

**NAFTNA INDUSTRIJA SRBIJE A.D., Novi Sad**

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



## INDEPENDENT AUDITOR'S REPORT

To the 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 statement of financial position as of 31 December 2015 and the consolidated statements of profit and loss and other comprehensive income, changes in shareholders' equity and 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

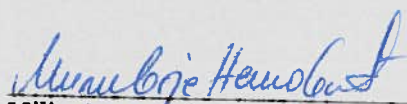
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.



Milivoje Nesovic  
Licensed Auditor



  
PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 2 February 2016

PricewaterhouseCoopers d.o.o., Omladinskih brigada 88a, 11070 Belgrade, Republic of Serbia  
T: +381 11 3302 100, F: +381 11 3302 101, www.pwc.rs

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



**Naftna industrija Srbije A.D.**  
**Consolidated Financial Statements**  
**31 December 2015**

*This version of the financial statements is a translation from the original, which was prepared in 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*

**Naftna industrija Srbije A.D.**  
**Consolidated Financial Statements**  
**31 December 2015**

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**NIS Group**  
**Consolidated Statement of Financial Position**  
*(All amounts are in 000 RSD, unless otherwise stated)*

<b>Assets</b>	Notes	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Current assets</b>			
Cash and cash equivalents	7	19,271,435	8,326,704
Short-term financial assets		201,087	6,413
Trade and other receivables	8	34,948,713	51,690,689
Inventories	9	24,178,244	39,130,966
Current income tax prepayments		1,629,761	2,656,695
Other current assets	10	6,225,886	7,841,611
Assets classified as held for sale		21,703	-
<b>Total current assets</b>		<b>86,476,829</b>	<b>109,653,078</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	247,213,423	232,389,851
Investment property	12	1,336,060	1,381,832
Goodwill and other intangible assets	13	7,155,279	7,494,340
Investments in joint venture	14	1,188,659	1,008,221
Trade and other non-current receivables	15	14,656,649	72,680
Long-term financial assets		321,006	240,698
Deferred tax assets, net	16	4,268,741	4,853,600
Other non-current assets	17	3,399,135	4,572,897
<b>Total non-current assets</b>		<b>279,538,952</b>	<b>252,014,119</b>
<b>Total assets</b>		<b>366,015,781</b>	<b>361,667,197</b>
<b>Liabilities and shareholder's equity</b>			
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	18	17,135,875	14,832,341
Trade and other payables	19	29,364,018	43,751,998
Other current liabilities	20	6,537,802	5,322,163
Other taxes payable	21	10,445,185	9,031,015
Provisions for liabilities and charges	23	2,256,470	2,508,552
<b>Total current liabilities</b>		<b>65,739,350</b>	<b>75,446,069</b>
<b>Non-current liabilities</b>			
Long-term debt	22	100,313,640	93,588,043
Provisions for liabilities and charges	23	9,451,111	9,012,584
<b>Total non-current liabilities</b>		<b>109,764,751</b>	<b>102,600,627</b>
<b>Equity</b>			
Share capital	24	81,530,200	81,530,200
Reserves		(530,528)	(452,813)
Retained earnings		109,698,142	102,696,156
<b>Equity attributable to the Company's owners</b>		<b>190,697,814</b>	<b>183,773,543</b>
Non-controlling interest		(186,134)	(153,042)
<b>Total equity</b>		<b>190,511,680</b>	<b>183,620,501</b>
<b>Total liabilities and shareholder's equity</b>		<b>366,015,781</b>	<b>361,667,197</b>

Kirill Kravchenko  
 Chief Executive Officer  
 2 February 2016



Anton Fyodorov  
 Chief Financial Officer

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

**NIS Group**
**Consolidated Statement of Profit and Loss and Other Comprehensive Income**
*(All amounts are in 000 RSD, unless otherwise stated)*

	Note	Year ended 31 December	
		2015	2014
Sales of petroleum products and oil and gas sales		200,653,405	250,478,264
Other revenues		10,025,244	8,048,509
<b>Total revenue from sales</b>	6	<b>210,678,649</b>	<b>258,526,773</b>
Purchases of oil, gas and petroleum products	25	(122,163,519)	(147,663,757)
Production and manufacturing expenses	26	(18,904,743)	(18,116,244)
Selling, general and administrative expenses	27	(16,539,131)	(20,262,917)
Transportation expenses		(1,021,136)	(1,072,913)
Depreciation, depletion and amortization	11,13	(14,281,849)	(12,757,430)
Taxes other than income tax	28	(5,009,182)	(5,860,905)
Exploration expenses		(55,050)	(1,579,778)
<b>Total operating expenses</b>		<b>(177,974,610)</b>	<b>(207,313,944)</b>
Other expenses, net	30	(1,653,269)	(1,086,409)
<b>Operating profit</b>		<b>31,050,770</b>	<b>50,126,420</b>
Net foreign exchange loss	31	(8,061,447)	(13,234,463)
Finance income	32	430,161	397,238
Finance expenses	33	(4,363,682)	(3,419,642)
<b>Total other expense</b>		<b>(11,994,968)</b>	<b>(16,256,867)</b>
<b>Profit before income tax</b>		<b>19,055,802</b>	<b>33,869,553</b>
Current income tax expense	34	(3,864,403)	(3,497,767)
Deferred tax expense	34,16	(583,694)	(2,533,344)
<b>Total income tax expense</b>		<b>(4,448,097)</b>	<b>(6,031,111)</b>
<b>Profit for the period</b>		<b>14,607,705</b>	<b>27,838,442</b>
<b>Other comprehensive loss:</b>			
<b>Items that will not be reclassified to profit</b>			
Remeasurements of post-employment benefit obligations	23,16	2,810	273,088
<b>Items that may be subsequently reclassified to profit</b>			
Change in value of available-for-sale financial assets		(37,288)	17,608
Currency translation differences		(42,434)	(380,965)
		(79,722)	(363,357)
<b>Other comprehensive loss for the period</b>		<b>(76,912)</b>	<b>(90,269)</b>
<b>Total comprehensive income for the period</b>		<b>14,530,793</b>	<b>27,748,173</b>
<b>Profit / (loss) attributable to:</b>			
- Shareholders of Naftna Industrija Srbije		14,638,790	27,939,243
- Non-controlling interest		(31,085)	(100,801)
<b>Profit for the period</b>		<b>14,607,705</b>	<b>27,838,442</b>
<b>Total comprehensive income / (loss) attributable to:</b>			
- Shareholders of Naftna Industrija Srbije		14,563,885	27,857,757
- Non-controlling interest		(33,092)	(109,584)
<b>Total comprehensive income for the period</b>		<b>14,530,793</b>	<b>27,748,173</b>
<b>Earnings per share attributable to NIS shareholders</b>			
- Basic earnings (RSD per share)		89.78	171.34
Weighted average number of ordinary shares in issue (millions)		163	163

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

**NIS Group**

**Consolidated Statement of Changes in Shareholders' Equity**

(All amounts are in 000 RSD, unless otherwise stated)

Note	Equity attributable to the Company's owners			Non-controlling interest	Total equity
	Share capital	Reserves	Retained earnings		
Balance as at 1 January 2014	81,530,200	(98,174)	87,564,495	168,996,521	168,953,102
Profit / (loss) for the year	-	-	27,939,243	27,939,243	27,838,442
Other comprehensive income / (loss)	-	-	-	-	-
Change in value of available-for-sale financial assets	-	17,608	-	17,608	17,608
Remeasurements of post-employment benefit obligations	-	-	273,088	273,088	273,088
Currency translation differences	-	(372,182)	-	(372,182)	(380,965)
Total comprehensive (loss) income for the year	-	(354,574)	28,212,331	27,857,757	27,748,173
Dividends to equity holders	-	-	(13,080,705)	(13,080,705)	(13,080,705)
Total transaction with owners, recorded in equity	-	-	(13,080,705)	(13,080,705)	(13,080,705)
Other	-	(65)	35	(30)	(69)
Balance as at 31 December 2014	81,530,200	(452,813)	102,696,156	183,773,543	183,620,501
Balance as at 1 January 2015	81,530,200	(452,813)	102,696,156	183,773,543	183,620,501
Profit / (loss) for the year	-	-	14,638,790	14,638,790	14,607,705
Other comprehensive income / (loss)	-	-	-	-	-
Change in value of available-for-sale financial assets	-	(37,288)	-	(37,288)	(37,288)
Remeasurements of post-employment benefit obligations	-	-	2,810	2,810	2,810
Currency translation differences	-	(40,427)	-	(40,427)	(42,434)
Total comprehensive (loss) income for the year	-	(77,715)	14,641,600	14,563,885	14,530,793
Dividends to equity holders	-	-	(7,639,380)	(7,639,380)	(7,639,380)
Total transaction with owners, recorded in equity	-	-	(7,639,380)	(7,639,380)	(7,639,380)
Other	-	-	(234)	(234)	(234)
Balance as at 31 December 2015	81,530,200	(530,528)	109,698,142	190,697,814	190,511,680

The accompanying notes are an integral part of these Consolidated Financial Statements.

