

NAFTNA INDUSTRIJA SRBIJE A.D., Novi Sad

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015
AND INDEPENDENT AUDITOR'S REPORT**



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Naftna Industrija Srbije a.d., Novi Sad (the "Parent") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2015 and the consolidated income statement, statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

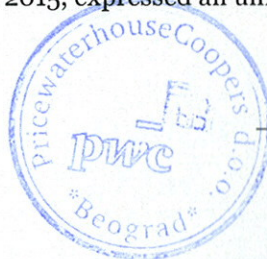
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with accounting regulations effective in the Republic of Serbia.

Other Matters

The consolidated financial statements of the Group for the year ended 31 December 2014 were audited by another firm of auditors whose report, dated 4 March 2015, expressed an unmodified opinion on those statements.

Milivoje Nesovic
Licensed Auditor



PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 29 February 2016

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



**NIS A.D. – Naftna industrija Srbije
Novi Sad**

Consolidated financial statements

31 December 2015

Novi Sad, 29 February 2016

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

CONTENTS :

Page

Consolidated Balance Sheet	1-3
Consolidated Income Statement	4-5
Consolidated Statement of other comprehensive income	6
Consolidated Statement of Cash Flows	7
Consolidated Statement of Changes in Equity	8-9
Notes to the Consolidated financial statements	10-66

NIS Group**Consolidated financial statements for the year ended 31 December 2015***(All amounts are in RSD 000 unless otherwise stated)***CONSOLIDATED BALANCE SHEET**

	AOP	Note	31 December 2015	31 December 2014
A. SUBSCRIBED CAPITAL UNPAID	0001		-	-
B. NON-CURRENT ASSETS (0003 + 0010 + 0019+ 0024 + 0034)	0002		274,361,963	246,183,088
I. INTANGIBLE ASSETS (0004+0005+0006+0007+0008+0009)	0003	6	21,824,790	21,687,631
1. Development investments	0004		6,153,717	3,833,142
2. Concessions, licenses, software and other rights	0005		3,662,863	3,450,505
3. Goodwill	0006		1,818,376	1,957,895
4. Other intangible assets	0007		1,288,869	1,316,121
5. Intangible assets under development	0008		8,900,965	11,129,968
6. Advances for intangible assets	0009		-	-
II. PROPERTY, PLANT AND EQUIPMENT (0011+0012+0013+0014+0015+0016+0017+0018)	0010	7	235,209,730	222,017,915
1. Land	0011		17,187,278	17,580,286
2. Buildings	0012		116,089,115	100,525,669
3. Machinery and equipment	0013		71,000,947	66,499,520
4. Investment property	0014		1,336,060	1,381,832
5. Other property, plant and equipment	0015		87,704	89,380
6. Construction in progress	0016		27,837,831	33,128,517
7. Investments in leased PP&E	0017		341,039	373,188
8. Advances for PP&E	0018		1,329,756	2,439,523
III. BIOLOGICAL ASSETS (0020+0021+0022+0023)	0019		-	-
1. Forest farming	0020		-	-
2. Livestock	0021		-	-
3. Biological assets in production	0022		-	-
4. Advances for biological assets	0023		-	-
IV. LONG-TERM FINANCIAL INVESTMENTS (0025+0026+0027+0028+0029+0030+0031+0032+0033)	0024		2,738,455	2,465,498
1. Investments in subsidiary	0025		-	-
2. Investments in joint ventures	0026	8	1,188,659	1,008,221
3. Investments in other legal entities and other available for sales financial assets	0027		167,358	222,686
4. Long term investments in parent and subsidiaries	0028		-	-
5. Long-term investments in other related parties	0029		-	-
6. Long-term investments - domestic	0030		138,633	-
7. Long-term investments - foreign	0031		-	-
8. Securities held to maturity	0032		-	-
9. Other long-term financial investments	0033	9	1,243,805	1,234,591
V. LONG-TERM RECEIVABLES (0035+0036+0037+0038+0039+0040+0041)	0034	10	14,588,988	12,044
1. Receivables from parent company and subsidiaries	0035		-	-
2. Receivables from other related parties	0036		4,010,546	-
3. Receivables from sale of goods on credit	0037		-	-
4. Receivables arising out of finance lease contracts	0038		8,339	12,044
5. Claims arising from guarantees	0039		-	-
6. Bad and doubtful receivables	0040		-	-
7. Other long-term receivables	0041		10,570,103	-
C. DEFERRED TAX ASSETS	0042	11	4,268,741	4,853,601

*(continued)**The accompanying notes on pages 10 to 66 are an integral part of these consolidated financial statements.*

NIS Group
Consolidated financial statements for the year ended 31 December 2015
(All amounts are in RSD 000 unless otherwise stated)
CONSOLIDATED BALANCE SHEET (continued)

	AOP	Note	31 December 2015	31 December 2014
D. CURRENT ASSETS				
(0044+0051+0059+0060+0061+0062+0068+0069+0070)	0043		87,400,047	110,645,943
I. INVENTORY (0045+0046+0047+0048+0049+0050)	0044	12	24,466,023	39,554,349
1. Materials, spare parts and tools	0045		11,501,467	22,414,418
2. Work in progress	0046		4,050,154	5,755,021
3. Finished goods	0047		5,873,077	7,477,570
4. Merchandise	0048		2,753,546	3,483,957
5. Assets held for sale	0049		21,703	-
6. Advances for inventory and services	0050		266,076	423,383
II. TRADE RECEIVABLES (0052+0053+0054+0055+0056+0057+0058)	0051	13	33,567,302	49,244,871
1. Domestic trade receivables - parents and subsidiaries	0052		-	-
2. Foreign trade receivables - parents and subsidiaries	0053		-	-
3. Domestic trade receivables – other related parties	0054		10,799,575	13,004,338
4. Foreign trade receivables - other related parties	0055		251,708	36,398
5. Trade receivables - domestic	0056		21,858,872	34,970,060
6. Trade receivables - foreign	0057		657,147	1,234,075
7. Other trade receivables	0058		-	-
III. RECEIVABLES FROM SPECIFIC OPERATIONS	0059		721,009	323,954
IV. OTHER RECEIVABLES	0060	14	1,877,225	3,046,977
V. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	0061		-	-
VI. SHORT TERM FINANCIAL INVESTMENTS	0062		284,586	2,207,637
(0063+0064+0065+0066+0067)				
1. Short-term loans and investments - parent companies and subsidiaries	0063		-	-
2. Short-term loans and investments – other related parties	0064		-	-
3. Short-term loans and investments - domestic	0065		-	2,021
4. Short-term loans and investments - foreign	0066		-	-
5. Other short-term loans and investments	0067		284,586	2,205,616
VII. CASH AND CASH EQUIVALENTS	0068	15	19,271,435	8,326,704
VIII. VALUE ADDED TAX	0069		227,121	163,230
IX. PREPAYMENTS AND ACCRUED INCOME	0070	16	6,985,346	7,778,221
E. TOTAL ASSETS (0001+0002+0042+0043)	0071		366,030,751	361,682,632
F. OFF-BALANCE SHEET ASSETS	0072	17	130,389,980	120,440,876
A. EQUITY (0402+0411-0412+0413+0414+0415-0416+0417+0420-0421)	0401		190,511,680	183,620,504
I. EQUITY (0403+0404+0405+0406+0407+0408+0409+0410)	0402	18	81,548,930	81,550,674
1. Share capital	0403	18.1	81,548,930	81,550,674
2. Stakes of limited liability companies	0404		-	-
3. Stakes	0405		-	-
4. State owned capital	0406		-	-
5. Socially owned capital	0407		-	-
6. Stakes in cooperatives	0408		-	-
7. Share premium	0409		-	-
8. Other capital	0410		-	-
II. SUBSCRIBED CAPITAL UNPAID	0411		-	-
III. OWN SHARES	0412		-	-
IV. RESERVES	0413		-	-
V. REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT	0414		-	-
VI. UNREALISED GAINS FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	0415		161,489	312,137
VII. UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	0416		541,678	616,921
VIII. RETAINED EARNINGS (0418+0419)	0417		109,342,939	102,374,614
1. Retained earnings from previous years	0418		94,735,234	74,536,170
2. Retained earnings from current year	0419		14,607,705	27,838,444
IX. NON-CONTROLLING INTEREST	0420		-	-
X. LOSS (0422+0423)	0421		-	-
1. Loss from previous years	0422		-	-
2. Loss from current year	0423		-	-

(continued)
The accompanying notes on pages 10 to 66 are an integral part of these consolidated financial statements.

NIS Group

Consolidated financial statements for the year ended 31 December 2015

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED BALANCE SHEET (continued)

	AOP	Note	31 December 2015	31 December 2014
B. LONG-TERM PROVISIONS AND LIABILITIES (0425+0432)	0424		109,764,751	102,600,628
I. LONG-TERM PROVISIONS (0426+0427+0428+0429+0430+0431)	0425	19	9,451,111	9,012,584
1. Provisions for warranty claims	0426		-	-
2. Provision for environmental rehabilitation	0427		7,918,238	7,454,505
3. Provisions for restructuring costs	0428		-	-
4. Provisions for employee benefits	0429		1,068,315	892,488
5. Provisions for litigations	0430		464,558	665,591
6. Other long term provisions	0431		-	-
II. LONG-TERM LIABILITIES (0433+0434+0435+0436+0437+0438+0439+0440)	0432	20	100,313,640	93,588,044
1. Liabilities convertible to equity	0433		-	-
2. Liabilities to parent and subsidiaries	0434		36,770,682	42,194,756
3. Liabilities to other related parties	0435		-	-
4. Liabilities for issued long-term securities	0436		-	-
5. Long term borrowings - domestic	0437		18,240,935	6,761,523
6. Long-term borrowings - foreign	0438		45,015,134	44,368,774
7. Finance lease liabilities	0439		198,277	198,914
8. Other long-term liabilities	0440		88,612	64,077
C. DEFERRED TAX LIABILITIES	0441	11	-	-
D. SHORT-TERM LIABILITIES (0443+0450+0451+0459+0460+0461+0462)	0442		65,754,320	75,461,500
I. SHORT-TERM FINANCIAL LIABILITIES (0444+0445+0446+0447+0448+0449)	0443	21	16,971,551	14,701,438
1. Short term borrowings from parent and subsidiaries	0444		-	-
2. Short term borrowings from other related parties	0445		-	-
3. Short-term loans and borrowings - domestic	0446		3,553,091	8,600,083
4. Short-term loans and borrowings - foreign	0447		29	29
5. Liabilities relating to current assets and held-for-sale assets attributable to discounted operations	0448		-	-
6. Other short term liabilities	0449		13,418,431	6,101,326
II. ADVANCES RECEIVED	0450		3,207,205	1,589,530
III. TRADE PAYABLES (0452+0453+0454+0455+0456+0458)	0451	22	24,713,307	36,815,739
1. Trade payables - parent and subsidiaries - domestic	0452		-	-
2. Trade payables - parent and subsidiaries - foreign	0453		10,004,805	20,122,243
3. Trade payables - other related parties - domestic	0454		800,455	830,355
4. Trade payables - other related parties - foreign	0455		172,515	131,258
5. Trade payables - domestic	0456		7,854,205	6,312,351
6. Trade payables - foreign	0457		5,799,950	9,343,872
7. Other operating liabilities	0458		81,377	75,660
IV. OTHER SHORT-TERM LIABILITIES	0459	23	8,897,926	9,137,662
V. LIABILITIES FOR VAT	0460		1,567,861	187,050
VI. LIABILITIES FOR OTHER TAXES	0461	24	7,711,354	7,513,714
VII. ACCRUED EXPENSES	0462	25	2,685,116	5,516,367
E. LOSS EXCEEDING EQUITY (0412+0416+0421-0420-0417-0415-0414-0413-0411-0402)>=0=(0441+0424+0442-0071)>=0	0463		-	-
F. TOTAL EQUITY AND LIABILITIES (0424+0442+0441+0401-0463)>=0	0464		366,030,751	361,682,632
G. OFF-BALANCE SHEET LIABILITIES	0465	17	130,389,980	120,440,876

Novi Sad, 29 February 2016

The person responsible for the
preparation of consolidated
financial statements



M.P.

