



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

Naftna industrija Srbije A.D.

**Consolidated Financial Statements and
Independent Auditor's Report**

Novi Sad, 28 February 2017

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

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PREPARED IN ACCORDANCE WITH THE LAW ON ACCOUNTING OF THE REPUBLIC OF SERBIA

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Naftna Industrija Srbije a.d. Novi Sad (the „Parent“) and its subsidiaries (the „Group“) which comprise the consolidated balance sheet as of 31 December 2016 and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes 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 the requirements of the Law on Accounting and accounting regulation effective in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility


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

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

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

Opinion

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


Miroslav Nešović
Licensed Auditor




PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 February 2017

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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 Group**Consolidated Financial Statements for the year ended 31 December 2016***(All amounts are in RSD 000 unless otherwise stated)***CONSOLIDATED BALANCE SHEET**

	AOP	Note	31 December 2016	31 December 2015
A. SUBSCRIBED CAPITAL UNPAID	0001		-	-
B. NON-CURRENT ASSETS (0003 + 0010 + 0019+ 0024 + 0034)	0002		276,234,033	274,361,963
I. INTANGIBLE ASSETS (0004+0005+0006+0007+0008+0009)	0003	8	21,845,039	21,824,790
1. Development investments	0004		5,473,418	6,153,717
2. Concessions, licenses, software and other rights	0005		3,252,535	3,662,863
3. Goodwill	0006		1,844,850	1,818,376
4. Other intangible assets	0007		1,249,276	1,288,869
5. Intangible assets under development	0008		10,024,960	8,900,965
6. Advances for intangible assets	0009		-	-
II. PROPERTY, PLANT AND EQUIPMENT (0011+0012+0013+0014+0015+0016+0017+0018)	0010	9	241,732,526	235,209,730
1. Land	0011		17,283,666	17,187,278
2. Buildings	0012		126,587,960	116,089,115
3. Machinery and equipment	0013		70,472,014	71,000,947
4. Investment property	0014		1,549,663	1,336,060
5. Other property, plant and equipment	0015		86,696	87,704
6. Construction in progress	0016		23,663,299	27,837,831
7. Investments in leased PP&E	0017		279,562	341,039
8. Advances for PP&E	0018		1,809,666	1,329,756
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		3,356,590	2,738,455
1. Investments in subsidiary	0025		-	-
2. Investments in joint ventures	0026	10	2,047,021	1,188,659
3. Investments in other legal entities and other available for sales financial assets	0027		148,665	167,358
4. Long term investments in parent and subsidiaries	0028		-	-
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		1,160,904	1,243,805
V. LONG-TERM RECEIVABLES (0035+0036+0037+0038+0039+0040+0041)	0034	11	9,299,878	14,588,988
1. Receivables from parent company and subsidiaries	0035		-	-
2. Receivables from other related parties	0036		-	4,010,546
3. Receivables from sale of goods on credit	0037		-	-
4. Receivables arising out of finance lease contracts	0038		7,872	8,339
5. Claims arising from guarantees	0039		-	-
6. Bad and doubtful receivables	0040		-	-
7. Other long-term receivables	0041		9,292,006	10,570,103
C. DEFERRED TAX ASSETS	0042	12	3,771,354	4,268,741

*(continued)**The accompanying notes on pages 10 to 57 are an integral part of these consolidated financial statements.*

NIS Group**Consolidated Financial Statements for the year ended 31 December 2016***(All amounts are in RSD 000 unless otherwise stated)***CONSOLIDATED BALANCE SHEET (continued)**

	AOP	Note	31 December 2016	31 December 2015
D. CURRENT ASSETS				
(0044+0051+0059+0060+0061+0062+0068+0069+0070)	0043		94,311,133	87,400,047
I. INVENTORY (0045+0046+0047+0048+0049+0050)	0044	13	27,011,407	24,466,023
1. Materials, spare parts and tools	0045		15,303,086	11,501,467
2. Work in progress	0046		3,119,239	4,050,154
3. Finished goods	0047		6,014,045	5,873,077
4. Merchandise	0048		2,399,695	2,753,546
5. Assets held for sale	0049		-	21,703
6. Advances for inventory and services	0050		175,342	266,076
II. TRADE RECEIVABLES (0052+0053+0054+0055+0056+0057+0058)	0051	14	36,717,678	33,567,302
1. Domestic trade receivables - parents and subsidiaries	0052		-	-
2. Foreign trade receivables - parents and subsidiaries	0053		-	-
3. Domestic trade receivables - other related parties	0054		675,178	10,799,575
4. Foreign trade receivables - other related parties	0055		1,047,541	251,708
5. Trade receivables - domestic	0056		34,046,147	21,858,872
6. Trade receivables - foreign	0057		948,812	657,147
7. Other trade receivables	0058		-	-
III. RECEIVABLES FROM SPECIFIC OPERATIONS	0059		677,079	721,009
IV. OTHER RECEIVABLES	0060	15	2,500,557	1,877,225
V. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	0061		-	-
VI. SHORT TERM FINANCIAL INVESTMENTS				
(0063+0064+0065+0066+0067)	0062		306,828	284,586
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		-	-
4. Short-term loans and investments - foreign	0066		-	-
5. Other short-term loans and investments	0067		306,828	284,586
VII. CASH AND CASH EQUIVALENTS	0068	16	22,899,342	19,271,435
VIII. VALUE ADDED TAX	0069		274,292	227,121
IX. PREPAYMENTS AND ACCRUED INCOME	0070	17	3,923,950	6,985,346
E. TOTAL ASSETS (0001+0002+0042+0043)	0071		374,316,520	366,030,751
F. OFF-BALANCE SHEET ASSETS	0072	18	118,058,312	130,389,980
A. EQUITY (0402+0411+0412+0413+0414+0415+0416+0417+0420-0421)	0401		201,480,512	190,511,680
I. EQUITY (0403+0404+0405+0406+0407+0408+0409+0410)	0402	19	81,548,930	81,548,930
1. Share capital	0403	19.1	81,548,930	81,548,930
2. Stakes of limited liability companies	0404		-	-
3. Stakes	0405		-	-
4. State owned capital	0406		-	-
5. Socially owned capital	0407		-	-
6. Stakes in cooperatives	0408		-	-
7. Share premium	0409		-	-
8. Other capital	0410		-	-
II. SUBSCRIBED CAPITAL UNPAID	0411		-	-
III. OWN SHARES	0412		-	-
IV. RESERVES	0413		-	-
V. REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT	0414		80,607	-
VI. UNREALISED GAINS FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	0415		183,035	161,489
VII. UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	0416		662,464	541,678
VIII. RETAINED EARNINGS (0418+0419)	0417		120,330,404	109,342,939
1. Retained earnings from previous years	0418		105,316,978	94,735,234
2. Retained earnings from current year	0419		15,013,426	14,607,705
IX. NON-CONTROLLING INTEREST	0420		-	-
X. LOSS (0422+0423)	0421		-	-
1. Loss from previous years	0422		-	-
2. Loss from current year	0423		-	-

*(continued)**The accompanying notes on pages 10 to 57 are an integral part of these consolidated financial statements.*

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED BALANCE SHEET (continued)

	AOP	Note	31 December 2016	31 December 2015
B. LONG-TERM PROVISIONS AND LIABILITIES (0425+0432)	0424		103,914,491	109,764,751
I. LONG-TERM PROVISIONS (0426+0427+0428+0429+0430+4031)	0425	20	9,617,973	9,451,111
1. Provisions for warranty claims	0426		-	-
2. Provision for environmental rehabilitation	0427		7,801,828	7,918,238
3. Provisions for restructuring costs	0428		-	-
4. Provisions for employee benefits	0429		1,370,285	1,068,315
5. Provisions for litigations	0430		445,860	464,558
6. Other long term provisions	0431		-	-
II. LONG-TERM LIABILITIES (0433+0434+0435+0436+0437+0438+0439+0440)	0432	21	94,296,518	100,313,640
1. Liabilities convertible to equity	0433		-	-
2. Liabilities to parent and subsidiaries	0434		31,585,938	36,770,682
3. Liabilities to other related parties	0435		-	-
4. Liabilities for issued long-term securities	0436		-	-
5. Long term borrowings - domestic	0437		23,842,201	18,240,935
6. Long-term borrowings - foreign	0438		38,504,763	45,015,134
7. Finance lease liabilities	0439		316,790	198,277
8. Other long-term liabilities	0440		46,826	88,612
C. DEFERRED TAX LIABILITIES	0441	12	-	-
D. SHORT-TERM LIABILITIES (0443+0450+0451+0459+0460+0461+0462)	0442		68,921,517	65,754,320
I. SHORT-TERM FINANCIAL LIABILITIES (0444+0445+0446+0447+0448+0449)	0443	22	21,732,658	16,971,551
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		10,468,337	3,553,091
4. Short-term loans and borrowings - foreign	0447		1,721,608	29
5. Liabilities relating to current assets and held-for-sale assets attributable to discounted operations	0448		-	-
6. Other short term liabilities	0449		9,542,713	13,418,431
II. ADVANCES RECEIVED	0450		1,325,012	3,207,205
III. TRADE PAYABLES (0452+0453+0454+0455+0456+0458)	0451	23	24,465,282	24,713,307
1. Trade payables - parent and subsidiaries - domestic	0452		-	-
2. Trade payables - parent and subsidiaries - foreign	0453		5,818,200	10,004,805
3. Trade payables - other related parties - domestic	0454		675,393	800,455
4. Trade payables - other related parties - foreign	0455		1,079,842	172,515
5. Trade payables - domestic	0456		7,511,772	7,854,205
6. Trade payables - foreign	0457		9,367,285	5,799,950
7. Other operating liabilities	0458		12,790	81,377
IV. OTHER SHORT-TERM LIABILITIES	0459	24	8,599,455	8,897,926
V. LIABILITIES FOR VAT	0460		1,538,157	1,567,861
VI. LIABILITIES FOR OTHER TAXES	0461	25	7,479,910	7,711,354
VII. ACCRUED EXPENSES	0462	26	3,781,043	2,685,116
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		374,316,520	366,030,751
G. OFF-BALANCE SHEET LIABILITIES	0465	18	118,058,312	130,389,980