**NIS Group**  
**Consolidated Statement of Cash Flows**  
*(All amounts are in 000 RSD, unless otherwise stated)*

		<b>Year ended</b>	
		<b>31 December</b>	
	Note	2015	2014
<b>Cash flows from operating activities</b>			
Profit before income tax		19,055,802	33,869,553
<b>Adjustments for:</b>			
Finance costs	33	4,363,682	3,419,642
Finance income	32	(430,161)	(397,238)
Depreciation, depletion and amortization	11,13	14,281,849	12,757,430
Adjustments for other provisions		609,201	(2,059,681)
Allowance for doubtful accounts	27	(6,735,272)	2,963,963
Payables write off		(565,958)	(42,257)
Unrealised foreign exchange losses, net		6,655,496	10,860,547
Other non-cash items		1,209,526	1,790,417
		<b>19,388,365</b>	<b>29,292,623</b>
<b>Changes in working capital:</b>			
Trade and other receivables		7,875,542	4,427,603
Inventories		14,270,312	1,734,439
Other current assets		551,546	(4,374,989)
Trade payables and other current liabilities		(7,675,043)	(4,846,102)
Other taxes payable		1,483,187	277,576
		<b>16,505,544</b>	<b>(2,781,473)</b>
Income taxes paid		(2,871,709)	(8,697,928)
Interest paid		(2,996,133)	(3,089,785)
Interest received		1,909,053	1,000,254
		<b>(3,958,789)</b>	<b>(10,787,459)</b>
<b>Net cash generated by operating activities</b>		<b>50,990,921</b>	<b>49,593,444</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries or other business		-	(874,367)
Loans issued		(386,333)	-
Loan proceeds received		56,670	-
Capital expenditures		(35,178,875)	(44,428,859)
Proceeds from sale of property, plant and equipment		634,338	306,276
Other outflow		(38,435)	(5,654)
<b>Net cash used in investing activities</b>		<b>(34,912,635)</b>	<b>(45,002,604)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		28,081,912	39,931,496
Repayment of borrowings		(25,575,882)	(32,297,660)
Dividends paid to the Company's owners		(7,639,380)	(13,080,705)
<b>Net cash used in financing activities</b>		<b>(5,133,350)</b>	<b>(5,446,869)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>10,944,936</b>	<b>(856,029)</b>
Effect of foreign exchange on cash and cash equivalents		(205)	474,958
<b>Cash and cash equivalents as of the beginning of the year</b>		<b>8,326,704</b>	<b>8,707,775</b>
<b>Cash and cash equivalents as of the end of the year</b>		<b>19,271,435</b>	<b>8,326,704</b>

*The accompanying notes are an integral part of these Consolidated Financial Statements.*



## **1. GENERAL INFORMATION**

### **1.1. Description of business**

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

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

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

The Company is an open joint stock company, listed on the prime market 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 2015 were prepared in accordance with International Financial Reporting Standards (IFRS) and are not the statutory accounts of Group. The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily Serbian). The accompanying Consolidated Financial Statements were primarily derived from the Group's statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (IFRS). The Consolidated Financial Statements have been prepared based on the going concern principle, which assumes that the Group will continue to operate in the foreseeable future. In order to assess the reasonability of this assumption, management reviews forecasts of future cash inflows. Based on these reviews, management believes that the Group will be able to continue to operate as a going concern in the foreseeable future and, therefore, this principle should be applied in the preparation of these Consolidated Financial Statements.

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

### **2.2. 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. Foreign currency translation**

### **(a) Functional and presentation currency**

Items included in the Consolidated Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Consolidated Financial Statements are presented in RSD, which is the Company's functional and the Group's 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 the end of the period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and other monetary assets and liabilities are presented in the Profit and Loss within "Net foreign exchange loss".

### **(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.

## **2.5. 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 Consolidate 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 the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

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

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**

Ownership interest in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

**2.6. Business combinations**

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

**2.7. Goodwill**

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

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

**2.8. Cash and cash equivalents**

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

**2.9. Non-derivative financial assets**

The Group has the following non-derivative financial assets: long-term loans and receivables and available for sale financial assets.

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

**(a) Loans and Receivables**

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

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

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Consolidated Profit and Loss within 'Selling, general and administrative expenses' (note 27). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to 'Selling, general and administrative expenses' in the Profit and Loss (note 27).

**(b) Available for sale financial assets**

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

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

**2.10. Non-Derivative Financial Liabilities**

The Group initially recognises financial liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

**2.11. Inventories**

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

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

The impairment tests of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as production and manufacturing expenses (note 26).

**2.12. 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.

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

*(All amounts are in 000 RSD, unless otherwise stated)*

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 13).

**(b) Licenses and rights**

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

**(c) Software**

These include primarily the costs of implementation the (SAP) computer software program. Acquired computer software licenses are capitalised 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 exceeding 8 years).

**2.13. 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 Profit and Loss during the financial period in which they are incurred.

Advances made on Property, plant and equipment and Construction in progress are accounted for within other non-current assets as a part of non-current non-financial accounts receivable.

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
Refining assets	
Buildings	10 - 50
Machinery and equipment	7 - 25
Marketing and distribution assets	
Buildings	10 - 50
Machinery and equipment	5 - 15
Other Assets	3 - 50

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 expenses, net' in the Consolidated Profit and Loss (note 30).

**2.14. 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 oil and gas assets according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortization are charged during development.

**(c) Oil and gas production assets**

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

**(d) Depreciation/amortization**

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

**(e) Impairment – exploration and evaluation assets**

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

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

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

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

**2.15. 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.

**2.16. Investment property**

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

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

Investment property is carried at fair value, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the Profit and Loss 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.

**2.17. 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 Group, 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 financial expense and charged to Profit and Loss.

**2.20. Current and deferred income tax**

The tax expense for the year comprises current and deferred tax. Tax is recognized in the Profit and Loss, 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 Collective Labour Agreement**

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

**(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.

At the end of 2014 Group has made decision to introduce new three-year (2015-2017) incentive program for Group managers which will be settle based on the Key Performance Indicators ("KPI") reached during the program (note 23).

**2.22. 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.

**2.23. 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 Statement of Financial Position. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

**2.24. Revenue recognition**

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

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

**(a) Sales - wholesale**

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

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

**(b) Sales - retail**

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

**(c) Sales of services**

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

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

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

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

**(d) Interest income**

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

**2.25. Transportation expenses**

Transportation expenses recognised in consolidated profit and loss represent expenses incurred to transport crude oil and oil products through the pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

**2.26. Maintenance and Repair**

Costs for maintenance and repair that do not represent significant improvements are expensed when incurred.

Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred.

### **3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS**

Preparing these consolidated financial statements in accordance with IFRS requires 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 experiences and other factors 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 estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

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

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

#### **3.1. Estimation of Oil and Gas Reserves**

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved 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 2015 would be to increase/decrease it by 1,321,495 RSD (2014: 1,177,238 RSD).

#### **3.3. Impairment of goodwill**

Goodwill is tested for impairment annually.

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

### **3.4. Impairment of Non-Derivative Financial Assets**

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

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

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

### **3.5. Employee benefits**

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

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

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

### **3.6. Decommissioning Obligations**

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

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

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

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

### **3.7. Contingencies**

Certain conditions may exist as of the reporting date 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, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 36).

### **3.8. Impact of recent crude oil volatility**

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

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

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

## **4. NEW ACCOUNTING STANDARDS**

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

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (either through Profit and loss or through Other comprehensive income), and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss.

There is no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The amendment made to IFRS 9 in November 2013 allows an entity to continue to measure its financial instruments in accordance with IAS 39 but at the same time to benefit from the improved accounting for own credit in IFRS 9.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- A substantial overhaul of hedge accounting was introduced that will enable entities to better reflect their risk management activities in their financial statements. In particular amendments to IFRS 9 increase the scope of hedged items eligible for hedge accounting (risk components of non-financial items may be designated provided they are separately identifiable and reliably measurable; derivatives may be included as part of the hedged item; groups and net positions may be designated hedged items, etc). The amendments to IFRS 9 also increase eligibility of hedging instruments allowing financial instruments at fair value through profit or loss to be designated as hedging instruments. A fundamental difference to the IAS 39 hedge accounting model is the lack of the 80-125 per cent bright line threshold for effective hedges and the requirement to perform retrospective hedge effectiveness testing. Under the IFRS 9 model, it is necessary for there to be an economic relationship between the hedged item and hedging instrument, with no quantitative threshold.
- Increased disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the financial statements.

