NIS A.D. – Naftna industrija Srbije
Novi Sad

Financial Statements and
Independent Auditor's Report

Novi Sad, 28 February 2018

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Naftna Industrija Srbije a.d. Novi Sad as of 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on Accounting and accounting regulation effective in the Republic of Serbia.

Milivoje Nešović
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

PricewaterhouseCoopers d.o.o. pwc *Beograd*

Belgrade, 28 February 2018

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(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET

	AOP	Note	31 December 2017	31 December 2016
A. SUBSCRIBED CAPITAL UNPAID	**0001**		**-**	**-**
B. NON-CURRENT ASSETS (0003 + 0010 + 0019+ 0024 + 0034)	**0002**		**293,522,379**	**289,265,136**
I. INTANGIBLE ASSETS (0004+0005+0006+0007+0008+0009)	**0003**	**8**	**16,220,631**	**15,766,633**
1. Development investments	0004		7,765,207	5,473,418
2. Concessions, licenses, software and other rights	0005		2,122,944	2,720,533
3. Goodwill	0006		-	-
4. Other intangible assets	0007		862,938	874,016
5. Intangible assets under development	0008		5,469,542	6,698,666
6. Advances for intangible assets	0009		-	-
II. PROPERTY, PLANT AND EQUIPMENT (0011+0012+0013+0014+0015+0016+0017+0018)	**0010**	**9**	**227,612,491**	**216,068,737**
1. Land	0011		10,328,878	10,468,243
2. Buildings	0012		127,300,824	118,094,110
3. Machinery and equipment	0013		60,691,375	60,403,194
4. Investment property	0014		1,530,356	1,549,663
5. Other property, plant and equipment	0015		74,400	74,400
6. Construction in progress	0016		25,312,035	23,186,943
7. Investments in leased PP&E	0017		263,211	271,339
8. Advances for PP&E	0018		2,111,412	2,020,845
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**		**49,680,845**	**48,129,888**
1. Investments in subsidiary	0025	10	13,425,586	13,442,631
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		119,919	148,665
4. Long term investments in parent and subsidiaries	0028	12	32,024,282	32,413,076
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	3,072,258	1,086,716
V. LONG-TERM RECEIVABLES (0035+0036+0037+0038+0039+0040+0041)	**0034**	**14**	**8,412**	**9,299,878**
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		8,412	7,872
5. Claims arising from guarantees	0039		-	-
6. Bad and doubtful receivables	0040		-	-
7. Other long-term receivables	0041		-	9,292,006
C. DEFFERED TAX ASSETS	**0042**	**15**	**2,487,491**	**4,059,076**

(continued)

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET (CONTINUED)

	AOP	Note	31 December 2017	31 December 2016
D. CURRENT ASSETS (0044+0051+0059+0060+0061+0062+0068+0069+0070)	**0043**		**104,140,906**	**93,336,342**
I. INVENTORY (0045+0046+0047+0048+0049+0050)	**0044**	**16**	**33,758,553**	**23,541,276**
1. Materials, spare parts and tools	0045		20,495,109	13,198,507
2. Work in progress	0046		3,961,298	3,119,239
3. Finished goods	0047		7,998,501	5,638,221
4. Merchandise	0048		996,337	1,523,265
5. Assets held for sale	0049		163	-
6. Advances for inventory and services	0050		307,145	62,044
II. TRADE RECEIVABLES (0052+0053+0054+0055+0056+0057+0058)	**0051**	**17**	**29,735,674**	**38,430,002**
1. Domestic trade receivables - parents and subsidiaries	0052		489,470	1,399,483
2. Foreign trade receivables - parents and subsidiaries	0053		3,448,578	1,620,612
3. Domestic trade receivables - other related parties	0054		1,447,646	675,178
4. Foreign trade receivables - other related parties	0055		1,023,525	994,853
5. Trade receivables - domestic	0056		22,229,266	32,800,095
6. Trade receivables - foreign	0057		1,097,189	939,781
7. Other trade receivbles	0058		-	-
III. RECEIVABLES FROM SPECIFIC OPERATIONS	**0059**		**292,057**	**666,552**
IV. OTHER RECEIVABLES	**0060**	**18**	**2,345,007**	**3,526,414**
V. FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS	**0061**		**-**	**-**
VI. SHORT TERM FINANCIAL INVESTMENTS (0063+0064+0065+0066+0067)	**0062**	**19**	**10,381,808**	**3,519,702**
1. Short-term loans and investments - parent companies and subsidiaries	0063		56,019	364,481
2. Short-term loans and investments – other related parties	0064		-	-
3. Short-term loans and investments - domestic	0065		-	-
4. Short-term loans and investments - foreign	0066		-	-
5. Other short-term loans and investments	0067		10,325,789	3,155,221
VII. CASH AND CASH EQUIVALENTS	**0068**	**20**	**23,410,724**	**20,053,651**
VIII. VALUE ADDED TAX	**0069**		**-**	**-**
IX. PREPAYMENTS AND ACCRUED INCOME	**0070**	**21**	**4,217,083**	**3,598,745**
E. TOTAL ASSETS (0001+0002+0042+0043)	**0071**		**400,150,776**	**386,660,554**
F. OFF-BALANCE SHEET ASSETS	**0072**	**22**	**108,101,006**	**117,893,750**
A. EQUITY (0402+0411-0412+0413+0414+0415-0416+0417+0420-0421)	**0401**			
I. EQUITY (0403+0404+0405+0406+0407+0408+0409+0410)	**0402**		**238,967,295**	**215,174,642**
1. Share capital	0403	23	**81,530,200**	**81,530,200**
2. Stakes of limited liability companies	0404		81,530,200	81,530,200
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**		**81,796**	**80,607**
VI. UNREALISED GAINS FROM SECURITAS AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	**0415**		**142,480**	**122,912**
VII. UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	**0416**		**64,014**	**66,519**
VIII. RETAINED EARNINGS (0418+0419)	**0417**		**157,276,833**	**133,507,442**
1. Retained earnings from previous years	0418		129,486,373	117,425,573
2. Retained earnings from current year	0419		27,790,460	16,081,869
IX. NON-CONTROLLING INTEREST	**0420**		-	**-**
X. LOSS (0422+0423)	**0421**		-	**-**
1. Loss from previous years	0422		-	**-**
2. Loss from current year	0423		-	-

(continued)

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET (continued)

	AOP	Note	31 December 2017	31 December 2016
B. LONG-TERM PROVISIONS AND LIABILITIES (0425+0432)	**0424**		**99,411,634**	**102,689,234**
I. LONG-TERM PROVISIONS (0426+0427+0428+0429+0430+4031)	**0425**	**24**	**9,660,582**	**9,365,454**
1. Provisions for warranty claims	0426		-	-
2. Provision for environmental rehabilitation	0427		8,904,782	7,801,828
3. Provisions for restructuring costs	0428		-	-
4. Provisions for employee benefits	0429		410,234	1,178,642
5. Provisions for litigations	0430		345,566	384,984
6. Other long term provisions	0431		-	-
II. LONG-TERM LIABILITIES (0433+0434+0435+0436+0437+0438+0439+0440)	**0432**	**25**	**89,751,052**	**93,323,780**
1. Liabilities convertible to equity	0433		-	-
2. Liabilities to parent and subsidiaries	0434		24,796,612	31,585,938
3. Liabilities to other related parties	0435		-	-
4. Liabilities for issued long-term securities	0436		-	-
5. Long term borrowings - domestic	0437		43,049,008	23,842,201
6. Long-term borrowings - foreign	0438		21,709,377	37,776,368
7. Finance lease liabilities	0439		196,055	117,414
8. Other long-term liabilities	0440		-	1,859
C. DEFFERED TAX LIABILITIES	**0441**	**15**	-	-
D. SHORT-TERM LIABILITIES (0443+0450+0451+0459+0460+0461+0462)	**0442**		**61,771,847**	**68,796,678**
I. SHORT-TERM FINANCIAL LIABILITIES (0444+0445+0446+0447+0448+0449)	**0443**	**26**	**8,199,189**	**22,841,082**
1. Short term borrowings from parent and subsidiaries	0444		2,298,487	1,109,630
2. Short term borrowings from other related parties	0445		-	-
3. Short-term loans and borrowings - domestic	0446		-	10,468,337
4. Short-term loans and borrowings - foreign	0447		-	1,721,579
5. Liabilities relating to current assets and held-for-sale assets attributable to discounted operations	0448		-	-
6. Other short term liabilities	0449		5,900,702	9,541,536
II. ADVANCES RECEIVED	**0450**		1,374,398	1,228,944
III. TRADE PAYABLES (0452+0453+0454+0455+0456+0458)	**0451**	**27**	**29,393,322**	**24,861,519**
1. Trade payables - parent and subsidiaries - domestic	0452		2,576,370	3,163,156
2. Trade payables - parent and subsidiaries - foreign	0453		11,792,424	5,862,793
3. Trade payables - other related parties - domestic	0454		1,252,736	675,393
4. Trade payables - other related parties - foreign	0455		1,014,064	1,058,865
5. Trade payables - domestic	0456		6,874,255	5,169,842
6. Trade payables - foreign	0457		5,880,471	8,919,567
7. Other operating liabilities	0458		3,002	11,903
IV. OTHER SHORT-TERM LIABILITIES	**0459**	**28**	**8,880,747**	**8,068,314**
V. LIABILITIES FOR VAT	**0460**		**1,618,629**	**1,383,017**
VI. LIABILITIES FOR OTHER TAXES	**0461**	**29**	**8,506,087**	**6,989,668**
VII. ACCRUED EXPENSES	**0462**	**30**	**3,799,475**	**3,424,134**
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**		**400,150,776**	**386,660,554**
G. OFF-BALANCE SHEET LIABILITIES	**0465**	**22**	**108,101,006**	**117,893,750**

The accompanying notes on pages 10 to 59 are an integral part of these financial statements.

Novi Sad, 28 February 2018

The person responsible for the preparation of financial statements

M.P.

