NIS A.D. – Naftna industrija Srbije
Novi Sad

Financial Statements and
Independent Auditor's Report

31 December 2018

Novi Sad, 28 February 2019

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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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Naftna Industrija Srbije a.d. Novi Sad (the "Company") which comprise the balance sheet as of 31 December 2018 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Naftna Industrija Srbije a.d. Novi Sad as of 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on Accounting and accounting regulation effective in the Republic of Serbia.

Milivoje Nešović
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 February 2019

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET

	AOP	Note	31 December 2018	31 December 2017
A. SUBSCRIBED CAPITAL UNPAID	**0001**		-	-
B. NON-CURRENT ASSETS (0003 + 0010 + 0019+ 0024 + 0034)	**0002**		**302,062,697**	**293,522,379**
I. INTANGIBLE ASSETS (0004+0005+0006+0007+0008+0009)	**0003**	**8**	**16,539,426**	**16,220,631**
1. Development investments	0004		9,306,366	7,765,207
2. Concessions, licenses, software and other rights	0005		1,478,440	2,122,944
3. Goodwill	0006		-	-
4. Other intangible assets	0007		848,909	862,938
5. Intangible assets under development	0008		4,905,711	5,469,542
6. Advances for intangible assets	0009		-	-
II. PROPERTY, PLANT AND EQUIPMENT (0011+0012+0013+0014+0015+0016+0017+0018)	**0010**	**9**	**246,779,004**	**227,612,491**
1. Land	0011		10,361,685	10,328,878
2. Buildings	0012		135,240,544	127,300,824
3. Machinery and equipment	0013		59,129,900	60,691,375
4. Investment property	0014		1,730,100	1,530,356
5. Other property, plant and equipment	0015		76,536	74,400
6. Construction in progress	0016		39,282,267	25,312,035
7. Investments in leased PP&E	0017		199,804	263,211
8. Advances for PP&E	0018		758,168	2,111,412
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**		**38,735,288**	**49,680,845**
1. Investments in subsidiary	0025	10	13,425,586	13,425,586
2. Investments in joint ventures	0026	11	1,038,800	1,038,800
3. Investments in other legal entities and other available for sales financial assets	0027		114,162	119,919
4. Long term investments in parent and subsidiaries	0028	12	23,279,079	32,024,282
5. Long-term investments in other related parties	0029		-	-
6. Long-term investments - domestic	0030		-	-
7. Long-term investments - foreign	0031		-	-
8. Securities held to maturity	0032		-	-
9. Other long-term financial investments	0033	13	877,661	3,072,258
V. LONG-TERM RECEIVABLES (0035+0036+0037+0038+0039+0040+0041)	**0034**		**8,979**	**8,412**
1. Receivables from parent company and subsidiaries	0035		-	-
2. Receivables from other related parties	0036		-	-
3. Receivables from sale of goods on credit	0037		-	-
4. Receivables arising out of finance lease contracts	0038		8,979	8,412
5. Claims arising from guarantees	0039		-	-
6. Bad and doubtful receivables	0040		-	-
7. Other long-term receivables	0041		-	-
C. DEFFERED TAX ASSETS	**0042**	**14**	**2,405,175**	**2,487,491**

(continued)

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET (CONTINUED)

	AOP	Note	31 December 2018	31 December 2017
D. CURRENT ASSETS (0044+0051+0059+0060+0061+0062+0068+0069+0070)	**0043**		**97,006,290**	**104,140,906**
I. INVENTORY (0045+0046+0047+0048+0049+0050)	**0044**	**15**	**44,951,884**	**33,758,553**
1. Materials, spare parts and tools	0045		23,257,263	20,495,109
2. Work in progress	0046		4,923,492	3,961,298
3. Finished goods	0047		13,042,863	7,998,501
4. Merchandise	0048		3,220,159	996,337
5. Assets held for sale	0049		9,271	163
6. Advances for inventory and services	0050		498,836	307,145
II. TRADE RECEIVABLES (0052+0053+0054+0055+0056+0057+0058)	**0051**	**16**	**27,501,759**	**29,735,674**
1. Domestic trade receivables - parents and subsidiaries	0052		358,735	489,470
2. Foreign trade receivables - parents and subsidiaries	0053		2,652,875	3,448,578
3. Domestic trade receivables - other related parties	0054		1,226,862	1,447,646
4. Foreign trade receivables - other related parties	0055		629,519	1,023,525
5. Trade receivables - domestic	0056		21,859,900	22,229,266
6. Trade receivables - foreign	0057		773,868	1,097,189
7. Other trade receivables	0058		-	-
III. RECEIVABLES FROM SPECIFIC OPERATIONS	**0059**		**248,374**	**292,057**
IV. OTHER RECEIVABLES	**0060**	**17**	**1,290,500**	**2,345,007**
V. FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS	**0061**		-	-
VI. SHORT TERM FINANCIAL INVESTMENTS (0063+0064+0065+0066+0067)	**0062**	**18**	**5,628,600**	**10,381,808**
1. Short-term loans and investments - parent companies and subsidiaries	0063		-	56,019
2. Short-term loans and investments – other related parties	0064		-	-
3. Short-term loans and investments - domestic	0065		23,639	-
4. Short-term loans and investments - foreign	0066		-	-
5. Other short-term loans and investments	0067		5,604,961	10,325,789
VII. CASH AND CASH EQUIVALENTS	**0068**	**19**	**12,222,578**	**23,410,724**
VIII. VALUE ADDED TAX	**0069**		-	-
IX. PREPAYMENTS AND ACCRUED INCOME	**0070**	**20**	**5,162,595**	**4,217,083**
E. TOTAL ASSETS (0001+0002+0042+0043)	**0071**		**401,474,162**	**400,150,776**
F. OFF-BALANCE SHEET ASSETS	**0072**	**21**	**113,012,309**	**108,101,006**
A. EQUITY (0402+0411-0412+0413+0414+0415-0416+0417+0420-0421)	**0401**		**249,303,631**	**238,967,295**
I. EQUITY (0403+0404+0405+0406+0407+0408+0409+0410)	**0402**		**81,530,200**	**81,530,200**
1. Share capital	0403	22	81,530,200	81,530,200
2. Stakes of limited liability companies	0404		-	-
3. Stakes	0405		-	-
4. State owned capital	0406		-	-
5. Socially owned capital	0407		-	-
6. Stakes in cooperatives	0408		-	-
7. Share premium	0409		-	-
8. Other capital	0410		-	-
II. SUBSCRIBED CAPITAL UNPAID	**0411**		-	-
III. OWN SHARES	**0412**		-	-
IV. RESERVES	**0413**		-	-
V. REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT	**0414**		**152,143**	**81,796**
VI. UNREALISED GAINS FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	**0415**		**147,011**	**142,480**
VII. UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	**0416**		**60,082**	**64,014**
VIII. RETAINED EARNINGS (0418+0419)	**0417**		**167,534,359**	**157,276,833**
1. Retained earnings from previous years	0418		141,466,870	129,486,373
2. Retained earnings from current year	0419		26,067,489	27,790,460
IX. NON-CONTROLLING INTEREST	**0420**		-	-
X. LOSS (0422+0423)	**0421**		-	-
1. Loss from previous years	0422		-	-
2. Loss from current year	0423		-	-

(continued)

BALANCE SHEET (continued)

	AOP	Note	31 December 2018	31 December 2017
B. LONG-TERM PROVISIONS AND LIABILITIES (0425+0432)	**0424**		**97,447,273**	**99,411,634**
I. LONG-TERM PROVISIONS (0426+0427+0428+0429+0430+4031)	**0425**	**23**	**10,079,405**	**9,660,582**
1. Provisions for warranty claims	0426		-	-
2. Provision for environmental rehabilitation	0427		9,148,887	8,904,782
3. Provisions for restructuring costs	0428		-	-
4. Provisions for employee benefits	0429		701,478	410,234
5. Provisions for litigations	0430		229,040	345,566
6. Other long term provisions	0431		-	-
II. LONG-TERM LIABILITIES (0433+0434+0435+0436+0437+0438+0439+0440)	**0432**	**24**	**87,367,868**	**89,751,052**
1. Liabilities convertible to equity	0433		-	-
2. Liabilities to parent and subsidiaries	0434		19,240,982	24,796,612
3. Liabilities to other related parties	0435		-	-
4. Liabilities for issued long-term securities	0436		-	-
5. Long term borrowings - domestic	0437		50,326,327	43,049,008
6. Long-term borrowings - foreign	0438		17,227,014	21,709,377
7. Finance lease liabilities	0439		573,545	196,055
8. Other long-term liabilities	0440		-	-
C. DEFFERED TAX LIABILITIES	**0441**	**14**	-	-
D. SHORT-TERM LIABILITIES (0443+0450+0451+0459+0460+0461+0462)	**0442**		**54,723,258**	**61,771,847**
I. SHORT-TERM FINANCIAL LIABILITIES (0444+0445+0446+0447+0448+0449)	**0443**	**25**	**8,141,968**	**8,199,189**
1. Short term borrowings from parent and subsidiaries	0444		2,218,378	2,298,487
2. Short term borrowings from other related parties	0445		-	-
3. Short-term loans and borrowings - domestic	0446		-	-
4. Short-term loans and borrowings - foreign	0447		-	-
5. Liabilities relating to current assets and held-for-sale assets attributable to discounted operations	0448		-	-
6. Other short term liabilities	0449		5,923,590	5,900,702
II. ADVANCES RECEIVED	**0450**		1,322,558	1,374,398
III. TRADE PAYABLES (0452+0453+0454+0455+0456+0458)	**0451**	**26**	**25,887,149**	**29,393,322**
1. Trade payables - parent and subsidiaries - domestic	0452		3,063,798	2,576,370
2. Trade payables - parent and subsidiaries - foreign	0453		10,254,323	11,792,424
3. Trade payables - other related parties - domestic	0454		1,250,402	1,252,736
4. Trade payables - other related parties - foreign	0455		661,182	1,014,064
5. Trade payables - domestic	0456		5,811,834	6,874,255
6. Trade payables - foreign	0457		4,843,290	5,880,471
7. Other operating liabilities	0458		2,320	3,002
IV. OTHER SHORT-TERM LIABILITIES	**0459**	**27**	**7,999,458**	**8,880,747**
V. LIABILITIES FOR VAT	**0460**		**1,146,310**	**1,618,629**
VI. LIABILITIES FOR OTHER TAXES	**0461**	**28**	**6,987,963**	**8,506,087**
VII. ACCRUED EXPENSES	**0462**	**29**	**3,237,852**	**3,799,475**
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**		**401,474,162**	**400,150,776**
G. OFF-BALANCE SHEET LIABILITIES	**0465**	**21**	**113,012,309**	**108,101,006**

The accompanying notes on pages 10 to 63 are an integral part of these financial statements.