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

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

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

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

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

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

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

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

Key features of the standard:

- IFRS 16 defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.
- IFRS 16 changes the lessees accounting requirements given in IAS 17 and eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:
  - a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
  - b) depreciation of lease assets separately from interest on lease liabilities in the income statement.
- IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

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

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

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

## **5. FINANCIAL RISK MANAGEMENT**

### **5.1. 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.

#### *Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and EUR. Foreign exchange risk arises from future commercial transactions, 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 and USD which predominantly expose group to the foreign currency translation risk. Currency exposure arising from the borrowings is managed through the participation of the borrowing denominated in functional currency of the Group in the total credit portfolio.

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

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

#### *Cash flow and fair value interest rate risk*

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



**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)***Credit risk**

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

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

**Liquidity risk**

Cash flow forecasting is performed as aggregated at the Group's level. The Group'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 based on the remaining period at the balance sheet to the contractual maturity date.

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.

<b>As at 31 December 2015</b>	<b>Less than 1 year</b>	<b>1 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Borrowings (short-term, current portion and long-term debt)	20,001,363	87,459,313	20,395,208	127,855,884
Trade and other payables (less dividends payable)	25,568,682	23,028	-	25,591,710
	<b>45,570,045</b>	<b>87,482,341</b>	<b>20,395,208</b>	<b>153,447,594</b>
<b>As at 31 December 2014</b>	<b>Less than 1 year</b>	<b>1 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Borrowings (short-term, current portion and long-term debt)	17,275,289	75,256,714	26,337,583	118,869,586
Trade and other payables (less dividends payable)	39,956,532	23,158	-	39,979,690
	<b>57,231,821</b>	<b>75,279,872</b>	<b>26,337,583</b>	<b>158,849,276</b>

**5.2. 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, revise its investment program, attract new or repay existing loans or sell certain non-core assets.

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 amortization, finance income (expenses) net, other non-operating income (expenses).

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)*

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

	Year ended 31 December 2015	2014
Long-term debt	100,313,640	93,588,043
Short-term debt and current portion of long-term debt	17,135,875	14,832,341
Less: cash and cash equivalents	(19,271,435)	(8,326,704)
Net debt	98,178,080	100,093,680
EBITDA	46,454,755	63,399,047
<b>Net debt to EBITDA ratio at the end of the year</b>	<b>2.11</b>	<b>1.58</b>

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.

**5.3. Fair value estimation**

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

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

**6. SEGMENT INFORMATION**

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

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

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

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

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

**NIS Group**

**Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

*(All amounts are in 000 RSD, unless otherwise stated)*

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

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	51,812,987	207,768,345	(48,902,683)	210,678,649
Intersegment	47,547,891	1,354,792	(48,902,683)	-
External	4,265,096	206,413,553	-	210,678,649
EBITDA (Segment results)	39,202,090	7,252,665	-	46,454,755
Depreciation, depletion and amortization	(4,855,284)	(9,426,565)	-	(14,281,849)
Impairment losses (note 30)	(13,111)	(572,734)	-	(585,845)
Net foreign exchange loss	(43,223)	(8,018,224)	-	(8,061,447)
Finance expenses, net	(116,178)	(3,817,343)	-	(3,933,521)
Income tax	(1,140,427)	(3,307,670)	-	(4,448,097)
<b>Segment profit (loss)</b>	<b>32,339,558</b>	<b>(17,731,853)</b>	<b>-</b>	<b>14,607,705</b>

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

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	80,995,753	255,254,695	(77,723,675)	258,526,773
Intersegment	76,539,271	1,184,404	(77,723,675)	-
External	4,456,482	254,070,291	-	258,526,773
EBITDA (Segment results)	65,683,172	(2,284,125)	-	63,399,047
Depreciation, depletion and amortization	(4,117,887)	(8,639,543)	-	(12,757,430)
Impairment losses (note 30)	(27,346)	(340,112)	-	(367,458)
Net foreign exchange loss	(184,809)	(13,049,654)	-	(13,234,463)
Finance expenses, net	(42,963)	(2,979,441)	-	(3,022,404)
Income tax	(580,889)	(5,450,222)	-	(6,031,111)
<b>Segment profit (loss)</b>	<b>60,353,697</b>	<b>(32,515,255)</b>	<b>-</b>	<b>27,838,442</b>

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

	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2015</b>	<b>2014</b>
Profit for the year	14,607,705	27,838,442
Income tax expenses	4,448,097	6,031,111
Finance expenses	4,363,682	3,419,642
Finance income	(430,161)	(397,238)
Depreciation, depletion and amortization	14,281,849	12,757,430
Net foreign exchange loss	8,061,447	13,234,463
Other expense, net	1,653,269	1,086,409
Other non-operating income, net*	(531,133)	(571,212)
<b>EBITDA</b>	<b>46,454,755</b>	<b>63,399,047</b>

\*Other non-operating income, net mainly relate to fines, penalties and other.

**NIS Group**

**Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

*(All amounts are in 000 RSD, unless otherwise stated)*

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

	Year ended 31 December 2015		
	Domestic market	Export and international sales	Total
Sale of crude oil	638,494	3,022,528	3,661,022
Sale of gas	6,183,349	-	6,183,349
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	6,183,349	-	6,183,349
Sale of petroleum products	153,297,126	37,511,908	190,809,034
<i>Through a retail network</i>	49,664,208	-	49,664,208
<i>Wholesale activities</i>	103,632,918	37,511,908	141,144,826
Other sales	5,997,856	4,027,388	10,025,244
<b>Total sales</b>	<b>166,116,825</b>	<b>44,561,824</b>	<b>210,678,649</b>

	Year ended 31 December 2014		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	3,605,885	3,605,885
Sale of gas	3,744,856	-	3,744,856
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	3,744,856	-	3,744,856
Sale of petroleum products	194,215,577	48,911,946	243,127,523
<i>Through a retail network</i>	61,771,841	-	61,771,841
<i>Wholesale activities</i>	132,443,736	48,911,946	181,355,682
Other sales	4,988,217	3,060,292	8,048,509
<b>Total sales</b>	<b>202,948,650</b>	<b>55,578,123</b>	<b>258,526,773</b>

Out of the amount of 141,144,826 RSD (2014: 181,355,682 RSD) revenue from sale of petroleum products (wholesale), the amount of 23,222,832 RSD (2014: 23,382,492 RSD) are derived from a single domestic customer, Knez Petrol doo (2014: HIP Petrohemlja). These revenues are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 6,275,159 RSD (2014: 5,485,466 RSD).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 166,116,825 RSD (2014: 202,948,650 RSD), and the total of revenue from external customer from other countries is 44,561,824 RSD (2014: 55,578,123 RSD). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below.

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

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

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)*

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:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Serbia	232,868,821	218,176,386
Bulgaria	8,246,434	8,524,519
Bosnia and Herzegovina	8,152,524	8,296,363
Romania	6,436,983	6,268,690
Hungary	-	65
	<b>255,704,762</b>	<b>241,266,023</b>

**7. CASH AND CASH EQUIVALENTS**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Cash in bank and in hand	11,302,285	5,117,100
Deposits with original maturity of less than three months	6,385,304	1,317,248
Cash held on escrow account	1,562,453	1,636,805
Cash equivalents	21,393	255,551
	<b>19,271,435</b>	<b>8,326,704</b>

Cash held on escrow accounts as of 31 December 2015 amounting to 1,562,453 RSD (31 December 2014: 1,636,805 RSD) mostly relates to deposited funds in accordance with the interest in a joint venture through which the operation of future wind farm "Plandiste" will be managed.