Legal representative

INCOME STATEMENT

	AOP	Note	Year ended 31 December 2017	2016
INCOME FROM REGULAR OPERATING ACTIVITIES				
A. OPERATING INCOME (1002+1009+1016+1017)	**1001**	**7**	**215,836,203**	**177,913,601**
I. INCOME FROM THE SALE OF GOODS (1003+1004+1005+1006+1007+1008)	**1002**		**16,974,716**	**17,604,116**
1. Income from sales of goods to parent and subsidiaries on domestic market	1003		19,443	104,341
2. Income from sales of goods to parent and subsidiaries on foreign market	1004		600,892	130,677
3. Income from the sale of goods to other related parties on domestic market	1005		161	579
4. Income from the sale of goods to other related parties on foreign market	1006		10,016,171	8,408,639
5. Income from sale of goods on domestic market	1007		6,276,036	8,461,623
6. Income from sale of goods on foreign market	1008		62,013	498,257
II. INCOME FROM SALES OF PRODUCTS AND SERVICES (1010+1011+1012+1013+1014+1015)	**1009**		**198,452,051**	**159,965,290**
1. Income from sales of products and services to parent and subsidiaries on domestic market	1010		1,111,629	865,469
2. Income from sales of products and services to parent and subsidiaries on foreign market	1011		12,560,739	7,896,816
3. Income from sales of products and services to other related parties on domestic market	1012		21,952,875	13,809,239
4. Income from sales of products and services to other related parties on foreign market	1013		591,444	710,618
5. Income from sales of products and services – domestic	1014		137,769,953	118,567,760
6. Income from sales of products and services – foreign	1015		24,465,411	18,115,388
III. INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS	**1016**		**26,380**	**4,239**
IV. OTHER OPERATING INCOME	**1017**		**383,056**	**339,956**
EXPENSES FROM REGULAR OPERATING ACTIVITIES				
B. OPERATING EXPENSES (1019-1020-1021+1022+1023+1024+1025+1026+1027+1028+1029)>=0	**1018**		**186,182,516**	**161,310,384**
I. COST OF GOODS SOLD	1019		15,725,908	16,584,345
II. WORK PERFORMED BY THE ENTITY AND CAPITALIZED	1020		967,698	2,091,986
III. INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1021		3,202,338	-
IV. DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1022		-	833,400
V. COST OF MATERIAL	1023		117,219,414	87,048,696
VI. COST OF FUEL AND ENERGY	1024		2,880,049	3,864,723
VII. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	1025		14,361,093	13,919,752
VIII. COST OF PRODUCTION SERVICES	1026	31	14,064,332	16,319,955
IX. DEPRECIATION, DEPLETION AND AMORTIZATION	1027	8,9	14,188,482	13,578,551
X. COST OF LONG-TERM PROVISIONING	1028		861,981	712,472
XI. NON-PRODUCTION COSTS	1029	32	11,051,293	10,540,476
C. OPERATING GAIN (1001-1018)>=0	**1030**		**29,653,687**	**16,603,217**
D. OPERATING LOSS (1018-1001)>=0	**1031**		**-**	**-**

(continued)

INCOME STATEMENT (CONTINUED)

	AOP	Note	Year ended 31 December 2017	2016
E. FINANCE INCOME (1033+1038+1039)	**1032**	**33**	**13,630,527**	**4,153,094**
I. FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME (1034+1035+1036+1037)	1033		3,761,830	1,836,082
1. Finance income - parent company and subsidiaries	1034		3,558,484	1,816,340
2. Finance income - other related parties	1035		41,754	16,522
3. Share of profit of associates and joint ventures	1036		-	-
4. Other financial income	1037		161,592	3,220
II. INTEREST INCOME (from third parties)	1038		1,101,732	1,033,686
III. FOREIGN EXCHANGE GAINS (third parties)	1039		8,766,965	1,283,326
F. FINANCE EXPENSES (1041+1046+1047)	**1040**	**34**	**7,574,284**	**8,796,821**
I. FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES (1042+1043+1044+1045)	1041		3,016,359	2,060,116
1. Finance expense - parent company and subsidiaries	1042		2,948,723	2,031,235
2. Finance expense - other related parties	1043		40,043	20,577
3. Share of loss of associates and joint ventures	1044		-	-
4. Other financial expense	1045		27,593	8,304
II. INTEREST EXPENSE (from third parties)	1046		2,418,072	2,958,264
III. FOREIGN EXCHANGE LOSSES (third parties)	1047		2,139,853	3,778,441
G. PROFIT FROM FINANCING OPERATIONS (1032-1040)	**1048**		**6,056,243**	**-**
H. LOSS FROM FINANCING OPERATIONS (1040-1032)	**1049**		**-**	**4,643,727**
I. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**1050**	**35**	**307,888**	**6,517,073**
J. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**1051**		**604,118**	**273,186**
K. OTHER INCOME	**1052**	**36**	**931,953**	**1,772,257**
L. OTHER EXPENSES	**1053**	**37**	**1,388,866**	**1,374,090**
M. OPERATING PROFIT BEFORE TAX (1030-1031+1048-1049+1050-1051+1052-1053)	**1054**		**34,956,787**	**18,601,544**
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**		**34,956,787**	**18,601,544**
R. LOSS BEFORE TAX (1055-1054+1057-1056)	**1059**		**-**	**-**
II. INCOME TAX				
I. CURRENT INCOME TAX	1060	38	5,556,879	2,061,271
II. DEFERRED TAX EXPENSE FOR THE PERIOD	1061	38	2,045,123	1,098,923
III. DEFERRED TAX INCOME FOR THE PERIOD	1062	38	435,675	640,519
S. PERSONAL INCOME PAID TO EMPLOYER	**1063**		-	**-**
T. NET PROFIT (1058-1059-1060-1061+1062)	**1064**		**27,790,460**	**16,081,869**
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		27,790,460	16,081,869
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		0.170	0.099
2. Diluted earnings per share	1071		-	-

The accompanying notes on pages 10 to 59 are an integral part of these financial statements.

(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF OTHER COMPREHENSIVE INCOME

	AOP	Note	Year ended 31 December 2017	2016
A. NET PROFIT/(LOSS)				
I. PROFIT, NET (AOP 1064)	**2001**		**27,790,460**	**16,081,869**
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		1,189	80,607
b) decrease in revaluation reserves	2004		-	-
2. Actuarial gains (losses) of post employment benefit obligations				
a) gains	2005		19,568	9,987
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		2,505	13,045
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		23,262	103,639
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**		**23,262**	**103,639**
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		27,813,722	16,185,508
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**		**27,813,722**	**16,185,508**
1. Attributable to shareholders	2027		27,813,722	16,185,508
2. Attributable to non-controling interest	2028		-	-

The accompanying notes on pages 10 to 59 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	AOP	Note	Year ended 31 December 2017	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES				
I. Cash inflow from operating activities (1 to 3)	**3001**		**404,083,903**	**354,711,125**
1. Sales and advances received	3002		403,512,757	354,203,517
2. Interest from operating activities	3003		188,090	167,652
3. Other inflow from operating activities	3004		383,056	339,956
II. Cash outflow from operating activities (1 to 5)	**3005**		**349,374,755**	**315,578,401**
1. Payments and prepayments to suppliers	3006		169,771,567	140,608,837
2. Salaries, benefits and other personal expenses	3007		14,188,115	13,572,040
3. Interest paid	3008		2,877,058	3,088,203
4. Income tax paid	3009		3,328,363	608,298
5. Payments for other public revenues	3010		159,209,652	157,701,023
III. Net cash inflow from operating activities (I - II)	**3011**		**54,709,148**	**39,132,724**
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**		**7,538,052**	**12,366,002**
1. Sale of shares (net inflow)	3014		-	-
2. Proceeds from sale of intangible assets, property, plant and equipment	3015		1,349,434	493,930
3. Other financial investments (net inflow)	3016		6,188,462	11,872,007
4. Interest from investing activities	3017		-	-
5. Dividend received	3018		156	65
II. Cash outflow from investing activities (1 to 3)	**3019**		**44,514,493**	**39,781,878**
1. Acquisition of subsidiaries or other business (net outflow)	3020		-	-
2. Purchase of intangible assets, property, plant and equipment	3021		28,481,297	26,525,504
3. Other financial investments (net outflow)	3022		16,033,196	13,256,374
III. Net cash inflow from investing activities (I - II)	**3023**		**-**	**-**
IV. Net cash outflow from investing activities (II - I)	**3024**		**36,976,441**	**27,415,876**
C. CASH FLOWS FROM FINANCING ACTIVITIES				
I. Cash inflow from financing activities (1 to 5)	**3025**		**48,907,496**	**26,744,150**
1. Increase in share capital	3026		-	-
2. Proceeds from long-term borrowings (net inflow)	3027		36,955,269	8,904,810
3. Proceeds from short-term borrowings (net inflow)	3028		11,952,227	17,839,340
4. Other long-term liabilities	3029		-	-
5. Other short-term liabilities	3030		-	-
II. Cash outflow from financing activities (1 to 6)	**3031**		**62,879,759**	**34,998,343**
1. Purchase of own shares	3032		-	-
2. Repayment of long-term borrowings (net outflow)	3033		35,994,429	22,064,580
3. Repayment of short-term borrowings (net outflow)	3034		22,795,802	8,907,802
4. Repayment of other liabilities (net outflow)	3035		-	-
5. Financial lease	3036		68,459	-
6. Dividend distribution	3037	23	4,021,069	4,025,961
III. Net cash inflow from financing activities (I - II)	**3038**		**-**	**-**
IV Net cash outflow from financing activities (II - I)	**3039**		**13,972,263**	**8,254,193**
D. TOTAL CASH INFLOW (3001+3013+3025)	**3040**		**460,529,451**	**393,821,277**
E. TOTAL CASH OUTFLOW (3005+3019+3031)	**3041**		**456,769,007**	**390,358,622**
F. NET CASH INFLOW (340-341)	**3042**		**3,760,444**	**3,462,655**
G. NET CASH OUTFLOW (341-340)	**3043**		**-**	**-**
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3044**		**20,053,651**	**16,729,893**
I. CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS	**3045**		**455,440**	**239,069**
J. CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS	**3046**		**858,811**	**377,966**
K. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (3042-3043+3044+3045-3046)	**3047**		**23,410,724**	**20,053,651**

