Quarterly Report
for first quarter of 2013

Content

Quarterly Report of NIS a.d. Novi Sad for first quarter of 2013 represents a reliable account of Company's business activity development and results accomplished in first quarter of 2013. The report discloses data for NIS a.d. Novi Sad, as well as its subsidiaries. If data include subsidiaries this is particularly highlighted. Report, in compliance with the Capital Market Law, comprises three entities: business report, stand-alone financial reports, as well as the statements of persons responsible for report delivery.

Foreword

The previous year was extremely difficult for Serbia; the economic decline was amongst the most rapid in Southeast Europe. It is quite certain that without NIS, the Serbian economy would be in a much worse state, because we contribute as much as the country's strategic industry, agriculture. Our objective is to continue with the investment trend in this year, and to introduce and effectively use new technologies in all business areas, starting from production, through processing to human resources. In first quarter of 2013 all NIS' investments were financed from NIS own OCF and total investments amounted to RSD 12 billion, which is by 59% higher than for same period last year.

The economic circumstances are not that favourable. In February 2013 recorded y-o-y inflation was 12.8%, and a fall of market volumes was 7%. The price of crude oil, compared to the previous year, was at approximately the same level and the Serbian dinar was stable compared to the euro.

The net profit at the end of the first quarter in 2013 was RSD 8.3 billion, which is at the same level as in the same period previous year. This year we plan on paying dividends for the first time. Instead of the 15% as stipulated in Dividend policy, we will pay our shareholders 25% of the last year's net profit. This amounts to 12.36 billion Serbian dinars, the highest amount ever paid by a single company in Serbia.

In accordance with our long-term strategy of expanding the Balkan retail network, we plan to put more than a hundred filling stations into operation. The Gazprom and NIS Petrol brands will operate in Bosnia and Herzegovina, Bulgaria, and Romania, In January, we put our first filling station in Banja Luka into operation, and in March we obtained official approval to acquire 28 OMV filling stations, which was one of the major networks in Bosnia and Herzegovina.

The Pannonian Basin, i.e. parts of Serbia, Bosnia, Hungary, and Romania remains the main area for future development of NIS. We expect that the application of top oil and gas exploration solutions such as high-resolution 3D seismic survey and deep dynamic seismic interpretation, as well as new Slim Hole drilling methods, and the experience of our experts and familiarity with the geological aspects, will contribute to successful exploration operations in this region.

In 2013, we will start the deep conversion phase in the modernisation of Pančevo Refinery and start project activities on production of base oils in Novi Sad. In cooperation with the Serbian Government, we continue the process of modernisation and economic recovery of HIP Petrohemija. We plan on continuing projects in the traditional and alternative energy sector: Plandište Wind Farm, Novi Sad and Pančevo Power and Heating Plants, small co-generation projects and oil shale processing.

In this year, we expect new business challenges, quite possibly the biggest in the four years since NIS was acquired by Gazprom Neft. Our priority is not current profit, but future investments. We rely on the resources and technological support of our majority shareholder, because the whole Gazprom Group considers us the regional hub, and they are ready to fully assist us in increasing our efficiency. To summarise, NIS shows that it plans to invest in Serbia and conquer the Southeast Europe's markets from this hub!

Kirill Kravchenko,

CEO
NIS a.d. Novi Sad

BUSINESS REPORT

January	**January 24th** – first NIS Petrol filling station, "Laktaši jezero" put into operation in Banja Luka
February	**February 6th** – memorandum signed with the Fund for Young Talents, the Ministry of Youth and Sport in order to support talented pupils and students **February 11th** – 2012 Financial Report presented. In its most successful year, NIS generated a net profit of RSD 49.5 billion **February 21st** – 2013 NIS Opportunity programme was launched, enabling high-school pupils and university students without prior work experience to be employed at the company
March	**March 1st** – NIS obtained approval from the competition authority and acquired 28 OMV filling stations in Bosnia and Herzegovina **March 7th** – At the "Best from Serbia 2012" competition, NIS was granted an award in the corporate brand category. **March 14th** – Goran Stojilković, NIS Deputy CEO, appointed as the member of the HIP Petrohemija Supervisory Board **March 25th** – Memorandum of Understanding signed with Škoda authorised dealer at the Belgrade Car Show **March 27th** – Alexey Miller, Chairman of Gazprom's Management Committee, visited NIS facilities – the Gazprom-branded filling station in Belgrade and the Pančevo Refinery

Company Profile

General Information

Name:	NIS a.d. Novi Sad
ID Number:	20084693
Address:	Novi Sad. Narodnog fronta 12
Tax ID Number:	104052135
Web site:	www.nis.eu
e-mail address:	office@nis.eu
Activity:	0610 - exploitation of crude oil
Number and date of registration in BRA:	BD 92142, 29.09.2005
Total equity as of March, 31st 2013.	145,292,633,000 RSD
Share capital as of March, 31st 2013	81,530,200,000 RSD
Number of employees as of March, 31st 2013	5,756[1]
Audit company that audited the last financial report (dated December 31st. 2012):	Pricewaterhouse Coopers d.o.o 88a, Omladinskih brigada str., Belgrade, Serbia
Organized market where shares of the Issuer are traded in	Belgrade Stock Exchange 1, Omladinskih brigada str., Belgrade, Serbia

Information on shares

Total number of ordinary shares:	163,060,400
Face value:	500.00 RSD
CFI code:	ESVUFR
ISIN number:	RSNISHE79420
Ticker	NISHAK9420
Listing	Prime Listing, Belgrade Stock Exchange

Shareholders

Business name (Name and family name)	Number of shares	Interest in the share capital (%)
Gazprom neft	91,565,887	56.15%
Republic of Serbia	48,712,364	29.87%
UniCredit Bank Srbija a.d. – custody account	635,729	0.39%
UniCredit Bank Srbija a.d. – custody account	515,678	0.32%
UniCredit Bank Srbija a.d. – custody account	405,143	0.25%
Julius Baer Multipartner - Balkan	200,000	0.12%
Erste Bank a.d. Novi Sad - custody account	186,492	0.11%
AWLL Communications d.o.o.	158,056	0.10%
Raiffeisenbank a.d. – custody account	122,673	0.08%
Raiffeisenbank a.d. Beograd – custody account	118,806	0.07%
Other shareholders	20,439,572	12.54%
Total number of shareholders as of March, 31st 2013		2,421,335

[1] *without employees from servicing organizationsand employees from subsidiaries, representative offices and branches*

Business Operation

Naftna Industrija Srbije (NIS) is among major vertically-integrated energy companies in the South East Europe for exploration, extraction and refining of crude and natural gas as well as distribution and sale of a wide range of oil products. Company's HQ and main production facilities are based in the Republic of Serbia, a Balkan hub of trade and investments due to its geographic position. In 2013 NIS distributed its business activities in five blocks:

Upstream Block (Exploration and production) operates in the area of exploration and production of oil and gas, including the following activities: exploration, production, infrastructure and operational support, oil and gas reserves management, oil and gas field engineering management and major exploration and production projects.

Oilfield Services Block provides main support in exploration and production in all oil and gas upstream activities, from geophysical services, through drilling and overhaul of wells, to the transportation of the machinery and manpower, machinery maintenance as well as construction and maintenance of oil and gas systems and facilities.

Refining Block produces petroleum products. NIS produces a full range of petroleum products - engine fuels, raw materials for petrochemical industry, engine oils and other petroleum products.

Sales and Distribution Block covers foreign and domestic trade, wholesale and the retail of all oil derivatives, and accessory merchandise.

Energy Block was established in 2011 with the goal to produce and sell of electrical and thermal energy from various resources including traditional coal-gas, renewable resources (biomass, wind, geothermal resources) The Energy Block performs analysis and evaluation of investment and preliminary projects in the Serbian energy sector with the goal identifying NIS strategic partnerships.

Products and services

NIS' refineries produce a wide range of petroleum products, natural gas, and quality of those products is in compliance with the Regulations on technical and other requirements for liquid fuels from oil and Regulations on technical and other requirements for liquefied petroleum gas, international standards and refinery's specifications.

1. Fuel for internal combustion engines
2. Liquid petroleum gas
3. Aviation fuel
4. Jet fuel
5. Lubricants and grease
6. Fuel oil
7. Bitumen
8. Petrochemical products (virgin naphtha, propylene)
9. Distillates and raffinates
10. Other products (benzene, toluene, liquefied sulphur, special naphtha)

NIS also produces carbonated and non-carbonated natural spring water in a plant for the production of drinking water "Jazak".

Apart from that, NIS' subsidiaries (NIS Naftni servisi, NIS Tehnicki servisi, NIS Transport and NTC NIS Naftagas), founded in 2012 in order to increase efficiency and provide ample offer of services, among which are toll processing of oil, transport and storage of oil products, conformity assessment services, performed by accredited conformity assessment bodies, such as testing laboratories, calibration laboratories and inspection bodies, laboratory testing and oilfield services (drilling, equipping and overhaul of oil, gas and geothermal wells, geophysical testing and measuring, maintenance and construction of oil and gas production systems, equipment maintenance and repair, construction and maintenance of transport pipelines, drilling, equipping and overhaul of drinking water wells, materials and equipment transportation) and services of Scientific and Technical Centre (projects for geological research, geophysical study and field development, designing and other engineering services).

Company's Management

In accordance with the provisions of the Company Law, a new Statute of NIS j.s.c. was adopted at the 4th Regular Session of the Shareholders' Assembly held on 25 June 2012, in order to ensure the compliance with statutory requirements. In accordance with the new Statute, NIS j.s.c Novi Sad has been organized as one-tier Management Company with:

- The Shareholders' Assembly;
- Board of Directors and
- Chief Executive Officer.

In accordance with NIS j.s.c. Statute, the Company also has:

- The Shareholders' Assembly Board for Monitoring Business Operations and Reporting to Company Shareholders (Shareholders' Assembly Board) and
- The CEO Advisory Board.

Shareholders' Assembly

The Shareholders' Assembly is the body exercising the highest competence in NIS j.s.c. Novi Sad, through which shareholders adopt and approve basic corporate decisions.

Board of Directors

Board of Directors plays a central role in the corporate governance system and is collectively responsible for the long-term success of the company, including overseeing and setting the corporate strategy and establishing the business goals of the company.

The Board of Directors members are as follows:

- Vadim Vladisavovich Yakovlev (Chairman)
- Kirill Albertovich Kravchenko (member)
- Alexandar Vladimirovich Krilov (member)
- Vladislav Valerievich Barisnjikov (member)
- Cherner Anatoly Moyseyevich (member)
- Igor Konstatinovich Antonov (member)
- Slobodan Milosavljević (member)
- Nikola Martinović (member)
- Danica Drašković (independent member)
- Stanislav Vladimirovich Seksnya (independent member)
- Wolfgang Ruttenstorfer (independent member).

Vadim Vladisavovich Yakovlev

Deputy Chairman of the Executive Board of j.s.c. "Gazprom Neft", First CEO Deputy, in charge of exploration and production, strategic planning and mergers and acquisitions.

Born on 30th September 1970. In 1993: graduated from Moscow Engineering Physics Institute (in applied nuclear physics). In 1995: graduated from High School of Finance at the International University in Moscow.

As of 1999: qualified as a member of the ACCA (Chartered Association of Certified Accountants). In 2009, he gained a diploma of the British Institute of Directors (ID).

From 1995 to 2000: worked with PricewaterhouseCoopers, starting his career as a consultant and being promoted to audit manager in 2000.

From 2001 - 2002: worked as Deputy Head, Financial and Economics Department, CJSC YUKOS EP. From 2003 to 2004: Financial Director, JSC Yugansk Neftegaz (NK Yukos). From 2005-2006: Deputy General Director, LLC SIBUR-Russian Tyres.

Igor Konstantinovich Antonov

Deputy CEO for Security Affairs j.s.c. "Gazprom Neft"

Born in 1951 in Leningrad where he graduated from Leningrad Institute for Production of Aviation Devices in 1974. He was employed by state security services from 1977 to 1995. From 1995 to 2000 he was the director of information security in JSC "Sankt Petersburg Bank". From 2000 to 2005 he performed the function of the general director of the public enterprise "Informatika" in Sankt Petersburg. From December 2005 he performed the function of a Vice-Chairman for security issues in JSC "Sibneft". As of 2007 onwards he performs the function of a deputy CEO for security affairs in JSC Gazprom Neft.

Vladislav Valerievich Barisnjikov

Member of the Executive Board, Deputy CEO for International Business Development j.s.c. "Gazprom Neft"

Born on 25 March 1965 in Petroyavdsk. In 1987 graduated on the Military Krasnoznamensky Institute. In 2001 graduated from North-Western Academy for Public Administration with the President of the Russian Federation, department "State and Municipality Administration". In the period as of 1991 from 1999 he performed different functions in Lengorispolkome, Committee for Foreign Affairs of Sankt Petersburg. In the period from 1999 to 2000 he was the advisor of the vice-governor of Sankt Petersburg, director of non-commercial partnership "Center for cooperation with the countries of Asian and Pacific region". In the period from 2000 to2002 he worked in the Administration of the President of the Russian Federation as the advisor of the Cabinet of the authorized representative of the President of the Russian Federation in the North-Western Federal District. In the period from December 2002 to April 2009 he performed the function of the director of the Representative Office j.s.c. "Gazprom Neft" in China, regional representative offices in the countries of Asia and Pacific region. As of April 2009 he performs the function of deputy CEO of j.s.c. "Gazprom Neft" for international business development. He is the third category state advisor in the Russian Federation.

Danica Drašković

Independent Member of the Board of Directors of Serbian Petroleum Industry

Born in 1945 in Kolašin. In 1968 she graduated from the Faculty of Law in Belgrade. From 1968 to 1972 she worked as a financial inspector in SDK, and from 1972 to 1974 she worked as a police court magistrate. From 1977 to 1986 she performed the function of a Director of Legal and General Affairs department in the public company "Termovent". She founded the journal "Srpska reč"in 1990, and soon afterwards the publishing house where she performed the function of a director. From April 2009 she is a member of NIS' Board of Directors.

Kirill Albertovich Kravchenko

Deputy CEO for Overseas Asset Management JSC "Gazprom Neft",
CEO of NIS j.s.c. Novi Sad,

Born on 13th May 1976 in Moscow. In 1998, he graduated from Lomonosov Moscow State University (sociology) with the highest grades. In 2002-2003 he studied at the Open British University (financial management), in 2003-2004 – at IMD Business School. He holds a PhD in Economic Science. Mr Kravchenko worked in consulting until 2000, in 2000-2004 - in YUKOS Company on various positions in Moscow and Western Siberia. Between 2001-2002, Mr Kravchenko was employed with Schlumberger (under partnership program with NK Yukos) in Europe and Latin America. In the period 2004-2007 he performed the function of an administrative director, JSC MHK Eurohim. Mr Kravchenko was elected member to the Board of Directors in different companies several times. In April 2007, he was appointed Vice-Chairman, JSC Gazprom Neft, and in January 2008 – Deputy Chairman of Management Board of JSC Gazprom Neft, Deputy General Manager for Organization. In February 2009 Kirill Kravchenko was appointed CEO of the Serbian Petroleum Company NIS controlled by JSC Gazprom Neft and member of the NIS Board of Directors. As of March 2009, he performs the function of Deputy General Director for Overseas Assets Management in JSC Gazprom Neft.

Alexandar Vladimirovich Krilov

Director of Division for regional sales in JSC Gazprom Neft

Born on 17.03.1971. in Leningrad. In 1992 he graduated from LMU (Saint Petersburg), in 2004 graduated from SpbGU Faculty of Law, and in 2007 Moscow International Business School «MIRBIS» MBA, specializing in: Strategic management and entrepreneurship. From 1994 to 2005 he performed management functions in the area of real estate sales (chief executive officer, chairman) in the following companies: Russian-Canadian SP "Petrobild"; c.j.s.c. "Alpol". From 2005 – 2007 he was deputy director in the Division for implementation in LLC "Sibur". Since April 2007 until present he performs the function of a manager in the Department for the supply of petroleum products, Head of Department for regional sales and Director of Division for regional sales in JSC Gazprom Neft.