**8. TRADE AND OTHER RECEIVABLES**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Trade receivables:		
- related parties	253,057	36,398
- third parties	29,781,907	34,082,509
- state and state owned companies	19,369,662	36,748,488
	<b>49,404,626</b>	<b>70,867,395</b>
Other receivables:		
- third parties	209,227	133,654
- state and state owned companies	10,314,622	10,257,988
	<b>10,523,849</b>	<b>10,391,642</b>
Accrued assets	660,401	16,268
	<b>60,588,876</b>	<b>81,275,305</b>
<i>Less impairment provision for trade and other receivables:</i>		
- third parties	(9,862,727)	(10,062,347)
- state and state owned companies	(15,777,436)	(19,522,269)
	<b>(25,640,163)</b>	<b>(29,584,616)</b>
<b>Total trade and other receivables</b>	<b>34,948,713</b>	<b>51,690,689</b>

**NIS Group**

**Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

*(All amounts are in 000 RSD, unless otherwise stated)*

The ageing of trade and other receivables is as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Neither impaired nor past due	27,139,823	24,050,369
Past due but not impaired:		
within 30 days:	1,831,215	4,122,003
1 to 3 months	1,200,167	2,027,385
3 months to 1 year	2,198,059	10,417,402
over 1 year	2,579,449	11,073,530
<b>Total</b>	<b>34,948,713</b>	<b>51,690,689</b>

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

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

	<b>31 December 2015</b>	<b>31 December 2014</b>
RSD	41,704,312	68,417,996
EUR	16,348,409	10,733,307
USD	1,507,433	1,351,117
Other	1,028,722	772,885
	<b>60,588,876</b>	<b>81,275,305</b>

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

	<b>Trade &amp; other receivables</b>		
	<b>Third parties</b>	<b>State and state owned companies</b>	<b>Total</b>
<b>As at 1 January 2014</b>	<b>9,997,356</b>	<b>19,708,390</b>	<b>29,705,746</b>
Provision for receivables impairment (note 27)	283,925	45,165	329,090
Unused amounts reversed (note 27)	(376,282)	(197,384)	(573,666)
Receivables written off during the year as uncollectible	(231,095)	(33,903)	(264,998)
Exchange differences	431,346	1	431,347
Other	(42,903)	-	(42,903)
<b>As at 31 December 2014</b>	<b>10,062,347</b>	<b>19,522,269</b>	<b>29,584,616</b>
<b>As at 1 January 2015</b>	<b>10,062,347</b>	<b>19,522,269</b>	<b>29,584,616</b>
Provision for receivables impairment (note 27)	81,545	49,805	131,350
Unused amounts reversed (note 27)	(96,971)	(5,703,076)	(5,800,047)
Receivables written off during the year as uncollectible	(186,050)	(2,668,176)	(2,854,226)
Exchange differences	404	45,008	45,412
Transfer from other current assets (note 10)	-	3,105,066	3,105,066
Other transfer	-	1,426,540	1,426,540
Other	1,452	-	1,452
<b>As at 31 December 2015</b>	<b>9,862,727</b>	<b>15,777,436</b>	<b>25,640,163</b>

Release of provision and receivable written off as uncollectable in the amount of 5,800,047 RSD and 2,854,226 RSD respectively mainly relate to positive outcome of negotiations between the Company and Serbian Government for collection of receivables from Srbijagas. The negotiations ended in adoption of the Law on taking over the receivables from Srbijagas by the Government. According to the Law, NIS will collect the amount of 23,379,767 RSD in following two years, with the last installment on 31 May 2018. On 31 Dec 2015, the Company received the first installment in the amount of 4,675,953 RSD. In addition, the Company reclassified non-current portion in the amount of 11,222,228 RSD (note 15) with proper discounting effect.

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)*

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Profit and Loss. Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

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

**9. INVENTORIES**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Crude oil	11,069,970	21,306,426
Gas	-	161,206
Petroleum products	13,738,263	14,487,028
Materials and supplies	4,120,087	8,529,435
Other	838,428	802,531
Less impairment provision	<u>(5,588,504)</u>	<u>(6,155,660)</u>
	<b><u>24,178,244</u></b>	<b><u>39,130,966</u></b>

Movement on inventory provision is as follows:

	<b>2015</b>	<b>2014</b>
As at 1 January	<u>6,155,660</u>	<u>6,939,005</u>
Provision for inventory impairment (note 26)	106,372	11,412
Unused amounts reversed (note 26)	(406,016)	(216,837)
Other	<u>(267,512)</u>	<u>(577,920)</u>
As at 31 December	<b><u>5,588,504</u></b>	<b><u>6,155,660</u></b>

**10. OTHER CURRENT ASSETS**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Advances paid	536,372	668,211
VAT receivables	227,121	163,230
Deferred VAT	2,014,262	2,241,351
Prepaid expenses	120,106	137,615
Prepaid custom duties	33,190	52,281
Prepaid excise	3,028,713	4,323,747
Other current assets	14,308,833	21,258,939
Less impairment provision	<u>(14,042,711)</u>	<u>(21,003,763)</u>
	<b><u>6,225,886</u></b>	<b><u>7,841,611</u></b>

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

Prepaid excise as at 31 December 2015 amounting to 3,028,713 RSD (31 December 2014: 4,323,747 RSD) 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.

Other current assets mainly relate to accrued interests and claims in dispute which are provided.

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)*

Movements on the Group's provision for impairment of other current assets are as follows:

	<b>Advances paid</b>	<b>Other current assets</b>	<b>Total</b>
<b>As at 1 January 2014</b>			
Provision for other current assets impairment (note 27)	253,069	17,706,623	17,959,692
Unused amounts reversed (note 27)	5,688	3,600,138	3,605,826
Other	(13,116)	(393,467)	(406,583)
	(813)	(154,359)	(155,172)
<b>As at 31 December 2014</b>	<b>244,828</b>	<b>20,758,935</b>	<b>21,003,763</b>
<b>As at 1 January 2015</b>			
Provision for other current assets impairment (note 27)	244,828	20,758,935	21,003,763
Unused amounts reversed (note 27)	41,373	186,755	228,128
Receivables written off during the year as uncollectible	(4,439)	(1,316,921)	(1,321,360)
Transfer to trade and other receivables (note 10)	(6,503)	(2,760,276)	(2,766,779)
Other	-	(3,105,066)	(3,105,066)
	(4,962)	8,987	4,025
<b>As at 31 December 2015</b>	<b>270,297</b>	<b>13,772,414</b>	<b>14,042,711</b>

The ageing of other current assets is as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Neither impaired nor past due	6,071,893	7,370,551
Not impaired and past due in the following periods:		
Less than 1 month	30,136	87,273
01 - 03 months	31,372	130,600
03 month - one year	43,018	70,613
One year - 5 years	46,157	100,452
Over 5 years	3,310	82,122
<b>Total</b>	<b>6,225,886</b>	<b>7,841,611</b>



## Notes to the Consolidated Financial Statements for the year ended 31 December 2015

(All amounts are in 000 RSD, unless otherwise stated)

## 11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
<b>As at 1 January 2014</b>						
Cost	58,161,373	108,204,314	44,958,981	18,127,652	45,178,238	275,628,558
Depreciation and impairment	(17,442,672)	(28,192,781)	(13,015,775)	(7,989,794)	(4,055,015)	(70,696,037)
Net book value	40,718,701	80,011,533	31,943,206	11,137,858	41,121,223	204,932,521
<b>Year ended 31 December 2014</b>						
Additions	24,029,865	7,515,928	4,250,398	804,322	3,903,692	40,504,205
Acquisitions through business combinations (note 35)	-	-	-	-	1,245,216	1,245,216
Impairment (note 30)	(10,222)	(9,094)	(190,721)	73,430	(64,166)	(200,773)
Depreciation	(3,763,379)	(5,229,830)	(2,056,802)	(717,383)	(4,984)	(11,772,378)
Transfer from (to) intangible assets (note 13)	119	-	54,615	-	(1,189,842)	(1,135,108)
Transfer from investment property (note 12)	35,121	9,358	53,000	7,398	-	104,878
Disposals and write-off	(31,006)	(6,133)	(340,601)	(97,893)	(1,858,209)	(2,333,842)
Other transfers	246,762	(591,446)	(119,113)	464,179	7	389
Translation differences	174	-	833,794	-	210,775	1,044,743
<b>As at 31 December 2014</b>	<b>61,226,135</b>	<b>81,700,316</b>	<b>34,427,776</b>	<b>11,671,912</b>	<b>43,363,712</b>	<b>232,389,851</b>
Cost	82,284,653	114,595,854	49,338,344	20,285,937	46,177,226	312,682,014
Depreciation and impairment	(21,058,518)	(32,895,538)	(14,910,568)	(8,614,025)	(2,813,514)	(80,292,163)
Net book value	61,226,135	81,700,316	34,427,776	11,671,912	43,363,712	232,389,851
<b>As at 1 January 2015</b>						
Cost	82,284,653	114,595,854	49,338,344	20,285,937	46,177,226	312,682,014
Depreciation and impairment	(21,058,518)	(32,895,538)	(14,910,568)	(8,614,025)	(2,813,514)	(80,292,163)
Net book value	61,226,135	81,700,316	34,427,776	11,671,912	43,363,712	232,389,851
<b>Year ended 31 December 2015</b>						
Additions	27,210,328	5,655,806	2,813,143	361,018	(6,898,490)	28,141,805
Impairment (note 30)	(797)	(29,826)	(169,264)	(2,456)	(111,808)	(314,151)
Depreciation	(4,473,662)	(5,757,585)	(2,174,588)	(804,133)	(5,001)	(13,214,949)
Transfer from intangible assets (note 13)	-	-	-	-	87,573	87,573
Transfer from (to) investment property (note 12)	-	-	89,041	(176,424)	-	(87,383)
Transfer to non-current assets held for sale	-	-	-	(21,703)	-	(21,703)
Disposals and write-off	(354,857)	(78,373)	(94,796)	(110,896)	(183,975)	(822,899)
Other transfers	(24,468)	(2,953)	(30,694)	68,972	(400)	10,457
Translation differences	(11)	(1)	55,970	2	(11,136)	44,822
<b>As at 31 December 2015</b>	<b>83,582,668</b>	<b>81,487,384</b>	<b>34,916,608</b>	<b>10,986,290</b>	<b>36,240,473</b>	<b>247,213,423</b>
Cost	108,928,420	120,288,250	51,644,542	20,010,602	38,640,748	339,512,562
Depreciation and impairment	(25,345,752)	(38,800,866)	(16,727,934)	(9,024,312)	(2,400,275)	(92,299,139)
Net book value	83,582,668	81,487,384	34,916,608	10,986,290	36,240,473	247,213,423

