



**NIS A.D. – Naftna industrija Srbije
Novi Sad**

Financial Statements

31 December 2014

Novi Sad, 4 March 2015



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TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS

NIS A.D. NOVI SAD

We have audited the accompanying separate financial statements of NIS a.d. Novi Sad ("the Company"), which comprise the separate balance sheet as at 31 December 2014, the separate income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2014, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the accounting regulations effective in the Republic of Serbia.

Other Matter

The separate financial statements of the Company as at and for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 13 February 2014.

Belgrade, 4 March 2015

KPMG d.o.o. Beograd

(L.S.)

James Thornley
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Belgrade, 4 March 2015



KPMG d.o.o. Beograd


James Thornley
Certified Auditor

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Financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET

| ASSETS | Note | 31 December 2014 | 31 December 2013 |
|--|------|-----------------------------|-----------------------------|
| NON-CURRENT ASSETS | | | |
| INTANGIBLE ASSETS | | | |
| Development investments | | 3,833,140 | - |
| Concessions, licenses , software and other rights | | 3,066,380 | 3,374,462 |
| Other intangible assets | | 875,234 | 221,440 |
| Intangible assets under development | | 7,626,593 | 7,711,049 |
| Total Intangible assets | 6 | 15,401,347 | 11,306,951 |
| PROPERTY, PLANT AND EQUIPMENT | | | |
| Land | | 10,635,294 | 10,696,502 |
| Buildings | | 91,686,297 | 77,574,479 |
| Machinery and equipment | | 57,094,932 | 53,770,817 |
| Investment property | | 1,381,832 | 1,363,353 |
| Other Property, Plant and Equipment | | 74,918 | 74,923 |
| Construction in progress | | 31,077,657 | 28,436,705 |
| Investments in leased PP&E | | 368,703 | 33,984 |
| Advances for PP&E | | 1,600,023 | 4,131,032 |
| Total property, plant and equipment | 7 | 193,919,656 | 176,081,795 |
| LONG-TERM FINANCIAL INVESTMENTS | | | |
| Investments in subsidiaries | 8 | 7,556,021 | 7,556,543 |
| Investments in other legal entities and other available for sales financial assets | | 222,686 | 200,660 |
| Long-term investments in parent and subsidiaries | 9 | 32,574,154 | 28,952,744 |
| Other long-term financial investments | 10 | 1,161,911 | 1,095,409 |
| Total long-term investments | | 41,514,772 | 37,805,356 |
| LONG-TERM RECEIVABLES | | | |
| Receivables from parent company and subsidiaries | | - | 1,199,807 |
| Receivables arising out of finance lease contracts | | 12,044 | 11,433 |
| Total long-term receivables | | 12,044 | 1,211,240 |
| Total non-current assets | | 250,847,819 | 226,405,342 |
| DEFERRED TAX ASSETS | 11 | 7,834,155 | 9,776,709 |

(continued)

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Financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET (continued)

