NIS A.D. – Naftna industrija Srbije
Novi Sad

Consolidated Financial Statements and Independent Auditor's Report

31 December 2018

Novi Sad, 28 February 2019

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

Contents

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Naftna Industrija Srbije a.d. Novi Sad (the „Parent") and its subsidiaries (the „Group") which comprise the consolidated balance sheet as of 31 December 2018 and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Milivoje Nešović
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 February 2019

CONSOLIDATED BALANCE SHEET

	AOP	Note	31 December 2018	31 December 2017
A. SUBSCRIBED CAPITAL UNPAID	**0001**		-	-
B. NON-CURRENT ASSETS (0003 + 0010 + 0019+ 0024 + 0034)	**0002**		**296,537,210**	**278,528,255**
I. INTANGIBLE ASSETS (0004+0005+0006+0007+0008+0009)	**0003**	**8**	**23,371,384**	**22,261,148**
1. Development investments	0004		9,306,365	7,765,207
2 Concessions, licenses, software and other rights	0005		1,729,128	2,549,083
3. Goodwill	0006		1,549,378	1,743,490
4. Other intangible assets	0007		1,126,420	1,170,925
5. Intangible assets under development	0008		9,660,093	9,032,443
6. Advances for intangible assets	0009		-	-
II. PROPERTY, PLANT AND EQUIPMENT (0011+0012+0013+0014+0015+0016+0017+0018)	**0010**	**9**	**270,113,614**	**250,948,308**
1. Land	0011		16,981,657	16,849,316
2. Buildings	0012		142,827,273	134,940,466
3. Machinery and equipment	0013		67,730,378	69,551,913
4. Investment property	0014		1,615,391	1,530,356
5. Other property, plant and equipment	0015		88,732	86,623
6. Construction in progress	0016		39,896,274	25,649,268
7. Investments in leased PP&E	0017		212,398	271,904
8. Advances for PP&E	0018		761,511	2,068,462
III. BIOLOGICAL ASSETS (0020+0021+0022+0023)	**0019**		-	-
1. Forest farming	0020		-	-
2. Livestock	0021		-	-
3. Biological assets in production	0022		-	-
4. Advances for biological assets	0023		-	-
IV. LONG-TERM FINANCIAL INVESTMENTS (0025+0026+0027+0028+0029+0030+0031+0032+0033)	**0024**		**3,043,233**	**5,310,386**
1. Investments in subsidiary	0025		-	-
2. Investments in associates and joint ventures	0026	10	1,980,388	2,047,021
3. Investments in other legal entities and other available for sales financial assets	0027		114,162	119,919
4. Long term investments in parent and subsidiaries	0028		-	-
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	11	948,683	3,143,446
V. LONG-TERM RECEIVABLES (0035+0036+0037+0038+0039+0040+0041)	**0034**		**8,979**	**8,413**
1. Receivables from parent company and subsidiaries	0035		-	-
2. Receivables from other related parties	0036		-	-
3. Receivables from sale of goods on credit	0037		-	-
4. Receivables arising out of finance lease contracts	0038		8,979	8,413
5. Claims arising from guarantees	0039		-	-
6. Bad and doubtful receivables	0040		-	-
7. Other long-term receivables	0041		-	-
C. DEFFERED TAX ASSETS	**0042**	**12**	**545,497**	**2,197,910**

(continued)

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET (continued)

	AOP	Note	31 December 2018	31 December 2017
D. CURRENT ASSETS (0044+0051+0059+0060+0061+0062+0068+0069+0070)	**0043**		**98,902,636**	**106,828,207**
I. INVENTORY (0045+0046+0047+0048+0049+0050)	**0044**	**13**	**48,472,071**	**37,322,937**
1. Materials, spare parts and tools	0045		24,951,994	22,868,451
2. Work in progress	0046		4,923,492	3,961,298
3. Finished goods	0047		13,828,273	8,084,524
4. Merchandise	0048		4,152,553	2,002,670
5. Assets held for sale	0049		-	163
6. Advances for inventory and services	0050		615,759	405,831
II. TRADE RECEIVABLES (0052+0053+0054+0055+0056+0057+0058)	**0051**	**14**	**26,007,811**	**27,914,176**
1. Domestic trade receivables - parents and subsidiaries	0052		-	-
2. Foreign trade receivables - parents and subsidiaries	0053		99	-
3. Domestic trade receivables - other related parties	0054		1,227,518	1,447,646
4. Foreign trade receivables - other related parties	0055		645,804	1,024,133
5. Trade receivables - domestic	0056		23,348,658	24,013,778
6. Trade receivables - foreign	0057		785,732	1,428,619
7. Other trade receivables	0058		-	-
III. RECEIVABLES FROM SPECIFIC OPERATIONS	**0059**		**542,613**	**529,292**
IV. OTHER RECEIVABLES	**0060**	**15**	**223,571**	**1,190,740**
V. FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS	**0061**		**-**	**-**
VI. SHORT TERM FINANCIAL INVESTMENTS (0063+0064+0065+0066+0067)	**0062**	**16**	**2,263,431**	**7,742,504**
1. Short-term loans and investments - parent companies and subsidiaries	0063		-	-
2. Short-term loans and investments - other related parties	0064		-	-
3. Short-term loans and investments - domestic	0065		23,593	72,681
4. Short-term loans and investments - foreign	0066		-	-
5. Other short-term loans and investments	0067		2,239,838	7,669,823
VII. CASH AND CASH EQUIVALENTS	**0068**	**17**	**15,480,830**	**27,075,370**
VIII. VALUE ADDED TAX	**0069**		**295,900**	**286,562**
IX. PREPAYMENTS AND ACCRUED INCOME	**0070**	**18**	**5,616,409**	**4,766,626**
E. TOTAL ASSETS (0001+0002+0042+0043)	**0071**		**395,985,343**	**387,554,372**
F. OFF-BALANCE SHEET ASSETS	**0072**	**19**	**113,781,102**	**108,361,401**
A. EQUITY (0402+0411-0412+0413+0414+0415-0416+0417+0420-0421)	**0401**		**242,875,804**	**225,051,510**
I. EQUITY (0403+0404+0405+0406+0407+0408+0409+0410)	**0402**	**20**	**81,548,930**	**81,548,930**
1. Share capital	0403	20.1	81,548,930	81,548,930
2. Stakes of limited liability companies	0404		-	-
3. Stakes	0405		-	-
4. State owned capital	0406		-	-
5. Socially owned capital	0407		-	-
6. Stakes in cooperatives	0408		-	-
7. Share premium	0409		-	-
8. Other capital	0410		-	-
II. SUBSCRIBED CAPITAL UNPAID	**0411**		**-**	**-**
III. OWN SHARES	**0412**		**-**	**-**
IV. RESERVES	**0413**		**-**	**-**
V. REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT	**0414**		**79,755**	**81,796**
VI. UNREALISED GAINS FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	**0415**		**251,499**	**212,811**
VII. UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	**0416**		**60,082**	**64,013**
VIII. RETAINED EARNINGS (0418+0419)	**0417**		**161,055,702**	**143,271,986**
1. Retained earnings from previous years	0418		135,921,400	116,309,335
2. Retained earnings from current year	0419		25,134,302	26,962,651
IX. NON-CONTROLLING INTEREST	**0420**		**-**	**-**
X. LOSS (0422+0423)	**0421**		**-**	**-**
1. Loss from previous years	0422		-	-
2. Loss from current year	0423		-	-

(continued)

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET (continued)

	AOP	Note	31 December 2018	31 December 2017
B. LONG-TERM PROVISIONS AND LIABILITIES (0425+0432)	**0424**		**98,029,207**	**100,262,181**
I. LONG-TERM PROVISIONS (0426+0427+0428+0429+0430+4031)	**0425**	**21**	**10,210,005**	**9,766,303**
1. Provisions for warranty claims	0426		-	-
2. Provision for environmental rehabilitation	0427		9,169,159	8,904,782
3. Provisions for restructuring costs	0428		-	-
4. Provisions for employee benefits	0429		791,889	499,221
5. Provisions for litigations	0430		248,957	362,300
6. Other long term provisions	0431		-	-
II. LONG-TERM LIABILITIES (0433+0434+0435+0436+0437+0438+0439+0440)	**0432**	**22**	**87,819,202**	**90,495,878**
1. Liabilities convertible to equity	0433		-	-
2. Liabilities to parent and subsidiaries	0434		19,240,982	24,796,612
3. Liabilities to other related parties	0435		-	-
4. Liabilities for issued long-term securities	0436		-	-
5. Long term borrowings - domestic	0437		50,326,307	43,049,008
6. Long-term borrowings - foreign	0438		17,454,236	22,210,666
7. Finance lease liabilities	0439		755,575	380,137
8. Other long-term liabilities	0440		42,102	59,455
C. DEFFERED TAX LIABILITIES	**0441**	**12**	**-**	**-**
D. SHORT-TERM LIABILITIES (0443+0450+0451+0459+0460+0461+0462)	**0442**		**55,080,332**	**62,240,681**
I. SHORT-TERM FINANCIAL LIABILITIES (0444+0445+0446+0447+0448+0449)	**0443**	**23**	**6,395,091**	**6,099,584**
1. Short term borrowings from parent and subsidiaries	0444		-	-
2. Short term borrowings from other related parties	0445		-	-
3. Short-term loans and borrowings - domestic	0446		-	-
4. Short-term loans and borrowings - foreign	0447		-	-
5. Liabilities relating to current assets and held-for-sale assets attributable to discounted operations	0448		-	-
6. Other short term liabilities	0449		6,395,091	6,099,584
II. ADVANCES RECEIVED	**0450**		**1,456,981**	**1,439,243**
III. TRADE PAYABLES (0452+0453+0454+0455+0456+0458)	**0451**	**24**	**25,834,088**	**30,100,904**
1. Trade payables - parent and subsidiaries - domestic	0452		-	-
2. Trade payables - parent and subsidiaries - foreign	0453		10,243,742	11,727,340
3. Trade payables - other related parties - domestic	0454		1,251,648	1,252,736
4. Trade payables - other related parties - foreign	0455		684,857	1,047,572
5. Trade payables - domestic	0456		8,481,121	9,506,890
6. Trade payables - foreign	0457		5,168,398	6,561,904
7. Other operating liabilities	0458		4,322	4,462
IV. OTHER SHORT-TERM LIABILITIES	**0459**	**25**	**8,687,986**	**9,397,192**
V. LIABILITIES FOR VAT	**0460**		**1,383,089**	**1,853,794**
VI. LIABILITIES FOR OTHER TAXES	**0461**	**26**	**7,687,953**	**9,187,515**
VII. ACCRUED EXPENSES	**0462**	**27**	**3,635,144**	**4,162,449**
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**		**395,985,343**	**387,554,372**
G. OFF-BALANCE SHEET LIABILITIES	**0465**	**19**	**113,781,102**	**108,361,401**

Novi Sad, 28 February 2019

The person responsible for the preparation of Consolidated Financial Statements

M.P.