Legal representative

The accompanying notes on pages 10 to 67 are an integral part of these consolidated financial statements.

*(All amounts are in RSD 000 unless otherwise stated)***CONSOLIDATED INCOME STATEMENT**

	AOP	Note	Year ended 31 December	
			2015	2014
INCOME FROM REGULAR OPERATING ACTIVITIES				
A. OPERATING INCOME (1002+1009+1016+1017)	1001	5	210,691,253	258,557,529
I. INCOME FROM THE SALE OF GOODS (1003+1004+1005+1006+1007+1008)	1002		25,833,207	26,886,264
1. Income from sales of goods to parent and subsidiaries on domestic market	1003		-	-
2. Income from sales of goods to parent and subsidiaries on foreign market	1004		-	-
3. Income from the sale of goods to other related parties on domestic market	1005		-	-
4. Income from the sale of goods to other related parties on foreign market	1006		546,259	66,250
5. Income from sale of goods on domestic market	1007		10,499,022	7,550,326
6. Income from sale of goods on foreign market	1008		14,787,926	19,269,688
II. INCOME FROM SALES OF PRODUCTS AND SERVICES (1010+1011+1012+1013+1014+1015)	1009		184,539,222	231,432,459
1. Income from sales of products and services to parent and subsidiaries on domestic market	1010		-	-
2. Income from sales of products and services to parent and subsidiaries on foreign market	1011		-	-
3. Income from sales of products and services to other related parties on domestic market	1012		17,570,375	23,382,492
4. Income from sales of products and services to other related parties on foreign market	1013		343,461	2,142,288
5. Income from sales of products and services - domestic	1014		137,741,208	171,807,782
6. Income from sales of products and services - foreign	1015		28,884,178	34,099,897
III. INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS	1016		3,169	7,646
IV. OTHER OPERATING INCOME	1017		315,655	231,160
B. OPERATING EXPENSES (1019-1020-1021+1022+1023+1024+1025+1026+1027+1028+1029)>=0	1018		186,547,430	210,473,983
I. COST OF GOODS SOLD	1019		16,924,030	15,326,614
II. WORK PERFORMED BY THE ENTITY AND CAPITALIZED	1020		13,047,351	10,498,510
III. INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1021		-	313,347
IV. DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1022		3,309,360	-
V. COST OF MATERIAL	1023	26	111,787,513	140,794,695
VI. COST OF FUEL AND ENERGY	1024		4,852,088	4,052,031
VII. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	1025	27	18,505,343	19,286,286
VIII. COST OF PRODUCTION SERVICES	1026	28	14,655,936	14,506,200
IX. DEPRECIATION, DEPLETION AND AMORTIZATION	1027		14,281,849	12,757,430
X. COST OF LONG-TERM PROVISIONING	1028	29	794,060	366,247
XI. NON-MATERIAL COSTS	1029	30	14,484,602	14,196,337
C. OPERATING GAIN (1001-1018)>=0	1030		24,143,823	48,083,546
D. OPERATING LOSS (1018-1001)>=0	1031		-	-

(continued)

The accompanying notes on pages 10 to 66 are an integral part of these consolidated financial statements.

*(All amounts are in RSD 000 unless otherwise stated)***CONSOLIDATED INCOME STATEMENT (continued)**

	AOP	Note	Year ended 31 December	
			2015	2014
E. FINANCE INCOME (1033+1038+1039)	1032	31	3,690,992	7,788,961
I. FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME (1034+1035+1036+1037)	1033		1,293,127	2,218,595
1. Finance income - parent company and subsidiaries	1034		1,202,790	2,076,979
2. Finance income - other related parties	1035		21,213	123,357
3. Share of profit of associates and joint ventures	1036		-	-
4. Other financial income	1037		69,124	18,259
II. INTEREST INCOME (from third parties)	1038		706,445	4,238,258
III. FOREIGN EXCHANGE GAINS (third parties)	1039		1,691,420	1,332,108
F. FINANCE EXPENSES (1041+1046+1047)	1040	32	15,422,488	20,401,328
I. FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES (1042+1043+1044+1045)	1041		3,894,105	7,423,239
1. Finance expense - parent company and subsidiaries	1042		3,777,652	4,557,810
2. Finance expense - other related parties	1043		112,028	2,865,082
3. Share of loss of associates and joint ventures	1044		-	-
4. Other financial expense	1045		4,425	347
II. INTEREST EXPENSE (from third parties)	1046		3,496,431	2,497,209
III. FOREIGN EXCHANGE LOSSES (third parties)	1047		8,031,952	10,480,880
G. PROFIT FROM FINANCING OPERATIONS (1032-1040)	1048		-	-
H. LOSS FROM FINANCING OPERATIONS (1040-1032)	1049		11,731,496	12,612,367
I. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	1050	33	7,117,464	984,506
J. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	1051	34	330,967	3,938,708
K. OTHER INCOME	1052	35	2,766,045	4,866,534
L. OTHER EXPENSES	1053	36	2,909,067	3,513,956
M. OPERATING PROFIT BEFORE TAX (1030-1031+1048-1049+1050-1051+1052-1053)	1054		19,055,802	33,869,555
N. OPERATING LOSS BEFORE TAX (1031-1030+1049-1048+1051-1050+1053-1052)	1055		-	-
O. NET INCOME ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS	1056		-	-
P. NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS	1057		-	-
Q. PROFIT BEFORE TAX (1054-1055+1056-1057)	1058		19,055,802	33,869,555
R. LOSS BEFORE TAX (1055-1054+1057-1056)	1059		-	-
II. INCOME TAX				
I. CURRENT INCOME TAX	1060	37	3,864,403	3,497,767
II. DEFERRED TAX EXPENSE FOR THE PERIOD	1061	37	583,694	2,533,344
III. DEFERRED TAX INCOME FOR THE PERIOD	1062		-	-
S. PERSONAL INCOME PAID TO EMPLOYER	1063		-	-
T. NET PROFIT (1058-1059-1060-1061+1062)	1064		14,607,705	27,838,444
V. NET LOSS (1059-1058+1060+1061-1062)	1065		-	-
I. NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1066		-	-
II. NET INCOME ATTRIBUTABLE TO THE OWNER	1067		14,638,790	27,939,245
III. NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1068		31,085	100,801
IV. NET LOSS ATTRIBUTABLE TO THE OWNER	1069		-	-
V. EARNINGS PER SHARE				
1. Basic earnings per share	1070	38	0.090	0.171
2. Diluted earnings per share	1071		-	-

The accompanying notes on pages 10 to 66 are an integral part of these consolidated financial statements.

*(All amounts are in RSD 000 unless otherwise stated)***CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**

	AOP	Note	Year ended 31 December	
			2015	2014
A. NET PROFIT/(LOSS)				
I. PROFIT, NET (AOP 1064)	2001		14,607,705	27,838,444
II. LOSS, NET (AOP 1065)	2002		-	-
B. OTHER COMPREHENSIVE PROFIT OR LOSS				
<i>a) Items that will not be reclassified to profit or loss</i>				
1. Changes in the revaluation of intangible assets, property, plant and equipment				
a) increase in revaluation reserves	2003		-	-
b) decrease in revaluation reserves	2004		-	-
2. Actuarial gains (losses) of post employment benefit obligations				
a) gains	2005		2,819	273,088
b) losses	2006		-	-
3. Gains and losses arising from equity investments				
a) gains	2007		-	-
b) losses	2008		-	-
4. Gains or losses arising from a share in the associate's other comprehensive profit or loss				
a) gains	2009		-	-
b) losses	2010		-	-
<i>b) Items that may be subsequently reclassified to profit or loss</i>				
1. Gains (losses) from currency translation differences				
a) gains	2011		-	-
b) losses	2012		40,936	380,965
2. Gains (losses) on investment hedging instruments in foreign business				
a) gains	2013		-	-
b) losses	2014		-	-
3. Gains and losses on cash flow hedges				
a) gains	2015		-	-
b) losses	2016		-	-
4. Gains (losses) from change in value of available-for-sale financial assets				
a) gains	2017		-	20,904
b) losses	2018		37,288	3,296
I. OTHER COMPREHENSIVE PROFIT BEFORE TAX (2003+2005+2007+2009+2011+2013+2015+2017)- (2004+2006+2008+2010+2012+2014+2016+2018)>=0	2019		-	-
II. OTHER COMPREHENSIVE LOSS BEFORE TAX (2004+2006+2008+2010+2012+2014+2016+2018)- (2003+2005+2007+2009+2009+2011+2013+2015+2017)>=0	2020		75,405	90,269
III. TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD	2021		-	-
IV. TOTAL NET COMPREHENSIVE PROFIT (2019-2020-2021)>=0	2022		-	-
V. TOTAL NET COMPREHENSIVE LOSS (2020-2019+2021)>=0	2023		75,405	90,269
C. TOTAL NET COMPREHENSIVE PROFIT				
I. TOTAL COMPREHENSIVE PROFIT, NET (2001-2002+2022-2023)>=0	2024		14,532,300	27,748,175
II. TOTAL COMPREHENSIVE LOSS, NET (2002-2001+2023-2022)>=0	2025		-	-
D. TOTAL NET COMPREHENSIVE PROFIT / (LOSS) (2027+2028)=AOP 2024>=0 или AOP 2025>0	2026		14,532,300	27,748,175
1. Attributable to shareholders	2027		14,532,300	27,748,175
2. Attributable to non-controlling interest	2028		-	-