**NIS Group**

**Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

*(All amounts are in 000 RSD, unless otherwise stated)*

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

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

As at 31 December 2015, the Group assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.8 for details. In addition Group has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of 314,151 RSD (2014: 200,773 RSD), note 30.

**Oil and gas production assets**

Oil and gas production assets comprise aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves. The information regarding Group's O&G assets is presented below:

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total asset under construction	Production assets	Other business and corporate assets	Total
<b>As at 1 January 2014</b>						
Cost	13,222,087	13,397,107	26,619,194	58,161,373	33,510	84,814,077
Depreciation and impairment	(10,867)	(238,059)	(248,926)	(17,442,672)	(20,267)	(17,711,865)
<b>Net book amount</b>	<b>13,211,220</b>	<b>13,159,048</b>	<b>26,370,268</b>	<b>40,718,701</b>	<b>13,243</b>	<b>67,102,212</b>
<b>Year ended 31 December 2014</b>						
<b>Additions</b>	<b>8,004,209</b>	<b>20,994,826</b>	<b>28,999,035</b>	<b>-</b>	<b>-</b>	<b>28,999,035</b>
Transfer from asset under construction	(3,619,756)	(20,246,631)	(23,866,387)	23,866,387	-	-
Other transfers	2,013,886	(527,685)	1,486,201	445,480	(81)	1,931,800
Impairment	(1,503)	(15,526)	(17,029)	(10,222)	(49)	(27,300)
Depreciation and depletion	(4,439)	-	(4,439)	(3,763,379)	-	(3,767,818)
Disposals and write-off	(1,691,582)	(139,622)	(1,831,204)	(31,006)	(15)	(1,862,225)
Translation differences	157,847	-	157,847	174	-	158,021
	<b>18,069,882</b>	<b>13,224,410</b>	<b>31,294,292</b>	<b>61,226,135</b>	<b>13,098</b>	<b>92,533,525</b>
<b>As at 31 December 2014</b>						
Cost	18,087,173	13,477,995	31,565,168	82,284,653	33,457	113,883,278
Depreciation and impairment	(17,291)	(253,585)	(270,876)	(21,058,518)	(20,359)	(21,349,753)
<b>Net book amount</b>	<b>18,069,882</b>	<b>13,224,410</b>	<b>31,294,292</b>	<b>61,226,135</b>	<b>13,098</b>	<b>92,533,525</b>
<b>Year ended 31 December 2015</b>						
<b>Additions</b>	<b>4,796,772</b>	<b>18,708,726</b>	<b>23,505,498</b>	<b>100,269</b>	<b>-</b>	<b>23,605,767</b>
Transfer from asset under construction	(3,207,817)	(23,902,242)	(27,110,059)	27,110,059	-	-
Other transfers	463,542	(326,056)	137,486	(24,468)	-	113,018
Impairment	-	(10,332)	(10,332)	(797)	(1,982)	(13,111)
Depreciation and depletion	(5,001)	-	(5,001)	(4,473,662)	-	(4,478,663)
Disposals and write-off	(158,627)	(634)	(159,261)	(354,857)	-	(514,118)
Translation differences	(8,142)	-	(8,142)	(11)	-	(8,153)
	<b>19,950,609</b>	<b>7,693,872</b>	<b>27,644,481</b>	<b>83,582,668</b>	<b>11,116</b>	<b>111,238,265</b>
<b>As at 31 December 2015</b>						
Cost	19,971,794	7,942,643	27,914,437	108,928,420	33,408	136,876,265
Depreciation and impairment	(21,185)	(248,771)	(269,956)	(25,345,752)	(22,292)	(25,638,000)
<b>Net book amount</b>	<b>19,950,609</b>	<b>7,693,872</b>	<b>27,644,481</b>	<b>83,582,668</b>	<b>11,116</b>	<b>111,238,265</b>

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)***12. INVESTMENT PROPERTY**

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

Movements on the account were as follows:

	<u>2015</u>	<u>2014</u>
<b>As at 1 January</b>		
Fair value (loss) gains (note 30)	1,381,832	1,414,364
Transfer from/(to) PP&E (note 11)	(124,003)	164,761
Disposals	87,383	(104,878)
Other	(17,554)	(93,462)
	8,402	1,047
<b>As at 31 December</b>	<u>1,336,060</u>	<u>1,381,832</u>

As at 31 December 2015, investment properties amounting to 1,336,060 RSD (31 December 2014: 1,381,832 RSD) 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 2015 and 2014. The revaluation loss was credited to Other expenses, net (note 30).

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

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

Fair value measurements at 31 December 2015 using:

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

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Fair value measurements at 31 December 2014 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Recurring fair value measurements</i>			
<i>Land and buildings</i>			
- Shops and other facilities for rents	-	812,024	-
- Gas stations	-	-	569,808
<b>Total</b>	-	<b>812,024</b>	<b>569,808</b>

**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:

	2015	2014
Long term growth rate	0%	0%
Discount rate	12%	12%

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

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

13. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Licenses, other than related to O&G activity	Software	IA under development	Other IA	Total
<b>As at 1 January 2014</b>						
Cost	1,962,137	986,944	5,271,729	566,974	737,003	9,524,787
Amortization and impairment	-	(370,018)	(2,241,518)	(88,098)	(146,507)	(2,846,141)
<b>Net book value</b>	<b>1,962,137</b>	<b>616,926</b>	<b>3,030,211</b>	<b>478,876</b>	<b>590,496</b>	<b>6,678,646</b>
<b>Year ended 31 December 2014</b>						
Additions	170,073	162,187	707,559	(103,470)	40,769	977,118
Acquisitions through business combinations (note 35)	42,148	-	-	-	-	42,148
Impairment (note 30)	(322,848)	(533)	-	-	(8,065)	(331,446)
Amortization	-	(132,240)	(780,319)	-	(72,493)	(985,052)
Transfer from PPE (note 11)	-	616,451	-	518,657	-	1,135,108
Disposals	-	(749)	-	-	(153,714)	(154,463)
Other transfers	-	(80,757)	(52,494)	(7)	131,527	(1,731)
Translation differences	106,384	7,756	1,816	721	17,335	134,012
	<b>1,957,894</b>	<b>1,189,041</b>	<b>2,906,773</b>	<b>894,777</b>	<b>545,855</b>	<b>7,494,340</b>
<b>As at 31 December 2014</b>						
Cost	1,957,894	1,682,582	5,940,699	982,875	709,732	11,273,782
Amortization and impairment	-	(493,541)	(3,033,926)	(88,098)	(163,877)	(3,779,442)
<b>Net book value</b>	<b>1,957,894</b>	<b>1,189,041</b>	<b>2,906,773</b>	<b>894,777</b>	<b>545,855</b>	<b>7,494,340</b>
<b>As at 1 January 2015</b>						
Cost	1,957,894	1,682,582	5,940,699	982,875	709,732	11,273,782
Amortization and impairment	-	(493,541)	(3,033,926)	(88,098)	(163,877)	(3,779,442)
<b>Net book value</b>	<b>1,957,894</b>	<b>1,189,041</b>	<b>2,906,773</b>	<b>894,777</b>	<b>545,855</b>	<b>7,494,340</b>
<b>Year ended 31 December 2015</b>						
Additions	-	258,262	981,838	(308,882)	995	932,213
Impairment (note 30)	(147,054)	(8)	(72)	-	(277)	(147,411)
Amortization	-	(126,906)	(892,877)	-	(47,117)	(1,066,900)
Transfer to PPE (note 11)	-	-	-	(87,573)	-	(87,573)
Disposals	-	(32)	(3)	-	(234)	(269)
Other transfers	-	(336)	(2,092)	-	25,292	22,864
Translation differences	7,536	(542)	67	1	953	8,015
	<b>1,818,376</b>	<b>1,319,479</b>	<b>2,993,634</b>	<b>498,323</b>	<b>525,467</b>	<b>7,155,279</b>
<b>As at 31 December 2015</b>						
Cost	1,818,376	1,932,511	6,920,051	586,421	721,791	11,979,150
Amortization and impairment	-	(613,032)	(3,926,417)	(88,098)	(196,324)	(4,823,871)
<b>Net book value</b>	<b>1,818,376</b>	<b>1,319,479</b>	<b>2,993,634</b>	<b>498,323</b>	<b>525,467</b>	<b>7,155,279</b>

Goodwill acquired through business combinations has been allocated to Downstream related CGUs.

