Naftna industrija Srbije A.D.

Consolidated Financial Statements and Independent Auditor's Report

31 December 2016

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

Contents

Independent auditor's report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Naftna Industrija Srbije a.d., Novi Sad (the "Company") and its subsidiaries (together "the Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit and loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on Auditing that are relevant to our audit of the consolidated financial statements in the Republic of Serbia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Our audit approach

Overview

- We set the overall group materiality at 1,698,000 thousand Serbian dinars (hereafter "RSD"), which represents 5% of five years average profit before tax.

- We conducted audit work at 9 reporting units in 4 countries.
- The group engagement team was auditing Serbian subsidiaries, while PwC network firms in Bulgaria, Romania and Bosnia and Herzegovina audited NIS foreign subsidiaries in respective countries.
- Our audit scope addressed 98%of the Group's revenues and 100% of the Group's absolute value of underlying profit before tax.

- Recoverability of carrying amount of property, plant and equipment
- Estimation of decommissioning and environmental protection provisions

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	RSD 1,698,000 thousand
How we determined it	5% of five-year average profit before taxation
Rationale for the materiality benchmark applied	Given that current year profit before taxation has been materially impacted by volatility of the market price of crude oil, we determined that our materiality should be based on five-year average profit before taxation, which is more representative of sustained business performance. We have chosen 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RSD 85,000 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Recoverability of carrying amount of property, plant and equipment Impact of recent crude oil volatility is disclosed in the Note 3.8 to the consolidated financial statements. During 2016, the spot price of Brent crude oil has remained low compared to 2015, averaging 41 United States dollars for the barrel (2015: $55/b) (Hereafter referred to as "USD"). The recoverability of the carrying amount of property, plant and equipment, which amounts to RSD 253,760,267 thousand, is dependent upon the future cash flows of the business. Bearing in mind the generally long-lived nature of the Group's property, plant and equipment, the most critical assumption is management's view on the long-term oil price outlook, beyond the next three to four years. At the beginning of 2016, due to significantly low prices (spot price went low as $27/b), management concluded that a downward revision was required to NIS's long-term oil price outlook. Additionally, impairment triggers were also identified as a result of lower investments in exploration and evaluation assets. The revision of the price outlook and change in investment decisions triggered the management's assessment of recoverability of property, plant and equipment. This testing was performed by management for relevant cash generating units (CGUs) during the fourth quarter 2016, and we focused on this area due to significance of the financial statement line and involvement of high degree judgment and estimation uncertainty of the future business results, growth rates, commodity prices, discount rates and etc.	We first assessed management's macroeconomic assumptions, which include both short-term and long-term views on commodity prices, inflation rates and discount rates. The price assumptions underlying management's asset recoverability models represent a critical judgement in the process. We compared the short-term price assumptions used by management to the market forward curves. We also compared the short and long-term assumptions, mainly weighted average cost of capital ("WACC"), used by management for discounting future cash flows, to the WACC derived by PwC valuation experts. and projections of fuel markets growth in Southeast Europe ("SEE") with views published by respected industry bodies, which provided a range of relevant third-party data points. Furthermore, we compared the growth rates, profitability and capital expenditure levels ("CAPEX") to other vertically integrated companies in SEE and in the world. We have completed independent sensitivity analyses on projections of crude oil market prices and WACC rate used to assess the variances that may reasonably arise. We found the assumptions as well as managements' conclusions to be consistent with our expectations and no exception have been noted.'

Estimation of decommissioning and environmental protection provisions

Provisions associated with decommissioning and restoration are disclosed in Note 24 to the Consolidated Financial Statements; a description of the accounting policy and key judgements and estimates is included in Note 2 and Note 3.

The calculation of decommissioning and environmental protection provisions requires significant management judgement because of the inherent complexity in estimating future costs.

The decommissioning of oil and gas infrastructure is an evolving activity and consequently there is limited historical precedent against which to benchmark estimates of future costs. These factors increase the complexity involved in determining accurate accounting provisions that are material to the Group's consolidated statement of financial position.

Management reviews decommissioning and environmental protection provisions on an annual basis for exploration and evaluation assets as well for refining assets. This review incorporates the effects of any changes in local regulations, management's expected approach to decommissioning, cost estimates, discount rates, and the effects of changes in exchange rates.

We critically assessed management's annual review of provisions recorded. In particular, we focused on those assets where changes to the cost estimate directly impact the consolidated statement of comprehensive income rather than being recognised as an asset.

Testing involved understanding of the mandatory or constructive obligations with respect to the decommissioning of each asset based on the estimated useful life of assets and relevant cost to complete restoration.

As part of our testing we considered the competence and objectivity of the experts who produced the cost estimates. Of particular note, we performed procedures on the decommissioning and environmental protection provisions recorded for all production wells on the territory of Serbia, which represents the largest part of total decommissioning and environmental protection provision of the Group.

Our procedures confirmed that management's estimate of future decommissioning and restoration costs are appropriate.

How we tailored our group audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the scope of our audit work, we determined the nature and extent of work to be performed both at the reporting units and at the consolidated level. Where the work is performed by the local reporting unit auditors, we perform consolidated level oversight and review procedures to ensure sufficient evidence has been obtained to support our opinion on the consolidated financial statements taken as a whole. All local reporting unit audits are undertaken by PwC network firms.

Our approach to determining the scope of the audit of NIS is a three-step process whereby reporting units are deemed to be within the scope for audit testing based on meeting one or more of the following criteria:

1) Significant contribution, greater than 5%, to income before taxation, revenue or total assets. These reporting units are subject to full scope audits;
2) The presence of a significant risk, either at the reporting unit as a whole or relating to a specific financial statement line item. This includes financial statement line items impacted by the risks of material misstatement identified in our planning and reported on in our areas of focus below; or
3) The most significant other reporting units that enable us to satisfy our coverage criteria on each financial statement line item and to add elements of unpredictability in our scope.

Based on this process, we identified 9 reporting units in four countries that, in our view, required directed audit procedures over specific financial statement line items. Together, these reporting units accounted for 98% of revenue and 98% of total assets.

As a result of its structure and size, NIS also has several small reporting units that are individually immaterial but, in aggregate, make up a material portion of its profit before taxation, revenue or total assets. These are covered by the work that we perform at the consolidated level, which includes three main components:

1) Overall analytical review procedures: A significant proportion of the remaining reporting units not selected for procedures at an individual component level were subject to analysis of year-on-year movements at the consolidated level, with a focus on higher risk balances and unusual movements. Those reporting units not subject to the above overall analytical review procedures were individually, and in the aggregate, immaterial.
2) Tests of financial systems, processes and controls: We tested pervasive controls applied at the consolidated level. Additionally, NIS has five reporting units which are located in Serbia and which are under direct control of NIS management. Our audit work, in which we tested the design and operating effectiveness of systems and controls at these locations, was led by our group audit team. The results from this testing are reviewed throughout the year and considered in our continuous update of group audit scope.
3) Testing of specific transactions: In addition, at the consolidated level we performed specific transaction testing, including impairment of goodwill, litigations and confirmations of cash and cash equivalents balances.

Other information

Management is responsible for the other information. The other information comprises the Annual report (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Pawel Peplinski.

PricewaterhouseCoopers d.o.o. Belgrade
Belgrade, Republic of Serbia
1 February 2017

NIS Group
Consolidated Statement of Financial Position
(All amounts are in 000 RSD, unless otherwise stated)

Assets	Note	31 December 2016	31 December 2015
Current assets			
Cash and cash equivalents	8	22,899,342	19,271,435
Short-term financial assets		247,882	201,087
Trade and other receivables	9	37,445,000	34,948,713
Inventories	10	26,836,064	24,178,244
Current income tax prepayments		126,103	1,629,761
Other current assets	11	5,946,829	6,225,866
Assets classified as held for sale		-	21,703
Total current assets		**93,501,220**	**86,476,829**
Non-current assets			
Property, plant and equipment	12	253,760,267	247,213,423
Investment property	13	1,549,663	1,336,060
Goodwill and other intangible assets	14	6,457,971	7,155,279
Investments in joint venture	15	2,047,021	1,168,659
Trade and other non-current receivables	16	9,369,158	14,656,649
Long-term financial assets		163,565	321,006
Deferred tax assets, net	17	3,771,354	4,268,741
Other non-current assets	18	3,680,642	3,399,135
Total non-current assets		**280,799,641**	**279,538,952**
Total assets		**374,300,861**	**366,015,781**
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	19	21,976,571	17,135,875
Trade and other payables	20	29,579,165	29,364,018
Other current liabilities	21	5,234,250	6,537,802
Other taxes payable	22	10,136,560	10,445,185
Provisions for liabilities and charges	24	1,979,312	2,256,470
Total current liabilities		**68,905,858**	**65,739,350**
Non-current liabilities			
Long-term debt	23	94,294,661	100,313,640
Long-term trade and other payables		1,859	-
Provisions for liabilities and charges	24	9,617,973	9,451,111
Total non-current liabilities		**103,914,493**	**109,764,751**
Equity			
Share capital	25	81,530,200	81,530,200
Reserves		(567,083)	(530,528)
Retained earnings		120,731,166	109,698,142
Equity attributable to the Company's owners		**201,694,283**	**190,697,814**
Non-controlling interest		(213,773)	(186,134)
Total equity		**201,480,510**	**190,511,680**
Total liabilities and shareholder's equity		**374,300,861**	**366,015,781**

Kirill Kravchenko
Chief Executive Officer

Anton Fyodorov
Chief Financial Officer

1 February 2017

The accompanying notes are an integral part of these Consolidated Financial Statements.