Novi Sad, 28 February 2019

The person responsible for the preparation of financial statements | **M.P.** | **Legal representative**

(All amounts are in RSD 000 unless otherwise stated)

INCOME STATEMENT

	AOP	Note	Year ended 31 December 2018	2017
INCOME FROM REGULAR OPERATING ACTIVITIES				
A. OPERATING INCOME (1002+1009+1016+1017)	**1001**	7	**258,523,448**	**215,836,203**
I. INCOME FROM THE SALE OF GOODS (1003+1004+1005+1006+1007+1008)	**1002**		**9,562,486**	**16,974,716**
1. Income from sales of goods to parent and subsidiaries on domestic market	1003		58,413	19,443
2. Income from sales of goods to parent and subsidiaries on foreign market	1004		216,831	600,892
3. Income from the sale of goods to other related parties on domestic market	1005		102	161
4. Income from the sale of goods to other related parties on foreign market	1006		135,052	10,016,171
5. Income from sale of goods on domestic market	1007		8,424,284	6,276,036
6. Income from sale of goods on foreign market	1008		727,804	62,013
II. INCOME FROM SALES OF PRODUCTS AND SERVICES (1010+1011+1012+1013+1014+1015)	**1009**		**248,477,040**	**198,452,051**
1. Income from sales of products and services to parent and subsidiaries on domestic market	1010		1,146,373	1,111,629
2. Income from sales of products and services to parent and subsidiaries on foreign market	1011		15,826,450	12,560,739
3. Income from sales of products and services to other related parties on domestic market	1012		26,702,899	21,952,875
4. Income from sales of products and services to other related parties on foreign market	1013		536,311	591,444
5. Income from sales of products and services – domestic	1014		170,938,052	137,769,953
6. Income from sales of products and services – foreign	1015		33,326,955	24,465,411
III. INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS	**1016**		**2,257**	**26,380**
IV. OTHER OPERATING INCOME	**1017**		**481,665**	**383,056**
EXPENSES FROM REGULAR OPERATING ACTIVITIES				
B. OPERATING EXPENSES (1019-1020-1021+1022+1023+1024+1025+1026+1027+1028+1029)>=0	**1018**		**226,386,000**	**186,182,516**
I. COST OF GOODS SOLD	1019		8,077,143	15,725,908
II. WORK PERFORMED BY THE ENTITY AND CAPITALIZED	1020		1,613,042	967,698
III. INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1021		6,006,557	3,202,338
IV. DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1022		-	-
V. COST OF MATERIAL	1023		162,591,024	117,219,414
VI. COST OF FUEL AND ENERGY	1024		3,336,459	2,880,049
VII. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	1025		15,245,145	14,361,093
VIII. COST OF PRODUCTION SERVICES	1026	30	14,323,354	14,064,332
IX. DEPRECIATION, DEPLETION AND AMORTIZATION	1027	8,9	18,301,276	14,188,482
X. COST OF LONG-TERM PROVISIONING	1028		618,876	861,981
XI. NON-PRODUCTION COSTS	1029	31	11,512,322	11,051,293
C. OPERATING GAIN (1001-1018)>=0	**1030**		**32,137,448**	**29,653,687**
D. OPERATING LOSS (1018-1001)>=0	**1031**		**-**	**-**

(continued)

INCOME STATEMENT (CONTINUED)

	AOP	Note	Year ended 31 December 2018	2017
E. FINANCE INCOME (1033+1038+1039)	**1032**	**32**	**4,578,389**	**13,630,527**
I. FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME (1034+1035+1036+1037)	1033		2,077,184	3,761,830
1. Finance income - parent company and subsidiaries	1034		2,026,867	3,558,484
2. Finance income - other related parties	1035		22,490	41,754
3. Share of profit of associates and joint ventures	1036		-	-
4. Other financial income	1037		27,827	161,592
II. INTEREST INCOME (from third parties)	1038		765,027	1,101,732
III. FOREIGN EXCHANGE GAINS (third parties)	1039		1,736,178	8,766,965
F. FINANCE EXPENSES (1041+1046+1047)	**1040**	**33**	**5,427,179**	**7,574,284**
I. FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES (1042+1043+1044+1045)	1041		1,694,814	3,016,359
1. Finance expense - parent company and subsidiaries	1042		1,674,668	2,948,723
2. Finance expense - other related parties	1043		12,735	40,043
3. Share of loss of associates and joint ventures	1044		-	-
4. Other financial expense	1045		7,411	27,593
II. INTEREST EXPENSE (from third parties)	1046		1,940,679	2,418,072
III. FOREIGN EXCHANGE LOSSES (third parties)	1047		1,791,686	2,139,853
G. PROFIT FROM FINANCING OPERATIONS (1032-1040)	**1048**		**-**	**6,056,243**
H. LOSS FROM FINANCING OPERATIONS (1040-1032)	**1049**		**848,790**	**-**
I. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**1050**	**34**	**1,016,559**	**307,888**
J. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**1051**		**205,707**	**604,118**
K. OTHER INCOME	**1052**	**35**	**969,970**	**931,953**
L. OTHER EXPENSES	**1053**	**36**	**1,426,519**	**1,388,866**
M. OPERATING PROFIT BEFORE TAX (1030-1031+1048-1049+1050-1051+1052-1053)	**1054**		**31,642,961**	**34,956,787**
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**		**31,642,961**	**34,956,787**
R. LOSS BEFORE TAX (1055-1054+1057-1056)	**1059**		**-**	**-**
II. INCOME TAX				
I. CURRENT INCOME TAX	1060	37	3,922,034	5,556,879
II. DEFERRED TAX EXPENSE FOR THE PERIOD	1061	37	1,653,438	2,045,123
III. DEFERRED TAX INCOME FOR THE PERIOD	1062	37	-	435,675
S. PERSONAL INCOME PAID TO EMPLOYER	**1063**		-	-
T. NET PROFIT (1058-1059-1060-1061+1062)	**1064**		**26,067,489**	**27,790,460**
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		26,067,489	27,790,460
III. NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1068		-	-
IV. NET LOSS ATTRIBUTABLE TO THE OWNER	1069		-	-
V. EARNINGS PER SHARE				
1. Basic earnings per share	1070		0.160	0.170
2. Diluted earnings per share	1071		-	-

The accompanying notes on pages 10 to 63 are an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

	AOP	Note	Year ended 31 December 2018	2017
A. NET PROFIT/(LOSS)				
I. PROFIT, NET (AOP 1064)	**2001**		**26,067,489**	**27,790,460**
II. LOSS, NET (AOP 1065)	**2002**		**-**	**-**
B. OTHER COMPREHENSIVE PROFIT OR LOSS				
a) Items that will not be reclassified to profit or loss				
1. Changes in the revaluation of intangible assets, property, plant and equipment				
a) increase in revaluation reserves	2003		72,748	1,189
b) decrease in revaluation reserves	2004		-	-
2. Actuarial gains (losses) of post employment benefit obligations				
a) gains	2005		4,531	19,568
b) losses	2006		-	-
3. Gains and losses arising from equity investments				
a) gains	2007		-	-
b) losses	2008		-	-
4. Gains or losses arising from a share in the associate's other comprehensive profit or loss				
a) gains	2009		-	-
b) losses	2010		-	-
b) Items that may be subsequently reclassified to profit or loss				
1. Gains (losses) from currency translation differences				
a) gains	2011		-	-
b) losses	2012		-	-
2. Gains (losses) on investment hedging instruments in foreign business				
a) gains	2013		-	-
b) losses	2014		-	-
3. Gains and losses on cash flow hedges				
a) gains	2015		-	-
b) losses	2016		-	-
4. Gains (losses) from change in value of available-for-sale financial assets				
a) gains	2017		477	2,505
b) losses	2018		-	-
I. OTHER COMPREHENSIVE PROFIT BEFORE TAX (2003+2005+2007+2009+2011+2013+2015+2017)-(2004+2006+2008+2010+2012+2014+2016+2018)>=0	2019		77,756	23,262
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		-	-
III. TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD	2021		-	-
IV. TOTAL NET COMPREHENSIVE PROFIT (2019-2020-2021)>=0	**2022**		**77,756**	**23,262**
V. TOTAL NET COMPREHENSIVE LOSS (2020-2019+2021)>=0	**2023**		**-**	**-**
C. TOTAL NET COMPREHENSIVE PROFIT				
I. TOTAL COMPREHENSIVE PROFIT, NET (2001-2002+2022-2023)>=0	2024		26,145,245	27,813,722
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**		**26,145,245**	**27,813,722**
1. Attributable to shareholders	2027		26,145,245	27,813,722
2. Attributable to non-controling interest	2028		-	-

The accompanying notes on pages 10 to 63 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	AOP	Note	Year ended 31 December 2018	2017
A. CASH FLOWS FROM OPERATING ACTIVITIES				
I. Cash inflow from operating activities (1 to 3)	**3001**		**476,318,584**	**404,083,903**
1. Sales and advances received	3002		474,854,352	403,512,757
2. Interest from operating activities	3003		982,567	188,090
3. Other inflow from operating activities	3004		481,665	383,056
II. Cash outflow from operating activities (1 to 5)	**3005**		**441,057,925**	**349,374,755**
1. Payments and prepayments to suppliers	3006		222,503,666	169,771,567
2. Salaries, benefits and other personal expenses	3007		15,357,756	14,188,115
3. Interest paid	3008		2,115,651	2,877,058
4. Income tax paid	3009		5,306,655	3,328,363
5. Payments for other public revenues	3010		195,774,197	159,209,652
III. Net cash inflow from operating activities (I - II)	**3011**		**35,260,659**	**54,709,148**
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**		**10,495,139**	**7,538,052**
1. Sale of shares (net inflow)	3014		-	-
2. Proceeds from sale of intangible assets, property, plant and equipment	3015		368,430	1,349,434
3. Other financial investments (net inflow)	3016		10,101,578	6,188,462
4. Interest from investing activities	3017		-	-
5. Dividend received	3018		25,131	156
II. Cash outflow from investing activities (1 to 3)	**3019**		**47,164,889**	**44,514,493**
1. Acquisition of subsidiaries or other business (net outflow)	3020		-	-
2. Purchase of intangible assets, property, plant and equipment	3021		43,100,975	28,481,297
3. Other financial investments (net outflow)	3022		4,063,914	16,033,196
III. Net cash inflow from investing activities (I - II)	**3023**		**-**	**-**
IV. Net cash outflow from investing activities (II - I)	**3024**		**36,669,750**	**36,976,441**
C. CASH FLOWS FROM FINANCING ACTIVITIES				
I. Cash inflow from financing activities (1 to 5)	**3025**		**50,372,081**	**48,907,496**
1. Increase in share capital	3026		-	-
2. Proceeds from long-term borrowings (net inflow)	3027	24	37,213,097	36,955,269
3. Proceeds from short-term borrowings (net inflow)	3028	24	13,158,984	11,952,227
4. Other long-term liabilities	3029		-	-
5. Other short-term liabilities	3030		-	-
II. Cash outflow from financing activities (1 to 6)	**3031**		**60,221,960**	**62,879,759**
1. Purchase of own shares	3032		-	-
2. Repayment of long-term borrowings (net outflow)	3033	24	39,952,348	35,994,429
3. Repayment of short-term borrowings (net outflow)	3034	24	13,239,092	22,795,802
4. Repayment of other liabilities (net outflow)	3035		-	-
5. Financial lease	3036	**24**	82,516	68,459
6. Dividend distribution	3037	22	6,948,004	4,021,069
III. Net cash inflow from financing activities (I - II)	**3038**		**-**	**-**
IV Net cash outflow from financing activities (II - I)	**3039**		**9,849,879**	**13,972,263**
D. TOTAL CASH INFLOW (3001+3013+3025)	**3040**		**537,185,804**	**460,529,451**
E. TOTAL CASH OUTFLOW (3005+3019+3031)	**3041**		**548,444,774**	**456,769,007**
F. NET CASH INFLOW (340-341)	**3042**		**-**	**3,760,444**
G. NET CASH OUTFLOW (341-340)	**3043**		**11,258,970**	**-**
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3044**		**23,410,724**	**20,053,651**
I. CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS	**3045**		**370,178**	**455,440**
J. CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS	**3046**		**299,354**	**858,811**
K. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (3042-3043+3044+3045-3046)	**3047**		**12,222,578**	**23,410,724**

The accompanying notes on pages 10 to 63 are an integral part of these financial statements.