Novi Sad, 28 February 2017

The person responsible for the
preparation of consolidated financial
statements



Legal representative

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

CONSOLIDATED INCOME STATEMENT

	AOP	Note	Year ended 31 December	
			2016	2015
INCOME FROM REGULAR OPERATING ACTIVITIES				
A. OPERATING INCOME (1002+1009+1016+1017)	1001	7	192,104,367	210,691,253
I. INCOME FROM THE SALE OF GOODS (1003+1004+1005+1006+1007+1008)	1002		34,033,041	25,833,207
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		577	-
4. Income from the sale of goods to other related parties on foreign market	1006		8,376,140	546,259
5. Income from sale of goods on domestic market	1007		8,452,437	10,499,022
6. Income from sale of goods on foreign market	1008		17,203,887	14,787,926
II. INCOME FROM SALES OF PRODUCTS AND SERVICES (1010+1011+1012+1013+1014+1015)	1009		157,615,308	184,539,222
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		13,809,239	17,570,375
4. Income from sales of products and services to other related parties on foreign market	1013		839,061	343,461
5. Income from sales of products and services – domestic	1014		118,885,115	137,741,208
6. Income from sales of products and services – foreign	1015		24,081,893	28,884,178
III. INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS	1016		4,239	3,169
IV. OTHER OPERATING INCOME	1017		451,779	315,655
B. OPERATING EXPENSES (1019-1020-1021+1022+1023+1024+1025+1026+1027+1028+1029)>=0	1018		175,066,413	186,547,430
I. COST OF GOODS SOLD	1019		25,284,968	16,924,030
II. WORK PERFORMED BY THE ENTITY AND CAPITALIZED	1020		11,184,068	13,047,351
III. INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1021		-	-
IV. DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1022		812,321	3,309,360
V. COST OF MATERIAL	1023		91,195,090	111,787,513
VI. COST OF FUEL AND ENERGY	1024		4,966,247	4,852,088
VII. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	1025		18,301,051	18,505,343
VIII. COST OF PRODUCTION SERVICES	1026	27	15,791,400	14,655,936
IX. DEPRECIATION, DEPLETION AND AMORTIZATION	1027	8,9	15,889,177	14,281,849
X. COST OF LONG-TERM PROVISIONING	1028		727,608	794,060
XI. NON-PRODUCTION COSTS	1029	28	13,282,619	14,484,602
C. OPERATING GAIN (1001-1018)>=0	1030		17,037,954	24,143,823
D. OPERATING LOSS (1018-1001)>=0	1031		-	-

(continued)

NIS Group**Consolidated Financial Statements for the year ended 31 December 2016***(All amounts are in RSD 000 unless otherwise stated)***CONSOLIDATED INCOME STATEMENT (continued)**

	AOP	Note	Year ended 31 December	
			2016	2015
E. FINANCE INCOME (1033+1038+1039)	1032	29	3,281,762	3,690,992
I. FINANCIAL INCOME FROM RELATED PARTIES AND OTHER				
FINANCIAL INCOME (1034+1035+1036+1037)	1033		883,490	1,293,127
1. Finance income - parent company and subsidiaries	1034		859,641	1,202,790
2. Finance income - other related parties	1035		20,291	21,213
3. Share of profit of associates and joint ventures	1036		-	-
4. Other financial income	1037		3,558	69,124
II. INTEREST INCOME (from third parties)	1038		1,040,015	706,445
III. FOREIGN EXCHANGE GAINS (third parties)	1039		1,358,257	1,691,420
F. FINANCE EXPENSES (1041+1046+1047)	1040	30	9,090,676	15,422,488
I. FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER				
FINANCIAL EXPENSES (1042+1043+1044+1045)	1041		2,098,554	3,894,105
1. Finance expense - parent company and subsidiaries	1042		2,064,063	3,777,652
2. Finance expense - other related parties	1043		24,673	112,028
3. Share of loss of associates and joint ventures	1044		-	-
4. Other financial expense	1045		9,818	4,425
II. INTEREST EXPENSE (from third parties)	1046		3,093,080	3,496,431
III. FOREIGN EXCHANGE LOSSES (third parties)	1047		3,899,042	8,031,952
G. PROFIT FROM FINANCING OPERATIONS (1032-1040)	1048		-	-
H. LOSS FROM FINANCING OPERATIONS (1040-1032)	1049		5,808,914	11,731,496
I. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	1050	31	6,524,108	7,117,464
J. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	1051		283,173	330,967
K. OTHER INCOME	1052	32	1,997,398	2,766,045
L. OTHER EXPENSES	1053	33	1,825,734	2,909,067
M. OPERATING PROFIT BEFORE TAX (1030-1031+1048-1049+1050-1051+1052-1053)	1054		17,641,639	19,055,802
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		17,641,639	19,055,802
R. LOSS BEFORE TAX (1055-1054+1057-1056)	1059		-	-
II. INCOME TAX				
I. CURRENT INCOME TAX	1060	34	2,132,078	3,864,403
II. DEFERRED TAX EXPENSE FOR THE PERIOD	1061	34	1,153,890	583,694
III. DEFERRED TAX INCOME FOR THE PERIOD	1062	34	657,755	-
S. PERSONAL INCOME PAID TO EMPLOYER	1063		-	-
T. NET PROFIT (1058-1059-1060-1061+1062)	1064		15,013,426	14,607,705
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		15,037,973	14,638,790
III. NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1068		24,547	31,085
IV. NET LOSS ATTRIBUTABLE TO THE OWNER	1069		-	-
V. EARNINGS PER SHARE				
1. Basic earnings per share	1070		0.092	0.090
2. Diluted earnings per share	1071		-	-

The accompanying notes on pages 10 to 57 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	
			2016	2015
A. NET PROFIT/(LOSS)				
I. PROFIT, NET (AOP 1064)	2001		15,013,426	14,607,705
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		80,607	-
b) decrease in revaluation reserves	2004		-	-
2. Actuarial gains (losses) of post employment benefit obligations				
a) gains	2005		21,546	2,819
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		133,833	40,936
2. Gains (losses) on investment hedging instruments in foreign business				
a) gains	2013		-	-
b) losses	2014		-	-
3. Gains and losses on cash flow hedges				
a) gains	2015		-	-
b) losses	2016		-	-
4. Gains (losses) from change in value of available-for-sale financial assets				
a) gains	2017		13,047	-
b) losses	2018		-	37,288
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		18,633	75,405
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		18,633	75,405
C. TOTAL NET COMPREHENSIVE PROFIT				
I. TOTAL COMPREHENSIVE PROFIT, NET (2001-2002+2022-2023)>=0	2024		14,994,793	14,532,300
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		14,994,793	14,532,300
1. Attributable to shareholders	2027		14,994,793	14,532,300
2. Attributable to non-controlling interest	2028		-	-