The accompanying notes on pages 10 to 66 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	AOP	Note	Year ended 31 December	
			2015	2014
A. CASH FLOWS FROM OPERATING ACTIVITIES				
I. Cash inflow from operating activities (1 to 3)	3001		397,357,006	425,553,728
1. Sales and advances received	3002		395,488,209	424,322,314
2. Interest from operating activities	3003		1,553,142	1,000,254
3. Other inflow from operating activities	3004		315,655	231,160
II. Cash outflow from operating activities (1 to 5)	3005		346,366,085	375,960,284
1. Payments and prepayments to suppliers	3006		159,686,819	196,926,049
2. Salaries, benefits and other personal expenses	3007		18,987,784	18,194,798
3. Interest paid	3008		2,996,133	3,089,785
4. Income tax paid	3009		2,871,709	8,697,928
5. Payments for other public revenues	3010		161,823,640	149,051,724
III. Net cash inflow from operating activities (I - II)	3011		50,990,921	49,593,444
IV. Net cash outflow from operating activities (II - I)	3012		-	-
B. CASH FLOWS FROM INVESTING ACTIVITIES				
I. Cash flows from investing activities (1 to 5)	3013		834,231	303,492
1. Sale of shares (net inflow)	3014		77,056	-
2. Proceeds from sale of property, plant and equipment	3015		634,338	303,492
3. Other financial investments (net inflow)	3016		56,670	-
4. Interest from investing activities	3017		-	-
5. Dividend received	3018		66,167	-
II. Cash outflow from investing activities (1 to 3)	3019		35,746,866	45,306,096
1. Acquisition of subsidiaries or other business (net outflow)	3020		-	-
2. Purchase of intangible assets, property, plant and equipment	3021		35,178,875	45,300,443
3. Other financial investments (net outflow)	3022		567,991	5,653
III. Net cash inflow from investing activities (I - II)	3023		-	-
IV. Net cash outflow from investing activities (II - I)	3024		34,912,635	45,002,604
C. CASH FLOWS FROM FINANCING ACTIVITIES				
I. Cash inflow from financing activities (1 to 5)	3025		28,081,912	39,931,496
1. Increase in share capital	3026		-	-
2. Proceeds from long-term borrowings (net inflow)	3027		11,259,702	24,121,300
3. Proceeds from short-term borrowings (net inflow)	3028		16,822,210	15,810,196
4. Other long-term liabilities	3029		-	-
5. Other short-term liabilities	3030		-	-
II. Cash outflow from financing activities (1 to 6)	3031		33,215,262	45,378,365
1. Purchase of own shares	3032		-	-
2. Repayment of long-term borrowings (net outflow)	3033		6,087,356	24,397,660
3. Repayment of short-term borrowings (net outflow)	3034		19,488,526	7,900,000
4. Repayment of other liabilities (net outflow)	3035		-	-
5. Financial lease	3036		-	-
6. Dividend distribution	3037		7,639,380	13,080,705
III. Net cash inflow from financing activities (I - II)	3038		-	-
IV. Net cash outflow from financing activities (II - I)	3039		5,133,350	5,446,869
D. TOTAL CASH INFLOW (3001+3013+3025)	3040		426,273,149	465,788,716
E. TOTAL CASH OUTFLOW (3005+3019+3031)	3041		415,328,213	466,644,745
F. NET CASH INFLOW (340-341)	3042		10,944,936	-
G. NET CASH OUTFLOW (341-340)	3043		-	856,029
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3044		8,326,704	8,707,774
I. CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS	3045		815,239	806,734
J. CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS	3046		815,444	331,775
K. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (3042-3043+3044+3045-3046)	3047		19,271,435	8,326,704

The accompanying notes on pages 10 to 66 are an integral part of these consolidated financial statements.

NIS Group
Consolidated financial statements for the year ended 31 December 2015

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity components							Retained earnings
	AOP	Share capital	AOP	Reserves	AOP	Loss	AOP	
Balance as at 1 January 2014								
a) debit	4001	-	4037	-	4055	-	4091	-
b) credit	4002	81,550,757	4038	-	4056	-	4092	87,616,729
Adjustments of material errors and changes in accounting policies								
a) debit	4003	-	4039	-	4057	-	4093	-
b) credit	4004	-	4040	-	4058	-	4094	-
Restated opening balance as at 1 January 2014								
a) debit (1a+2a-2b)>=0	4005	-	4041	-	4059	-	4095	-
b) credit (1b-2a+2b)>=0	4006	81,550,757	4042	-	4060	-	4096	87,616,729
Changes in period								
a) debit	4007	83	4043	-	4061	-	4097	13,080,705
b) credit	4008	-	4044	-	4062	-	4098	27,838,590
Balance as at 31 December 2014								
a) debit (3a+4a-4b)>=0	4009	-	4045	-	4063	-	4099	-
b) credit (3b-4a+4b)>=0	4010	81,550,674	4046	-	4064	-	4100	102,374,614
Adjustments of material errors and changes in accounting policies								
a) debit	4011	-	4047	-	4065	-	4101	-
b) credit	4012	-	4048	-	4066	-	4102	-
Restated opening balance as at 1 January 2015								
a) debit (5a+6a-6b)>=0	4013	-	4049	-	4067	-	4103	-
b) credit (5b-6a+6b)>=0	4014	81,550,674	4050	-	4068	-	4104	102,374,614
Changes in period								
a) debit	4015	1,714	4051	-	4069	-	4105	7,639,380
b) credit	4016	-	4052	-	4070	-	4106	14,607,705
Balance as at 31 December 2015								
a) debit (7a+8a-8b)>=0	4017	-	4053	-	4071	-	4107	-
b) credit (7b-8a+8b)>=0	4018	81,548,930	4054	-	4072	-	4108	109,342,939

(continued)

The accompanying notes on pages 10 to 66 are an integral part of these consolidated financial statements.

NIS Group
Consolidated financial statements for the year ended 31 December 2015

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	<i>Other comprehensive income components</i>						Total Equity
	AOP	Acturial gain/(loss)	AOP	Gains (losses) from currency translation differences	AOP	Gains (losses) from change in value of available-for-sale financial assets	
Balance as at 1 January 2014							
a) debit	4127	114,418	4181	40,084	4217	59,885	
b) credit	4128	-	4182	-	4218	-	168,953,099
Adjustments of material errors and changes in accounting policies							
a) debit	4129	-	4183	-	4219	-	
b) credit	4130	-	4184	-	4220	-	-
Restated opening balance as at 1 January 2014							
a) debit (1a+2a-26)>=0	4131	114,418	4185	40,084	4221	59,885	
b) credit (16-2a+26)>=0	4132	-	4186	-	4222	-	168,953,099
Changes in period							
a) debit	4133	-	4187	381,093	4223	3,296	
b) credit	4134	273,088	4188	-	4224	20,904	14,667,405
Balance as at 31 December 2014							
a) debit (3a+4a-46)>=0	4135	-	4189	421,177	4225	42,277	
b) credit (36-4a+46)>=0	4136	158,670	4190	-	4226	-	183,620,504
Adjustments of material errors and changes in accounting policies							
a) debit	4137	-	4191	-	4227	-	
b) credit	4138	-	4192	-	4228	-	-
Restated opening balance as at 1 January 2015							
a) debit (5a+6a-66)>=0	4139	-	4193	421,177	4229	42,277	
b) credit (56-6a+66)>=0	4140	158,670	4194	-	4230	-	183,620,504
Changes in period							
a) debit	4141	-	4195	40,936	4231	37,288	
b) credit	4142	2,819	4196	-	4232	-	6,891,176
Balance as at 31 December 2015							
a) debit (7a+8a-86)>=0	4143	-	4197	462,113	4233	79,565	
b) credit (76-8a+86)>=0	4144	161,489	4198	-	4234	-	190,511,680

The accompanying notes on pages 10 to 66 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

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

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

These 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 AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the consolidated financial statements for the year ended 31 December 2014.

2.1. Basis of preparation

These consolidated financial statements for the year ended 31 December 2015 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS :

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

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

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

2.1. Basis of preparation (continued)

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

2.2. New accounting standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and that the Group has not early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010, November 2013 and July 2014 to address the classification and measurement of financial liabilities. Key features of the standard:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (either through Profit and loss or through Other comprehensive income), and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- 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. The amendment made to IFRS 9 in November 2013 allows an entity to continue to measure its financial instruments in accordance with IAS 39 but at the same time to benefit from the improved accounting for own credit in IFRS 9.

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

2.2. New accounting standards (continued)

- 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.
- A substantial overhaul of hedge accounting was introduced that will enable entities to better reflect their risk management activities in their financial statements. In particular amendments to IFRS 9 increase the scope of hedged items eligible for hedge accounting (risk components of non-financial items may be designated provided they are separately identifiable and reliably measurable; derivatives may be included as part of the hedged item; groups and net positions may be designated hedged items, etc). The amendments to IFRS 9 also increase eligibility of hedging instruments allowing financial instruments at fair value through profit or loss to be designated as hedging instruments. A fundamental difference to the IAS 39 hedge accounting model is the lack of the 80-125 per cent bright line threshold for effective hedges and the requirement to perform retrospective hedge effectiveness testing. Under the IFRS 9 model, it is necessary for there to be an economic relationship between the hedged item and hedging instrument, with no quantitative threshold.
- Increased disclosures about an entity’s risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the financial statements.

The mandatory effective date of IFRS 9 is January 1, 2018. IFRS 9 (2014) supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013), but these standards remain available for application if the relevant date of initial application is before February 1, 2015. The Group does not plan to adopt the standard before the mandatory effective date and is currently assessing the impact of the new standard on its Consolidated Financial Statements.

Amendments to IFRS 11 – Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on clarification of acceptable methods of depreciation and amortisation. In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements.

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

2.2. New accounting standards (continued)

IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after January 1, 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and 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 Consolidated Financial Statements.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint ventures (issued in September 2014 and December 2014 and effective for annual periods beginning on or after a date to be determined by the IASB) on the accounting for acquisitions of an interest in a joint venture. Full gain or loss will be recognised by the investor where the non-monetary assets constitute a 'business'. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor to the extent of the other investors' interests. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture, not to a joint operation. The December 2014 amendments was made to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's Consolidated Financial Statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains needs of the Group in disclosure preparation. The Standard also provides new guidance on subtotals in financial statements and add additional examples of possible ways of ordering the notes. The amendments also introduce a clarification that the list of line items to be presented in Statement of financial position, Statement of profit or loss and Other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

The Group is currently assessing the impact of the initiative on its Consolidated Financial Statements.

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

2.2. New accounting standards (continued)

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after January 1, 2019). A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers. IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations.

Key features of the standard:

- IFRS 16 defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.
- IFRS 16 changes the lessees accounting requirements given in IAS 17 and 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. Applying that model, a lessee is 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.

IFRS 16 does not change the accounting for services. Although leases and services are often combined in a single contract, amounts related to services are not required to be reported on the balance sheet. IFRS 16 is required to be applied only to leases, or lease components of a contract.

The Group is currently assessing the impact of the IFRS 16 on its Consolidated Financial Statements.

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

2.3. Segment reporting

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

2.4. Seasonality of Operations

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

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

2.5. Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group's Companies

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

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

2.6. Principles of consolidation

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

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

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

(a) Joint Operations and Joint Ventures

A joint operation is a joint arrangement whereby 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.