(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

	Equity components							
	AOP	Share capital	AOP	Reserves	AOP	Loss	AOP	Retained earnings
Balance as at 1 January 2017								
a) debit	4001	-	4037	-	4055	-	4091	-
b) credit	4002	**81,530,200**	4038	-	4056	-	4092	**133,507,442**
Adjustments of material errors and changes in accounting policies								
a) debit	4003	-	4039	-	4057	-	4093	-
b) credit	4004	-	4040	-	4058	-	4094	-
Restated opening balance as at 1 January 2017								
a) debit (1a+2a-2б)>=0	4005	-	4041	-	4059	-	4095	-
б) credit (1б-2a+2б)>=0	4006	**81,530,200**	4042	-	4060	-	4096	**133,507,442**
Changes in period								
a) debit	4007	-	4043	-	4061	-	4097	4,021,069
b) credit	4008	-	4044	-	4062	-	4098	27,790,460
Balance as at 31 December 2017								
a) debit (3a+4a-4б)>=0	4009	-	4045	-	4063	-	4099	-
б) credit (3б-4a+4б)>=0	4010	**81,530,200**	4046	-	4064	-	4100	**157,276,833**
Adjustments of material errors and changes in accounting policies								
a) debit	4011	-	4047	-	4065	-	4101	8,860,905
b) credit	4012	-	4048	-	4066	-	4102	-
Restated opening balance as at 1 January 2018								
a) debit (5a+6a-6б)>=0	4013	-	4049	-	4067	-	4103	-
б) credit (5б-6a+6б)>=0	4014	**81,530,200**	4050	-	4068	-	4104	**148,415,928**
Changes in period								
a) debit	4015	-	4051	-	4069	-	4105	6,949,058
b) credit	4016	-	4052	-	4070	-	4106	26,067,489
Balance as at 31 December 2018								
a) debit (7a+8a-8б)>=0	4017	-	4053	-	4071	-	4107	-
б) credit (7б-8a+8б)>=0	4018	**81,530,200**	4054	-	4072	-	4108	**167,534,359**

(continued)

(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	AOP	Other comprehensive income components: Revaluation reserves	AOP	Acturial gain/(loss)	AOP	Gains (losses) from change in value of available-for-sale financial assets	AOP	Total Equity
Balance as at 1 January 2017								
a) debit	4109	-	4127	-	4217	66,519		
b) credit	4110	80,607	4128	122,912	4218	-	4235	215,174,642
Adjustments of material errors and changes in accounting policies								
a) debit	4111	-	4129	-	4219	-		
b) credit	4112	-	4130	-	4220	-	4236	-
Restated opening balance as at 1 January 2017								
a) debit (1a+2a-2б)>=0	4113	-	4131	-	4221	66,519		
b) credit (1б-2a+2б)>=0	4114	80,607	4132	122,912	4222	-	4237	215,174,642
Changes in period								
a) debit	4115	-	4133	-	4223	-		
b) credit	4116	1,189	4134	19,568	4224	2,505	4238	23,792,653
Balance as at 31 December 2017								
a) debit (3a+4a-4б)>=0	4117	-	4135	-	4225	64,014		
b) credit (3б-4a+4б)>=0	4118	81,796	4136	142,480	4226	-	4239	238,967,295
Adjustments of material errors and changes in accounting policies								
a) debit	4119	-	4137	-	4227	-		
b) credit	4120	-	4138	-	4228	-	4240	(8,860,905)
Restated opening balance as at 1 January 2018								
a) debit (5a+6a-6б)>=0	4121	-	4139	-	4229	64,014		
b) credit (5б-6a+6б)>=0	4122	81,796	4140	142,480	4230	-	4241	230,106,390
Changes in period								
a) debit	4123	2,401	4141	-	4231	-		
b) credit	4124	72,748	4142	4,531	4232	3,932	4242	19,197,241
Balance as at 31 December 2018								
a) debit (7a+8a-8б)>=0	4125	-	4143	-	4233	60,082		
б) credit (7б-8a+8б)>=0	4126	152,143	4144	147,011	4234	-	4243	249,303,631

The accompanying notes on pages 10 to 63 are an integral part of these financial statements.

1. GENERAL INFORMATION

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

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

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

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005. 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%. PJSC Gazprom, Russian Federation is the ultimate owner of the Company.

The Company is an open joint stock company listed on the Belgrade Stock Exchange.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

These financial statements for the year ended 31 December 2018 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

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

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

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

At the date of signing Financial Statements, crude oil price increased since 31 December 2018 from 50.210 $/barrel to 65.375 $/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 2018 were evaluated through 28 February 2019, the date these Financial Statements were authorised for issue.

2.2. Basis of measurement

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

2.3. Segment reporting

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

2.4. Seasonality of Operations

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

2.5. Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Serbian dinars (“RSD”), which is the Company’s functional and presentation currency.

(b) *Transactions and balances*

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

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

2.6. Intangible assets

(a) *Licenses and rights (concessions)*

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

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

(b) *Software*

These include primarily the costs of implementation the (SAP) computer software program. 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).

2.7. Oil and Gas properties

(a) *Exploration and evaluation expenditure*

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

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

Exploration and evaluation assets include:

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

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

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

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

Other exploration costs are charged to expense when incurred.

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

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

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

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within 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 assets as well as development costs associated with the production of proved reserves.

(d) *Depreciation/amortization*

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

(e) *Impairment – exploration and evaluation assets*

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

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

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

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

2.8. Property, plant and equipment

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

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

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

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

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

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

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

2.9. 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.

2.10. Investment property

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

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

Investment property is carried at fair value. Changes in fair values are recorded in the income statement as part of Other income/(expenses) (notes 35 and 36).

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

2.11. Financial instruments

(a) ***Key measurement terms***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Amortized cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses *("ECL")*.

(b) ***Classification and measurement***

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

At initial recognition, the Company measures a financial asset as its fair value plus, in case of a financial assets not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at FVTPL are expensed in profit and loss. After the initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Factors considered by the Company in determining the business model include the purpose and composition of portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

There are three measurement categories into which the Company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented separately.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest (''SPPI''), are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented separately.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Trade and other receivables. Trade and other receivables are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method, less provision for impairment. 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.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortized cost using the effective interest method.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognized initially at fair value and subsequently carried at amortized cost using the effective interest method. 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.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

(c) ***Write-off***

Financial assets are written-off, in whole or in part, when the Company has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(d) ***Recognition and derecognition***

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

(e) ***Modification***

The Company sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Company assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Company derecognises the original financial asset and recognises a new asset at its fair value. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

(f) ***Financial assets impairment***

The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and recognises Net impairment losses at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the balance sheet net of the allowance for ECL. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

- General model of impairment of financial assets – three stage model

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL").

If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

When defining default for the purposes of determining the risk of a default occurring, Company applies a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate.

For the purposes of measuring expected credit losses, the estimate of expected cash shortfalls reflects the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately.

Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

- Simplified approach for impairment of receivables and lease receivables

Company applies simplified approach for trade receivables and lease receivables and measure the loss allowance at an amount equal to lifetime expected credit losses ("Lifetime ECL").

Company uses a provision matrix in the calculation of the expected credit losses on trade receivables. Company use historical credit loss experience (adjusted as appropriate on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions) for trade receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling, general and administrative expenses.

Impairment losses are reversed through profit or loss if the amount of the impairment loss decreases and the decrease can be attributed to an event occurring after the impairment was recognized.

(g) ***Accounting policies applied until 31 December 2017***

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Classification

Until 31 December 2017, the Company classified its financial assets in the following categories:

- Cash and cash equivalents
- Loans and receivables and
- Available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired.

The measurement at initial recognition did not change on adoption of IFRS 9.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method.

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

Impairment

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. 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 was considered an indicator that the assets are impaired.

2.12. Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as Other expense (note 36).

2.13. Off-balance sheet assets and liabilities

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

2.14. Share capital

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

2.15. Earnings per share

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

2.16. Provisions

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

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

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

2.17. Current and deferred income tax

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

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

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

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

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

2.18. Employee benefits

(a) *Pension obligations*

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

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

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

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

(c) *Bonus plans*

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

In 2017, the Company has made decision to introduce new three-year (2018-2020) program for Company's managers which will be based on the Key Performance Indicators ("KPI") reached during the program (note 23).

2.19. Revenue recognition from contracts with customers

Accounting policies applied in 2018, from the date of initial application of IFRS 15 "Revenue from Contracts with Customers"

The Company recognizes revenue from sales of crude oil, petroleum products, gas and other products and services when it satisfies a performance obligation and control over goods and services is passed. For the most contracts control over goods or services passes to a customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due.

Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts.

(a) *Sales - wholesale*

The Company manufactures and sells oil, petrochemical products, liquefied natural gas and energy in the wholesale market. Sales of goods are recognised when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales with discounts is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognised for expected volume discounts entitled to customers in relation to sales made until the end of the reporting period.

No element of financing is deemed present as the sales are made with a credit term of less than one year and is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) *Sales – retail*

The Company operates a chain of Petrol Stations. Sales of goods are recognised when the Company sells a product to the customer. Retail sales are usually in cash or by credit card. Company offers customer incentives mostly in the form of loyalty programs described under section d).

(c) *Sales of electricity*

The Company sells electricity on a short and long term basis with a contract terms generally accepted in the energy industry (via bilateral forward standardized general EFET agreements). Majority of sales are made on a wholesale market without structured trades.

In accordance with contract terms if Company expects to physically deliver factual agreed quantity of electricity revenue is recognized at gross basis at the point of time of delivery in financial statements. All performance obligations are satisfied at point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation.

(d) *Customer loyalty program*

The Company operates a loyalty program where customers accumulate award points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire after the initial transaction. The transaction price is allocated to the goods sold and the award points on the basis of their relative stand-alone selling prices. A contract liability for the award points is recognized at the time of the sale. Contract liabilities arising from customer loyalty program are presented in the note 29.

(e) *Interest income*

Interest income is recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income, all fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums or discounts.

Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within ‘finance income’ line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the Company relating to the creation or acquisition of a financial asset, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the amortized cost.

Accounting policies applied until 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Company agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided

2.20. Leases

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

Other leases are operating leases and the leased assets are not recognised on the Company's Balance Sheet. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

2.21. Dividend distribution

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

2.22. Capitalisation of borrowing costs

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

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

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

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

3.1. Estimation of Oil and Gas Reserves

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

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

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

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

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

3.2. Useful Lives of Property, Plant and Equipment

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

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

Were the estimated useful lives to differ by 10% from management’s estimates, the impact on depreciation for the year ended 31 December 2018 would be to increase/decrease it by RSD 1,668,418 (2017: RSD 1,277,411).

3.3. Employee benefits

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

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

If the discount rate used to calculate the present value of employee benefit obligations had been 6.70% (rather than 5.70%) per year, the past service liability (DBO) for the Company would decrease by about 9% for retirement indemnity and 6.9% for jubilee benefit. If pay increased by 1% higher than assumed on an annual basic, than the past service liability (DBO) for the Company would increase by amount 10.3% for the retirement indemnity and 7.4% for the jubilee benefit.

3.4. Decommissioning and environmental protection provision

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

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.
The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Company’s operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

If the discount rate used to calculate the present value of decommissioning obligations had been 6.70% (rather than 5.70%) per year, the present liability would have decreased by approx. RSD 328,299.

3.5. Contingencies

Certain conditions may exist as of the date of these financial statements are issued that may result in a loss to the Company, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.
If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company’s financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 40).

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

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

The Company assessed crude oil price volatility as main impairment indicator. If the actual crude oil price would decrease for 10$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Company's PPE by 68.4 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.

3.7. ECL measurement for inter-company loans

The Company's measurement of expected credit losses for inter-company loans is a significant estimate that involves determination of methodology and data inputs.

The Company defines credit losses for inter-company loans as the difference between all contractual cash flows that are due to the Company in accordance with a contract and all cash flows that the Company expects to receive (i.e., all cash shortfalls), discounted to present value.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of the underlying business, etc., for which there may not be a readily accessible market.

If the discount rate used to calculate the present value of cash shortfalls had been 8.56% (rather than 7.56%) per year, the present value of intercompany loans would have decreased by approx. RSD 514,528.

4. APPLICATION OF NEW IFRS

Accounting policies applied from 1 January 2018

Adoption of IFRS 9 "Financial Instruments". The Company adopted IFRS 9, Financial Instruments, from 1 January 2018. The Company elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

Adoption of IFRS 15 "Revenue from Contracts with Customers". The Company applied simplified method of transition to IFRS 15, and elected to apply the practical expedient available for simplified transition method. The Company applies IFRS 15 retrospectively only to contracts that were not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 resulted in changes in accounting policies (see Note 2.19) and did not result any material adjustments to the statements of profit and loss, therefore the retained earnings as of 1 January 2018 has not been adjusted.

The significant new accounting policies applied in the current period and Accounting policies applied prior to 1 January 2018 are described in Note 2.

The following table reconciles the carrying amounts of financial assets as previously measured in accordance with IAS 39 and IAS 18 and the new amounts determined upon adoption of IFRS 9 and IFRS 15 on 1 January 2018.

	Carrying value under IAS 39 and IAS 18 At 31 December 2017	Remeasu-rement	Carrying value under IFRS 9 and IFRS 15 1 January 2018	Retained earnings effect at 1 January 2018
Long term investments in parent and subsidiaries (note 6)	32,024,282	(7,542,125)	24,482,157	(7,542,125)
Other long-term financial investments (note 13)	3,072,258	(371,818)	2,700,440	(371,818)
Deffered tax assets (note 14)	2,487,491	1,584,231	4,071,722	1,584,231
Other receivables (note 6)	2,345,007	(412,465)	1,932,542	(412,465)
Other short-term loans and investments (note 6)	10,325,789	(2,118,728)	8,207,061	(2,118,728)
		(8,860,905)		**(8,860,905)**

Remeasurement effect in amount of RSD 8,860,905 represents ECL on:
- intercompany loans in amount of RSD 9,660,853,
- interest receivables on intercompany loans in amount of RSD 412,465 and
- housing loans provided to employees in amount of RSD 371,818.