*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.

**NIS Group**  
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The average key assumptions used in value-in use calculations:

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

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:

	<b>Opening</b>	<b>Addition</b>	<b>Impairment</b>	<b>Translation differences</b>	<b>Closing</b>
<b>2015</b>					
Bosnia and Herzegovina	483,957	-	-	2,392	486,349
Romania	419,804	-	(114,469)	(440)	304,895
Bulgaria	1,054,133	-	(32,585)	5,584	1,027,132
	<b>1,957,894</b>	<b>-</b>	<b>(147,054)</b>	<b>7,536</b>	<b>1,818,376</b>
<b>2014</b>					
Bosnia and Herzegovina	458,686	-	-	25,271	483,957
Romania	546,177	170,073	(322,848)	26,402	419,804
Bulgaria	957,274	42,148	-	54,711	1,054,133
	<b>1,962,137</b>	<b>212,221</b>	<b>(322,848)</b>	<b>106,384</b>	<b>1,957,894</b>

The impairment charge of 147,054 RSD (2014: 322,848 RSD) arose in a Romania and Bulgaria business activity and is recognised as expense in Profit and Loss (note 30).

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

#### 14. INVESTMENTS IN JOINT VENTURE

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

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

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

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)*

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

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

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

**15. TRADE AND OTHER NON-CURRENT RECEIVABLES**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Non-current trade receivables:		
- state and state owned companies	12,388,550	-
	<u>12,388,550</u>	<u>-</u>
Non-current other receivables:		
- third parties	152,849	146,696
- state and state owned companies	4,050,963	2,272,252
	<u>4,203,812</u>	<u>2,418,948</u>
<i>Less impairment provision for trade and other non-current receivables:</i>		
- <i>third parties</i>	(76,849)	(74,016)
- <i>state and state owned companies</i>	(1,858,864)	(2,272,252)
	<u>(1,935,713)</u>	<u>(2,346,268)</u>
	<u><b>14,656,649</b></u>	<u><b>72,680</b></u>

Trade and other non-current receivables amounting to 14,656,649 RSD mainly relate to the long-term receivables from the Republic of Serbia in the amount of 11,222,228 RSD according to the debt of Srbijagas owed to Naftna Industrija Srbije takeover and its conversion into public debt. (Short-term part of the receivables: note 8 and 10).

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

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

**16. DEFERRED INCOME TAX**

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

	<b>31 December 2015</b>	<b>31 December 2014</b>
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	6,036,318	6,459,311
- Deferred tax assets to be recovered after within 12 months	1,220,593	1,374,891
	<u>7,256,911</u>	<u>7,834,202</u>
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	2,988,170	2,980,602
	<u>2,988,170</u>	<u>2,980,602</u>
<b>Deferred tax assets (net)</b>	<u><b>4,268,741</b></u>	<u><b>4,853,553</b></u>

**NIS Group**

**Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

*(All amounts are in 000 RSD, unless otherwise stated)*

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

	<u>2015</u>	<u>2014</u>
<b>At 1 January</b>	4,853,600	7,439,475
Charged to the income statement	(583,694)	(2,533,344)
Charged to other comprehensive income	(623)	(48,192)
Translation difference	(495)	(4,339)
<b>31 December</b>	<u><b>4,268,741</b></u>	<u><b>4,853,600</b></u>

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:

	<u>Provisions</u>	<u>Carrying value of PP&amp;E vs Tax base</u>	<u>Total</u>
<i>Deferred tax liabilities</i>			
<b>As at 1 January 2014</b>		<b>(2,337,281)</b>	<b>(2,337,281)</b>
Charged to the income statement (note 34)	-	(590,790)	(590,790)
Charged to other comprehensive income	(48,192)	-	(48,192)
Translation difference	-	(4,339)	(4,339)
<b>As at 31 December 2014</b>	<u><b>(48,192)</b></u>	<u><b>(2,932,410)</b></u>	<u><b>(2,980,602)</b></u>
Charged to the income statement (note 34)	20,190	(27,135)	(6,945)
Charged to other comprehensive income	(623)	-	(623)
<b>As at 31 December 2015</b>	<u><b>(28,625)</b></u>	<u><b>(2,959,545)</b></u>	<u><b>(2,988,170)</b></u>

	<u>Provisions</u>	<u>Impairment loss</u>	<u>Investment credit</u>	<u>Total</u>
<i>Deferred tax assets</i>				
<b>As at 1 January 2014</b>	<b>308,289</b>	<b>762,878</b>	<b>8,705,589</b>	<b>9,776,756</b>
Charged to the income statement (note 34)	(282,758)	(82,219)	(1,577,577)	(1,942,554)
<b>As at 31 December 2014</b>	<u><b>25,531</b></u>	<u><b>680,659</b></u>	<u><b>7,128,012</b></u>	<u><b>7,834,202</b></u>
Charged to the income statement (note 34)	933,479	183,363	(1,693,591)	(576,749)
Translation difference	(542)	-	-	(542)
<b>As at 31 December 2015</b>	<u><b>958,468</b></u>	<u><b>864,022</b></u>	<u><b>5,434,421</b></u>	<u><b>7,256,911</b></u>

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

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

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

**17. OTHER NON-CURRENT ASSETS**

	<u>31 December 2015</u>	<u>31 December 2014</u>
Advances paid for PPE	1,360,565	2,468,780
Prepaid expenses	908,248	977,478
Other assets	1,161,131	1,155,896
Less impairment provision	(30,809)	(29,257)
	<u><b>3,399,135</b></u>	<u><b>4,572,897</b></u>



**18. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Short-term loans	3,553,120	8,600,112
Interest payables	164,324	130,902
Current portion of long-term loans (note 22)	13,417,421	6,100,504
Current portion of finance lease liabilities (note 22)	1,010	823
	<b>17,135,875</b>	<b>14,832,341</b>

**19. TRADE AND OTHER PAYABLES**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Trade payables		
- related parties	10,170,810	20,253,500
- third parties	15,334,596	19,650,382
Dividends payable	3,772,308	3,772,308
Other accounts payable	86,304	75,808
	<b>29,364,018</b>	<b>43,751,998</b>

As at 31 December 2015 payables to related parties amounting to 10,170,810 RSD (31 December 2014: 20,253,500 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 10,004,805 RSD (31 December 2014: 20,122,243 RSD), mostly for the purchase of crude oil.

**20. OTHER CURRENT LIABILITIES**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Advances received	3,207,205	1,589,530
Payables to employees	3,296,282	3,639,272
Accruals and deferred income	19,878	40,179
Other current non-financial liabilities	14,437	53,182
	<b>6,537,802</b>	<b>5,322,163</b>

**21. OTHER TAXES PAYABLE**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Mineral extraction tax	241,017	407,990
VAT	1,651,548	354,270
Excise tax	6,066,530	4,909,246
Contribution for buffer stocks	350,301	583,400
Custom duties	85,332	414,925
Other taxes	2,050,457	2,361,184
	<b>10,445,185</b>	<b>9,031,015</b>

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)***22. LONG-TERM DEBT**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Long-term loan - Gazprom Neft	42,427,710	47,820,723
Bank loans	71,016,461	51,604,833
Finance lease liabilities	199,289	199,738
Other long-term borrowings	88,611	64,076
Less Current portion	<b>(13,418,431)</b>	<b>(6,101,327)</b>
	<b>100,313,640</b>	<b>93,588,043</b>

**(a) Long-term loan - Gazprom Neft**

As at 31 December 2015 long-term loan - Gazprom Neft amounting to 42,427,710 RSD (2014: 47,820,723 RSD), with current portion of 5,657,028 RSD (2014: 5,625,967 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

**(b) Bank loans**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Domestic	18,693,334	7,175,319
Foreign	52,323,127	44,429,514
	71,016,461	51,604,833
Current portion of long-term loans	<b>(7,760,393)</b>	<b>(474,537)</b>
	<b>63,256,068</b>	<b>51,130,296</b>

The maturity of bank loans was as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Between 1 and 2 years	11,829,773	6,969,316
Between 2 and 5 years	46,347,221	38,525,058
Over 5 years	5,079,074	5,635,922
	<b>63,256,068</b>	<b>51,130,296</b>

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

	<b>31 December 2015</b>	<b>31 December 2014</b>
USD	53,388,078	45,401,219
EUR	17,247,010	5,840,104
RSD	1,174	1,520
JPY	380,199	361,990
	<b>71,016,461</b>	<b>51,604,833</b>

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

The loan agreements contain financial covenants that require the Group's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of 31 December 2015 and 31 December 2014 respectively.