Legal representative

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

	AOP	Note	Year ended 31 December 2018	2017
INCOME FROM REGULAR OPERATING ACTIVITIES				
A. OPERATING INCOME (1002+1009+1016+1017)	**1001**	**7**	**280,983,749**	**234,711,482**
I. INCOME FROM THE SALE OF GOODS (1003+1004+1005+1006+1007+1008)	**1002**		**38,545,631**	**40,672,602**
1. Income from sales of goods to parent and subsidiaries on domestic market	1003		-	-
2. Income from sales of goods to parent and subsidiaries on foreign market	1004		-	-
3. Income from the sale of goods to other related parties on domestic market	1005		102	155
4. Income from the sale of goods to other related parties on foreign market	1006		135,052	10,015,978
5. Income from sale of goods on domestic market	1007		8,428,537	6,276,844
6. Income from sale of goods on foreign market	1008		29,981,940	24,379,625
II. INCOME FROM SALES OF PRODUCTS AND SERVICES (1010+1011+1012+1013+1014+1015)	**1009**		**241,912,753**	**193,578,793**
1. Income from sales of products and services to parent and subsidiaries on domestic market	1010		-	-
2. Income from sales of products and services to parent and subsidiaries on foreign market	1011		961	-
3. Income from sales of products and services to other related parties on domestic market	1012		26,700,155	21,952,815
4. Income from sales of products and services to other related parties on foreign market	1013		555,164	592,358
5. Income from sales of products and services – domestic	1014		171,203,221	138,075,307
6. Income from sales of products and services – foreign	1015		43,453,252	32,958,313
III. INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS	**1016**		**3,340**	**26,380**
IV. OTHER OPERATING INCOME	**1017**		**522,025**	**433,707**
B. OPERATING EXPENSES (1019-1020-1021+1022+1023+1024+1025+1026+1027+1028+1029)>=0	**1018**		**248,318,196**	**204,524,657**
I. COST OF GOODS SOLD	1019		23,441,660	28,700,433
II. WORK PERFORMED BY THE ENTITY AND CAPITALIZED	1020		13,188,633	10,697,349
III. INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1021		6,011,313	3,213,109
IV. DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1022		-	-
V. COST OF MATERIAL	1023		168,678,465	121,840,139
VI. COST OF FUEL AND ENERGY	1024		4,552,772	4,035,172
VII. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	1025		20,101,583	18,761,914
VIII. COST OF PRODUCTION SERVICES	1026	28	14,926,665	13,918,103
IX. DEPRECIATION, DEPLETION AND AMORTIZATION	1027	8,9	20,340,977	16,427,278
X. COST OF LONG-TERM PROVISIONING	1028		667,650	864,620
XI. NON-PRODUCTION COSTS	1029	29	14,808,370	13,887,456
C. OPERATING GAIN (1001-1018)>=0	**1030**		**32,665,553**	**30,186,825**
D. OPERATING LOSS (1018-1001)>=0	**1031**		**-**	**-**

(continued)

CONSOLIDATED INCOME STATEMENT (continued)

	AOP	Note	Year ended 31 December 2018	2017
E. FINANCE INCOME (1033+1038+1039)	**1032**	**30**	**3,826,427**	**12,955,289**
I. FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME (1034+1035+1036+1037)	1033		1,254,731	2,863,316
1. Finance income - parent company and subsidiaries	1034		1,189,687	2,657,706
2. Finance income - other related parties	1035		36,108	43,951
3. Share of profit of associates and joint ventures	1036		-	-
4. Other financial income	1037		28,936	161,659
II. INTEREST INCOME (from third parties)	1038		766,588	1,105,589
III. FOREIGN EXCHANGE GAINS (third parties)	1039		1,805,108	8,986,384
F. FINANCE EXPENSES (1041+1046+1047)	**1040**	**31**	**5,748,045**	**8,121,812**
I. FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES (1042+1043+1044+1045)	1041		1,811,230	3,297,002
1. Finance expense - parent company and subsidiaries	1042		1,713,344	3,220,819
2. Finance expense - other related parties	1043		23,682	48,590
3. Share of loss of associates and joint ventures	1044		66,634	-
4. Other financial expense	1045		7,570	27,593
II. INTEREST EXPENSE (from third parties)	1046		2,069,547	2,553,231
III. FOREIGN EXCHANGE LOSSES (third parties)	1047		1,867,268	2,271,579
G. PROFIT FROM FINANCING OPERATIONS (1032-1040)	**1048**		**-**	**4,833,477**
H. LOSS FROM FINANCING OPERATIONS (1040-1032)	**1049**		**1,921,618**	**-**
I. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**1050**	**32**	**868,513**	**309,387**
J. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**1051**		**170,170**	**586,650**
K. OTHER INCOME	**1052**	**33**	**1,215,316**	**1,213,935**
L. OTHER EXPENSES	**1053**	**34**	**1,804,368**	**1,737,858**
M. OPERATING PROFIT BEFORE TAX (1030-1031+1048-1049+1050-1051+1052-1053)	**1054**		**30,853,226**	**34,219,116**
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**		**30,853,226**	**34,219,116**
R. LOSS BEFORE TAX (1055-1054+1057-1056)	**1059**		**-**	**-**
II. INCOME TAX				
I. CURRENT INCOME TAX	1060	35	4,066,760	5,640,826
II. DEFERRED TAX EXPENSE FOR THE PERIOD	1061	35	1,674,486	2,073,470
III. DEFERRED TAX INCOME FOR THE PERIOD	1062	35	22,322	457,831
S. PERSONAL INCOME PAID TO EMPLOYER	**1063**		**-**	**-**
T. NET PROFIT (1058-1059-1060-1061+1062)	**1064**		**25,134,302**	**26,962,651**
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		25,150,220	26,991,074
III. NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1068		15,918	28,423
IV. NET LOSS ATTRIBUTABLE TO THE OWNER	1069		-	-
V. EARNINGS PER SHARE				
1. Basic earnings per share	1070		0.154	0.166
2. Diluted earnings per share	1071		-	-

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	AOP	Note	Year ended 31 December 2018	2017
A. NET PROFIT/(LOSS)				
I. PROFIT, NET (AOP 1064)	**2001**		**25,134,302**	**26,962,651**
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		360	1,189
b) decrease in revaluation reserves	2004		-	-
2. Actuarial gains (losses) of post employment benefit obligations				
a) gains	2005		3,316	12,180
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		35,372	613,542
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	2017		-	-
4. Gains (losses) from change in value of available-for-sale financial assets				
a) gains	2017		477	2,505
b) losses	2018		-	-
I. OTHER COMPREHENSIVE PROFIT BEFORE TAX (2003+2005+2007+2009+2011+2013+2015+2017)-(2004+2006+2008+2010+2012+2014+2016+2018)>=0	2019		39,525	629,416
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**		**39,525**	**629,416**
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		25,173,827	27,592,067
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**		**25,173,827**	**27,592,067**
1. Attributable to shareholders	2027		25,173,827	27,592,067
2. Attributable to non-controling interest	2028		-	-

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	AOP	Note	Year ended 31 December 2018	2017
A. CASH FLOWS FROM OPERATING ACTIVITIES				
I. Cash inflow from operating activities (1 to 3)	**3001**		**517,301,936**	**440,902,299**
1. Sales and advances received	3002		516,240,758	439,897,897
2. Interest from operating activities	3003		539,153	570,695
3. Other inflow from operating activities	3004		522,025	433,707
II. Cash outflow from operating activities (1 to 5)	**3005**		**479,924,756**	**381,865,440**
1. Payments and prepayments to suppliers	3006		235,577,593	179,712,687
2. Salaries, benefits and other personal expenses	3007		20,125,461	18,675,293
3. Interest paid	3008		2,071,683	2,844,781
4. Income tax paid	3009		5,470,912	3,378,983
5. Payments for other public revenues	3010		216,679,107	177,253,696
III. Net cash inflow from operating activities (I - II)	**3011**		**37,377,180**	**59,036,859**
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**		**8,012,829**	**2,516,845**
1. Sale of shares (net inflow)	3014		-	-
2. Proceeds from sale of property, plant and equipment	3015		368,037	291,282
3. Other financial investments (net inflow)	3016		7,619,661	2,225,407
4. Interest from investing activities	3017		-	-
5. Dividend received	3018		25,131	156
II. Cash outflow from investing activities (1 to 3)	**3019**		**47,225,072**	**41,697,700**
1. Acquisition of subsidiaries or other business (net outflow)	3020		-	-
2. Purchase of intangible assets, property, plant and equipment	3021		47,089,576	30,066,617
3. Other financial investments (net outflow)	3022		135,496	11,631,083
III. Net cash inflow from investing activities (I - II)	**3023**		**-**	**-**
IV. Net cash outflow from investing activities (II - I)	**3024**		**39,212,243**	**39,180,855**
C. CASH FLOWS FROM FINANCING ACTIVITIES				
I. Cash inflow from financing activities (1 to 5)	**3025**		**37,213,097**	**36,955,269**
1. Increase in share capital	3026		-	-
2. Proceeds from long-term borrowings (net inflow)	3027	22	37,213,097	36,955,269
3. Proceeds from short-term borrowings (net inflow)	3028		-	-
4. Other long-term liabilities	3029		-	-
5. Other short-term liabilities	3030		-	-
II. Cash outflow from financing activities (1 to 6)	**3031**		**47,031,592**	**52,165,268**
1. Purchase of own shares	3032		-	-
2. Repayment of long-term borrowings (net outflow)	3033	22	39,952,347	35,994,428
3. Repayment of short-term borrowings (net outflow)	3034		-	12,032,433
4. Repayment of other liabilities (net outflow)	3035		-	-
5. Financial lease	3036	22	131,241	117,338
6. Dividend distribution	3037	20.1	6,948,004	4,021,069
III. Net cash inflow from financing activities (I - II)	**3038**		**-**	**-**
IV Net cash outflow from financing activities (II - I)	**3039**		**9,818,495**	**15,209,999**
D. TOTAL CASH INFLOW (3001+3013+3025)	**3040**		**562,527,862**	**480,374,413**
E. TOTAL CASH OUTFLOW (3005+3019+3031)	**3041**		**574,181,420**	**475,728,408**
F. NET CASH INFLOW (340-341)	**3042**		**-**	**4,646,005**
G. NET CASH OUTFLOW (341-340)	**3043**		**11,653,558**	**-**
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3044**		**27,075,370**	**22,899,342**
I. CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS	**3045**		**385,469**	**469,641**
J. CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS	**3046**		**326,451**	**939,618**
K. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (3042-3043+3044+3045-3046)	**3047**		**15,480,830**	**27,075,370**