NIS Group
Consolidated Statement of Profit and Loss and Other Comprehensive Income
(All amounts are in 000 RSD, unless otherwise stated)

	Note	Year ended 31 December 2016	2015
Sales of petroleum products and oil and gas sales		173,439,284	200,653,405
Other revenues		18,653,078	10,025,244
Total revenue from sales	7	**192,092,362**	**210,678,649**
Purchases of oil, gas and petroleum products	26	(99,113,175)	(122,163,519)
Production and manufacturing expenses	27	(29,411,326)	(18,904,743)
Selling, general and administrative expenses	28	(16,890,385)	(16,539,131)
Transportation expenses		(1,030,103)	(1,021,136)
Depreciation, depletion and amortization	12,14	(15,889,177)	(14,281,849)
Taxes other than income tax	29	(4,508,991)	(5,009,182)
Exploration expenses		(1,204,851)	(55,050)
Total operating expenses		**(168,048,008)**	**(177,974,610)**
Other expenses, net	31	(354,125)	(1,653,269)
Operating profit		**23,690,229**	**31,050,770**
Net foreign exchange loss	32	(2,988,633)	(8,061,447)
Finance income	33	271,267	430,161
Finance expenses	34	(3,331,224)	(4,363,682)
Total other expense		**(6,048,590)**	**(11,994,968)**
Profit before income tax		**17,641,639**	**19,055,802**
Current income tax expense	35	(2,132,078)	(3,864,403)
Deferred tax expense	35,17	(496,135)	(583,694)
Total income tax expense		**(2,628,213)**	**(4,448,097)**
Profit for the period		**15,013,426**	**14,607,705**
Other comprehensive loss:			
Items that will not be reclassified to profit			
Remeasurements of post-employment benefit obligations	24,17	21,012	2,810
Revaluation of property, plant and equipment transferred to investment property	12,17	80,607	-
		101,619	2,810
Items that may be subsequently reclassified to profit			
Change in value of available-for-sale financial assets		13,046	(37,288)
Currency translation differences		(133,300)	(42,434)
		(120,254)	(79,722)
Other comprehensive loss for the period		**(18,635)**	**(76,912)**
Total comprehensive income for the period		**14,994,791**	**14,530,793**
Profit / (loss) attributable to:			
- Shareholders of Naftna Industrija Srbije		15,037,973	14,638,790
- Non-controlling interest		(24,547)	(31,085)
Profit for the period		**15,013,426**	**14,607,705**
Total comprehensive income / (loss) attributable to:			
- Shareholders of Naftna Industrija Srbije		15,022,430	14,563,885
- Non-controlling interest		(27,639)	(33,092)
Total comprehensive income for the period		**14,994,791**	**14,530,793**
Earnings per share attributable to NIS shareholders			
- Basic earnings (RSD per share)		92.22	89.78
Weighted average number of ordinary shares in issue (millions)		163	163

The accompanying notes are an integral part of these Consolidated Financial Statements.

NIS Group
Consolidated Statement of Changes in Shareholders' Equity
(All amounts are in 000 RSD, unless otherwise stated)

	Note	Equity attributable to the Company's owners					
		Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2015		**81,530,200**	**(452,813)**	**102,696,156**	**183,773,543**	**(153,042)**	**183,620,501**
Profit / (loss) for the year		-	-	14,638,790	14,638,790	(31,085)	14,607,705
Other comprehensive income / (loss)							
Change in value of available-for-sale financial assets		-	(37,288)	-	(37,288)	-	(37,288)
Remeasurements of post-employment benefit obligations	24,17	-	-	2,810	2,810	-	2,810
Currency translation differences		-	(40,427)	-	(40,427)	(2,007)	(42,434)
Total comprehensive (loss) income for the year		**-**	**(77,715)**	**14,641,600**	**14,563,885**	**(33,092)**	**14,530,793**
Dividends to equity holders		-	-	(7,639,380)	(7,639,380)	-	(7,639,380)
Total transaction with owners, recorded in equity		**-**	**-**	**(7,639,380)**	**(7,639,380)**	**-**	**(7,639,380)**
Other		-	-	(234)	(234)	-	(234)
Balance as at 31 December 2015		**81,530,200**	**(530,528)**	**109,698,142**	**190,697,814**	**(186,134)**	**190,511,680**

	Note	Equity attributable to the Company's owners					
		Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2016		**81,530,200**	**(530,528)**	**109,698,142**	**190,697,814**	**(186,134)**	**190,511,680**
Profit / (loss) for the year		-	-	15,037,973	15,037,973	(24,547)	15,013,426
Other comprehensive income / (loss)							
Change in value of available-for-sale financial assets		-	13,046	-	13,046	-	13,046
Remeasurements of post-employment benefit obligations	24,17	-	-	21,012	21,012	-	21,012
Revaluation of property, plant and equipment transferred to investment property	12,17	-	80,607	-	80,607	-	80,607
Currency translation differences		-	(130,208)	-	(130,208)	(3,092)	(133,300)
Total comprehensive (loss) income for the year		**-**	**(36,555)**	**15,058,985**	**15,022,430**	**(27,639)**	**14,994,791**
Dividends to equity holders		-	-	(4,025,961)	(4,025,961)	-	(4,025,961)
Total transaction with owners, recorded in equity		**-**	**-**	**(4,025,961)**	**(4,025,961)**	**-**	**(4,025,961)**
Balance as at 31 December 2016		**81,530,200**	**(567,083)**	**120,731,166**	**201,694,283**	**(213,773)**	**201,480,510**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NIS Group
Consolidated Statement of Cash Flows
(All amounts are in 000 RSD, unless otherwise stated)

	Note	Year ended 31 December 2016	2015
Cash flows from operating activities			
Profit before income tax		**17,641,639**	**19,055,802**
Adjustments for:			
Finance costs	34	3,331,224	4,363,682
Finance income	33	(271,267)	(430,161)
Unrealised foreign exchange losses, net		4,051,249	6,655,496
Depreciation, depletion and amortization	12,14	15,889,177	14,281,849
Adjustments for other provisions		222,926	609,201
Allowance for doubtful accounts	28	(6,203,070)	(6,735,272)
Payables write off		(104,158)	(565,958)
Impairment of exploration works		1,204,851	1,338
Other non-cash items		21,096	1,208,190
		18,142,028	**19,388,365**
Changes in working capital:			
Trade and other receivables		7,167,841	7,875,542
Inventories		(2,784,691)	14,270,312
Other current assets		1,456,710	551,546
Trade payables and other current liabilities		3,005,362	(7,675,043)
Other taxes payable		(230,061)	1,483,187
		8,615,161	**16,505,544**
Income taxes paid		(660,175)	(2,871,709)
Interest paid		(3,074,876)	(2,996,133)
Interest received		513,015	1,909,052
		(3,222,036)	**(3,958,790)**
Net cash generated by operating activities		**41,176,792**	**50,990,921**
Cash flows from investing activities			
Acquisition of joint venture	15	(858,362)	(180,438)
Loans issued		(67,549)	(386,333)
Loan proceeds received		175,346	56,670
Capital expenditures		(28,880,459)	(35,178,875)
Proceeds from sale of property, plant and equipment		832,619	634,338
Other inflow		372	142,003
Net cash used in investing activities		**(28,798,033)**	**(34,912,635)**
Cash flows from financing activities			
Proceeds from borrowings		24,059,274	28,081,912
Repayment of borrowings		(28,667,253)	(25,575,882)
Dividends paid to the Company's owners		(4,025,961)	(7,639,380)
Net cash used in financing activities		**(8,633,940)**	**(5,133,350)**
Net increase / (decrease) in cash and cash equivalents		**3,744,819**	**10,944,936**
Effect of foreign exchange on cash and cash equivalents		(116,912)	(205)
Cash and cash equivalents as of the beginning of the year		**19,271,435**	**8,326,704**
Cash and cash equivalents as of the end of the year		**22,899,342**	**19,271,435**

The accompanying notes are an integral part of these Consolidated Financial Statements.