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

2.6. Principles of consolidation (continued)

(a) Joint Operations and Joint Ventures (continued)

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

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

(b) Transactions Eliminated on Consolidation

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

(c) Non-controlling interests

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

2.7. Business combinations

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

2.8. Goodwill

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

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

2.8. Goodwill (continued)

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

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

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

2.9. Intangible assets

(a) Licenses and rights (concessions)

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

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

(b) Computer software

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**2.10. Exploration for and evaluation of mineral resources***(a) Exploration and evaluation expenditure*

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

(b) Development costs of fixed and intangible assets

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

(c) Oil and gas production assets

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

(d) Depreciation/amortization

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

(e) Impairment – exploration and evaluation assets

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

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**2.11. Property, plant and equipment**

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

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

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

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

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

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

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

2.12. Impairment of non-financial assets

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

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

2.13. Investment property

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

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

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

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

2.14. Long-term financial assets

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

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

2.14.1. Financial assets classification

(a) Loans and receivables

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

(b) Available for sale financial assets

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

2.14.2. Recognition and measurement

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

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

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

2.14. Long-term financial assets (continued)

2.14.2. Recognition and measurement (continued)

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

2.14.3. Impairment of financial assets

a) Assets carried at amortised cost

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

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

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

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

The Group first assesses whether objective evidence of impairment exists.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**2.14. Long-term financial assets (continued)****2.14.3. Impairment of financial assets (continued)***a) Assets carried at amortised cost (continued)*

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

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

b) Assets classified as available for sale

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

2.15. Inventories

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

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

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

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

2.16. Trade receivables

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

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

2.17. Cash and cash equivalents

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

2.18. Off-balance sheet assets and liabilities

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

2.19. Share capital

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

2.20. Earnings per share

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

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

2.21. Provisions

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

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

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

2.22. Borrowings

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

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

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

2.23. Trade payables

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**2.24. Current and deferred income tax**

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

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

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

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

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

2.25. Employee benefits*(a) Pension obligations*

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

(b) Employee benefits provided by the Collective Agreement

The Group provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Serbian Treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

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

2.25. Employee benefits (continued)

(b) Bonus plans

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

In 2014, the Group has made decision to introduce new three-year (2015-2017) program for Group's managers which will be settle based on the Key Performance Indicators ("KPI") reached during the program (note 19).

2.26. Revenue recognition

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

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

(a) Sales of goods – wholesale

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

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

2.26. Revenue recognition (continued)

(a) Sales of goods – wholesale (continued)

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

(b) Sales – retail

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

(c) Interest income

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

2.27. Leases

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

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

2.28. Dividend distribution

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

2.29. Capitalisation of borrowing costs

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

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

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

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

3.1. Estimation of Oil and Gas Reserves

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

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

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

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

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

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

3.2. Useful Lives of Property, Plant and Equipment

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

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2015 would be to increase/decrease it by RSD 1,279,588 (2014: RSD 1,171,551).

3.3. Employee benefits

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

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

If the discount rate used to calculate the present value of employee benefit obligations had been 7.6% (rather than 6.6%) per year, the past service liability (DBO) would decrease by about 10.3% for retirement indemnity and 6.1% for jubilee awards. If pay increased by 0.5% higher than the past service liability (DBO) would increase by amount 12% for the retirement indemnity and 6.6% for the jubilee benefit.

3.4. Decommissioning Obligations

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

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

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

If the discount rate used to calculate the present value of decommissioning obligations had been 7.6% (rather than 6.6%) per year, the present liability would have decreased by approx. RSD 339,439 (2014: RSD 481,611).

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

3.5. Contingencies

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

3.6. Impact of recent crude oil volatility

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 assets 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 assets exceed its carrying value.

The Group assessed crude oil price volatility as main impairment indicator. If the actual crude oil price decrease for 10\$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Group's non-current non-financial assets by 14.7 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. FINANCIAL RISK MANAGEMENT

4.1. Financial risk factors

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

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

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

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

Foreign exchange risk

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

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

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

As at 31 December 2015, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit for the year would have been RSD 1,521,561 (2014: RSD 2,598,250) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2015, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit for the year would have been RSD 5,706,190 (2014: RSD 7,475,597) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated borrowings and trade payables.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

Cash flow and fair value interest rate risk

Borrowings withdrawn at variable interest rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (Euribor or Libor) has a proportionate impact on the Group's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2015 would have been RSD 1,097,184 (2014: RSD 1,048,789) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

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

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

Liquidity risk

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

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

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

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 2015	Less than 1 year	1 - 5 years	Over 5 years	Total
Borrowings (short-term, current portion and long-term debt)	20,001,363	87,459,313	20,395,208	127,855,884
Trade payables (note 22)	24,713,307	-	-	24,713,307
	44,714,670	87,459,313	20,395,208	152,569,191
As at 31 December 2014	Less than 1 year	1 - 5 years	Over 5 years	Total
Borrowings (short-term, current portion and long-term debt)	17,275,289	75,256,714	26,337,583	118,869,586
Trade payables (note 22)	36,815,739	-	-	36,815,739
	54,091,028	75,256,714	26,337,583	155,685,325

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Capital risk management

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

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

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

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

	31 December 2015	31 December 2014
Total borrowings (notes 20 and 21)	117,285,191	108,289,482
Less: cash and cash equivalents (note 15)	<u>(19,271,435)</u>	<u>(8,326,704)</u>
Net debt	98,013,756	99,962,778
 EBITDA	 <u>46,454,755</u>	 <u>63,399,048</u>
 Net debt to EBITDA	 2.11	 1.58

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.

4.3. Fair value estimation

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

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

NIS Group**Notes to consolidated financial statements for the year ended 31 December 2015***(All amounts are in RSD 000 unless otherwise stated)***5. SEGMENT INFORMATION**

Presented below is information about the Group's operating segments for the years ended 31 December 2015 and 2014. Operating segments are components that engaged in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

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

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

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	51,812,987	207,780,949	(48,902,683)	210,691,253
Intersegment	47,547,891	1,354,792	(48,902,683)	-
External	4,265,096	206,426,157	-	210,691,253
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 35 and 36)	(13,111)	(311,660)	-	(324,771)
Finance expenses, net	(159,401)	(11,572,095)	-	(11,731,496)
Income tax	(1,140,427)	(3,307,670)	-	(4,448,097)
Segment profit (loss)	32,339,558	(17,731,853)	-	14,607,705

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

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	80,995,753	255,285,451	(77,723,675)	258,557,529
Intersegment	76,539,271	1,184,404	(77,723,675)	-
External	4,456,482	254,101,047	-	258,557,529
EBITDA (Segment results)	65,683,172	(2,284,124)	-	63,399,048
Depreciation, depletion and amortization	(4,117,888)	(8,639,542)	-	(12,757,430)
Impairment losses (note 35 and 36)	(27,346)	(127,257)	-	(154,603)
Finance expenses, net	(227,772)	(12,384,595)	-	(12,612,367)
Income tax	(580,889)	(5,450,222)	-	(6,031,111)
Segment profit (loss)	60,353,697	(32,515,253)	-	27,838,444

NIS Group
Notes to consolidated financial statements for the year ended 31 December 2015
(All amounts are in RSD 000 unless otherwise stated)
5. SEGMENT INFORMATION (continued)

EBITDA for the year ended 31 December 2015 and 2014 is reconciled below:

	Year ended 31 December	
	2015	2014
Profit for the year	14,607,705	27,838,444
Income tax expenses	4,448,097	6,031,111
Other expenses	2,909,067	3,513,956
Other income	(2,766,045)	(4,866,534)
Loss from valuation of assets at fair value through profit and loss	330,967	3,938,708
Income from valuation of assets at fair value through profit and loss	(7,117,464)	(984,506)
Finance expense	15,422,488	20,401,328
Finance income	(3,690,992)	(7,788,961)
Depreciation, depletion and amortization	14,281,849	12,757,430
Other non operating expenses, net	8,029,083	2,558,072
EBITDA	46,454,755	63,399,048

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

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

	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
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	6,183,349	-	6,183,349
Sale of petroleum products	153,297,126	37,511,908	190,809,034
<i>Through a retail network</i>	49,664,208	-	49,664,208
<i>Wholesale activities</i>	103,632,918	37,511,908	141,144,826
Other sales	6,010,460	4,027,388	10,037,848
Total sales	166,129,429	44,561,824	210,691,253

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

NIS Group**Notes to consolidated financial statements for the year ended 31 December 2015***(All amounts are in RSD 000 unless otherwise stated)***5. SEGMENT INFORMATION (continued)**

Out of the amount of RSD 190,809,034 (2014: RSD 243,127,525) revenue from sale of petroleum products (wholesale), the amount of RSD 23,222,832 (2014: RSD 23,382,492) are derived from a single domestic customer, Knez Petrol (2014: HIP Petrohemija). These revenues are attributable to wholesale activities within Downstream segment.

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

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 166,129,429 (2014: RSD 202,979,406), and the total of revenue from external customer from other countries is RSD 44,561,824 (2014: RSD 55,578,123). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2015	2014
Sale of crude oil	3,022,528	3,605,885
Sale of petroleum products (retail and wholesale)		
Bulgaria	10,848,089	9,831,025
Bosnia and Herzegovina	7,213,882	7,948,661
Romania	7,052,440	7,833,671
All other markets	12,397,497	23,298,589
	<u>37,511,908</u>	<u>48,911,946</u>
Other sales	4,027,388	3,060,292
	<u>44,561,824</u>	<u>55,578,123</u>

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	31 December
	2015	2014
Serbia	232,868,823	218,176,386
Bulgaria	8,246,434	8,524,519
Bosnia and Herzegovina	8,152,524	8,296,363
Romania	6,436,983	6,268,690
Hungary	-	65
	<u>255,704,764</u>	<u>241,266,023</u>

NIS Group

Notes to consolidated financial statements for the year ended 31 December 2015

(All amounts are in RSD 000 unless otherwise stated)

6. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Goodwill	Intangible Other assets under intangibles development	Total
At 1 January 2014					
Cost	-	6,472,181	2,004,284	737,003	9,816,673
Accumulated amortisation and impairment	-	(2,688,281)	(42,146)	(146,507)	(95,307)
Net book amount	-	3,783,900	1,962,138	590,496	9,721,366
Year ended 31 December 2014					
Additions	3,873,221	808,150	170,073	100,644	(44,884)
Acquisitions through business combinations	-	-	42,148	-	-
Impairment (note 36)	-	(533)	(322,848)	(8,065)	(1,503)
Amortisation	(40,080)	(919,463)	-	(77,395)	(4,439)
Transfer from PP&E (note 7)	-	-	-	616,451	825,409
Disposals and write-off	-	(749)	-	(153,714)	(332,569)
Other transfers	1	(223,782)	-	223,781	828,398
Translation differences	-	2,982	106,384	23,923	138,190
Closing net book amount	3,833,142	3,450,505	1,957,895	1,316,121	11,129,968
As at 31 December 2014					
Cost	3,873,221	7,061,422	2,333,733	1,485,101	11,231,789
Accumulated amortisation and impairment	(40,079)	(3,610,917)	(375,838)	(168,980)	(101,821)
Net book amount	3,833,142	3,450,505	1,957,895	1,316,121	11,129,968
At 1 January 2015					
Cost	3,873,221	7,061,422	2,333,733	1,485,101	11,231,789
Accumulated amortisation and impairment	(40,079)	(3,610,917)	(375,838)	(168,980)	(101,821)
Net book amount	3,833,142	3,450,505	1,957,895	1,316,121	11,129,968
Year ended 31 December 2015					
Additions	2,744,618	1,240,101	-	995	(1,359,178)
Impairment (note 35 and 36)	-	(76)	(147,054)	(1,911)	-
Amortisation	(402,257)	(1,025,815)	-	(52,892)	(5,001)
Transfer to PP&E (note 7)	-	-	-	-	(692,506)
Disposals and write-off	-	(35)	-	(234)	(4,335)
Otherer transfers	(21,786)	(1,872)	-	24,737	(27,012)
Translation differences	-	55	7,535	2,053	(140,691)
Closing net book amount	6,153,717	3,662,863	1,818,376	1,288,869	8,900,965
As at 31 December 2015					
Cost	6,617,839	8,291,324	2,339,301	1,496,540	9,006,680
Accumulated amortisation and impairment	(464,122)	(4,628,461)	(520,925)	(207,671)	(105,715)
Net book amount	6,153,717	3,662,863	1,818,376	1,288,869	8,900,965

Development investments as at 31 December 2015 in the amount of RSD 6,153,717 mostly relate to investments in geological, 2D and 3D seismic explorations on the territory of the Republic of Serbia (2014: RSD 3,833,142).