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	AOP	Note	Year ended 31 December	
			2016	2015
A. CASH FLOWS FROM OPERATING ACTIVITIES				
I. Cash inflow from operating activities (1 to 3)	3001		382,762,574	397,357,006
1. Sales and advances received	3002		382,057,884	395,488,209
2. Interest from operating activities	3003		252,911	1,553,142
3. Other inflow from operating activities	3004		451,779	315,655
II. Cash outflow from operating activities (1 to 5)	3005		341,585,783	346,366,085
1. Payments and prepayments to suppliers	3006		147,657,733	159,686,819
2. Salaries, benefits and other personal expenses	3007		18,128,411	18,987,784
3. Interest paid	3008		3,074,876	2,996,133
4. Income tax paid	3009		660,175	2,871,709
5. Payments for other public revenues	3010		172,064,588	161,823,640
III. Net cash inflow from operating activities (I - II)	3011		41,176,791	50,990,921
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		1,008,030	834,231
1. Sale of shares (net inflow)	3014		-	77,056
2. Proceeds from sale of property, plant and equipment	3015		832,619	634,338
3. Other financial investments (net inflow)	3016		175,346	56,670
4. Interest from investing activities	3017		-	-
5. Dividend received	3018		65	66,167
II. Cash outflow from investing activities (1 to 3)	3019		29,806,063	35,746,866
1. Acquisition of subsidiaries or other business (net outflow)	3020		-	-
2. Purchase of intangible assets, property, plant and equipment	3021		28,880,458	35,178,875
3. Other financial investments (net outflow)	3022		925,605	567,991
III. Net cash inflow from investing activities (I - II)	3023		-	-
IV. Net cash outflow from investing activities (II - I)	3024		28,798,033	34,912,635
C. CASH FLOWS FROM FINANCING ACTIVITIES				
I. Cash inflow from financing activities (1 to 5)	3025		24,059,274	28,081,912
1. Increase in share capital	3026		-	-
2. Proceeds from long-term borrowings (net inflow)	3027		8,904,810	11,259,702
3. Proceeds from short-term borrowings (net inflow)	3028		15,154,464	16,822,210
4. Other long-term liabilities	3029		-	-
5. Other short-term liabilities	3030		-	-
II. Cash outflow from financing activities (1 to 6)	3031		32,693,214	33,215,262
1. Purchase of own shares	3032		-	-
2. Repayment of long-term borrowings (net outflow)	3033		22,064,579	6,087,356
3. Repayment of short-term borrowings (net outflow)	3034		6,602,674	19,488,526
4. Repayment of other liabilities (net outflow)	3035		-	-
5. Financial lease	3036		-	-
6. Dividend distribution	3037	19	4,025,961	7,639,380
III. Net cash inflow from financing activities (I - II)	3038		-	-
IV. Net cash outflow from financing activities (II - I)	3039		8,633,940	5,133,350
D. TOTAL CASH INFLOW (3001+3013+3025)	3040		407,829,878	426,273,149
E. TOTAL CASH OUTFLOW (3005+3019+3031)	3041		404,085,060	415,328,213
F. NET CASH INFLOW (340-341)	3042		3,744,818	10,944,936
G. NET CASH OUTFLOW (341-340)	3043		-	-
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3044		19,271,435	8,326,704
I. CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS	3045		280,901	815,239
J. CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS	3046		397,812	815,444
K. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (3042-3043+3044+3045-3046)	3047		22,899,342	19,271,435

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

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(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity components					Other comprehensive income components		
	AOP	Share capital	AOP	Loss	AOP	Retained earnings	AOP	Revaluation reserves
Balance as at 1 January 2015								
a) debit	4001	-	4055	-	4091	-	4109	-
b) credit	4002	81,550,674	4056	-	4092	102,374,614	4110	-
Adjustments of material errors and changes in accounting policies								
a) debit	4003	-	4057	-	4093	-	4111	-
b) credit	4004	-	4058	-	4094	-	4112	-
Restated opening balance as at 1 January 2015								
a) debit (1a+2a-2b)>=0	4005	-	4059	-	4095	-	4113	-
b) credit (1b-2a+2b)>=0	4006	81,550,674	4060	-	4096	102,374,614	4114	-
Changes in period								
a) debit	4007	1,744	4061	-	4097	7,639,380	4115	-
b) credit	4008	-	4062	-	4098	14,607,705	4116	-
Balance as at 31 December 2015								
a) debit (3a+4a-4b)>=0	4009	-	4063	-	4099	-	4117	-
b) credit (3b-4a+4b)>=0	4010	81,548,930	4064	-	4100	109,342,939	4118	-
Adjustments of material errors and changes in accounting policies								
a) debit	4011	-	4065	-	4101	-	4119	-
b) credit	4012	-	4066	-	4102	-	4120	-
Restated opening balance as at 1 January 2016								
a) debit (5a+6a-6b)>=0	4013	-	4067	-	4103	-	4121	-
b) credit (5b-6a+6b)>=0	4014	81,548,930	4068	-	4104	109,342,939	4122	-
Changes in period								
a) debit	4015	-	4069	-	4105	4,025,961	4123	-
b) credit	4016	-	4070	-	4106	15,013,426	4124	80,607
Balance as at 31 December 2016								
a) debit (7a+8a-8b)>=0	4017	-	4071	-	4107	-	4125	-
b) credit (7b-8a+8b)>=0	4018	81,548,930	4072	-	4108	120,330,404	4126	80,607

(continued)

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

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(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 2015							
a) debit	4127	-	4181	421,177	4217	42,277	
b) credit	4128	158,670	4182	-	4218	-	183,620,504
Adjustments of material errors and changes in accounting policies							
a) debit	4129	-	4183	-	4219	-	
b) credit	4130	-	4184	-	4220	-	4236
Restated opening balance as at 1 January 2015							
a) debit (1a+2a-26)>=0	4131	-	4185	421,177	4221	42,277	
b) credit (16-2a+26)>=0	4132	158,670	4186	-	4222	-	4237
Changes in period							
a) debit	4133	-	4187	40,936	4223	37,288	
b) credit	4134	2,819	4188	-	4224	-	4238
Balance as at 31 December 2015							
a) debit (3a+4a-46)>=0	4135	-	4189	462,113	4225	79,565	
b) credit (36-4a+46)>=0	4136	161,489	4190	-	4226	-	4239
Adjustments of material errors and changes in accounting policies							
a) debit	4137	-	4191	-	4227	-	
b) credit	4138	-	4192	-	4228	-	4240
Restated opening balance as at 1 January 2016							
a) debit (5a+6a-66)>=0	4139	-	4193	462,113	4229	79,565	
b) credit (56-6a+66)>=0	4140	161,489	4194	-	4230	-	4241
Changes in period							
a) debit	4141	-	4195	133,833	4231	-	
b) credit	4142	21,546	4196	-	4232	13,047	4242
Balance as at 31 December 2016							
a) debit (7a+8a-86)>=0	4143	-	4197	595,946	4233	66,518	
b) credit (76-8a+86)>=0	4144	183,035	4198	-	4234	-	4243

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

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Notes to Consolidated Financial Statements for the year ended 31 December 2016

(All amounts are in RSD 000 unless otherwise stated)

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

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

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005 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

2.1. Basis of preparation

These consolidated financial statements for the year ended 31 December 2016 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

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

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

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

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

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

NIS Group

Notes to Consolidated Financial Statements for the year ended 31 December 2016

(All amounts are in RSD 000 unless otherwise stated)

2.2. Segment reporting

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

2.3. Seasonality of Operations

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

2.4. Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.5. Principles of consolidation

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

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

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

(a) Joint Operations and Joint Ventures

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

NIS Group

Notes to Consolidated Financial Statements for the year ended 31 December 2016

(All amounts are in RSD 000 unless otherwise stated)

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

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

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

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

(b) *Transactions Eliminated on Consolidation*

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

(c) *Non-controlling interests*

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

2.6. Business combinations

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

2.7. Goodwill

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

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

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed (note 8).

2.8. Intangible assets**(a) Licenses and rights (concessions)**

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

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

(b) Computer software

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

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

2.9. Exploration for and evaluation of mineral resources**(a) Exploration and evaluation expenditure**

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

(b) Development costs of fixed and intangible assets

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

(c) Oil and gas production assets

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

(d) Depreciation/amortization

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

(e) Impairment – exploration and evaluation assets

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

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Notes to Consolidated Financial Statements for the year ended 31 December 2016

(All amounts are in RSD 000 unless otherwise stated)

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

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

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

2.10. Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the consolidated 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 32 and 33).

2.11. Impairment of non-financial assets

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

2.12. Investment property

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

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

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Notes to Consolidated Financial Statements for the year ended 31 December 2016

(All amounts are in RSD 000 unless otherwise stated)

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 32 and 33).

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

2.13. Long-term financial assets

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

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

2.13.1. Financial assets classification

(a) Loans and receivables

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

(b) Available for sale financial assets

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

2.13.2. Recognition and measurement

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

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

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in consolidated profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in consolidated profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to fair value measurement gains (losses) in Consolidated income statement (note 31).

2.13.3. Impairment of financial assets

a) Assets carried at amortised cost

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

NIS Group

Notes to Consolidated Financial Statements for the year ended 31 December 2016

(All amounts are in RSD 000 unless otherwise stated)

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

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

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

The Group first assesses whether objective evidence of impairment exists.

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

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

b) *Assets classified as available for sale*

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

2.14. Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as Other expense (note 33).

2.15. Trade receivables

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

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'loss from valuation of assets at fair value through consolidated profit and loss'. When a trade receivable is uncollectible, it is written-off against the allowance account for trade receivables. Subsequent recoveries of amount previously written-off are credited to 'income from valuation of assets at fair value through profit and loss' in the Consolidated income statement (note 31).

