2016 the Group recognized RSD 1,029,116 and RSD 864,392, 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.

3

Statement of Individuals Responsible for the Preparation of Financial Statements



3.01 Statement of Individuals Responsible for the Preparation of Financial Statements

We hereby declare that, to the best of our knowledge, the annual Financial Statements are compiled against relevant International Financial Reporting Standards and in compliance with the Law on Accounting of the Republic of Serbia ('Official Gazette of the Republic of Serbia' No. 62/2013), stipulating that financial statements be prepared in compliance with all IFRSs and regulations issued by the Ministry of Finance of the Republic of Serbia[1] and that they provide accurate and objective information on the assets and liabilities and financial standing and performance, profit and losses, cash flows and changes in equity of the public company, including the companies which are part of the consolidated statements.

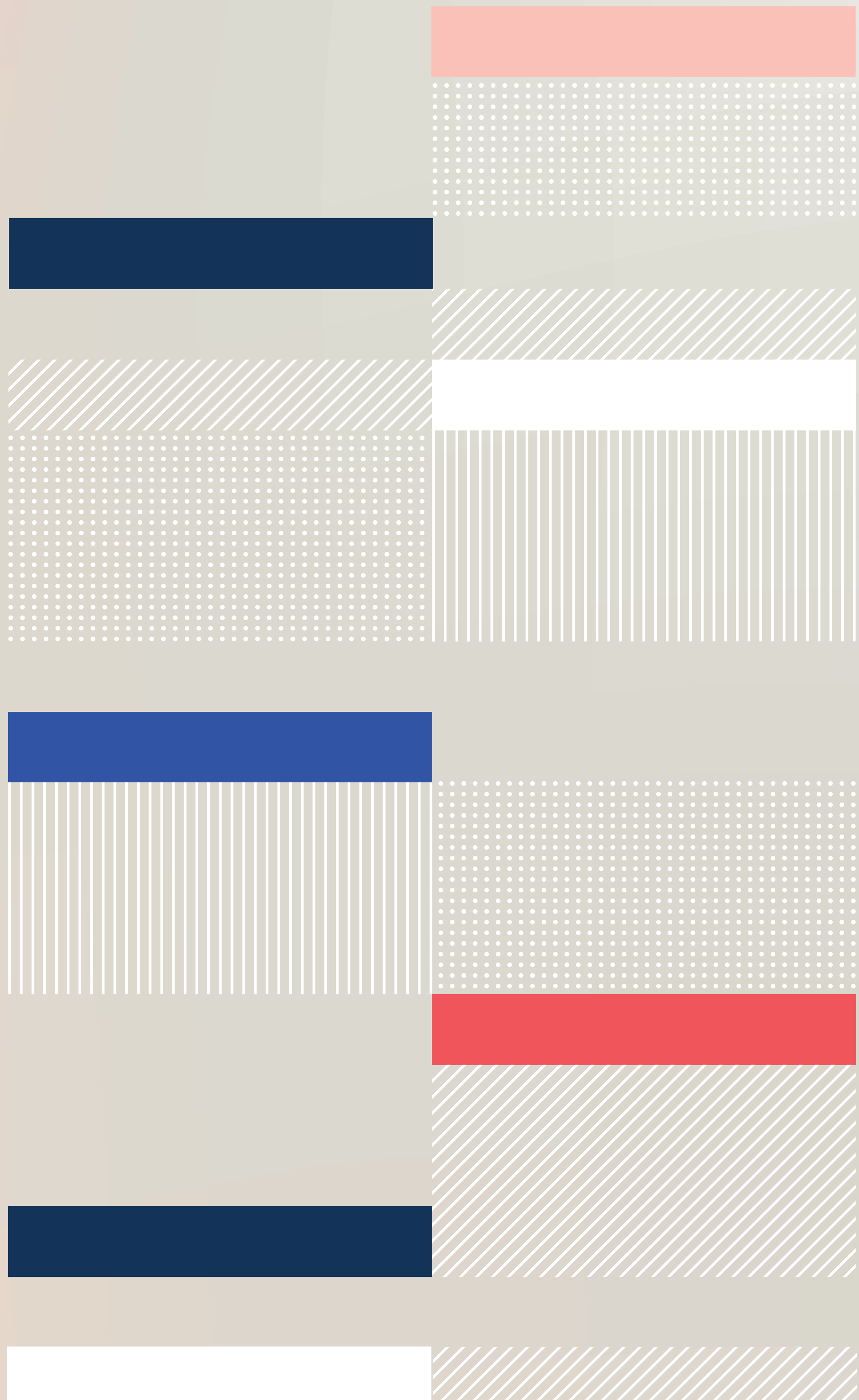
Kirill Tyurdenev
General Director
NIS j.s.c. Novi Sad

1 *Considering the differences between the two regulations, these Financial Statements depart from the IFRS in the following:*

- *Group compiled the Financial Statements using the templates prescribed by the Ministry of Finance of the Republic of Serbia, which are not in compliance with the requirements of IAS 1 – Presentation of Financial Statements.*
- *Off-balance Sheet Assets and Liabilities are presented on the Balance Sheet Template. As defined by the IFRS, these items are neither assets nor liabilities.*