Nikola Martinović

Member of the Board of Directors of Serbian Petroleum Industry

Born on 3 December 1947. Mr Martinović holds the MA degree in economics (MA Thesis "Transformation of Tax Administration System in Serbia by applying VAT"). From 1985 to 1990 he performed the function of the CEO of "Solid" company from Subotica, and from 1990 to 1992 he performed the function of Assistant Minister of Internal Affairs of the Republic of Serbia. From 1992 to 2000 he performed the function of Assistant CEO of the Serbian Petroleum Industry in charge of financial affairs, and as CEO of "Naftagas promet" from 1996 to 2000. As of 2005, Mr Martinović performs the function of a special advisor in NIS j.s.c. He was a member of NIS j.s.c. BoD from 2004 to 2008 and re-appointed to the function in February 2009. He currently performs the function of a member of the NBS Governor Council.

Slobodan Milosavljević

Member of the Board of Directors of Serbian Petroleum Industry

Slobodan Milosavljevic Ph.D. was born in 1965 in Belgrade. He graduated from the Faculty of Economics in Belgrade in 1990, where he also received a PhD in macroeconomics and management in 2001.

As of 1991 he has been employed at the Market Research Institute in Belgrade where he has managed numerous market research projects, ownership, market and organizational restructuring of the companies, creation of the business image and company marketing strategy. In 1996 he performed the function of the Director of the Market Research and Analysis Centre. In the period from January 2001 until March 2004 he was Minister of Trade, Tourism and Services in the first Serbian democratic government. In December 2004 he was elected Chairman of the Serbian Chamber of Commerce, as well as President of the National Committee of the International Chamber of Commerce. He is also engaged as a professor at the Belgrade Business School where he teaches the courses "trade and trade policy". He was elected Minister of Agriculture, Forestry and Water Management in May 2007 and he performed the function until 2009 when was elected Minister of Trade and Services. He performed the function until March 2011 when he was elected member of NIS j.s.c. Board of Directors. He currently performs the function of the advisor in the Serbian Chamber of Commerce as a member of "International Advisory Board UniCredit bank" Rome, Italy.

Wolfgang Ruttenstorfer

Independent Member of the Board of Directors of Serbian Petroleum Industry

Born on 15th October 1950 in Vienna, Austria. His career started in the Austrian company OMV. In 1985 he was transferred to the Planning and Control Department and in 1989 he assumed the responsibility for the strategic development of OMV Group. Since he was appointed Marketing Manager in 1990, he assumed the function of a member of the Executive Board in 1992 in charge of finance and chemical products.

He was a member in OMV EB by early 1997, when he assumed the function of Deputy Minister of Finance. On 1 January 2000 he was re-appointed to the function of a member to OMV EB in charge of finance, which function he performed by April 2002. He was in charge of gas affairs by December 2006. During the period from

1.1.2002. to 31.3.2011. he performed the function of Chairman of the Executive Board of OMV Group.

Anatoly Moyseyevich Cherner

Deputy Chairman of the Executive Board, Deputy CEO for logistics, refining and sales JSC "Gazprom Neft"

Born on 27 August 1954. Graduated from Groznyy Oil Institute in 1976 with a degree in chemical oil and gas engineering. In the same year he was employed at the Sheripov Groznyy Refinery, starting as an operator to become refinery director in 1993. In 1996, he joined SlavNeft as Head of the Oil and Oil Products Trading Department and was later appointed Vice-Chairman of the company. He joined SibNeft (from June 2006 – Gazprom Neft') as Vice-Chairman for refining and marketing in April 2006.

Stanislav Vladimirovich Seksnya

Professor teaching the course in entrepreneur leadership at the International Business School INSEAD

He was born on 29 May 1964. Chief of practice in the Talent Performance and Leadership Development Consulting department. Director of Talent Equity Institute. Senior partner in the company Ward Howell. Professor teaching the course "Entrepreneur Leadership" at the International Business School INSEAD. He has more than 10 years of practical experience in management. He performed the following functions: CEO of Alfa Telecom, chairman and CEO of Millicom International Cellular, Russia and ZND, Chief Operational Director of Vimpelkom, Director of Personnel Management in OTIS Elevator, Central and East Europe. Currently, he is the Chairman of the Board for Personnel and Rewards of the DTEK Supervisory Board (Ukraine), he has been a member of LLC SUEK and c.j.s.c. Vimpelkom-R Boards of Directors.

Number and % of NIS shares owned by BD members

Name and Surname	Number of shares	% share in total number of shares
Nikola Martinović	224	0,0001%

Membership in Board of Directors or Supervisory Boards of other companies

	Membership in Board of Directors or Supervisory Boards of other companies
Vadim Vladislavovich Yakovlev	• JSC NGK «Slavneft»; • JSC «SN.-MNG»; • LTD «Gazprom Neft Razvoj»; • LTD «Sever Energija» and its affiliates; • JSC «Gazprom Neft-NNG»; • LTD «Gazprom Neft-Istok»; • LTD «Gazprom Neft-Hantos»; • LTD «Gazprom Neft -NTS»; • LLC «Gazprom Neft-Angara»; • o.j.s.c. «NK «Magma»; • c.j.s.c. « Gazprom Neft-Orenburg»; • LLC «Gazprom neft Sahalin» • Salim Petroleum Development N.V. (member of the Supervisory Board).
Kirill Albertovich Kravchenko	• Member of Club Council of FC Red Star; • Vice-Chairman of the National Petroleum Committee of the Republic of Serbia;Serbian Tennis Federation BoD member. • Member of Executive board of Serbian Skiing Assosiation • BoD member of SAM – Serbian Assosiation of Managers
Alexandar Vladimirovich Krilov	• c.j.s.c. «Gazprom Neft Kuzbass»; • JSC «Gazprom Neft Novosibirsk»; • JSC «Gazprom Neft Omsk»; • JSC «Gazprom Neft Tumen»; • JSC «Gazprom Neft Ural» • JSC «Gazprom Neft Jaroslavlye»; • c.j.s.c. «Gazprom Neft –Severo-zapad»;

	• LTD «Gazprom Neft Asia»; • LTD «Gazprom Neft Tajikistan»; • LTD «Gazprom Neft Kazachstan»; • LTD «Gazprom Neft – Centre»; • LTD «MTK»; • LTD «Gazprom Neft – Terminal». • LLC «Gazprom neft Chelyabinsk»
Vladislav Valerievich Barisnikov	• LTD «Gazprom Neft Razvoj»;
Anatoly Moyseyevich Cherner	• JSC NGK «Slavneft»; • JSC «Gazprom Neft-ONPZ»; • JSC «Slavneft-JANOS »; • JSC «Gazprom Neft –MNPZ»; • C.J.S.C. «Gazprom Neft-Aero»; • C.J.S.C. «St. Petersburg's international commodities and resources exchange»; • FLLC «GazpromNeft-Belnefteprodukt »; • LTD «Gazprom Neft –SM»; • LTD «Gazprom Neft Marin Bunker»; • LTD «Gazprom Neft – Logistics»; • JSC «Mozirski NPZ».
Igor Konstantinovich Antonov	-
Nikola Martinović	-
Danica Drašković	-
Stanislav Vladimirovich Seksnya	
Slobodan Milosavljevic	-
Wolfgang Ruttenstorfer	• «CA Immobilien» AG, Vienna, Chairman of the Supervisory Board; • «Vienna Insurance Group» AG, Vienna, Chairman of the Supervisory Board; • «Telekom Austria» AG, Vienna, member of the Supervisory Board; • «Flughafen Wien» AG, Vienna, member of the Supervisory Board; • «RHI» AG, Vienna, member of the Supervisory Board.

Total reimbursements paid to members of Board of Directors (net), in RSD

CEO	4,871,194
Other BoD members	5,665,662

Shareholders' Assembly Board for supervision of business activities and the reporting procedure

Shareholders' Assembly Board for supervision of business activities and the reporting procedure is operating as supervisory and expert body of NIS j.s.c. Novi Sad Shareholders' Assembly, assisting with its activities and analysing matters within its scope of activities.

Members of Shareholders' Assembly Board for supervision of business activities and the reporting procedure are:

- Milivoje Cvetanović (chairman),
- Božo Stanišić (member)
- Alexey Alexandrovich Urusov (member)

Milivoje Cvetanović

Born on 1 December 1941. He graduated from the Faculty of Economics, University of Belgrade in 1963, where he received his master's diploma in 1973 as well. Authorized auditor. Retired partner at Deloitte Central Europe. After his retirement from the partnership, he now works as a consultant for application of MSFI, creation and implementation of client information systems, including internal control systems. Member of the Chamber of Authorized Auditors of Republic of Serbia, and a member of the testing committee for "Audit and Professional Ethics" course in the authorized auditor certificate programme. Internal auditor in Dipos d.o.o. Belgrade and authorized auditor in NDP Audit & Consulting, Belgrade. He has a vast work experience in Central and

Eastern Europe: in Russia, Ukraine, Moldavia and Macedonia.

Božo Stanišić

18 February 1966 in Užice. He graduated from the Technological Operation Department at the Technological and Metallurgy Faculty. He worked in Rekord, Rakovica, and Pančevo Oil Refinery as Chief Gasoline Engineer. In 1999 he was responsible for infrastructural construction at the Refinery as the Director of Sector for Commercial Affairs. Member and coordinator of various committees. Board member in HIP Petrohemija, Pančevo, and Board member responsible for application of government measures in Magnohrom, Kraljevo. From 01/ 11/ 2006 to 30/ 09/ 2009 he works at a privately-owned Petrobart d.o.o. as Deputy CEO. From 12/ 10/ 2009 he is appointed as the advisor of the Chairman of the Chamber of Commerce of Republic of Serbia. Currently he is employed at Silikoni l.l.c. Baric as technical director.

Alexey Alexandrovich Urusov

Director of Economics and Corporate Planning Department in JSC Gazprom Neft

Born on 17 November 1974 He graduated from the Tyumen State Oil and Gas University (major in finance and loans) and the University of Wolver Hampton in the United Kingdom (major in business administration).

From 2006 to 2008 he worked as executive vice-president for planning and business management in the Integra Group. From 2002 to 2006 he worked in TNK-VR. From 2002 to 2003 he is a member of TNK BoD's Group for monitoring and control, and in period from 2004 to 2006 he worked as CFO in TNK-VR Ukraine. From 2009 to 2012 he was employed at NIS j.s.c. Novi Sad (Serbia) as CFO

Number and % of NIS shares owned by SB members

First and last name	Number of shares	% in total number of shares
Božo Stanišić	149	0.0001%

Member of the BoD or SB in other legal entities

	Membership in Board of Directors or Supervisory Boards of other companies
Milivoje Cvetanović	• Independent Member of the BoD - Energoprojekt arhitektura i urbanizam d.o.o. Belgrade and Energoprojekt industrija d.o.o. Belgrade • Member of the Audit Committee Energoprojekt Holding a.d. Belgrade
Božo Stanišić	• Vice-chairman of Board of Directors at Industrija mašina i traktora (IMT) Novi Beograd; • Chairman of the Board of Directors at the "Trka kroz Srbiju" cycling association.
Alexey Urusov	/

Total reimbursements paid to members of Shareholders' Assembly Board (net), in RSD

Members of SAB	2,019,193

The CEO

The CEO coordinates the activities of members of the Board of Directors and organizes Company activities. The CEO also performs activities related to daily management and is authorized to make decisions on issues not within the competence of the Shareholders' Assembly and the Board of Directors.

The CEO is a legally authorized representative of NIS. NIS CEO is Kirill Albertovich Kravchenko.

Advisory Board of the CEO

Advisory Board of the CEO is established as a professional body that helps in the work of the CEO and considers issues from his scope of activities.

Besides the issues referring to the current business activities of the Company (monthly and quarterly results of business activities, annual business plans, monthly investment plans), the Advisory Board also deals with issues related to strategy and development policy whose bases are established by the Shareholders' Assembly and the Board of Directors.

The Advisory Board members were appointed by the CEO's Decision, so that now, it is comprised of directors of Blocks and Functions and also the Deputy CEO for large projects and the Deputy CEO for petrochemical operations.

The Advisory Board of NIS includes:

- Deputy CEO – Director of Strategy and Investments
- Deputy CEO – Director of Corporate Security
- Deputy CEO – Director of Finances, Economics, Planning and Accounting
- Deputy CEO – Director of Legal and Corporate Affairs
- Deputy CEO – Director of Organizational Affairs
- Deputy CEO – Director of External and Governmental Relations
- Deputy CEO - Director of Function for Public Relations and Communications
- Deputy CEO – Director of MTSS and CC
- Deputy CEO for petrochemical operations
- Deputy CEO for large projects
- Director of Function for Internal Audit
- Director of Function for HSE
- Director of „Upstream" Block
- Director of „Sales and Distribution" Block
- Director of „Refining" Block
- Director of „Oilfield Services" Block
- Director of „Energy" Block

The Advisory Board has a Council made by the NIS j.s.c. Novi Sad Blocks' Directors and the Deputy CEO for petrochemical operations.

Risk Management

Company defined objectives in the field of risk management and established an Integrated Risk Management System (IRMS). IRMS is a system, orderly, unified, continuous and on-going process of identification, assessment, defining and monitoring of the implementation of the risk management measures.

The objective of the Company in the field of risk management is to provide additional guarantees for the achievement of the strategic objectives of the Company through timely identification/risk prevention, definition of effective measures and the provision of maximum effectiveness of risk management.

Industrial risks

As the main business activity of the Company is production, refining and sales and distribution of petroleum products - The Company is particularly exposed to the risks caused by:

- potential changes in prices of oil and petroleum products;
- risks in the area of exploration and production of oil.

Risks associated with potential changes in prices of oil and petroleum products

Due to its primary activity, the Company is exposed to risks of changes in prices of crude oil and petroleum products which affect the value of the stock; and the margins in oil refining, which further affect the future cash flows. Fluctuations in the prices of oil and petroleum products are not under the control of the Company but depend on external factors such as global and changes in RS and the balance of supply and demand, the volume of consumption of these markets and the activities of the regulatory authorities.

In order to reduce the potential negative impact of these risks the Company implements the following activities:

- annual planning scenario-based approach, monitoring of plans and timely correction of crude oil procurement plans;
- regular sessions of the Commission for the procurement of crude oil;
- daily monitoring of publications for crude oil "URAL (RCMB) and Brent DTD, as well as the contacts with international partners.

The above measures allow the Company to reduce these risks to the acceptable level.

Risks in the area of exploration and production of oil

One of the important goals of the Company is the increase in the resource base of the Company by intensifying the exploration. This largely depends on the success of geological and exploratory activities aimed at the development of oil well fund in the country and abroad.

The main risk in the field of exploration and production is the non-confirmation of estimated reserves and consequently failure to achieve the planned increase in the resource base.

The Company has extensive experience in conducting geological and exploratory works, it conducts the expertise of the program for geological and exploratory works internally and by the largest shareholder and uses the state-of-the-art methods of exploration, which all contributes to reduced probability of this risk.

Financial risks

Business activities of the Company are exposed to various financial risks: market risk (including currency risk, price risk and interest rate risk), loan risk, and liquidity risk. Risk management in the Company is directed to the efforts to bring down to the minimum potential negative effects of the volatile situation in financial markets on financial operations of the Company.

Market Risk

Currency risk - The Company conducts business on the international level and it exposed to the foreign currency exchange risk coming from conducting business with various currencies involved, USD and EUR in the first place. The risk comes from future trade transactions and acknowledged funds and commitments.

Price Change Risk - Due to its basic business activities the Company is exposed to price change risks, specifically, the crude oil and oil product price, affecting the stock value; and oil refining margins, which further affects future money flow.

Interest Rate Risk - The Company makes cash investments. Cash funds are invested only with the core banks with which Company have loans and credit/documentary lines. Funds are invested as fixed-term investments, in RSD and foreign currency, on a short-term basis (up to 90 days) at fixed interest rates for such fixed-term investments. Therefore, the income of the Company and cash flows are largely independent from the changes in market interest rates, for short-term investments, although interest rates that can be achieved in the market by the Company depend a lot on basic interest rates at the time of investment (Belibor / The NBS reference interest rate).