1. GENERAL INFORMATION

1.1. Description of business

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

- Exploration, production and development of crude oil and gas,
- Production of refined petroleum products,
- Petroleum products and gas trading 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 Government of Republic of Serbia on 7 July 2005. On 2 February 2009 PJSC Gazprom Neft ("Gazprom Neft") acquired a 51% of the share capital of Naftna Industrija Srbije which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired an 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 prime market 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 2016 were prepared in accordance with International Financial Reporting Standards (IFRS) and are not the statutory accounts of Group. The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily Serbian). The accompanying Consolidated Financial Statements were primarily derived from the Group's statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (IFRS).The Consolidated Financial Statements have been prepared based on the going concern principle, which assumes that the Group will continue to operate in the foreseeable future. In order to assess the reasonability of this assumption, management reviews forecasts of future cash inflows. Based on these reviews, management believes that the Group will be able to continue to operate as a going concern in the foreseeable future and, therefore, this principle should be applied in the preparation of these Consolidated Financial Statements.

The preparation of Consolidated Financial Statements in conformity with IFRS 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.

At the date of signing consolidated financial statements, crude oil price increased since 31 December 2016 to 55.75 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any major fluctuation of crude oil prices.

Subsequent events occurring after 31 December 2016 were evaluated through 1 February 2017, the date these Consolidated Financial Statements were authorised for issue.

2.2. Basis of measurement

These Consolidated Financial Statements are prepared on the historical cost basis, except certain financial assets and liabilities and investment properties measured at fair value.

2.3. Segment reporting

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

2.4. Foreign currency translation

(a) *Functional and presentation currency*

Items included in the Consolidated Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Consolidated Financial Statements are presented in RSD, which is the Company's functional and the Group's 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 the end of the period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Profit and Loss.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and other monetary assets and liabilities are presented in the Consolidated Profit and Loss within "Net foreign exchange loss".

(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 and all resulting foreign exchange differences are recognized in reserves as separate items in equity.

2.5. Principles of consolidation

The consolidated financial statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. An investor is exposed, or has the right to variable returns from its involvement with investee when the investor's return from its involvement has the potential to vary as a result of the investee's performance. The financial statements of subsidiaries are included in the Consolidated Financial Statements of the Group from the date when control commences until the date when control ceases.

In accessing control, Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group's interest in the assets, liabilities, expenses and revenue of the joint operation. All other investments are classified either as held-to-maturity or as available for sale.

(a) *Joint Operations and Joint Ventures*

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

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

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

(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*

Ownership interest in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

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

2.7. 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 profit or loss. Transaction costs, that the Group incurs in connection with a business combination are expensed as incur.

2.8. 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.

2.9. Non-derivative financial assets

The Group has the following non-derivative financial assets: 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.

(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. The Group's loans and receivables comprise 'trade and other 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 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 Profit and Loss within 'Selling, general and administrative expenses' (note 28). 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 'Selling, general and administrative expenses' in the Consolidated Profit and Loss (note 28).

(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.

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 and Loss as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss 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 profit and loss.

2.10. Non-Derivative Financial Liabilities

The Group initially recognises financial liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other 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.

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 tests of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as production and manufacturing expenses (note 27).

2.12. Intangible assets

(a) *Goodwill*

Goodwill that arises from business combination is included in intangible assets. Subsequently goodwill is measured at cost less accumulated impairment losses.

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 14).

(b) *Licenses and rights*

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

(c) Software

These include primarily the costs of implementation the (SAP) computer software program. Acquired computer software licenses are capitalised 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 exceeding 8 years).

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

2.13. 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 Profit and Loss during the financial period in which they are incurred.

Advances made on Property, plant and equipment and Construction in progress are accounted for within other non-current assets as a part of non-current non-financial accounts receivable.

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
Refining assets	
Buildings	10 - 50
Machinery and equipment	7 - 25
Marketing and distribution assets	
Buildings	10 - 50
Machinery and equipment	5 - 15
Other Assets	3 - 50

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 expenses, net' in the Consolidated Profit and Loss (note 31).

2.14. Oil and Gas properties

(a) *Exploration and evaluation expenditure*

The Group follows the successful efforts method of accounting for its exploration and evaluation assets.

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a ‘field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, that may include drilling of further wells, are likely to be developed commercially; then the costs continue to be carried as Oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

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

Development costs are incurred to obtain access to proven reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proven reserves as well as costs of production facilities.

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 oil and gas assets according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortization 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.

2.15. 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.

2.16. Investment property

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

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

Investment property is carried at fair value. Changes in fair values are recorded in the Consolidated Profit and Loss as part of other income/expense.

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.

2.17. Share capital

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

2.18. 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 Group, by the weighted average number of ordinary shares issued during the period.

2.19. 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 financial expense and charged to Consolidated Profit and Loss.

2.20. Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the Consolidated Profit and Loss, 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.

2.21. 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 Collective Labour Agreement*

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

(c) *Bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing based on an individual performance assessment. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.
At the end of 2014 Group has made decision to introduce new three-year (2015-2017) incentive program for Group managers which will be settle based on the Key Performance Indicators (“KPI”) reached during the program (note 24).

2.22. 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.

2.23. Leases

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

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

2.24. Revenue recognition

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

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

(a) *Sales - wholesale*

The Group manufactures and sells oil, petrochemical products, liquefied natural gas and energy 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 purchases. No element of financing is deemed present as the sales are made with a credit term consistent with the market practice.

(b) *Sales – retail*

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

(c) *Sales of services*

The Group 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 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.

2.25. Transportation expenses

Transportation expenses recognised in Consolidated Profit and Loss represent expenses incurred to transport crude oil and oil products through the pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

2.26. Maintenance and Repair

Costs for maintenance and repair that do not represent significant improvements are expensed when incurred.

Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Preparing these consolidated financial statements in accordance with IFRS requires Management to make estimates and assumptions that affect 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 experiences and other factors 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 estimate 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 2016 would be to increase/decrease it by 1,469,566 RSD (2015: 1,321,495 RSD).

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.

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 high-quality corporate bonds which are denominated in the currency in which pension liabilities will be settled and whose maturity dates approximate the maturity date of the related pension liability.

If the discount rate used to calculate the present value of employee benefit obligations had been 8.15% (rather than 7.15%) per year, the past service liability (DBO) for the whole NIS Group would decrease by about 9.1% for retirement indemnity and 5.8% for jubilee benefit. If pay increased by 0.5% higher than assumed on an annual basic, than the past service liability (DBO) for the whole NIS Group would increase by amount 10.4% for the retirement indemnity and 6.2% 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 24) 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 8.15% (rather than 7.15%) per year, the present liability would have increased by approx. 263,562 RSD (2015: decreased 339,439 RSD).

3.7. Contingencies

Certain conditions may exist as of the reporting date are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or un asserted claims that may result in such proceedings, the Group, evaluates the perceived merits of any legal or tax proceedings or un asserted 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 37).

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 would 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 138.3 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 amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group.

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

5. NEW ACCOUNTING STANDARDS

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

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

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

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. 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 income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 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).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the 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.

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.

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

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, recognised assets and liabilities and net investments in foreign operations.

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 2016	**RSD**	**EUR**	**USD**	**Other**	**Total**
Financial assets					
Current					
Cash and cash equivalents	11,062,464	6,471,468	4,681,789	683,621	22,899,342
Trade and other receivables	24,499,017	11,090,173	691,575	1,164,235	37,445,000
Other current assets	3,270,414	2,448,709	23,339	452,249	6,194,711
Non-current					
Trade and other receivables	-	9,294,969	-	74,189	9,369,158
Other non-current assets	589,716	3,161,969	81,928	10,594	3,844,207
Financial liabilities					
Current					
Short-term debt	(4,700)	(21,554,951)	(336,264)	(80,656)	(21,976,571)
Trade and other payables	(10,737,758)	(9,856,950)	(7,507,793)	(1,476,664)	(29,579,165)
Provisions	(1,979,312)	-	-	-	(1,979,312)
Other current liabilities	(14,482,115)	(64,093)	(114,032)	(710,570)	(15,370,810)
Non-current					
Long-term debt	(4,167)	(54,365,912)	(39,371,389)	(553,193)	(94,294,661)
Trade and other long-term payables	-	(1,859)	-	-	(1,859)
Provisions	(9,576,524)	-	-	(41,449)	(9,617,973)
Net exposure	**2,637,035**	**(53,376,477)**	**(41,850,847)**	**(477,644)**	**(93,067,933)**