ECL is accounted for in accordance with IFRS 9.

Total amount of deferred tax assesst recognised in OCI due to deductible temporary differences arised on first time adoption of IFRS 9 is RSD 1,584,231.

Investments in equity securities. The Company has elected to irrevocably designate investments in a portfolio of non-trading equity securities as at FVOCI as permitted under IFRS 9. These securities were previously classified as AFS. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are impaired or disposed of.
IFRS 9 does not provide an exemption to measure investments in unquoted equity securities at cost. The Company remeasured all such investments at fair value on adoption of IFRS 9 and designated as at FVOCI.
The following amended standards became effective for the Company from 1 January 2018, but did not have any material impact on the Company:

- Amendments to IFRS 2 “Share-based Payment” (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” (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).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – “Transfers of Investment Property” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

5. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2018 or later, and that the Company has not early adopted.

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). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Company is currently assessing the impact of the amendments 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 statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the standard on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company is currently assessing the impact of the interpretation on its financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Company does not expect a material impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Company will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company is currently assessing the impact of the amendments on its financial statements.

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

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

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

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

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

(a) market risk (including currency risk and interest rate risk);
(b) credit risk and
(c) liquidity risk.

Market risk

The Company takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates, all of which are exposed to general and specific market movements. Management analyse and monitoring risk that may be accepted, however, the use of this approach does not prevent losses in the event of more significant market movements.

Currency risk

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

Management has set up a policy to manage its currency risk against its functional currency. In order to manage its currency 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. Currency risks arise when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company functional currency.

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

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

As of 31 December 2018	**RSD**	**EUR**	**USD**	**Other**	**Total**
Financial assets					
Non-current					
Financial instrument at FVTOCI	111,475	-	-	2,687	114,162
Long-term investments in subsidiaries	754,936	22,524,143	-	-	23,279,079
Other long-term investments	103,995	767,463	6,203	-	877,661
Long term receivables	8,979	-	-	-	8,979
Current					
Trade receivables	23,442,989	3,527,685	530,978	107	27,501,759
Receivables from specific operations	43,498	42,813	162,063	-	248,374
Other receivables	118,407	1,170,075	1,131	887	1,290,500
Short term financial investments	2,124,193	3,504,407	-	-	5,628,600
Cash and cash equivalents	5,121,101	3,014,093	4,074,046	13,338	12,222,578
Financial liabilities					
Non-current					
Long-term liabilities	(491)	(86,801,180)	(309,068)	(257,129)	(87,367,868)
Current					
Short-term financial liabilities	(2,218,536)	(5,831,968)	(52,628)	(38,836)	(8,141,968)
Trade payables	(10,441,916)	(14,599,210)	(802,124)	(43,899)	(25,887,149)
Other short-term liabilities	(7,730,040)	(96,009)	(166,120)	(7,289)	(7,999,458)
Net exposure	**11,438,590**	**(72,777,688)**	**3,444,481**	**(330,134)**	**(58,224,751)**

As of 31 December 2017

	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Investments in other legal entities and other available for sales financial assets	117,900	-	-	2,019	119,919
Long-term investments in subsidiaries	-	32,024,282	-	-	32,024,282
Other long-term investments	2,107,572	959,722	4,964	-	3,072,258
Long term receivables	8,412	-	-	-	8,412
Current					
Trade receivables	21,522,594	7,385,002	827,079	999	29,735,674
Receivables from specific operations	83,375	53,319	155,363	-	292,057
Other receivables	97,157	2,245,812	1,193	845	2,345,007
Short term financial investments	7,713,679	2,668,129	-	-	10,381,808
Cash and cash equivalents	11,107,847	3,548,422	8,742,209	12,246	23,410,724
Financial liabilities					
Non-current					
Long-term liabilities	(641)	(71,582,425)	(17,890,189)	(277,797)	(89,751,052)
Current					
Short-term financial liabilities	(2,298,661)	(5,824,653)	(44,061)	(31,814)	(8,199,189)
Trade payables	(16,068,483)	(6,285,561)	(6,976,115)	(63,163)	(29,393,322)
Other short-term liabilities	(8,605,890)	(64,881)	(195,505)	(14,471)	(8,880,747)
Net exposure	**15,784,861**	**(34,872,832)**	**(15,375,062)**	**(371,136)**	**(34,834,169)**

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2018	**31 December 2017**
EUR	118.1946	118.4727
USD	103.3893	99.1155

Sensitivity analysis

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

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

As at 31 December 2018, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit for the year and equity would have been RSD 3,638,884 (2017: RSD 1,743,642) higher/lower, mainly as a result of foreign exchange gains/(losses) on translation of EUR – denominated borrowings.

During 2018, the Company made repayment of borrowings denominated in USD and took new loans in EUR. Also, purchase of crude oil was denominated in EUR in 2018.

Interest rate risk

Borrowings withdrawn at variable interest rates expose the Company to cash flow interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR) has a proportionate impact on the Company’s results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit and equity for 2018 would have been 862,976 RSD (2017: 940,437 RSD) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

The Company exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Company's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position is as follows:

	Year ended 31 December	
	2018	**2017**
Financial instrument at FVTOCI	114,162	-
Investments in other legal entities and other available for sales financial assets	-	119,919
Long term investments in subsidiaries	23,279,079	32,024,282
Other long-term investments	877,661	3,072,258
Long term receivables	8,979	8,412
Trade receivables	27,501,759	29,735,674
Receivables from specific operations	248,374	292,057
Other receivables	1,290,500	2,345,007
Short term financial investments	5,628,600	10,381,808
Cash and cash equivalents	12,222,578	23,410,724
Total maximum exposure to credit risk	**71,171,692**	**101,390,141**

Credit risk management. Credit risk is the single largest risk for the Company's business; management therefore carefully manages its exposure to credit risk. 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.

*Limits. T*he Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower**.** Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:
- financial statements of the counterparty;
- scoring Serbian Business Register Agency, NIS and/or D&B reports;
- amount of registered pledges;
- data on customer's account blockade;
- history of relationships with the Company;
- planned sales volume;
- duration of relationship with the Company, including ageing profile, maturity and existence of any financial difficulties.

Trade, Specific and Other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which use a lifetime expected loss allowance.

To measure the expected credit losses, trade,specific and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 48 months before 31 December 2018 and 36 months before 1 January 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates were not adjusted with forward-looking information on macroeconomic factors as no correlation were identified that significantly affect ability of the customers to settle the receivables.

The credit loss allowance for trade, specific and other receivables is determined according to provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due:

	Loss rate	**Gross carrying amount**	**Lifetime ECL**	**Total trade, specific and other receivables**
Trade, specific and other receivables				
- current	0.09%	26,492,782	(23,315)	26,469,467
- less than 30 days overdue	0.32%	1,100,903	(3,549)	1,097,354
- 31 to 90 days overdue	1.13%	339,340	(3,833)	335,507
- 91 to 270 days overdue	4.22%	345,983	(14,602)	331,381
- over 270 days overdue	95.74%	18,715,317	(17,908,393)	806,924
Total trade, specific and other receivables		**46,994,325**	**(17,953,692)**	**29,040,633**

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, advance payment or other security.

The Management of the Company regularly assesses the credit quality of trade, specific and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Company.

Management believes that not impaired trade, specific and other receivables are fully recoverable.

As of 31 December 2017, the ageing analysis of short-term trade receivables is as follows:

	31 December 2017		
	Gross	**Impaired**	**Net**
Not past due	27,477,190	-	27,477,190
Past due:			
within 30 days:	1,971,504	-	1,971,504
1 to 3 months	203,314	(5,941)	197,373
3 months to 1 year	311,162	(233,462)	77,700
over 1 year	7,642,349	(7,630,442)	11,907
Total	**37,605,519**	**(7,869,845)**	**29,735,674**

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

	Trade receivables		Lease receivables	
	Individually impaired	Collectively impaired		**Total**
As at 1 January 2018	**2,539,550**	**5,330,295**	**-**	**7,869,845**
Reclassification of lease receivables as of 1 January 2018	-	(72,630)	72,630	-
Provision for receivables impairment	-	67,404	3,236	70,640
Unused amounts reversed (note 34)	(96,696)	(591,739)	(15,724)	(704,159)
Unwinding of discount (note 32)	-	(44,661)	-	(44,661)
Receivables written off during the year as uncollectible	-	(1,150,262)	(533)	(1,150,795)
Exchange differences	-	1,676	-	1,676
Other	-	(637)	-	(637)
As at 31 December 2018	**2,442,854**	**3,539,446**	**59,609**	**6,041,909**

	Trade receivables		
	Individually impaired	Collectively impaired	**Total**
As at 1 January 2017	**3,894,367**	**13,526,789**	**17,421,156**
Provision for receivables impairment	-	406,046	406,046
Unused amounts reversed (note 34)	-	(178,242)	(178,242)
Unwinding of discount (note 32)		(164,147)	(164,147)
Receivables written off during the year as uncollectible	-	(140,074)	(140,074)
Exchange differences	-	36,498	36,498
Transfer from LT receivables	-	208,808	208,808
Transfer to investment to associates	(1,349,735)	(8,362,950)	(9,712,685)
Other	(5,082)	(2,433)	(7,515)
As at 31 December 2017	**2,539,550**	**5,330,295**	**7,869,845**

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement. Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The other classes within trade, specific and other receivables do not contain impaired assets.

As of 31 December 2018 receivables from specific operations amounting RSD 2,197,767 (31 December 2017 : RSD 3,880,712) are mostly impaired in the amount of RSD 1,949,393 (31 December 2017: RSD 3,588,655). 98% these receivables are older than 5 years.

As of 31 December 2017 the ageing analysis of other receivables were as follows:

	31 December 2017		
	Gross	**Impaired**	**Net**
Not past due	1,542,588	-	1,542,588
Past due:			
within 30 days:	21,987	(2,013)	19,974
1 to 3 months	11,111	(970)	10,141
3 months to 1 year	328,507	(101,776)	226,731
over 1 year	12,145,504	(11,599,931)	545,573
Total	**14,049,697**	**(11,704,690)**	**2,345,007**

Movements on the provision for other receivables:

	Interest on long – term placements (current part)	**Other Interest receivables**	**Other receivables**	**Total**
As at 1 January 2017	**30,869**	**4,287,801**	**7,431,488**	**11,750,158**
Provision for other receivables impairment	4,668	73,550	63,290	141,508
Unused amounts reversed (note 34)		(74,237)	(17)	(74,254)
Receivables written off during the year as uncollectible	-	(101,760)	(61,632)	(163,392)
Exchange differences	(1,355)	-	-	(1,355)
Other	-	1,936	50,089	52,025
As at 31 December 2017	**34,182**	**4,187,290**	**7,483,218**	**11,704,690**
As at 1 January 2018	**34,182**	**4,187,290**	**7,483,218**	**11,704,690**
Remeasurement of expected credit losses (note 4)	412,465	-	-	412,465
Restated balance at 1 January 2018	**446,647**	**4,187,290**	**7,483,218**	**12,117,155**
Provision for other receivables impairment	39,379	5,853	13,680	58,912
Unused amounts reversed (note 34)	(54,260)	(12,919)	(3,578)	(70,757)
Receivables written off during the year as uncollectible	-	(2,048,409)	(92,703)	(2,141,112)
Exchange differences	(1,051)	-	-	(1,051)
Other	-	(720)	-	(720)
As at 31 December 2018	**430,715**	**2,131,095**	**7,400,617**	**9,962,427**

Other financial assets at amortised cost

Movements on the provision for long-term placements to subsidiaries:

	Total
As at 1 January 2017	16,934
Provision for impairment of long-term placements to subsidiaries	5,747
Exchange differences	(1,026)
Other	(21,655)
As at 31 December 2017	**-**
As at 1 January 2018	**-**
Remeasurement of expected credit losses (note 4)	7,542,125
Restated balance at 1 January 2018	**7,542,125**
Unused amounts reversed (note 34)	(96,974)
Reclassification from non-current to current part	(3,384,402)
Exchange differences	(17,703)
As at 31 December 2018	**4,043,046**

Movements on the provision for short-term placements:

	Short-term financial loans - subsidiaries	Short-term financial loans - Domestic	Current portion of long-term placements	Total
As at 1 January 2017	196,399	2,019	-	198,418
Exchange differences	(7,952)	-	-	(7,952)
As at 31 December 2017	**188,447**	**2,019**	**-**	**190,466**
As at 1 January 2018	**188,447**	**2,019**	**-**	**190,466**
Remeasurement of expected credit losses(note 4)	**-**	**-**	2,118,728	2,118,728
Restated balance at 1 January 2018	**188,447**	**2,019**	**2,118,728**	**2,309,194**
Reclassification from non-current to current part	-	-	3,384,402	3,384,402
Exchange differences	(87)	-	(5,330)	(5,417)
Other	(188,360)	-	188,360	-
As at 31 December 2018	**-**	**2,019**	**5,686,160**	**5,688,179**

Liquidity risk

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

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

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

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

As at 31 December 2018	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
Borrowings	95,509,836	101,961,239	9,889,471	86,631,229	5,440,539
Trade payables and dividends payable	29,659,457	29,659,457	29,659,457	-	-
	125,169,293	**131,620,696**	**39,548,928**	**86,631,229**	**5,440,539**
As at 31 December 2017					
Borrowings	97,950,241	104,992,540	10,511,792	87,582,192	6,898,556
Trade payables and dividends payable	33,165,630	33,165,630	33,165,630	-	-
	131,115,871	**138,158,170**	**43,677,422**	**87,582,192**	**6,898,556**

6.2. Capital risk management

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

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

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

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

	31 December 2018	**31 December 2017**
Total borrowings	95,509,836	97,950,241
Less: cash and cash equivalents (note 19)	(12,222,578)	(23,410,724)
Net debt	**83,287,258**	**74,539,517**
EBITDA	51,101,970	44,169,691
Net debt to EBITDA	**1.63**	**1.69**

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

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

6.3. Fair value estimation

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

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

The carrying amount of trade, specific and other receivables and trade and other payable due to their short-term nature is considered to be the same as their fair value. For the majority of the non-current financial assets and non-current financial liabilities the fair values are also not significantly different to their carrying amounts.

7. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the years ended 31 December 2018 and 2017. Operating segments are components are engaged in business activities which may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

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

Reportable segment results for the year ended 31 December 2018 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	51,441,537	257,671,514	(50,589,603)	258,523,448
Intersegment	49,659,488	930,115	(50,589,603)	-
External	1,782,049	256,741,399	-	258,523,448
EBITDA (Segment results)	**36,676,144**	**14,425,826**	**-**	**51,101,970**
Depreciation, depletion and amortization	(9,604,050)	(8,697,226)	-	(18,301,276)
Impairment losses (note 35 and 36)	(3,471)	(65,200)	-	(68,671)
Write-off of exploration works (note 9)	(57,075)	-	-	(57,075)
Finance expenses, net	(164,035)	(684,755)	-	(848,790)
Income tax	(171,417)	(5,404,055)	-	(5,575,472)
Segment profit (loss)	**26,773,827**	**(706,338)**	**-**	**26,067,489**

Reportable segment results for the year ended 31 December 2017 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,927,105	216,969,850	(45,060,752)	215,836,203
Intersegment	41,956,055	3,104,697	(45,060,752)	-
External	1,971,050	213,865,153	-	215,836,203
EBITDA (Segment results)	**28,182,125**	**15,987,566**	**-**	**44,169,691**
Depreciation, depletion and amortization	(5,507,982)	(8,680,500)	-	(14,188,482)
Impairment losses/Revaluation surpluses (note 35 and 36)	2,378	(232,749)	-	(230,371)
Write-off of exploration works (note 9)	(568,493)	-	-	(568,493)
Finance income, net	317,956	5,738,287	-	6,056,243
Income tax	(2,177,957)	(4,988,370)	-	(7,166,327)
Segment profit	**20,358,559**	**7,431,901**	**-**	**27,790,460**

EBITDA for the year ended 31 December 2018 and 2017 is reconciled below:

	Year ended 31 December 2018	**2017**
Profit for the year	26,067,489	27,790,460
Income tax expenses	5,575,472	7,166,327
Other expenses	1,426,519	1,388,866
Other income	(969,970)	(931,953)
Loss from valuation of assets at fair value through profit and loss	205,707	604,118
Income from valuation of assets at fair value through profit and loss	(1,016,559)	(307,888)
Finance expense	5,427,179	7,574,284
Finance income	(4,578,389)	(13,630,527)
Depreciation, depletion and amortization	18,301,276	14,188,482
Other non operating expenses, net*	663,246	327,522
EBITDA	**51,101,970**	**44,169,691**

*Other non-operating expense, net mainly relate to reversal of impairment, decommissioning and site restoration cost, allowance of receivables and other.

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

	Year ended 31 December 2018		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	1,528,011	1,528,011
Sale of gas	1,622,853	-	1,622,853
Through a retail network	-	-	-
Wholesale activities	1,622,853	-	1,622,853
Sale of petroleum products	197,879,244	48,125,760	246,005,004
Through a retail network	63,956,088	-	63,956,088
Wholesale activities	133,923,156	48,125,760	182,048,916
Lease revenue	474,818	-	474,818
Sales of electricity	746,559	851,600	1,598,159
Other sales	7,030,571	264,032	7,294,603
Total sales	**207,754,045**	**50,769,403**	**258,523,448**

	Year ended 31 December 2017		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	1,705,444	1,705,444
Sale of gas	2,314,509	-	2,314,509
Through a retail network	-	-	-
Wholesale activities	2,314,509	-	2,314,509
Sale of petroleum products	157,882,002	35,709,801	193,591,803
Through a retail network	54,723,169	-	54,723,169
Wholesale activities	103,158,833	35,709,801	138,868,634
Sales of electricity	462,216	10,636,249	11,098,465
Other sales	6,880,806	245,176	7,125,982
Total sales	**167,539,533**	**48,296,670**	**215,836,203**

Out of the amount of RSD 182,048,916 (2017: RSD 138,868,634) revenue from sale of petroleum products (wholesale), the amount of RSD 26,679,415 (2017: RSD 21,947,228) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Energy Financing Team in the amount of RSD 518,173 (2017: Gazprom Marketing & Trading Co., Ltd. In the amount of RSD 10,015,978).

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

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 207,754,045 (2017: RSD 167,539,533), and the total of revenue from external customer from other countries is RSD 50,769,403 (2017: RSD 48,296,670). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2018	**2017**
Sale of crude oil	1,528,011	1,705,444
Sale of petroleum products (retail and wholeasle)		
Bulgaria	11,069,476	8,611,846
Bosnia and Herzegovina	12,319,667	8,550,726
Romania	8,531,671	5,033,530
Croatia	2,997,771	2,677,174
Switzerland	2,777,082	2,642,440
Great Britain	1,839,930	1,953,167
Macedonia	1,726,618	1,614,993
Hungary	1,810,152	1,035,140
All other markets	5,053,393	3,590,785
	48,125,760	35,709,801
Sales of electricity	851,600	10,636,249
Other sales	264,032	245,176
	50,769,403	**48,296,670**

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

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Other intangibles	Intangible assets under development	Total
At 1 January 2017					
Cost	6,617,839	7,812,985	951,010	6,728,622	22,110,456
Accumulated amortisation and impairment	(1,144,421)	(5,092,452)	(76,994)	(29,956)	(6,343,823)
Net book amount	**5,473,418**	**2,720,533**	**874,016**	**6,698,666**	**15,766,633**
Year ended 31 December 2017					
Additions	-	-	-	1,919,942	1,919,942
Transfer from assets under development	2,712,862	374,767	9,865	(3,097,494)	-
Amortization	(421,073)	(972,356)	(20,943)	-	(1,414,372)
Transfer from PP&E (note 9)	-	-	-	29,786	29,786
Disposals and write-off	-	-	-	(81,358)	(81,358)
Closing net book amount	**7,765,207**	**2,122,944**	**862,938**	**5,469,542**	**16,220,631**
As at 31 December 2017					
Cost	9,330,701	8,165,992	960,875	5,515,048	23,972,616
Accumulated amortization and impairment	(1,565,494)	(6,043,048)	(97,937)	(45,506)	(7,751,985)
Net book amount	**7,765,207**	**2,122,944**	**862,938**	**5,469,542**	**16,220,631**
At 1 January 2018					
Cost	9,330,701	8,165,992	960,875	5,515,048	23,972,616
Accumulated amortization and impairment	(1,565,494)	(6,043,048)	(97,937)	(45,506)	(7,751,985)
Net book amount	**7,765,207**	**2,122,944**	**862,938**	**5,469,542**	**16,220,631**
Year ended 31 December 2018					
Additions	-	-	(370)	1,947,886	1,947,516
Transfer from assets under development	2,299,438	193,070	7,584	(2,500,092)	-
Amortization	(758,279)	(837,574)	(21,243)	-	(1,617,096)
Transfer to PP&E (note 9)	-	-	-	(11,625)	(11,625)
Closing net book amount	**9,306,366**	**1,478,440**	**848,909**	**4,905,711**	**16,539,426**
As at 31 December 2018					
Cost	11,630,139	8,301,639	968,089	4,951,217	25,851,084
Accumulated amortization and impairment	(2,323,773)	(6,823,199)	(119,180)	(45,506)	(9,311,658)
Net book amount	**9,306,366**	**1,478,440**	**848,909**	**4,905,711**	**16,539,426**

Intangible assets under development as at 31 December 2018 amounting to RSD 4,905,711 (31 December 2017: RSD 5,469,542) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 4,579,282 (31 December 2017: RSD 4,560,631).

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 2017								
Cost	10,769,717	166,064,135	106,150,666	25,290,900	75,517	431,292	2,062,604	310,844,857
Accumulated depreciation and impairment	(301,474)	(47,970,025)	(45,747,472)	(2,103,957)	(1,117)	(159,953)	(41,759)	(96,325,783)
Net book amount	**10,468,243**	**118,094,110**	**60,403,194**	**23,186,943**	**74,400**	**271,339**	**2,020,845**	**214,519,074**
Year ended 31 December 2017								
Additions	21,014	16,727,218	5,862,771	2,775,589	-	60,199	2,827,562	28,274,353
Impairment charge (note 35 and 36)	(145,510)	(26,637)	(1,006)	(19,855)	-	-	(3,023)	(196,031)
Depreciation	-	(6,261,289)	(6,444,494)	-	-	(68,327)	-	(12,774,110)
Transfer to intangible assets (note 8)	-	-	-	(29,786)	-	-	-	(29,786)
Transfer to investment property	(2,759)	(23,190)	-	-	-	-	-	(25,949)
Transfer to assets held for sale	(7,958)	(108,920)	(14,522)	-	-	-	-	(131,400)
Disposals and write-off	(4,152)	(89,520)	(125,516)	(600,856)	-	-	(2,733,972)	(3,554,016)
Other transfers	-	(1,010,948)	1,010,948	-	-	-	-	-
Closing net book amount	**10,328,878**	**127,300,824**	**60,691,375**	**25,312,035**	**74,400**	**263,211**	**2,111,412**	**226,082,135**
At 31 December 2017								
Cost	10,630,202	181,307,667	112,287,936	27,313,677	75,517	491,491	2,148,358	334,254,848
Accumulated depreciation and impairment	(301,324)	(54,006,843)	(51,596,561)	(2,001,642)	(1,117)	(228,280)	(36,946)	(108,172,713)
Net book amount	**10,328,878**	**127,300,824**	**60,691,375**	**25,312,035**	**74,400**	**263,211**	**2,111,412**	**226,082,135**
Year ended 31 December 2018								
Additions	141,441	17,840,046	5,519,739	14,623,749	2,234	4,773	4,743,073	42,875,055
Acquisitions through business combinations	-	-	-	217,660	-	-	-	217,660
Appraisal effects	-	85,161	-	-	-	-	-	85,161
Impairment charge (note 35 and 36)	-	(67,304)	(250)	(13,412)	-	-	-	(80,966)
Depreciation	-	(9,637,766)	(6,978,256)	-	-	(68,158)	-	(16,684,180)
Transfer from intangible assets (note 8)	-	-	-	11,625	-	-	-	11,625
Transfer to investment property	(38,530)	(157,507)	-	-	-	-	-	(196,037)
Transfer to assets held for sale	(15,765)	(26,992)	(21,995)	(9,108)	-	-	-	(73,860)
Disposals and write-off	(39,436)	(110,821)	(80,713)	(860,282)	(98)	(22)	(6,096,317)	(7,187,689)
Other transfers	(14,903)	14,903	-	-	-	-	-	-
Closing net book amount	**10,361,685**	**135,240,544**	**59,129,900**	**39,282,267**	**76,536**	**199,804**	**758,168**	**245,048,904**
At 31 December 2018								
Cost	10,660,018	198,580,407	117,308,009	41,282,441	77,653	496,173	790,744	369,195,445
Accumulated depreciation and impairment	(298,333)	(63,339,863)	(58,178,109)	(2,000,174)	(1,117)	(296,369)	(32,576)	(124,146,541)
Net book amount	**10,361,685**	**135,240,544**	**59,129,900**	**39,282,267**	**76,536**	**199,804**	**758,168**	**245,048,904**

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

As at 31 December 2018, the Company assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.6 for details. In addition Company has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 80,966 (2017: RSD 196,031).