| ASSETS (continued) | Note | 31 December 2014 | 31 December 2013 |
|---|------|-----------------------------|-----------------------------|
| CURRENT ASSETS | | | |
| INVENTORY | | | |
| Materials, spare parts and tools | | 20,137,930 | 24,007,176 |
| Work in progress | | 5,755,021 | 4,782,796 |
| Finished goods | | 7,121,091 | 8,130,379 |
| Goods for sale | | 2,760,262 | 1,489,515 |
| Non-current assets held for sale | | - | 1,272,306 |
| Advances paid for inventory and services | | 387,863 | 451,725 |
| Total inventories | 12 | 36,162,167 | 40,133,897 |
| TRADE RECEIVABLES | | | |
| Domestic trade receivables - parents and subsidiaries | | 4,196,125 | 1,662,423 |
| Foreign trade receivables - parents and subsidiaries | | 1,394,526 | 1,640,985 |
| Domestic trade receivables – other related parties | | 13,004,338 | 12,284,032 |
| Foreign trade receivables - other related parties | | 36,398 | 3,537 |
| Trade receivables - domestic | | 34,232,201 | 39,182,566 |
| Trade receivables - foreign | | 1,229,572 | 858,743 |
| Total trade receivables | 13 | 54,093,160 | 55,632,286 |
| RECEIVABLES FROM SPECIFIC OPERATIONS | | 445,596 | 390,716 |
| OTHER RECEIVABLES | 14 | 3,784,621 | 1,142,314 |
| SHORT-TERM FINANCIAL INVESTMENTS | | | |
| Short-term loans and investments - parent companies and subsidiaries | | 4,337,886 | 2,384,428 |
| Short term loans - domestic | | 2,019 | 2,019 |
| Other short-term investments | | 2,205,567 | 2,146,583 |
| Total short-term financial investments | 15 | 6,545,472 | 4,533,030 |
| CASH AND CASH EQUIVALENTS | 16 | 5,338,023 | 5,180,154 |
| VALUE ADDED TAX | | - | 621,864 |
| PREPAYMENTS AND ACCRUED INCOME | 17 | 7,160,058 | 6,684,941 |
| Total current assets | | 113,529,097 | 114,319,202 |
| TOTAL ASSETS | | 372,211,071 | 350,501,253 |
| OFF-BALANCE SHEET ASSETS | 18 | 118,774,144 | 91,777,781 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| SHARE CAPITAL | 19 | 81,530,200 | 81,530,200 |
| UNREALIZED PROFIT FROM SECURITIES AND OTHER COMPREHENSIVE INCOME ITEMS | | 246,519 | 18,144 |
| UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPREHENSIVE INCOME ITEMS | | (176,664) | (173,368) |
| RETAIN EARNINGS | | | |
| Retained earnings from previous years | | 82,427,010 | 43,183,349 |
| Retained earnings from current year | | 30,559,237 | 52,324,366 |
| Total retained earnings | | 112,986,247 | 95,507,715 |
| Total equity | | 194,586,302 | 176,882,691 |

(continued)

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Financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET (continued)

| EQUITY AND LIABILITIES (continued) | Note | 31 December 2014 | 31 December 2013 |
|---|------|-----------------------------|-----------------------------|
| LONG-TERM PROVISIONS AND LIABILITIES | | | |
| LONG-TERM PROVISIONS | | | |
| Provision for environmental rehabilitation | | 7,454,505 | 7,474,615 |
| Provisions for employee benefits | | 639,717 | 3,326,056 |
| Provisions for litigations | | 596,293 | 726,764 |
| Total long-term provisions | 20 | 8,690,515 | 11,527,435 |
| LONG-TERM LIABILITIES | | | |
| Liabilities to parent companies and subsidiaries | | 42,194,756 | 45,323,621 |
| Long-term loans-domestic | | 6,761,523 | 6,571,376 |
| Long-term loans-foreign | | 43,655,208 | 8,730,340 |
| Other long-term liabilities | | 1,209 | 1,209 |
| Total long-term liabilities | 21 | 92,612,696 | 60,626,546 |
| Total long-term provisions and liabilities | | 101,303,211 | 72,153,981 |
| DEFERRED TAX LIABILITIES | 11 | 2,724,064 | 2,153,482 |
| SHORT-TERM FINANCIAL LIABILITIES | | | |
| Short-term loans and borrowings- domestic | | 8,600,082 | 300,000 |
| Other short-term liabilities | | 6,100,504 | 27,617,966 |
| Total short-term financial liabilities | 22 | 14,700,586 | 27,917,966 |
| ADVANCES RECEIVED | | 1,551,337 | 864,997 |
| TRADE PAYABLES | | | |
| Trade payables – parent and subsidiaries - domestic | | 2,845,130 | 1,022,184 |
| Trade payables – parent and subsidiaries – foreign | | 20,144,858 | 9,338,240 |
| Trade payables – other related parties - domestic | | 830,355 | 1,534,730 |
| Trade payables – other related parties - foreign | | 50,923 | 28,586,819 |
| Trade payables - domestic | | 5,654,892 | 7,664,202 |
| Trade payables - foreign | | 8,837,079 | 2,099,059 |
| Other operating liabilities | | 69,946 | 69,634 |
| Total trade payables | 23 | 38,433,183 | 50,314,868 |
| OTHER SHORT-TERM LIABILITIES | 24 | 8,700,483 | 7,756,617 |
| LIABILITIES FOR VAT | | 51,974 | - |
| LIABILITIES FOR OTHER TAXES | 25 | 7,113,998 | 10,047,563 |
| ACCRUED EXPENSES | 26 | 3,045,933 | 2,409,088 |
| Total short-term liabilities | | 73,597,494 | 99,311,099 |
| TOTAL EQUITY AND LIABILITIES | | 372,211,071 | 350,501,253 |
| OFF-BALANCE SHEET LIABILITIES | 18 | 118,774,144 | 91,777,781 |