**NIS Group**

**Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

*(All amounts are in 000 RSD, unless otherwise stated)*

**(c) Financial lease liabilities**

Minimum finance lease payments:

	31 December 2015	31 December 2014
Less than one year	41,677	66,290
1-5 years	205,380	229,507
Over 5 years	707,606	790,399
Future finance charges on finance leases	(755,374)	(886,458)
Present value of finance lease liabilities	<b>199,289</b>	<b>199,738</b>
	31 December 2015	31 December 2014
Less than one year	1,010	823
1-5 years	5,832	15,702
Over 5 years	192,447	183,213
Present value of finance lease liabilities	<b>199,289</b>	<b>199,738</b>

**23. PROVISIONS FOR LIABILITIES AND CHARGES**

Movements on the long-term provisions were as follow:

	Decommissioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
<b>As at 1 January 2014</b>	<b>9,063,038</b>	<b>690,094</b>	<b>2,551,688</b>	<b>1,522,081</b>	<b>1,157,252</b>	<b>14,984,153</b>
Charged to the income statement (note 29, 30 and 33)	52,370	32,947	329,300	-	-	414,617
New obligation incurred and change in estimates	(14,377)	-	-	-	-	(14,377)
Release of provision (note 33,29)	-	-	(1,565,729)	(812,189)	(48,009)	(2,425,927)
Actuarial gain charged to other comprehensive income	-	-	(321,280)	-	-	(321,280)
Settlement	(75,419)	(152,436)	(115,426)	(608,046)	(167,626)	(1,118,953)
Other	-	(247)	187	-	2,963	2,903
<b>As at 31 December 2014</b>	<b>9,025,612</b>	<b>570,358</b>	<b>878,740</b>	<b>101,846</b>	<b>944,580</b>	<b>11,521,136</b>
<b>As at 1 January 2015</b>						
Charged to the income statement (note 29, 30 and 33)	268,070	307,033	80,857	244,309	15,388	915,457
New obligation incurred and change in estimates	100,887	-	-	-	-	100,887
Release of provision (note 33 and 29)	(49,261)	(4,300)	(20,252)	-	(111,045)	(184,858)
Actuarial gain charged to other comprehensive income	-	-	(3,433)	-	-	(3,433)
Settlement	(192,942)	(185,431)	(79,010)	(49,372)	(135,632)	(842,387)
Other	-	45	(534)	-	1,268	779
<b>As at 31 December 2015</b>	<b>9,152,366</b>	<b>687,705</b>	<b>856,168</b>	<b>296,783</b>	<b>714,559</b>	<b>11,707,581</b>

Analysis of total provisions:

	31 December 2015	31 December 2014
Non-current	9,451,111	9,012,584
Current	2,256,470	2,508,552
	<b>11,707,581</b>	<b>11,521,136</b>

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)***(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 687,705 RSD (31 December 2014: 570,358 RSD) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

**(c) Long-term incentive program**

In 2011, the Group started setting-up a long-term incentive program for Group managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2015 the management made an assessment of present value of liabilities related to new three-year employee incentives (2015-2017) in amount of 296,783 RSD (2014: 101,846 RSD) (note 29).

**(d) Legal claims provisions**

As at 31 December 2015, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group released provision for litigation amounting to 111,045 RSD (2014: 48,009 RSD reversed) for proceedings which were assessed that won't have negative outcome and charged provision for litigation amounting to 15,388 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 2015.

**(e) Provision for employee benefits**

Employee benefits:

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

The principal actuarial assumptions used were as follows:

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

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)*

	<b>Retirement allowances</b>	<b>Jubilee awards</b>	<b>Total</b>
<b>Balances as at 1 January 2014</b>	<b>703,727</b>	<b>1,847,961</b>	<b>2,551,688</b>
Benefits paid directly	(26,150)	(89,276)	(115,426)
Actuarial gain charged to other comprehensive income	(321,281)	-	(321,281)
Credited to the income statement	(255,388)	(981,041)	(1,236,429)
Translation difference	188	-	188
<b>Balances as at 31 December 2014</b>	<b>101,096</b>	<b>777,644</b>	<b>878,740</b>
Benefits paid directly	(2,881)	(76,129)	(79,010)
Actuarial gain charged to other comprehensive income	(3,433)	-	(3,433)
Credited to the income statement	14,894	45,511	60,405
Translation difference	(544)	10	(534)
<b>Balances as at 31 December 2015</b>	<b>109,132</b>	<b>747,036</b>	<b>856,168</b>

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

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

**24. SHARE CAPITAL**

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

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

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

**25. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS**

	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
Crude oil	90,799,133	103,306,511
Petroleum products	31,137,931	44,320,010
Other	226,455	37,236
	<b>122,163,519</b>	<b>147,663,757</b>

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)***26. PRODUCTION AND MANUFACTURING EXPENSES**

	Year ended 31 December	
	2015	2014
Employee costs (note 29)	6,380,608	7,249,959
Materials and supplies (other than oil and gas)	2,861,581	2,368,360
Repair and maintenance services	3,413,303	3,103,117
Electricity and utilities	3,371,985	3,144,580
Transportation services for production	2,192,525	1,480,049
Inventory provision reversal (note 9)	(299,644)	(205,425)
Other	984,385	975,604
	<b>18,904,743</b>	<b>18,116,244</b>

**27. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	Year ended 31 December	
	2015	2014
Employee costs (note 29)	9,538,424	7,401,158
Legal, audit, and consulting services	2,688,855	2,491,858
Rent expense	373,641	392,916
Business trips expense	418,232	427,170
Safety and security expense	575,046	581,006
Insurance expense	319,987	265,773
Transportation and storage	646,325	498,548
Allowance for doubtful accounts	(6,756,538)	2,954,565
Other	8,735,159	5,249,923
	<b>16,539,131</b>	<b>20,262,917</b>

**28. TAXES OTHER THAN INCOME TAX**

	Year ended 31 December	
	2015	2014
Mineral extraction tax	1,424,183	2,234,572
Property tax	804,951	789,752
Social security contributions (social taxes)	2,067,100	2,209,554
Other	712,948	627,027
	<b>5,009,182</b>	<b>5,860,905</b>

**29. EMPLOYEE COSTS**

	Year ended 31 December	
	2015	2014
Wages and salaries	14,922,683	15,782,141
Employee benefits	304,714	(2,048,618)
Other costs	691,635	917,594
Total employee costs	<b>15,919,032</b>	<b>14,651,117</b>
Social security contributions (social taxes)	2,067,100	2,209,554
	<b>17,986,132</b>	<b>16,860,671</b>

**30. OTHER EXPENSES, NET**

	Year ended 31 December	
	2015	2014
Penalties	240,583	796,372
Provisions (legal, environmental, etc.)	304,488	(11,063)
Impairment and changes in fair value of investment properties	585,845	367,458
Other	522,353	(66,358)
	<u>1,653,269</u>	<u>1,086,409</u>

**31. NET FOREIGN EXCHANGE LOSS, NET**

	Year ended 31 December	
	2015	2014
Net foreign exchange loss on financing activities including:		
- foreign exchange gain	1,193,294	2,278,089
- foreign exchange loss	(7,557,502)	(10,585,327)
Net foreign exchange loss on operating activities	(1,697,239)	(4,927,225)
	<u>(8,061,447)</u>	<u>(13,234,463)</u>

**32. FINANCE INCOME**

	Year ended 31 December	
	2015	2014
Interest on bank deposits	343,839	380,897
Interest income on loans issued	20,155	15,964
Other	66,167	377
	<u>430,161</u>	<u>397,238</u>

**33. FINANCE EXPENSES**

	Year ended 31 December	
	2015	2014
Interest expense	3,359,190	3,449,670
Losses on restructuring of borrowings	3,355	-
Decommissioning provision: unwinding of the present value discount	121,397	48,371
Provision of trade and other non-current receivables: discount (note 15)	912,967	-
Less: amounts capitalised on qualifying assets	(33,227)	(78,399)
	<u>4,363,682</u>	<u>3,419,642</u>

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)***34. INCOME TAXES**

The Group's applicable income tax rate for the companies located in the Republic of Serbia is 15% (2014: 15%).