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity components						Other comprehensive income components	
	AOP	Share capital	AOP	Loss	AOP	Retained earnings	AOP	Revaluation reserves
Balance as at 1 January 2017								
a) debit	4001	-	4055	-	4091	-	4109	-
b) credit	4002	**81,548,930**	4056	-	4092	**120,330,404**	4110	**80,607**
Adjustments of material errors and changes in accounting policies								
a) debit	4003	-	4057	-	4093	-	4111	-
b) credit	4004	-	4058	-	4094	-	4112	-
Restated opening balance as at 1 January 2017								
a) debit (1а+2а-2б)>=0	4005	-	4059	-	4095	-	4113	-
б) credit (1б-2а+2б)>=0	4006	**81,548,930**	4060	-	4096	**120,330,404**	4114	**80,607**
Changes in period								
a) debit	4007	-	4061	-	4097	4,021,069	4115	-
b) credit	4008	-	4062	-	4098	26,962,651	4116	1,189
Balance as at 31 December 2017								
a) debit (3а+4а-4б)>=0	4009	-	4063	-	4099	-	4117	-
б) credit (3б-4а+4б)>=0	4010	**81,548,930**	4064	-	4100	**143,271,986**	4118	**81,796**
Adjustments of material errors and changes in accounting policies								
a) debit	4011	-	4065	-	4101	401,527	4119	-
b) credit	4012	-	4066	-	4102	-	4120	-
Restated opening balance as at 1 January 2018								
a) debit (5а+6а-6б)>=0	4013	-	4067	-	4103	-	4121	-
б) credit (5б-6а+6б)>=0	4014	**81,548,930**	4068	-	4104	142,870,459	4122	**81,796**
Changes in period								
a) debit	4015	-	4069	-	4105	6,949,059	4123	2,401
b) credit	4016	-	4070	-	4106	25,134,302	4124	360
Balance as at 31 December 2018								
a) debit (7а+8а-8б)>=0	4017	-	4071	-	4107	-	4125	-
б) credit (7б-8а+8б)>=0	4018	**81,548,930**	4072	-	4108	**161,055,702**	4126	**79,755**

(continued)

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Other comprehensive income components							
	AOP	Acturial gain/(loss)	AOP	Gains (losses) from currency translation differences	AOP	Gains (losses) from change in value of available-for-sale financial assets	AOP	Total Equity
Balance as at 1 January 2017								
a) debit	4127	-	4181	595,946	4217	66,518		
b) credit	4128	183,035	4182	-	4218	-	4235	201,480,512
Adjustments of material errors and changes in accounting policies								
a) debit	4129	-	4183	-	4219	-		
b) credit	4130	-	4184	-	4220	-	4236	-
Restated opening balance as at 1 January 2017								
a) debit (1а+2а-2б)>=0	4131	-	4185	595,946	4221	66,518		
b) credit (1б-2а+2б)>=0	4132	183,035	4186	-	4222	-	4237	201,480,512
Changes in period								
a) debit	4133	-	4187	-	4223	-		
b) credit	4134	12,180	4188	613,542	4224	2,505	4238	23,570,998
Balance as at 31 December 2017								
a) debit (3а+4а-4б)>=0	4135	-	4189	-	4225	64,013		
b) credit (3б-4а+4б)>=0	4136	195,215	4190	17,596	4226	-	4239	225,051,510
Adjustments of material errors and changes in accounting policies								
a) debit	4137	-	4191	-	4227	-		
b) credit	4138	-	4192	-	4228	-	4249	401,527
Restated opening balance as at 1 January 2018								
a) debit (5а+6а-6б)>=0	4139	-	4193	-	4229	64,013		
b) credit (5б-6а+6б)>=0	4140	195,215	4194	17,596	4230	-	4241	224,649,983
Changes in period								
a) debit	4141	-	4195	-	4231	-		
b) credit	4142	3,316	4196	35,372	4232	3,931	4242	18,225,821
Balance as at 31 December 2018								
a) debit (7а+8а-8б)>=0	4143	-	4197	-	4233	60,082		
б) credit (7б-8а+8б)>=0	4144	198,531	4198	52,968	4234	-	4243	242,875,804

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

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

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005. On 2 February 2009, PJSC Gazprom Neft (''Gazprom Neft'') acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%. PJSC Gazprom, Russian Federation is the ultimate owner of the Group.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

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

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

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

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

At the date of signing Consolidated Financial Statements, crude oil price increased since 31 December 2018 from 50.210 $/barrel to 65.375 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any major fluctuation of crude oil prices.

Subsequent events occurring after 31 December 2018 were evaluated through 28 February 2019, the date these Consolidated Financial Statements were authorised for issue.

2.2. Basis of measurement

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

2.3. Segment reporting

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

2.4. Seasonality of Operations

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

2.5. Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents and other monetary assets and liabilities are presented in the Consolidated Income Statement within ‘Finance income or expense’.

(c) *Group’s Companies*

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

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

2.6. Principles of consolidation

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

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

(a) *Joint Operations and Joint Ventures*

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

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

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

(b) *Transactions Eliminated on Consolidation*

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

(c) *Non-controlling interests*

In the Consolidated Financial Statements, non-controlling interests in subsidiaries are presented separately from the Group equity as non-controlling interests. Non-controlling interest is measured at fair value or at its proportionate share in the acquiree's net identifiable assets. For each business combination a separate measurement principle is determined.

(d) *Investments in associates*

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associate are accounted for using equity method and are recognised initially at cost. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired.

2.7. Business combinations

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

2.8. Goodwill

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

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

2.9. Intangible assets

(a) *Goodwill*

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

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

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

(b) *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.

(c) *Software*

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

2.10. Oil and Gas properties

(a) *Exploration and evaluation expenditure*

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

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

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

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.
Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

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

Other exploration costs are charged to expense when incurred.

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

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

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

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

(c) *Oil and gas production assets*

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

(d) *Depreciation/amortization*

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

(e) *Impairment – exploration and evaluation assets*

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

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

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.
An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.11. Property, plant and equipment

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/expenses" in the Consolidated Income Statement (notes 33 and 34).

2.12. Impairment of non-financial assets

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

2.13. Investment property

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

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

Investment property is carried at fair value. Changes in fair values are recorded in the Consolidated Income Statement as part of “Other income/expense”.

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

2.14. Financial instruments

(a) *Key measurement terms*

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

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

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

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

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

(b) *Classification and measurement*

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

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

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

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

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

Debt instruments

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

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

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

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

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

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

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

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

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

Trade and other receivables. Trade and other receivables are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method, less provision for impairment. Trade receivables are amounts due from customers for products and merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

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

Equity instruments

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

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

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

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

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

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

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.
Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

(e) ***Modification***

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

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

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

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

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

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

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

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

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

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

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

- Simplified approach for impairment of receivables and lease receivables

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

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

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement.

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

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

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

Classification

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

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

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

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

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

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

Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

2.15. Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as "Other expense" (note 34).

2.16. Off-balance sheet assets and liabilities

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

2.17. Share capital

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

2.18. Earnings per share

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

2.19. Provisions

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

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

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

2.20. Current and deferred income tax

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

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

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

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

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

2.21. Employee benefits

(a) *Pension obligations*

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

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

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

(c) *Bonus plans*

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

In 2017, the Group has made decision to introduce new three-year (2018-2020) program for Group's managers which will be based on the Key Performance Indicators ("KPI") reached during the program (note 21).

2.22. Revenue recognition from contracts with customers

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

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

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

Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Group.

(a) *Sales - wholesale*

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

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

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

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

(b) *Sales – retail*

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

(c) *Sales of electricity*

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

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

(d) *Customer loyalty program*

The Group operates a loyalty program where customers accumulate award points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire after the initial transaction. The transaction price is allocated to the goods sold and the award points on the basis of their relative stand-alone selling prices. A contract liability for the award points is recognized at the time of the sale. Contract liabilities arising from customer loyalty program are presented in the note 25.

(e) *Interest income*

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

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

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

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

Accounting policies applied until 31 December 2017

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

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

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

2.23. Leases

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

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

(a) Right of use of land

Right of use of land acquired as a part of either acquisition or a separate transaction through payment to a third party or Local Authority is treated as an intangible asset. This acquired intangible assets has an indefinite useful life and is subject to annual impairment testing.

2.24. Dividend distribution

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

2.25. 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 Consolidated Financial Statements required Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past 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 are revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

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

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

3.1. Estimation of Oil and Gas Reserves

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

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

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

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

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

3.2. Useful Lives of Property, Plant and Equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the year.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2018 would be to increase/decrease it by RSD 1,849,565 (2017: RSD 1,481,790).

3.3. Impairment of goodwill

Goodwill is tested for impairment annually.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU. The estimated future cash flows include estimation of future costs to produce reserves, future commodity prices, foreign exchange rate, discount rate etc. (note 8)

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

If the discount rate used to calculate the present value of employee benefit obligations had been 6.70% (rather than 5.70%) per year, the past service liability (DBO) for the whole NIS Group would decrease by about 9.0% for retirement indemnity and 6.9% for jubilee benefit. If pay increased by 1.0% higher than assumed on an annual basic, than the past service liability (DBO) for the whole NIS Group would increase by amount 10.3% for the retirement indemnity and 7.4% 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 (note 21) is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

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

3.6. Contingencies

Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 38).

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

The Group assessed crude oil price volatility as main impairment indicator. If the actual crude oil price decrease for 10$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Group's PPE by 28.7 bln RSD.

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

4. APPLICATION OF NEW IFRS

Accounting policies applied from 1 January 2018

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

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

The adoption of IFRS 15 resulted in changes in accounting policies (see Note 2.22) and did not result any material adjustments to the consolidated statements of profit and loss, therefore the retained earnings as of 1 January 2018 has not been adjusted.

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

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

	Carrying value under IAS 39 and IAS 18 At 31 December 2017	Remeasu-rement	Carrying value under IFRS 9 and IFRS 15 1 January 2018	Retained earnings effect at 1 January 2018
Trade receivables (note 6)	27,914,176	(29,710)	27,884,466	(29,710)
Other long-term financial investments (note 11)	3,143,446	(371,817)	2,771,629	(371,817)
	-	**(401,527)**	**-**	**(401,527)**

Remeasurement effect relating to other long-term financial investments in amount of 371,817 thousand RSD represents ECL on housing loans provided to employees accounted for in accordance with IFRS 9.

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

- Amendments to IFRS 2 “Share-based Payment” (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – “Transfers of Investment Property” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

5. NEW ACCOUNTING STANDARDS

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

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements.