Machinery and equipment include the following amounts where the Company is a lessee under a finance lease:

	31 December 2018	31 December 2017
Cost capitalised – finance leases	582,295	475,007
Accumulated depreciation	(220,663)	(165,330)
Net book amount	**361,632**	**309,677**

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:

	2018	2017
As at 1 January	1,530,356	1,549,663
Fair value gains (note 35 and 36)	6,534	7,757
Transfer from PP&E carried at cost	196,037	25,949
Disposals	(1,405)	(56,089)
Other	(1,422)	3,076
As at 31 December	**1,730,100**	**1,530,356**

As at 31 December 2018, investment properties amounting to RSD 1,730,100 (31 December 2017: RSD 1,530,356) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

Fair value of investment properties

Valuation of the Company's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2018 and 2017. The revaluation gain was credited to other income (note 35).

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

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

Fair value measurements at 31 December 2018 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
− Shops and other facilities for rents	-	986,418	-
− Gas stations	-	-	743,682
Total	-	986,418	743,682

Fair value measurements at 31 December 2017 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
− Shops and other facilities for rents	-	872,172	-
− Gas stations	-	-	658,184
Total	**-**	**872,172**	**658,184**

Valuation techniques used to derive level 2 fair values

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

Fair value measurements using significant unobservable inputs (Level 3)

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

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

	2018	2017
Long term growth rate	0%	0%
Discount rate	14%	14%

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

	2018	2017
Assets as at 1 January	**658,184**	**631,678**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	6,534	3,788
Transfer from PPE	81,407	22,484
Other	(2,443)	234
Total increase in fair value measurement, assets	85,498	26,506
Assets as at 31 December	**743,682**	**658,184**

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 2.7).

	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 2017						
Cost	16,409,984	4,385,516	20,795,500	115,864,815	22,129	136,682,444
Depreciation and impairment	-	(876)	(876)	(27,422,504)	(20,309)	(27,443,689)
Net book amount	**16,409,984**	**4,384,640**	**20,794,624**	**88,442,311**	**1,820**	**109,238,755**
Year ended 31 December 2017						
Additions	3,188,714	13,479,375	16,668,089	765,325	-	17,433,414
Transfer from asset under construction	(4,059,755)	(14,908,872)	(18,968,627)	18,968,627	-	-
Other transfers	(29,077)	44,180	15,103	(33,137)	-	(18,034)
Impairment	-	(10,703)	(10,703)	-	-	(10,703)
Depreciation and depletion	-	-	-	(5,450,354)	-	(5,450,354)
Unsuccessful exploration expenditures derecognised (note 7)	(568,493)	-	(568,493)	-	-	(568,493)
Disposals and write-off	(71,724)	(39,122)	(110,846)	(49,242)	-	(160,088)
	14,869,649	**2,949,498**	**17,819,147**	**102,643,530**	**1,820**	**120,464,497**
As at 31 December 2017						
Cost	14,874,546	2,951,585	17,826,131	135,319,515	22,129	153,167,775
Depreciation and impairment	(4,897)	(2,087)	(6,984)	(32,675,985)	(20,309)	(32,703,278)
Net book amount	**14,869,649**	**2,949,498**	**17,819,147**	**102,643,530**	**1,820**	**120,464,497**
Year ended 31 December 2018						
Additions	4,541,289	13,003,379	17,544,668	117,748	-	17,662,416
Transfer from asset under construction	(4,892,273)	(14,136,238)	(19,028,511)	19,056,693	(15)	28,167
Other transfers	(43,248)	(675,033)	(718,281)	1,791,710	666	1,074,095
Appraisal effects	-	-	-	85,161	-	85,161
Impairment	-	(3,471)	(3,471)	-	-	(3,471)
Depreciation and depletion	-	-	-	(9,566,607)	-	(9,566,607)
Unsuccessful exploration expenditures derecognised (note 7)	(57,075)	-	(57,075)	-	-	(57,075)
Transfer to investment property	-	-	-	(114,709)	-	(114,709)
Disposals and write-off	(17,101)	(36,909)	(54,010)	(142,745)	(50)	(196,805)
	14,401,241	**1,101,226**	**15,502,467**	**113,870,781**	**2,421**	**129,375,669**
As at 31 December 2018						
Cost	14,401,241	1,103,654	15,504,895	156,367,336	22,742	171,894,973
Depreciation and impairment	-	(2,428)	(2,428)	(42,496,555)	(20,321)	(42,519,304)
Net book amount	**14,401,241**	**1,101,226**	**15,502,467**	**113,870,781**	**2,421**	**129,375,669**

Unsuccessful exploration expenditures derecognised in the amount of RSD 57,075 mainly relate to exploration assets located in Serbia due to uncertain viability of commercial production (2017: amount of RSD 568,493 mainly relate to exploration assets located in Serbia in the amount of RSD 461,615).

10. INVESTMENTS IN SUBSIDIARY

	31 December 2018	31 December 2017
Investments in subsidiaries:		
- In shares	3,457,576	3,457,576
- In stakes	13,389,990	13,389,990
	16,847,566	16,847,566
Less: Provision	(3,421,980)	(3,421,980)
	13,425,586	**13,425,586**

Investments in subsidiaries as at 31 December 2018 relate to the following companies:

Company	Share %	Investment	Impairment	Net book value
O Zone a.d. Belgrade, Serbia	100%	3,457,576	(1,172,263)	2,285,313
NIS Petrol e.o.o.d. Sofija, Bulgaria	100%	28,938	-	28,938
NIS Petrol SRL, Bucharest, Romania	100%	997	-	997
NIS Petrol doo, Banja Luka, BiH	100%	1,030	-	1,030
Pannon Naftagas Kft, Budapest, Hungary	100%	2,232,672	(2,232,672)	-
NTC NIS-Naftagas d.o.o. Novi Sad, Serbia	100%	905,000	-	905,000
Naftagas-Tehnicki servisi d.o.o. Zrenjanin, Serbia	100%	1,177,032	-	1,177,032
Naftagas-Naftni servisi d.o.o. Novi Sad, Serbia	100%	7,300,000	-	7,300,000
Naftagas-Transport d.o.o. Novi Sad, Serbia	100%	1,717,349	-	1,717,349
NIS Oversiz, Moscow, Russia	100%	9,856	-	9,856
Jadran-Naftagas d.o.o. Banja Luka, BiH	66%	71	-	71
Svetlost, Bujanovac, Serbia	51%	17,045	(17,045)	-
		16,847,566	**(3,421,980)**	**13,425,586**

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying value of the investments in associates and joint ventures as of 31 December 2018 and 2017 is presented below:

		Ownership percentage	31 December 2018	31 December 2017
Serbskaya Generaciya	Joint venture	49%	1,038,800	1,038,800
HIP Petrohemija ad Pančevo	Associate	20.86%	11,572,197	11,572,197
Less: Provision			(11,572,197)	(11,572,197)
			1,038,800	**1,038,800**

The principal place of business of joint venture disclosed above is Republic of Serbia. There are no contingent liabilities relating to the Company's interest in the joint venture, and no contingent liabilities of the venture itself.

Serbskaya Generaciya

In 2015, the Company and Centrenergoholding OAO Russian Federation established the holding company Serbskaya Generaciya, through which they will jointly operate with the Thermal and Heating Power Plant "TETO" Pancevo with a projected capacity of 208 MW. In October 2017 the contract with Shanghai Electric Group Co., Ltd. was signed on a "turnkey" basis and the design phase started. The project is mostly financed from the loan from Gazprombank (140 mln EUR) with the loan tenor of 12 years. Handing over CHP TE-TO Pancevo is expected to be completed by the 30th August 2020.

HIP Petrohemija

In accordance with the laws in force in the Republic of Serbia, at the beginning of October 2017 all the condition were met for the full implementation of the earlier prepared plan for restructuring of the company HIP Petrohemija a.d. Pancevo. In accordance with the adopted plan, the structure of the share capital of the company HIP Petrohemija has been changed, whereby Company increased its equity interest. After conversion, Company holds, directly more than 20,86% per cent of the voting power of the HIP Petrohemija. Also, Company has representatives on the BoD and Supervisory boards.

12. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES

	31 December 2018	31 December 2017
LT loans - Subsidiaries - Domestic	96,995	2,966,665
LT loans - Subsidiaries - Foregin	27,225,130	29,057,617
	27,322,125	32,024,282
Less: Impairment	(4,043,046)	-
	23,279,079	**32,024,282**

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

	Currency	31 December 2018	31 December 2017
Domestic			
O Zone a.d., Belgrade, Serbia	EUR	96,995	2,966,665
		96,995	2,966,665
Foregin			
NIS Petrol e.o.o.d. Sofija, Bulgaria	EUR	9,450,355	9,472,591
NIS Petrol SRL, Bucharest, Romania	EUR	13,705,024	11,555,915
NIS Petrol d.o.o. Banja Luka, BiH	EUR	3,632,903	7,059,772
Jadran - Naftagas d.o.o. Banja Luka, BiH	EUR	436,848	969,339
		27,225,130	29,057,617
		27,322,125	**32,024,282**

Long-term loans to subsidiaries are approved at the fixed rate (2,1% p.a.) and the variable interest rates (6M Euribor + 2.9%), for a period of 7 to 10 years from the date of payment of the last tranche. The carrying value of long-term loans is equal to their fair value.

13. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2018	31 December 2017
Other LT investments	9,099	2,037,710
LT loans given to employees	1,240,438	1,034,607
Less: Impairment	(371,876)	(59)
	877,661	**3,072,258**

Loans to employees as at 31 December 2018 amounting to RSD 1,240,438 (31 December 2017: RSD 1,034,607) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes, and are repaid through monthly instalments. These loans are impaired in amount of RSD 371,818.

14. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2018	31 December 2017
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	3,527,324	3,578,507
- Deferred tax assets to be recovered within 12 months	1,016,432	1,387,464
	4,543,756	4,965,971
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(2,138,581)	(2,478,480)
	(2,138,581)	(2,478,480)
Deferred tax assets (net)	**2,405,175**	**2,487,491**

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

	2018	2017
At 1 January	**2,487,491**	**4,059,076**
Charged to the income statement (note 37)	(1,653,438)	(1,609,448)
Charged to other comprehensive income	1,571,122	(652)
Other	-	38,515
31 December	**2,405,175**	**2,487,491**

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:

	Carrying value of PP&E vs Tax base	Revaluation reserve	Total
Deferred tax liabilities			
As at 1 January 2017	**(2,598,440)**	**(14,224)**	**(2,612,664)**
Charged to the income statement (note 37)	134,394	-	134,394
Charged to other comprehensive income	-	(210)	(210)
As at 31 December 2017	**(2,464,046)**	**(14,434)**	**(2,478,480)**
Charged to the income statement (note 37)	352,313	-	352,313
Charged to other comprehensive income	-	(12,414)	(12,414)
As at 31 December 2018	**(2,111,733)**	**(26,848)**	**(2,138,581)**

	Provisions	Impairment loss	Investment credit	Fair value loss	Total
Deferred tax assets					
As at 1 January 2017	**967,556**	**930,193**	**4,762,252**	**11,739**	**6,671,740**
Charged to the income statement (note 37)	13,624	18,935	(1,776,401)	-	(1,743,842)
Charged to other comprehensive income	-	-	-	(442)	(442)
Other	38,515	-	-	-	38,515
As at 31 December 2017	**1,019,695**	**949,128**	**2,985,851**	**11,297**	**4,965,971**
Temorary deductible differences on ECL remeasurement (note 4)	-	1,584,231	-	-	1,584,231
Restated balance at 1 January 2018	**1,019,695**	**2,533,359**	**2,985,851**	**11,297**	**6,550,202**
Charged to the income statement (note 37)	(98,219)	(18,142)	(1,889,390)	-	(2,005,751)
Charged to other comprehensive income	-	-	-	(695)	(695)
As at 31 December 2018	**921,476**	**2,515,217**	**1,096,461**	**10,602**	**4,543,756**

The recognition of deferred tax assets was based on a five-year business plan of the Company and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

Investment credits represent 20% qualifying of capital investments made up to 31 December 2013 in accordance with tax legislation of the Republic of Serbia, which can be utilized in 10 years period.