2.16. Cash and cash equivalents

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

2.17. Off-balance sheet assets and liabilities

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

2.18. Share capital

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

2.19. Earnings per share

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

2.20. Provisions

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

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

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

2.21. Borrowings

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

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

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

2.22. Trade payables

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

2.23. Current and deferred income tax

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

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

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

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

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

2.24. Employee benefits

(a) Pension obligations

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid.

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The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Employee benefits provided by the Collective Agreement

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

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

(c) Bonus plans

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

In 2014, the Group has made decision to introduce new three-year (2015-2017) program for Group's managers which will be based on the Key Performance Indicators ("KPI") reached during the program (note 20).

2.25. Revenue recognition

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

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

(a) Sales of goods – wholesale

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

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

(b) Sales – retail

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

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(c) Sales of services

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

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

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

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

(d) Sales of electricity

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

(e) Interest income

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

2.26. Leases

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

Other leases are operating leases and the leased assets are not recognised on the Group's Consolidated Balance Sheet. The total lease payments are charged to consolidated income statement on a straight-line basis over the lease term.

2.27. Dividend distribution

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

2.28. Capitalisation of borrowing costs

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

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

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

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

3.1. Estimation of Oil and Gas Reserves

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

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

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

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

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

3.2. Useful Lives of Property, Plant and Equipment

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

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

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Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2016 would be to increase/decrease it by RSD 1,399,849 (2015: RSD 1,279,588).

3.3. Impairment of goodwill

Goodwill is tested for impairment annually.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU. The estimated future cash flows include estimation of future costs to produce reserves, future commodity prices, foreign exchange rate, discount rate etc.

3.4. Impairment of Non-Derivative Financial Assets

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

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

3.5. Employee benefits

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

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

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

3.6. Decommissioning and environmental protection provision

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

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

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

If the discount rate used to calculate the present value of decommissioning obligations had been 8.15% (rather than 7.15%) per year, the present liability would have increased by approx. RSD 263,562 (2015: decreased RSD 339,439).

3.7. Contingencies

Certain conditions may exist as of the date of these Consolidated financial statements are issued that may result in a loss to the 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 36).

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

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

The Group assessed crude oil price volatility as main impairment indicator. If the actual crude oil price decrease for 10\$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Group's PPE by 138.3 bln RSD.

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

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4. APPLICATION OF NEW IFRS

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

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

5. NEW ACCOUNTING STANDARDS

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

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

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

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- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

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

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

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

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

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

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

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

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

As of 31 December 2016

	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Other long-term investments	77,303	1,002,384	7,028	74,189	1,160,904
Long term receivables	7,872	9,292,006	-	-	9,299,878
Other non-current assets	111,679	1,614,894	74,900	8,193	1,809,666
Current assets					
Trade receivables	23,960,950	11,088,796	507,965	1,159,967	36,717,678
Receivables from specific operations	455,394	37,474	183,610	601	677,079
Other receivables	359,306	2,121,074	342	19,835	2,500,557
Short term financial investments	12,250	294,527	-	51	306,828
Cash and cash equivalents	11,063,921	6,470,898	4,681,789	682,734	22,899,342
Other assets	3,271,805	557,694	22,997	345,746	4,198,242
Financial liabilities					
Non-current					
Long-term liabilities	(4,166)	(54,367,769)	(39,371,390)	(553,193)	(94,296,518)
Current liabilities					
Short-term financial liabilities	(198)	(21,462,959)	(236,526)	(32,975)	(21,732,658)
Trade payables	(6,845,162)	(9,848,305)	(6,328,574)	(1,443,241)	(24,465,282)
Other short-term liabilities	(8,039,813)	(95,410)	(319,193)	(145,039)	(8,599,455)
Other liabilities	(10,214,243)	(81,781)	(1,073,795)	(594,512)	(11,964,331)
Net exposure	14,216,898	(53,376,477)	(41,850,847)	(477,644)	(81,488,070)

As of 31 December 2015

	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Other long-term investments	70,937	1,093,112	6,675	73,081	1,243,805
Long term receivables	8,339	14,580,649	-	-	14,588,988
Other non-current assets	661,842	608,912	51,174	7,828	1,329,756
Current assets					
Trade receivables	13,962,673	18,310,704	375,721	918,204	33,567,302
Receivables from specific operations	511,301	16,668	174,379	18,661	721,009
Other receivables	1,859,464	3,703	983	13,075	1,877,225
Short term financial investments	13,319	271,215	-	52	284,586
Cash and cash equivalents	9,585,989	2,333,625	6,626,525	725,296	19,271,435
Other assets	5,625,164	669,206	597,629	320,468	7,212,467
Financial liabilities					
Non-current					
Long-term liabilities	(977)	(53,799,399)	(45,960,298)	(552,966)	(100,313,640)
Current liabilities					
Short-term financial liabilities	(227)	(9,517,023)	(7,427,780)	(26,521)	(16,971,551)
Trade payables	(7,345,775)	(5,133,767)	(10,784,301)	(1,449,464)	(24,713,307)
Other short-term liabilities	(8,458,989)	(51,090)	(305,879)	(81,968)	(8,897,926)
Other liabilities	(11,088,310)	182,273	(416,733)	(641,561)	(11,964,331)
Net exposure	5,404,750	(30,431,212)	(57,061,905)	(675,815)	(82,764,182)

The following exchange rates applied during the period:

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

Sensitivity analysis

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

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(All amounts are in RSD 000 unless otherwise stated)

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

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

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

Cash flow and fair value interest rate risk

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

Credit risk

Credit risk is managed on the 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.

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

As at 31 December 2016	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
Borrowings	116,029,176	124,087,764	24,478,234	84,519,151	15,090,379
Trade and other payables (less dividends payable)	29,292,429	29,292,429	29,257,530	34,899	-
	145,321,605	153,380,193	53,735,764	84,554,050	15,090,379

As at 31 December 2015	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
Borrowings	117,285,191	127,691,560	19,837,039	87,459,313	20,395,208
Trade and other payables (less dividends payable)	29,838,925	29,838,925	29,815,897	23,028	-
	147,124,116	157,530,485	49,652,936	87,482,341	20,395,208

6.2. Capital risk management

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

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

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

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

	31 December 2016	31 December 2015
Total borrowings (notes 21 and 22)	116,029,176	117,285,191
Less: cash and cash equivalents (note 16)	(22,899,342)	(19,271,435)
Net debt	93,129,834	98,013,756
EBITDA	39,776,634	46,454,755
Net debt to EBITDA	2.35	2.11

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

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

6.3. Fair value estimation

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

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

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(All amounts are in RSD 000 unless otherwise stated)

7. SEGMENT INFORMATION

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

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

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

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

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

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	36,353,306	192,442,703	(36,691,642)	192,104,367
Intersegment	34,048,352	2,643,290	(36,691,642)	-
External	2,304,954	189,799,413	-	192,104,367
EBITDA (Segment results)	22,392,045	17,384,589	-	39,776,634
Depreciation, depletion and amortization	(6,351,069)	(9,538,108)	-	(15,889,177)
Impairment losses/Revaluation surpluses (note 32 and 33)	(4,640)	52,943	-	48,303
Impairment of exploration works (note 9)	(1,204,851)	-	-	(1,204,851)
Finance expenses, net	(262,423)	(5,546,491)	-	(5,808,914)
Income tax	(273,282)	(2,354,931)	-	(2,628,213)
Segment profit (loss)	15,197,681	(184,255)	-	15,013,426

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	51,812,987	207,780,949	(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 33)	(13,111)	(311,660)	-	(324,771)
Impairment of exploration works	(55,050)	-	-	(55,050)
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

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(All amounts are in RSD 000 unless otherwise stated)

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

	Year ended 31 December	
	2016	2015
Profit for the year	15,013,426	14,607,705
Income tax expenses	2,628,213	4,448,097
Other expenses	1,825,734	2,909,067
Other income	(1,997,398)	(2,766,045)
Loss from valuation of assets at fair value through profit and loss	283,173	330,967
Income from valuation of assets at fair value through profit and loss	(6,524,108)	(7,117,464)
Finance expense	9,090,676	15,422,488
Finance income	(3,281,762)	(3,690,992)
Depreciation, depletion and amortization	15,889,177	14,281,849
Other non operating expenses, net	6,849,503	8,029,083
EBITDA	39,776,634	46,454,755

*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 2016		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	2,021,495	2,021,495
Sale of gas	3,052,867	-	3,052,867
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	3,052,867	-	3,052,867
Sale of petroleum products	131,768,030	36,596,892	168,364,922
<i>Through a retail network</i>	44,481,288	-	44,481,288
<i>Wholesale activities</i>	87,286,742	36,596,892	123,883,634
Sales of electricity	474,398	8,690,443	9,164,841
Other sales	6,303,852	3,192,151	9,496,003
Total sales	141,599,147	50,500,981	192,100,128

	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
Sales of electricity	370,157	724,403	1,094,560
Other sales	5,637,134	3,302,985	8,940,119
Total sales	166,126,260	44,561,824	210,688,084