The accompanying notes on pages 9 to 67 are an integral part of these financial statements.

Novi Sad, 4 March 2015

The person responsible for the
preparation of financial
statements

M.P.

Legal representative

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Financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

INCOME STATEMENT

| | Note | Year ended 31 December 2014 | 2013 |
|--|------|-----------------------------------|----------------------|
| OPERATING REVENUE | | | |
| INCOME FROM SALES OF GOODS | | | |
| Income from sales of goods to parent and subsidiaries on domestic market | | 115,822 | 131,854 |
| Income from sales of goods to parent and subsidiaries on foreign market | | 11,969 | 13,597 |
| Income from sales of goods to other related parties on domestic market | | - | 17 |
| Income from sales of goods to other related parties on foreign market | | 66,250 | - |
| Income from sales of goods on domestic market | | 7,645,677 | 8,991,033 |
| Income from sales of goods on foreign market | | 111,807 | 530,871 |
| Total income from sales of goods | | 7,951,525 | 9,667,372 |
| INCOME FROM SALES OF PRODUCTS AND SERVICES | | | |
| Income from sales of products and services to parent and subsidiaries on domestic market | | 1,312,669 | 1,356,653 |
| Income from sales of products and services to parent and subsidiaries on foreign market | | 8,902,506 | 4,430,394 |
| Income from sales of products and services to other related parties on domestic market | | 23,382,492 | 35,132,517 |
| Income from sales of products and services to other related parties on foreign market | | 2,142,288 | 92,553 |
| Income from sales of products and services - domestic | | 171,361,848 | 168,970,791 |
| Income from sales of products and services - foreign | | 32,421,206 | 32,564,449 |
| Total income from sales of products and services | | 239,523,009 | 242,547,357 |
| INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS | | | |
| | | 7,646 | 562 |
| OTHER OPERATING INCOME | | | |
| | | 138,402 | 138,295 |
| | 5 | 247,620,582 | 252,353,586 |
| OPERATING EXPENSES | | | |
| Cost of goods sold | | (7,050,529) | (9,390,494) |
| Work performed by the entity and capitalized | | 695,171 | 223,460 |
| Decrease in the value of finished goods and work in progress | | (37,064) | (3,103,205) |
| Cost of material | 27 | (137,510,676) | (130,276,000) |
| Cost of fuel and energy | | (2,894,032) | (2,290,456) |
| Employee benefits expense | 28 | (14,083,619) | (17,492,035) |
| Cost of production services | 29 | (13,867,297) | (12,112,152) |
| Depreciation, depletion and amortization | | (10,717,178) | (9,422,450) |
| Long-term provision expenses | 30 | (277,786) | (1,270,994) |
| Non-material expenses | 31 | (11,136,496) | (10,389,455) |
| Total operating expenses | | (196,879,506) | (195,523,781) |
| OPERATING PROFIT | | 50,741,076 | 56,829,805 |

(continued)