15. INVENTORY

	31 December 2018	31 December 2017
Materials, spare parts and tools	28,080,706	25,436,957
Work in progress	4,923,492	3,961,298
Finished goods	13,042,863	7,998,501
Goods for sale	3,227,243	1,002,172
Advances	716,163	566,382
Less: impairment of inventory	(4,830,527)	(4,947,683)
Less: impairment of advances	(217,327)	(259,237)
	44,942,613	**33,758,390**
Non-current assets held for sale	15,094	5,986
Less: impairment of assets held for sale	(5,823)	(5,823)
	44,951,884	**33,758,553**

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 2017	**5,038,463**	**257,942**	**-**	**5,296,405**
Provision for inventories and advances (note 36)	3,097	6,974	-	10,071
Unused amounts reversed (note 35)	(316)	(1,940)	-	(2,256)
Other	(93,561)	(3,739)	5,823	(91,477)
Balance as of 31 December 2017	**4,947,683**	**259,237**	**5,823**	**5,212,743**
Provision for inventories and advances (note 36)	10,274	1,962	-	12,236
Unused amounts reversed (note 35)	(1,170)	(1,687)	-	(2,857)
Write-off and other	(126,260)	(42,185)	-	(168,445)
Balance as of 31 December 2018	**4,830,527**	**217,327**	**5,823**	**5,053,677**

16. TRADE RECEIVABLES

	31 December 2018	31 December 2017
Parents and subsidiaries - domestic	362,245	492,980
Parents and subsidiaries - foreign	2,652,897	3,448,600
Other related parties - domestic	1,257,685	1,478,469
Other related parties - foreign	629,519	1,023,525
Trade receivables domestic – third parties	27,828,605	30,033,966
Trade receivables foreign – third parties	812,717	1,127,979
	33,543,668	**37,605,519**
Less: Impairment	(6,041,909)	(7,869,845)
	27,501,759	**29,735,674**

17. OTHER RECEIVABLES

	31 December 2018	31 December 2017
Interest receivables	3,708,417	6,446,723
Receivables from employees	82,747	83,724
Other receivables	7,461,763	7,519,250
Less: Impairment	(9,962,427)	(11,704,690)
	1,290,500	**2,345,007**

18. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2018	31 December 2017
ST loans and placements - Parent and subsidiaries	-	244,465
ST loans and placements - Domestic	25,658	2,019
Current portion of LT placements - Parent and subsidiaries	9,091,634	2,604,610
Other ST financial placements	2,199,487	7,721,180
Less: Impairment	(5,688,179)	(190,466)
	5,628,600	**10,381,808**

Other ST financial placements as at 31 December 2018 mostly relates to deposits with original maturity more than 3 months less than 1 year amounting to RSD 2,122,960, with interest rates 4.65% p.a. denominated in RSD.

19. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash in bank and in hand	5,621,606	14,432,604
Deposits with original maturity of less than three months	6,367,102	8,670,000
Cash with restriction	17,363	68,766
Cash equivalents	216,507	239,354
	12,222,578	**23,410,724**

20. PREPAYMENTS AND ACCRUED INCOME

	31 December 2018	31 December 2017
Deferred input VAT	1,567,844	1,099,407
Prepaid expenses	185,804	193,927
Accrued revenue	314,496	185,641
Prepaid excise duty	2,743,082	1,790,447
Housing loans and other prepayments	351,369	947,661
	5,162,595	**4,217,083**

Deferred input VAT as at 31 December 2018 amounting to RSD 1,567,844 (31 December 2017: RSD 1,099,407) 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 2018 amounting to RSD 2,743,082 (31 December 2017: RSD 1,790,447) 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.

21. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
Issued warranties and bills of exchange	74,654,952	72,339,683
Received warranties and bills of exchange	13,845,865	15,995,009
Properties in ex-Republics of Yugoslavia	5,357,688	5,357,690
Receivables from companies from ex-Yugoslavia	6,347,969	6,085,575
Third party merchandise in NIS warehouses	9,504,956	6,663,266
Assets for oil fields liquidation in Angola	1,361,966	1,332,018
Mortgages recived	1,179,150	-
Other off-balance sheet assets and liabilities	759,763	327,765
	113,012,309	**108,101,006**

22. 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 2018 and 31 December 2017 comprise of 163,060,400 ordinary shares.

Dividend declared for the year ended 31 December 2017, amounted to RSD 6,948,004 or RSD 42.61 per share. Distributions of dividends were approved on the General Assembly Meeting held on 21 June 2018 and paid on 27 August 2018.

23. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2017	**8,641,302**	**838,655**	**564,890**	**660,942**	**615,786**	**11,321,575**
Charged to the income statement	606,379	-	-	365,922	28,167	1,000,468
New obligation incurred and change in estimates	762,585	-	-	-	-	762,585
Release of provision (note 35)	-	-	(168,854)	-	-	(168,854)
Actuarial gain charged to other comprehensive income	-	-	18,947	-	-	18,947
Settlement	(166,145)	(156,735)	(54,265)	-	(59,119)	(436,264)
As at 31 December 2017	**9,844,121**	**681,920**	**360,718**	**1,026,864**	**584,834**	**12,498,457**
As at 1 January 2018	9,844,121	681,920	360,718	1,026,864	584,834	12,498,457
Charged to the income statement	213,094	100,000	27,619	331,180	36,177	708,070
New obligation incurred and change in estimates	117,748	-	-	-	-	117,748
Release of provision (note 35)	-	(24,528)	-	-	-	(24,528)
Actuarial loss charged to other comprehensive income	-	-	(4,531)	-	-	(4,531)
Settlement and other	(133,445)	(119,978)	(48,871)	(864,023)	(121,378)	(1,287,695)
As at 31 December 2018	**10,041,518**	**637,414**	**334,935**	**494,021**	**499,633**	**12,007,521**

Analysis of total provisions:

	31 December 2018	31 December 2017
Non-current	10,079,405	9,660,582
Current	1,928,116	2,837,875
	12,007,521	**12,498,457**

(a) *Decommissioning*

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

(b) *Environmental protection*

The Company has to comply with environmental protection regulations. At the reporting date Company recorded provision for environmental protection of RSD 637,414 (31 December 2017: RSD 681,920) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) *Long-term incentive program*

In 2011, the Company started setting-up a long-term incentive program for Company managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2018 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in amount of 494,021 RSD (2017: RSD 1,026,864).

(d) *Legal claims provisions*

As at 31 December 2018, the Company assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Company charged provision for litigation amounting to RSD 36,177 (charged provision in 2017: RSD 28,167) for proceedings which were assessed to have negative outcome. The Company estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2018.

(e) *Provision for employee benefits*

Employee benefits:

	31 December 2018	31 December 2017
Retirement allowances	96,176	95,668
Jubilee awards	238,759	265,050
	334,935	**360,718**

The principal actuarial assumptions used were as follows:

	31 December 2018	31 December 2017
Discount rate	5.7%	4.65%
Future salary increases	2.0%	2.0%
Future average years of service	15.2	15

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2017	**71,573**	**493,317**	**564,890**
Benefits paid directly	(6,282)	(47,983)	(54,265)
Actuarial gain charged to other comprehensive income	18,947	-	18,947
Debited/credited to the income statement	11,430	(180,284)	(168,854)
Balances as at 31 December 2017	**95,668**	**265,050**	**360,718**
Benefits paid directly	(10,138)	(38,733)	(48,871)
Actuarial loss charged to other comprehensive income	(4,531)	-	(4,531)
Debited to the income statement	15,177	12,442	27,619
Balances as at 31 December 2018	**96,176**	**238,759**	**334,935**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December 2018	2017
Current service cost	26,200	40,457
Interest cost	16,247	38,022
Curtailment gain	4,901	(1,367)
Actuarial gains (jubilee awards)	(19,729)	82,845
Past service cost	-	(328,811)
	27,619	**(168,854)**

24. LONG-TERM LIABILITIES

	31 December 2018	31 December 2017
Long-term loan - Gazprom Neft	24,738,405	30,306,970
Bank loans	67,908,442	65,097,573
Finance lease liabilities	644,611	247,210
Less Current portion (note 25)	(5,923,590)	(5,900,701)
	87,367,868	**89,751,052**

Movements on the Group's liabilities from finance activities are as follows:

	Long-term loans	Short-term loans (note 25)	Finance lease	Total
As at 1 January 2017	102,720,929	13,299,546	142,528	116,163,003
Proceeds	36,955,269	11,952,227	-	48,907,496
Repayment	(35,994,429)	(22,795,802)	(68,459)	(58,858,690)
Non-cash transactions	-	-	180,607	180,607
Foreign exchange difference	(8,277,226)	(157,483)	(7,466)	(8,442,175)
As at 31 December 2017	**95,404,543**	**2,298,488**	**247,210**	**97,950,241**
As at 1 January 2018	95,404,543	2,298,488	247,210	97,950,241
Proceeds	37,213,097	13,158,984	-	50,372,081
Repayment	(39,952,348)	(13,239,092)	(82,516)	(53,273,956)
Non-cash transactions	-	-	478,315	478,315
Foreign exchange difference	(18,445)	(2)	1,602	(16,845)
As at 31 December 2018	**92,646,847**	**2,218,378**	**644,611**	**95,509,836**

a) Long-term loan - Gazprom Neft

As at 31 December 2018 long-term loan - Gazprom Neft amounting to RSD 24,738,405 (2017: RSD 30,306,970), with current portion of RSD 5,497,424 (2017: RSD 5,510,358), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

b) Bank loans

	31 December 2018	31 December 2017
Domestic	50,621,113	43,338,383
Foreign	17,287,329	21,759,190
	67,908,442	65,097,573
Current portion of long-term loans (note 25)	(355,101)	(339,188)
	67,553,341	**64,758,385**

The maturity of non-current loans was as follows:

	31 December 2018	31 December 2017
Between 1 and 2 years	1,403,463	23,252,660
Between 2 and 5 years	61,219,659	38,991,710
Over 5 years	4,930,219	2,514,015
	67,553,341	**64,758,385**

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

	31 December 2018	31 December 2017
USD	361,696	17,934,250
EUR	67,250,132	46,852,898
RSD	649	814
JPY	295,965	309,611
	67,908,442	**65,097,573**

The Company repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Company has floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor.

Management expects that the Company will be able to fulfil its obligations within agreed timeframe.

The loan agreements contain financial covenants that require the Company's ratio of Indebtedness to EBITDA. Management believes the Company is in compliance with these covenants as of 31 December 2018 and 31 December 2017 respectively.

c) *Financial lease liabilities*

Minimum finance lease payments:

	31 December 2018	31 December 2017
Less than one year	79,525	58,894
1-5 years	343,516	208,456
Over 5 years	335,431	-
Future finance charges on finance leases	(113,861)	(20,140)
Present value of finance lease liabilities	**644,611**	**247,210**

	31 December 2018	31 December 2017
Less than one year	71,065	51,155
1-5 years	281,326	196,055
Over 5 years	292,220	-
Present value of finance lease liabilities	**644,611**	**247,210**

25. SHORT-TERM FINANCE LIABILITIES

	31 December 2018	31 December 2017
Short-term loans from subsidiaries (note 24)	2,218,378	2,298,488
Current portion of long-term loans (note 24)	5,923,590	5,900,701
	8,141,968	**8,199,189**

26. TRADE PAYABLES

As at 31 December 2018 payables in a amount of RSD 25,887,149 (31 December 2017: RSD 29,393,322) include payables to parents and subsidiaries in amount of RSD 13,318,121 (31 December 2017: RSD 14,368,794), mainly relate to payables to the supplier Gazprom Neft, St Petersburg in amount of RSD 10,243,742 (31 December 2017: RSD 11,792,424), for the purchase of crude oil.