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

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

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

NIS Group**Notes to Consolidated Financial Statements for the year ended 31 December 2016**

(All amounts are in RSD 000 unless otherwise stated)

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 141,599,147 (2015: RSD 166,126,260), and the total of revenue from external customer from other countries is RSD 50,500,981 (2015: RSD 44,561,824). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

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

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

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

	31 December 2016	31 December 2015
Serbia	238,780,066	232,868,823
Bulgaria	7,966,581	8,246,434
Bosnia and Herzegovina	8,052,241	8,152,524
Romania	6,968,931	6,436,983
Hungary	80	-
	261,767,899	255,704,764

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8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Goodwill	Other intangibles	Intangible assets under development	Total
At 1 January 2015						
Cost	3,873,221	7,061,422	2,333,733	1,485,101	11,231,789	25,985,266
Accumulated amortisation and impairment	(40,079)	(3,610,917)	(375,838)	(168,980)	(101,821)	(4,297,635)
Net book amount	3,833,142	3,450,505	1,957,895	1,316,121	11,129,968	21,687,631
Year ended 31 December 2015						
Additions	-	-	-	-	2,626,533	2,626,533
Transfer from assets under development	2,744,618	1,240,101	-	995	(3,985,714)	-
Impairment (note 32 and 33)	-	(76)	(147,054)	(1,911)	-	(149,041)
Amortization	(402,257)	(1,025,815)	-	(52,892)	(5,001)	(1,485,965)
Transfer to PP&E (note 9)	-	-	-	-	(692,506)	(692,506)
Disposals and write-off	-	(35)	-	(234)	(4,335)	(4,604)
Other transfers	(21,786)	(1,872)	-	24,737	(27,012)	(25,933)
Translation differences	-	55	7,535	2,053	(140,968)	(131,325)
Closing net book amount	6,153,717	3,662,863	1,818,376	1,288,869	8,900,965	21,824,790
As at 31 December 2015						
Cost	6,617,839	8,291,324	2,339,301	1,496,540	9,006,680	27,751,684
Accumulated amortization and impairment	(464,122)	(4,628,461)	(520,925)	(207,671)	(105,715)	(5,926,894)
Net book amount	6,153,717	3,662,863	1,818,376	1,288,869	8,900,965	21,824,790
At 1 January 2016						
Cost	6,617,839	8,291,324	2,339,301	1,496,540	9,006,680	27,751,684
Accumulated amortization and impairment	(464,122)	(4,628,461)	(520,925)	(207,671)	(105,715)	(5,926,894)
Net book amount	6,153,717	3,662,863	1,818,376	1,288,869	8,900,965	21,824,790
Year ended 31 December 2016						
Additions	-	-	-	-	2,784,203	2,784,203
Transfer from assets under development	-	735,268	-	19,669	(754,937)	-
Amortization	(680,299)	(1,146,914)	-	(58,407)	(5,066)	(1,890,686)
Transfer to PP&E (note 9)	-	-	-	-	(20,227)	(20,227)
Disposals and write-off	-	(5)	-	(4,869)	(902,203)	(907,077)
Other transfers	-	1,032	-	(1,421)	(14,081)	(14,470)
Translation differences	-	291	26,474	5,435	36,306	68,506
Closing net book amount	5,473,418	3,252,535	1,844,850	1,249,276	10,024,960	21,845,039
As at 31 December 2016						
Cost	6,617,839	8,810,629	2,371,943	1,483,996	10,077,842	29,362,249
Accumulated amortization and impairment	(1,144,421)	(5,558,094)	(527,093)	(234,720)	(52,882)	(7,517,210)
Net book amount	5,473,418	3,252,535	1,844,850	1,249,276	10,024,960	21,845,039

Intangible assets under development as at 31 December 2016 amounting to RSD 10,024,960 (31 December 2015: RSD 8,900,965) mostly relate to investments in explorations (unproved reserves) in amount of RSD 9,096,426 (31 December 2015: RSD 7,664,019).

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Impairment test for goodwill

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

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

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

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

	Opening	Addition	Impairment	Translation differences	Closing
2016					
Bosnia and Herzegovina	486,349	-	-	7,666	494,015
Romania	304,895	-	-	2,936	307,831
Bulgaria	1,027,132	-	-	15,872	1,043,004
	1,818,376	-	-	26,474	1,844,850
2015					
Bosnia and Herzegovina	483,957	-	-	2,392	486,349
Romania	419,804	-	(114,469)	(440)	304,895
Bulgaria	1,054,134	-	(32,585)	5,583	1,027,132
	1,957,895	-	(147,054)	7,535	1,818,376

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

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9. PROPERTY, PLANT AND EQUIPMENT
a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2015								
Cost	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	-	100,888	-	27,354,389	-	-	5,312,162	32,767,439
Transfer from assets under development	16,823	21,273,358	12,094,242	(33,387,161)	-	2,738	-	-
Impairment charge (note 32 and 33)	(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 8)	-	-	-	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	(196,371)	208,597	-	29,724	-	48,870
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
Year ended 31 December 2016								
Additions	-	-	1,212	20,588,227	-	-	3,612,037	24,201,476
Transfer from assets under development	60,649	16,946,912	7,366,792	(24,380,904)	-	6,551	-	-
Appraisal effects	-	94,832	-	-	-	-	-	94,832
Impairment charge (note 32 and 33)	-	(1,603)	(4,356)	(25,695)	-	-	(11,213)	(42,867)
Depreciation	-	(6,278,201)	(7,652,103)	-	-	(68,187)	-	(13,998,491)
Transfer from intangible assets (note 8)	-	-	102	20,125	-	-	-	20,227
Transfer to investment property	(5,554)	(131,685)	741	-	-	-	-	(136,498)
Transfer to non-current assets held for sale	(7,515)	624	169	-	-	-	-	(6,722)
Disposals and write-off	(25,802)	(247,312)	(209,027)	(469,961)	(477)	-	(2,968,348)	(3,920,927)
Other transfers	(20,916)	32,425	(63,724)	73,478	-	-	(152,686)	(131,423)
Translation differences	95,526	82,853	31,261	20,198	(531)	159	120	229,586
Closing net book amount	17,283,666	126,587,960	70,472,014	23,663,299	86,696	279,562	1,809,666	240,182,863
At 31 December 2016								
Cost	17,587,928	176,704,641	122,136,460	25,774,166	87,839	464,720	1,851,425	344,607,179
Accumulated depreciation and impairment	(304,262)	(50,116,681)	(51,664,446)	(2,110,867)	(1,143)	(185,158)	(41,759)	(104,424,316)
Net book amount	17,283,666	126,587,960	70,472,014	23,663,299	86,696	279,562	1,809,666	240,182,863

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(All amounts are in RSD 000 unless otherwise stated)

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

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 2016, the Group assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.8 for details. In addition Group has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 31,654 (2015: RSD 314,151).

b) Investment property – carried at fair value

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

Movements on the account were as follows:

	2016	2015
As at 1 January	1,336,060	1,381,832
Fair value gains (loss) (note 32 and 33)	79,957	(124,003)
Transfer from PP&E carried at cost	136,498	87,383
Disposals	(4,432)	(17,554)
Other	1,580	8,402
As at 31 December	1,549,663	1,336,060

As at 31 December 2016, investment properties amounting to RSD 1,549,663 (31 December 2015: RSD 1,336,060) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

Fair value of investment properties

Valuation of the Group's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2016 and 2015. The revaluation gain was credited to other income (note 32).

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

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

Fair value measurements at 31 December 2016 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	-	917,985	-
– Gas stations	-	-	631,678
Total	-	917,985	631,678

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(All amounts are in RSD 000 unless otherwise stated)

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

Valuation techniques used to derive level 2 fair values

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

Fair value measurements using significant unobservable inputs (Level 3)

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

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

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

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

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

c) Oil and gas production assets

Oil and gas production assets comprise of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.9).