In 2013, the Company granted subordinated loans to foreign companies where the Company is the majority shareholder, as a way of financing business activities abroad. Loans granted for these purposes were given at changeable interest rates (Euribor).

Loans given at changeable interest rates expose the Company to the cash flow interest rate risk, Depending on net indebtedness in a certain period of time any change of the basic interest rate (EURIBOR or LIBOR) has an impact on the Company results.

Loan risk

Loan risk management is established at corporate level. Loan risk occurs in relation to: the cash and cash equivalents, deposits in banks and financial institutions, intercompany loans granted to foreign and domestic subsidiaries, as well as to the exposure to risk in wholesale and retail trade, including outstanding receivables and undertaken commitments.

In terms of credit limits banks are ranked according to approved methodologies for core and other banks, and for purpose of agreeing on collaterals. The Company has corrected receivables from buyers who have exceeded their credit limits, or who have problems with liquidity.

Liquidity risk

The Company continuously checks liquidity so as to provide enough cash for the business purposes, while maintaining the level of unused credit lines so as not to allow a credit limit overdraft with banks or breaking terms of loan agreements. Such projections take into consideration the Company plans concerning debt settlement, compliance with terms of agreements, compliance with internal targets, and, if applicable, external legislative or legal requirements – e.g. currency restriction.

World

Advanced economies projected to be smaller than emerging economies in 2013 for first time since reliable records began. 2013 will be the year when we start to see how the world economy will look for the rest of the century. It will be the year when businesses recognise beyond any doubt that global growth and commodity prices are now driven primarily by developments in China and India, not the US and Europe.

Fiscal policy uncertainties continue to overhang the US recovery despite a delay to mid-May in the debt ceiling deadline. European problems continue – Cyprus is providing the latest test to Eurozone policymakers on how to break the potentially vicious circle between banking sector and sovereign debt problems.

Serbia

Although in early 2013, the economic trends in Serbia show signs of recovery, there is still no mention of an optimistic forecast by the end of the year. The key factor which may impact the positive picture are Belgrade-Pristina negotiations for resolving the Kosovo issue.

According to de-seasonalized data, In February 2013, the industrial production achieved a growth of 3.1% as compared the previous month, whereas, in relation to the same month last year, it increased by 13.1%. Nevertheless, due to a major drop in production in the first quarter of 2012, a significant growth of industrial production is out of question.

In February 2013, the overall inflation was somewhat reined in, to 0.6% on a monthly and 12.8% on a semi-annual level. The semi-annual inflation is expected to reach its maximum height in the second quarter, after which it will start subsiding once again to be within the limits of the permitted deviation from the target one.

According to the de-seasonalized data of the Statistical Office of the Republic of Serbia, in February, commodity exportation, denominated in Euros, increased by 2.3% and importation dropped by 0.5%. On a semi-annual level, in February, commodity exportation, denominated in Euros, went up by 42.0%, while, at the same time, the importation went up by 4.7%. In February, the first five positions in the list of exported commodities are occupied by the products of automotive industry, while the spare parts and accessories for motor vehicles and natural gas share the first position on the list of imported commodities.

Macroeconomic indicators

Exchange rate trend for USD/RSD and EUR/RSD

USD/RSD

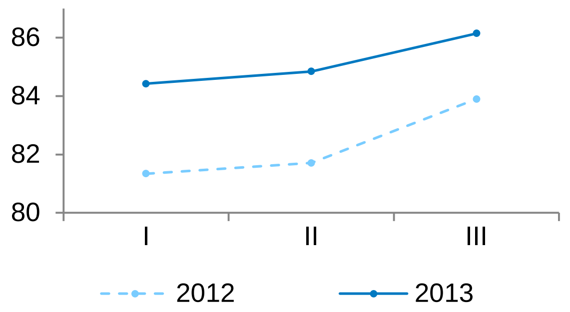

Chart. 1: Exchange rate trend for USD/RSD

EUR/RSD

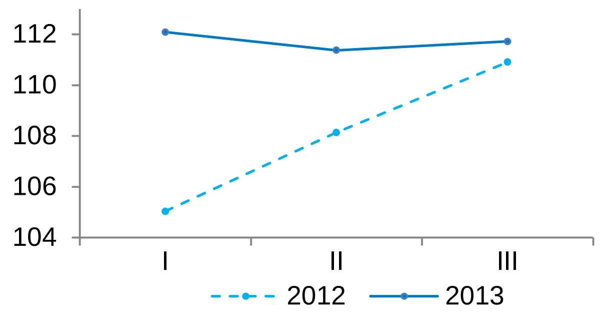

Chart 2: Exchange rate trend for EUR/RSD

- Incline of USD/RSD rate in first 3M of 2013 was 1,45% or +1,25 RSD
(USD/RSD rate changed from 86,1763 RSD as of January 1st 2013; to 87,4258 RSD as of March 31st 2013)
- Decline of EUR/RSD rate in first 3M of 2013 was -1,55% or -1,76 RSD
(EUR/RSD rate changed from 113,7183 RSD as of January 1st 2013; to 111,9575 RSD as of March 31st 2013)
- Incline of USD/RSD rate in the first 3 months of 2012 was 3,03 % or 2,45 RSD
(USD/RSD rate changed from 80,8662 RSD as of January 1st 2012; to 83,3129 RSD as of March 31st 2012.)
- Incline of EUR/RSD rate in the first 3 months of 2012 was 6,42% or 6,72 RSD
(EUR/RSD rate changed from 104,6409 RSD as of January 1st 2012; to 111,3643 RSD as of March 31st 2012)

Oil price trends

Urals (USD/bbl)

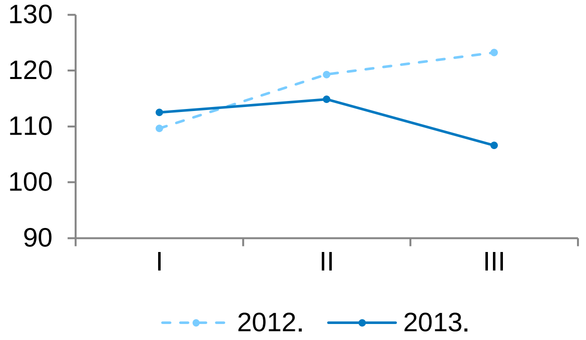

Chart 3: Urals oil price trend

Brent (USD/bbl)

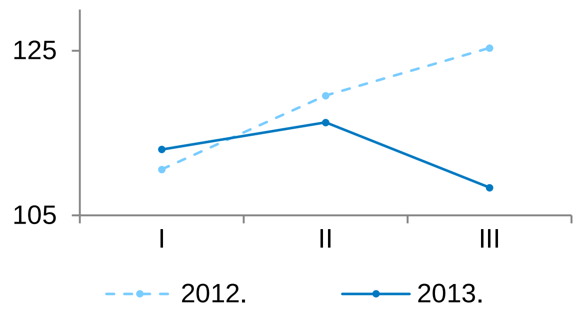

Chart 4: Brent oil price trend

Average price of “Urals” crude oil in first 3 months of 2013 was app. 111 USD/bbl

Decrease in agricultural activities and growing unemployment rate (approximately 27%) are the two most important factors which influence decrease in motor fuel consumption.

The reason behind the increase of the NIS share in the market lies in the substitution of a larger part of imported heating oil, primary petrol and euro diesel, with a domestic product from the refinery in Pančevo.

The retail sale market is around 7% smaller in comparison to the same period last year. The sale of diesel to the farmers which started in March last year, led to the increase of retail sale in NIS, which resulted in a decrease of this year's retail sale. The retail sale shipments for the farmers will start in April.

The reasons for the constant increase of the market share lie in a continuous process of gas stations modernization, improvement of the service as well as positive effects of the rebranding and marketing activities.

Total Market of Republic of Serbia[2], thou. tons

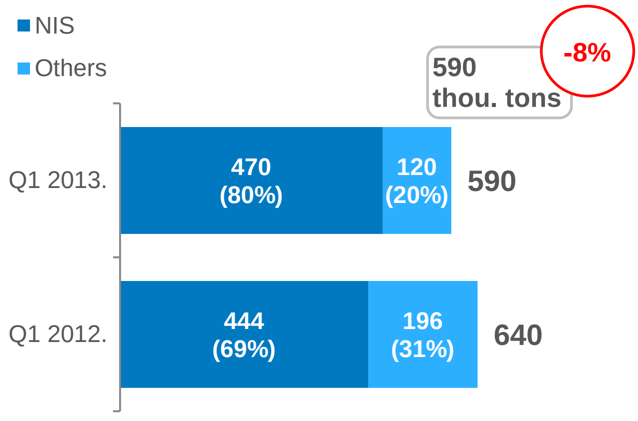

Chart 5: Total Market of Republic of Serbia

Retail Market of Republic of Serbia[3], thou. tons

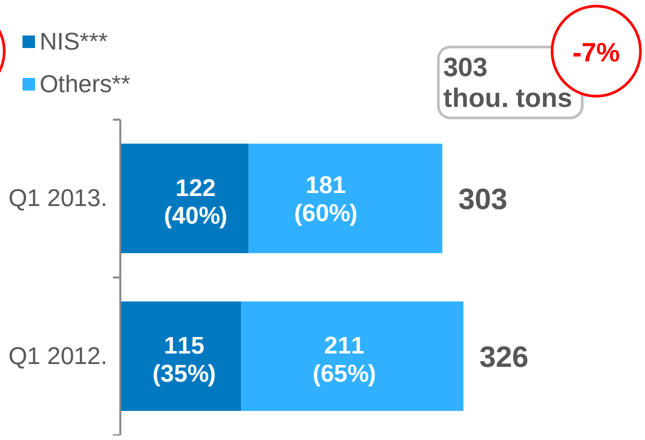

Chart 6: Retail Market of Republic of Serbia

[2] *Serbian market is shown without the oil products that NIS does not produce (Euro BMB 98, fuel oil Euro EL, petroleum coke, base oils, petroleum jelly, paraffin, various solvents, etc.)*
[3] *Sales for NIS include motor fuels, heating oil EL and LPG bottles, and for others motor fuels, heating oil EL and euro EL*
Source: CSerbian Chamber of Commerce, National Oil Committee of Serbia, reports from Sales and Distribution Blok

Key Performance Indicators

Key Indicators	Measurement unit	Q1 2013.	Q1 2012.	$\Delta\frac{Q1\ 2013.}{Q1\ 2012.}$ (%)[4]
Urals	$/bbl	111	117	-5%
Net profit	bln. RSD	8.3	8.4	-1%
EBITDA[5]	bln. RSD	12.1	15.6	-22%
Sales	bln. RSD	48.6	45.7	6%
OCF	bln. RSD	9.8	-2	590%
Taxes and fiscal obligations[6]	bln. RSD	19.9	15.7	27%
Domestic oil and gas production[7]	thou. oil. eq.[8]	410.7	389.7	5%
Domestic oil production (with gazolin and TNG)[7]	thou. tons	300.4	279.8	7%
Oil refining volume	thou. tons	522.5	413.1	27%
Total sales of oil products	thou. tons	565.7	503.7	12%
Retail- abroad assets	thou. tons	5.4	0	100%
Oil products local market sales	thou. tons	460.6	436.2	6%
Retail	thou. tons	122.1	115.2	6%
Light oil products sales	thou. tons	396	299.5	32%
CAPEX from GPN loan[9]	mln. EUR	0.0	2,7	-100%
CAPEX from OCF (NIS projects)	bln. RSD	12.2	5	144%
Total bank indebtedness[10]	mln. USD	441	459	-4%

[4] *All possible discrepancies in percentage values and total values are due to rounding errors*
Values for CAPEX from GPN loan and CAPEX from OCF are without VAT
[5] *EBITDA = Sales (without excise tax)– inventories (of oil, oil products and other products) – operational expenditure (OPEX) – other costs, which management cannot affect*
[6] *Taxes and fiscal obligations includes taxes, duties, fees and other public revenues for reporting period.*
[7] *Due to chnages in methodology domestic oil production includes gazoline and LPG, and for gas production commodity production of gas is used.*
[8] *1,256 m3 gas = 1 conditional ton of oil*
[9] *Under the Agreement of sale and purchase of shares of NIS a.d Novi Sad, clause 8.1.2, JSC Gazprom Neft (GPN) has an obligation to provide EUR 500 million to NIS a.d. Novi Sad by way of special purpose loans in order to implement NIS Novi Sad technological complex reconstruction and modernization program. CAPEX from GPN loan does not include letters of credit. All obligations of Gazprom Neft under the acquisition agreement were fully met in April 2012 and in the second half of 2012 NIS started with loan repayment*
[10] *Total bank indebtedness = Total debt to banks + letters of credit*

Financial indicators

EBITDA

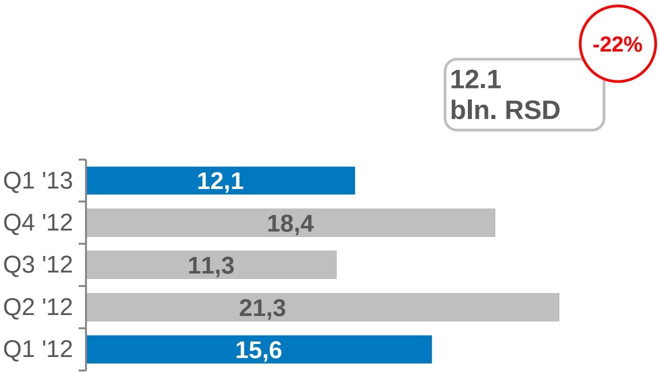

Chart 7: EBITDA

Price conjuncture had a negative impact on EBITDA. This impact was partially offset by increased oil production and increase in sales volume growth and increased share of light products:

- Oil and oil derivatives price
- Gas price
- Increase in production of domestic oil and gas

Net profit

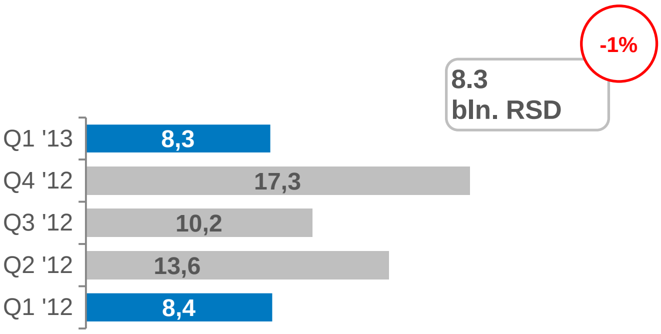

Chart 8: Net profit

Net profit is at the same level as last year:

- Oil and oil derivatives price
- Gas price
- Increase in production of domestic oil and gas

Sales

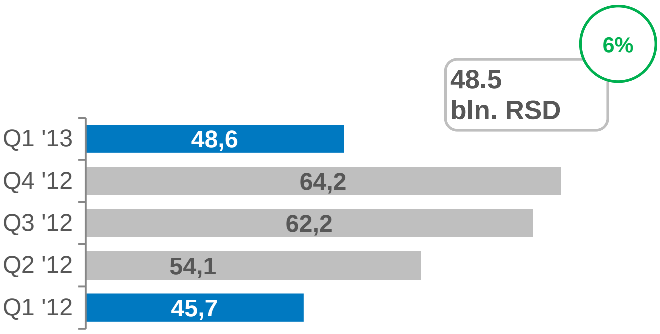

Chart 9: Sales

Increase in retail prices in Q1 2013 is app. 9% compared to same period last year:

- **BMB 95 -** increase in retail prices for +7,60% (average prices in Q1 2012 were app 137 RSD per litre, and in Q1 20123 they were app 147 RSD per litre)
- **D2 -** increase in retail prices for +12% (average prices in Q1 2012 were app 132 RSD per litre, and in Q1 2013 they were app 148 RSD per litre

OCF

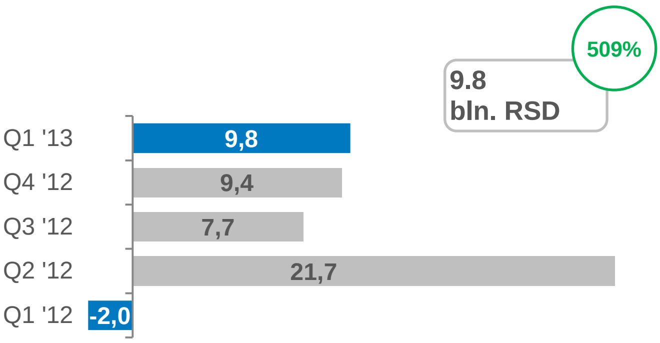

Chart 10: OCF

Increased OCF:

- Increase of income from buyers

Exploration and production

5% Increase of the domestic oil and gas production in comparison to the first quarter of 2012:

- The total production in oil equivalent tons is in accordance with the plan
- Increase in domestic oil production as a result of additional geological and technical activities implementation
- Increase in gas production is +0,4% in comparison to the first quarter of 2012
- Change in the methodology for oil and gas production calculation - gasoil and LPG is included, and as for gas production, data on gas refining has been taken into account

Production of domestic oil and gas,
toe.