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

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

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

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

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

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

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

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

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

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

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

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

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

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

Market risk

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

Currency risk

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

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

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

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

As of 31 December 2018	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Financial instrument at FVTOCI	111,475	-	-	2,687	114,162
Other long-term financial investments	104,100	767,463	6,203	70,917	948,683
Long term receivables	8,979	-	-	-	8,979
Current assets					
Trade receivables	23,128,244	885,305	536,185	1,458,077	26,007,811
Receivables from specific operations	366,173	3,523	162,063	10,854	542,613
Other receivables	143,567	44,057	1,243	34,704	223,571
Short term financial investments	2,124,148	139,237	-	46	2,263,431
Cash and cash equivalents	5,187,670	4,717,880	4,074,271	1,501,009	15,480,830
Financial liabilities					
Non-current					
Long-term liabilities	(649)	(87,070,328)	(309,067)	(439,158)	(87,819,202)
Current liabilies					
Short-term financial liabilities	-	(6,302,164)	(52,628)	(40,299)	(6,395,091)
Trade payables	(8,522,174)	(14,823,629)	(897,986)	(1,590,299)	(25,834,088)
Other short-term liabilities	(8,219,003)	(219,021)	(166,430)	(83,532)	(8,687,986)
Net exposure	**14,432,530**	**(101,857,677)**	**3,353,854**	**925,006**	**(83,146,287)**

As of 31 December 2017	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Investments in other legal entities and other available for sales financial assets	117,900	-	-	2,019	119,919
Other long-term financial investments	2,107,677	959,722	4,964	71,083	3,143,446
Long term receivables	8,413	-	-	-	8,413
Current assets					
Trade receivables	21,114,139	4,269,578	827,079	1,703,380	27,914,176
Receivables from specific operations	341,232	13,170	155,363	19,527	529,292
Other receivables	151,116	1,014,723	1,227	23,674	1,190,740
Short term financial investments	7,657,613	63,519	-	21,372	7,742,504
Cash and cash equivalents	11,205,666	5,210,861	8,742,852	1,915,991	27,075,370
Financial liabilities					
Non-current					
Long-term liabilities	(283,880)	(72,137,729)	(17,890,187)	(184,082)	(90,495,878)
Current liabilies					
Short-term financial liabilities	(31,813)	(6,022,439)	(44,062)	(1,270)	(6,099,584)
Trade payables	(14,801,961)	(6,905,661)	(7,010,922)	(1,382,360)	(30,100,904)
Other short-term liabilities	(8,986,880)	(142,413)	(195,505)	(72,394)	(9,397,192)
Net exposure	**18,599,222**	**(73,676,669)**	**(15,409,191)**	**2,116,940**	**(68,369,698)**

The following exchange rates applied during the period:

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

Sensitivity analysis

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

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

As at 31 December 2018, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit and equity for the year would have been RSD 5,092,884 (2017: RSD 3,683,833) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

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

Interest rate risk

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

Credit risk

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

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

Group'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 end 31 December	
	2018	**2017**
Financial instrument at FVTOCI	114,162	-
Investments in other legal entities and other available for sales financial assets	-	119,919
Other long-term investments (note 11)	948,683	3,143,446
Long term receivables	8,979	8,413
Trade receivables (note 14)	26,007,811	27,914,176
Receivables from specific operations	542,613	529,292
Other receivables (note 15)	223,571	1,190,740
Short term financial investments	2,263,431	7,742,504
Cash and cash equivalents (note 17)	15,480,830	27,075,370
Total maximum exposure to credit risk	**45,590,080**	**67,723,860**

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

*Limits. T*he Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower**.** Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

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

Trade, Specific and Other receivables

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

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

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

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

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

	Loss rate	**Gross carrying amount**	**Lifetime ECL**	**Total trade, specific and other receivables**
Trade, specific and other receivables				
- current	0.09%	24,436,650	(21,506)	24,415,144
- less than 30 days overdue	0.32%	1,350,903	(4,355)	1,346,548
- 31 to 90 days overdue	1.13%	354,744	(4,007)	350,737
- 91 to 270 days overdue	4.22%	202,389	(8,542)	193,847
- over 270 days overdue	97.41%	17,877,762	(17,410,043)	467,719
Total trade, specific and other receivables		**44,222,448**	**(17,448,453)**	**26,773,995**

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

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

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

	31 December 2017		
	Gross	**Impaired**	**Net**
Not past due	25,321,163	-	25,321,163
Past due:			
within 30 days:	2,128,643	-	2,128,643
1 to 3 months	242,422	(5,941)	236,481
3 months to 1 year	383,307	(238,143)	145,164
over 1 year	7,781,219	(7,698,494)	82,725
Total	**35,856,754**	**(7,942,578)**	**27,914,176**

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

	Trade receivables			
	Individually impaired	Collectively impaired	**Lease receivables**	**Total**
As at 1 January 2017	**3,761,188**	**13,729,000**	**-**	**17,490,188**
Provision for receivables impairment	3,313	410,845	-	414,158
Unused amounts reversed (note 32)	(740)	(178,994)	-	(179,734)
Receivables written off during the year as uncollectible	-	(140,623)	-	(140,623)
Unwinding of discount (note 30 and 31)	-	(164,147)	-	(164,147)
Transfer from LT receivables	-	208,808	-	208,808
Transfer to investment to associates (note 10)	(1,349,735)	(8,362,950)	-	(9,712,685)
Other	(8,465)	35,078	-	26,613
As at 31 December 2017	**2,405,561**	**5,537,017**	**-**	**7,942,578**
Remeasurement of expected credit losses	29,710	-	-	29,710
Restated balance at 1 January 2018	**2,435,271**	**5,537,017**	**-**	**7,972,288**
Reclassification other receivables for lease as of 1 January 2018	-	(72,630)	72,630	-
Provision for receivables impairment	3,648	67,590	3,239	74,477
Unused amounts reversed (note 32)	(98,877)	(592,748)	(15,724)	(707,349)
Receivables written off during the year as uncollectible	-	(1,150,269)	(533)	(1,150,802)
Unwinding of discount (note 30 and 31)	-	(44,661)	-	(44,661)
Other	186	970	-	1,156
As at 31 December 2018	**2,340,228**	**3,745,269**	**59,612**	**6,145,109**

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. The other classes within trade, sprecific and other receivables do not contain impaired assets.

Movements on the Group's provision for impairment of receivables from specific operations are as follows:

	Receivables from specific operations
As at 1 January 2017	**3,790,258**
Provision for other receivables impairment	1,211
Unused amounts reversed (note 32)	(54,852)
Receivables written off during the year as uncollectible	(296,884)
Other	(45,642)
As at 31 December 2017	**3,394,091**
Provision for other receivables impairment	3,879
Unused amounts reversed (note 32)	(142,362)
Receivables written off during the year as uncollectible	(1,500,778)
Other	(116)
As at 31 December 2018	**1,754,714**

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

	31 December 2017		
	Gross	**Impaired**	**Net**
Not past due	1,120,164	-	1,120,164
Past due:			
within 30 days	13,378	(2,013)	11,365
1 to 3 months	8,117	(970)	7,147
3 months to 1 year	137,645	(101,777)	35,868
over 1 year	11,598,888	(11,582,692)	16,196
Total	**12,878,192**	**(11,687,452)**	**1,190,740**

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2017	**4,288,279**	**7,448,501**	**11,736,780**
Provision for other receivables impairment	79,215	-	79,215
Unused amounts reversed (note 32)	(74,244)	(16)	(74,260)
Receivables written off during the year as uncollectible	(102,085)	1,966	(100,119)
Other	599	45,237	45,836
As at 31 December 2017	**4,191,764**	**7,495,688**	**11,687,452**
Provision for other receivables impairment	5,856	13,682	19,538
Unused amounts reversed (note 32)	(12,919)	(3,577)	(16,496)
Receivables written off during the year as uncollectible	(2,048,409)	(92,703)	(2,141,112)
Other	(5,427)	4,675	(752)
As at 31 December 2018	**2,130,865**	**7,417,765**	**9,548,630**

Liquidity risk

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

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

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

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

As at 31 December 2018	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	Over 5 years
Financial liabilities (debt+lease)	94,214,293	100,623,609	8,147,806	86,866,787	5,609,016
Trade payables and dividends	29,606,396	29,606,396	29,606,396	-	-
	123,820,689	**130,230,005**	**37,754,202**	**86,866,787**	**5,609,016**
As at 31 December 2017					
Financial liabilities (debt+lease)	96,595,462	103,637,762	8,412,188	88,135,122	7,090,452
Trade payables and dividends	33,873,212	33,873,212	33,873,212	-	-
	130,468,674	**137,510,974**	**42,285,400**	**88,135,122**	**7,090,452**

6.2. Capital risk management

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

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

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

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

	31 December 2018	31 December 2017
Total borrowings (notes 22 and 23)	94,214,293	96,595,462
Less: cash and cash equivalents (note 17)	(15,480,830)	(27,075,370)
Net debt	**78,733,463**	**69,520,092**
EBITDA	53,708,499	46,961,778
Net debt to EBITDA	**1.47**	**1.48**

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

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

6.3. Fair value estimation

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

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

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

7. SEGMENT INFORMATION

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

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

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

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

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

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	52,134,006	281,446,809	(52,597,066)	280,983,749
Intersegment	50,567,429	2,029,637	(52,597,066)	-
External	1,566,577	279,417,172	-	280,983,749
EBITDA (Segment results)	**38,791,347**	**14,917,152**	**-**	**53,708,499**
Depreciation, depletion and amortization	(10,805,415)	(9,535,562)	-	(20,340,977)
Impairment losses/Revaluation surpluses (note 33 and 34)	(3,756)	(266,918)	-	(270,674)
Writte off exploration works (note 9)	(57,075)	-	-	(57,075)
Share of loss of associates and joint ventures	-	(66,634)	-	(66,634)
Finance expenses, net	(203,244)	(1,718,374)	-	(1,921,618)
Income tax	(323,003)	(5,395,921)	-	(5,718,924)
Segment profit (loss)	**27,015,242**	**(1,880,940)**	**-**	**25,134,302**

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,839,075	235,933,159	(45,060,752)	234,711,482
Intersegment	41,956,055	3,104,697	(45,060,752)	-
External	1,883,020	232,828,462	-	234,711,482
EBITDA (Segment results)	**29,987,138**	**16,974,640**	**-**	**46,961,778**
Depreciation, depletion and amortization	(6,821,640)	(9,605,638)	-	(16,427,278)
Impairment losses/Revaluation surpluses (note 33 and 34)	(75,245)	(244,237)	-	(319,482)
Writte off exploration works (note 9)	(568,493)	-	-	(568,493)
Finance income, net	182,294	4,651,183	-	4,833,477
Income tax	(2,256,789)	(4,999,676)	-	(7,256,465)
Segment profit	**20,407,819**	**6,554,832**	**-**	**26,962,651**

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

	Year ended 31 December 2018	2017
Profit for the year	25,134,302	26,962,651
Income tax expenses	5,718,924	7,256,465
Other expenses	1,804,368	1,737,858
Other income	(1,215,316)	(1,213,935)
Loss from valuation of assets at fair value through profit and loss	170,170	586,650
Income from valuation of assets at fair value through profit and loss	(868,513)	(309,387)
Finance expense	5,748,045	8,121,812
Finance income	(3,826,427)	(12,955,289)
Depreciation, depletion and amortization	20,340,977	16,427,278
Other non operating expenses, net*	701,969	347,675
EBITDA	**53,708,499**	**46,961,778**

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

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

	Year ended 31 December 2018		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,528,011	1,528,011
Sale of gas	1,610,675	-	1,610,675
Through a retail network	-	-	-
Wholesale activities	1,610,675	-	1,610,675
Sale of petroleum products	196,980,360	68,224,641	265,205,001
Through a retail network	63,956,088	17,446,040	81,402,128
Wholesale activities	133,024,272	50,778,601	183,802,873
Sales of electricity	746,559	842,728	1,589,287
Lease revenue	474,818	-	474,818
Other sales	7,044,968	3,530,989	10,575,957
Total sales	**206,857,380**	**74,126,369**	**280,983,749**