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(All amounts are in RSD 000 unless otherwise stated)

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2015						
Cost	18,087,173	13,477,995	31,565,168	82,284,653	33,457	113,883,278
Depreciation and impairment	(17,291)	(253,585)	(270,876)	(21,058,518)	(20,359)	(21,349,753)
Net book amount	18,069,882	13,224,410	31,294,292	61,226,135	13,098	92,533,525
Year ended 31 December 2015						
Additions	4,757,320	18,708,726	23,466,046	-	-	23,466,046
Changes in decommissioning obligations	-	-	-	100,269	-	100,269
Transfer from asset under construction	(3,207,817)	(23,902,242)	(27,110,059)	27,110,059	-	-
Other transfers	502,994	(326,056)	176,938	(24,468)	-	152,470
Impairment	-	(10,332)	(10,332)	(797)	(1,982)	(13,111)
Depreciation and depletion	(5,001)	-	(5,001)	(4,473,662)	-	(4,478,663)
Disposals and write-off	(158,627)	(634)	(159,261)	(354,857)	-	(514,118)
Translation differences	(8,142)	-	(8,142)	(11)	-	(8,153)
	19,950,609	7,693,872	27,644,481	83,582,668	11,116	111,238,265
As at 31 December 2015						
Cost	19,971,794	7,942,643	27,914,437	108,928,420	33,408	136,876,265
Depreciation and impairment	(21,185)	(248,771)	(269,956)	(25,345,752)	(22,292)	(25,638,000)
Net book amount	19,950,609	7,693,872	27,644,481	83,582,668	11,116	111,238,265
As at 1 January 2016						
Cost	19,971,794	7,942,643	27,914,437	108,928,420	33,408	136,876,265
Depreciation and impairment	(21,185)	(248,771)	(269,956)	(25,345,752)	(22,292)	(25,638,000)
Net book amount	19,950,609	7,693,872	27,644,481	83,582,668	11,116	111,238,265
Year ended 31 December 2016						
Additions	5,334,874	11,995,609	17,330,483	-	-	17,330,483
Changes in decommissioning obligations	-	-	-	(9,379)	-	(9,379)
Transfer from asset under construction	(366,515)	(19,154,857)	(19,521,372)	19,521,372	-	-
Other transfers	(3,640,647)	3,831,149	190,502	(112,738)	(15)	77,749
Impairment	-	(4,595)	(4,595)	(45)	-	(4,640)
Unsuccessful exploration expenditures derecognised	(1,204,851)	-	(1,204,851)	-	-	(1,204,851)
Depreciation and depletion	(5,066)	-	(5,066)	(5,953,801)	-	(5,958,867)
Disposals and write-off	(6,543)	(87,602)	(94,145)	(158,220)	(7)	(252,372)
Translation differences	51,550	-	51,550	6	-	51,556
	20,113,411	4,273,576	24,386,987	96,869,863	11,094	121,267,944
As at 31 December 2016						
Cost	20,139,905	4,274,452	24,414,357	127,806,623	31,406	152,252,386
Depreciation and impairment	(26,494)	(876)	(27,370)	(30,936,760)	(20,312)	(30,984,442)
Net book amount	20,113,411	4,273,576	24,386,987	96,869,863	11,094	121,267,944

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

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(All amounts are in RSD 000 unless otherwise stated)

10. INVESTMENTS IN JOINT VENTURE

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

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

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

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

Energowind

In 2013 the Group has acquired 50% of interest in a joint venture, Energowind doo which is intended to be used as a vehicle for operation of future wind farm "Plandiste" with total capacity of 102 MW. On the date of the issuance of these Consolidated Financial Statements there have been no significant business activities. Energowind d.o.o. is a private company and there is no available quoted market price.

Serbskaya Generaciya

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

11. LONG-TERM RECEIVABLES

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

Long-term receivables – state owned companies amounting to RSD 10,020,549 mainly relate to the long-term receivables from the Republic of Serbia in the amount of RSD 9,292,006 according to the debt of Srbijagas and HIP Petrohemija owed to Naftna industrija Srbije takeover and its conversion into public debt. (Short-term part of the receivables: note 14).

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

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Notes to Consolidated Financial Statements for the year ended 31 December 2016

(All amounts are in RSD 000 unless otherwise stated)

12. DEFERRED TAX ASSETS AND LIABILITIES

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

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

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

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

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

	Provisions	Carrying value of PP&E vs Tax base	Revaluation reserve	Total
<i>Deferred tax liabilities</i>				
As at 1 January 2015	(48,192)	(2,932,410)	-	(2,980,602)
Charged to the income statement (note 34)	20,190	(27,135)	-	(6,945)
Charged to other comprehensive income	(623)	-	-	(623)
As at 31 December 2015	(28,625)	(2,959,545)	-	(2,988,170)
Charged to the income statement (note 34)	-	79,576	-	79,576
Charged to other comprehensive income	8,697	-	(14,225)	(5,528)
Other	19,928	-	-	19,928
Translation difference	-	(5,701)	-	(5,701)
As at 31 December 2016	-	(2,885,670)	(14,225)	(2,899,895)

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
<i>Deferred tax assets</i>					
As at 1 January 2015	25,531	680,659	7,128,012	-	7,834,202
Charged to the income statement (note 34)	933,479	183,363	(1,693,591)	-	(576,749)
Translation difference	(542)	-	-	-	(542)
As at 31 December 2015	958,468	864,022	5,434,421	-	7,256,911
Charged to the income statement (note 34)	30,239	66,171	(672,121)	-	(575,711)
Charged to other comprehensive income	(1,762)	-	-	11,739	9,977
Other	(19,928)	-	-	-	(19,928)
As at 31 December 2016	967,017	930,193	4,762,300	11,739	6,671,249

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Notes to Consolidated Financial Statements for the year ended 31 December 2016

(All amounts are in RSD 000 unless otherwise stated)

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.

13. INVENTORY

	31 December 2016	31 December 2015
Materials, spare parts and tools	20,619,950	17,083,302
Work in progress	3,119,239	4,050,154
Finished goods	6,014,045	5,873,077
Goods for sale	2,408,908	2,760,217
Advances	437,325	536,372
<i>Less: impairment of inventory</i>	(5,326,077)	(5,588,504)
<i>Less: impairment of advances</i>	(261,983)	(270,298)
	27,011,407	24,444,320
Non-current assets held for sale	-	207,485
<i>Less: impairment of assets held for sale</i>	-	(185,782)
	-	21,703
	27,011,407	24,466,023

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of Advances	Impairment of Assets held for sale	Total
Balance as of 1 January 2015	6,155,660	244,828	-	6,400,488
Provision for inventories and advances (note 33)	106,372	41,373	185,782	333,527
Unused amounts reversed (note 32)	(406,016)	(4,439)	-	(410,455)
Receivables written off during the year as uncollectible	-	(6,503)	-	(6,503)
Other	(267,512)	(4,961)	-	(272,473)
Balance as of 31 December 2015	5,588,504	270,298	185,782	6,044,584
Provision for inventories and advances (note 33)	54,051	7,837	-	61,888
Unused amounts reversed (note 32)	(12,505)	(8,544)	-	(21,049)
Receivables written off during the year as uncollectible	-	(3,732)	(185,782)	(189,514)
Other	(303,973)	(3,876)	-	(307,849)
Balance as of 31 December 2016	5,326,077	261,983	-	5,588,060

14. TRADE RECEIVABLES

	31 December 2016	31 December 2015
Other related parties - domestic	10,349,738	18,996,976
Other related parties - foreign	1,047,541	251,708
Trade receivables domestic – third parties	41,832,190	33,209,057
Trade receivables foreign – third parties	978,397	761,028
	54,207,866	53,218,769
Less: Impairment	(17,490,188)	(19,651,467)
	36,717,678	33,567,302

NIS Group**Notes to Consolidated Financial Statements for the year ended 31 December 2016***(All amounts are in RSD 000 unless otherwise stated)*

The ageing of trade receivables is as follows:

	31 December 2016	31 December 2015
Neither impaired nor past due	33,491,655	26,446,171
Past due but not impaired:		
within 30 days	1,722,906	1,568,007
1 to 3 months	1,206,067	3,188,881
3 months to 1 year	232,269	59,404
over 1 year	64,781	2,304,839
Total	36,717,678	33,567,302

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 2016	31 December 2015
RSD	23,960,950	16,036,196
EUR	11,088,796	16,240,661
USD	507,965	375,721
Other	1,159,967	914,724
	36,717,678	33,567,302

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 2015	8,504,216	4,069,092	12,573,308
Provision for receivables impairment	12,305	119,546	131,851
Unused amounts reversed (note 31)	(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 15)	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
Provision for receivables impairment	12,149	106,073	118,222
Unused amounts reversed (note 31)	(4,345,232)	(89,800)	(4,435,032)
Receivables written off during the year as uncollectible	(4,220)	(204,174)	(208,394)
Transfer from receivables from specific operations	2,247,189	-	2,247,189
Other	12,382	104,354	116,736
As at 31 December 2016	4,087,667	13,402,521	17,490,188

Release of provision during 2016, in the amount of RSD 4,435,032 mainly relate to positive outcome of negotiations between the Company and Serbian Government for collection of receivables from HIP Petrohemija a.d. Pancevo. The negotiations ended in adoption of the Law on taking over the receivables from HIP Petrohemija by the Government. According to the Law, NIS will collect the amount of EUR 105,000,000 in following two years, with the last installment on 15 June 2019. On 30 Dec 2016, the Company received the first installment in the amount of EUR 21,000,000. In addition, the Company reclassified non-current portion in the amount of RSD 9,292,006 (note 11) with proper discounting effect.