The accompanying notes on pages 10 to 59 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Equity components							
	AOP	Share capital	AOP	Reserves	AOP	Loss	AOP	Retained earnings
Balance as at 1 January 2016								
a) debit	4001	-	4037	-	4055	-	4091	-
b) credit	4002	**81,530,200**	4038	-	4056	-	4092	**121,451,534**
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 2016								
a) debit (1a+2a-2б)>=0	4005	-	4041	-	4059	-	4095	-
б) credit (1б-2a+2б)>=0	4006	**81,530,200**	4042	-	4060	-	4096	**121,451,534**
Changes in period								
a) debit	4007	-	4043	-	4061	-	4097	4,025,961
b) credit	4008	-	4044	-	4062	-	4098	16,081,869
Balance as at 31 December 2016								
a) debit (3a+4a-4б)>=0	4009	-	4045	-	4063	-	4099	-
б) credit (3б-4a+4б)>=0	4010	**81,530,200**	4046	-	4064	-	4100	**133,507,442**
Adjustments of material errors and changes in accounting policies								
a) debit	4011	-	4047	-	4065	-	4101	-
b) credit	4012	-	4048	-	4066	-	4102	-
Restated opening balance as at 1 January 2017								
a) debit (5a+6a-6б)>=0	4013	-	4049	-	4067	-	4103	-
б) credit (5б-6a+6б)>=0	4014	**81,530,200**	4050	-	4068	-	4104	**133,507,442**
Changes in period								
a) debit	4015	-	4051	-	4069	-	4105	4,021,069
b) credit	4016	-	4052	-	4070	-	4106	27,790,460
Balance as at 31 December 2017								
a) debit (7a+8a-8б)>=0	4017	-	4053	-	4071	-	4107	-
б) credit (7б-8a+8б)>=0	4018	**81,530,200**	4054	-	4072	-	4108	**157,276,833**

(continued)

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

		Other comprehensive income components						
	AOP	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 2016								
a) debit	4109	-	4127	-	4217	79,564		
b) credit	4110	-	4128	112,925	4218	-	4235	203,015,095
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 2016								
a) debit (1a+2a-2б)>=0	4113	-	4131	-	4221	79,564		
b) credit (1б-2a+2б)>=0	4114	-	4132	112,925	4222	-	4237	203,015,095
Changes in period								
a) debit	4115	-	4133	-	4223	-		
b) credit	4116	80,607	4134	9,987	4224	13,045	4238	12,159,547
Balance as at 31 December 2016								
a) debit (3a+4a-4б)>=0	4117	-	4135	-	4225	66,519		
b) credit (3б-4a+4б)>=0	4118	80,607	4136	122,912	4226	-	4239	215,174,642
Adjustments of material errors and changes in accounting policies								
a) debit	4119	-	4137	-	4227	-		
b) credit	4120	-	4138	-	4228	-	4240	-
Restated opening balance as at 1 January 2017								
a) debit (5a+6a-6б)>=0	4121	-	4139	-	4229	66,519		
b) credit (5б-6a+6б)>=0	4122	80,607	4140	122,912	4230	-	4241	215,174,642
Changes in period								
a) debit	4123	-	4141	-	4231	-		
b) credit	4124	1,189	4142	19,568	4232	2,505	4242	23,792,653
Balance as at 31 December 2017								
a) debit (7a+8a-8б)>=0	4125	-	4143	-	4233	64,014		
б) credit (7б-8a+8б)>=0	4126	81,796	4144	142,480	4234	-	4243	238,967,295

The accompanying notes on pages 10 to 59 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%.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

These financial statements for the year ended 31 December 2017 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

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

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

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

Subsequent events occurring after 31 December 2017 were evaluated through 28 February 2018, the date these Financial Statements were authorised for issue.

2.2. Segment reporting

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

2.3. Seasonality of Operations

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

2.4. Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

2.5. Intangible assets

(a) *Licenses and rights (concessions)*

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

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

(b) *Computer software*

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

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

2.6. Exploration for and evaluation of mineral resources

(a) *Exploration and evaluation expenditure*

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

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

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

(c) *Oil and gas production assets*

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

(d) *Depreciation/amortization*

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

(e) *Impairment – exploration and evaluation assets*

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

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

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

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

2.7. Property, plant and equipment

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/(expenses)" in the income statement (notes 36 and 37).

2.8. Impairment of non-financial assets

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

2.9. Investment property

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

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

Investment property is carried at fair value, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.
Changes in fair values are recorded in the income statement as part of Other income/(expenses) (notes 36 and 37).

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

2.10. Long–term financial assets

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

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

2.10.1. Financial assets classification

(a) *Loans and receivables*

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

(b) *Available for sale financial assets*

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

2.10.2. Recognition and measurement

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

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

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Company's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to fair value measurement gains (losses) in income statement (note 35).

2.10.3. Impairment of financial assets

a) *Assets carried at amortised cost*

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

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

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

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

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

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

b) *Assets classified as available for sale*

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

2.11. Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as Other expense (note 37).

2.12. Trade receivables

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

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'loss from valuation of assets at fair value through profit and loss'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to 'income from valuation of assets at fair value through profit and loss' in the income statement (note 35).

2.13. Cash and cash equivalents

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

2.14. Off-balance sheet assets and liabilities

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

2.15. Share capital

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

2.16. Earnings per share

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

2.17. Provisions

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

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

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

2.18. Borrowings

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

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

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

2.19. Trade payables

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

2.20. Current and deferred income tax

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

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

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

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

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

2.21. Employee benefits

(a) *Pension obligations*

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

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

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

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

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

(c) *Bonus plans*

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

In 2017, the Company has made decision to introduce new three-year (2018-2020) program for Company's managers which will be based on the Key Performance Indicators ("KPI") reached during the program (note 24).

2.22. Revenue recognition

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

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

(a) *Sales of goods – wholesale*

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

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

(b) *Sales – retail*

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

(c) *Sales of services*

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

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

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

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

(d) *Sales of electricity*

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

(e) *Interest income*

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

2.23. Leases

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

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

2.24. Dividend distribution

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

2.25. Capitalisation of borrowing costs

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

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

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

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

3.1. Estimation of Oil and Gas Reserves

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

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

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

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

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

3.2. Useful Lives of Property, Plant and Equipment

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

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2017 would be to increase/decrease it by RSD 1,277,411 (2016: RSD 1,188,513).

3.3. Impairment of Non-Derivative Financial Assets

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

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

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

3.4. Employee benefits

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

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

If the discount rate used to calculate the present value of employee benefit obligations had been 5.65% (rather than 4.65%) per year, the past service liability (DBO) for the Company would decrease by about 10.2% for retirement indemnity and 7.1% for jubilee benefit. If pay increased by 1% higher than assumed on an annual basic, than the past service liability (DBO) for the Company would increase by amount 11.7% for the retirement indemnity and 7.7% for the jubilee benefit.

3.5. Decommissioning and environmental protection provision

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

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

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

If the discount rate used to calculate the present value of decommissioning obligations had been 5.65% (rather than 4.65%) per year, the present liability would have decreased by approx. RSD 383.925.

3.6. Contingencies

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

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

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

The Company assessed crude oil price volatility as main impairment indicator. If the actual crude oil price decrease for 10$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Company's PPE by 66,1 bln RSD.

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

4. APPLICATION OF NEW IFRS

The following standards or amended standards became effective for the Company from 1 January 2017:

- **The amendments to IAS 7 – Statement of Cash Flow** (issued in January 2016 effective for annual periods beginning on or after 1 January 2017) require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Company made disclosure in the Financial statements (note 25).

The following standards or amended standards that became effective for the Company from 1 January 2017 did not have any material impact on the Company:

- **The amendments to IAS 12 – Income Taxes**: Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016 effective for annual periods beginning on or after 1 January 2017).
- **Amendments to IFRS 12 - Disclosure of Interest in Other Entities** included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

5. NEW ACCOUNTING STANDARDS

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

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

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

ECL. The model includes operational simplifications for lease and trade receivables.

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

Based on the preliminary analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of The Company is not expecting a significant impact on its financial statements from the adoption of the new standard on 1 January 2018. Management of the Company believes that provision in amount of RSD 7,869,845 (note 6.1.); RSD 3,588,655 (note 6.1.) and RSD 11,704,690 (note 6.1.) is sufficient and reflects the right measure of the risks associated with collecting the company's claims taking into account all available information's.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. ***Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).*** The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

In accordance with the transition provisions in IFRS 15 the Company has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the financial statements for the year-ending 31 December 2018 which will be the first year when The Company will apply IFRS 15.

The Company plans to apply the practical expedient available for simplified transition method. The Company applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

Based on the preliminary analysis of Company's revenue streams, sales contracts and on the basis of facts and circumstances that exist as at 31 December 2017, the expectation of the Company management is that impact on financial statements, arising from the adoption of the new standard, would be less than 0.3% of sales revenue for the period ended 31 December 2017. The impact mainly relates to reclassification between sales of goods and services.

The Company plans to finish the implementation process in the first half of 2018. The main remaining tasks include changes in accounting policies and accounting instructions, adapting processes so that economic events are considered in terms of IFRS 15 requirements as at the transaction date and preparing disclosures for the financial statements. The Company plans to present the main disclosures arising from IFRS 15 requirements in its interim financial statements as at 30 June 2018.

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

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Company is currently assessing the impact of the new standard on its financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Company is currently assessing the impact of the interpretation on its financial statements.

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

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

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

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

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

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

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

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

Foreign exchange risk

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

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

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

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

As of 31 December 2017	**RSD**	**EUR**	**USD**	**Other**	**Total**
Financial assets					
Non-current					
Long-term investments in subsidiaries	-	32,024,282	-	-	32,024,282
Other long-term investments	2,107,572	959,722	4,964	-	3,072,258
Long term receivables	8,412	-	-	-	8,412
Current					
Trade receivables	21,522,594	7,385,002	827,079	999	29,735,674
Receivables from specific operations	83,375	53,319	155,363	-	292,057
Other receivables	97,157	2,245,812	1,193	845	2,345,007
Short term financial investments	7,713,679	2,668,129	-	-	10,381,808
Cash and cash equivalents	11,107,847	3,548,422	8,742,209	12,246	23,410,724
Financial liabilities					
Non-current					
Long-term liabilities	(641)	(71,582,425)	(17,890,189)	(277,797)	(89,751,052)
Current					
Short-term financial liabilities	(2,298,661)	(5,824,653)	(44,061)	(31,814)	(8,199,189)
Trade payables	(16,068,483)	(6,285,561)	(6,976,115)	(63,163)	(29,393,322)
Other short-term liabilities	(8,605,890)	(64,881)	(195,505)	(14,471)	(8,880,747)
Net exposure	**15,666,961**	**(34,872,832)**	**(15,375,062)**	**(373,155)**	**(34,954,088)**

As of 31 December 2016

	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Long-term investments in subsidiaries	-	32,413,076	-	-	32,413,076
Other long-term investments	77,304	1,002,384	7,028	-	1,086,716
Long term receivables	7,872	9,292,006	-	-	9,299,878
Current					
Trade receivables	25,220,003	12,702,034	507,965	-	38,430,002
Receivables from specific operations	400,780	82,162	183,610	-	666,552
Other receivables	302,452	3,223,630	321	11	3,526,414
Short term financial investments	376,777	3,142,925	-	-	3,519,702
Cash and cash equivalents	10,611,235	4,737,144	4,681,654	23,618	20,053,651
Financial liabilities					
Non-current					
Long-term liabilities	(816)	(53,597,820)	(39,371,389)	(353,755)	(93,323,780)
Current					
Short-term financial liabilities	(1,109,799)	(21,462,958)	(236,526)	(31,799)	(22,841,082)
Trade payables	(9,032,098)	(9,527,421)	(6,226,962)	(75,038)	(24,861,519)
Other short-term liabilities	(7,656,452)	(76,079)	(319,154)	(16,629)	(8,068,314)
Net exposure	**19,197,258**	**(18,068,917)**	**(40,773,453)**	**(453,592)**	**(40,098,704)**

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2017	**31 December 2016**
EUR	118.4727	123.4723
USD	99.1155	117.1353

Sensitivity analysis

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

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

As at 31 December 2017, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit for the year and equity would have been RSD 1,704,135 (2016: RSD 903,446) higher/lower, mainly as a result of foreign exchange gains/(losses) on translation of EUR – denominated borrowings.