4

Appendices



4.01 General Details of NIS j.s.c. Novi Sad

Business name:	NIS j.s.c. Novi Sad
Company Registration No:	20084693
Address:	12, Narodnog fronta Str., Novi Sad
TIN:	104052135
Web site:	www.nis.eu
e-mail:	office@nis.eu
Activity:	0610 - Crude Oil Exploitation
Number and date of registration at the BRA:	BD 92142, 29 September 2005
Audit company that audited the last financial report (dated 31 December 2017):	Pricewaterhouse d.o.o., Belgrade 88 Omladinskih brigada 11070 Novi Beograd
Organized market where Shares of the Issuer are traded in:	Belgrade Stock Exchange a.d. 1 Omladinskih brigada 11070 Novi Beograd

4.02 Glossary

Abbreviation	Meaning
3D	Three-dimensional
a.d.o.	Insurance joint stock company
ALARP	As low as reasonably possible
AMCHAM	American Chamber of Commerce
BAM	Convertible mark, Bosnia and Herzegovina currency
B&H	Bosnia and Herzegovina
BC	Business Centre
bn	billion
BoD	Board of Directors
BV	Book Value
CAC/RCP	Codex Alimentarius Commission/Recommended Code of Practice
CAPEX	Capital Expenditures
CCIS	Chamber of Commerce and Industry of Serbia
CEEC	Central-Eastern Europe and Caspian
CEMS	Continuous Emission Monitoring System
CFA	Certified Financial Analyst
CIS	Commonwealth of Independent States
CNG	Compressed Natural Gas
CO_2	Carbon Dioxide
CSM	Contractor Safety Management
DCU	Delayed Coking Unit
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EIA	Energy Information Administration

Abbreviation	Meaning
e.o.o.d.	Solely owned limited liability company (in Bulgaria)
EPCm	Engineering, procurement and construction management
EPS	Earnings per share
PS	Primary School
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offer Rate
FCC	Fluid Catalytic Cracker
FIC	Foreign Investors Council
FU	Firefighting Unit
GDP	Gross Domestic Product
GPN	PJSC Gazprom Neft
HAZID	Hazard Identification Study
HiPACT	High Pressure Acid Gas Capture Technology
HQ	Highly-qualified worker
HR	Human Resources
HS	High School
HSE	Health, Safety and the Environment
IMF	International Monetary Fund
IMS	Integrated Management System
IPPC	Integrated Pollution Prevention and Control
IRMS	Integrated Risk Management System
ISO	International Standardisation Organisation
IT	Information Technology
IVMS	In-Vehicle Monitoring System
j.s.c. or JSC	Joint Stock Company

Abbreviation	Meaning
k.f.t.	Limited liability company (in Hungary)
km	kilometre
KPI	Key Performance Indicator
kW	Kilowatt, unit for measuring electrical energy
LIBOR	London Interbanking Offer Rate
LLC	Limited Liability Company
LOTO	Lockout-tagout safety procedure
LPG	Liquefied Petroleum Gas
LTD	Limited
LTI	Lost Time Injury
LTIF	Lost Time Injury Frequency
m^2	Square meter
m^3	Cubic meter
MBA	Master of Business Administration
MHC/DHT	Mild hydrocracking and hydro treating unit
mn	million
MoC	Management of Change
MT and SS	Material, technical and service support
MTSS and CC	Material, technical and service support and capital construction
MW	Megawatt, unit of power in the International System of Units (SI),
MWA	Management Walk-around
MWe	Electric megawatt - a unit of measurement for generated electricity
MWh	Megawatt hour, unit for measuring electrical energy
N_2	Nitrogen
NALED	National Alliance for Local Economic Development
NATO	North Atlantic Treaty Organisation/North Atlantic Alliance

Abbreviation	Meaning
NBS	National Bank of Serbia
NO_x	Nitrogen Oxides
NPCS-WPC	National Petroleum Committee of Serbia – World Petroleum Council
NTC	Science and Technology Centre
OCF	Operating Cash Flow
OHSAS	Occupational Health and Safety Standard
OMS	Operating Management System
OPEC	Organisation of the Petroleum Exporting Countries
OPEX	Operational Expenditure
p.j.s.c. or PJSC	Public Joint Stock Company
P/BV	Price/Book Value
P/E	Price/EPS
PE	Public Enterprise
PEC	Planning, Economics and Controlling
PhD	Doctor of Philosophy
Q	Qualified worker
R&D	Research and Development
RAG	Red, Amber, Green
RAR	Road Accident Rate
RC	Research Centre or Regional Centre
RCSC	Russian Centre for Science and Culture
RF	Russian Federation
ROA	Return on Assets
ROE	Return on Equity
RS	Republic of Serbia
RSD	Serbian Dinar

Abbreviation	Meaning
SAB	Shareholders' Assembly Board
SARU	Spent Acid Regeneration Unit
SEVESO	HSE-related Directive
SO_2	Sulphur Dioxide
SQ	Semi-qualified worker
s.r.l.	Limited liability company (in Romania)
SRU	Sulphur Recovery Unit
SS	Secondary School
STEM	Science, Technology, Engineering and Mathematics
t.o.e.	Tonnes of oil equivalent
TWh	Terawatt hour – a unit of measurement for electrical energy
USA	United States of America
UQ	Unqualified worker
US	United States
USD	US Dollar
USD/bbl	US Dollars per barrel
VAT	Value Added Tax

4.03 Contacts

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