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Financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***INCOME STATEMENT (continued)**

| | Note | Year ended 31 December | |
|--|------|---------------------------|--------------------|
| | | 2014 | 2013 |
| FINANCE INCOME | | | |
| FINANCE INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME | | | |
| Finance income - parent company and subsidiaries | | 3,140,393 | 1,649,598 |
| Finance income - other related parties | | 121,643 | 1,651,018 |
| Other financial income | | 16,155 | 12,406 |
| | | <u>3,278,191</u> | <u>3,313,022</u> |
| INTEREST INCOME (from third parties) | | 4,196,347 | 5,451,340 |
| FOREIGN EXCHANGE GAINS (third parties) | | 1,253,609 | 6,064,610 |
| Total finance income | 32 | <u>8,728,147</u> | <u>14,828,972</u> |
| FINANCE EXPENSE | | | |
| FINANCE EXPENSE FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES | | | |
| Finance expense - parent company and subsidiaries | | (4,458,188) | (1,651,793) |
| Finance expense - other related parties | | (2,837,377) | (565,999) |
| Other financial expense | | (347) | (44) |
| | | <u>(7,295,912)</u> | <u>(2,217,836)</u> |
| INTEREST EXPENSE (from third parties) | | (2,327,011) | (2,371,952) |
| FOREIGN EXCHANGE LOSS (third parties) | | (10,128,617) | (5,092,619) |
| Total finance expense | 33 | <u>(19,751,540)</u> | <u>(9,682,407)</u> |
| PROFIT/(LOSS) FROM FINANCING OPERATIONS | | <u>(11,023,393)</u> | <u>5,146,565</u> |
| INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS | 34 | 969,640 | 1,347,595 |
| LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS | 35 | (5,850,648) | (5,276,931) |
| OTHER INCOME | 36 | 4,243,334 | 3,001,972 |
| OTHER EXPENSE | 37 | (2,623,125) | (2,739,681) |
| PROFIT BEFORE INCOME TAX | | <u>36,456,884</u> | <u>58,309,325</u> |
| Current income tax | 38 | (3,421,124) | (6,185,819) |
| Deffered tax (expenses) income | 38 | (2,476,523) | 200,860 |
| PROFIT FOR THE YEAR | | <u>30,559,237</u> | <u>52,324,366</u> |
| EARNINGS PER SHARE | | | |
| - Basic | 39 | 0.187 | 0.321 |

The accompanying notes on pages 9 to 67 are an integral part of these financial statements.

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Financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF OTHER COMPREHENSIVE INCOME

| | Note | Year ended 31 December 2014 | 2013 |
|--|------|-----------------------------------|-------------------|
| NET PROFIT | | 30,559,237 | 52,324,366 |
| OTHER COMPREHENSIVE PROFIT OR LOSS | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Changes in fair value of intangible assets, property, plant and equipment | | | |
| - increase in revaluation reserves | | - | - |
| - decrease in revaluation reserves | | - | (12) |
| | | - | (12) |
| Actuarial gains (losses) of post employment benefit obligations | | | |
| - gains | | 207,471 | - |
| - losses | | - | (95,339) |
| | | 207,471 | (95,339) |
| <i>Items that may be subsequently reclassified to profit or loss</i> | | | |
| Gains (losses) from change in value of available-for-sale financial assets | | | |
| - gains | | 20,904 | 14,643 |
| - losses | | (3,296) | - |
| | | 17,608 | 14,643 |
| Other comprehensive profit/(loss) before tax | | 225,079 | (80,708) |
| Other comprehensive profit/(loss) tax | | - | - |
| Net other comprehensive profit/(loss) | | 225,079 | (80,708) |
| TOTAL COMPREHENSIVE INCOME | | | |
| - attributable to shareholders | | 30,784,316 | 52,243,658 |