As at 31 December 2017, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit for the year and equity would have been RSD 1,536,848 (2016: RSD 4,077,345) higher/lower, mainly as a result of foreign exchange gains/(losses) on translation of USD – denominated borrowings and trade payables.

Cash flow and fair value interest rate risk

Borrowings withdrawn at variable interest rates expose the Company to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Company to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (Euribor or Libor) has a proportionate impact on the Company’s results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2017 and equity would have been RSD 940,437 (2016: RSD 1,087,907) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

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

Credit exposure related to sales of electricity has systematically monitored based on centrally approved credit limits for each customer, taking into account financial position of customer, past experience and credit security.

Banks are rated only in the case of collateralised receivables on various grounds, as well as based on the banks total exposure to the Company. For domestic banks the second criteria is applied. Sales to retail customers are settled in cash or using credit cards.

Company's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the balance sheet is as follows:

	Year ended 31 December	
	2017	**2016**
Long term investments in parent and subsidiaries	32,024,282	32,413,076
Other long-term investments	3,072,258	1,086,716
Long term receivables	8,412	9,299,878
Trade receivables	29,735,674	38,430,002
Receivables from specific operations	292,057	666,552
Other receivables	2,345,007	3,526,414
Short term financial investments	10,381,808	3,519,702
Cash and cash equivalents	23,410,724	20,053,651
Total maximum exposure to credit risk	**101,270,222**	**108,995,991**

Trade and Other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- scoring Serbian Business Register Agency, NIS and/or D&B reports;
- amount of registered pledges;
- data on customer's account blockade;
- history of relationships with the Company;
- planned sales volume;
- duration of relationship with the Company, including ageing profile, maturity and existence of any financial difficulties.

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

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

Management believes that not impaired trade and other receivables and other current assets are fully recoverable.

As of 31 December 2017 and 2016, the ageing analysis of short-term trade receivables is as follows:

	31 December 2017			31 December 2016		
	Gross	**Impaired**	**Net**	**Gross**	**Impaired**	**Net**
Not past due	27,477,190	-	27,477,190	35,075,350	-	35,075,350
Past due:						
within 30 days:	1,971,504	-	1,971,504	1,351,752	-	1,351,752
1 to 3 months	203,314	(5,941)	197,373	955,916	(23,461)	932,455
3 months to 1 year	311,162	(233,462)	77,700	82,534	(66,734)	15,800
over 1 year	7,642,349	(7,630,442)	11,907	18,385,606	(17,330,961)	1,054,645
Total	**37,605,519**	**(7,869,845)**	**29,735,674**	**55,851,158**	**(17,421,156)**	**38,430,002**

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

	Trade receivables		
	Individually impaired	Collectively impaired	**Total**
As at 1 January 2016	**5,980,464**	**13,599,248**	**19,579,712**
Provision for receivables impairment	5,974	93,167	99,141
Unused amounts reversed (note 35)	(4,339,261)	(88,702)	(4,427,963)
Receivables written off during the year as uncollectible	-	(204,124)	(204,124)
Transfer from receivables from specific operations	2,247,190	-	2,247,190
Other	-	127,200	127,200
As at 31 December 2016	**3,894,367**	**13,526,789**	**17,421,156**
Provision for receivables impairment	-	406,046	406,046
Unused amounts reversed (note 35)	-	(178,242)	(178,242)
Unwinding of discount (note 33)		(164,147)	(164,147)
Receivables written off during the year as uncollectible	-	(140,074)	(140,074)
Unwinding of discount	-	36,498	36,498
Transfer from LT receivables	-	208,808	208,808
Transfer to investment to associates (note 11)	(1,349,735)	(8,362,950)	(9,712,685)
Other	(5,082)	(2,433)	(7,515)
As at 31 December 2017	**2,539,550**	**5,330,295**	**7,869,845**

Release of provision during 2016, in the amount of RSD 4,427,963 mainly relate to positive outcome of negotiations between the Company and Serbian Government for collection of receivables from HIP Petrohemija a.d. Pancevo. The negotiations ended in adoption of the Law on taking over the receivables from HIP Petrohemija by the Government. According to the Law, NIS will collect the amount of EUR 105,000,000 in following two years, with the last installment on 15 June 2019. Receivable was collected in accordance with Agreement with Unicredit bank on the transfer of part of receivables for a fee without recourse in 2017 (note14)

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above less bank quarantines provided as collateral. The other classes within trade and other receivables do not contain impaired assets.

Movements on the Company's impairment provision of long-term other receivables are as follows:

	Long-term other receivables
As at 1 January 2016	912,967
Receivables written off during the year as uncollectible	(489,982)
Unwinding of discount (note 34)	296,429
Exchange differences	9,129
As at 31 December 2016	**728,543**
Unused amounts reversed	(159,155)
Unwinding of discount (note 33)	(215,064)
Receivables written off during the year as uncollectible	(132,657)
Exchange differences	(12,859)
Transfer to current part	(208,808)
As at 31 December 2017	**-**

As of 31 December 2017 receivables from specific operations amounting RSD 3,880,712 (31 December 2016 : RSD 4,650,242) are mostly impaired in the amount of RSD 3,588,655 (31 December 2016: RSD 3,983,690). 96% these receivables are older than 5 years.

As of 31 December 2017 and 2016, the ageing analysis of other receivables were as follows:

	31 December 2017			31 December 2016		
	Gross	**Impaired**	**Net**	**Gross**	**Impaired**	**Net**
Not past due	1,542,588	-	1,542,588	2,823,395	-	2,823,395
Past due:						
within 30 days:	21,987	(2,013)	19,974	139,434	(54)	139,380
1 to 3 months	11,111	(970)	10,141	44,627	(9,025)	35,602
3 months to 1 year	328,507	(101,776)	226,731	289,963	(65,205)	224,758
over 1 year	12,145,504	(11,599,931)	545,573	11,979,153	(11,675,874)	303,279
Total	**14,049,697**	**(11,704,690)**	**2,345,007**	**15,276,572**	**(11,750,158)**	**3,526,414**

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2016	**6,355,921**	**7,433,387**	**13,789,308**
Provision for other receivables impairment	87,087	603	87,690
Unused amounts reversed (note 35)	(2,086,047)	(715)	(2,086,762)
Receivables written off during the year as uncollectible	(38,291)	(1,787)	(40,078)
As at 31 December 2016	**4,318,670**	**7,431,488**	**11,750,158**
Provision for other receivables impairment	78,218	63,290	141,508
Unused amounts reversed (note 35)	(74,237)	(17)	(74,254)
Receivables written off during the year as uncollectible	(101,760)	(61,632)	(163,392)
Exchange differences	(1,355)	-	(1,355)
Other	1,936	50,089	52,025
As at 31 December 2017	**4,221,472**	**7,483,218**	**11,704,690**

Liquidity risk

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

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

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

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

As at 31 December 2017	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1 - 5 years**	**Over 5 years**
Borrowings	97,950,241	104,992,540	10,511,792	87,582,192	6,898,556
Trade payables and dividends payable	33,165,632	33,165,632	33,165,632	-	-
	131,115,873	**138,158,172**	**43,677,424**	**87,582,192**	**6,898,556**
As at 31 December 2016					
Borrowings	116,163,003	123,205,302	25,153,685	83,483,835	14,567,782
Trade payables and dividends payable	28,633,826	28,633,826	28,633,826	-	-
	144,796,829	**151,839,128**	**53,787,511**	**83,483,835**	**14,567,782**

6.2. Capital risk management

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

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

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

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

	31 December 2017	**31 December 2016**
Total borrowings	97,950,241	116,163,003
Less: cash and cash equivalents (note 20)	(23,410,724)	(20,053,651)
Net debt	**74,539,517**	**96,109,352**
EBITDA	44,169,691	37,143,408
Net debt to EBITDA	**1.69**	**2.59**

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

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

6.3. Fair value estimation

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

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

7. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the years ended 31 December 2017 and 2016. Operating segments are components are engaged in business activities which may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

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

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

	Upstream	**Downstream**	**Eliminations**	**Total**
Segment revenue	43,927,105	216,969,850	(45,060,752)	215,836,203
Intersegment	41,956,055	3,104,697	(45,060,752)	-
External	1,971,050	213,865,153	-	215,836,203
EBITDA (Segment results)	**28,182,125**	**15,987,566**	**-**	**44,169,691**
Depreciation, depletion and amortization	(5,507,982)	(8,680,500)	-	(14,188,482)
Impairment losses/Revaluation surpluses (note 36 and 37)	2,378	(265,807)	-	(263,429)
Write-off of exploration works (note 9)	(568,493)	-	-	(568,493)
Finance expenses, net	317,956	5,738,287	-	6,056,243
Income tax	(2,177,957)	(4,988,370)	-	(7,166,327)
Segment profit	**20,358,559**	**7,431,901**	**-**	**27,790,460**