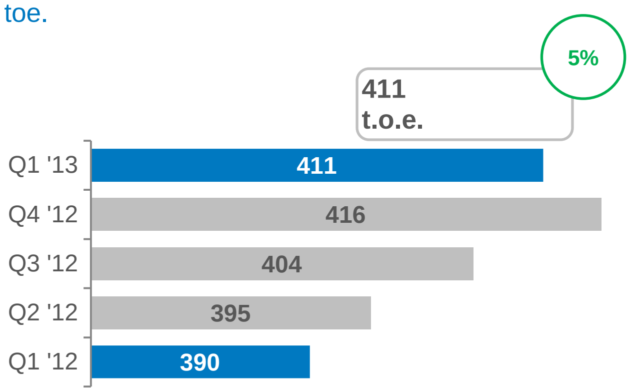

Chart 11: Production of domestic oil and gas

Production of domestic oil,
thou. tons

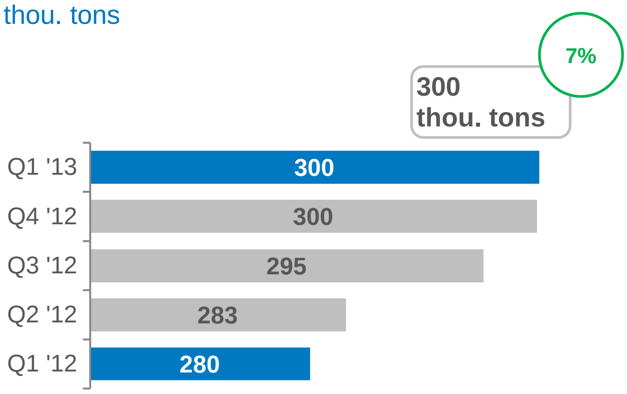

Chart 12: Production of domestic oil

Refining

The volume of refining is 27% higher in comparison to the first quarter of 2012:

- MHC/DHT plant operation in 2013.
- In the first quarter of 2013, operations in RNP (Oil Refinery in Pancevo) have been stopped during the inspection control of the refinery plants, devices and equipment
  - From 9 to 24 January 2013
- The planned work- over of RNP was conducted during the first quarter of 2012,
  - From 23 February to 2 April 2012
- Planned suspension of operation in RNS (Serbian Oil Refinery) for 2013 – commencement of the Base Oil Production Project
- Increase of the petrol products production volume for 33%

Refining volume,
thou. tons

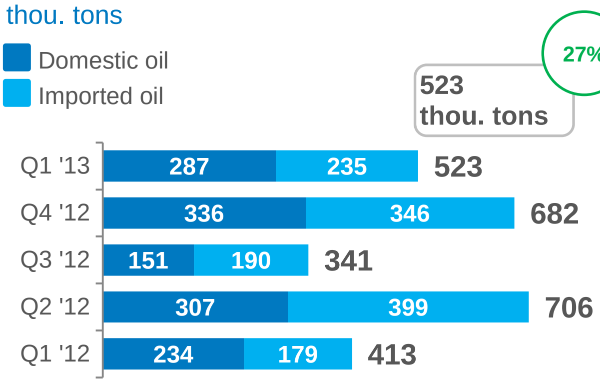

Chart 13: Refining volume

Refining structure per refineries,
thou. tons

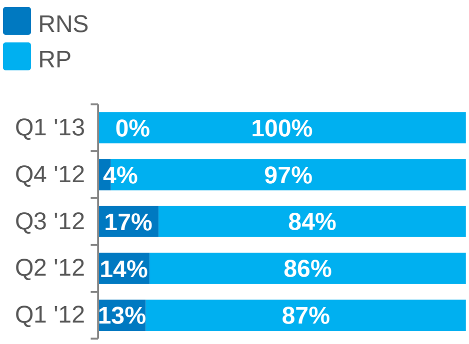

Chart 14: Refining structure

Sales and distribution

Increase of the total sale of petrol products for 12% in comparison to the first quarter of 2012:

Retail sale – 6%sale increase:

- Increase of euro quality petrol products sale

Retail sale of foreign assets – 100% increase:

- In the first quarter of 2012 there was no retail sale of foreign assets

Wholesale– 5% increase:

- Increase in the sale of diesel fuel due to the increased placement of euro diesel from domestic production
- Decrease in the sale of heavy fuel oil due to warm weather

Export – 9% increase:

- Increase in the sale of petrol components

- Increase in the sale of white oil products share

Sales volume,
thou. tons

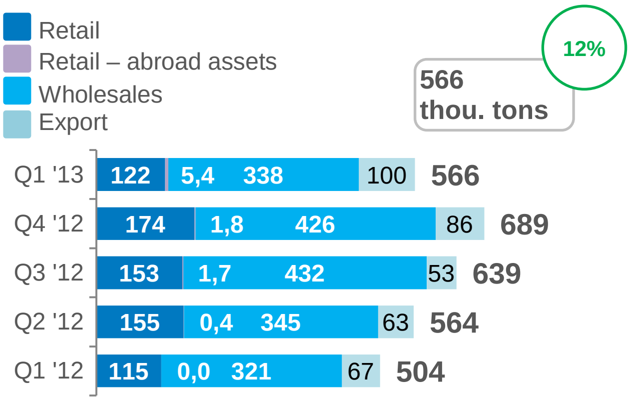

Chart 15: Sales volume

Sales structure,
thou. tons

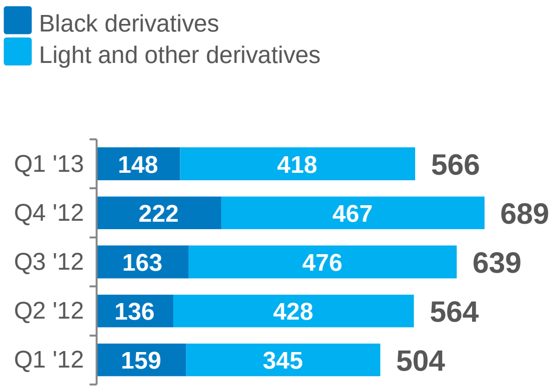

Chart 16: Sales structure

Ratios

	Q1 2013.	Q1 2012.	$\Delta\frac{Q1\ 2013.}{Q1\ 2012.}$ (%)
Return on total capital (Gross profit/total capital)	7%	10%	-32%
Net return on equity[11] (Net profit/shareholders equity[12])	10%	10%	-1%
Operating net profit (operating profit/net sales income)	23%	31%	-27%
Degree of leverage (short term and long term liabilities/equity)	98%	126%	-22%
Degree of leverage (short term and long term liabilities/ shareholders equity[12])	163%	139%	18%
1st degree liquidity (cash and cash equivalents/short term liabilities)	8%	44%	-81%
2nd degree liquidity (working assets/stocks/short term liabilities)	92%	138%	-34%
Net working fund ratio (current assets – current liabilities/current assets)	42%	55%	-23%

Per share indicators in period from January 1st 2013 until March 31st 2013

Last price		917.00 RSD
High		950.00 RSD
Low		737.00 RSD
Total turnover		956,314,087.00 RSD
Total volume		1,106,496
Total number of transactions		54,388
Market Capitalization as of march 31st 2013		149,526,386,800.00 RSD
EPS for period 1.01. 2013.– 31.03.2013.		50.84 RSD
EPS for period 01.01.2012 - 31.12.2012.		303.3 RSD
P/E		3.02
Book Value as of March 31st 2013.		891.05 RSD
P/BV		1.03
Information about dividends paid out	2012	Company reported net profit. Decision on allocation of profit will be discussed at next regular session of shareholders' Assembly. Draft decision was approved by Board of Directors on its session on April 2nd 2013 and it foresees gross dividend pay-out in amount of 25% of net profit for 2012.
	2011	Company reported net profit. On July 25th 2012 Shareholders Assembly reached the Decision on allocation of profit and/or coverage of accumulated losses for 2011 and according to decision entire net profit was used to cover accumulated losses and therefore no dividend was paid out.
	2010	On July 27th 2011 Board of Directors[12] reached the Decision on allocation of profit and/or coverage of accumulated losses for 2010 and according to decision entire net profit was used to cover accumulated losses and therefore no dividend was paid out.

[11] *shareholders equity = share capital + other capital*

[12] *In accordance with NIS' Articles of Association in force at the time Decision on the allocation of profit and/or coverage of accumulated losses was in the competence of the Board of Directors*

Total bank indebteness,
mln. USD

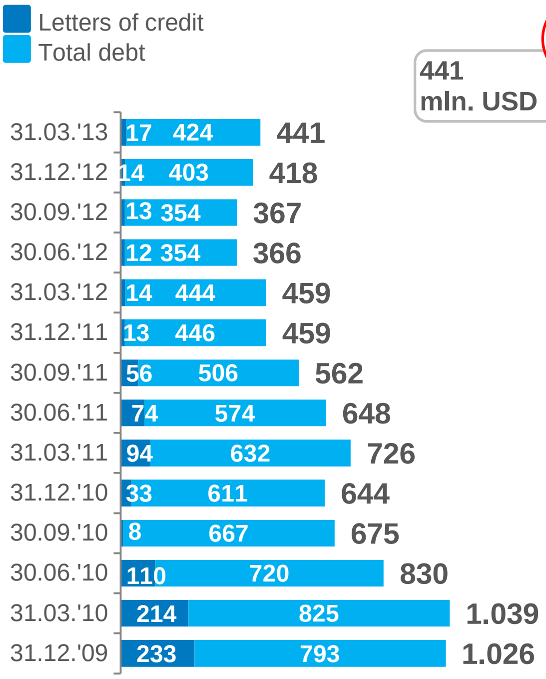

Chart 17: Total bank indebteness,

GPN loan,
mln. EUR

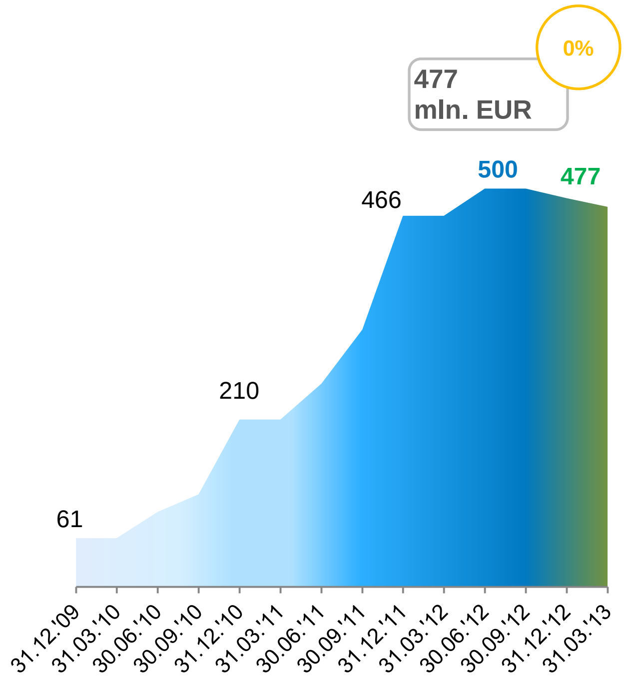

Chart 18: GPN loan

Total debt to banks,
mln. USD

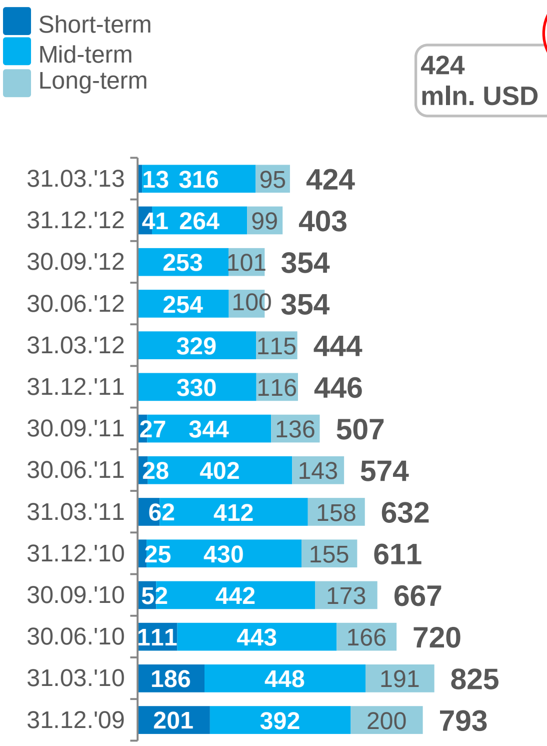

Chart 19: Total debt to banks

Structure of total debt to banks,
By currency, in%

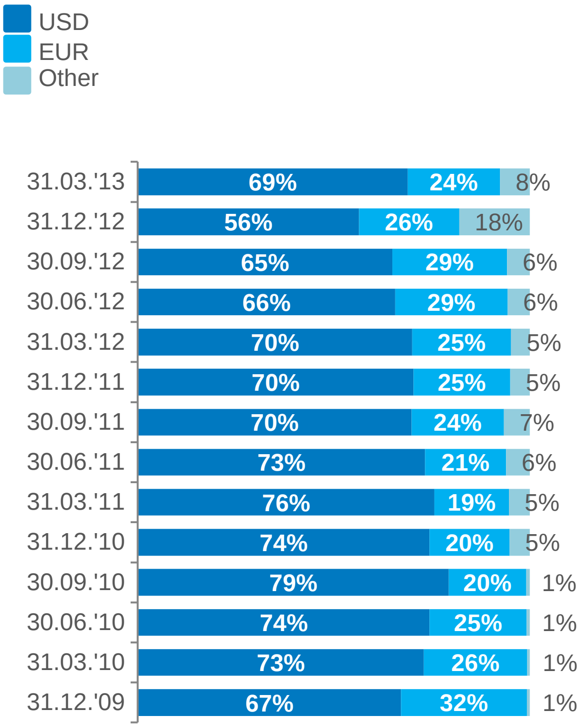

Chart 20: Structure of total debt to banks

Changes of more than 10% on assets, liabilities and net profit

Assets	Change (in %)	Explanation
Other long-term financial investments	27%	Increase in other long-term investments as of March 31st 2013 compared to December 31st 2012 is mainly related to the granting of long-term loans to subsidiaries in the amount of 4,003,013 thousand RSD. The carrying values of long-term debt approximate their fair values.
Current assets held for sale	-85%	Decrease in current assets held for sale as of March 31st 2013 compared to December 31st 2012 is mainly related to the sale of an office building in Sredačka Street in Belgrade.
Cash and cash equivalents	-41%	Decrease in cash and cash equivalents as of March 31st 2013 compared to December 31st 2012 is mainly related to the decrease in short-term bank deposits with maturity of 90 days in the amount of RSD 1,971,241 thousand.
VAT and prepaid expenses	-31%	Increase in VAT and prepaid expenses as of March 31st 2013 compared to December 31st 2012 is mainly related to the decrease in deferred tax in the amount of 2,692,052 thousand RSD.