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Financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF CASH FLOWS

| | Year ended 31 December | |
|---|-----------------------------------|----------------------|
| | 2014 | 2013 |
| Cash flows from operating activities | | |
| Sales and advances received | 409,472,731 | 387,768,902 |
| Interest from operating activities | 962,113 | 902,936 |
| Other inflow from operating activities | 138,402 | 138,859 |
| Cash inflow from operating activities | 410,573,246 | 388,810,697 |
| Payments and prepayments to suppliers | (192,056,661) | (154,525,550) |
| Salaries, benefits and other personal expenses | (13,368,470) | (18,782,016) |
| Interest paid | (3,093,168) | (2,944,779) |
| Income tax paid | (8,677,046) | (4,072,193) |
| Payments for other public revenues | (144,081,301) | (135,160,478) |
| Cash outflow from operating activities | (361,276,646) | (315,485,016) |
| Net cash from operating activities | 49,296,600 | 73,325,681 |
| Cash flows from investing activities | | |
| Proceeds from sale of property, plant and equipment | 259,590 | 204,087 |
| Other financial investments | 12,130,994 | 854,734 |
| Cash inflow from investing activities | 12,390,584 | 1,058,821 |
| Purchase of shares (net outflow) | - | (26,306) |
| Purchase of intangible assets, property, plant and equipment | (39,690,306) | (50,466,441) |
| Other financial investments (net outflow) | (16,571,111) | (13,532,079) |
| Cash outflow from investing activities | (56,261,417) | (64,024,826) |
| Net cash used in investing activities | (43,870,833) | (62,966,005) |
| Cash flows from financing activities | | |
| Proceeds from long-term borrowings | 23,824,820 | 12,756,382 |
| Proceeds from short-term borrowings | 16,877,570 | 9,240,000 |
| Cash inflow from financing activities | 40,702,390 | 21,996,382 |
| Repayment of long-term borrowings (net outflow) | (24,397,660) | (10,784,309) |
| Repayment of short-term borrowings (net outflow) | (8,967,374) | (12,440,000) |
| Dividend paid | (13,080,705) | (12,364,129) |
| Cash outflow from financing activities | (46,445,739) | (35,588,438) |
| Net cash used in financing activities | (5,743,349) | (13,592,056) |
| Net cash outflow | (317,582) | (3,232,380) |
| Cash and cash equivalents at the beginning of the year | 5,180,154 | 8,311,264 |
| Currency translation gains on cash | 475,451 | 101,270 |
| Cash and cash equivalents at the end of the year | 5,338,023 | 5,180,154 |

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Financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

| | Equity components | | | Other comprehensive income components | | | Total Equity |
|---------------------------------------|-------------------|----------|---------|---------------------------------------|----------------------|-----------------------|--------------|
| | Share capital | Reserves | Loss | Retained earnings | Revaluation reserves | Actuarial gain (loss) | |
| Balance as at 1 January 2013 | | | | | | | |
| a) debit | - | - | 396,287 | - | - | - | 74,528 |
| b) credit | 87,128,024 | 889,424 | - | 49,456,516 | 12 | - | - |
| Changes in period | | | | | | | |
| a) debit | 5,597,824 | 889,424 | - | 12,760,418 | 12 | 95,339 | - |
| b) credit | - | - | 396,287 | 58,811,617 | - | - | 14,643 |
| Balance as at 31 December 2013 | | | | | | | |
| a) debit | - | - | - | - | - | 95,339 | 59,885 |
| b) credit | 81,530,200 | - | - | 95,507,715 | - | - | - |
| Changes in period | | | | | | | |
| a) debit | - | - | - | 13,080,705 | - | - | 3,296 |
| b) credit | - | - | - | 30,559,237 | - | 207,471 | 20,904 |
| Balance as at 31 December 2014 | | | | | | | |
| a) debit | - | - | - | 112,986,247 | - | - | 42,277 |
| b) credit | 81,530,200 | - | - | 112,986,247 | - | 112,132 | - |

The accompanying notes on pages 9 to 67 are an integral part of these financial statements.

Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

1. GENERAL INFORMATION

NIS a.d. – Naftna Industrija Srbije, Novi Sad (hereinafter “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 the Government of the Republic of Serbia on 7 July 2005 as a successor of five state owned companies of *Javno Preduzece Naftna Industrija Srbije*. On 2 February 2009, OAO Gazprom Neft (“Gazprom Neft”) acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011, under the Company’s Share Sale and Purchase Agreement, Gazprom Neft acquired additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%.

The Company is an open joint stock company listed on the Belgrade Stock Exchange, Listing A (Prime Market). The address of the Company’s registered office is in Novi Sad, 12 Narodnog fronta Street.

These financial statements have been approved and authorized for issue by CEO and will be presented to shareholders on the General meeting for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the financial statements for the year ended 31 December 2013.

2.1. Basis of preparation

These financial statements for the year ended 31 December 2014 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS :

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

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

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.1. Basis of preparation (continued)**

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

2.2. New accounting standards

The following standards have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the Company:

- Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's financial statements.
- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Company has applied the amendment and there has been no significant impact on the Company financial statements as a result.
- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized.
- Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Company.

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**2.18. 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.

2.19. Off-balance sheet assets and liabilities

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

2.20. Share capital

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

2.21. 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 (note 39).

2.22. Provisions

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

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

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

Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.23. Borrowings**

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

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

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

2.24. Trade payables

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

2.25. Current and deferred income tax

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

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

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

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

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.25. Current and deferred income tax (continued)**

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

2.26. Employee benefits*(a) Pension obligations*

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

(b) Employee benefits provided by the Collective Agreement

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

(c) Bonus plans

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

In 2011, the Company started setting-up a long-term incentive program for Company's managers. Following the program's approval, cash incentives will be settle based on the Key Performance Indicators ("KPI") reached over a three-year period. At the end of 2014 Company made decision to introduce new one-year incentive program (note 20).

Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**2.27. Revenue recognition**

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

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

(a) Sales of goods – wholesale

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

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

(b) Sales – retail

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

(c) 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.

Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.28. Leases

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

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

(a) Right of use of land

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

2.29. 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.

2.30. 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.

Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

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

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

3.1. Estimation of Oil and Gas Reserves

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

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

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

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

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

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)****3.2. Useful Lives of Property, Plant and Equipment**

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

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2014 would be to increase/decrease it by RSD 984,249 (2013: RSD 870,202).

3.3. Employee benefits

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

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

If the discount rate used to calculate the present value of employee benefit obligations had been 7.75% (rather than 6.75%) per year, the past service liability (DBO) would decrease by approx. 10.9% for retirement indemnity and 6.2% for jubilee awards. If the employee salaries were to increase by 4% for 2015 and 3.5% for the financial years from 2016 onwards (rather than 3% for 2015 and 2.5% for the financial years from 2016 onwards) per year, the past service liability (DBO) would increase by approx. 12.8% for retirement indemnity and 6.7% for jubilee awards.

3.4. Decommissioning Obligations (asset retirement obligation and environmental protection)

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.

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)**3.4. Decommissioning Obligations (asset retirement obligation and environmental protection) (continued)**

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

If the discount rate used to calculate the present value of decommissioning obligations had been 7.75% (rather than 6.75%) per year, the present liability would have decreased by approx. RSD 481,611 (2013: RSD 418,137).

3.5. Contingencies

Certain conditions may exist as of the date of these Financial Statements are issued that may result in a loss to the Company, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 42).

Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.2. New accounting standards (continued)**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.
- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Company is assessing the impact of IFRS 15.