NIS Group**Notes to Consolidated Financial Statements for the year ended 31 December 2016***(All amounts are in RSD 000 unless otherwise stated)***15. OTHER RECEIVABLES**

	31 December 2016	31 December 2015
Interest receivables	6,480,562	6,368,027
Receivables from employees	90,356	91,130
Income tax prepayment	141,764	1,644,731
Other receivables	7,524,655	7,545,751
Less: Impairment	(11,736,780)	(13,772,414)
	2,500,557	1,877,225

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2015	13,423,256	7,335,679	20,758,935
Provision for other receivables impairment	89,122	97,632	186,754
Unused amounts reversed (note 31)	(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 14)	(3,105,066)	-	(3,105,066)
Other	-	8,987	8,987
As at 31 December 2015	6,331,838	7,440,576	13,772,414
Provision for other receivables impairment	35,721	55,800	91,521
Unused amounts reversed (note 31)	(715)	(2,086,052)	(2,086,767)
Receivables written off during the year as uncollectible	(2,922)	(38,291)	(41,213)
Other	128	697	825
As at 31 December 2016	6,364,050	5,372,730	11,736,780

16. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in bank and in hand	14,101,298	11,302,285
Deposits with original maturity of less than three months	7,197,776	6,385,304
Cash with restriction	1,599,284	1,562,453
Cash equivalents	984	21,393
	22,899,342	19,271,435

Cash with restriction as of 31 December 2016 amounting to RSD 1,599,284 (31 December 2015: RSD 1,562,453) 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.

NIS Group**Notes to Consolidated Financial Statements for the year ended 31 December 2016***(All amounts are in RSD 000 unless otherwise stated)***17. PREPAYMENTS AND ACCRUED INCOME**

	31 December 2016	31 December 2015
Deferred input VAT	1,251,278	2,014,262
Prepaid expenses	115,146	120,106
Prepaid excise duty	1,478,182	2,943,879
Housing loans and other prepayments	1,079,344	1,907,099
	3,923,950	6,985,346

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

Prepaid excise duty as at 31 December 2016 amounting to RSD 1,478,182 (31 December 2015: RSD 2,943,879) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

18. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2016	31 December 2015
Issued warranties and bills of exchange	81,020,116	85,848,939
Received warranties and bills of exchange	16,611,577	24,896,899
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	7,191,930	6,830,396
Third party merchandise in NIS warehouses	6,410,848	6,267,709
Assets for oil fields liquidation in Angola	1,179,546	990,870
Other off-balance sheet assets and liabilities	286,605	197,477
	118,058,312	130,389,980

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19. EQUITY

	Equity attributable to owners of the Group							Total	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 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	-	-	-	(1)	(40,426)	-	(244)	(40,670)	(2,010)	(42,680)
Balance as at 31 December 2015	81,530,200	-	-	109,536,896	(450,963)	(79,565)	161,245	190,697,814	(186,134)	190,511,680
Balance as at 1 January 2016	81,530,200	-	-	109,536,896	(450,963)	(79,565)	161,245	190,697,814	(186,134)	190,511,680
Profit (loss) for the year	-	-	-	15,037,973	-	-	-	15,037,973	(24,547)	15,013,426
Gains from securities	-	-	-	-	-	13,046	-	13,046	-	13,046
Dividend distribution	-	-	-	(4,025,961)	-	-	-	(4,025,961)	-	(4,025,961)
Actuarial gain	-	-	-	-	-	-	21,547	21,547	-	21,547
Revaluation reserves	-	-	80,607	-	-	-	-	80,607	-	80,607
Other	-	-	-	2	(130,208)	-	(535)	(130,741)	(3,092)	(133,833)
Balance as at 31 December 2016	81,530,200	-	80,607	120,548,910	(581,171)	(66,518)	182,257	201,694,285	(213,773)	201,480,512

NIS Group**Notes to Consolidated Financial Statements for the year ended 31 December 2016***(All amounts are in RSD 000 unless otherwise stated)***19.1. SHARE CAPITAL**

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

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

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

20. 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 2015	9,025,611	570,359	878,740	101,846	944,580	11,521,136
Charged to the income statement	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	(49,261)	(4,300)	(20,252)	-	(111,045)	(184,858)
Actuarial gain charged to other comprehensive income	-	-	(3,977)	-	-	(3,977)
Settlement	(192,943)	(185,432)	(79,010)	(49,372)	(135,631)	(642,388)
Other	-	42	10	-	712	764
As at 31 December 2015	9,152,369	687,702	856,168	296,783	714,001	11,707,023
As at 1 January 2016						
Charged to the income statement	118,943	243,999	28,337	364,159	95,444	850,882
New obligation incurred and change in estimates	(9,332)	-	-	-	-	(9,332)
Release of provision	(433,086)	(42,517)	(9,116)	-	(24,427)	(509,146)
Actuarial gain charged to other comprehensive income	-	-	(14,077)	-	-	(14,077)
Settlement	(187,593)	(50,531)	(85,915)	-	(104,697)	(428,736)
Other	1	2	17	-	651	671
As at 31 December 2016	8,641,302	838,655	775,414	660,942	680,972	11,597,285

Analysis of total provisions:

	31 December 2016	31 December 2015
Non-current	9,617,973	9,451,111
Current	1,979,312	2,255,912
	11,597,285	11,707,023

(a) Decommissioning

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

(b) Environmental protection

The Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 838,655 (31 December 2015: RSD 687,702) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

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Notes to Consolidated Financial Statements for the year ended 31 December 2016

(All amounts are in RSD 000 unless otherwise stated)

(c) Long-term incentive program

In 2011, the Group started setting-up a long-term incentive program for Group managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2016 the management made an assessment of present value of liabilities related to new three-year employee incentives (2015-2017) in amount of RSD 660,942 (2015: RSD 296,783).

(d) Legal claims provisions

As at 31 December 2016, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group released provision for litigation amounting to RSD 24,427 (2015: RSD 111,045 reversed) for proceedings which were assessed that won't have negative outcome and charged provision for litigation amounting to RSD 95,444 (2015: 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 2016.

(e) Provision for employee benefits

Employee benefits:

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

The principal actuarial assumptions used were as follows:

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

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2015	101,096	777,644	878,740
Benefits paid directly	(2,881)	(76,129)	(79,010)
Actuarial gain charged to other comprehensive income	(3,977)	-	(3,977)
Credited 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
Benefits paid directly	(3,981)	(81,934)	(85,915)
Actuarial gain charged to other comprehensive income	(14,077)	-	(14,077)
Credited to the income statement	15,052	4,169	19,221
Translation difference	17	-	17
Balances as at 31 December 2016	106,143	669,271	775,414

The amounts recognized in the Income Statement are as follows:

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

21. LONG-TERM LIABILITIES

	31 December 2016	31 December 2015
Long-term loan - Gazprom Neft	37,328,836	42,427,710
Bank and other long-term loans	66,120,490	71,016,462
Finance lease liabilities	343,080	199,287
Other long-term borrowings	46,825	88,612
Less Current portion	(9,542,713)	(13,418,431)
	94,296,518	100,313,640

a) Long-term loan - Gazprom Neft

As at 31 December 2016 long-term loan - Gazprom Neft amounting to RSD 37,328,836 (2015: RSD 42,427,710), with current portion of RSD 5,742,898 (2015: RSD 5,657,028), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

b) Bank and other long-term loans

	31 December 2016	31 December 2015
Domestic	27,522,764	18,693,335
Foreign	38,597,726	52,323,127
	66,120,490	71,016,462
Current portion of long-term loans (note 22)	(3,773,525)	(7,760,393)
	62,346,965	63,256,069

The maturity of non-current loans was as follows:

	31 December 2016	31 December 2015
Between 1 and 2 years	13,481,072	11,829,773
Between 2 and 5 years	44,609,978	46,347,221
Over 5 years	4,255,915	5,079,075
	62,346,965	63,256,069

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

	31 December 2016	31 December 2015
USD	39,607,916	53,388,078
EUR	26,126,044	17,247,010
RSD	976	1,174
JPY	385,554	380,200
	66,120,490	71,016,462

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 2016 and 31 December 2015 respectively.

NIS Group**Notes to Consolidated Financial Statements for the year ended 31 December 2016***(All amounts are in RSD 000 unless otherwise stated)*c) *Financial lease liabilities*

Minimum finance lease payments:

	31 December 2016	31 December 2015
Less than one year	72,779	41,677
1-5 years	326,305	205,380
Over 5 years	623,996	707,604
Future finance charges on finance leases	(680,000)	(755,374)
Present value of finance lease liabilities	343,080	199,287

	31 December 2016	31 December 2015
Less than one year	26,290	1,010
1-5 years	124,217	5,832
Over 5 years	192,573	192,445
Present value of finance lease liabilities	343,080	199,287

22. SHORT-TERM FINANCE LIABILITIES

	31 December 2016	31 December 2015
Short-term loans	12,189,945	3,553,120
Current portion of long-term loans (note 21)	9,516,423	13,417,421
Current portion of finance lease liabilities (note 21)	26,290	1,010
	21,732,658	16,971,551

23. TRADE PAYABLES

As at 31 December 2016 payables in a amount of RSD 24,465,282 (31 December 2015: RSD 24,713,307) including payables to parents and subsidiaries-foreign amounting to RSD 5,818,200 (31 December 2015: RSD 10,004,805) fully relate to payables to the supplier Gazprom Neft, St Petersburg, for the purchase of crude oil.