Liabilities	Change (in %)	Explanation
Retained earnings	17%	Increase in retained earnings as of March 31st 2013 in a whole refers to the result for the three-month period ended on March 31st 2013.
Long-term debt	15%	Increase in long term debt as of as of March 31st 2013 compared to December 31st 2012 is mainly related to the loan granted by Erste Bank Netherlands in the amount of 5,682,677 thousand RSD.
Short-term financial liabilities	-26%	Decrease in short-term financial liabilities as of March 31st 2013 compared to December 31st 2012 mainly refers to repayment of short term liabilities from loans taken from UniCredit Bank in the amount of 1,400,000 thousand RSD and Vojvodjanska Bank in the amount of 1,000,000 thousand RSD.
Other short-term liabilities	-14%	Decrease in other short term liabilities as of March 31st 2013 compared to December 31st 2012 is mainly related to the settlement of earnings and compensation.

Major buyers and suppliers

Buyer	Turnover in millions RSD[13]	Share in total income
HIP Petrohemija a.d.	8.778	15%
Knez Petrol d.o.o.	5.156	9%
Glory Finance Ltd.	3.566	6%
Petrobart d.o.o.	3.083	5%
Total:	20.583	35%
Other buyers:	38.395	65%
Total:	58.978	**100%**

Suppliers	Total debt in mln. RSD[14]	Share in the total liabilities to suppliers
Gazprom neft Trading Gmbh.	27.217	77%
HIP Petrohemija a.d.	1.231	3%
Mol Serbia d.o.o.	839	2%
Naftagas – Naftni servisi d.o.o.	763	2%
Total:	30.051	85%
Other suppliers:	5.251	15%
Total:	35.302	**100%**

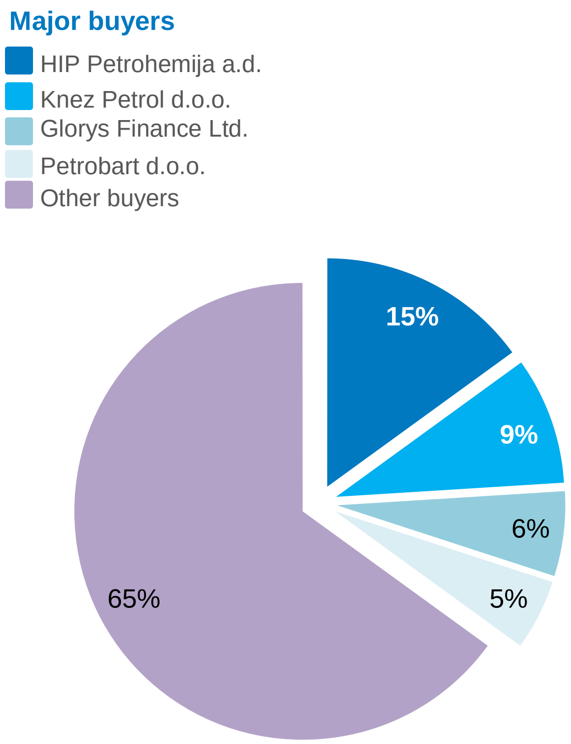

Chart 21: Major buyers

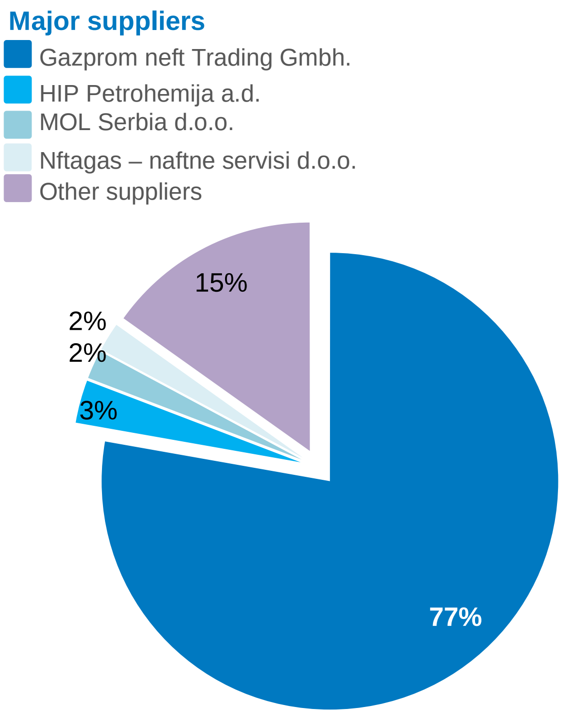

Chart 22:Major suppliers

[13] *For period from January 1st 2013 until March 31st 2013*
[14] *As of March 31st 2013*

Transfer prices

Transfer prices in 2013 are stipulated in:

- „Transfer Prices Calculation Methodology for domestically-produced crude oil and natural gas in NIS j.s.c Novi Sad as required by management accounting“, and
- „Transfer Prices Calculation Methodology for domestically-produced oil products and natural gas products in NIS j.s.c Novi Sad as required by management accounting“ effective as of 01.01.2012 .

The 2013 transfer prices calculation methodologies conform to „market principle“, as well as the principle „one product, one transfer price“.

Principle „one product, one transfer price“ means that the „movement“ of one product between different profit centres within NIS was valued according to one transfer price, regardless of profit centres between which this movement took place.

Transfer prices used to generate internal revenue between NIS business entities are defined in such a way to maintain the market position of each of these business entities.

There are transfer prices of the following types:

- Transfer price of domestic crude, (between Exploration and Production and Refining Blocks) defined pursuant to the so called „export terms“.
- natural gas transfer price (between Exploration and Production and Refining Blocks) equal to the natural gas selling price at which NIS sells the natural gas to the state-run Srbijagas company;
- oil products and natural gas products transfer price (between Refining and Sales and Distribution and between Exploration and Production and Sales and Distribution Blocks) are defined pursuant to the following principles:
  - Import terms - principle used to calculate transfer prices of freely-imported oil products and those oil products, which serve as their direct substitutes
  - Export terms apply to oil products, which are either completely or partially exported.
  - Remaining crude oil products comprise those oil products not falling into either of these two groups according to their characteristics (import terms, export terms). These crude oil products are characteristic for being purchased by a limited number of known buyers, their selling prices being stipulated by annual or even longer term contracts or they are alternative to the production of other oil products (straight-run naphtha, jet fuel, rafinatte, propylene).

Cases of uncertainty (uncertainty of collection)

As a part of the financial reports, the NIS j.s.c. Novi Sad management makes accounting estimates and assumptions related to the future. As a rule, the resulting estimations will hardly correspond to the accomplished results. The most significant estimations and assumptions are the estimated provisions for decrease in value of trade receivables, provisions for expected effects of negative litigation outcomes as well as provisions for environment protection.

Trade receivables are initially recognized as per their fair value. Provisions for decrease in value of receivables are determined when based on objective evidence the Company will not be able to collect all the receivables in accordance with the original terms.

For the first-class clients (clients representing 80% of total receivables by the total amount as at balance sheet date), receivables collectability risk is evaluated taking into consideration indicators of decrease in receivables' purchase value including as follows: receivables' age structure, estimated client debt collectability in accordance with his financial capabilities and existing history of late payments. In accordance with the previously stated, provisions for decrease in value of receivables are made and/or corrections of provisions charged to the expense of the relevant period.

For the second-class clients (clients representing 20% of total receivables by the total amount as at balance sheet date), receivables collectability risk is evaluated taking into consideration late payments thus corrections of provisions for these clients are made if the payment is not settled within sixty (60) days as of the maturity date and/or date of foreign currency influx in the country and/or within ninety (90) days as of the receivables maturity date for liquefied petroleum gas, delivered goods/energy to domestic consumers in the category «remote heating systems» (heating plants), trade receivables-clients financed from the budget (army, police, health service, educational service, railroads etc.).

The book value of receivables is decreased through provisions while the decreased value is recorded in the profit and loss account within the position 'other expenses'. When a receivable cannot be collected, it is written off and charged to the provisions for receivables. As at March 31st 2013, the Company made provisions for approximately 46% of gross value of total receivables.

As at March 31st 2013, the Company made provisions for potential loss which could emerge from tax liabilities evaluation by the Ministry of Finances of Angola to which the Company is to pay the difference in tax assessment including interest in the amount of 81 million USD related to additional profit oil for the period from 2002 to 2007. The management believes that, based on the terms set forth in the concession contracts with Angola and the opinions of legal consultants from Angola, such a request is not in accordance with the valid legal framework in Angola due to the fact that the government did not make correct oil profit calculations and that oil profit is a contractual obligation towards the national concessionaire which is opposite to the opinion of the Ministry of Finances of Angola. The management will file a complaint against any action of enforced tax collection by the Ministry of Finances of Angola and take all the necessary steps in order to postpone the collection of tax until the court in Angola reaches a final decision regarding the issue. Based on the experience of other concessionaires, the court in Angola has not yet reached a decision related to their complaints against the decision of the Ministry of Finances even though the complaints were filed three years ago. Taking all the previously stated into consideration, the Company management believes that as at December 31st 2012, there is a significant level of uncertainty as regards the time required to settle the request of the Ministry of Finances of Angola and the amount of additional tax on profit oil, if any.

Analytical report on government revenue-related liabilities (without subsidiaries) in RSD

Liabilities related to government revenue	Q1 2013	Q1 2012
Contributions for social insurance paid by the employer	480,184,939	678,671,691
Income tax	1,075,916,098	785,462,379
VAT	2,203,495,891	2,029,077,615
Excise tax	14,970,034,221	11,101,944,832
Custom duty	195,380,521	42,109,397
Royalties	649,348,811	657,737,712
Other taxes	339,746,076	430,462,097
Total	19,914,106,557	15,725,465,723

Analytical report on government revenue-related liabilities (with subsidiaries) in RSD

Liabilities related to government revenue	Q1 2013	Q1 2012
Contributions for social insurance paid by the employer	646,701,753	678,671,691
Income tax	1,082,238,717	785,462,379
VAT	2,266,255,724	2,029,077,615
Excise tax	14,970,034,221	11,101,944,832
Custom duty	201,615,987	42,109,397
Royalties	649,348,811	657,737,712
Other taxes	367,812,987	430,462,097
Total	20,184,008,201	15,725,465,723

Investments

Investment projects

The business plan and mid-term investment program were adopted at the 93rd session of the Board of Directors held on 19 December 2012 (hereinafter referred to as: MIP) and the investment plan for CAPEX during the period 2013 – 2015 was presented.

Based on MIP, the main investment directions in 2013 will include - projects to increase efficiency in refining, projects on modernizing Pancevo Oil Refinery, construction of facilities for production of base oils in Refinery in Novi Sad, regional development of Sales and Distribution Block, projects to increase production of oil and gas, projects of Energy Block (CHP) and a number of projects in corporate centre. In the first quarter of 2013 12.2 billion RSD were invested, which is by 59% more compared to the same period 2012.

Major investments in oil and gas production in the first quarter of 2013 were in following projects:

- Development drilling
- Investments in concession rights (Hungary, Romania)
- Geological explorations in the area of Vojvodina
- GTM projects (GRP, ESP...)

The most significant capital investments in first quarter of 2013 related to environmental issues were made in Pančevo refinery within the following projects:

- Reconstruction of the wharf
- Reduction of NOx in the flue gases from power stations
- Rehabilitation and reconstruction of facilities for treatment of waste water

Sources of investment funding	Q1 2013	Q1 2012
CAPEX under GPN loan	**0.00**	**2.68**
Ecology	0.00	0.82
MHC/DHT	0.00	1.85
CAPEX under OCF (NIS funds)**	**12.19**	**5.01**
Ecology	0.39	0.07
MHC/DHT	1.94	0.48
Angola	0.21	0.04
Projects with direct economic effects	8.12	3.88
Projects without direct economic effects	1.24	0.53
PIW	0.29	0.01
Total:	**12.19**	**7.69**

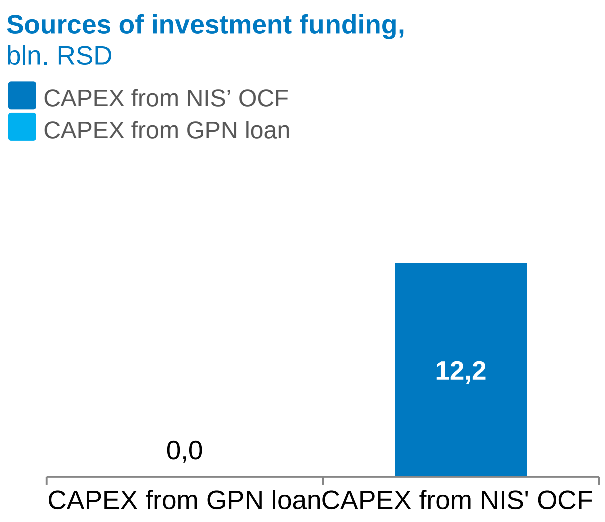

Chart 23: Sources of investment funding

CAPEX by investment projects, bln. RSD

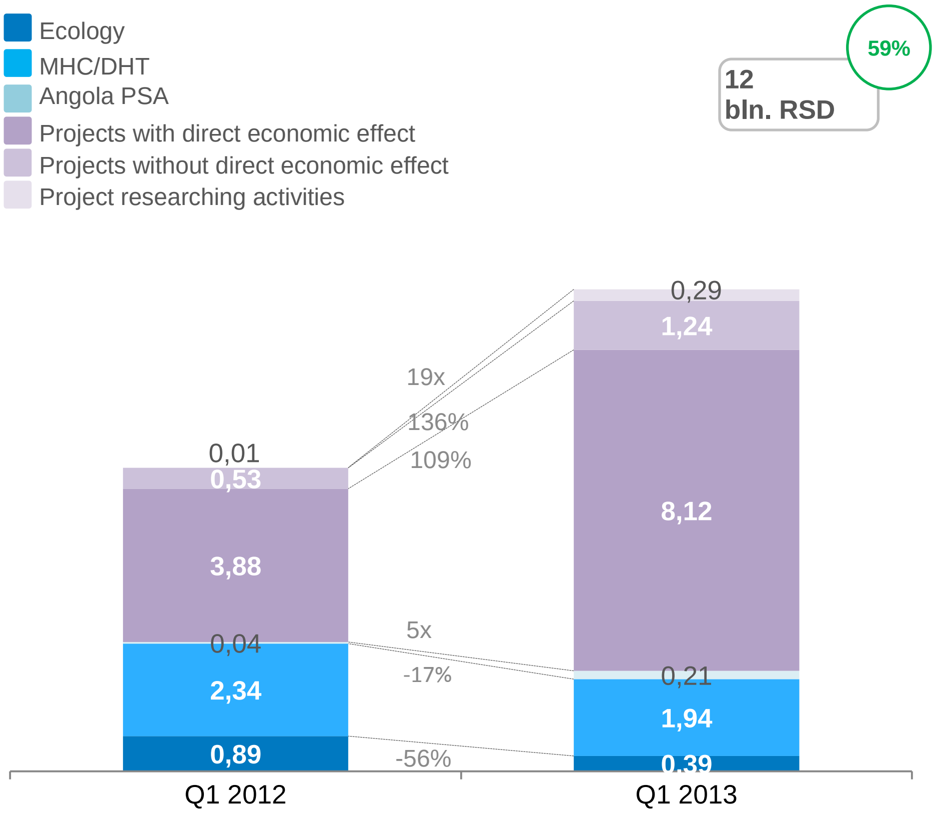

Chart 24: CAPEX by investment projects

The most important investments in Exploration and Production, Refining and Sales and Distribution in Q1 2013.

Exploration and production

4.3 bln. RSD

Increase of oil and gas production

Increase of reserves

- Geological exploration in Vojvodina region
- Investments in concession rights
- Additional geological and technological measures
- Drilling new development wells
- Production automatization
- Reconstruction of the infrastructure

Refining

2.6 bln. RSD

Reconstruction and modernization of the RNP

Ecological Projects

- Construction of MHC/DHT plant
- Industrial base oil production from the “Velebit” oil type
- Reconstruction of Pancevo docks
- Lower NOx emission in smoke gases from the Energy plant

Sales and distribution

4.2 bln. RSD

Retail sale network development

- Rebranding 11 PS
- Regional business development in Bosnia, Bulgaria and Romania

Number of employees' trend

Total number of employees on 31.03.2013 was 5,756. Number of employees from servicing organizations as of March 31st 2013 is 2,529, which makes total of 8,285 employees of NIS. In addition there are 29 more employees who work in representative offices.

In subsidiaries in Serbia, which are formed in 2012, there were 1,947 employees as of March 31st 2013, and 836 employees from servicing organizations which makes total of 2.783 employees.