Concessions, patents, licenses, software and other rights as at 31 December 2015 amounting to RSD 3,662,863 mostly relate to investments in the SAP system of RSD 1,519,764 (2014: RSD 2,011,495).

Intangible assets under development as at 31 December 2015 amounting to RSD 8,900,965 (31 December 2014: RSD 11,129,968) mostly relate to investments in explorations (unproved reserves) in amount of RSD 7,664,019 (31 December 2014: RSD 9,465,471).

6. INTANGIBLE ASSETS (continued)

Amortisation amounting to RSD 1,485,965 (2014: RSD 1,041,377) is included in Operating expenses.

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:

	<u>2015</u>	<u>2014</u>
Average gross margin	24.8%	17%
Growth rate	1%	1%
Discount rate		
- Romania market	7.25%	9.2%
- Bulgaria market	7.98%	9.7%
- Bosnia and Herzegovina market	<u>10.94%</u>	<u>13.1%</u>

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:

	<u>Opening</u>	<u>Addition</u>	<u>Impairment</u>	<u>Translation differences</u>	<u>Closing</u>
2015					
Bosnia and Herzegovina	483,957	-	-	2,392	486,349
Romania	419,804	-	(114,469)	(440)	304,895
Bulgaria	1,054,134	-	(32,585)	5,583	1,027,132
	<u>1,957,895</u>	<u>-</u>	<u>(147,054)</u>	<u>7,535</u>	<u>1,818,376</u>
2014					
Bosnia and Herzegovina	458,686	-	-	25,271	483,957
Romania	546,177	170,073	(322,848)	26,402	419,804
Bulgaria	957,275	42,148	-	54,711	1,054,134
	<u>1,962,138</u>	<u>212,221</u>	<u>(322,848)</u>	<u>106,384</u>	<u>1,957,895</u>

The impairment charge of RSD 147,054 (2014: RSD 322,848) arose in Romania and Bulgaria business activity and is recognised as expense in Profit and Loss. (note 36).

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

NIS Group

Notes to consolidated financial statements for the year ended 31 December 2015

(All amounts are in RSD 000 unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2014								
Cost	17,338,710	118,861,913	93,865,422	35,926,540	91,391	81,375	6,481,062	272,646,413
Accumulated depreciation and impairment	(304,222)	(33,478,223)	(32,739,272)	(4,047,806)	(1,212)	(41,348)	(29,899)	(70,641,982)
Net book amount	17,034,488	85,383,690	61,126,150	31,878,734	90,179	40,027	6,451,163	202,004,431
Year ended 31 December 2014								
Additions	311,480	20,062,264	12,009,160	3,856,319	-	344,388	5,786,829	42,370,440
Acquisitions through business combinations	-	-	-	1,245,216	-	-	-	1,245,216
Impairment charge (note 35 and 36)	(29,907)	(42,822)	(63,828)	(52,462)	(49)	-	-	(189,068)
Depreciation	-	(5,323,569)	(6,380,450)	-	-	(12,034)	-	(11,716,053)
Transfer to intangible assets (note 6)	-	53,404	1,330	(1,496,594)	-	-	-	(1,441,860)
Transfer from investment property	31,599	70,690	2,588	-	-	-	-	104,877
Disposals and write-off	(112,861)	(248,146)	(114,579)	(1,531,011)	(47)	-	(9,830,700)	(11,837,344)
Other transfers	6,972	194,162	(200,048)	(828,398)	(703)	-	-	(828,015)
Translation differences	338,515	375,996	119,197	56,713	-	807	32,231	923,459
Closing net book amount	17,580,286	100,525,669	66,499,520	33,128,517	89,380	373,188	2,439,523	220,636,083
At 31 December 2014								
Cost	17,914,415	139,332,185	104,654,098	35,928,308	91,230	426,130	2,468,780	300,815,146
Accumulated depreciation and impairment	(334,129)	(38,806,516)	(38,154,578)	(2,799,791)	(1,850)	(52,942)	(29,257)	(80,179,063)
Net book amount	17,580,286	100,525,669	66,499,520	33,128,517	89,380	373,188	2,439,523	220,636,083
Year ended 31 December 2015								
Additions	16,823	21,374,246	11,880,872	(5,850,786)	-	23,738	5,312,162	32,757,055
Impairment charge (note 35 and 36)	(2,785)	(189,952)	(10,362)	(111,808)	(1,982)	-	-	(316,889)
Depreciation	-	(5,513,157)	(7,218,563)	-	-	(64,164)	-	(12,795,884)
Transfer from intangible assets (note 6)	-	-	-	692,506	-	-	-	692,506
Transfer to investment property	(101,916)	14,533	-	-	-	-	-	(87,383)
Transfer to non-current assets held for sale	(19,626)	(2,053)	(24)	-	-	-	-	(21,703)
Disposals and write-off	(148,984)	(311,163)	(175,401)	(179,640)	(109)	(509)	(6,420,676)	(7,236,482)
Other transfers	(162,758)	169,678	16,999	26,611	-	8,724	-	59,254
Translation differences	26,238	21,314	7,906	132,431	415	62	(1,253)	187,113
Closing net book amount	17,187,278	116,089,115	71,000,947	27,837,831	87,704	341,039	1,329,756	233,873,670
At 31 December 2015								
Cost	17,491,508	160,380,190	115,619,407	30,220,489	91,412	457,949	1,360,565	325,621,520
Accumulated depreciation and impairment	(304,230)	(44,291,075)	(44,618,460)	(2,382,658)	(3,708)	(116,910)	(30,809)	(91,747,850)
Net book amount	17,187,278	116,089,115	71,000,947	27,837,831	87,704	341,039	1,329,756	233,873,670

7. PROPERTY, PLANT AND EQUIPMENT (continued)

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

In 2015, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 33,227 (2014: RSD 78,399).

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

As at 31 December 2015, the Group assessed impairment indicators of cash generating units ("CGU") and concluded that general indications of impairment does not exist. In addition Group has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 314,151 (2014: RSD 189,068).

b) Investment property – carried at fair value

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

Movements on the account were as follows:

	2015	2014
As at 1 January	1,381,832	1,414,364
Fair value (loss) gains (note 35 and 36)	(124,003)	164,761
Transfer from (to) PP&E carried at cost	87,383	(104,877)
Disposals	(17,554)	(93,462)
Other	8,402	1,046
As at 31 December	1,336,060	1,381,832

As at 31 December 2015, investment properties amounting to RSD 1,336,060 (31 December 2014: RSD 1,381,832) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

7. PROPERTY, PLANT AND EQUIPMENT (continued)*b) Investment property – carried at fair value (continued)***Fair value of investment properties**

Valuation of the Group's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2015 and 2014. The revaluation loss was credited to other income (note 35).

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

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

Fair value measurements at 31 December 2015 using:

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

Fair value measurements at 31 December 2014 using:

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

Valuation techniques used to derive level 2 fair values

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

7. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Fair value measurements using significant unobservable inputs (Level 3)

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

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

	<u>2015</u>	<u>2014</u>
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:

	<u>2015</u>	<u>2014</u>
Assets as at 1 January	569,808	509,899
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	54,431	59,909
Transfer to PPE	(88,469)	-
Other	5,854	-
Total (decrease) increase in fair value measurement, assets	(28,184)	59,909
Assets as at 31 December	541,624	569,808

c) Oil and gas production assets

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

NIS Group

Notes to consolidated financial statements for the year ended 31 December 2015

(All amounts are in RSD 000 unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

c) Oil and gas production assets (continued)

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2014						
Cost	13,222,087	13,397,107	26,619,194	58,161,373	33,510	84,814,077
Depreciation and impairment	(10,867)	(238,059)	(248,926)	(17,442,672)	(20,267)	(17,711,865)
Net book amount	13,211,220	13,159,048	26,370,268	40,718,701	13,243	67,102,212
Year ended 31 December 2014						
Additions	8,004,209	20,994,826	28,999,035	-	-	28,999,035
Transfer from asset under construction	(3,619,756)	(20,246,631)	(23,866,387)	23,866,387	-	-
Other transfers	2,013,886	(527,685)	1,486,201	445,480	(81)	1,931,600
Impairment	(1,503)	(15,526)	(17,029)	(10,222)	(49)	(27,300)
Depreciation and depletion	(4,439)	-	(4,439)	(3,763,379)	-	(3,767,818)
Disposals and write-off	(1,691,582)	(139,622)	(1,831,204)	(31,006)	(15)	(1,862,225)
Translation differences	157,847	-	157,847	174	-	158,021
	18,069,882	13,224,410	31,294,292	61,226,135	13,098	92,533,525
As at 31 December 2014						
Cost	18,087,173	13,477,995	31,565,168	82,284,653	33,457	113,883,278
Depreciation and impairment	(17,291)	(253,585)	(270,876)	(21,058,518)	(20,359)	(21,349,753)
Net book amount	18,069,882	13,224,410	31,294,292	61,226,135	13,098	92,533,525
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	4,796,772	18,708,726	23,505,498	100,269	-	23,605,767
Transfer from asset under construction	(3,207,817)	(23,902,242)	(27,110,059)	27,110,059	-	-
Other transfers	463,542	(326,056)	137,486	(24,468)	-	113,018
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

8. INVESTMENTS IN JOINT VENTURE

The carrying value of the investments in joint ventures as of 31 December, 2015 and 2014 is summarised below:

	Ownership percentage	31 December 2015	31 December 2014
Energowind	50%	1,008,221	1,008,221
Serbskaya Generaciya	49%	180,438	-
Total investments		1,188,659	1,008,221

During 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.

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.

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.

9. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2015	31 December 2014
Other LT placements	1,105,420	998,376
LT loans given to employees	1,161,130	1,155,943
Less: Impairment	(1,022,745)	(919,728)
	1,243,805	1,234,591

Loans to employees as at 31 December 2015 amounting to RSD 1,161,130 (31 December 2014: RSD 1,155,943) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly installments.