24. OTHER SHORT-TERM LIABILITIES

	31 December 2016	31 December 2015
Specific liabilities	263,705	346,080
Liabilities for unpaid wages and salaries, gross	1,073,870	1,100,559
Interest liabilities	807,213	820,006
Dividends payable	3,772,308	3,772,308
Other payables to employees	646,704	594,443
Decommissioning and site restoration costs	1,385,645	1,609,928
Environmental provision	292,484	311,905
Litigation and claims	235,112	250,000
Other current liabilities	122,414	92,697
	8,599,455	8,897,926

25. LIABILITIES FOR OTHER TAXES

	31 December 2016	31 December 2015
Excise tax	5,395,623	6,066,530
Contribution for buffer stocks	601,357	350,301
Income tax	15,661	14,970
Other taxes payables	1,467,269	1,279,553
	7,479,910	7,711,354

26. ACCRUED EXPENSES

Accrued expenses as at 31 December 2016 amounting to RSD 3,781,043 (31 December 2015: RSD 2,685,116) mainly relate to accrued employee bonuses of RSD 1,639,987 (31 December 2015: RSD 1,568,343).

27. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2016	2015
Cost of production services	2,812,406	3,629,788
Transportation services	3,444,162	3,570,178
Maintenance	4,070,590	3,107,701
Rental costs	1,971,522	2,143,510
Fairs	7,196	3,323
Advertising costs	917,554	893,394
Exploration expenses	1,247,296	64,883
Cost of other services	1,320,674	1,243,159
	15,791,400	14,655,936

28. NON-PRODUCTION EXPENSES

	Year ended 31 December	
	2016	2015
Costs of non-production services	8,231,868	8,972,537
Representation costs	79,456	78,206
Insurance premium	387,625	411,731
Bank charges	289,472	287,708
Cost of taxes	1,206,296	1,266,187
Mineral extraction tax	1,014,164	1,424,183
Other non-production expenses	2,073,738	2,044,050
	13,282,619	14,484,602

Cost of non-production services for the year ended 31 December 2016 amounting to RSD 8,231,868 (2015: RSD 8,972,537) mainly relate to costs of service organizations of RSD 5,705,116; consulting service costs of RSD 627,362; security cost of RSD 477,972 and project management costs of RSD 431,237.

29. FINANCE INCOME

	Year ended 31 December	
	2016	2015
Finance income - related parties		
- foreign exchange differences	879,932	1,224,003
Interest income	1,040,015	706,445
Foreign exchange gains	1,358,257	1,691,420
Other finance income	3,558	69,124
	3,281,762	3,690,992

30. FINANCE EXPENSE

	Year ended 31 December	
	2016	2015
Finance expenses – related parties		
- foreign exchange differences	1,327,780	2,901,488
- other finance expense	760,956	988,192
Interest expenses	2,677,708	2,462,066
Decommissioning provision: unwinding of the present value discount	118,943	121,398
Provision of trade and other non-current receivables: discount	296,429	912,967
Foreign exchange losses	3,899,042	8,031,952
Other finance expenses	9,818	4,425
	9,090,676	15,422,488

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

	Year ended 31 December	
	2016	2015
Reversal of impairment of LT financial investments	788	496
Income from valuation:		
- trade and specific receivables (note 14)	4,436,553	5,800,048
- other receivables (note 15)	2,086,767	1,316,920
	6,524,108	7,117,464

32. OTHER INCOME

	Year ended 31 December	
	2016	2015
Gains on disposal - PPE	379,232	274,012
Gains on disposal - materials	59,794	33,580
Gains on disposal - equity instruments and securities	-	61,696
Surpluses from stock count	420,439	277,612
Payables written off	104,158	565,958
Release of long-term provisions	504,682	184,858
<i>Release of impairment:</i>		
- Intangible assets	-	1,631
- PPE	-	25,596
- Investment property	79,957	-
- Inventory	12,505	406,016
- Other property	8,807	4,438
Penalty interest	125,672	146,581
Other income	302,152	784,067
	1,997,398	2,766,045

33. OTHER EXPENSES

	Year ended 31 December	
	2016	2015
Loss on disposal - PPE	310,543	274,818
Shortages from stock count	605,785	392,176
Write-off receivables	58,330	16,347
Write-off inventories	85,325	170,022
<i>Impairment:</i>		
- Intangible assets	-	147,410
- PPE	42,867	342,485
- Investment property	-	124,003
- Inventory	54,051	106,372
- Other property	7,837	42,182
Other expenses	660,996	1,293,252
	1,825,734	2,909,067

34. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2016	2015
Income tax for the year	2,132,078	3,864,403
Deferred income tax for the period (note 12)		
Origination and reversal of temporary differences	496,135	583,694
	2,628,213	4,448,097

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

	Year ended 31 December	
	2016	2015
Profit before tax	17,641,639	19,055,802
Tax calculated at domestic tax rates applicable to profits in the respective countries	2,646,246	3,882,028
<i>Tax effect on:</i>		
Revenues exempt from taxation	(21,019)	(63,792)
Expenses not deductible for tax purposes	492,012	342,899
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	(434,051)	305,574
Other tax effects for reconciliation between accounting profit and tax expense	(30,736)	(18,612)
	2,652,453	4,448,097
Adjustment in respect of prior years	(24,240)	-
	2,628,213	4,448,097
Effective income tax rate	14.90%	23.34%

35. OPERATING LEASES

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

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

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Notes to Consolidated Financial Statements for the year ended 31 December 2016

(All amounts are in RSD 000 unless otherwise stated)

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

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

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

36. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

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

Environmental protection

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

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

Taxes

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

Other contingent liabilities

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

37. GROUP ENTITIES

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

Subsidiary	Country of incorporation	Nature of business	Share %	
			31-Dec 2016	31-Dec 2015
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
Pannon naftagas Kft, Budapest	Hungary	O&G activity	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-naftni servisi d.o.o. Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o. Novi Sad	Serbia	O&G activity	100	100
Naftagas-tehnicki servisi d.o.o. Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o. Novi Sad	Serbia	Transport	100	100
O Zone a.d., Belgrade	Serbia	Other	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	Trade	100	100
Jadran - Naftagas d.o.o. Banja Luka	Bosnia and Herzegovina	O&G activity	66	66
Svetlost, Bujanovac	Serbia	Trade	51	51

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

38. RELATED PARTIES TRANSACTIONS

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

During 2016 and 2015, the 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.

NIS Group**Notes to Consolidated Financial Statements for the year ended 31 December 2016***(All amounts are in RSD 000 unless otherwise stated)*

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

	Joint venture	Parent	Parent's subsidiaries and associates
As at 31 December 2016			
Investments in joint ventures	2,047,021	-	-
Trade receivables	-	-	1,047,541
Other receivables	220,243	-	-
Long-term liabilities	-	(31,585,938)	-
Short-term financial liabilities	-	(5,742,898)	-
Advances received	-	-	(23,091)
Trade payables	-	(5,818,200)	(1,079,842)
	2,267,264	(43,147,036)	(55,392)
As at 31 December 2015			
Investments in joint ventures	1,188,659	-	-
Trade receivables	-	-	251,708
Other receivables	195,656	-	-
Long-term liabilities	-	(36,770,682)	-
Short-term financial liabilities	-	(5,657,028)	-
Advances received	-	-	(6,609)
Trade payables	-	(10,004,805)	(172,515)
	1,384,315	(52,432,515)	(72,584)

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

	Joint venture	Parent	Parent's subsidiaries and associates
Year ended 31 December 2016			
Sales revenue	-	-	9,215,201
Cost of goods sold	-	-	(8,473,522)
Cost of material	-	(36,864,735)	-
Cost of production services	-	-	(113,594)
Non-material expense	-	(10)	(141,857)
Finance expense	-	(2,088,736)	-
Finance income	-	879,932	-
Other income	-	133,073	-
Other expenses	-	(148,657)	(260)
	-	(38,089,133)	485,968
Year ended 31 December 2015			
Sales revenue	-	-	889,720
Cost of goods sold	-	-	(553,999)
Cost of material	-	(79,766,583)	(1,952,154)
Cost of production services	-	-	(169,108)
Non-material expense	-	(39,619)	(105,330)
Finance expense	-	(3,777,652)	(116,453)
Finance income	-	1,202,790	90,337
Other income	-	107,223	11
Other expenses	-	(95,622)	(19,836)
	-	(82,369,463)	(1,936,812)

NIS Group**Notes to Consolidated Financial Statements for the year ended 31 December 2016***(All amounts are in RSD 000 unless otherwise stated)**Main balances and transactions with state and mayor state owned companies*

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

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

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

Transactions with Key Management Personnel

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

NIS Group

Notes to Consolidated Financial Statements for the year ended 31 December 2016

(All amounts are in RSD 000 unless otherwise stated)

NIS Group

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