	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	2,306,408	-	2,306,408
Through a retail network	-	-	-
Wholesale activities	2,306,408	-	2,306,408
Sale of petroleum products	157,375,766	51,827,955	209,203,721
Through a retail network	54,723,170	16,011,635	70,734,805
Wholesale activities	102,652,596	35,816,320	138,468,916
Sales of electricity	462,216	11,053,820	11,516,036
Other sales	6,620,818	3,359,055	9,979,873
Total sales	**166,765,208**	**67,946,274**	**234,711,482**

Out of the amount of RSD 183,802,873 (2017: RSD 138,468,916) revenue from sale of petroleum products (wholesale), the amount of RSD 26,679,415 (2017: RSD 21,947,228) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

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

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of RSD 8,269,395 (2017: RSD 7,701,849).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 206,857,380 (2017: RSD 166,765,208), and the total of revenue from external customer from other countries is RSD 74,126,369 (2017: RSD 67,946,274). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December 2018	2017
Sale of crude oil	1,528,011	1,705,444
Sale of petroleum products (retail and wholesale)		
Bulgaria	18,130,815	14,183,784
Bosnia and Herzegovina	18,704,608	12,757,872
Romania	14,877,723	10,754,460
Croatia	2,997,771	2,677,174
Switzerland	2,777,082	2,642,440
Great Britain	1,839,930	1,953,167
Macedonia	1,726,618	1,614,993
Hungary	1,810,152	1,035,140
All other markets	5,359,942	4,208,925
	68,224,641	51,827,955
Sales of electricity	842,728	11,053,820
Other sales	3,530,989	3,359,055
	74,126,369	**67,946,274**

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

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

	31 December 2018	31 December 2017
Serbia	269,381,825	249,437,027
Bulgaria	6,934,061	7,334,652
Bosnia and Herzegovina	7,304,192	7,401,758
Romania	9,103,409	6,967,529
Hungary	-	28
	292,723,487	**271,140,994**

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Goodwill	Other intangibles	Intangible assets under development	Total
At 1 January 2017						
Cost	6,617,839	8,810,629	2,371,943	1,483,996	10,077,842	29,362,249
Accumulated amortisation and impairment	(1,144,421)	(5,558,094)	(527,093)	(234,720)	(52,882)	(7,517,210)
Net book amount	**5,473,418**	**3,252,535**	**1,844,850**	**1,249,276**	**10,024,960**	**21,845,039**
Year ended 31 December 2017						
Additions	-	-	-	345	2,411,927	2,412,272
Transfer from assets under development	2,712,862	427,948	-	57,032	(3,197,842)	-
Amortization	(421,073)	(1,118,170)	-	(65,256)	(4,878)	(1,609,377)
Impairment (note 34)	-	(8,641)	(19,248)	-	-	(27,889)
Transfer to PP&E (note 9)	-	-	-	-	(13,945)	(13,945)
Disposals and write-off	-	(3,729)	-	(3,508)	(81,359)	(88,596)
Other transfers	-	-	-	(48,529)	103,229	54,700
Translation differences	-	(860)	(82,112)	(18,435)	(209,649)	(311,056)
Closing net book amount	**7,765,207**	**2,549,083**	**1,743,490**	**1,170,925**	**9,032,443**	**22,261,148**
As at 31 December 2017						
Cost	9,330,701	9,133,906	2,256,798	1,436,956	9,089,090	31,247,451
Accumulated amortization and impairment	(1,565,494)	(6,584,823)	(513,308)	(266,031)	(56,647)	(8,986,303)
Net book amount	**7,765,207**	**2,549,083**	**1,743,490**	**1,170,925**	**9,032,443**	**22,261,148**
At 1 January 2018						
Cost	9,330,701	9,133,906	2,256,798	1,436,956	9,089,090	31,247,451
Accumulated amortization and impairment	(1,565,494)	(6,584,823)	(513,308)	(266,031)	(56,647)	(8,986,303)
Net book amount	**7,765,207**	**2,549,083**	**1,743,490**	**1,170,925**	**9,032,443**	**22,261,148**
Year ended 31 December 2018						
Additions	-	-	-	37	3,170,422	3,170,459
Acquisitions through business combinations	-	-	11,986	-	-	11,986
Transfer from assets under development	2,299,438	211,033	-	7,584	(2,518,055)	-
Amortization	(758,280)	(1,027,607)	-	(54,642)	(4,802)	(1,845,331)
Impairment (note 34)	-	-	(201,854)	-	-	(201,854)
Transfer to PP&E (note 9)	-	-	-	-	(5,622)	(5,622)
Other transfers	-	(3,356)	-	3,356	-	-
Translation differences	-	(25)	(4,244)	(840)	(14,293)	(19,402)
Closing net book amount	**9,306,365**	**1,729,128**	**1,549,378**	**1,126,420**	**9,660,093**	**23,371,384**
As at 31 December 2018						
Cost	11,630,138	9,287,315	2,262,796	1,443,305	9,721,470	34,345,024
Accumulated amortization and impairment	(2,323,773)	(7,558,187)	(713,418)	(316,885)	(61,377)	(10,973,640)
Net book amount	**9,306,365**	**1,729,128**	**1,549,378**	**1,126,420**	**9,660,093**	**23,371,384**

Intangible assets under development as at 31 December 2018 amounting to RSD 9,660,093 (31 December 2017: RSD 9,032,443) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 9,398,379 (31 December 2017: RSD 8,162,735).

Impairment test for goodwill

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

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

	2018	2017
Average gross margin	22.0%	22.0%
Growth rate	1%	1%
Discount rate		
- Romania market	6.78%	7.56%
- Bulgaria market	6.67%	7.37%
- Bosnia and Herzegovina market	11.13%	12.89%

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

	Opening balance	Addition	Impairment	Translation differences	Closing balance
2018					
Bosnia and Herzegovina	474,012	11,986	-	(1,143)	484,855
Romania	287,848	-	-	(933)	286,915
Bulgaria	981,629	-	(201,854)	(2,167)	777,608
	1,743,489	**11,986**	**(201,854)**	**(4,243)**	**1,549,378**
2017					
Bosnia and Herzegovina	494,015	-	-	(20,003)	474,012
Romania	307,831	-	-	(19,983)	287,848
Bulgaria	1,043,004	-	(19,248)	(42,127)	981,629
	1,844,850	**-**	**(19,248)**	**(82,113)**	**1,743,489**

Except recognised impairment loss in Bulgaria in the amount of RSD 201,854, impairment test in Romania and Bosnia and Herzegovina shows that the recoverable amount calculated based on value in use / fair value exceeds carrying value.

If the revised estimated growth rate would be 0.5% instead of 1% and if applied discounted rate would be 1 % higher than management's estimates, the recoverable amount of the each CGU in total still exceeds its carrying amount.

9. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2017								
Cost	17,587,928	176,704,641	122,136,460	25,774,166	87,839	464,720	1,851,425	344,607,179
Accumulated depreciation and impairment	(304,262)	(50,116,681)	(51,664,446)	(2,110,867)	(1,143)	(185,158)	(41,759)	(104,424,316)
Net book amount	**17,283,666**	**126,587,960**	**70,472,014**	**23,663,299**	**86,696**	**279,562**	**1,809,666**	**240,182,863**
Year ended 31 December 2017								
Additions	-	771,170	-	25,197,474	-	-	3,235,708	29,204,352
Transfer from assets under development	21,401	15,971,073	6,247,036	(22,346,075)	-	64,130	-	(42,435)
Appraisal effects	-	1,399	-	-	-	-	-	1,399
Impairment charge (note 34)	(145,510)	(26,642)	(42,589)	(47,382)	-		(3,023)	(265,146)
Depreciation	-	(6,763,948)	(7,982,466)	-	(51)	(71,436)	-	(14,817,901)
Transfer from intangible assets (note 8)	-	(1,050,204)	1,049,229	13,945	975	-	-	13,945
Transfer to investment property	(2,759)	(23,190)	-	-	-	-	-	(25,949)
Transfer to non-current assets held for sale	(7,958)	(108,920)	(14,522)	-	-	-	-	(131,400)
Disposals and write-off	(4,152)	(93,026)	(154,796)	(610,047)	(57)	-	(2,973,584)	(3,835,662)
Other transfers	-	-	48,529	(102,958)	(895)	-	-	(55,324)
Translation differences	(295,372)	(325,206)	(70,522)	(118,988)	(45)	(352)	(305)	(810,790)
Closing net book amount	**16,849,316**	**134,940,466**	**69,551,913**	**25,649,268**	**86,623**	**271,904**	**2,068,462**	**249,417,952**
At 31 December 2017								
Cost	17,153,246	191,485,363	128,531,892	27,681,410	88,653	528,159	2,105,408	367,574,131
Accumulated depreciation and impairment	(303,930)	(56,544,897)	(58,979,979)	(2,032,142)	(2,030)	(256,255)	(36,946)	(118,156,179)
Net book amount	**16,849,316**	**134,940,466**	**69,551,913**	**25,649,268**	**86,623**	**271,904**	**2,068,462**	**249,417,952**
Year ended 31 December 2018								
Additions	-	115,585	1,393	39,971,334	-	-	4,875,356	44,963,668
Acquisitions through business combinations	-	-	-	439,465	-	-	-	439,465
Transfer from assets under development	256,860	17,950,496	7,066,224	(25,288,834)	3,580	11,674	-	-
Impairment charge (note 34)	-	(67,304)	(634)	(13,418)	-	-	(5,413)	(86,769)
Depreciation	-	(9,955,870)	(8,468,614)	-	(27)	(71,135)	-	(18,495,646)
Transfer from intangible assets (note 8)	-	-	-	5,622	-	-	-	5,622
Transfer to investment property	(38,530)	(42,798)	-	-	-	-	-	(81,328)
Transfer to non-current assets held for sale	(15,765)	(26,992)	(21,995)	(9,108)	-	-	-	(73,860)
Disposals and write-off	(39,435)	(111,433)	(93,564)	(861,988)	(157)	(22)	(6,176,881)	(7,283,480)
Other transfers	(14,903)	39,209	(301,370)	-	(1,321)	-	-	(278,385)
Translation differences	(15,886)	(14,086)	(2,975)	3,933	34	(23)	(13)	(29,016)
Closing net book amount	**16,981,657**	**142,827,273**	**67,730,378**	**39,896,274**	**88,732**	**212,398**	**761,511**	**268,498,223**
At 31 December 2018								
Cost	17,282,588	209,356,843	134,383,253	41,899,970	90,751	539,696	799,493	404,352,594
Accumulated depreciation and impairment	(300,931)	(66,529,570)	(66,652,875)	(2,003,696)	(2,019)	(327,298)	(37,982)	(135,854,371)
Net book amount	**16,981,657**	**142,827,273**	**67,730,378**	**39,896,274**	**88,732**	**212,398**	**761,511**	**268,498,223**

In 2018, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 130,169 (2017: RSD 75,476).