In subsidiaries formed in the region in 2011 and 2012 there are 214 employees.

Organizational part	31.03.2013.			31.03.2012.		
	Directly	Servicing organiz.	Total	Directly	Servicing organiz.	Total
NIS a.d. Novi Sad	**5,756**	**2,529**	**8,285**	**9,073**	**2,101**	**11,174**
Upstream Block	808	120	928	1,154	36	1,190
Refining Block	1,050	25	1,075	1,658	56	1,714
Sales and Distribution Block	2,131	2,153	4,284	3,130	1,335	4,465
Oilfield Services Block	75	5	80	1,821	573	2,394
Energy Block	214	2	216	15	0	15
Corporate centre	1,478	224	1,702	1,295	101	1,396
Representative offices	**29**	**0**	**29**	**28**	**0**	**28**
Subsidiaries in Serbia	**1,947**	**836**	**2,783**	**0**	**0**	**0**
Naftagas – Naftni servisi	744	569	1,313	0	0	0
Naftagas – Tehnicki servisi	648	169	817	0	0	0
Naftagas – Transport	254	85	339	0	0	0
NTC NIS Naftagas	301	13	314	0	0	0
Subsidiaries abroad	**202**	**12**	**214**	**140**	**0**	**140**
NIS Petrol Bulgaria	35	0	35	124	0	124
NIS Petrol Romania	39	4	43	9	0	9
NIS Petrol Bosnia and Herzegovina	120	8	128	0	0	0
Jadran Naftagas B&H	8	0	8	7	0	7
Panon Naftagas Hungary	0	0	0	0	0	0
TOTAL:	**7,934**	**3,377**	**11,311**	**9,241**	**2,101**	**11,342**

Grounds for termination of employment

During first quarter of 2013, totally 72 employees left the Company, 1 employee of whom was retired, 39 left the Company upon consensual termination of employment, and for 32 employees, the basis for termination of employment was of some other nature (cancellation of the agreement on employment, termination of employment upon the employee's request, death of an employee, etc.).

	Q1 2013.	
	NIS a.d..	NIS group[15]
Retirement	1	1
Consensual termination of employment	39	42
Other	32	38
Total:	72	81

[15] *NIS gorup is consisted of subsidiaries formed out of NIS business structure in 2012 (Naftagas – Naftni servisi, Naftagas – Tehnicki servisi, Naftagas – Transport and NTC NIS Naftagas)*

Subsidiary Companies and Transactions with Affiliates

Information on subsidiaries

Business name	% of interest in the capital of the subsidiary held by the parent company
Joint-Stock Company for Hotel Management and Tourism O ZONE Belgrade	100,00%
Naftagas – naftni servisi d.o.o. Novi Sad	100,00%
Naftagas – tehnicki servisi d.o.o. Zrenjanin	100,00%
NTC NIS – Naftagas d.o.o. Novi Sad	100,00%
Naftagas-Transport d.o.o. Novi Sad	100,00%
NIS Oversiz o.o.o. Moscow, Russian Federation	100,00%
„NIS Petrol“ EOOD, Sofia, Bulgaria	100,00%
„NIS Petrol“ S.R.L., Bucharest, Romania	100,00%
„NIS Petrol“ d.o.o. Bosnia and Herzegovina	100,00%
Pannon Naftagas Kft, Budapest, Hungary	100,00%
Jadran–naftagas d.o.o., Banja Luka, Republic of Srpska, B&H	66,00%
NIS– Svetlost d.o.o. Bujanovac	51,32%
JUBOS d.o.o, Bor	51,00%
LLC „SP Ranis“, Chernoglavka, Russian Federation	51,00%

NIS has ownership stakes of less than 51% in subsidiaries other than stated, but due to the fact that these stakes are not materially relevant they are not included in the consolidated financial statements.

Transactions with Affiliates

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company.

The Company was engaged in business transactions with its related entities during first quarter of 2013 and 2012. The most significant transactions with related parties in the aforementioned periods related to supply/delivery of crude oil, geophysical research and interpretation services.

Activities in which the personal interest is involved are subject to the approval of the Board of Directors.

The overview of transactions with the affiliates is shown in the notes to the financial statements.

INTERIM CONDENSED FINANCIAL STATEMENTS

Assets	Notes	31 March 2013 (unaudited)	31 December 2012
Current assets			
Cash and cash equivalents	6	4,931,516	8,311,266
Short-term financial assets		600,455	527,654
Trade and other receivables	7	43,761,431	45,432,599
Inventories	8	47,249,532	42,745,738
Other current assets		4,256,607	6,620,710
Assets classified as held for sale		6,468	41,746
Total current assets		100,806,009	103,679,713
Non-current assets			
Property, plant and equipment	10	151,416,041	146,309,406
Investment property		1,286,184	1,316,069
Other intangible assets	11	3,919,520	4,029,682
Investments in subsidiaries		7,530,236	7,530,236
Trade and other non-current receivables		7,264	9,662
Long-term financial assets	12	23,196,749	18,038,793
Deferred tax assets		9,786,958	9,786,958
Other non-current assets		5,375,939	4,731,177
Total non-current assets		202,518,891	191,751,983
Total assets		**303,324,900**	**295,431,696**
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	13	7,057,962	9,630,829
Trade and other payables	14	39,133,582	39,370,624
Other current liabilities	15	3,934,392	4,403,470
Current income tax payable		518,311	512,454
Other taxes payable		8,103,917	8,224,581
Provisions for liabilities and charges		2,548,824	2,381,936
Total current liabilities		61,296,988	64,523,894
Non-current liabilities			
Long-term debt	16	83,609,111	80,991,651
Deferred tax liabilities		2,461,140	2,364,591
Provisions for liabilities and charges		10,665,028	10,548,399
Total non-current liabilities		96,735,279	93,904,641
Equity			
Share capital	17	81,530,200	81,530,200
Reserves		813,868	814,908
Retained earnings		62,948,565	54,658,053
Total equity		145,292,633	137,003,161
Total liabilities and shareholder's equity		**303,324,900**	**295,431,696**

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

The accompanying notes are an integral part of these Interim Condensed Financial Statements

NIS a.d. Novi Sad
Statement of comprehensive income

	Notes	Three month period ended 31 March 2013 *(unaudited)*	2012 *(unaudited)*
Sales of petroleum products and oil and gas sales		47,418,782	44,792,183
Other revenues		1,180,405	876,291
Total revenue from sales	5	48,599,187	45,668,474
Purchases of oil, gas and petroleum products	18	(25,858,917)	(21,677,030)
Production and manufacturing expenses	19	(4,153,077)	(3,036,883)
Selling, general and administrative expenses	20	(4,591,810)	(3,253,081)
Transportation expenses		(257,718)	(155,054)
Depreciation, depletion and amortization		(2,188,424)	(1,611,300)
Taxes other than income tax		(1,433,851)	(1,755,786)
Exploration expenses		(34,965)	(75,952)
Total operating expenses		(38,518,762)	(31,565,086)
Other (expenses) income, net		(87,806)	9,038
Operating profit		**9,992,619**	**14,112,426**
Net foreign exchange gain (loss)		46,237	(4,500,844)
Other finance income		332,798	331,069
Other finance expenses		(902,872)	(594,672)
Total finance expense		**(523,837)**	**(4,764,447)**
Profit before income tax		**9,468,782**	**9,347,979**
Current income tax expense		(1,081,721)	(785,462)
Deferred income tax expense		(96,549)	(179,640)
Total income tax		**(1,178,270)**	**(965,102)**
Profit for the period		**8,290,512**	**8,382,877**
Other comprehensive loss			
Losses on remeasuring financial asset available for sale		(1,040)	(19,527)
Other comprehensive loss for the period		**(1,040)**	**(19,527)**
Total comprehensive income for the period		**8,289,472**	**8,363,350**
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		50.84	51.41

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

The accompanying notes are an integral part of these Interim Condensed Financial Statements

Three month period ended 31 March 2013 and 2012

(unaudited)	**Share capital**	**Reserves**	**Retained earnings**	**Total equity**
Balance as at 1 January 2012	81,530,200	854,928	5,201,537	87,586,665
Profit	-	-	8,382,877	8,382,877
Other comprehensive loss for the period	-	(19,527)	-	(19,527)
Total comprehensive income for the period	-	(19,527)	8,382,877	8,363,350
Balance as at 31 March 2012	**81,530,200**	**835,401**	**13,584,414**	**95,950,015**
Balance as at 1 January 2013	**81,530,200**	**814,908**	**54,658,053**	**137,003,161**
Profit	-	-	8,290,512	8,290,512
Other comprehensive loss for the period	-	(1,040)	-	(1,040)
Total comprehensive income for the period	-	(1,040)	8,290,512	8,289,472
Balance as at 31 March 2013	**81,530,200**	**813,868**	**62,948,565**	**145,292,633**

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

The accompanying notes are an integral part of these Interim Condensed Financial Statements

	Notes	Three month period ended 31 March 2013 (unaudited)	2012 (unaudited)
Cash flows from operating activities			
Profit before income tax		9,468,782	9,347,979
Adjustments for:			
Finance costs recognised in profit or loss		902,872	594,672
Investment income recognised in profit or loss		(332,798)	(331,069)
Loss on disposal of property, plant and equipment		215	1,090
Depreciation, depletion and amortization	10,11	2,188,424	1,611,300
Impairment of non-financial assets		356	14,708
Adjustments for other provisions		297,902	160,666
Allowance for doubtful accounts	20	73,192	(321,763)
Payables write off		-	(13,964)
Allowance for inventory obsolescence and write-off inventories		-	5,963
Net unrealised foreign exchange (gain) losses, net		(310,051)	4,409,784
		2,820,112	6,131,387
Changes in working capital:			
Trade and other receivables		1,406,751	(8,878,240)
Inventories		(4,503,794)	4,724,259
Other current assets		1,571,040	3,106,056
Trade payables and other current liabilities		933,123	(15,556,458)
Other taxes payable		(18,822)	848,039
Cash used in operations		(611,702)	(15,756,344)
Income taxes paid		(1,177,706)	(1,650,871)
Interest paid		(856,093)	(903,071)
Interest received		179,661	783,133
		(1,854,138)	(1,770,809)
Net cash generated by (used in) operating activities		**9,823,054**	**(2,047,787)**
Cash flows from investing activities			
Acquisition and foundation of subsidiaries or other business, net of cash acquired		-	(158)
Loans issued		(4,048,014)	(707,695)
Loan proceeds received		134,462	-
Capital expenditures		(10,269,902)	(6,925,374)
Proceeds from sale of property, plant and equipment	8	77,258	165,991
Net cash used in investing activities		**(14,106,196)**	**(7,467,236)**
Cash flows from financing activities			
Proceeds from borrowings		5,722,848	-
Repayment of borrowings		(4,986,541)	(340,479)
Net cash generated by (used in) financing activities		**736,307**	**(340,479)**
Net decrease in cash and cash equivalents		(3,546,835)	(9,855,502)
Effect of foreign exchange on cash and cash equivalents		167,085	583,805
Cash and cash equivalents as of the beginning of the period		8,311,266	25,228,726
Cash and cash equivalents as of the end of the period		**4,931,516**	**15,957,029**

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

The accompanying notes are an integral part of these Interim Condensed Financial Statements

1. GENERAL INFORMATION

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

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

The Company was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005. On 2 February 2009 OAO 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 Interim Condensed Financial Statements have been approved and authorized for issue by CEO and will be presented to Board of Directors for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1. Basis of preparation

These Interim Condensed Financial Statements for the three month period ended 31 March 2013 have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The Interim Condensed Financial Statements do not include all disclosure and they should be interpreted in relation with the annual financial statements for the year ended 31 December 2012. These Interim Condensed Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are not the statutory accounts of Company. The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by Serbian legislation. The accompanying Interim Condensed Financial Statements were primarily derived from the Company’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (“IFRS”).

These Interim Condensed Financial Statements have been prepared on a historical cost basis, except certain financial assets and liabilities and investment properties measured at fair value.

The Interim Condensed Financial Statements have been prepared based on the going concern principle, which assumes that the Company 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 Company 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 Interim Condensed Financial Statements.

The preparation of Interim Condensed 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 Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Interim Condensed Financial Statements are disclosed in note 3.

2.2. Segment reporting

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

2.3. Seasonality of Operations

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

2.4. Foreign currency translation

(a) *Functional and presentation currency*

The Interim Condensed Financial Statements are presented in RSD, which is the Company's functional and the Company'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 Interim Condensed Statement of Comprehensive Income, Profit or Loss.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and other monetary assets and liabilities are presented in the Interim Condensed Statement of Comprehensive Income within "Net foreign exchange gain / (loss)".

2.5. Goodwill and Other Intangible Assets

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 Company incurs in connection with a business combination are expensed as incurred.

2.6. 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.

2.7. Non-derivative financial assets

The Company 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 Company'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. Alternatively, trade receivables are stated as long-term.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Interim Condensed Statement of Comprehensive Income within 'Selling, general and administrative expenses' (note 20).

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 Interim Condensed Statement of Comprehensive Income (note 20).

(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 Interim Condensed Statement of Comprehensive Income as other finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss as other finance income when the Company’s right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to profit and loss.

2.8. Non-Derivative Financial Liabilities

The Company 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 Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Company 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.

2.9. 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.

Spare parts for equipment used in production are stated at cost. The impairment tests of inventories i.e. spare parts due to damage or obsolescence is performed once a year. Impairment losses are recognized as production and manufacturing expenses (note 19).

2.10. Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Company’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the sales plan will be made or that the plan will be withdrawn.

2.11. Intangible assets

(a) *Licenses and rights*

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

Licenses and rights include Oil and Gas exploration rights, which are amortised over the exploration period in accordance with the terms and conditions of the licence.

(b) *Computer 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).

2.12. Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the Interim Condensed Statement of Comprehensive Income 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 - 40
Machinery and Equipment	10 - 25
Marketing and distribution assets:	
Buildings	10 - 50
Machinery and Equipment	5 – 15
Other Assets:	5 – 10

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 income/expenses' in the Interim Condensed Statement of Comprehensive Income.

2.13. Oil and Gas properties

(a) Exploration and evaluation expenditure

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

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

Exploration and evaluation assets include:

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

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

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

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

Other exploration costs are charged to expense when incurred.

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

(b) Development costs of fixed and intangible assets

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

2.14. 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.

2.15. Investment property

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

Investment property principally comprises petrol stations, business facilities and apartments rented out to current and former Company employees 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 Interim Condensed Statement of Comprehensive Income, Profit or 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 Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.16. Share capital

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

2.17. Reserves

Reserves fully relate to the reserves established in the past in accordance with the previous Law on Enterprises. In accordance with this Law, the Company was required to allocate 5% of profits until the reserve equals the amount defined by Company's Act, and at least 10% of the share capital. Additionally, translation reserves are recorded in this line.

2.18. Earnings per share

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

2.19. Provisions

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

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

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

2.20. Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the Interim Condensed Statement of Comprehensive Income, except to the extent that it relates to items recognized directly in equity, in which case deferred tax liability is also recognized in equity.

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

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Interim Condensed 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21. Employee benefits

(a) *Pension obligations*

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

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

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

(c) *Bonus plans*

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

2.22. Dividend distribution

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

2.23. Leases

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

Other leases are operating leases and the leased assets are not recognised on the Company's 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 Company's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales witnin the Company.

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

(a) Sales - wholesale

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

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 90 days for state owned companies and 60 days for other companies, which is consistent with the market practice.

(b) Sales– retail

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

(c) Sales of services

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

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

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

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

(d) Interest income

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

(e) Income from work performed by the Company and capitalized

Income from work performed by the Company and capitalised relates to the capitalisation of costs of own products and services.

(f) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.25. Transportation Costs

Transportation expenses recognised in 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 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 Company'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 Interim Condensed Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

3.1. Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Company estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved 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 Interim Condensed 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.

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.

3.3. Impairment of Non-Derivative Financial Assets

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

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

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

3.4. Employee benefits

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

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

3.5. 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 Company's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

3.6. Contingencies

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

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's Interim Condensed Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 22).