Components of income tax expense:

	Year ended 31 December 2015	2014
Current income tax expense	3,864,403	3,497,767
Deferred income tax expense		
Origination and reversal of temporary differences (note 16)	583,694	2,533,344
<b>Total income tax expense</b>	<b>4,448,097</b>	<b>6,031,111</b>

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 profits of the consolidated entities as follows:

	Year ended 31 December 2015	2014
<b>Profit before tax</b>	19,055,802	33,869,553
Tax calculated at domestic tax rates applicable to profits in the respective countries	3,882,028	5,990,376
<i>Tax effects of:</i>		
- Revenues exempt from taxation	(63,792)	(315,335)
- Expenses not deductible for tax purposes	342,899	985,182
- Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	305,574	(331,428)
- Other tax effects for reconciliation between accounting profit and tax expense	(18,612)	(285,251)
	4,448,097	6,043,544
Adjustment in respect of prior years	-	(12,433)
	<b>4,448,097</b>	<b>6,031,111</b>

The weighted average applicable tax rate was 23.34% (2014: 17.81%). The increase is caused by a change in the profitability of the Group and reduction in recognised tax credit.

**35. BUSINESS COMBINATIONS**

During 2015 there were no business combinations of the Group.

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

**36. CONTINGENT LIABILITIES***Transfer of property ownership*

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



**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

*(All amounts are in 000 RSD, unless otherwise stated)*

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***Finance Guarantees***

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

***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 687,705 RSD (31 December 2014: 570,358 RSD).

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.

***Other contingent liabilities***

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

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)***37. SIGNIFICANT GROUP ENTITIES**

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

Subsidiary	Country of incorporation	Nature of Business	Share %	
			31-Dec 2015	31-Dec 2014
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
Pannon naftagas Kft, Budapest	Hungary	O&G activity	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-naftni servisi d.o.o., Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o., Novi Sad	Serbia	O&G activity	100	100
Naftagas-tehnicki servisi d.o.o., Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o., Novi Sad	Serbia	Transport	100	100
O Zone a.d., Belgrade	Serbia	Other	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	Trade	100	100
Jadran - Naftagas d.o.o., Banja Luka	Bosnia and Herzegovina	O&G activity	66	66
Svetlost d.o.o., Bujanovac, Serbia	Serbia	Trade	51	51

During 2015 subsidiary Jubos, Bor was liquidated.

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

**38. RELATED PARTY TRANSACTIONS**

For the purpose of these Consolidate Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operational decision as defined by IAS 24 Related Party disclosure.

The majority owner of the Group is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The second largest shareholder with 29.87% interest is Republic of Serbia, while remaining 13.98% of interest owned by various minority shareholders are traded on the Belgrade Stock Exchange and are owned by various shareholders. Gazprom, Russian Federation is the ultimate owner of the Group.

In the year ended 31 December 2015 and in the same period in 2014, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

**NIS Group**
**Notes to the Consolidated Financial Statements for the year ended 31 December 2015**
*(All amounts are in 000 RSD, unless otherwise stated)*

As at 31 December 2015 and 31 December 2014 the outstanding balances with related parties other than state and state owned companies were as follows:

	Parent company	Entities under common control	Joint venture	Total
<b>As at 31 December 2015</b>				
Trade and other receivables	-	148,105	195,656	343,761
Other current assets	-	9,394	-	9,394
Investments in joint venture	-	-	1,188,659	1,188,659
Trade and other payables	(10,004,805)	(166,005)	-	(10,170,810)
Short-term debt and current portion of long-term debt	(5,657,028)	-	-	(5,657,028)
Long-term debt	(36,770,682)	-	-	(36,770,682)
	<b>(52,432,515)</b>	<b>(8,506)</b>	<b>1,384,315</b>	<b>(51,056,706)</b>
<b>As at 31 December 2014</b>				
Trade and other receivables	-	36,398	117,858	154,256
Investments in joint venture	-	-	1,008,221	1,008,221
Trade and other payables	(20,122,243)	(131,257)	-	(20,253,500)
Other current liabilities	-	(12,831)	-	(12,831)
Short-term debt and current portion of long-term debt	(5,625,967)	-	-	(5,625,967)
Long-term debt	(42,194,756)	-	-	(42,194,756)
	<b>(67,942,966)</b>	<b>(107,690)</b>	<b>1,126,079</b>	<b>(66,924,577)</b>

For the year ended 31 December 2015 and 2014 the following transaction occurred with related parties other than state and state owned companies:

	Parent	Entities under common control	Joint venture	Total
<b>Year ended 31 December 2015</b>				
Petroleum products and oil and gas sales	-	85,607	-	85,607
Other revenues	-	644,591	-	644,591
Purchases of oil, gas and petroleum products	(79,738,772)	(2,038,456)	-	(81,777,228)
Production and manufacturing expenses	(7,432)	(578,122)	-	(585,554)
Selling, general and administrative expenses	(21,981)	-	-	(21,981)
Other expenses, net	(16,210)	67,678	-	51,468
Finance expense	(945,091)	-	-	(945,091)
	<b>(80,729,486)</b>	<b>(1,818,702)</b>	<b>-</b>	<b>(82,548,188)</b>
<b>Year ended 31 December 2014</b>				
Petroleum products and oil and gas sales	-	2,142,288	-	2,142,288
Other revenues	-	66,250	-	66,250
Purchases of oil, gas and petroleum products	(120,683)	(96,484,757)	-	(96,585,440)
Production and manufacturing expenses	(10,778)	(26,487)	-	(37,265)
Selling, general and administrative expenses	(40,354)	(12,974)	-	(53,328)
Other expenses, net	(4,556)	(1,583)	-	(6,139)
Finance expense	(1,150,071)	-	-	(1,150,071)
	<b>(1,326,442)</b>	<b>(94,297,263)</b>	<b>-</b>	<b>(95,623,705)</b>

**NIS Group****Notes to the Consolidated Financial Statements for the year ended 31 December 2015***(All amounts are in 000 RSD, unless otherwise stated)**Main balances and transactions with state and major state owned companies are shown below:*

	<b>31 December 2015</b>	<b>31 December 2014</b>
<i>Receivables – gross</i>		
HIP Petrohemija	23,268,304	13,004,338
Srbijagas	101,306	29,289,917
Republika Srbija	18,703,814	-
	<b>42,073,424</b>	<b>42,294,255</b>
<i>Liabilities</i>		
HIP Petrohemija	(800,455)	(830,355)
Srbijagas	(372,985)	(226,896)
	<b>(1,173,440)</b>	<b>(1,057,251)</b>
<i>Advances received</i>		
HIP Petrohemija	(12,470)	(7,109)
Srbijagas	-	(12,806)
	<b>(12,470)</b>	<b>(19,915)</b>
	<b>Year ended 31 December 2015</b>	<b>2014</b>
<i>Operating income</i>		
HIP Petrohemija	17,580,877	23,382,492
Srbijagas	3,927,429	2,926,879
	<b>21,508,306</b>	<b>26,309,371</b>
<i>Operating expenses</i>		
HIP Petrohemija	(169,108)	(174,117)
Srbijagas	(933,151)	(751,452)
	<b>(1,102,259)</b>	<b>(925,569)</b>

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.

**Key management compensation**

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

	<b>Year ended 31 December 2015</b>	<b>2014</b>
Salaries and other short-term employee benefits	425,613	685,322
	<b>425,613</b>	<b>685,322</b>

**39. TAX RISKS**

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 2015.

**40. COMMITMENTS**

*Leases*

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

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

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

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

*Farm-out agreement with East West Petroleum Corporation, Canada*

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

There were no other material commitments of the Group.

**41. EVENTS AFTER THE REPORTING DATE**

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

Subsequent events occurring after 31 December 2015 were evaluated through 2 February 2016, the date these Consolidated Financial Statements were authorised for issue.

**NIS Group**  
**Contact information**

The Group's office is:

12 Narodnog Fronta St.,  
Novi Sad, Republic of Serbia  
21000

Telephone: (+ 381 21) 481 1111  
e-mail: [office@nis.eu](mailto:office@nis.eu)

[www.nis.eu](http://www.nis.eu)

Investor relations  
e-mail: [investor.relations@nis.eu](mailto:investor.relations@nis.eu)