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

As of 31 December 2015	**RSD**	**EUR**	**USD**	**Other**	**Total**
Financial assets					
Current					
Cash and cash equivalents	9,585,988	2,333,625	6,626,525	725,297	19,271,435
Trade and other receivables	16,584,672	16,275,839	1,147,729	940,473	34,948,713
Other current assets	3,580,818	2,439,618	10,377	396,160	6,426,973
Non-current					
Trade and other receivables	-	14,583,568	-	73,081	14,656,649
Other non-current assets	1,165,507	2,486,556	57,849	10,229	3,720,141
Financial liabilities					
Current					
Short-term debt	(206)	(9,566,329)	(7,542,134)	(27,206)	(17,135,875)
Trade and other payables	(11,444,433)	(5,142,976)	(11,292,985)	(1,483,624)	(29,364,018)
Provisions	(2,255,912)	-	(558)	-	(2,256,470)
Other current liabilities	(16,137,763)	(41,314)	(108,410)	(695,500)	(16,982,987)
Non-current					
Long-term debt	(978)	(53,799,398)	(45,960,298)	(552,966)	(100,313,640)
Provisions	(9,385,320)	(401)	-	(65,390)	(9,451,111)
Net exposure	**(8,307,627)**	**(30,431,212)**	**(57,061,905)**	**(679,446)**	**(96,480,190)**

The following exchange rates applied during the period:

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

Sensitivity analysis

The 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 instruments and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

As at 31 December 2016, if the currency had strengthened / weaken by 5% against the EUR with all other variables held constant, post-tax profit for the year would have been 2,668,824 RSD (2015: 1,521,561 RSD) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2016, if the currency had strengthened / weaken by 10% against the USD with all other variables held constant, post-tax profit for the year would have been 4,185,085 RSD (2015: 5,706,190 RSD) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated borrowings and trade payables.

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

Cash flow and fair value interest rate risk

Borrowings withdrawn at variable interest rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR) has a proportionate impact on the Group's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2016 would have been 1,087,907 RSD (2015: 1,097,184 RSD) 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.

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 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 based on the remaining period at the balance sheet to the contractual maturity date.

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

As at 31 December 2016	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1 - 5 years**	**Over 5 years**
Borrowings (short-term, current portion and long-term debt)	116,271,232	124,329,820	24,720,290	84,519,151	15,090,379
Trade and other payables (less dividends payable)	25,808,716	25,808,716	25,773,817	34,899	-
	142,079,948	**150,138,536**	**50,494,107**	**84,554,050**	**15,090,379**
As at 31 December 2015					
Borrowings (short-term, current portion and long-term debt)	117,449,515	127,855,884	20,001,363	87,459,313	20,395,208
Trade and other payables (less dividends payable)	25,591,710	25,591,710	25,568,682	23,028	-
	143,041,225	**153,447,594**	**45,570,045**	**87,482,341**	**20,395,208**

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

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, revise its investment program, attract new or repay existing loans or sell certain non-core assets.

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 amortization, 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:

	Year ended 31 December	
	2016	**2015**
Long-term debt	94,294,661	100,313,640
Short-term debt and current portion of long-term debt	21,976,571	17,135,875
Less: cash and cash equivalents	(22,899,342)	(19,271,435)
Net debt	93,371,890	98,178,080
EBITDA	39,776,634	46,454,755
Net debt to EBITDA ratio at the end of the year	**2.35**	**2.11**

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

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

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

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 2016 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	36,353,306	192,430,698	(36,691,642)	192,092,362
Intersegment	34,048,352	2,359,831	(36,691,642)	-
External	2,304,954	189,787,408	-	192,092,362
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 31)	(4,640)	52,943	-	48,303
Impairment of exploration works (note 12)	(1,204,851)	-	-	(1,204,851)
Net foreign exchange (loss)	(131,714)	(2,856,919)	-	(2,988,633)
Finance expenses, net	(130,709)	(2,929,248)	-	(3,059,957)
Income tax	(273,282)	(2,354,931)	-	(2,628,213)
Segment profit (loss)	**15,197,681**	**(184,255)**	**-**	**15,013,426**

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	51,812,987	207,768,345	(48,902,683)	210,678,649
Intersegment	47,547,891	1,354,792	(48,902,683)	-
External	4,265,096	206,413,553	-	210,678,649
EBITDA (Segment results)	**39,202,090**	**7,252,665**	**-**	**46,454,755**
Depreciation, depletion and amortization	(4,855,284)	(9,426,565)	-	(14,281,849)
Impairment losses (note 31)	(13,111)	(572,734)	-	(585,845)
Impairment of exploration works	(55,050)	-	-	(55,050)
Net foreign exchange (loss)	(43,223)	(8,018,224)	-	(8,061,447)
Finance expenses, net	(116,178)	(3,817,343)	-	(3,933,521)
Income tax	(1,140,427)	(3,307,670)	-	(4,448,097)
Segment profit (loss)	**32,339,558**	**(17,731,853)**	**-**	**14,607,705**

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

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

	Year ended 31 December 2016	2015
Profit for the year	15,013,426	14,607,705
Income tax expenses	2,628,213	4,448,097
Finance expenses	3,331,224	4,363,682
Finance income	(271,267)	(430,161)
Depreciation, depletion and amortization	15,889,177	14,281,849
Net foreign exchange loss	2,988,633	8,061,447
Other expense, net	354,125	1,653,269
Other non-operating income, net*	(156,897)	(531,133)
EBITDA	**39,776,634**	**46,454,755**

*Other non-operating income, net mainly relate to fines, penalties and other.

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

	Year ended 31 December 2016		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	2,021,495	2,021,495
Sale of gas	3,052,867	-	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	6,296,086	3,192,151	9,488,237
Total sales	**141,591,381**	**50,500,981**	**192,092,362**

	Year ended 31 December 2015		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	638,494	3,022,528	3,661,022
Sale of gas	6,183,349	-	6,183,349
Through a retail network	-	-	-
Wholesale activities	6,183,349	-	6,183,349
Sale of petroleum products	153,297,126	37,511,908	190,809,034
Through a retail network	49,664,208	-	49,664,208
Wholesale activities	103,632,918	37,511,908	141,144,826
Sales of electricity	370,157	724,403	1,094,560
Other sales	5,627,699	3,302,985	8,930,684
Total sales	**166,116,825**	**44,561,824**	**210,678,649**

Out of the amount of 123,883,634 RSD (2015: 141,144,826 RSD) revenue from sale of petroleum products (wholesale), the amount of 13,844,962 RSD (2015: 23,222,832 RSD) are derived from a single domestic customer, HIP Petrohemija (2015: Knez Petrol doo). These revenues are attributable to wholesale activities within Downstream segment.

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

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

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 7,143,831 RSD (2015: 6,275,159 RSD).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 141,591,381 RSD (2015: 166,116,825 RSD), and the total of revenue from external customer from other countries is 50,500,981 RSD (2015: 44,561,824 RSD).

The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2016	**2015**
Sale of crude oil	2,021,495	3,022,528
Sale of petroleum products (retail and wholesale)		
Bulgaria	10,290,270	10,848,089
Bosnia and Herzegovina	7,769,234	7,213,882
Romania	8,612,276	7,052,440
All other markets	9,925,112	12,397,497
	36,596,892	37,511,908
Sales of electricity	8,690,443	724,403
Other sales	3,192,151	3,302,985
	50,500,981	**44,561,824**

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 2016	**31 December 2015**
Serbia	238,780,068	232,868,821
Bulgaria	7,966,581	8,246,434
Bosnia and Herzegovina	8,052,241	8,152,524
Romania	6,968,931	6,436,983
Hungary	80	-
	261,767,901	**255,704,762**

8. CASH AND CASH EQUIVALENTS

	31 December 2016	**31 December 2015**
Cash in bank and in hand	14,110,111	11,302,285
Deposits with original maturity of less than three months	7,188,962	6,385,304
Cash held on escrow account	1,599,285	1,562,453
Cash equivalents	984	21,393
	22,899,342	**19,271,435**

Cash held on escrow accounts as of 31 December 2016 amounting to 1,599,285 RSD (31 December 2015: 1,562,453 RSD) 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.