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

As at 31 December 2018, the Group assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.7 for details. In addition Group has assessed and recognized impairment losses for the asset which has disposed due to obsolescence or physical demolition in amount of RSD 81,356 (2017: RSD 262,550).

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

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

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

b) Investment property – carried at fair value

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

Movements on the account were as follows:

	2018	2017
As at 1 January	1,530,356	1,549,663
Fair value gains (note 33 and 34)	6,534	7,967
Transfer from PP&E carried at cost	81,328	25,949
Disposals	(1,405)	(56,089)
Other	(1,422)	2,866
As at 31 December	**1,615,391**	**1,530,356**

As at 31 December 2018, investment properties amounting to RSD 1,615,391 (31 December 2017: RSD 1,530,356) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

Fair value of investment properties

Valuation of the Group's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2018 and 2017. The revaluation gain was credited to other income (note 33).

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

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

Fair value measurements at 31 December 2018 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
− Shops and other facilities for rents	-	871,709	-
− Gas stations	-	-	743,682
Total	**-**	**871,709**	**743,682**

Fair value measurements at 31 December 2017 using:

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

Valuation techniques used to derive level 2 fair values

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

Fair value measurements using significant unobservable inputs (Level 3)

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

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

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

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

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

c) Oil and gas production assets

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

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2017						
Cost	20,139,905	4,274,452	24,414,357	127,806,623	31,406	152,252,386
Depreciation and impairment	(26,494)	(876)	(27,370)	(30,936,760)	(20,312)	(30,984,442)
Net book amount	**20,113,411**	**4,273,576**	**24,386,987**	**96,869,863**	**11,094**	**121,267,944**
Year ended 31 December 2017						
Additions	5,067,953	12,751,699	17,819,652	-	-	17,819,652
Changes in decommissioning obligations	-	-	-	765,325	-	765,325
Transfer from asset under construction	(4,060,487)	(15,215,542)	(19,276,029)	19,276,924	(895)	-
Impairment	(27,447)	(10,703)	(38,150)	(41,535)	-	(79,685)
Other transfers	(1,184,964)	1,167,608	(17,356)	(52,092)	975	(68,473)
Depreciation and depletion	(4,878)	-	(4,878)	(6,403,068)	(52)	(6,407,998)
Unsuccessful exploration expenditures derecognised (note 7)	(568,493)	-	(568,493)	-	-	(568,493)
Disposals and write-off	(80,243)	(39,041)	(119,284)	(77,455)	(19)	(196,758)
Translation differences	(309,708)	-	(309,708)	30	(3)	(309,681)
	18,945,144	**2,927,597**	**21,872,741**	**110,337,992**	**11,100**	**132,221,833**
As at 31 December 2017						
Cost	19,004,026	2,929,684	21,933,710	147,452,224	32,323	169,418,257
Depreciation and impairment	(58,882)	(2,087)	(60,969)	(37,114,232)	(21,223)	(37,196,424)
Net book amount	**18,945,144**	**2,927,597**	**21,872,741**	**110,337,992**	**11,100**	**132,221,833**
As at 1 January 2018						
Cost	19,004,026	2,929,684	21,933,710	147,452,224	32,323	169,418,257
Depreciation and impairment	(58,882)	(2,087)	(60,969)	(37,114,232)	(21,223)	(37,196,424)
Net book amount	**18,945,144**	**2,927,597**	**21,872,741**	**110,337,992**	**11,100**	**132,221,833**
Year ended 31 December 2018						
Additions	5,620,537	14,018,122	19,638,659	-	-	19,638,659
Changes in decommissioning obligations	-	-	-	117,748	-	117,748
Transfer from asset under construction	(1,944,034)	(15,365,263)	(17,309,297)	17,309,282	15	-
Impairment	-	(3,477)	(3,477)	(279)	-	(3,756)
Other transfers	(297,175)	(142,966)	(440,141)	1,520,485	624	1,080,968
Depreciation and depletion	(4,802)	-	(4,802)	(10,347,667)	-	(10,352,469)
Unsuccessful exploration expenditures derecognised (note 7)	(57,075)	-	(57,075)	-	-	(57,075)
Transfer to non-current assets held for sale	-	-	-	(21,522)	-	(21,522)
Disposals and write-off	(17,101)	(36,938)	(54,039)	(128,578)	(52)	(182,669)
Translation differences	(19,098)	-	(19,098)	1	-	(19,097)
	22,226,396	**1,397,075**	**23,623,471**	**118,787,462**	**11,687**	**142,422,620**
As at 31 December 2018						
Cost	22,258,139	1,399,503	23,657,642	166,462,451	32,008	190,152,101
Depreciation and impairment	(31,743)	(2,428)	(34,171)	(47,674,989)	(20,321)	(47,729,481)
Net book amount	**22,226,396**	**1,397,075**	**23,623,471**	**118,787,462**	**11,687**	**142,422,620**

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

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

The carrying values of the investments in associates and joint ventures as of 31 December, 2018 and 2017 are summarised below:

		Ownership percentage	31 December 2018	31 December 2017
Energowind	Joint venture	50%	1,003,491	1,008,221
Serbskaya Generaciya	Joint venture	49%	976,897	1,038,800
HIP Petrohemija ad Pančevo	Associate	20,86%	11,572,197	11,572,197
Less Impairment provision			(11,572,197)	(11,572,197)
Total investments			**1,980,388**	**2,047,021**

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

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

Energowind

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

Serbskaya Generaciya

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

HIP Petrohemija

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

11. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2018	31 December 2017
Deposits with original maturity more than 1 year	-	2,029,483
Other long-term financial investments	80,121	79,416
LT loans given to employees	1,240,438	1,034,606
Less provision	(371,876)	(59)
	948,683	**3,143,446**

Decrease in deposits with original maturity more than 1 year fully relates to reclassify to the short-term part.

Loans to employees as at 31 December 2018 amounting to RSD 1,240,438 (31 December 2017: RSD 1,034,606) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes, and are repaid through monthly instalments. These loans are impaired in amount of RSD 371,817.

12. DEFERRED TAX ASSETS AND LIABILITIES

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

	31 December 2018	31 December 2017
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	1,943,094	3,578,507
- Deferred tax assets to be recovered within 12 months	1,016,432	1,387,464
	2,959,526	**4,965,971**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(2,414,029)	(2,768,061)
	(2,414,029)	**(2,768,061)**
Deferred tax assets (net)	**545,497**	**2,197,910**

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

	2018	2017
At 1 January	2,197,910	3,771,354
Charged to the income statement (note 35)	(1,652,164)	(1,615,639)
Charged to other comprehensive income	(335)	14,179
Other	86	28,016
31 December	**545,497**	**2,197,910**

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 2017	**-**	**(2,885,670)**	**(14,225)**	**(2,899,895)**
Charged to the income statement (note 35)	-	130,547	-	130,547
Charged to other comprehensive income	-	-	(210)	(210)
Translation difference	-	1,497	-	1,497
As at 31 December 2017	**-**	**(2,753,626)**	**(14,435)**	**(2,768,061)**
Charged to the income statement (note 35)	-	353,586	-	353,586
Charged to other comprehensive income	-	-	360	360
Translation difference	-	86	-	86
As at 31 December 2018	**-**	**(2,399,954)**	**(14,075)**	**(2,414,029)**

	Provisions	Impairment loss	Investment credit	Fair value gains	Total
Deferred tax assets					
As at 1 January 2017	**967,017**	**930,193**	**4,762,300**	**11,739**	**6,671,249**
Charged to the income statement (note 35)	11,280	18,935	(1,776,401)	-	(1,746,186)
Charged to other comprehensive income	14,831	-	-	(442)	14,389
Other	26,519	-	-	-	26,519
As at 31 December 2017	**1,019,647**	**949,128**	**2,985,899**	**11,297**	**4,965,971**
Charged to the income statement (note 35)	(98,218)	(18,142)	(1,889,390)	-	(2,005,750)
Charged to other comprehensive income	-	-	-	(62)	(62)
Other	-	-	-	(633)	(633)
As at 31 December 2018	**921,429**	**930,986**	**1,096,509**	**10,602**	**2,959,526**

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

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

The Group did not recognize deferred tax assets in respect of unused tax loss carry forwards in the amount of 795 million RSD (2017: 886 million RSD) that arose mostly in Bosnia, Romania, Bulgaria and Hungary and are available for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group. They have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future.

13. INVENTORY

	31 December 2018	31 December 2017
Materials, spare parts and tools	29,197,127	27,510,780
Work in progress	4,923,492	3,961,298
Finished goods	14,523,129	8,544,853
Goods for sale	4,159,637	2,008,505
Advances	834,950	666,931
Less: impairment of inventory	(4,947,073)	(5,108,493)
Less: impairment of advances	(219,191)	(261,100)
	48,472,071	**37,322,774**
Non-current assets held for sale	5,943	5,986
Less: impairment of assets held for sale	(5,943)	(5,823)
	-	**163**
	48,472,071	**37,322,937**

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of Advances	Impairment of Assets held for sale	Total
Balance as of 1 January 2017	**5,326,077**	**261,983**	**-**	**5,588,060**
Provision for inventories and advances (note 34)	8,431	6,974	5,823	21,228
Unused amounts reversed (note 33)	(896)	(1,939)	-	(2,835)
Receivables written off during the year as uncollectible	-	(5,916)	-	(5,916)
Other	(225,119)	(2)	-	(225,121)
Balance as of 31 December 2017	**5,108,493**	**261,100**	**5,823**	**5,375,416**
Provision for inventories and advances (note 34)	10,274	1,962	-	12,236
Unused amounts reversed (note 33)	(31,976)	(1,687)	-	(33,663)
Receivables written off during the year as uncollectible	-	(42,184)	-	(42,184)
Other	(139,718)	-	120	(139,598)
Balance as of 31 December 2018	**4,947,073**	**219,191**	**5,943**	**5,172,207**

14. TRADE RECEIVABLES

	31 December 2018	31 December 2017
Parents and subsidiaries - foreign	99	-
Other related parties - domestic	1,227,518	1,447,646
Other related parties - foreign	645,804	1,024,133
Trade receivables domestic – third parties	29,454,268	31,924,918
Trade receivables foreign – third parties	825,231	1,460,057
	32,152,920	35,856,754
Less: Impairment	(6,145,109)	(7,942,578)
	26,007,811	**27,914,176**

15. OTHER RECEIVABLES

	31 December 2018	31 December 2017
Interest receivables	2,144,788	5,211,198
Receivables from employees	93,524	94,329
Income tax prepayment	9,134	1,053
Other receivables	7,524,755	7,571,612
Less: Impairment	(9,548,630)	(11,687,452)
	223,571	**1,190,740**

16. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2018	31 December 2017
Deposits with original maturity more than 3 months less than 1 year	2,123,007	7,645,689
Other short-term financial assets	140,424	96,815
	2,263,431	**7,742,504**

As at 31 December 2018 deposits with original maturity more than 3 months less than 1 year amounting to RSD 2,123,007 (2017: RSD 7,645,689) relate to bank deposits with interest rates from 4.65% (2017: from 3.23% to 4.15% p.a.) denominated in RSD.

17. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash in bank and in hand	6,928,798	15,896,738
Deposits with original maturity of less than three months	6,927,790	9,418,037
Cash with restriction	1,407,735	1,521,241
Cash equivalents	216,507	239,354
	15,480,830	**27,075,370**

Cash with restriction as of 31 December 2018 amounting to RSD 1,407,735 (31 December 2017: RSD 1,521,241) mostly relates to funds in accordance with the interest in a joint venture through which the operation of future wind farm ''Plandiste'' will be managed. According to the Agreement, the Group can withdraw cash at any time.

18. PREPAYMENTS AND ACCRUED INCOME

	31 December 2018	31 December 2017
Deferred input VAT	1,774,863	1,419,963
Prepaid expenses	235,378	236,845
Prepaid excise duty	2,817,887	1,862,790
Housing loans and other prepayments	788,281	1,247,028
	5,616,409	**4,766,626**

Deferred input VAT as at 31 December 2018 amounting to RSD 1,774,863 (31 December 2017: RSD 1,419,963) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty as at 31 December 2018 amounting to RSD 2,817,887 (31 December 2017: RSD 1,862,790) 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.

19. OFF-BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
Issued warranties and bills of exchange	73,171,617	70,741,005
Received warranties and bills of exchange	16,042,879	17,697,476
Properties in ex-Republics of Yugoslavia	5,357,688	5,357,690
Receivables from companies from ex-Yugoslavia	6,347,969	6,085,575
Third party merchandise in NIS warehouses	9,560,071	6,819,872
Assets for oil fields liquidation in Angola	1,361,966	1,332,018
Mortgages received	1,179,150	-
Other off-balance sheet assets and liabilities	759,762	327,765
	113,781,102	**108,361,401**

20. EQUITY

	Equity attributable to owners of the Group									Total
	Share capital	Other capital	Reserves	Retained earnings (loss)	Translation reserves	Unrealised gains (losses) from securities	Actuarial gain (loss)	Total	Non-controlling interest	Equity
Balance as at 1 January 2017	**81,530,200**	**-**	**80,607**	**120,548,910**	**(581,171)**	**(66,518)**	**182,257**	**201,694,285**	**(213,773)**	**201,480,512**
Profit (loss) for the year	-	-	-	26,991,074	-	-	-	26,991,074	(28,423)	26,962,651
Gains from securities	-	-	-	-	-	2,505	-	2,505	-	2,505
Dividend distribution	-	-	-	(4,021,069)	-	-	-	(4,021,069)	-	(4,021,069)
Actuarial gain	-	-	-	-	-	-	12,180	12,180	-	12,180
Revaluation reserves	-	-	1,189	-	-	-	-	1,189	-	1,189
Other	-	-	-	-	603,842	-	-	603,842	9,700	613,542
Balance as at 31 December 2017	**81,530,200**	**-**	**81,796**	**143,518,915**	**22,671**	**(64,013)**	**194,437**	**225,284,006**	**(232,496)**	**225,051,510**
Balance as at 1 January 2018	**81,530,200**	**-**	**81,796**	**143,518,915**	**22,671**	**(64,013)**	**194,437**	**225,284,006**	**(232,496)**	**225,051,510**
Adoption of IFRS 9: -remeasurement of expected credit losses, net of tax (note 4)	-	-	-	(401,527)	-	-	-	(401,527)	-	(401,527)
Restated total equity at 1 January 2018	**81,530,200**	**-**	**81,796**	**143,117,388**	**22,671**	**(64,013)**	**194,437**	**224,882,479**	**(232,496)**	**224,649,983**
Profit (loss) for the year	-	-	-	25,150,220	-	-	-	25,150,220	(15,918)	25,134,302
Gains from securities	-	-	-	-	-	477	-	477	-	477
Dividend distribution	-	-	-	(6,948,004)	-	-	-	(6,948,004)	-	(6,948,004)
Actuarial gain	-	-	-	-	-	-	3,316	3,316	-	3,316
Revaluation reserves	-	-	360	-	-	-	-	360	-	360
Other	-	-	(2,401)	(1,055)	34,786	3,454	-	34,784	586	35,370
Balance as at 31 December 2018	**81,530,200**	**-**	**79,755**	**161,318,549**	**57,457**	**(60,082)**	**197,753**	**243,123,632**	**(247,828)**	**242,875,804**

20.1. SHARE CAPITAL

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

Share capital as of 31 December 2018 and 31 December 2017 comprise of 163,060,400 of ordinary shares.

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

21. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2017	**8,641,302**	**838,655**	**775,414**	**660,942**	**680,972**	**11,597,285**
Charged to the income statement	606,381	-	1,715	365,922	29,090	1,003,108
New obligation incurred and change in estimates	765,325	-	-	-	-	765,325
Release of provision	-	-	(276,284)	-	(34,298)	(310,582)
Actuarial gain charged to other comprehensive income	-	-	27,011	-	-	27,011
Settlement	(168,127)	(157,493)	(70,714)	-	(72,075)	(468,409)
Other	(3)	-	(84)	-	(201)	(288)
As at 31 December 2017	**9,844,878**	**681,162**	**457,058**	**1,026,864**	**603,488**	**12,613,450**
As at 1 January 2018	**9,844,878**	**681,162**	**457,058**	**1,026,864**	**603,488**	**12,613,450**
Charged to the income statement	213,094	124,000	40,613	331,179	47,958	756,844
New obligation incurred and change in estimates	117,748	-	-	-	-	117,748
Release of provision	-	(24,529)	(4,475)	-	-	(29,004)
Actuarial loss charged to other comprehensive income	-	-	(3,316)	-	-	(3,316)
Settlement	(133,445)	(123,706)	(58,278)	(864,021)	(124,610)	(1,304,060)
Other	(757)	759	163	-	(27)	138
As at 31 December 2018	**10,041,518**	**657,686**	**431,765**	**494,022**	**526,809**	**12,151,800**

Analysis of total provisions:

	31 December 2018	31 December 2017
Non-current	10,210,005	9,766,303
Current	1,941,795	2,847,147
	12,151,800	**12,613,450**

(a) *Decommissioning*

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

(b) *Environmental protection*

The Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 657,686 (31 December 2017: RSD 681,162) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) *Long-term incentive program*

In 2011, the Group started setting-up a long-term incentive program for Group managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2018 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in amount of 494,022 RSD (2017: 1,026,864 RSD).

(d) *Legal claims provisions*

As at 31 December 2018, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group charged provision for litigation amounting to 47,958 RSD (2017: 29,090 RSD) for proceedings which were assessed to have negative outcome. The Group estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2018.

(e) *Provision for employee benefits*

Employee benefits:

	31 December 2018	**31 December 2017**
Retirement allowances	147,206	143,027
Jubilee awards	284,559	314,031
	431,765	**457,058**

The principal actuarial assumptions used were as follows:

	31 December 2018	**31 December 2017**
Discount rate	5.7%	4.65%
Future salary increases	2.0%	2.0%
Future average years of service	14.6	15

	Retirement allowances	**Jubilee awards**	**Total**
Balances as at 1 January 2017	**106,143**	**669,271**	**775,414**
Benefits paid directly	(8,042)	(62,672)	(70,714)
Actuarial loss charged to other comprehensive income	27,011	-	27,011
Credited to the income statement	17,999	(292,568)	(274,569)
Translation difference	(84)	-	(84)
Balances as at 31 December 2017	**143,027**	**314,031**	**457,058**
Benefits paid directly	(14,483)	(43,795)	(58,278)
Actuarial gain charged to other comprehensive income	(3,316)	-	(3,316)
Credited to the income statement	21,815	14,323	36,138
Translation difference	163	-	163
Balances as at 31 December 2018	**147,206**	**284,559**	**431,765**

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

	Year ended 31 December 2018	**2017**
Current service cost	31,518	53,968
Interest cost	20,330	52,179
Curtailment gain/loss	5,482	(770)
Actuarial gain/loss (jubilee awards)	(21,189)	106,446
Amortisation of past service cost	(3)	(486,392)
	36,138	**(274,569)**

22. LONG-TERM LIABILITIES

	31 December 2018	31 December 2017
Long-term loan - Gazprom Neft	24,738,405	30,306,970
Bank and other long-term loans	68,605,682	65,796,475
Finance lease liabilities	828,104	432,562
Other long-term borrowings	42,102	59,455
Less Current portion (note 23)	(6,395,091)	(6,099,584)
	87,819,202	**90,495,878**

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

	Long-term loans	Short-term loans	Finance lease	Total
As at 1 January 2017	**103,449,326**	**12,189,945**	**343,080**	**115,982,351**
Proceeds	36,955,269	-	-	36,955,269
Repayment	(35,994,594)	(12,032,267)	(117,338)	(48,144,199)
Non-cash transactions	-	-	220,303	220,303
Foreign exchange difference	(8,306,556)	(157,678)	(13,483)	(8,477,717)
As at 31 December 2017	**96,103,445**	**-**	**432,562**	**96,536,007**
As at 1 January 2018	**96,103,445**	**-**	**432,562**	**96,536,007**
Proceeds	37,213,097	-	-	37,213,097
Repayment	(39,952,347)	-	(131,241)	(40,083,588)
Non-cash transactions	-	-	529,262	529,262
Foreign exchange difference	(20,108)	-	(2,479)	(22,587)
As at 31 December 2018	**93,344,087**	**-**	**828,104**	**94,172,191**

a) *Long-term loan - Gazprom Neft*

As at 31 December 2018 long-term loan - Gazprom Neft amounting to RSD 24,738,405 (2017: RSD 30,306,970), with current portion of RSD 5,497,423 (2017: RSD 5,510,358), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

b) *Bank and other long-term loans*

	31 December 2018	31 December 2017
Domestic	50,621,092	43,338,384
Foreign	17,984,590	22,458,091
	68,605,682	65,796,475
Current portion of long-term loans	(825,139)	(536,801)
	67,780,543	**65,259,674**

The maturity of non-current loans was as follows:

	31 December 2018	31 December 2017
Between 1 and 2 years	1,479,321	23,403,612
Between 2 and 5 years	61,371,002	39,342,047
Over 5 years	4,930,220	2,514,015
	67,780,543	**65,259,674**

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

	31 December 2018	31 December 2017
USD	361,695	17,934,250
EUR	67,947,394	47,551,800
RSD	628	814
JPY	295,965	309,611
	68,605,682	**65,796,475**

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

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

c) *Financial lease liabilities*

Minimum finance lease payments:

	31 December 2018	31 December 2017
Less than one year	117,899	97,576
1-5 years	535,453	399,659
Over 5 years	915,340	611,584
Future finance charges on finance leases	(740,588)	(676,257)
Present value of finance lease liabilities	**828,104**	**432,562**

	31 December 2018	31 December 2017
Less than one year (note 23)	72,529	52,425
1-5 years	290,977	203,407
Over 5 years	464,598	176,730
Present value of finance lease liabilities	**828,104**	**432,562**

23. SHORT-TERM FINANCE LIABILITIES

	31 December 2018	31 December 2017
Current portion of long-term loans (note 22)	6,322,562	6,047,159
Current portion of finance lease liabilities (note 22)	72,529	52,425
	6,395,091	**6,099,584**

24. TRADE PAYABLES

As at 31 December 2018 trade payables in a amount of RSD 25,834,088 (31 December 2017: RSD 30,100,904) including payables to parents and subsidiaries-foreign amounting to RSD 10,243,742 (31 December 2017: RSD 11,727,340) fully relate to payables to the supplier Gazprom Neft, St Petersburg, mostly based on purchase of crude oil.