3.7. Financial crisis

The Republic of Serbia displays certain characteristics of an emerging market. The tax, currency and customs legislation is subject to varying interpretations which contribute to the challenges faced by companies operating in Serbia.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Serbian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Republic of Serbia is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Company's business in the current business and economic environment.

Impact on liquidity:

The volume of wholesale financing has significantly reduced since September 2008. Such circumstances may affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on customers/ borrowers:

Debtors of the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers (or borrowers) may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.

4. FINANCIAL RISK MANAGEMENT

4.1. Financial risk factors

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

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

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

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

Foreign exchange risk

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

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, responsible persons in the finance department within the FEPA negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day the purchase is made.

Commodity Price risk

The Company's primary activity expose it to the following commodity price risks: crude oil and oil derivatives price levels which affect the value of inventory; and refining margins which in turn affect the future cash flows of the business.

In the case of price risk, the level of exposure is determined by the amount of priced inventory carried at the end of the reporting period. In periods of sharp price decline, as the Company policy is to report its inventory at the lower of historic cost and net realisable value, the results are affected by the reduction in the carrying value of the inventory. The extent of the exposure relates directly to the level of stocks and the rate of price decrease.

Cash flow and fair value interest rate risk

As at 31 March 2013 the Company had significant amounts of cash and cash equivalents. The cash was deposited only in banks with which the Company has passive business relationships i.e. loans and credit/documentary lines. Also, RSD and foreign currency fixed term deposits are short term (up to 60 days) and bear fixed interest rates. Based on the above information, the Company's revenues and cash flows are to a great extent independent of changes in market interest rates on fixed term deposits, although the interest rates that the Company can achieve in the market to a great extent depend on the level of basic interest rates at the time when cash has been deposited (Belibor / NBS key policy rate).

Borrowings issued at variable interest rates expose the Company to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Company to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR) has a proportionate impact on the Company's results.

Credit risk

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

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

The Company has provided for receivables from customers who have exceeded their credit limits or are undergoing liquidity problems.

Liquidity risk

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

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

4.2. Capital risk management

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

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, revise its investment program, attract new or repay existing loans or sell certain non-core assets.

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

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

	Three month period ended 31 March	
	2013	**2012**
Long-term debt	83,609,111	80,991,651
Short-term debt and current portion of long-term debt	7,057,962	9,630,829
Less: cash and cash equivalents	(4,931,516)	(8,311,266)
Net debt	85,735,557	82,311,214
EBITDA	12,068,986	15,553,647
Net debt to EBITDA at the end of the reporting period	**7.10**	**5.29**

4.3. Fair value estimation

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

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

5. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for three month period ended 31 March 2013 and 2012. Operating segments are components that engage 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 Company manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Company operations: exploration, development and production of crude oil and natural gas and oil field services. Downstream segment (refining and marketing) processes crude 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 Company's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Company's ongoing operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, other finance income (expenses) net, other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the three month period ended 31 March 2013 are shown in the table below:

	Upstream	**Downstream**	**Eliminations**	**Total**
Segment revenue	21,783,030	48,560,932	(21,744,775)	48,599,187
Intersegment	21,705,004	39,771	(21,744,775)	-
External	78,026	48,521,161	-	48,599,187
EBITDA (Segment results)	19,256,497	(7,187,511)	-	12,068,986
Depreciation, depletion and amortization	(552,141)	(1,636,283)	-	(2,188,424)
Impairment losses	-	(356)	-	(356)
Other finance expenses, net	(84,909)	(485,165)	-	(570,074)
Income tax	(3,641)	(1,174,629)	-	(1,178,270)
Segment profit (loss)	**18,724,508**	**(10,433,996)**	**-**	**8,290,512**

Reportable segments results for the three month period ended 31 March 2012 are shown in the table below:

	Upstream	**Downstream**	**Eliminations**	**Total**
Segment revenue	23,966,475	39,805,093	(18,103,094)	45,668,474
Intersegment	17,985,537	117,557	(18,103,094)	-
External	5,980,938	39,687,536	-	45,668,474
EBITDA (Segment results)	20,684,266	(5,130,619)	-	15,553,647
Depreciation, depletion and amortization	(695,207)	(916,093)	-	(1,611,300)
Impairment losses	(238)	(14,470)	-	(14,708)
Other finance expenses, net	(79,820)	(183,784)	-	(263,604)
Income tax	(222,708)	(742,394)	-	(965,102)
Segment profit (loss)	**20,422,618**	**(12,039,742)**	**-**	**8,382,876**

EBITDA for the three month period ended 31 March 2013 and 2012 is reconciled below:

	Three month period ended 31 March	
	2013	**2012**
Profit for the period	8,290,512	8,382,876
Income tax expenses	1,178,270	965,102
Other finance expenses	902,872	594,673
Other finance income	(332,798)	(331,069)
Depreciation, depletion and amortization	2,188,424	1,611,300
Net foreign exchange (gain) loss	(46,237)	4,500,844
Other expense (income), net	87,806	(9,038)
Other non-operating income, net*	(199,863)	(161,041)
EBITDA	**12,068,986**	**15,553,647**

*Other non-operating expenses, net mainly relate to finance expenses on decommissioning provision, reversal of litigation provisions and other.

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

	Three month period ended 31 March 2013		
	Domestic market	**Export and international market**	**Total**
Sale of crude oil	-	26,650	26,650
Sale of gas	1,707,913	-	1,707,913
Through a retail network	-	-	-
Wholesale activities	1,707,913	-	1,707,913
Sale of petroleum products	38,945,431	7,006,218	45,951,649
Through a retail network	11,828,552	-	11,828,552
Wholesale activities	27,116,879	7,006,218	34,123,097
Other sales	911,044	1,931	912,975
Total Sales	**41,564,388**	**7,034,799**	**48,599,187**

	Three month period ended 31 March 2012		
	Domestic market	**Export and international market**	**Total**
Sale of crude oil	-	1,819,154	1,819,154
Sale of gas	3,924,102	-	3,924,102
Through a retail network	-	-	-
Wholesale activities	3,924,102	-	3,924,102
Sale of petroleum products	35,194,633	3,873,802	39,068,435
Through a retail network	10,233,874	-	10,233,874
Wholesale activities	24,960,759	3,873,802	28,834,561
Other sales	673,387	183,396	856,783
Total Sales	**39,792,122**	**5,876,352**	**45,668,474**

Revenue of approximately 7,315,142 RSD (2012: 1,511,745 RSD) are derived from a single domestic customer HIP Petrohemija (note 23). These revenues are attributable to wholesale activities within Downstream segment.

6. CASH AND CASH EQUIVALENTS

	31 March 2013	31 December 2012
Cash in bank and in hand	1,676,604	7,155,056
Deposits with original maturity of less than three months	3,119,298	1,081,515
Cash equivalents	135,614	74,695
	4,931,516	**8,311,266**

As at 31 March 2013 the majority of bank deposits in amount 3,119,298 RSD are held in USD. Bank deposits represent deposits with original maturities of less than three months.

7. TRADE AND OTHER RECEIVABLES

	31 March 2013	31 December 2012
Trade receivables:		
- related parties	977,050	1,737,579
- third parties	60,694,006	60,933,890
	61,671,056	62,671,469
Accrued assets	1,657,514	2,342,103
Other receivables	8,316,982	7,799,629
	71,645,552	72,813,201
Less impairment provision	(27,884,121)	(27,380,602)
Total trade and other receivables	**43,761,431**	**45,432,599**

Trade receivables as at 31 March 2013 amounting to 31,318,184 RSD that are more than 90 days overdue are considered as impaired, except for receivables of 9,872,024 RSD (31 December 2012: 9,989,315 RSD) from a number of independent customers for whom there is no recent history of default.

The ageing of trade receivables is as follows:

	31 March 2013	31 December 2012
Up to 3 months	30,352,872	31,143,920
Over 3 months	31,318,184	31,527,549
	61,671,056	**62,671,469**

As at 31 March 2013 trade receivables of 21,516,052 RSD (31 December 2012: 21,560,538 RSD) were assessed as uncollectable and fully provided for. The ageing of receivables provided for is as follows:

	31 March 2013	31 December 2012
Up to 3 months	69,892	22,304
Over 3 months	21,446,160	21,538,234
	21,516,052	**21,560,538**

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

	31 March 2013	31 December 2012
RSD	60,468,365	61,649,162
EUR	8,705,015	7,895,051
USD	2,472,150	3,268,965
Other	22	23
	71,645,552	**72,813,201**

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

	Trade receiables	Other receivables	Total
As at 1 January 2012	13,662,593	2,994,249	16,656,842
Provision for receivables impairment (note 20)	218,907	-	218,907
Unused amounts reversed (note 20)	(301,042)	-	(301,042)
Transfer from non-current to current part	-	530,490	530,490
Write off	(116,225)	-	(116,225)
Other	-	296,638	296,638
As at 31 March 2012	**13,464,233**	**3,821,377**	**17,285,610**
As at 1 January 2013	**21,560,538**	**5,820,064**	**27,380,602**
Provision for receivables impairment (note 20)	291,504	-	291,504
Unused amounts reversed (note 20)	(335,841)	-	(335,841)
Write off	(117)	-	(117)
Exchange differences	-	17,515	17,515
Other	(32)	530,490	530,458
As at 31 March 2013	**21,516,052**	**6,368,069**	**27,884,121**

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Interim Condensed Statement of Comprehensive Income. The amounts charged to provision for impairment are written off when their collection is not expected.

8. INVENTORIES

	31 March 2013	31 December 2012
Crude oil	30,157,963	24,064,015
Petroleum products	16,471,334	17,341,467
Materials and supplies	6,052,720	6,107,234
Other	1,014,640	1,680,147
Less impairment provision	(6,447,125)	(6,447,125)
	47,249,532	**42,745,738**

9. OTHER CURRENT ASSETS

	31 March 2013	31 December 2012
Advances paid	1,035,336	1,234,319
Deferred VAT	1,121,470	3,840,968
Prepaid expenses	81,968	135,363
Prepaid custom duties	46,267	46,267
Prepaid excise	1,971,087	1,419,092
Other current assets	13,661,171	13,506,192
Less impairment provision	(13,660,692)	(13,561,491)
	4,256,607	**6,620,710**

Deferred VAT as at 31 March 2013 amounting to 1,121,470 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 March 2013 amounting to 1,971,087 RSD (31 December 2012: 1,419,092 RSD) relates to the excise paid to the state for finished products stored in non-excise warehouse.

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

	Advances paid	Other current assets	Total
As at 1 January 2012	379,688	12,177,876	12,557,564
Provision for other current assets impairment (note 20)	765	221,419	222,184
Unused amounts reversed (note 20)	(5,164)	(457,120)	(462,284)
Write off	-	(57,911)	(57,911)
As at 31 March 2012	**375,289**	**11,884,264**	**12,259,553**
As at 1 January 2013	**373,071**	**13,188,420**	**13,561,491**
Provision for other current assets impairment (note 20)	-	173,064	173,064
Unused amounts reversed (note 20)	(449)	(55,099)	(55,548)
Write off	-	(18,315)	(18,315)
As at 31 March 2013	**372,622**	**13,288,070**	**13,660,692**

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2012						
Cost	48,560,040	47,644,386	24,848,078	13,771,355	44,639,338	179,463,197
Depreciation and impairment	(18,552,391)	(23,301,793)	(12,758,963)	(5,536,543)	(2,981,943)	(63,131,633)
Net book value	**30,007,649**	**24,342,593**	**12,089,115**	**8,234,812**	**41,657,395**	**116,331,564**
Three month period ended 31 March 2012						
Additions	1,033,280	230,400	194,170	50,974	6,845,141	8,353,965
Impairment	(239)	(2,427)	(12,042)	-	-	(14,708)
Depreciation	(690,708)	(484,555)	(178,620)	(91,050)	-	(1,444,933)
Transfer from intangible assets	-	-	-	-	8,302	8,302
Transfer to investment property	-	-	(45,731)	-	-	(45,731)
Transfer from assets classified as held for sale	-	-	-	-	146	146
Disposals and write-offs	(19,646)	(856)	3,192	2,147	(250,327)	(265,490)
Other transfers	37,704	(140,589)	136,040	(36,584)	-	(3,429)
	30,368,040	23,944,566	12,186,124	8,160,299	48,260,657	122,919,686
As at 31 March 2012						
Cost	49,648,847	47,699,767	25,203,703	13,839,986	51,030,900	187,423,203
Depreciation and impairment	(19,280,807)	(23,755,201)	(13,017,579)	(5,679,687)	(2,770,243)	(64,503,517)
Net book value	**30,368,040**	**23,944,566**	**12,186,124**	**8,160,299**	**48,260,657**	**122,919,686**
As at 1 January 2013						
Cost	45,900,639	96,895,807	27,042,790	16,309,345	22,673,221	208,821,802
Depreciation and impairment	(14,457,735)	(23,887,053)	(13,010,240)	(6,841,476)	(4,315,892)	(62,512,396)
Net book value	**31,442,904**	**73,008,754**	**14,032,550**	**9,467,869**	**18,357,329**	**146,309,406**
Three month period ended 31 March 2013						
Additions	2,225,637	2,624,789	311,888	207,067	2,670,731	8,040,112
Impairment	-	-	-	-	(356)	(356)
Depreciation	(550,098)	(1,151,523)	(202,818)	(110,071)	-	(2,014,510)
Transfer to intangible assets	42,464	-	-	-	(66,078)	(23,614)
Disposals and write-offs	(701,981)	(4,309)	(11,908)	(1,286)	(175,513)	(894,997)
Other transfers	1,276	184,546	8,277	(194,099)	-	-
	32,460,202	74,662,257	14,137,989	9,369,480	20,786,113	151,416,041
As at 31 March 2013						
Cost	46,922,025	99,324,820	27,319,238	16,525,446	25,100,659	215,192,188
Depreciation and impairment	(14,461,823)	(24,662,563)	(13,181,249)	(7,155,966)	(4,314,546)	(63,776,147)
Net book value	**32,460,202**	**74,662,257**	**14,137,989**	**9,369,480**	**20,786,113**	**151,416,041**

Additions to property, plant and equipment in the three month period ended 31 March 2013 amounting to 8,040,112 RSD (2012: 8,353,965 RSD) mostly relate to investments in wells drilling in amount 1,755,037 RSD, recontrction of oil and gas infrastructure in amount 202,197 RSD, reconstruction of petrol stations in amount of 248,143 RSD.

In the three month period ended 31 March 2013, in accordance with revised IAS 23 ‘Borrowing Costs’, the Company capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to 23,984 RSD (2012: 483,585 RSD).

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.