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

	Upstream	**Downstream**	**Eliminations**	**Total**
Segment revenue	36,311,772	178,010,012	(36,408,183)	177,913,601
Intersegment	34,048,352	2,359,831	(36,408,183)	-
External	2,263,420	175,650,181	-	177,913,601
EBITDA (Segment results)	**21,303,104**	**15,840,304**	**-**	**37,143,408**
Depreciation, depletion and amortization	(5,231,586)	(8,346,965)	-	(13,578,551)
Impairment losses/Revaluation surpluses (note 36 and 37)	(4,595)	11,109	-	6,514
Write-off of exploration works (note 9)	(1,204,851)	-	-	(1,204,851)
Finance expenses, net	(252,962)	(4,390,765)	-	(4,643,727)
Income tax	(273,282)	(2,246,393)	-	(2,519,675)
Segment profit (loss)	**15,479,505**	**602,364**	**-**	**16,081,869**

EBITDA for the year ended 31 December 2017 and 2016 is reconciled below:

	Year ended 31 December	
	2017	**2016**
Profit for the year	27,790,460	16,081,869
Income tax expenses	7,166,327	2,519,675
Other expenses	1,388,866	1,374,090
Other income	(931,953)	(1,772,257)
Loss from valuation of assets at fair value through profit and loss	604,118	273,186
Income from valuation of assets at fair value through profit and loss	(307,888)	(6,517,073)
Finance expense	7,574,284	8,796,821
Finance income	(13,630,527)	(4,153,094)
Depreciation, depletion and amortization	14,188,482	13,578,551
Other non operating expenses, net*	327,522	6,961,640
EBITDA	**44,169,691**	**37,143,408**

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

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

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

	Year ended 31 December 2016		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	2,021,495	2,021,495
Sale of gas	3,059,894	-	3,059,894
Through a retail network	35,810	-	35,810
Wholesale activities	3,024,084	-	3,024,084
Sale of petroleum products	132,452,903	24,885,138	157,338,041
Through a retail network	44,481,288	-	44,481,288
Wholesale activities	87,971,615	24,885,138	112,856,753
Sales of electricity	467,822	8,690,443	9,158,265
Other sales	6,172,587	163,319	6,335,906
Total sales	**142,153,206**	**35,760,395**	**177,913,601**

Out of the amount of RSD 138,868,634 (2016: RSD 112,856,753) revenue from sale of petroleum products (wholesale), the amount of RSD 21,947,228 (2016: RSD 13,844,962) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Gazprom Marketing & Trading Co., Ltd. in the amount of RSD 10,015,978 (2016: RSD 8,415,713).

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

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 167,539,533 (2016: RSD 142,153,206), and the total of revenue from external customer from other countries is RSD 48,296,670 (2016: RSD 35,760,395). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2017	**2016**
Sale of crude oil	1,705,444	2,021,495
Sale of petroleum products (retail and wholeasle)		
Bulgaria	8,611,846	5,540,887
Bosnia and Herzegovina	8,550,726	5,206,259
Romania	5,033,530	3,817,547
Croatia	2,677,174	1,952,210
Switzerland	2,642,440	1,668,061
Great Britain	1,953,167	353,776
Macedonia	1,614,993	829,922
Hungary	1,035,140	590,464
All other markets	3,590,785	4,926,012
	35,709,801	24,885,138
Sales of electricity	10,636,249	8,690,443
Other sales	245,176	163,319
	48,296,670	**35,760,395**

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

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Other intangibles	Intangible assets under development	Total
At 1 January 2016					
Cost	6,617,839	7,420,522	972,536	6,249,829	21,260,726
Accumulated amortisation and impairment	(464,122)	(4,311,961)	(92,953)	(88,098)	(4,957,134)
Net book amount	**6,153,717**	**3,108,561**	**879,583**	**6,161,731**	**16,303,592**
Year ended 31 December 2016					
Additions	-	-	-	2,058,076	2,058,076
Transfer from assets under development	-	606,776	17,620	(624,396)	-
Amortization	(680,299)	(994,804)	(18,316)	-	(1,693,419)
Transfer from PP&E (note 9)	-	-	-	5,458	5,458
Disposals and write-off	-	-	(4,871)	(902,203)	(907,074)
Closing net book amount	**5,473,418**	**2,720,533**	**874,016**	**6,698,666**	**15,766,633**
As at 31 December 2016					
Cost	6,617,839	7,812,985	951,010	6,728,622	22,110,456
Accumulated amortization and impairment	(1,144,421)	(5,092,452)	(76,994)	(29,956)	(6,343,823)
Net book amount	**5,473,418**	**2,720,533**	**874,016**	**6,698,666**	**15,766,633**
At 1 January 2017					
Cost	6,617,839	7,812,985	951,010	6,728,622	22,110,456
Accumulated amortization and impairment	(1,144,421)	(5,092,452)	(76,994)	(29,956)	(6,343,823)
Net book amount	**5,473,418**	**2,720,533**	**874,016**	**6,698,666**	**15,766,633**
Year ended 31 December 2017					
Additions	-	-	-	1,919,942	1,919,942
Transfer from assets under development	2,712,862	374,767	9,865	(3,097,494)	-
Amortization	(421,073)	(972,356)	(20,943)	-	(1,414,372)
Transfer from PP&E (note 9)	-	-	-	29,786	29,786
Disposals and write-off	-	-	-	(81,358)	(81,358)
Closing net book amount	**7,765,207**	**2,122,944**	**862,938**	**5,469,542**	**16,220,631**
As at 31 December 2017					
Cost	9,330,701	8,165,992	960,875	5,515,048	23,972,616
Accumulated amortization and impairment	(1,565,494)	(6,043,048)	(97,937)	(45,506)	(7,751,985)
Net book amount	**7,765,207**	**2,122,944**	**862,938**	**5,469,542**	**16,220,631**

Intangible assets under development as at 31 December 2017 amounting to RSD 5,469,542 (31 December 2016: RSD 6,698,666) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 4,560,631 (31 December 2016: RSD 5,763,672).

9. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2016								
Cost	10,748,445	150,010,082	100,887,394	29,253,159	76,604	424,741	1,363,418	292,763,843
Accumulated depreciation and impairment	(301,474)	(42,702,771)	(40,207,013)	(2,375,798)	(1,727)	(94,706)	(30,809)	(85,714,298)
Net book amount	**10,446,971**	**107,307,311**	**60,680,381**	**26,877,361**	**74,877**	**330,035**	**1,332,609**	**207,049,545**
Year ended 31 December 2016								
Additions	60,238	16,836,013	5,938,414	(3,236,860)	-	6,551	3,350,598	22,954,954
Appraisal effects	-	94,832	-	-	-	-	-	94,832
Impairment charge (note 37)	-	(1,602)	(3,543)	(25,696)	-	-	(11,213)	(42,054)
Depreciation	-	(5,765,500)	(6,054,385)	-	-	(65,247)	-	(11,885,132)
Transfer to intangible assets (note 8)	-	-	-	(5,458)	-	-	-	(5,458)
Transfer to investment property	(5,554)	(131,685)	741	-	-	-	-	(136,498)
Disposals and write-off	(25,802)	(240,697)	(134,360)	(437,000)	(477)	-	(2,651,149)	(3,489,485)
Other transfers	(7,610)	(4,562)	(24,054)	14,596	-	-	-	(21,630)
Closing 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**
At 31 December 2016								
Cost	10,769,717	166,064,135	106,150,666	25,290,900	75,543	431,292	2,062,604	310,844,857
Accumulated depreciation and impairment	(301,474)	(47,970,025)	(45,747,472)	(2,103,957)	(1,143)	(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 36 and 37)	(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**

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

As at 31 December 2017, the Company assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.7 for details. In addition Company has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 196,031 (2016: RSD 42,054).

b) Investment property – carried at fair value

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

Movements on the account were as follows:

	2017	2016
As at 1 January	1,549,663	1,336,060
Fair value gains (loss) (note 36 and 37)	7,757	79,957
Transfer from PP&E carried at cost	25,949	136,498
Disposals	(56,089)	(4,432)
Other	3,076	1,580
As at 31 December	**1,530,356**	**1,549,663**

As at 31 December 2017, investment properties amounting to RSD 1,530,356 (31 December 2016: RSD 1,549,663) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

Fair value of investment properties

Valuation of the Company's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2017 and 2016. The revaluation gain was creditedto other income (note 36).

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

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

Fair value measurements at 31 December 2017 using:

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

Fair value measurements at 31 December 2016 using:

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

Valuation techniques used to derive level 2 fair values

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

Fair value measurements using significant unobservable inputs (Level 3)

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

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

	2017	2016
Long term growth rate	0%	0%
Discount rate	14%	16%

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

	2017	2016
Assets as at 1 January	**631,678**	**541,624**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	3,788	68,043
Transfer from PPE	22,484	17,740
Other	234	4,271
Total increase in fair value measurement, assets	26,506	90,054
Assets as at 31 December	**658,184**	**631,678**

c) *Oil and gas production assets*

Oil and gas production assets comprise of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.6).

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2016						
Cost	16,744,369	7,644,244	24,388,613	98,224,109	22,153	122,634,875
Depreciation and impairment	-	(248,771)	(248,771)	(22,749,386)	(20,311)	(23,018,468)
Net book amount	**16,744,369**	**7,395,473**	**24,139,842**	**75,474,723**	**1,842**	**99,616,407**
Year ended 31 December 2016						
Additions	3,467,461	12,281,926	15,749,387	(9,379)	-	15,740,008
Transfer from asset under construction	(337,919)	(17,751,224)	(18,089,143)	18,089,143	-	-
Other transfers	(2,252,534)	2,517,708	265,174	(20,199)	(15)	244,960
Impairment	-	(4,595)	(4,595)	-	-	(4,595)
Unsuccessful exploration expenditures derecognised (note 7)	(1,204,851)	-	(1,204,851)	-	-	(1,204,851)
Depreciation and depletion	-	-	-	(4,970,589)	-	(4,970,589)
Disposals and write-off	(6,542)	(54,648)	(61,190)	(121,388)	(7)	(182,585)
	16,409,984	**4,384,640**	**20,794,624**	**88,442,311**	**1,820**	**109,238,755**
As at 31 December 2016						
Cost	16,409,984	4,385,516	20,795,500	115,864,815	22,129	136,682,444
Depreciation and impairment	-	(876)	(876)	(27,422,504)	(20,309)	(27,443,689)
Net book amount	**16,409,984**	**4,384,640**	**20,794,624**	**88,442,311**	**1,820**	**109,238,755**
As at 1 January 2017						
Cost	16,409,984	4,385,516	20,795,500	115,864,815	22,129	136,682,444
Depreciation and impairment	-	(876)	(876)	(27,422,504)	(20,309)	(27,443,689)
Net book amount	**16,409,984**	**4,384,640**	**20,794,624**	**88,442,311**	**1,820**	**109,238,755**
Year ended 31 December 2017						
Additions	3,188,714	13,479,375	16,668,089	765,325	-	17,433,414
Transfer from asset under construction	(4,059,755)	(14,908,872)	(18,968,627)	18,968,627	-	-
Other transfers	(29,077)	44,180	15,103	(33,137)	-	(18,034)
Impairment	-	(10,703)	(10,703)	-	-	(10,703)
Depreciation and depletion	-	-	-	(5,450,354)	-	(5,450,354)
Unsuccessful exploration expenditures derecognised (note 7)	(568,493)	-	(568,493)	-	-	(568,493)
Disposals and write-off	(71,724)	(39,122)	(110,846)	(49,242)	-	(160,088)
	14,869,649	**2,949,498**	**17,819,147**	**102,643,530**	**1,820**	**120,464,497**
As at 31 December 2017						
Cost	14,874,546	2,951,585	17,826,131	135,319,515	22,129	153,167,775
Depreciation and impairment	(4,897)	(2,087)	(6,984)	(32,675,985)	(20,309)	(32,703,278)
Net book amount	**14,869,649**	**2,949,498**	**17,819,147**	**102,643,530**	**1,820**	**120,464,497**