The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Group could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 4.85% for loans denominated in EUR, and 15.26% for loans denominated in RSD (2014: 4.99% for loans denominated in EUR, and 15.85% for loans denominated in RSD).

NIS Group**Notes to consolidated financial statements for the year ended 31 December 2015***(All amounts are in RSD 000 unless otherwise stated)***10. LONG-TERM RECEIVABLES**

	31 December 2015	31 December 2014
LT receivables – state owned companies	15,493,616	-
LT receivables - financial lease	29,311	36,603
Less: Impairment	(933,939)	(24,559)
	14,588,988	12,044

Long-term receivables – state owned companies amounting to RSD 15,493,616 mainly relate to the long-term receivables from the Republic of Serbia in the amount of RSD 11,222,228 according to the debt of Srbijagas owed to Naftna industrija Srbije takeover and its conversion into public debt. (Short-term part of the receivables: note 13 and 14).

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

As at 31 December 2015, the first instalment was paid in accordance with the repayment schedule defined by the Law.

11. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2015	31 December 2014
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	6,036,318	6,459,311
- Deferred tax assets to be recovered within 12 months	1,220,593	1,374,892
	7,256,911	7,834,203
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	2,988,170	2,980,602
	2,988,170	2,980,602
Deferred tax assets (net)	4,268,741	4,853,601

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

	2015	2014
At 1 January	4,853,600	7,439,476
Charged to the income statement	(583,694)	(2,533,344)
Charged to other comprehensive income	(623)	(48,192)
Translation difference	(542)	(4,339)
31 December	4,268,741	4,853,601

11. DEFERRED TAX ASSETS AND LIABILITIES (continued)

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	Total	
<i>Deferred tax liabilities</i>				
As at 1 January 2014	-	(2,337,281)	(2,337,281)	
Origination and reversal of temporary differences:				
- charged to the income statement (note 37)	-	(590,790)	(590,790)	
- charged to other comprehensive income	(48,192)	-	(48,192)	
Translation difference	-	(4,339)	(4,339)	
As at 31 December 2014	(48,192)	(2,932,410)	(2,980,602)	
Origination and reversal of temporary differences:				
- charged to the income statement (note 37)	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)	
	Provisions	Impairment loss	Investment credit	Total
<i>Deferred tax assets</i>				
As at 1 January 2014	308,289	762,878	8,705,589	9,776,756
Origination and reversal of temporary differences (note 37)	(282,758)	(82,219)	(1,577,577)	(1,942,554)
As at 31 December 2014	25,531	680,659	7,128,012	7,834,202
Origination and reversal of temporary differences (note 37)	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

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.

Investment credits in the amount of RSD 282,119 was not recognised as deferred tax assets as its considered as non-recoverable. These investments credits expired gradually up to 2023.

NIS Group**Notes to consolidated financial statements for the year ended 31 December 2015***(All amounts are in RSD 000 unless otherwise stated)***12. INVENTORY**

	31 December 2015	31 December 2014
Materials, spare parts and tools	17,083,302	28,559,616
Work in progress	4,050,154	5,755,021
Finished goods	5,873,077	7,477,570
Goods for sale	2,760,217	3,494,419
Advances	536,372	668,211
<i>Less: impairment of inventory</i>	(5,588,505)	(6,155,660)
<i>Less: impairment of advances</i>	(270,297)	(244,828)
	24,444,320	39,554,349
Non-current assets held for sale	207,485	-
<i>Less: impairment of assets held for sale</i>	(185,782)	-
	21,703	-
	24,466,023	39,554,349

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of Advances	Impairment of Assets held for sale	Total
Balance as of 1 January 2014	6,939,003	253,069	-	7,192,072
Provision for inventories and advances (note 36)	9,025	5,688	-	14,713
Unused amounts reversed (note 35)	(216,837)	(13,116)	-	(229,953)
Receivables written off during the year as uncollectible	-	(989)	-	(989)
Other	(575,531)	176	-	(575,355)
Balance as of 31 December 2014	6,155,660	244,828	-	6,400,488
Provision for inventories and advances (note 36)	106,372	41,373	185,782	333,527
Unused amounts reversed (note 35)	(406,016)	(4,439)	-	(410,455)
Receivables written off during the year as uncollectible	-	(6,503)	-	(6,503)
Other	(267,511)	(4,962)	-	(272,473)
Balance as of 31 December 2015	5,588,505	270,297	185,782	6,044,584

13. TRADE RECEIVABLES

	31 December 2015	31 December 2014
Other related parties - domestic	18,996,976	13,004,338
Other related parties - foreign	251,708	36,398
Trade receivables domestic – third parties	33,209,057	47,435,227
Trade receivables foreign – third parties	761,028	1,342,216
	53,218,769	61,818,179
Less: Impairment	(19,651,467)	(12,573,308)
	33,567,302	49,244,871

NIS Group**Notes to consolidated financial statements for the year ended 31 December 2015***(All amounts are in RSD 000 unless otherwise stated)***13. TRADE RECEIVABLES (continued)**

The ageing of trade receivables is as follows:

	31 December 2015	31 December 2014
Neither impaired nor past due	26,446,171	24,034,163
Past due but not impaired:		
within 30 days	1,568,007	4,098,982
1 to 3 months	3,188,881	2,025,111
3 months to 1 year	59,404	8,338,053
over 1 year	2,304,839	10,748,562
Total	33,567,302	49,244,871

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

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

	31 December 2015	31 December 2014
RSD	35,468,478	59,705,725
EUR	16,303,084	465,225
USD	416,219	876,000
Other	1,030,988	771,229
	53,218,769	61,818,179

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

	Trade receivables		Total
	Individually impaired	Collectively impaired	
As at 1 January 2014	8,426,645	4,163,143	12,589,788
Provision for receivables impairment (note 34)	81,045	237,253	318,298
Unused amounts reversed (note 33)	-	(302,657)	(302,657)
Receivables written off during the year as uncollectible	-	(264,395)	(264,395)
Other	(3,474)	235,748	232,274
As at 31 December 2014	8,504,216	4,069,092	12,573,308
Provision for receivables impairment (note 34)	12,305	119,546	131,851
Unused amounts reversed (note 33)	(5,667,939)	(131,965)	(5,799,904)
Receivables written off during the year as uncollectible	-	(188,529)	(188,529)
Transfer from other receivables (note 14)	3,105,066	-	3,105,066
Transfer from ST financial assets	-	8,152,392	8,152,392
Other	211,751	1,465,532	1,677,283
As at 31 December 2015	6,165,399	13,486,068	19,651,467

13. TRADE RECEIVABLES (continued)

Release of provision and receivable written off as uncollectable in the amount of RSD 5,799,904 respectively mainly relate to positive outcome of negotiations between the Company and Serbian Government for collection of receivables from Srbijagas. The negotiations ended in adoption of the Law on taking over the receivables from Srbijagas by the Government. According to the Law, NIS will collect the amount of RSD 23,379,767 in following two years, with the last installment on 31 May 2018. On 31 Dec 2015, the Company received the first installment in the amount of RSD 4,675,953. In addition, the Company reclassified non-current portion in the amount of RSD 11,222,228 (note 10) with proper discounting effect.

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement (note 34). 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.

14. OTHER RECEIVABLES

	31 December 2015	31 December 2014
Interest receivables	6,368,027	13,492,221
Receivables from employees	91,130	88,782
Income tax prepayment	1,644,731	2,672,130
Other receivables	7,545,751	7,552,779
Less: Impairment	<u>(13,772,414)</u>	<u>(20,758,935)</u>
	<u>1,877,225</u>	<u>3,046,977</u>

Movements on the provision for other receivables :

	Interest receivables	Other receivables	Total
As at 1 January 2014	<u>10,369,445</u>	<u>7,337,178</u>	<u>17,706,623</u>
Provision for other receivables impairment (note 34)	3,604,591	1,616	3,606,207
Unused amounts reversed (note 33)	(391,242)	(2,225)	(393,467)
Receivables written off during the year as uncollectible	(159,538)	(1,106)	(160,644)
Other	-	216	216
As at 31 December 2014	<u>13,423,256</u>	<u>7,335,679</u>	<u>20,758,935</u>
Provision for other receivables impairment (note 34)	89,122	97,632	186,754
Unused amounts reversed (note 33)	(1,315,669)	(1,251)	(1,316,920)
Receivables written off during the year as uncollectible	(2,759,805)	(471)	(2,760,276)
Transfer to trade receivables (note 13)	(3,105,066)	-	(3,105,066)
Other	-	8,987	8,987
As at 31 December 2015	<u>6,331,838</u>	<u>7,440,576</u>	<u>13,772,414</u>

NIS Group**Notes to consolidated financial statements for the year ended 31 December 2015***(All amounts are in RSD 000 unless otherwise stated)***15. CASH AND CASH EQUIVALENTS**

	31 December 2015	31 December 2014
Cash in bank and in hand	11,302,285	5,064,178
Deposits with original maturity of less than three months	6,385,304	1,351,870
Cash with restriction	1,562,453	1,655,104
Cash equivalents	21,393	255,552
	19,271,435	8,326,704

Cash with restriction as of 31 December 2015 amounting to RSD 1,562,453 (31 December 2014: RSD 1,655,104) 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.

16. PREPAYMENTS AND ACCRUED INCOME

	31 December 2015	31 December 2014
Deferred input VAT	2,014,262	2,241,351
Prepaid expenses	120,106	137,615
Prepaid excise duty	2,943,879	4,256,208
Housing loans and other prepayments	1,907,099	1,143,047
	6,985,346	7,778,221

Deferred input VAT as at 31 December 2015 amounting to RSD 2,014,262 (31 December 2014: RSD 2,241,351) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 2,943,879 (31 December 2014: RSD 4,256,208) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

17. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2015	31 December 2014
Issued warranties and bills of exchange	85,848,939	75,764,106
Received warranties and bills of exchange	24,896,899	27,794,515
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	6,830,396	6,329,184
Third party merchandise in NIS warehouses	6,267,709	4,423,596
Assets for oil fields liquidation in Angola	990,870	771,785
Other off-balance sheet assets and liabilities	197,477	-
	130,389,980	120,440,876

NIS Group

Notes to consolidated financial statements for the year ended 31 December 2015

(All amounts are in RSD 000 unless otherwise stated)

18. EQUITY

	Equity attributable to owners of the Group							Non-controlling interest	Total equity	
	Share capital	Other capital	Reserves	Retained earnings (loss)	Translation reserves	Unrealised gains (losses) from securities	Actuarial gain (loss)			
Balance as at 1 January 2014	81,530,200	-	-	87,678,909	(38,290)	(59,885)	(114,418)	168,996,516	(43,417)	168,953,099
Profit (loss) for the year	-	-	-	27,939,245	-	-	-	27,939,245	(100,801)	27,838,444
Gains from securities	-	-	-	-	-	17,608	-	17,608	-	17,608
Dividend distribution	-	-	-	(13,080,705)	-	-	-	(13,080,705)	-	(13,080,705)
Actuarial gain	-	-	-	-	-	-	273,088	273,088	-	273,088
Other	-	-	-	38	(372,247)	-	-	(372,209)	(8,821)	(381,030)
Balance as at 31 December 2014	81,530,200	-	-	102,537,487	(410,537)	(42,277)	158,670	183,773,543	(153,039)	183,620,504
Balance as at 1 January 2015	81,530,200	-	-	102,537,487	(410,537)	(42,277)	158,670	183,773,543	(153,039)	183,620,504
Profit (loss) for the year	-	-	-	14,638,790	-	-	-	14,638,790	(31,085)	14,607,705
Gains from securities	-	-	-	-	-	(37,288)	-	(37,288)	-	(37,288)
Dividend distribution	-	-	-	(7,639,380)	-	-	-	(7,639,380)	-	(7,639,380)
Actuarial gain	-	-	-	-	-	-	2,819	2,819	-	2,819
Other	-	-	-	-	(40,426)	-	(244)	(40,670)	(2,010)	(42,680)
Balance as at 31 December 2015	81,530,200	-	-	109,536,897	(450,607)	(79,564)	162,014	190,698,702	(186,134)	190,511,680

18.1. SHARE CAPITAL

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

Share capital as of 31 December 2015 and 31 December 2014 comprise of 163,060,400 of ordinary shares.