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2012						
Cost	2,056,678	3,455,790	5,512,468	48,205,627	129,810	53,847,905
Depreciation and impairment	-	(299,997)	(299,997)	(18,287,475)	(114,755)	(18,702,227)
Net book amount	**2,056,678**	**3,155,793**	**5,212,471**	**29,918,152**	**15,055**	**35,145,678**
Three month period ended 31 March 2012						
Additions	593,534	1,289,486	1,883,020	-	-	1,883,020
Transfer from asset under construction	-	(1,006,711)	(1,006,711)	1,006,711	-	-
Other transfers	-	(3,891)	(3,891)	151,909	-	148,018
Impairment charge	-	-	-	(238)	-	(238)
Depreciation and depletion	-	-	-	(690,669)	(90)	(690,759)
Disposals	-	(3,789)	(3,789)	(19,650)	(2)	(23,441)
	2,650,212	3,430,888	6,081,100	30,366,215	14,963	36,462,278
As at 31 March 2012						
Cost	2,650,212	3,728,830	6,379,042	49,454,011	129,808	55,962,861
Depreciation and impairment	-	(297,942)	(297,942)	(19,087,796)	(114,845)	(19,500,583)
Net book amount	**2,650,212**	**3,430,888**	**6,081,100**	**30,366,215**	**14,963**	**36,462,278**
As at 1 January 2013						
Cost	5,304,044	5,097,738	10,401,782	42,567,439	112,666	53,081,887
Depreciation and impairment	-	(304,214)	(304,214)	(14,450,258)	(110,630)	(14,865,102)
Net book amount	**5,304,044**	**4,793,524**	**10,097,568**	**28,117,181**	**2,036**	**38,216,785**
Three month period ended 31 March 2013						
Additions	1,076,030	3,038,247	4,114,277	-	-	4,114,277
Transfer from asset under construction	-	(1,795,166)	(1,795,166)	1,795,166	-	-
Other transfers	-	(133)	(133)	1,276	(16)	1,127
Depreciation and depletion	-	-	-	(550,056)	-	(550,056)
Disposals	-	(2,759)	(2,759)	(701,985)	-	(704,744)
	6,380,074	6,033,713	12,413,787	28,661,582	2,020	41,077,389
As at 31 March 2013						
Cost	6,380,074	6,336,877	12,716,951	43,115,890	110,850	55,943,691
Depreciation and impairment	-	(303,164)	(303,164)	(14,454,308)	(108,830)	(14,866,302)
Net book amount	**6,380,074**	**6,033,713**	**12,413,787**	**28,661,582**	**2,020**	**41,077,389**

11. OTHER INTANGIBLE ASSETS

	Licenses, other than related to O&G activity	Software	IA under development	Other IA	Total
As at 1 January 2012					
Cost	661,396	4,693,975	413,952	59,718	5,829,041
Amortization and impairment	(173,380)	(1,183,366)	(142,279)	(45,855)	(1,544,880)
Net book value	**488,016**	**3,510,609**	**271,673**	**13,863**	**4,284,161**
Three month period ended 31 March 2012					
Additions	3,378	9,872	533,591	-	546,841
Amortization	(19,532)	(145,650)	-	(1,185)	(166,367)
Transfer to PPE	-	-	(8,302)	-	(8,302)
Disposals and write-offs	-	-	1	-	1
Other transfers	-	(2,992)	-	2,992	-
	471,862	3,371,839	796,963	15,670	4,656,334
As at 31 March 2012					
Cost	664,774	4,685,417	939,242	78,148	6,367,581
Amortization and impairment	(192,912)	(1,313,578)	(142,279)	(62,478)	(1,711,247)
Net book value	**471,862**	**3,371,839**	**796,963**	**15,670**	**4,656,334**
As at 1 January 2013					
Cost	757,628	4,691,361	429,813	326,313	6,205,115
Amortization and impairment	(259,419)	(1,662,984)	(206,029)	(47,001)	(2,175,433)
Net book value	**498,209**	**3,028,377**	**223,784**	**279,312**	**4,029,682**
Three month period ended 31 March 2013					
Additions	18,381	536	16,525	4,696	40,138
Amortization	(25,202)	(97,861)	-	(50,851)	(173,914)
Transfer from PPE	-	-	23,614	-	23,614
Other transfers	-	(47,281)	-	47,281	-
	491,388	2,883,771	263,923	280,438	3,919,520
As at 31 March 2013					
Cost	776,008	4,691,899	469,952	331,009	6,268,868
Amortization and impairment	(284,620)	(1,808,128)	(206,029)	(50,571)	(2,349,348)
Net book value	**491,388**	**2,883,771**	**263,923**	**280,438**	**3,919,520**

12. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	31 March 2013	31 December 2012
Long - term loans issued – related parties	20,459,087	16,629,612
Other long term - placements	2,600,039	1,289,244
Available for sale financial assets	2,162,320	2,161,005
Less impairment provision	(2,024,697)	(2,041,068)
	23,196,749	**18,038,793**

13. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	31 March 2013	31 December 2012
Short-term loans	1,100,000	3,500,000
Interest liabilities	177,398	271,521
Other Short-term financial liabilities	85	474
Current portion of long-term loans (note 16)	5,745,532	5,822,690
Current portion of finance lease liabilities	34,947	36,144
	7,057,962	**9,630,829**

14. TRADE AND OTHER PAYABLES

	31 March 2013	31 December 2012
Trade payables		
- related parties	28,712,112	27,290,498
- third parties	6,578,075	8,236,228
Dividends payable	3,772,308	3,772,308
Other accounts payable	71,087	71,590
	39,133,582	**39,370,624**

As at 31 March 2013 payables to related parties amounting to 28,712,112 RSD (31 December 2012: 27,290,498 RSD) mainly relate to liabilities to the supplier Gazprom Neft Trading, Austria for the purchase of crude oil in the amount of 27.217.117 RSD (31 December 2012: 25,464,826 RSD).

15. OTHER CURRENT LIABILITIES

	31 March 2013	31 December 2012
Advances received	811,509	953,509
Payables to employees	3,082,160	3,404,025
Accruals and deferred income	31,714	36,440
Other current non-financial liabilities	9,009	9,496
	3,934,392	**4,403,470**

16. LONG-TERM DEBT

	31 March 2013	31 December 2012
Long-term loans - Gazprom Neft	53,375,088	55,536,845
Bank loans	35,965,435	31,254,805
Finance lease liabilities	47,858	57,626
Other long-term borrowings	1,209	1,209
Less Current portion	(5,780,479)	(5,858,834)
	83,609,111	**80,991,651**

(a) Long-term loans to Gazprom Neft

As at 31 March 2013 long-term loans - Gazprom Neft amounting to 53,375,088 RSD (476,744,192 EUR), with current portion of 5,207,326 RSD, relate to borrowings from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares concluded on 24 December 2008. Under this agreement, Gazprom Neft shall grant loans for financing a 500 million EUR reconstruction and modernization of the technology complex programme by 31 December 2012. The stated liabilities shall be settled in quarterly installments starting from December 2012 until 15 May 2023.

(b) Bank loans

	31 March 2013	31 December 2012
Domestic	13,581,483	14,627,940
Foreign	22,383,952	16,626,865
	35,965,435	31,254,805
Current portion of long-term loans	(538,206)	(533,466)
	35,427,229	**30,721,339**

The maturity of long-term loans was as follows:

	31 March 2013	31 December 2012
Between 1 and 2 years	22,371,277	22,184,094
Between 2 and 5 years	7,121,218	2,405,694
Over 5 years	5,934,734	6,131,551
	35,427,229	**30,721,339**

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

	31 March 2013	31 December 2012
USD	25,513,089	19,607,409
EUR	8,737,344	8,889,704
RSD	1,281,078	2,281,108
JPY	433,924	476,584
	35,965,435	**31,254,805**

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

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

The carrying amounts of the Company's long-term loans as at 31 March 2013 and 31 December 2012 are presented in the table below:

Creditor	Currency	31 March 2013	31 December 2012
Domestic long-term loans			
Erste bank, Novi Sad	USD	300,578	301,856
Erste bank, Novi Sad	EUR	453,476	469,403
Bank Postanska stedionica, Belgrade	EUR	226,400	236,111
Bank Postanska stedionica, Belgrade	USD	1,651,252	1,670,920
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,598,003	4,670,317
Vojvodjanska bank, Novi Sad	RSD	-	1,000,000
UniCredit bank, Belgrade	USD	5,070,696	4,998,225
UniCredit bank, Belgrade	RSD	1,278,900	1,278,900
Other loans	RSD	2,178	2,208
		13,581,483	**14,627,940**
Foreign long-term loans			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	561,876	565,419
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	433,924	476,584
Erste bank, Holland	EUR	3,358,725	3,411,549
Erste bank, Holland	USD	5,682,677	-
VUB (Bank Intesa), Slovakia	USD	8,742,580	8,617,630
NBG bank, London	USD	6,398	6,307
NBG bank, London	EUR	100,740	102,324
Alpha bank, London	USD	1,748,516	1,723,526
Piraeusbank, Great Britain	USD	1,748,516	1,723,526
		22,383,952	**16,626,865**
Less current portion of long-term loans		(538,206)	(533,466)
		35,427,229	**30,721,339**

		Currency portion		Long-term	
	Currency	31 March 2013	31 December 2012	31 March 2013	31 December 2012
Domestic long - term loans					
Erste bank, Novi Sad	USD	12,865	11,881	287,713	289,975
Erste bank, Novi Sad	EUR	19,132	18,169	434,344	451,234
Bank Postanska stedionica, Belgrade	EUR	13,003	12,586	213,397	223,525
Bank Postanska stedionica, Belgrade	USD	94,295	88,550	1,556,957	1,582,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	242,454	246,267	4,355,549	4,424,050
Vojvodjanska bank, Novi Sad	RSD	-	-	-	1,000,000
UniCredit bank, Belgrade	USD	-	-	5,070,696	4,998,225
UniCredit bank, Belgrade	RSD	-	-	1,278,900	1,278,900
Other loans	RSD	385	390	1,793	1,818
		382,134	**377,843**	**13,199,349**	**14,250,097**
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	29,914	27,790	531,962	537,629
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	19,020	19,202	414,904	457,382
Erste bank, Holland	EUR	-	-	3,358,725	3,411,549
Erste bank, Holland	USD	-	-	5,682,677	-
VUB (Bank Intesa), Slovakia	USD	-	-	8,742,580	8,617,630
NBG bank, London	USD	6,398	6,307	-	-
NBG bank, London	EUR	100,740	102,324	-	-
Alpha bank, London	USD	-	-	1,748,516	1,723,526
Piraeusbank, Great Britain	USD	-	-	1,748,516	1,723,526
		156,072	**155,623**	**22,227,880**	**16,471,242**
		538,206	**533,466**	**35,427,229**	**30,721,339**

17. 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 March 2013 and 31 December 2012 comprise of 163,060,400 number of shares.

18. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Three month period ended 31 March	
	2013	2012
Crude oil	22,826,540	16,074,509
Petroleum products	2,991,042	5,571,884
Other	41,335	30,637
	25,858,917	**21,677,030**

19. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 31 March	
	2013	2012
Employee costs	972,823	1,844,667
Materials and supplies (other than purchased oil, petroleum products and gas)	153,359	339,311
Repair and maintenance services	616,035	223,520
Electricity and utilities	319,750	199,869
Safety and security expense	63,696	93,935
Transportation services for production	12,273	17,542
Other	2,015,141	318,039
	4,153,077	**3,036,883**

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended 31 March	
	2013	2012
Employee costs	2,652,754	2,609,554
Charitable contributions	15,882	4,222
Legal, audit, and consulting services	214,245	94,465
Rent expense	35,892	24,626
Business trips expense	78,899	116,381
Safety and security expense	152,230	120,805
Insurance expense	43,437	46,560
Transportation and storage	224,796	89,479
Allowance for doubtful accounts	73,179	(322,235)
Other	1,100,496	469,224
	4,591,810	**3,253,081**

21. PERSONNEL COSTS

	Three month period ended 31 March	
	2013	2012
Wages and salaries	3,260,131	4,152,830
Employee benefits	217,352	112,888
Other costs	148,094	188,503
Total employee costs	**3,625,577**	**4,454,221**
Social security contributions (social taxes)	489,666	697,738
	4,115,243	**5,151,959**

22. CONTINGENT LIABILITIES

Finance Guarantees

As at 31 March 2013 the total amount of outstanding guarantees given by the Company amounted to 2,439,660 RSD mostly related to customs duties in the amount of 1,603,960 RSD (31 December 2012: 2,403,960 RSD).

Other contingent liabilities

As at 31 March 2013, the Company 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 Company has to pay the difference in tax calculation including interest of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Company's Management believes that, based on the concession agreements signed with Angola and an 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 Company'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 three years ago. Taking all of the above into consideration, the Company's Management is of the view that as at 31 December 2012 outflow of resources embodying economic benefits is remote 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.

23. RELATED PARTY TRANSACTIONS

The majority owner of the Company 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 Company.

In the three month period ended 31 March 2013 and in the same period in 2012, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, geophysical research and interpretation services.

As at 31 March 2013, 31 December 2012 the outstanding balances with related parties were as follows:

	Subsidiary	Parent	Entities under common control	Total
As at 31 March 2013				
Short-term financial assets	488,071	-	-	488,071
Trade and other receivables	999,767	-	2,881	1,002,648
Other current assets	94,670	-		94,670
Investments in subsidiaries	8,703,403	-	-	8,703,403
Long-term financial assets	23,002,627	-	-	23,002,627
Other non-current assets	264,193	-	-	264,193
Trade and other payables	(1,488,514)	-	(27,223,598)	(28,712,112)
Other current liabilities	(1,588)	-	-	(1,588)
Short-term debt and current portion of long-term debt	-	(5,207,326)	-	(5,207,326)
Long-term debt	-	(48,167,762)	-	(48,167,762)
	32,062,629	**(53,375,088)**	**(27,220,717)**	**(48,533,176)**
As at 31 December 2012				
Short-term financial assets	485,516	-	-	485,516
Trade and other receivables	1,804,049	-	4,960	1,809,009
Other current assets	68,453	-	20	68,473
Investments in subsidiaries	8,703,403	-	-	8,703,403
Long-term financial assets	17,840,666	-	-	17,840,666
Trade and other payables	(1,815,444)	-	(25,475,054)	(27,290,498)
Other current liabilities	(3,261)	-	-	(3,261)
Short-term debt and current portion of long-term debt	-	(5,404,426)	-	(5,404,426)
Long-term debt	-	(50,247,622)	-	(50,247,622)
	27,083,382	**(55,652,048)**	**(25,470,074)**	**(54,038,740)**

For the three month period ended 31 March 2013 and 2012 the following transaction occurred with related parties:

	Subsidiary	Parent	Entities under common control	Total
Three month period ended 31 March 2013				
Petroleum products and oil and gas sales	232,571	-	-	232,571
Other revenues	171,281	-	40,463	211,744
Purchases of oil, gas and petroleum products	(272,973)	-	(20,563,269)	(20,836,242)
Production and manufacturing expenses	(654,229)	(923)	(25,202)	(680,354)
Selling, general and administrative expenses	(145,997)	(7,218)	-	(153,215)
Transportation expenses	(1,467)	-	-	(1,467)
Exploration expenses	(22,986)	-	-	(22,986)
Other expenses, net	(2,484)	(4,437)	(43,472)	(50,393)
Other finance income	256,652	-	-	256,652
Other finance expense	-	(308,064)	-	(308,064)
	(439,632)	**(320,642)**	**(20,591,480)**	**(21,351,754)**

Three month period ended 31 March 2012				
Petroleum products and oil and gas sales	256,672	-	-	256,672
Other revenues	2,817	-	20,276	23,093
Purchases of oil, gas and petroleum products	-	-	(12,051,470)	(12,051,470)
Production and manufacturing expenses	(11,901)	(810)	(22,274)	(34,985)
Selling, general and administrative expenses	(42,517)	(11,236)	-	(53,753)
Other expenses, net	(1,400)	(4,664)	(11,137)	(17,201)
Other finance income	41,365	-	-	41,365
Other finance expenses	-	(61,804)	-	(61,804)
	245,036	**(78,514)**	**(12,064,605)**	**(11,898,083)**

Main balances and transactions with state owned companies:

	31 March 2013	31 December 2012
Receivables		
HIP Petrohemija	10,541,969	7,307,595
Srbijagas	23,158,233	23,573,467
	33,700,202	30,881,062
Liabilities		
HIP Petrohemija	(1,231,444)	(561,438)
Srbijagas	(121,620)	(554,138)
	(1,353,064)	(1,115,576)
Advances received		
HIP Petrohemija	(4,972)	(7,743)
Srbijagas	(12,806)	(12,806)
	(17,778)	(20,549)

	Three month period ended 31 March	
	2013	2012
Income from sales of goods		
HIP Petrohemija	7,315,142	1,511,745
Srbijagas	669,841	3,650,739
	7,984,983	5,162,484
Cost of purchased raw materials and services		
HIP Petrohemija	(30,142)	(46,252)
Srbijagas	(689,770)	(61,060)
	(719,912)	(107,312)

24. 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 Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Company has paid all tax liabilities as of 31 March 2013 .

25. EVENTS AFTER THE REPORTING DATE

No events after the reporting date were incurred.

STATEMENT OF PERSONS RESPONSIBLE FOR PREPARING OF QUARTERLY REPORT

We hereby state that, to our best knowledge, the interim financial reports have been made by applying the International Financial Reporting Standards and that they show true and objective data on the property, obligations and financial position and business, profits and losses, cash flows and changes in the capital of the public company.

Anton Fyodorov

CEO Deputy
Head of Function for Finance, Economics, Planning and Accounting

NIS a.d. Novi Sad