Unsuccessful exploration expenditures derecognised in the amount of RSD 568,493 mainly relate to exploration assets located in Serbia in the amount of RSD 461,615 due to uncertain viability of commercial production (2016: amount of RSD 1,204,851 mainly relate to exploration assets located in Hungary in the amount of RSD 1,188,909).

10. INVESTMENTS IN SUBSIDIARY

	31 December 2017	31 December 2016
Investments in subsidiaries:		
- In shares	3,457,576	3,457,576
- In stakes	13,389,990	13,368,335
	16,847,566	16,825,911
Less: Provision	(3,421,980)	(3,383,280)
	13,425,586	**13,442,631**

Investments in subsidiaries as at 31 December 2017 relate to the following companies:

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

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying value of the investments in associates and joint ventures as of 31 December 2017 and 2016 is presented below:

		Ownership percentage	31 December 2017	31 December 2016
Serbskaya Generaciya	Joint venture	49%	1,038,800	1,038,800
HIP Petrohemija ad Pančevo	Associate	20,86%	11,572,197	-
			(11,572,197)	-
			1,038,800	**1,038,800**

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

<u>Serbskaya Generaciya</u>

In 2015, the Company and Centrenergoholding OAO Russian Federation established the holding company Serbskaya Generaciya, through which they will jointly operate with the Thermal and Heating Power Plant "TETO" Pancevo with a projected capacity of 208 MW. In October 2017 the contract with Shanghai Electric Group Co., Ltd. was signed on a "turnkey" basis and the design phase started. The project will be financed through project financing and is expected to be completed by the end of 2019. During 2016 the Company increased their investment in Serbskaya Generaciya in the amount of RSD 858,362.

HIP Petrohemija

In accordance with the laws in force in the Republic of Serbia, at the beginning of October 2017 all the condition were met for the full implementation ofthe earlier prepared plan for restructuring of the company HIP Petrohemija a.d. Pancevo. In accordance with the adopted plan, the structure of the share capital of the company HIP Petrohemija has been changed, whereby NIS increased its equity interest. After conversion, NIS holds, directly more than 20,86% (12,72%) per cent of the voting power of the HIP Petrohemija. Also, NIS has representatives on the BoD and Supervisory boards.

The total amount of fully impaired investments relates to reclassification of impaired receivables in the amount of RSD 9,712, 685 (note 6.1) and reclassification of impaired financial assets available for sale in the amount of RSD 1,859,512.

12. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES

	31 December 2017	31 December 2016
LT loans - Subsidiaries - Domestic	2,966,665	3,086,461
LT loans - Subsidiaries - Foregin	29,057,617	29,343,549
	32,024,282	32,430,010
Less: Impairment	-	(16,934)
	32,024,282	**32,413,076**

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

	Currency	31 December 2017	31 December 2016
Domestic			
O Zone a.d., Belgrade, Serbia	EUR	2,966,665	3,086,461
		2,966,665	3,086,461
Foregin			
NIS Petrol e.o.o.d. Sofija, Bulgaria	EUR	9,472,591	9,504,391
NIS Petrol SRL, Bucharest, Romania	EUR	11,555,915	10,961,059
NIS Petrol d.o.o. Banja Luka, BiH	EUR	7,059,772	7,357,698
Jadran - Naftagas d.o.o. Banja Luka, BiH	EUR	969,339	1,503,467
Pannon Naftagas Kft, Budapest, Hungary	EUR	-	16,934
		29,057,617	29,343,549
		32,024,282	**32,430,010**

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

13. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2017	31 December 2016
Other LT investments	2,037,710	10,050
LT loans given to employees	1,034,607	1,076,725
Less: Impairment	(59)	(59)
	3,072,258	**1,086,716**

Other LT investments at 31 December 2017 mainly relates to deposits with original maturity more than 1 year amounting to RSD 2,029,483, with interest rates 4.65% p.a. that will be due in following two years

Loans to employees as at 31 December 2017 amounting to RSD 1,034,607 (31 December 2016: RSD 1,076,725) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly installments.

14. LONG-TERM RECEIVABLES

	31 December 2017	31 December 2016
LT receivables - state owned companies	-	10,020,549
LT receivables - finacial lease	20,620	20,620
Less: Impairment	(12,208)	(741,291)
	8,412	**9,299,878**

Decrease in long-term receivables mostly relates to effect of signed contract with Unicredit bank on the transfer of part of receivables for a fee without recourse. The total amount of EUR 67,200,000 transferred in accordance with the Agreement relates to receivables from the Republic of Serbia with the due dates in 2016-2019. All risk and rewards are transferred to Unicredit bank. The payment under the Agreement was made on 17 July 2017 in full.

15. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2017	31 December 2016
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	4,965,971	6,671,740
	4,965,971	6,671,740
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(2,478,480)	(2,612,664)
	(2,478,480)	(2,612,664)
Deferred tax assets (net)	**2,487,491**	**4,059,076**

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

	2017	2016
At 1 January	**4,059,076**	**4,521,729**
Charged to the income statement (note 38)	(1,609,448)	(458,404)
Charged to other comprehensive income	(652)	(4,247)
Other	38,515	(2)
31 December	**2,487,491**	**4,059,076**

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

	Provisions	Carrying value of PP&E vs Tax base	Revaluation reserve	Total
Deferred tax liabilities				
As at 1 January 2016	**(19,928)**	**(2,715,748)**	**-**	**(2,735,676)**
Charged to the income statement (note 38)	-	117,308	-	117,308
Charged to other comprehensive income	-	-	(14,224)	(14,224)
Other	19,928	-	-	19,928
As at 31 December 2016	**-**	**(2,598,440)**	**(14,224)**	**(2,612,664)**
Charged to the income statement (note 38)	-	134,394	-	134,394
Charged to other comprehensive income	-	-	(210)	(210)
As at 31 December 2017	**-**	**(2,464,046)**	**(14,434)**	**(2,478,480)**

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
Deferred tax assets					
As at 1 January 2016	**959,009**	**864,022**	**5,434,374**	**-**	**7,257,405**
Charged to the income statement (note 38)	30,239	66,171	(672,122)	-	(575,712)
Charged to other comprehensive income	(1,762)	-	-	11,739	9,977
Other	(19,930)	-	-	-	(19,930)
As at 31 December 2016	**967,556**	**930,193**	**4,762,252**	**11,739**	**6,671,740**
Charged to the income statement (note 38)	13,624	18,935	(1,776,401)	-	(1,743,842)
Charged to other comprehensive income	-	-	-	(442)	(442)
Other	38,515	-	-	-	38,515
As at 31 December 2017	**1,019,695**	**949,128**	**2,985,851**	**11,297**	**4,965,971**

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

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

16. INVENTORY

	31 December 2017	31 December 2016
Materials, spare parts and tools	25,436,957	18,227,757
Work in progress	3,961,298	3,119,239
Finished goods	7,998,501	5,638,221
Goods for sale	1,002,172	1,532,478
Advances	566,382	319,986
Less: impairment of inventory	(4,947,683)	(5,038,463)
Less: impairment of advances	(259,237)	(257,942)
	33,758,390	**23,541,276**
Non-current assets held for sale	5,986	-
Less: impairment of assets held for sale	(5,823)	-
	33,758,553	**23,541,276**

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of Advances	Impairment of Assets held for sale	Total
Balance as of 1 January 2016	**5,117,655**	**268,119**	**185,782**	**5,571,556**
Provision for inventories and advances (note 37)	41,204	2,237	-	43,441
Unused amounts reversed (note 36)	(3,249)	(8,544)	-	(11,793)
Other	(117,147)	(3,870)	(185,782)	(306,799)
Balance as of 31 December 2016	**5,038,463**	**257,942**	**-**	**5,296,405**
Provision for inventories and advances (note 37)	3,097	6,974	-	10,071
Unused amounts reversed (note 36)	(316)	(1,940)	-	(2,257)
Other	(93,561)	(3,739)	5,823	(91,476)
Balance as of 31 December 2017	**4,947,683**	**259,237**	**5,823**	**5,212,743**

17. TRADE RECEIVABLES

	31 December 2017	31 December 2016
Parents and subsidiaries - domestic	492,980	1,399,483
Parents and subsidiaries - foreign	3,448,600	1,620,612
Other related parties - domestic	1,478,469	10,380,560
Other related parties - foreign	1,023,525	994,853
Trade receivables domestic – third parties	30,033,966	40,487,522
Trade receivables foreign – third parties	1,127,979	968,128
	37,605,519	**55,851,158**
Less: Impairment	(7,869,845)	(17,421,156)
	29,735,674	**38,430,002**

Decrease of receivables from other related parties – domestic and related impairment provision mostly relates to transfer of receivables from HIP Petrohemija to investments in associate (note 11). In accordance with the memorandum between the Republic of Serbia and NIS, Commercial Court in Pancevo adopted the Pre-packed Reorganization Plan for HIP Petrohemija in 2017 and at the beginning of October 2017 fully implemented. In accordance with plan, all the remaining claims of creditors accrued by January 31, 2017 were partially written-off and partially converted into the capital. NIS increased its equity interest in HIP Petrohemija to 20.86% (12.72% before the increase) by the conversion of the part of receivables after the write-offs