25. OTHER SHORT-TERM LIABILITIES

	31 December 2018	31 December 2017
Specific liabilities	206,959	199,075
Liabilities for unpaid wages and salaries, gross	1,240,193	1,116,595
Interest liabilities	745,320	743,499
Dividends payable	3,772,308	3,772,308
Other payables to employees	778,190	1,583,215
Decommissioning and site restoration costs	1,369,683	1,419,423
Environmental provision	160,362	201,836
Litigation and claims	277,852	241,188
Other current liabilities	137,119	120,053
	8,687,986	**9,397,192**

26. LIABILITIES FOR OTHER TAXES

	31 December 2018	31 December 2017
Excise tax	5,173,979	5,258,815
Contribution for buffer stocks	260,905	527,858
Income tax	635,119	1,953,078
Other taxes payables	1,617,950	1,447,764
	7,687,953	**9,187,515**

27. ACCRUED EXPENSES

Accrued expenses as at 31 December 2018 amounting to RSD 3,635,144 (31 December 2017: RSD 4,162,449) mainly relate to accrued employee bonuses of RSD 1,865,668 (31 December 2017: RSD 1,982,895) and contract liabilities arising from contracts with customers related to customer loyalty RSD 382,909 (31 December 2017: RSD 365,312).

28. COST OF PRODUCTION SERVICES

	Year ended 31 December 2018	2017
Cost of production services	2,284,196	2,198,742
Transportation services	3,313,801	3,723,605
Maintenance	4,021,266	3,426,803
Rental costs	2,653,780	1,666,379
Fairs	7,410	508
Advertising costs	867,648	897,000
Exploration expenses	241,154	624,857
Cost of other services	1,537,410	1,380,209
	14,926,665	**13,918,103**

29. NON-PRODUCTION EXPENSES

	Year ended 31 December 2018	2017
Costs of non-production services	8,881,322	8,466,351
Representation costs	123,767	118,253
Insurance premium	593,118	555,345
Bank charges	426,898	360,491
Cost of taxes	1,357,393	1,247,685
Mineral extraction tax	1,460,595	1,202,368
Other non-production expenses	1,965,277	1,936,963
	14,808,370	**13,887,456**

Costs of non-production services for the year ended 31 December 2018 amounting to RSD 8,881,322 (2017: RSD 8,466,351) mainly relate to costs of service organizations of RSD 6,743,147; consulting service costs of RSD 404,135; security cost of RSD 538,729 and project management costs of RSD 349,379.

30. FINANCE INCOME

	Year ended 31 December 2018	2017
Finance income - related parties		
- foreign exchange differences	1,225,794	2,701,657
Interest income	721,927	726,378
Amortisation income – discount of receivables	44,661	379,211
Foreign exchange gains	1,805,108	8,986,384
Other finance income	28,937	161,659
	3,826,427	**12,955,289**

31. FINANCE EXPENSE

	Year ended 31 December 2018	2017
Finance expenses – related parties		
- foreign exchange differences	1,240,252	2,636,982
- other finance expense	496,774	632,427
Interest expenses	1,718,621	2,414,743
Decommissioning provision: unwinding of the present value discount	89,194	138,488
Provision of trade and other non-current receivables: discount	261,732	-
Foreign exchange losses	1,867,268	2,271,579
Share of loss of associates and joint ventures	66,634	-
Other finance expenses	7,570	27,593
	5,748,045	**8,121,812**

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

	Year ended 31 December 2018	2017
Reversal of impairment of LT financial investments	2,306	541
Income from valuation:		
- trade and specific receivables (note 6)	849,711	234,586
- other receivables (note 6)	16,496	74,260
	868,513	**309,387**

33. OTHER INCOME

	Year ended 31 December 2018	2017
Gains on disposal - PPE	198,319	103,309
Gains on disposal - materials	76,539	43,423
Surpluses from stock count	381,539	468,984
Payables written off	188,454	39,130
Release of long-term provisions	29,004	310,582
Gain on bargain purchase	67,793	-
Release of impairment:		
- Investment property (note 9)	20,677	16,869
- Inventory (note 13)	31,976	896
- PPE & Other property	12,448	1,939
Penalty interest	117,763	142,323
Other income	90,804	86,480
	1,215,316	**1,213,935**

34. OTHER EXPENSES

	Year ended 31 December 2018	2017
Loss on disposal - PPE	256,342	223,329
Shortages from stock count	801,958	584,272
Write-off receivables	16,603	28,767
Write-off inventories	126,628	197,538
Impairment:		
- Intangible assets (note 8)	201,854	27,889
- PPE (note 9)	86,769	265,146
- Inventory (note 13)	10,274	8,431
- Other property	9,003	6,974
- Investment property (note 9)	2,728	43,396
Other expenses	292,209	352,116
	1,804,368	**1,737,858**

35. INCOME TAXES

Components of income tax expense:

	Year ended 31 December 2018	2017
Income tax for the year	4,066,760	5,640,826
Deferred income tax for the period (note 12)		
Origination and reversal of temporary differences	1,652,164	1,615,639
	5,718,924	**7,256,465**

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

	Year ended 31 December 2018	2017
Profit before tax	**30,853,226**	**34,219,116**
Tax calculated at domestic tax rates applicable to profits in the respective countries	4,929,684	5,358,430
Tax effect on:		
Revenues exempt from taxation	(59,111)	(323,153)
Expenses not deductible for tax purposes		
- Tax paid in Angola	171,416	2,177,957
- Other expenses not deductable	768,193	253,836
Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	(37,320)	(66,021)
Other tax effects for reconciliation between accounting profit and tax expense	(53,938)	(144,584)
	5,718,924	**7,256,465**
Effective income tax rate	18.54%	21.21%

The weighted average applicable tax rate was 18.54% (2017: 21.21%). The decrease is caused by a change in the profitability of the Group.

36. OPERATING LEASES

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

	31 December 2018	31 December 2017
Less than one year	274,048	278,871
1-5 years	332,108	417,942
Over 5 years	137,390	149,922
	743,546	**846,735**

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

	31 December 2018	31 December 2017
Less than one year	399,304	353,593
1-5 years	1,037,264	1,014,422
Over 5 years	111,513	951,109
	1,548,081	**2,319,124**

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

37. BUSINESS COMBINATIONS

In 2018, the Group acquired one petrol station in Serbia and two in Bosnia and Herzegovina. The total consideration paid for acquisition amounted to 383,658 RSD. The fair value of net identifiable asset acquired amounted to 439,465 RSD, recognised goodwill amounted to 11,986 RSD and remaining amount was recognised as gain on bargain purchase. The acquisition agreements include only acquisition of petrol stations and do not contain any contingent consideration.

38. COMMITMENTS AND CONTINGENT LIABILITIES

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Group's management recognised an environmental provision in the amount of RSD 657,686 (31 December 2017: RSD 681,162).

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

Taxes

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

Capital commitments

As of 31 December 2018 the Group has entered into contracts to purchase property, plant and equipment for RSD 15,944,407 (31 December 2017: RSD 11,347,097) and drilling and exploration works estimated to 69.01 USD million (31 December 2017: 58.17 USD million).

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

39. GROUP ENTITIES

The Consolidated Financial Statements of below listed subsidiaries are consolidated as at 31 December 2018 and 31 December 2017:

			Share %	
Subsidiary	**Country of incorporation**	**Nature of business**	**31-Dec 2018**	**31-Dec 2017**
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
Pannon Naftagas Kft, Budapest	Hungary	O&G activity	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-Naftni servisi d.o.o. Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o. Novi Sad	Serbia	O&G activity	100	100
Naftagas-Tehnicki servisi d.o.o. Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o. Novi Sad	Serbia	Transport	100	100
O Zone a.d., Belgrade	Serbia	Other	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	Trade	100	100
Jadran - Naftagas d.o.o. Banja Luka	Bosnia and Herzegovina	O&G activity	66	66
Svetlost, Bujanovac	Serbia	Trade	51	51

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

40. 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 Group.

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

As of 31 December 2018 and 31 December 2017 the outstanding balances with related parties other than state and state own companies were as follows:

	Joint venture	Parent	Parent's subsidiaries and associates
As at 31 December 2018			
Investments in associates and joint ventures	1,980,388	-	-
Trade receivables	4,754	99	1,868,568
Receivables from specific operations	400	-	-
Long-term liabilities	-	(19,240,982)	-
Short-term financial liabilities	-	(5,497,423)	-
Advances received	(199)	-	(1,942)
Trade payables	(1,246)	(10,243,742)	(1,935,259)
	1,984,095	**(34,982,048)**	**(68,633)**
As at 31 December 2017			
Investments in associates and joint ventures	2,047,021	-	-
Trade receivables	-	-	2,471,779
Other receivables	269,242	-	-
Payment in advance	-	-	2,754
Long-term liabilities	-	(24,796,612)	-
Short-term financial liabilities	-	(5,510,358)	-
Advances received	-	-	(74,404)
Trade payables	-	(11,727,340)	(2,300,308)
	2,316,263	**(42,034,310)**	**99,821**

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

	Joint venture	Parent	Parent's subsidiaries and associates
Year ended 31 December 2018			
Sales revenue	20,549	961	27,369,924
Other operating income	6,565	-	-
Cost of goods sold	-	-	(333,240)
Cost of material	-	(68,928,066)	-
Cost of production services	-	-	(213,106)
Non-material expense	-	(3,000)	(78,590)
Finance expense	-	(496,774)	-
Other income	-	59,847	-
Other expenses	-	(198,412)	(1,291)
	27,114	**(69,565,444)**	**26,743,697**
Year ended 31 December 2017			
Sales revenue	-	-	32,561,306
Other operating income	-	-	2,377
Cost of goods sold	-	-	(10,312,815)
Cost of material	-	(31,926,861)	-
Cost of production services	-	-	(197,261)
Non-material expense	-	(3,000)	(116,320)
Finance expense	-	(632,427)	-
Other income	-	83,321	-
Other expenses	-	(69,543)	(253)
	-	**(32,548,510)**	**21,937,034**

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

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

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

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

Transactions with Key Management Personnel

In the year ended 31 December 2018 and 2017 the Group recognized RSD 1,018,152 and RSD 1,029,116; respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

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