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

9. TRADE AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
Trade receivables:		
- related parties	1,047,541	253,057
- third parties	31,723,648	29,781,907
- state and state owned companies	15,815,559	19,369,662
	48,586,748	**49,404,626**
Other receivables:		
- related parties	234,228	209,227
- state and state owned companies	9,865,845	10,314,622
	10,100,073	**10,523,849**
Accrued assets	50,243	660,401
	58,737,064	**60,588,876**
Less impairment provision for trade and other receivables:		
- third parties	(9,728,531)	(9,862,727)
- state and state owned companies	(11,563,533)	(15,777,436)
	(21,292,064)	**(25,640,163)**
Total trade and other receivables	**37,445,000**	**34,948,713**

The ageing of trade and other receivables is as follows:

	31 December 2016	31 December 2015
Neither impaired nor past due	33,563,122	27,139,823
Past due but not impaired:		
within 30 days:	1,725,053	1,831,215
1 to 3 months	1,283,108	1,200,167
3 months to 1 year	277,304	2,198,059
over 1 year	596,413	2,579,449
Total	**37,445,000**	**34,948,713**

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

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

	31 December 2016	31 December 2015
RSD	24,499,017	16,584,672
EUR	11,090,173	16,275,839
USD	691,575	1,147,729
Other	1,164,235	940,473
	37,445,000	**34,948,713**

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

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

	Trade & other receivables		
	Third parties	State and state owned companies	Total
As at 1 January 2015	10,062,347	19,522,269	29,584,616
Provision for receivables impairment (note 28)	81,545	49,805	131,350
Release of provision (note 28)	(96,971)	(5,703,076)	(5,800,047)
Receivables written off during the year as uncollectible	(186,050)	(2,668,176)	(2,854,226)
Exchange differences	404	45,008	45,412
Transfer from other current assets (note 11)	-	3,105,066	3,105,066
Other transfer	-	1,426,540	1,426,540
Other	1,452	-	1,452
As at 31 December 2015	**9,862,727**	**15,777,436**	**25,640,163**
As at 1 January 2016	9,862,727	15,777,436	25,640,163
Provision for receivables impairment (note 28)	158,834	12,535	171,369
Release of provision (note 28)	(46,711)	(4,389,842)	(4,436,553)
Receivables written off during the year as uncollectible	(210,224)	(1,093)	(211,317)
Exchange differences	(37,074)	164,497	127,423
Other	979	-	979
As at 31 December 2016	**9,728,531**	**11,563,533**	**21,292,064**

Release of provision during 2016, in the amount of 4,436,553 RSD 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 105,000,000 EUR in following two years, with the last installment on 15 June 2019. On 30 Dec 2016, the Company received the first installment in the amount of 21,000,000 EUR.

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Profit and Loss. 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.

10. INVENTORIES

	31 December 2016	31 December 2015
Crude oil	15,067,495	11,069,970
Petroleum products	9,638,529	13,738,263
Materials and supplies	6,446,355	4,120,087
Other	1,009,762	838,428
Less impairment provision	(5,326,077)	(5,588,504)
	26,836,064	**24,178,244**

Movement on inventory provision is as follows:

	2016	2015
As at 1 January	5,588,504	6,155,660
Provision for inventory impairment (note 27)	54,051	106,372
Unused amounts reversed (note 27)	(12,505)	(406,016)
Other	(303,973)	(267,512)
As at 31 December	**5,326,077**	**5,588,504**

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

11. OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Advances paid	437,325	536,372
VAT receivables	274,292	227,121
Deferred VAT	1,251,278	2,014,262
Prepaid expenses	115,146	120,106
Prepaid custom duties	31,117	33,190
Prepaid excise	1,538,828	3,028,713
Other current assets	14,297,606	14,308,833
Less impairment provision	(11,998,763)	(14,042,711)
	5,946,829	**6,225,886**

Deferred VAT as at 31 December 2016 amounting to 1,251,278 RSD (31 December 2015: 2,014,262 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 31 December 2016 amounting to 1,538,828 RSD (31 December 2015: 3,028,713 RSD) 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.

Other current assets mainly relate to accrued interests and claims in dispute which are provided.

Movements on the Group's provision for impairment of other current assets are as follows:

	Advances paid	Other current assets	Total
As at 1 January 2015	244,828	20,758,935	21,003,763
Increase of provision during the year (note 28)	41,373	186,755	228,128
Release of provision (note 28)	(4,439)	(1,316,921)	(1,321,360)
Receivables written off during the year as uncollectible	(6,503)	(2,760,276)	(2,766,779)
Transfer to trade and other receivables (note 9)	-	(3,105,066)	(3,105,066)
Other	(4,962)	8,987	4,025
As at 31 December 2015	**270,297**	**13,772,414**	**14,042,711**
As at 1 January 2016	270,297	13,772,414	14,042,711
Increase of provision during the year (note 28)	7,837	91,521	99,358
Release of provision (note 28)	(8,543)	(2,086,768)	(2,095,311)
Receivables written off during the year as uncollectible	(3,732)	(40,475)	(44,207)
Other	(3,876)	88	(3,788)
As at 31 December 2016	**261,983**	**11,736,780**	**11,998,763**

The ageing of other current assets is as follows:

	31 December 2016	31 December 2015
Neither impaired nor past due	5,834,710	6,071,893
Not impaired and past due in the following periods:		
Less than 1 month	23,019	30,136
01 - 03 months	26,895	31,372
03 month - one year	21,598	43,018
Over 1 year	40,607	49,467
Total	**5,946,829**	**6,225,886**

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

12. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2015						
Cost	82,284,653	114,595,854	49,338,344	20,285,937	46,177,226	312,682,014
Depreciation and impairment	(21,058,518)	(32,895,538)	(14,910,568)	(8,614,025)	(2,813,514)	(80,292,163)
Net book value	**61,226,135**	**81,700,316**	**34,427,776**	**11,671,912**	**43,363,712**	**232,389,851**
Year ended 31 December 2015						
Additions	-	-	-	618	29,023,531	29,024,149
Changes in decommissioning obligations	100,269	-	-	-	-	100,269
Transfer from assets under construction	27,323,429	5,655,806	2,813,143	360,400	(36,152,778)	-
Impairment (note 31)	(797)	(29,826)	(169,264)	(2,456)	(111,808)	(314,151)
Depreciation	(4,473,662)	(5,757,585)	(2,174,568)	(804,133)	(5,001)	(13,214,949)
Transfer from intangible assets (note 14)	-	-	-	-	87,573	87,573
Transfer from (to) investment property (note 13)	-	-	89,041	(176,424)	-	(87,383)
Transfer to non-current assets held for sale	-	-	-	(21,703)	-	(21,703)
Disposals and write-off	(354,857)	(78,373)	(94,796)	(110,898)	(183,975)	(822,899)
Other transfers	(237,838)	(2,953)	(30,694)	68,972	230,357	27,844
Translation differences	(11)	(1)	55,970	2	(11,138)	44,822
	83,582,668	**81,487,384**	**34,916,608**	**10,986,290**	**36,240,473**	**247,213,423**
As at 31 December 2015						
Cost	108,928,420	120,288,250	51,644,542	20,010,602	38,640,748	339,512,562
Depreciation and impairment	(25,345,752)	(38,800,866)	(16,727,934)	(9,024,312)	(2,400,275)	(92,299,139)
Net book value	**83,582,668**	**81,487,384**	**34,916,608**	**10,986,290**	**36,240,473**	**247,213,423**
As at 1 January 2016						
Cost	108,928,420	120,288,250	51,644,542	20,010,602	38,640,748	339,512,562
Depreciation and impairment	(25,345,752)	(38,800,866)	(16,727,934)	(9,024,312)	(2,400,275)	(92,299,139)
Net book value	**83,582,668**	**81,487,384**	**34,916,608**	**10,986,290**	**36,240,473**	**247,213,423**
Year ended 31 December 2016						
Additions	-	-	-	1,259	22,761,118	22,762,377
Changes in decommissioning obligations	(9,379)	-	-	-	-	(9,379)
Appraisal effects	70,104	-	17,846	6,882	-	94,832
Transfer from assets under construction	19,521,372	2,513,785	2,048,784	296,900	(24,380,841)	-
Impairment (note 31)	(45)	-	(5,912)	-	(25,697)	(31,654)
Depreciation	(5,953,801)	(5,611,252)	(2,336,802)	(788,742)	(5,066)	(14,695,663)
Transfer from intangible assets (note 14)	(19,642)	(3,002,914)	2,859,458	163,487	248,652	249,041
Transfer to investment property (note 13)	(106,216)	-	(23,400)	(6,882)	-	(136,498)
Disposals and write-off	(158,220)	(36,669)	(211,171)	(76,560)	(1,372,164)	(1,854,784)
Other transfers	(56,984)	-	-	(12,597)	(25,688)	(95,269)
Translation differences	6	1	228,952	(2)	34,884	263.841
	96,869,863	**75,350,335**	**37,494,363**	**10,570,035**	**33,475,671**	**253,760,267**
As at 31 December 2016						
Cost	127,806,623	110,525,127	65,310,661	20,170,463	34,864,554	358,677,428
Depreciation and impairment	(30,936,760)	(35,174,792)	(27,816,298)	(9,600,428)	(1,388,883)	(104,917,161)
Net book value	**96,869,863**	**75,350,335**	**37,494,363**	**10,570,035**	**33,475,671**	**253,760,267**

In 2016, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to 22,278 RSD (2015: 33,227 RSD), note 34.