18. OTHER RECEIVABLES

	31 December 2017	31 December 2016
Interest receivables	6,446,723	7,587,354
Receivables from employees	83,724	85,195
Income tax prepayment	-	128,703
Other receivables	7,519,250	7,475,320
Less: Impairment	(11,704,690)	(11,750,158)
	2,345,007	**3,526,414**

19. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2017	31 December 2016
ST loans and placements - Parent and subsidiaries	244,465	560,880
ST loans and placements - Domestic	2,019	2,019
Current portion of LT placements - Parent and subsidiaries	2,604,610	2,897,787
Other ST financial placements	7,721,180	257,434
Less: Impairment	(190,466)	(198,418)
	10,381,808	**3,519,702**

Other ST financial placements as at 31 December 2017 mostly relates to deposits with original maturity more than 3 months less than 1 year amounting to RSD 7,645,689, with interest rates from 3.23% to 4.15% p.a. denominated in RSD

20. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash in bank and in hand	14,432,604	13,010,884
Deposits with original maturity of less than three months	8,670,000	7,000,000
Cash with restriction	68,766	41,783
Cash equivalents	239,354	984
	23,410,724	**20,053,651**

21. PREPAYMENTS AND ACCRUED INCOME

	31 December 2017	31 December 2016
Deferred input VAT	1,099,407	1,004,151
Prepaid expenses	193,927	75,971
Accrued revenue	185,641	11,229
Prepaid excise duty	1,790,447	1,475,539
Housing loans and other prepayments	947,661	1,031,855
	4,217,083	**3,598,745**

Deferred input VAT as at 31 December 2017 amounting to RSD 1,099,407 (31 December 2016: RSD 1,004,151) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 1,790,447 (31 December 2016: RSD 1,475,539) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

22. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
Issued warranties and bills of exchange	72,339,683	81,813,447
Received warranties and bills of exchange	15,995,009	15,769,653
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	6,085,575	7,191,930
Third party merchandise in NIS warehouses	6,663,266	6,294,877
Assets for oil fields liquidation in Angola	1,332,018	1,179,546
Other off-balance sheet assets and liabilities	327,765	286,607
	108,101,006	**117,893,750**

23. SHARE CAPITAL

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

Share capital as of 31 December 2017 and 31 December 2016 comprise of 163,060,400 of ordinary shares.

Dividend declared for the year ended 31 December 2016, amounted to RSD 4,021,069 or RSD 24.66 per share. Distributions of dividends were approved on the General Assembly Meeting held on 27 June 2017 and paid on 18 August 2017.

24. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2016	**9,152,366**	**687,705**	**615,538**	**296,783**	**630,759**	**11,383,151**
Charged to the income statement	118,944	244,000	22,375	364,159	81,938	831,416
New obligation incurred and change in estimates	(9,332)	-	-	-	-	(9,332)
Release of provision (note 36)	(433,085)	(42,517)	-	-	-	(475,602)
Actuarial gain charged to other comprehensive income	-	-	(11,749)	-	-	(11,749)
Settlement	(187,591)	(50,533)	(61,274)	-	(96,911)	(396,309)
As at 31 December 2016	**8,641,302**	**838,655**	**564,890**	**660,942**	**615,786**	**11,321,575**
As at 1 January 2017	**8,641,302**	**838,655**	**564,890**	**660,942**	**615,786**	**11,321,575**
Charged to the income statement	606,379	-	-	365,922	28,167	1,000,468
New obligation incurred and change in estimates	762,585	-	-	-	-	762,585
Release of provision (note 36)	-	-	(168,854)	-	-	(168,854)
Actuarial loss charged to other comprehensive income	-	-	18,947	-	-	18,947
Settlement	(166,145)	(156,735)	(54,265)	-	(59,119)	(436,264)
As at 31 December 2017	**9,844,121**	**681,920**	**360,718**	**1,026,864**	**584,834**	**12,498,457**

Analysis of total provisions:

	31 December 2017	31 December 2016
Non-current	9,660,582	9,365,454
Current	2,837,875	1,956,121
	12,498,457	**11,321,575**

(a) *Decommissioning*

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

(b) *Environmental protection*

The Company has to comply with environmental protection regulations. At the reporting date Company recorded provision for environmental protection of RSD 681,919 (31 December 2016: RSD 838,655) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) *Long-term incentive program*

In 2011, the Company started setting-up a long-term incentive program for Company managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2017 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in amount of RSD 1,026,864 (2016: RSD 660,942).

(d) *Legal claims provisions*

As at 31 December 2017, the Company assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Company charged provision for litigation amounting to RSD 28,167 (charged provision in 2016: RSD 81,938) for proceedings which were assessed to have negative outcome. The Company estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2017.

(e) *Provision for employee benefits*

Employee benefits:

	31 December 2017	31 December 2016
Retirement allowances	95,668	71,573
Jubilee awards	265,050	493,317
	360,718	**564,890**

The principal actuarial assumptions used were as follows:

	31 December 2017	31 December 2016
Discount rate	4.65%	7.5%
Future salary increases	2.0%	2.0%
Future average years of service	15	15.2

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2016	**75,802**	**539,736**	**615,538**
Benefits paid directly	(3,251)	(58,023)	(61,274)
Actuarial gain charged to other comprehensive income	(11,749)	-	(11,749)
Credited to the income statement	10,771	11,604	22,375
Balances as at 31 December 2016	**71,573**	**493,317**	**564,890**
Benefits paid directly	(6,282)	(47,983)	(54,265)
Actuarial loss charged to other comprehensive income	18,947	-	18,947
Debited/credited to the income statement	11,430	(180,284)	(168,854)
Balances as at 31 December 2017	**95,668**	**265,050**	**360,718**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December 2017	2016
Current service cost	40,457	46,539
Interest cost	38,022	38,420
Curtailment gain	(1,367)	(3,149)
Actuarial gains (jubilee awards)	82,845	(59,435)
Past service cost	(328,811)	-
	(168,854)	**22,375**

25. LONG-TERM LIABILITIES

	31 December 2017	31 December 2016
Long-term loan - Gazprom Neft	30,306,970	37,328,836
Bank loans	65,097,573	65,392,093
Finance lease liabilities	247,210	142,528
Long-term trade payables	-	1,859
Less Current portion (note 26)	(5,900,701)	(9,541,536)
	89,751,052	**93,323,780**

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

	Long-term loans	Short-term loans (note 26)	Finance lease	Total
As at 1 January 2016	112,726,667	4,282,974		117,009,641
Proceeds	8,904,810	17,839,340	-	26,744,150
Repayment	(22,064,580)	(8,907,802)	-	(30,972,382)
Non-cash transactions	-	-	141,395	141,395
Foreign exchange difference	3,154,032	85,034	1,133	3,240,199
As at 31 December 2016	**102,720,929**	**13,299,546**	**142,528**	**116,163,003**
As at 1 January 2017	102,720,929	13,299,546	142,528	116,163,003
Proceeds	36,955,269	11,952,227	-	48,907,496
Repayment	(35,994,429)	(22,795,802)	(68,459)	(58,858,690)
Non-cash transactions	-	-	180,607	180,607
Foreign exchange difference	(8,277,226)	(157,483)	(7,466)	(8,442,175)
As at 31 December 2017	**95,404,543**	**2,298,488**	**247,210**	**97,950,241**

a) Long-term loan - Gazprom Neft

As at 31 December 2017 long-term loan - Gazprom Neft amounting to RSD 30,306,970 (2016: RSD 37,328,836), with current portion of RSD 5,510,358 (2016: RSD 5,742,898), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

b) Bank loans

	31 December 2017	31 December 2016
Domestic	43,338,383	27,522,763
Foreign	21,759,190	37,869,330
	65,097,573	65,392,093
Current portion of long-term loans (note 26)	(339,188)	(3,773,524)
	64,758,385	**61,618,569**

The maturity of non-current loans was as follows:

	31 December 2017	31 December 2016
Between 1 and 2 years	23,252,660	13,323,750
Between 2 and 5 years	38,991,710	44,038,904
Over 5 years	2,514,015	4,255,915
	64,758,385	**61,618,569**

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

	31 December 2017	31 December 2016
USD	17,934,250	39,607,915
EUR	46,852,898	25,397,647
RSD	814	977
JPY	309,611	385,554
	65,097,573	**65,392,093**

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

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

The loan agreements contain financial covenants that require the Company's ratio of Indebtedness to EBITDA. Management believes the Company is in compliance with these covenants as of 31 December 2017 and 31 December 2016 respectively.

c) Financial lease liabilities

Minimum finance lease payments:

	31 December 2017	31 December 2016
Less than one year	58,894	30,803
1-5 years	208,456	128,399
Over 5 years	-	-
Future finance charges on finance leases	(20,140)	(16,674)
Present value of finance lease liabilities	**247,210**	**142,528**

	31 December 2017	31 December 2016
Less than one year	51,155	25,114
1-5 years	196,055	117,414
Over 5 years	-	-
Present value of finance lease liabilities	**247,210**	**142,528**

26. SHORT-TERM FINANCE LIABILITIES

	31 December 2017	31 December 2016
Short-term loans from subsidiaries	2,298,488	1,109,630
Short-term loans	-	12,189,916
Current portion of long-term loans (note 25)	5,900,701	9,541,536
	8,199,189	**22,841,082**

27. TRADE PAYABLES

As at 31 December 2017 payables in a amount of RSD 29.393.322 (31 December 2016: RSD 24,861,519) including payables to parents and subsidiaries-foreign amounting to RSD 11.792.424 (31 December 2016: RSD 5,862,793) mainly relate to payables to the supplier Gazprom Neft, St Petersburg, for the purchase of crude oil.

28. OTHER SHORT-TERM LIABILITIES

	31 December 2017	31 December 2016
Specific liabilities	202,931	277,728
Liabilities for unpaid wages and salaries, gross	845,505	812,019
Interest liabilities	669,586	718,671
Dividends payable	3,772,308	3,772,308
Other payables to employees	1,428,540	475,775
Decommissioning and site restoration costs	1,419,423	1,385,645
Environmental provision	201,836	292,484
Litigation and claims	239,268	230,802
Other current liabilities	101,350	102,882
	8,880,747	**8,068,314**

29. LIABILITIES FOR OTHER TAXES

	31 December 2017	31 December 2016
Excise tax	4,777,490	5,009,938
Contribution for buffer stocks	527,858	601,357
Income tax	1,915,676	-
Other taxes payables	1,285,063	1,378,373
	8,506,087	**6,989,668**

30. ACCRUED EXPENSES

Accrued expenses as at 31 December 2017 amounting to RSD 3,799,475 (31 December 2016: RSD 3,424,134) mainly relate to accrued employee bonuses of RSD 1,746,078 (31 December 2016: RSD 1,627,264).

31. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2017	2016
Cost of production services	2,421,156	3,146,363
Transportation services	3,341,470	3,339,230
Maintenance	4,362,285	5,277,845
Rental costs	1,195,482	1,201,047
Fairs	508	7,196
Advertising costs	823,779	861,607
Exploration expenses	624,627	1,247,077
Cost of other services	1,295,025	1,239,590
	14,064,332	**16,319,955**

32. NON-PRODUCTION COSTS

	Year ended 31 December	
	2017	2016
Costs of non-production services	6,807,934	6,732,701
Representation costs	128,862	91,863
Insurance premium	486,646	357,749
Bank charges	301,884	231,656
Cost of taxes	1,069,697	1,009,281
Mineral extraction tax	1,202,368	1,014,164
Other non-production expenses	1,053,902	1,103,062
	11,051,293	**10,540,476**

Cost of non-production services for the year ended 31 December 2017 amounting to RSD 6,807,934 (2016: RSD 6,732,701) mainly relate to costs of service organizations of RSD 4,073,804, project management costs of RSD 1,394,632 and consulting service costs of RSD 435,025.

33. FINANCE INCOME

	Year ended 31 December	
	2017	2016
Finance income - related parties		
- foreign exchange differences	2,703,009	864,859
- other finance income	897,229	968,003
Interest income	722,521	543,704
Income from discounting of receivables	379,211	489,982
Foreign exchange gains	8,766,965	1,283,326
Other finance income	161,592	3,220
	13,630,527	**4,153,094**

34. FINANCE EXPENSE

	Year ended 31 December 2017	2016
Finance expenses – related parties		
- foreign exchange differences	2,320,083	1,277,893
- other finance expense	668,683	773,919
Interest expenses	2,279,585	2,542,892
Decommissioning provision: unwinding of the present value discount (note 6.1)	138,487	118,944
Provision of trade and other non-current receivables: discount	-	296,429
Foreign exchange losses	2,139,853	3,778,441
Other finance expense	27,593	8,303
	7,574,284	**8,796,821**

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

	Year ended 31 December 2017	2016
Reversal of impairment of LT financial investments	540	827
Income from valuation:		
- trade and specific receivables (note 6.1)	233,094	4,429,484
- other receivables (note 6.1)	74,254	2,086,762
	307,888	**6,517,073**

36. OTHER INCOME

	Year ended 31 December 2017	2016
Gains on disposal – PPE	84,678	355,823
Gains on disposal – materials	31,209	36,886
Surpluses from stock count	406,206	371,085
Payables written off	23,966	61,024
Release of long-term provisions (note 24)	168,854	475,602
Release of impairment:		
- Investment property	16,869	79,957
- Inventory (note 16)	316	3,249
- PPE and other property	2,021	8,808
Penalty interest	116,656	106,199
Other income	81,178	273,624
	931,953	**1,772,257**

37. OTHER EXPENSES

	Year ended 31 December 2017	2016
Loss on disposal - PPE	192,496	243,100
Shortages from stock count	505,368	503,234
Write-off receivables	24,774	57,464
Write-off inventories	116,246	56,672
Impairment:		
- PPE	196,111	42,054
- Investment property and asset held for sale	43,396	-
- Inventory (note 16)	3,097	41,204
- Other property	6,973	2,242
Other expenses	300,405	428,120
	1,388,866	**1,374,090**

38. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2017	2016
Income tax for the year	5,556,879	2,061,271
Deferred income tax for the period		
Origination and reversal of temporary differences (note 15)	1,609,448	458,404
	7,166,327	**2,519,675**

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

	Year ended 31 December	
	2017	2016
Profit before tax	**34,956,787**	**18,601,544**
Tax calculated at domestic tax rates applicable to profits in the respective countries	5,243,518	2,790,232
Tax effect on:		
Revenues exempt from taxation	(304,646)	(20,311)
Expenses not deductible for tax purposes		
- Tax paid in Angola	2,177,957	250,449
- Other expenses not deductable	232,211	(50,056)
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	1,776,401	672,122
Other tax effects for reconciliation between accounting profit and tax expense	(1,959,114)	(1,095,914)
	7,166,327	**2,546,522**
Adjustment in respect of prior years	-	(26,847)
	7,166,327	**2,519,675**
Effective income tax rate	20.50%	13.55%

The weighted average applicable tax rate was 20.50% (2016: 13.55%). The increase is caused by a change in the profitability of the Company and due to Global agreement with the Ministry of finance and General Tax administration of the Republic of Angola signed in June 2017 by which Company agreed to pay tax charges for the fiscal years 2002 – 2016.

39. OPERATING LEASES

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

	31 December 2017	31 December 2016
Less than one year	267,034	273,367
1-5 years	383,664	343,303
Over 5 years	149,922	138,121
	800,620	**754,791**

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

	31 December 2017	31 December 2016
Less than one year	751,255	1,137,744
1-5 years	2,866,576	40,972
Over 5 years	215,761	34,799
	3,833,592	**1,213,515**

The Company rents mainly O&G equipment and petrol stations.

40. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

As of 31 December 2017 the Company has entered into contracts to purchase property, plant and equipment for RSD 11,347,099 (31 December 2016: RSD 5,324,487).

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Company 's management recognised an environmental provision in the amount of RSD 681,919 (31 December 2016: RSD 838,655).

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

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Company has paid all tax liabilities as of 31 December 2017.

41. RELATED PARTIES TRANSACTIONS

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

During 2017 and 2016, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

As of 31 December 2017 and 31 December 2016 the outstanding balances with related parties were as follows:

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

	Subsidiary	Parent	Entities under comon control and associates	Total
As at 31 December 2016				
Advances for PPE	220,956	-	-	220,956
Investments in subsidiaries	13,442,631	-	1,038,800	14,481,431
Long-term loans	32,413,076	-	-	32,413,076
Trade receivables	3,020,095	-	1,670,031	4,690,126
Receivables from specific operations	224,295	-	-	224,295
Other receivables	1,076,085	-	-	1,076,085
Short-term investments	3,262,268	-	-	3,262,268
Long-term liabilities	-	(31,585,938)	-	(31,585,938)
Short-term financial liabilities	(1,109,630)	(5,742,898)	-	(6,852,528)
Advances received	(2,142)	-	(24,658)	(26,800)
Trade payables	(3,163,156)	(5,862,793)	(1,734,258)	(10,760,207)
Other short-term liabilities	(41,950)	-	-	(41,950)
	49,342,528	**(43,191,629)**	**949,915**	**7,100,814**

For the year ended 31 December 2017 and 2016 the following transaction occurred with related parties:

	Subsidiary	Parent	Entities under comon control and associates	Total
Year ended 31 December 2017				
Sales revenue	14,292,703	-	32,560,651	46,853,354
Other operating income	35,348	-	604	35,952
Cost of goods sold	(80,279)	-	(10,312,815)	(10,393,094)
Cost of material	(11,594)	(31,926,861)	-	(31,938,455)
Fuel and energy expenses	(1,600)	-	-	(1,600)
Employee benefits expenses	(86,982)	-	-	(86,982)
Production services	(3,645,691)	-	(197,261)	(3,842,952)
Non-material expense	(1,109,830)	(3,000)	(28,348)	(1,141,178)
Finance income	902,565	-	-	902,565
Finance expense	(30,545)	(632,427)	-	(662,972)
Fair value measurement losses	(27,460)	-	-	(27,460)
Other income	1,337	83,321	-	84,658
Other expenses	-	(69,543)	(253)	(69,796)
	10,237,972	**(32,548,510)**	**22,022,578**	**(287,960)**
Year ended 31 December 2016				
Sales revenue	9,016,182	-	9,079,413	18,095,595
Other operating income	34,020	-	-	34,020
Cost of goods sold	(183,208)	-	(8,474,101)	(8,657,309)
Cost of material	(10,254)	(36,864,735)	-	(36,874,989)
Fuel and energy expenses	(2,358)	-	-	(2,358)
Employee benefits expenses	(74,206)	-	-	(74,206)
Production services	(3,905,866)	-	(167,524)	(4,073,390)
Non-material expense	(1,031,648)	-	(45,094)	(1,076,742)
Finance income	1,832,862	-	-	1,832,862
Finance expense	(1,290,742)	(761,070)	-	(2,051,812)
Fair value measurement losses	(35,350)	-	-	(35,350)
Other income	1,113	133,073	-	134,186
Other expenses	(70)	(148,657)	(260)	(148,987)
	4,350,475	**(37,641,389)**	**392,434**	**(32,898,480)**

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

	Entities under comon control and associates	Other
As at 31 December 2017		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,446,685	-
• *Srbijagas*	-	109,748
• *Republika Srbija*	-	3,740,763
• *Other state owned companies*	-	4,936,110
Trade and other payables		
• *HIP Petrohemija*	(1,252,736)	-
• *Srbijagas*	-	(77,059)
Other current liabilities		
• *HIP Petrohemija*	(13,646)	-
	180,303	**8,709,562**
As at 31 December 2016		
Trade and other receivables (gross)		
• *HIP Petrohemija*	-	10,349,446
• *Srbijagas*	-	34,142
• *Republika Srbija*	-	21,764,308
• *Other state owned companies*	-	3,621,268
Trade and other payables		
• *HIP Petrohemija*	-	(675,393)
• *Srbijagas*	-	(141,195)
Other current liabilities		
• *HIP Petrohemija*	-	(1,567)
	-	**34,951,009**

	Entities under comon control and associates	Other
As at 31 December 2017		
Operating income		
• *HIP Petrohemija*	21,947,228	-
• *Srbijagas*	-	782,306
Operating expenses		
• *HIP Petrohemija*	(195,139)	-
• *Srbijagas*	-	(926,488)
	21,752,089	**(144,182)**
As at 31 December 2016		
Operating income		
• *HIP Petrohemija*	-	13,847,087
• *Srbijagas*	-	1,284,610
Operating expenses		
• *HIP Petrohemija*	-	(195,479)
• *Srbijagas*	-	(1,123,794)
	-	**13,812,424**

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

Transactions with Key Management Personnel

In the year ended 31 December 2017 and 2016 the Company recognized RSD 1,029,116 and RSD 864,392, respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

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