A dividend in respect of the year ended 31 December 2014 of 46.85 RSD per share, amounting to a total dividend of RSD 7,639,380 was approved by the General Assembly Meeting held on 23 June 2015 and paid on 31 August 2015.

19. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommissioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2014	9,063,038	690,094	2,551,690	1,522,079	1,157,252	14,984,153
Charged to the income statement (note 29 and 32)	52,371	32,947	329,300	-	-	414,618
New obligation incurred and change in estimates	(14,377)	-	-	-	-	(14,377)
Release of provision (note 35)	-	-	(1,565,729)	(812,189)	(48,009)	(2,425,927)
Actuarial gain charged to other comprehensive income	-	-	(321,281)	-	-	(321,281)
Settlement	(75,421)	(152,437)	(115,426)	(608,044)	(167,626)	(1,118,954)
Other	-	(245)	186	-	2,963	2,904
As at 31 December 2014	9,025,611	570,359	878,740	101,846	944,580	11,521,136
As at 1 January 2015						
Charged to the income statement (note 29 and 32)	268,074	307,033	80,657	244,309	15,385	915,458
New obligation incurred and change in estimates	100,888	-	-	-	-	100,888
Release of provision (note 35)	(49,261)	(4,300)	(20,252)	-	(111,045)	(184,858)
Actuarial gain charged to other comprehensive income	-	-	(3,977)	-	-	(3,978)
Settlement	(192,943)	(185,432)	(79,010)	(49,372)	(135,631)	(642,387)
Other	-	42	10	-	712	764
As at 31 December 2015	9,152,369	687,702	856,168	296,783	714,001	11,707,023

Analysis of total provisions:

	31 December 2015	31 December 2014
Non-current	9,451,111	9,012,584
Current	2,255,912	2,508,552
	11,707,023	11,521,136

(a) Decommissioning

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

19. LONG – TERM PROVISIONS (continued)*(b) Environmental protection*

The Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 687,702 (31 December 2014: RSD 570,359) 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 2015 the management made an assessment of present value of liabilities related to new three-year employee incentives (2015-2017) in amount of RSD 296,783 (2014: RSD 101,846).

(d) Legal claims provisions

As at 31 December 2015, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group released provision for litigation amounting to RSD 111,045 (2014: RSD 48,009 reversed) for proceedings which were assessed that won't have negative outcome and charged provision for litigation amounting to RSD 15,385 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 2015.

(e) Provision for employee benefits

Employee benefits:

	31 December 2015	31 December 2014
Retirement allowances	109,132	101,096
Jubilee awards	747,036	777,644
	856,168	878,740

The principal actuarial assumptions used were as follows:

	31 December 2015	31 December 2014
Discount rate	6.6%	6.75%
Future salary increases	2.5%	2.5%
Future average years of service	15.7	12.4

19. LONG – TERM PROVISIONS (continued)(e) *Provision for employee benefits (continued)*

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2014	703,729	1,847,961	2,551,690
Benefits paid directly	(26,150)	(89,276)	(115,426)
Actuarial gain charged to other comprehensive income	(321,281)	-	(321,281)
Credited to the income statement	(255,388)	(981,041)	(1,236,429)
Translation difference	186	-	186
Balances as at 31 December 2014	101,096	777,644	878,740
Benefits paid directly	(2,881)	(76,129)	(79,010)
Actuarial gain charged to other comprehensive income	(3,977)	-	(3,977)
Debited to the income statement	14,894	45,511	60,405
Translation difference	-	10	10
Balances as at 31 December 2015	109,132	747,036	856,168

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December	
	2015	2014
Current service cost	66,664	202,422
Interest cost	56,751	156,808
Curtailment gain	(5,432)	(265,082)
Actuarial gains (jubilee awards)	(24,012)	(557,749)
Amortisation of past service cost	(33,566)	(772,828)
	60,405	(1,236,429)

20. LONG-TERM LIABILITIES

	31 December 2015	31 December 2014
Long-term loan - Gazprom Neft	42,427,710	47,820,723
Bank loans	71,016,462	51,604,833
Finance lease liabilities	199,287	199,737
Other long-term borrowings	88,612	64,078
<i>Less Current portion</i>	(13,418,431)	(6,101,327)
	100,313,640	93,588,044

a) *Long-term loan - Gazprom Neft*

As at 31 December 2015 long-term loan - Gazprom Neft amounting to RSD 42,427,710 (2014: RSD 47,820,723), with current portion of RSD 5,657,028 (2014: RSD 5,625,967), 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.

20. LONG-TERM LIABILITIES (CONTINUED)*b) Bank loans*

	31 December 2015	31 December 2014
Domestic	18,693,335	7,175,319
Foreign	52,323,127	44,429,514
	<u>71,016,462</u>	<u>51,604,833</u>
Current portion of long-term loans (note 21)	(7,760,393)	(474,537)
	<u>63,256,069</u>	<u>51,130,296</u>

The maturity of non-current loans was as follows:

	31 December 2015	31 December 2014
Between 1 and 2 years	11,829,773	6,969,316
Between 2 and 5 years	46,347,221	38,525,058
Over 5 years	5,079,075	5,635,922
	<u>63,256,069</u>	<u>51,130,296</u>

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

	31 December 2015	31 December 2014
USD	53,388,078	45,401,219
EUR	17,247,010	5,840,104
RSD	1,174	1,520
JPY	380,200	361,990
	<u>71,016,462</u>	<u>51,604,833</u>

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 Group's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of 31 December 2015 and 31 December 2014 respectively.

c) Financial lease liabilities

Minimum finance lease payments:

	31 December 2015	31 December 2014
Less than one year	41,677	66,290
1-5 years	205,380	229,507
Over 5 years	707,604	790,393
Future finance charges on finance leases	(755,374)	(886,453)
Present value of finance lease liabilities	<u>199,287</u>	<u>199,737</u>
	<u>31 December 2015</u>	<u>31 December 2014</u>
Less than one year	1,010	823
1-5 years	5,832	15,702
Over 5 years	192,445	183,212
Present value of finance lease liabilities	<u>199,287</u>	<u>199,737</u>

21. SHORT-TERM FINANCE LIABILITIES

	31 December 2015	31 December 2014
Short-term loans	3,553,120	8,600,111
Current portion of long-term loans (note 20)	13,417,421	6,100,504
Current portion of finance lease liabilities (note 20)	1,010	823
	16,971,551	14,701,438

22. TRADE PAYABLES

	31 December 2015	31 December 2014
Parents and subsidiaries - foreign	10,004,805	20,122,243
Other related parties - domestic	800,455	830,355
Other related parties - foreign	172,515	131,258
Trade payables domestic – third parties	7,854,205	6,312,351
Trade payables foreign – third parties	5,799,950	9,343,872
Other trade payables	81,377	75,660
	24,713,307	36,815,739

As at 31 December 2015 payables to parents and subsidiaries-foreign amounting to RSD 10,004,805 (31 December 2014: RSD 20,122,243) fully relate to payables to the supplier Gazprom Neft, St Petersburg, for the purchase of crude oil.

23. OTHER SHORT-TERM LIABILITIES

	31 December 2015	31 December 2014
Specific liabilities	346,080	386,183
Liabilities for unpaid wages and salaries, gross	1,100,559	1,111,477
Interest liabilities	820,006	667,760
Dividends payable	3,772,308	3,772,308
Other payables to employees	594,443	629,953
Decommissioning and site restoration costs	1,609,928	1,638,178
Environmental provision	311,905	503,287
Litigation and claims	250,000	278,989
Other current liabilities	92,697	149,527
	8,897,926	9,137,662

24. LIABILITIES FOR OTHER TAXES

	31 December 2015	31 December 2014
Excise tax	6,416,831	5,492,646
Income tax	14,970	15,435
Other taxes payables	1,279,553	2,005,633
	7,711,354	7,513,714

25. ACCRUED EXPENSES

Accrued expenses as at 31 December 2015 amounting to RSD 2,685,116 (31 December 2014: RSD 5,516,367) mainly relate to accrued employee bonuses of RSD 1,568,343 (31 December 2014: RSD 1,875,170).

26. COST OF MATERIAL

	Year ended 31 December	
	2015	2014
Costs of raw materials	109,660,889	138,821,147
Overheads costs	369,812	265,998
Other costs	1,756,812	1,707,550
	111,787,513	140,794,695

27. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December	
	2015	2014
Wages and salaries (gross)	14,711,841	15,130,012
Taxes and contributions on wages and salaries paid by employer	2,067,100	2,209,554
Cost of service agreement	338,367	594,975
Cost of other personal wages	56,088	61,780
Fees paid to board of directors and general assembly board	128,471	127,144
Termination costs	376,007	395,819
Other personal expenses	827,469	767,002
	18,505,343	19,286,286

28. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2015	2014
Cost of production services	3,629,788	2,613,461
Transportation services	3,570,178	2,928,463
Maintenance	3,107,701	2,906,214
Rental costs	2,143,510	2,318,699
Fairs	3,323	11,539
Advertising costs	893,394	971,609
Exploration expenses	64,883	1,680,138
Cost of other services	1,243,159	1,076,077
	14,655,936	14,506,200

29. LONG-TERM PROVISION EXPENSE

	Year ended 31 December	
	2015	2014
Decommissioning and site restoration costs	453,709	36,947
Employee benefits costs	324,966	329,300
Other provision expense (litigation and claims)	15,385	-
	794,060	366,247

30. NON-MATERIAL EXPENSES

	Year ended 31 December	
	2015	2014
Costs of non-production services	8,972,537	8,114,893
Representation costs	78,206	115,662
Insurance premium	411,731	581,400
Bank charges	287,708	270,043
Cost of taxes	1,266,187	1,165,296
Mineral extraction tax	1,424,183	2,234,572
Other non-production expenses	2,044,050	1,714,471
	14,484,602	14,196,337

Cost of non-production services for the year ended 31 December 2015 amounting to RSD 8,972,537 (2014: RSD 8,114,893) mainly relate to costs of service organizations of RSD 5,231,032; consulting service costs of RSD 924,114; security cost of RSD 502,948 and project management costs of RSD 479,870.