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

As at 31 December 2016, the Group assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.8 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 31,654 RSD (2015: 314,151 RSD), note 31.

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

Oil and gas production assets

Oil and gas production assets comprise aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves. The information regarding Group's O&G assets is presented below:

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total asset under construction	Production assets	Other business and corporate assets	Total
As at 1 January 2015						
Cost	18,087,173	13,477,995	31,565,168	82,284,653	33,457	113,883,278
Depreciation and impairment	(17,291)	(253,585)	(270,876)	(21,058,518)	(20,359)	(21,349,753)
Net book amount	**18,069,882**	**13,224,410**	**31,294,292**	**61,226,135**	**13,098**	**92,533,525**
Year ended 31 December 2015						
Additions	4,757,320	18,708,726	23,466,046	-	-	23,466,046
Changes in decommissioning obligations	-	-	-	100,269	-	100,269
Transfer from asset under construction	(3,207,817)	(23,902,242)	(27,110,059)	27,110,059	-	-
Other transfers	502,994	(326,056)	176,938	(24,468)	-	152,470
Impairment	-	(10,332)	(10,332)	(797)	(1,982)	(13,111)
Depreciation and depletion	(5,001)	-	(5,001)	(4,473,662)	-	(4,478,663)
Disposals and write-off	(158,627)	(634)	(159,261)	(354,857)	-	(514,118)
Translation differences	(8,142)	-	(8,142)	(11)	-	(8,153)
	19,950,609	**7,693,872**	**27,644,481**	**83,582,668**	**11,116**	**111,238,265**
As at 31 December 2015						
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)
Depreciation and depletion	(5,066)	-	(5,066)	(5,953,801)	-	(5,958,867)
Unsuccessful exploration expenditures derecognised	(1,204,851)	-	(1,204,851)	-	-	(1,204,851)
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**

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

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

13. INVESTMENT PROPERTY

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

Movements on the account were as follows:

	2016	2015
As at 1 January	1,336,060	1,381,832
Fair value gains (loss) (note 31)	79,957	(124,003)
Transfer from PPE (note 12)	136,498	87,383
Disposals	(4,432)	(17,554)
Other	1,580	8,402
As at 31 December	**1,549,663**	**1,336,060**

As at 31 December 2016, investment properties amounting to 1,549,663 RSD (31 December 2015: 1,336,060 RSD) 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 2016 and 2015. The revaluation gain was debited to Other expenses, net (note 31).

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

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

Fair value measurements at 31 December 2016 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
− Shops and other facilities for rents	-	917,985	-
− Gas stations	-	-	631,678
Total	**-**	**917,985**	**631,678**

Fair value measurements at 31 December 2015 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
− Shops and other facilities for rents	-	794,436	-
− Gas stations	-	-	541,624
Total	**-**	**794,436**	**541,624**

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

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:

	2016	**2015**
Long term growth rate	0%	0%
Discount rate	12%	12%

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

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

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

14. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Licenses, other than related to O&G activity	Software	IA under development	Other IA	Total
As at 1 January 2015						
Cost	1,957,894	1,682,582	5,940,699	982,875	709,732	11,273,782
Amortization and impairment	-	(493,541)	(3,033,926)	(88,098)	(163,877)	(3,779,442)
Net book value	**1,957,894**	**1,189,041**	**2,906,773**	**894,777**	**545,855**	**7,494,340**
Year ended 31 December 2015						
Additions	-	-	-	920.530	-	920.530
Transfer from assets under construction	-	258,262	981,838	(1,229,412)	995	11,683
Impairment (note 31)	(147,054)	(8)	(72)	-	(277)	(147,411)
Amortization	-	(126,906)	(892,877)	-	(47,117)	(1,066,900)
Transfer to PPE (note 12)	-	-	-	(87,573)	-	(87,573)
Disposals	-	(32)	(3)	-	(234)	(269)
Other transfers	-	(336)	(2.092)	-	25.292	22.864
Translation differences	7,536	(542)	67	1	953	8,015
	1,818,376	**1,319,479**	**2,993,634**	**498,323**	**525,467**	**7,155,279**
As at 31 December 2015						
Cost	1,818,376	1,932,511	6,920,051	586,421	721,791	11,979,150
Amortization and impairment	-	(613,032)	(3,926,417)	(88,098)	(196,324)	(4,823,871)
Net book value	**1,818,376**	**1,319,479**	**2,993,634**	**498,323**	**525,467**	**7,155,279**
As at 1 January 2016						
Cost	1,818,376	1,932,511	6,920,051	586,421	721,791	11,979,150
Amortization and impairment	-	(613,032)	(3,926,417)	(88,098)	(196,324)	(4,823,871)
Net book value	**1,818,376**	**1,319,479**	**2,993,634**	**498,323**	**525,467**	**7,155,279**
Year ended 31 December 2016						
Additions	-	-	-	604,112	-	604,112
Transfer from assets under construction	-	68,216	669,101	(754,937)	17,620	-
Amortization	-	(137,272)	(1,004,260)	-	(51,982)	(1,193,514)
Transfer to PPE (note 12)	-	1,031	1	(248,652)	(1,421)	(249,041)
Disposals	-	(5)	-	-	(4,872)	(4,877)
Other transfers	-	-	-	113,808	-	113,808
Translation differences	26,474	1,919	93	-	3,718	32,204
	1,844,850	**1,253,368**	**2,658,569**	**212,654**	**488,530**	**6,457,971**
As at 31 December 2016						
Cost	1,844,850	1,806,966	7,568,748	258,160	705,399	12,184,123
Amortization and impairment	-	(553,598)	(4,910,179)	(45,506)	(216,869)	(5,726,152)
Net book value	**1,844,850**	**1,253,368**	**2,658,569**	**212,654**	**488,530**	**6,457,971**

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:

	2016	2015
Average gross margin	22.0%	24.8%
Growth rate	1%	1%
Discount rate		
- Romania market	7.06%	7.25%
- Bulgaria market	7.05%	7.98%
- Bosnia and Herzegovina market	12.61%	10.94%

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

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
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**
2015					
Bosnia and Herzegovina	483,957	-	-	2,392	486,349
Romania	419,804	-	(114,469)	(440)	304,895
Bulgaria	1,054,133	-	(32,585)	5,584	1,027,132
	1,957,894	**-**	**(147,054)**	**7,536**	**1,818,376**

Impairment test in Romania, Bulgaria and Bosnia and Herzegovina shows that the recoverable amount calculated based on value in use exceed carrying value.

15. INVESTMENTS IN JOINT VENTURE

The carrying values of the investments in joint ventures as of 31 December, 2016 and 2015 are summarised below:

	Ownership percentage	31 December 2016	31 December 2015
Energowind	50%	1,008,221	1,008,221
Serbskaya Generaciya	49%	1,038,800	180,438
Total investments		**2,047,021**	**1,188,659**

The principal place of business of joint ventures 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 doo 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 holding company Serbskaya Generaciya, through which they will jointly operate with Thermal and Heating power plant ''TETO'' Pancevo with projected capacity of 140 MW. On the date of the issuance of these Consolidated Financial Statements there have been no significant business activities. During 2016 the Group increased their investment in Serbskaya Generaciya in the amount of 858,362 RSD.

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

16. TRADE AND OTHER NON-CURRENT RECEIVABLES

	31 December 2016	31 December 2015
Non-current trade receivables:		
- state and state owned companies	8,969,816	12,388,550
	8,969,816	**12,388,550**
Non-current other receivables:		
- third parties	77,211	152,849
- state and state owned companies	1,050,733	4,050,963
	1,127,944	**4,203,812**
Less impairment provision for trade and other non-current receivables:		
- third parties	(59)	(76,849)
- state and state owned companies	(728,543)	(1,858,864)
	(728,602)	**(1,935,713)**
	9,369,158	**14,656,649**

Trade and other non-current receivables amounting to 9,369,158 RSD mainly relate to the long-term receivables from the Republic of Serbia in the amount of 9,292,006 RSD according to the debt of Srbijagas and HIP Petrohemija owed to Company takeover and its conversion into public debt. (Short-term part of the receivables: note 9).