27. OTHER SHORT-TERM LIABILITIES

	31 December 2018	31 December 2017
Specific liabilities	167,528	202,931
Liabilities for unpaid wages and salaries, gross	938,147	845,505
Interest liabilities	600,609	669,586
Dividends payable	3,772,308	3,772,308
Other payables to employees	603,737	1,428,540
Decommissioning and site restoration costs	1,369,683	1,419,423
Environmental provision	160,362	201,836
Litigation and claims	270,593	239,268
Other current liabilities	116,491	101,350
	7,999,458	**8,880,747**

28. LIABILITIES FOR OTHER TAXES

	31 December 2018	31 December 2017
Excise tax	4,680,755	4,777,490
Contribution for buffer stocks	260,905	527,858
Income tax	539,811	1,915,676
Other taxes payables	1,506,492	1,285,063
	6,987,963	**8,506,087**

29. ACCRUED EXPENSES

Accrued expenses as at 31 December 2018 amounting to RSD 3,237,852 (31 December 2017: RSD 3,799,475) mainly relate to accrued employee bonuses of RSD 1,715,646 (31 December 2017: RSD 1,746,078), and contract liabilities arising from contracts with customers related to customer loyalty in amount RSD 502,254 (31 December 2017: RSD 365,312).

30. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2018	2017
Cost of production services	2,352,003	2,421,156
Transportation services	3,626,498	3,341,470
Maintenance	4,607,624	4,362,285
Rental costs	1,324,118	1,195,482
Fairs	7,410	508
Advertising costs	761,250	823,779
Exploration expenses	241,054	624,627
Cost of other services	1,403,397	1,295,025
	14,323,354	**14,064,332**

31. NON-PRODUCTION COSTS

	Year ended 31 December	
	2018	2017
Costs of non-production services	6,857,109	6,807,934
Representation costs	134,409	128,862
Insurance premium	507,102	486,646
Bank charges	353,921	301,884
Cost of taxes	1,176,233	1,069,697
Mineral extraction tax	1,460,595	1,202,368
Other non-production expenses	1,022,953	1,053,902
	11,512,322	**11,051,293**

Cost of non-production services for the year ended 31 December 2018 amounting to RSD 6,857,109 (2017: RSD 6,807,934) mainly relate to costs of service organizations of RSD 4,361,528, project management costs of RSD 1,142,583 and consulting service costs of RSD 384,673.

32. FINANCE INCOME

	Year ended 31 December	
	2018	**2017**
Finance income - related parties		
- foreign exchange differences	1,170,587	2,703,009
- other finance income	878,771	897,229
Interest income	720,366	722,521
Income from discounting of receivables (note 6)	44,661	379,211
Foreign exchange gains	1,736,178	8,766,965
Other finance income	27,826	161,592
	4,578,389	**13,630,527**

33. FINANCE EXPENSE

	Year ended 31 December	
	2018	**2017**
Finance expenses – related parties		
- foreign exchange differences	1,147,319	2,320,083
- other finance expense	540,083	668,683
Interest expenses	1,589,753	2,279,585
Decommissioning provision: unwinding of the present value discount	89,194	138,487
Amortization of non-current finacial instruments	261,732	-
Foreign exchange losses	1,791,685	2,139,853
Other finance expense	7,413	27,593
	5,427,179	**7,574,284**

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

	Year ended 31 December	
	2018	**2017**
Reversal of impairment of LT financial investments	99,280	540
Income from valuation:		
- trade and specific receivables (note 6)	846,522	233,094
- other receivables (note 6)	70,757	74,254
	1,016,559	**307,888**

35. OTHER INCOME

	Year ended 31 December	
	2018	**2017**
Gains on disposal – PPE	191,769	84,678
Gains on disposal – materials	59,353	31,209
Surpluses from stock count	306,215	406,206
Payables written off	168,056	23,966
Release of long-term provisions (note 23)	24,528	168,854
Gain on bargain purchase	11,937	-
Release of impairment:		
- Investment property	20,677	16,869
- Inventory (note 15)	1,170	316
- PPE and other property	12,450	2,021
Penalty interest	87,049	116,656
Other income	86,766	81,178
	969,970	**931,953**

36. OTHER EXPENSES

	Year ended 31 December	
	2018	**2017**
Loss on disposal - PPE	251,614	192,496
Shortages from stock count	681,573	505,368
Write-off receivables	13,616	24,774
Write-off inventories	91,284	116,246
Impairment:		
- PPE (note 9)	80,966	196,111
- Investment property and asset held for sale	2,728	43,396
- Inventory (note 15)	10,274	3,097
- Other property	9,000	6,973
Other expenses	285,464	300,405
	1,426,519	**1,388,866**

37. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2018	**2017**
Income tax for the year	3,922,034	5,556,879
Deferred income tax for the period		
Origination and reversal of temporary differences (note 14)	1,653,438	1,609,448
	5,575,472	**7,166,327**

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

	Year ended 31 December	
	2018	**2017**
Profit before tax	**31,642,961**	**34,956,787**
Tax calculated at domestic tax rates – 15%	4,746,444	5,243,518
Tax effect on:		
Revenues exempt from taxation	(57,707)	(304,646)
Expenses not deductible for tax purposes		
- Tax paid in Angola	171,416	2,177,957
- Other expenses not deductable	754,538	232,211
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	15,245	(38,129)
Other tax effects for reconciliation between accounting profit and tax expense	(54,464)	(144,584)
	5,575,472	**7,166,327**
Effective income tax rate	17.62%	20.50%

The weighted average applicable tax rate was 17.62% (2017: 20.50%). The decrease is caused by a change in the profitability of the Company.

38. OPERATING LEASES

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

	31 December 2018	**31 December 2017**
Less than one year	279,782	267,034
1-5 years	337,152	383,664
Over 5 years	147,659	149,922
	764,593	**800,620**

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

	31 December 2018	31 December 2017
Less than one year	112,380	80,264
1-5 years	152,687	182,614
Over 5 years	-	215,761
	265,067	**478,639**

The Company rents mainly IT equipment, offices, cars and GPS equipment.

39. BUSINESS COMBINATIONS

In 2018, the Company acquired one petrol station in Serbia. The total consideration paid for acquisition amounted to RSD 205,723. The fair value of net identifiable asset acquired amounted to RSD 217,660. Remaining amount was recognised as gain on bargain purchase in amount of RSD 11,937. The acquisition agreements include only acquisition of petrol stations and do not contain any contingent consideration.

40. COMMITMENTS AND CONTINGENT LIABILITIES

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Company 's management recognised an environmental provision in the amount of RSD 637,414 (31 December 2017: RSD 681,920).

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

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Company has paid all tax liabilities as of 31 December 2018.

Capital commitments

As of 31 December 2018 the Company has entered into contracts to purchase property, plant and equipment for 15,944,407 RSD (31 December 2017: 11,347,097 RSD).

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

41. RELATED PARTIES TRANSACTIONS

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

During 2018 and 2017, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil and petroleum products.

As of 31 December 2018 and 31 December 2017 the outstanding balances with related parties were as follows:

	Subsidiary	Parent	Entities under comon control and associates	Total
As at 31 December 2018				
Advances for PPE	3,582	-	-	3,582
Investments in subsidiaries	13,425,586	-	1,038,800	14,464,386
Long-term loans	23,279,079	-	-	23,279,079
Advances for inventory and services	2,158	-	337,220	339,378
Trade receivables	3,011,511	99	1,856,381	4,867,991
Receivables from specific operations	62,109	-	-	62,109
Other receivables	1,134,183	-	-	1,134,183
Short-term investments	3,405,474	-	-	3,405,474
Long-term liabilities	-	(19,240,982)	-	(19,240,982)
Short-term financial liabilities	(2,218,378)	(5,497,423)	-	(7,715,801)
Advances received	(2,295)	-	(1,942)	(4,237)
Trade payables	(3,074,379)	(10,243,742)	(1,911,584)	(15,229,705)
Other short-term liabilities	(4,363)	-	-	(4,363)
	39,024,267	**(34,982,048)**	**1,318,875**	**5,361,094**

	Subsidiary	Parent	Entities under comon control and associates	Total
As at 31 December 2017				
Advances for PPE	97,920	-	-	97,920
Investments in subsidiaries	13,425,586	-	1,038,800	14,464,386
Long-term loans	32,024,282	-	-	32,024,282
Advances for inventory and services	16,239	-	7,754	23,993
Trade receivables	3,938,048	-	2,471,171	6,409,219
Receivables from specific operations	53,803	-	-	53,803
Other receivables	1,201,219	-	-	1,201,219
Short-term investments	2,660,628	-	-	2,660,628
Other current assets	424	-	-	424
Long-term liabilities	-	(24,796,612)	-	(24,796,612)
Short-term financial liabilities	(2,298,487)	(5,510,358)	-	(7,808,845)
Advances received	(1,543)	-	(74,376)	(75,919)
Trade payables	(2,641,454)	(11,727,340)	(2,266,800)	(16,635,594)
Other short-term liabilities	(45,929)	-	-	(45,929)
Accrued expenses	(5,030)	-	-	(5,030)
	48,425,706	**(42,034,310)**	**1,176,549**	**7,567,945**

For the year ended 31 December 2018 and 2017 the following transaction occurred with related parties:

	Subsidiary	Parent	Entities under comon control and associates	Total
Year ended 31 December 2018				
Sales revenue	17,247,107	960	27,374,364	44,622,431
Other operating income	36,793	-	348	37,141
Cost of goods sold	(196,218)	-	(333,240)	(529,458)
Cost of material	(15,797)	(68,928,066)	-	(68,943,863)
Fuel and energy expenses	(1,972)	-	-	(1,972)
Employee benefits expenses	(104,450)	-	-	(104,450)
Production services	(3,883,424)	-	(213,106)	(4,096,530)
Non-material expense	(946,979)	(3,000)	(31,034)	(981,013)
Finance income	878,771	-	-	878,771
Finance expense	(43,309)	(496,774)	-	(540,083)
Income from valuation of assets at fair value through profit and loss	151,234	-	-	151,234
Loss from valuation of assets at fair value through profit and loss	(39,379)	-	-	(39,379)
Other income	-	59,847	-	59,847
Other expenses	-	(198,412)	(1,291)	(199,703)
	13,082,377	**(69,565,445)**	**26,796,041**	**(29,687,027)**

	Subsidiary	Parent	Entities under comon control and associates	Total
Year ended 31 December 2017				
Sales revenue	14,292,703	-	32,560,651	46,853,354
Other operating income	35,348	-	604	35,952
Cost of goods sold	(80,279)	-	(10,312,815)	(10,393,094)
Cost of material	(11,594)	(31,926,861)	-	(31,938,455)
Fuel and energy expenses	(1,600)	-	-	(1,600)
Employee benefits expenses	(86,982)	-	-	(86,982)
Production services	(3,645,691)	-	(197,261)	(3,842,952)
Non-material expense	(1,109,830)	(3,000)	(28,348)	(1,141,178)
Finance income	897,229	-	-	897,229
Finance expense	(36,256)	(632,427)	-	(668,683)
Loss from valuation of assets at fair value through profit and loss	(27,460)	-	-	(27,460)
Other income	1,337	83,321	-	84,658
Other expenses	-	(69,543)	(253)	(69,796)
	10,226,925	**(32,548,510)**	**22,022,578**	**(299,007)**

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

	Entities under comon control and associates	Other
As at 31 December 2018		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,222,764	-
• *Srbijagas*	-	17,547
• *Other state owned companies*	-	4,221,307
Trade and other payables		
• *HIP Petrohemija*	(1,250,402)	-
• *Srbijagas*	-	(126,092)
Other current liabilities		
• *HIP Petrohemija*	(1,852)	-
	(29,490)	**4,112,762**
As at 31 December 2017		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,446,685	-
• *Srbijagas*	-	109,748
• *Republika Srbija*	-	3,740,763
• *Other state owned companies*	-	4,936,110
Trade and other payables		
• *HIP Petrohemija*	(1,252,736)	-
• *Srbijagas*	-	(77,059)
Other current liabilities		
• *HIP Petrohemija*	(13,646)	-
	180,303	**8,709,562**

	Entities under comon control and associates	Other
As at 31 December 2018		
Operating income		
• *HIP Petrohemija*	26,679,415	-
• *Srbijagas*	-	755,157
Operating expenses		
• *HIP Petrohemija*	(213,106)	-
• *Srbijagas*	-	(963,917)
	26,466,309	**(208,760)**
As at 31 December 2017		
Operating income		
• *HIP Petrohemija*	21,947,228	-
• *Srbijagas*	-	782,306
Operating expenses		
• *HIP Petrohemija*	(195,139)	-
• *Srbijagas*	-	(926,488)
	21,752,089	**(144,182)**

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 2018 and 2017 the Company recognized RSD 1,018,152 and RSD 1,029,116 respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

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