31. FINANCE INCOME

	Year ended 31 December	
	2015	2014
Finance income - related parties		
- foreign exchange differences	1,224,003	2,197,806
- other finance income	-	2,530
Interest income	706,445	4,238,258
Foreign exchange gains	1,691,420	1,332,107
Other finance income	69,124	18,260
	3,690,992	7,788,961

32. FINANCE EXPENSE

	Year ended 31 December	
	2015	2014
Finance expenses – related parties		
- foreign exchange differences	2,901,488	6,285,920
- other finance expense	988,192	1,136,972
Interest expenses	2,462,066	2,448,838
Decommissioning provision: unwinding of the present value discount	121,398	48,371
Provision of trade and other non-current receivables: discount	912,967	-
Foreign exchange losses	8,031,952	10,480,880
Other finance expenses	4,425	347
	15,422,488	20,401,328

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

	Year ended 31 December	
	2015	2014
Reversal of impairment of LT financial investments	496	17,263
Income from valuation:		
- trade and specific receivables	5,800,048	467,104
- short-term investments	-	393,467
- other receivables (note 14)	1,316,920	106,672
	7,117,464	984,506

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

	Year ended 31 December	
	2015	2014
Loss from valuation:		
- LT financial investments	3,355	3,168
- trade and specific receivables	138,839	328,989
- other receivables (note 14)	186,754	3,606,207
- other	2,019	344
	330,967	3,938,708

35. OTHER INCOME

	Year ended 31 December	
	2015	2014
Gains on disposal - Intangible assets and PPE	274,012	202,270
Gains on disposal - materials	33,580	41,917
Gains on disposal - equity instruments and securities	61,696	-
Surpluses from stock count	277,612	394,324
Payables written off	565,958	42,257
Release of long-term provisions	184,858	2,425,927
Gain on bargain purchase (note 39)	-	455,776
<i>Release of impairment:</i>		
- IA	1,631	-
- PPE	25,596	79,596
- investment property	-	164,761
- inventory	406,016	216,837
- other property	4,438	13,117
Penalty interest	146,581	106,128
Other income	784,067	723,624
	2,766,045	4,866,534

36. OTHER EXPENSES

	Year ended 31 December	
	2015	2014
Loss on disposal - Intangible assets and PPE	274,818	288,251
Shortages from stock count	392,176	821,895
Write-off receivables	16,347	3,133
Write-off inventories	170,022	88,321
<i>Impairment:</i>		
- IA	147,410	332,949
- PPE	342,485	268,664
- investment property	124,003	-
- inventory	106,372	9,025
- other property	42,182	18,276
Other expenses	1,293,252	1,683,442
	2,909,067	3,513,956

37. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2015	2014
Income tax for the year	3,864,403	3,497,767
Deferred income tax for the period (note 11)		
Origination and reversal of temporary differences	583,694	2,533,344
	4,448,097	6,031,111

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

	Year ended 31 December	
	2015	2014
Profit before tax	19,055,802	33,869,555
Tax calculated at domestic tax rates applicable to profits in the respective countries	3,882,028	5,990,376
<i>Tax effect on:</i>		
Revenues exempt from taxation	(63,792)	(315,335)
Expenses not deductible for tax purposes	342,899	985,182
Tax losses for which no deferred income tax asset was recognised	1,680,512	1,528,598
Utilized tax credits	(1,374,938)	(1,860,025)
Other	(18,612)	(285,251)
	4,448,097	6,043,545
Tax reassessment	-	(12,434)
	4,448,097	6,031,111
Effective income tax rate	23.34%	17.81%

38. EARNINGS PER SHARE

	Year ended 31 December	
	2015	2014
Profit attributable to shareholders of Naftna Industrija Srbije	14,638,790	27,939,245
Weighted average number of ordinary shares issued	163,060,400	163,060,400
Basic Earnings per share	0.090	0.171

39. BUSINESS COMBINATIONS

During 2015 there were no business combinations of the Group.

In 2014, the Group acquired five petrol stations, four in Bulgaria and one in Serbia. The total consideration paid for above acquisitions amounted to RSD 874,367. The fair value of net identifiable asset acquired amounted to RSD 1,245,216 and remaining amount was recognised as goodwill.

40. GROUP ENTITIES

The consolidated financial statements of below listed subsidiaries are consolidated as at 31 December 2015 and 31 December 2014:

Subsidiary	Country of incorporation	Nature of business	Share %	
			31-Dec 2015	31-Dec 2014
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, Bujanovac	Serbia	Trade	51	51

During 2015 subsidiary Jubos, Bor was liquidated.

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

41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

During 2015 and 2014, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

As of 31 December 2015 and 31 December 2014 the outstanding balances with related parties were as follows:

	Joint venture	Parent	Entities under common control	Total
As at 31 December 2015				
Investments in joint ventures	1,188,659	-	-	1,188,659
Trade receivables	-	-	251,708	251,708
Other receivables	195,656	-	-	195,656
Long-term liabilities	-	(36,770,682)	-	(36,770,682)
Short-term financial liabilities	-	(5,657,028)	-	(5,657,028)
Advances received	-	-	(6,609)	(6,609)
Trade payables	-	(10,004,805)	(172,515)	(10,117,320)
	1,384,315	(52,432,515)	(72,584)	(51,769,561)
As at 31 December 2014				
Investments in joint ventures	1,008,221	-	-	1,008,221
Trade receivables	-	-	36,398	36,398
Other receivables	117,858	-	-	117,858
Long-term liabilities	-	(42,194,756)	-	(42,194,756)
Short-term financial liabilities	-	(5,625,967)	-	(5,625,967)
Advances received	-	-	(12,831)	(12,831)
Trade payables	-	(20,122,243)	(131,258)	(20,253,501)
	1,126,079	(67,942,966)	(107,691)	(66,924,578)

41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

For the year ended 31 December 2015 and 2014 the following transaction occurred with related parties:

	Joint venture	Parent	Entities under common control	Total
Year ended 31 December 2015				
Sales revenue	-	-	889,720	889,720
Cost of goods sold	-	-	(553,999)	(553,999)
Decrease in inventories of finished goods and work in progress	-	-	(16,313,924)	(16,313,924)
Cost of material	-	(79,766,583)	(1,952,154)	(81,718,737)
Cost of production services	-	-	(169,108)	(169,108)
Non-material expense	-	(39,619)	(105,330)	(144,949)
Finance expense	-	(3,777,652)	(116,453)	(3,894,105)
Finance income	-	1,202,790	90,337	1,293,127
Other income	-	107,223	11	107,234
Other expenses	-	(95,622)	(19,836)	(115,458)
	-	(82,369,463)	(18,250,736)	(100,620,199)
Year ended 31 December 2014				
Sales revenue	-	-	2,208,538	2,208,538
Cost of goods sold	-	-	(65,868)	(65,868)
Decrease in inventories of finished goods and work in progress	-	-	(1,627,639)	(1,627,639)
Cost of material	-	(109,522)	(94,590,847)	(94,700,369)
Non-material expense	-	(51,132)	(12,974)	(64,106)
Finance expense	-	(4,557,810)	(2,865,429)	(7,423,239)
Finance income	-	2,076,979	141,616	2,218,595
Other income	-	52,602	202,046	254,648
Other expenses	-	(68,318)	(410,518)	(478,836)
	-	(2,657,201)	(97,021,075)	(99,678,276)

Key management compensation

Management compensation paid in 2015 and 2014 is shown in the table below:

	Year ended 31 December	
	2015	2014
Salaries and other short-term benefits	425,613	685,322
	425,613	685,322

Main balances and transactions with state and mayor state owned companies

	31 December 2015	31 December 2014
<i>Receivables – gross</i>		
HIP Petrohemija	23,268,304	13,004,338
Srbijagas	101,306	29,289,917
Republic of Serbia	18,703,814	-
	42,073,424	42,294,255
<i>Liabilities</i>		
HIP Petrohemija	(800,455)	(830,355)
Srbijagas	(372,985)	(226,896)
	(1,173,440)	(1,057,251)
<i>Advances received</i>		
HIP Petrohemija	(12,470)	(7,109)
Srbijagas	-	(12,806)
	(12,470)	(19,915)

41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)*Main balances and transactions with state and mayor state owned companies (continued)*

	Year ended 31 December	
	2015	2014
<i>Operating income</i>		
HIP Petrohemija	17,580,877	23,382,492
Srbijagas	3,927,429	2,926,879
	21,508,306	26,309,371
<i>Operating expenses</i>		
HIP Petrohemija	(169,108)	(174,117)
Srbijagas	(933,151)	(751,452)
	(1,102,259)	(925,569)

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

42. CONTINGENT LIABILITIES*Transfer of property ownership*

As at 31 December 2015, the Company had ownership and the right to use and possess of 7,932 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

Finance Guarantees

As at 31 December 2015 the total amount of outstanding finance guarantees provided by the Group amounted to RSD 6,415,857, mostly related to guaranties for customs duties in the amount of RSD 2,348,766 (2014: RSD 3,454,563).

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Group's management recognised an environmental provision in the amount of RSD 687,705 (31 December 2014: RSD 570,358).

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.

42. CONTINGENT LIABILITIES (continued)*Other contingent liabilities*

As at 31 December 2015, the Group did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Group has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Group's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Group's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed four years ago. Taking all of the above into consideration, the Group's Management is of the view that as at 31 December 2015 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.

43. TAX RISKS

Tax laws of Republic of Serbia are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. The tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years from the transaction date. As at 31 December 2015, Management assessed that the Group had paid all tax liabilities.

44. COMMITMENTS*Leases*

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

	31 December 2015	31 December 2014
Less than one year	164,962	151,533
1-5 years	157,477	206,160
Over five years	143,738	148,888
	466,177	506,581

44. COMMITMENTS (continued)*Leases (continued)*

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

	31 December 2015	31 December 2014
Less than one year	1,361,806	1,020,707
1-5 years	1,716,271	2,290,408
Over 5 years	358,779	403,808
	<u>3,436,856</u>	<u>3,714,923</u>

Farm-out agreement with East West Petroleum Corporation, Canada

In October 2011, the Group entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in the Timisoara region in Romania. Under the Contract, the Group shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Group will be entitled to 85% of the total production volume of hydrocarbons. Moreover, under the Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Group will act as the Operator and will be in charge of and shall conduct all Joint Operations. Exploration activities are underway. On 31 December 2015 drilling and exploration works for Block 2, 3, 7 and 8 were estimated to USD 45 million.

There were no other material commitments of the Group.

45. EVENTS AFTER THE REPORTING PERIOD

At the date of signing consolidated financial statements, crude oil price decreased since 31 December 2015 to 32.74 \$/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any further decrease.

Subsequent events occurring after 31 December 2015 were evaluated through 29 February 2016, the date these Consolidated financial statements were authorised for issue.