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

17. DEFERRED INCOME TAX

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

	31 December 2016	31 December 2015
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	5,693,395	6,036,318
- Deferred tax assets to be recovered after within 12 months	977,854	1,220,593
	6,671,249	7,256,911
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	2,899,895	2,988,170
	2,899,895	2,988,170
Deferred tax assets (net)	**3,771,354**	**4,268,741**

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

	2016	2015
At 1 January	4,268,741	4,853,600
Charged to the income statement	(496,135)	(583,694)
Charged to other comprehensive income	4,449	(623)
Translation difference	(5,701)	(542)
31 December	**3,771,354**	**4,268,741**

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

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

	Provisions	Carrying value of PP&E vs Tax base	Revaluation reserve	Total
Deferred tax liabilities				
As at 1 January 2015	**(48,192)**	**(2,932,410)**	**-**	**(2,980,602)**
Charged to the income statement (note 35)	20,190	(27,135)	-	(6,945)
Charged to other comprehensive income	(623)	-	-	(623)
As at 31 December 2015	**(28,625)**	**(2,959,545)**	**-**	**(2,988,170)**
Charged to the income statement (note 35)	-	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)**

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
Deferred tax assets					
As at 1 January 2015	**25,531**	**680,659**	**7,128,012**	**-**	**7,834,202**
Charged to the income statement (note 35)	933,479	183,363	(1,693,591)	-	(576,749)
Translation difference	(542)	-	-	-	(542)
As at 31 December 2015	**958,468**	**864,022**	**5,434,421**	**-**	**7,256,911**
Charged to the income statement (note 35)	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**

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.

18. OTHER NON-CURRENT ASSETS

	31 December 2016	31 December 2015
Advances paid for PPE	1,851,425	1,360,565
Prepaid expenses	794,251	908,248
Other assets	1,076,724	1,161,131
Less impairment provision	(41,758)	(30,809)
	3,680,642	**3,399,135**

19. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	31 December 2016	31 December 2015
Short-term loans	12,189,945	3,553,120
Interest payables	243,913	164,324
Current portion of long-term loans (note 23)	9,516,423	13,417,421
Current portion of finance lease liabilities (note 23)	26,290	1,010
	21,976,571	**17,135,875**

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

20. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Trade payables		
- related parties	6,898,039	10,170,810
- third parties	18,893,423	15,334,596
Dividends payable	3,772,308	3,772,308
Other accounts payable	15,395	86,304
	29,579,165	**29,364,018**

As at 31 December 2016 payables to related parties amounting to 6,898,039 RSD (31 December 2015: 10,170,810 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 5,818,200 RSD (31 December 2015: 10,004,805 RSD), mostly for the purchase of crude oil.

21. OTHER CURRENT LIABILITIES

	31 December 2016	31 December 2015
Advances received	1,325,012	3,207,205
Payables to employees	3,551,055	3,296,282
Accruals and deferred income	309,194	19,878
Other current non-financial liabilities	48,989	14,437
	5,234,250	**6,537,802**

22. OTHER TAXES PAYABLE

	31 December 2016	31 December 2015
Mineral extraction tax	241,017	241,017
VAT	1,565,733	1,651,548
Excise tax	5,395,623	6,066,530
Contribution for State commodity reserves	601,357	350,301
Custom duties	298,878	85,332
Other taxes	2,033,952	2,050,457
	10,136,560	**10,445,185**

23. LONG-TERM DEBT

	31 December 2016	31 December 2015
Long-term loan - Gazprom Neft	37,328,836	42,427,710
Bank and other long-term loans	66,120,490	71,016,461
Finance lease liabilities	343,080	199,289
Other long-term borrowings	44,968	88,611
Less Current portion	(9,542,713)	(13,418,431)
	94,294,661	**100,313,640**

(a) *Long-term loan - Gazprom Neft*

As at 31 December 2016 long-term loan - Gazprom Neft amounting to 37,328,836 RSD (2015: 42,427,710 RSD), with current portion of 5,742,898 RSD (2015: 5,657,028 RSD), 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.

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

(b) *Bank and other long-term loans*

	31 December 2016	31 December 2015
Domestic	27,522,764	18,693,334
Foreign	38,597,726	52,323,127
	66,120,490	71,016,461
Current portion of long-term loans	(3,773,525)	(7,760,393)
	62,346,965	**63,256,068**

The maturity of bank and other long-term loans was as follows:

	31 December 2016	31 December 2015
Between 1 and 2 years	13,481,072	11,829,773
Between 2 and 5 years	44,609,978	46,347,221
Over 5 years	4,255,915	5,079,074
	62,346,965	**63,256,068**

The carrying amounts of bank and other long-term loans are denominated in the following currencies:

	31 December 2016	31 December 2015
USD	39,607,916	53,388,078
EUR	26,126,044	17,247,010
RSD	976	1,174
JPY	385,554	380,199
	66,120,490	**71,016,461**

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

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

(c) *Financial lease liabilities*

Minimum finance lease payments:

	31 December 2016	31 December 2015
Less than one year	72,779	41,677
1-5 years	326,305	205,380
Over 5 years	623,996	707,606
Future finance charges on finance leases	(680,000)	(755,374)
Present value of finance lease liabilities	**343,080**	**199,289**

	31 December 2016	31 December 2015
Less than one year	26,290	1,010
1-5 years	124,217	5,832
Over 5 years	192,573	192,447
Present value of finance lease liabilities	**343,080**	**199,289**

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

24. PROVISIONS FOR LIABILITIES AND CHARGES

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2015	**9,025,612**	**570,358**	**878,740**	**101,846**	**944,580**	**11,521,136**
Charged to the income statement (note 30, 31 and 34)	268,070	307,033	80,657	244,309	15,388	915,457
New obligation incurred and change in estimates	100,887	-	-	-	-	100,887
Release of provision (note 30 and 34)	(49,261)	(4,300)	(20,252)	-	(111,045)	(184,858)
Actuarial gain charged to other comprehensive income	-	-	(3,433)	-	-	(3,433)
Settlement	(192,942)	(185,431)	(79,010)	(49,372)	(135,632)	(642,387)
Other	-	45	(534)	-	1,268	779
As at 31 December 2015	**9,152,366**	**687,705**	**856,168**	**296,783**	**714,559**	**11,707,581**
As at 1 January 2016	**9,152,366**	**687,705**	**856,168**	**296,783**	**714,559**	**11,707,581**
Charged to the income statement (note 30, 31 and 34)	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 (note 30 and 34)	(433,086)	(42,517)	(9,116)	-	(24,427)	(509,146)
Actuarial gain charged to other comprehensive income	-	-	(14,077)	-	-	(14,077)
Settlement	(187,590)	(50,534)	(85,915)	-	(104,697)	(428,736)
Other	1	2	17	-	93	113
As at 31 December 2016	**8,641,302**	**838,655**	**775,414**	**660,942**	**680,972**	**11,597,285**

Analysis of total provisions:

	31 December 2016	31 December 2015
Non-current	9,617,973	9,451,111
Current	1,979,312	2,256,470
	11,597,285	**11,707,581**

(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 838,655 RSD (31 December 2015: 687,705 RSD) 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 2016 the management made an assessment of present value of liabilities related to new three-year employee incentives (2015-2017) in amount of 660,942 RSD (2015: 296,783 RSD).

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

(d) *Legal claims provisions*

As at 31 December 2016, 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 24,427 RSD (2015: 111,045 RSD) for proceedings which were assessed that won't have negative outcome and charged provision for litigation amounting to 95,444 RSD (2015: 15,388 RSD) 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 2016.

(e) *Provision for employee benefits*

Employee benefits:

	31 December 2016	31 December 2015
Retirement allowances	106,143	109,132
Jubilee awards	669,271	747,036
	775,414	**856,168**

The principal actuarial assumptions used were as follows:

	31 December 2016	31 December 2015
Discount rate	7.15%	6.6%
Future salary increases	2.0%	2.5%
Future average years of service	14.9	15.7

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2015	**101,096**	**777,644**	**878,740**
Benefits paid directly	(2,881)	(76,129)	(79,010)
Actuarial gain charged to other comprehensive income	(3,433)	-	(3,433)
Credited to the income statement	14,894	45,511	60,405
Translation difference	(544)	10	(534)
Balances as at 31 December 2015	**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**

The amounts recognized in the Consolidate Income Statement are as follows:

	Year ended 31 December 2016	2015
Current service cost	62,084	66,664
Interest cost	53,611	56,751
Curtailment gain	(5,673)	(5,432)
Actuarial gain (jubilee awards)	(87,414)	(24,012)
Amortisation of past service cost	(3,387)	(33,566)
	19,221	**60,405**

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

25. SHARE CAPITAL

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

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

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

26. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Year ended 31 December	
	2016	**2015**
Crude oil	71,600,870	90,799,133
Petroleum products	27,019,077	31,137,931
Other	493,228	226,455
	99,113,175	**122,163,519**

27. PRODUCTION AND MANUFACTURING EXPENSES

	Year ended 31 December	
	2016	**2015**
Employee costs (note 30)	5,641,481	6,380,608
Materials and supplies (other than oil and gas)	2,205,005	2,861,581
Repair and maintenance services	4,186,525	3,413,303
Electricity for resale	8,833,750	627,101
Electricity and utilities	2,394,634	2,744,883
Safety and security expense	387,709	163,928
Insurance services	285,983	41,262
Transportation services for production	1,997,894	2,192,525
Inventory provision reversal (note 10)	41,546	(299,644)
Other	3,436,799	779,196
	29,411,326	**18,904,743**

28. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2016	**2015**
Employee costs (note 30)	10,433,334	9,538,424
Legal, audit, and consulting services	1,417,713	2,688,855
Rent expense	530,899	373,641
Business trips expense	345,609	418,232
Safety and security expense	589,730	575,046
Insurance expense	95,398	319,987
Transportation and storage	337,732	646,325
Release of provision for doubtful accounts (note 9 and 11)	(6,519,278)	(6,756,538)
Other	9,659,248	8,735,159
	16,890,385	**16,539,131**

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

29. TAXES OTHER THAN INCOME TAX

	Year ended 31 December 2016	2015
Mineral extraction tax	1,014,164	1,424,183
Property tax	841,373	804,951
Social security contributions (social taxes)	2,028,499	2,067,100
Other	624,955	712,948
	4,508,991	**5,009,182**

30. EMPLOYEE COSTS

	Year ended 31 December 2016	2015
Wages and salaries	15,371,977	14,922,683
Employee benefits	383,380	304,714
Other costs	319,458	691,635
Total employee costs	**16,074,815**	**15,919,032**
Social security contributions (social taxes)	2,028,499	2,067,100
	18,103,314	**17,986,132**

31. OTHER EXPENSES, NET

	Year ended 31 December 2016	2015
Penalties	41,806	240,583
Provisions (legal, environmental, etc.)	(160,587)	304,488
Changes in fair value of i properties (note 12 and 13)	(48,303)	585,845
Other	521,209	522,353
	354,125	**1,653,269**

32. NET FOREIGN EXCHANGE LOSS

	Year ended 31 December 2016	2015
Net foreign exchange loss on financing activities including:		
- foreign exchange gain	(844,009)	(1,193,294)
- foreign exchange loss	3,753,699	7,557,502
Net foreign exchange loss on operating activities	78,943	1,697,239
	2,988,633	**8,061,447**

33. FINANCE INCOME

	Year ended 31 December 2016	2015
Interest on bank deposits	248,141	343,839
Interest income on loans issued	23,061	20,155
Other	65	66,167
	271,267	**430,161**

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

34. FINANCE EXPENSES

	Year ended 31 December 2016	2015
Interest expense	2,938,130	3,359,190
Losses on restructuring of borrowings	-	3,355
Decommissioning provision: unwinding of the present value discount	118,943	121,397
Provision of trade and other non-current receivables: discount	296,429	912,967
Less: amounts capitalised on qualifying assets	(22,278)	(33,227)
	3,331,224	**4,363,682**

35. INCOME TAXES

The Group's applicable income tax rate for the companies located in the Republic of Serbia is 15% (2015: 15%).

Components of income tax expense:

	Year ended 31 December 2016	2015
Current income tax expense	2,132,078	3,864,403
Deferred income tax expense		
Origination and reversal of temporary differences (note 17)	496,135	583,694
Total income tax expense	**2,628,213**	**4,448,097**

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 profits of the consolidated entities as follows:

	Year ended 31 December 2016	2015
Profit before tax	**17,641,639**	**19,055,802**
Tax calculated at domestic tax rates applicable to profits in the respective countries	2,646,246	3,882,028
Tax effects of:		
- Revenues exempt from taxation	(21,019)	(63,792)
- Expenses not deductible for tax purposes	492,013	342,899
- Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	(434,051)	305,574
- Other tax effects for reconciliation between accounting profit and tax expense	(30,736)	(18,612)
	2,652,453	4,448,097
Adjustment in respect of prior years	(24,240)	-
	2,628,213	**4,448,097**

The weighted average applicable tax rate was 14.93% (2015: 23.34%). The decrease is caused by a change in the profitability of the Group and reduction in recognised tax credit.

36. OPERATING LEASES

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

	31 December 2016	31 December 2015
Less than one year	256,812	164,962
1-5 years	349,136	157,477
Over 5 years	138,121	143,738
	744,069	**466,177**

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

	31 December 2016	31 December 2015
Less than one year	1,372,745	1,361,806
1-5 years	672,147	1,716,271
Over 5 years	213,137	358,779
	2,258,029	**3,436,856**

The Group rentals mainly O&G equipment and petrol stations.

37. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of 31 December 2016 the Group has entered into contracts to purchase property, plant and equipment for 5,324,487 RSD (31 December 2015: 611,417 RSD) and drilling and exploration works estimated to 40.17 USD million (31 December 2015: 45 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 838,655 RSD (31 December 2015: 687,705 RSD).

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 2016.

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

Other contingent liabilities

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

There were no other material commitments and contingent liabilities of the Group.

38. GROUP ENTITIES

The financial statements of below listed subsidiaries are consolidated as at 31 December 2016 and 31 December 2015:

			Share %	
Subsidiary	**Country of incorporation**	**Nature of Business**	**31-Dec 2016**	**31-Dec 2015**
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
Pannon naftagas Kft, Budapest	Hungary	O&G activity	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-naftni servisi d.o.o., Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o., Novi Sad	Serbia	O&G activity	100	100
Naftagas-tehnicki servisi d.o.o., Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o., Novi Sad	Serbia	Transport	100	100
O Zone a.d., Belgrade	Serbia	Other	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	Trade	100	100
Jadran - Naftagas d.o.o., Banja Luka	Bosnia and Herzegovina	O&G activity	66	66
Svetlost d.o.o., Bujanovac,Serbia	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.

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

39. RELATED PARTY TRANSACTIONS

For the purpose of these Consolidated Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operational decision as defined by IAS 24 Related Party disclosure.

The majority owner of the Group is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The second largest shareholder with 29.87% interest is Republic of Serbia, while remaining 13.98% of interest owned by various minority shareholders are traded on the Belgrade Stock Exchange and are owned by various shareholders. PJSC Gazprom, Russian Federation is the ultimate owner of the Group.

In the year ended 31 December 2016 and in the same period in 2015, 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 at 31 December 2016 and 31 December 2015 the outstanding balances with related parties other *than state and state owned companies* were as follows:

	Parent company	Parent's subsidiaries and associates	Joint venture
As at 31 December 2016			
Trade and other receivables	-	1,047,541	220,243
Investments in joint venture	-	-	2,047,021
Trade and other payables	(5,818,200)	(1,079,842)	-
Other current liabilities	-	(23,091)	-
Short-term debt and current portion of long-term debt	(5,742,898)	-	-
Long-term debt	(31,585,938)	-	-
	(43,147,036)	**(55,392)**	**2,267,264**
As at 31 December 2015			
Trade and other receivables	-	148,105	195,656
Other current assets	-	9,394	-
Investments in joint venture	-	-	1,188,659
Trade and other payables	(10,004,805)	(166,005)	-
Short-term debt and current portion of long-term debt	(5,657,028)	-	-
Long-term debt	(36,770,682)	-	-
	(52,432,515)	**(8,506)**	**1,384,315**

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

For the year ended 31 December 2016 and 2015 the following transaction occurred with related parties other *than state and state owned companies*:

	Parent	Parent's subsidiaries and associates	Joint venture
Year ended 31 December 2016			
Petroleum products and oil and gas sales	-	663,466	-
Other revenues	-	8,552,034	-
Purchases of oil, gas and petroleum products	(36,898,193)	(664,456)	-
Production and manufacturing expenses	-	(8,580,586)	-
Selling, general and administrative expenses	10	(146,985)	-
Other income, net	17,874	(260)	-
Finance expense	(761,070)	-	-
	(37,641,379)	**(176,787)**	**-**
Year ended 31 December 2015			
Petroleum products and oil and gas sales	-	85,607	-
Other revenues	-	644,591	-
Purchases of oil, gas and petroleum products	(79,738,772)	(2,038,456)	-
Production and manufacturing expenses	(7,432)	(578,122)	-
Selling, general and administrative expenses	(21,981)	-	-
Other expenses, net	(16,210)	67,678	-
Finance expense	(945,091)	-	-
	(80,729,486)	**(1,818,702)**	**-**

Main balances and transactions with state and state owned companies are shown below:

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

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

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

Transactions with Key Management Personnel

In the year ended 31 December 2016 and 2015 the Group recognized 864,392 RSD and 425,613 RSD, 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.

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