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

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.3. Segment reporting**

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

2.4. Seasonality of Operations

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

2.5. Foreign currency translation*(a) Functional and presentation currency*

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

(b) Transactions and balances

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

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

2.6. Intangible assets*(a) Licenses and rights (concessions)*

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

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

(b) Computer software

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

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

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**2.7. Exploration for and evaluation of mineral resources****(a) Exploration and evaluation expenditure**

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

(b) Development costs of fixed and intangible assets

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

(c) Oil and gas production assets

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

(d) Depreciation/amortization

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

(e) Impairment – exploration and evaluation assets

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

Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.7. Exploration for and evaluation of mineral resources (continued)***(f) Impairment – proved oil and gas properties and intangible assets*

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

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

2.8. Property, plant and equipment

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

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

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

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

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

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

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

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**2.9. Impairment of non-financial assets**

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

2.10. Investment property

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

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

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

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

2.11. Investments in subsidiaries

Investments in subsidiaries are measured using the cost method, whereby these investments are recognized at cost without any changes in the value of investments originating from results. If there are indications that the value of investment has decreased at the reporting date, the assessment of the recoverable value of investment is being performed.

If the recoverable value is less than the book value, the book value is reduced to its recoverable value and impairment loss of investment is recognized as expense.

Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.12. Joint arrangements**

The Company has applied IFRS 11 to all joint arrangements from 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. Company has assessed the nature of its joint arrangements and determined them to be joint operations where joint operator accounts for its share of the assets, liabilities, revenue and expenses.

2.13. Business combinations

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

2.14. Long-term financial assets

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

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

2.14.1. Financial assets classification**(a) Loans and receivables**

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

(b) Available for sale financial assets

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

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.14. Long-term financial assets (continued)

2.14.2. Recognition and measurement

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

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

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Company's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to fair value measurement gains (losses) in profit or loss for the year (notes 34 and 35).

2.14.3. Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.14. Long-term financial assets (continued)****2.14.3. Impairment of financial assets (continued)***(a) Assets carried at amortised cost (continued)*

- The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - Adverse changes in the payment status of borrowers in the portfolio; and
 - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

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

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

(b) Assets classified as available for sale

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

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.15. Inventories**

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

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

The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as Other expense (note 37).

2.16. 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.

2.17. Trade receivables

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

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'loss from valuation of assets at fair value through profit and loss' (note 35). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to 'income from valuation of assets at fair value through profit and loss' in the income statement (note 34).

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)****3.6. Economic Environment in the Russian Federation**

In July-September 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Company.

The U.S. sanctions prohibit any U.S. person, and U.S. incorporated entities (including their foreign branches) or any person or entity in the United States from:

- transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity for a number of Russian energy companies, and
- from providing, exporting, or re-exporting, directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deep water, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory to Russian companies. These sanctions also apply to any entity if 50% or more of its capital is owned, directly or indirectly, separately or in the aggregate, by sanctioned entities.

The EU sanctions, imposed in July and September 2014, prohibit:

- purchasing, selling, providing investment services for or assistance in the issuance of, or other dealings with transferable securities, money-market instruments and new loans or credit with a maturity exceeding 30 days, issued by / extended to a number of Russian companies, and any legal person, entity or body established outside the Union which are directly or indirectly owned for more than 50% by parent company of the Company, including all entities that comprise NIS Group.

Although sanctions were imposed had an impact on the restructuring of the loan portfolio, the Company has successfully completed the restructuring process without significant additional costs.

The Company continues to assess the impact of the sanctions but currently does not believe they have a significant impact on the Financial Statements.

3.7. Impact of recent crude oil volatility

In the line with recent significant changes in crude oil prices on world oil markets, which occurred in late 2014 and which continued into 2015, management of the company undertook, in January 2015, a detailed stress sensitivity analysis of the potential impact of the identified price reductions upon the prospective performance of the business and the potential recoverability of relevant assets, for the period up to 31 December 2015.

The stress sensitivity analysis was based on various scenarios built around recent and reasonably expected prospective world crude oil prices, as estimated by reference to internal and external industry reference sources. The results of the analysis lead management to believe that, as of the date of approving these financial statements:

- It is appropriate to adopted the going concern basis of reporting as at 31 December 2014
- The changes in crude oil prices are short term in the nature. As such, when combined with the Company's operational characteristics the recent oil price changes were not considered as an asset impairment indicators as of the balance sheet date or the date of issuance of these financial statements.

Management will continue to monitor the crude oil price and its influence on business performance in order to mitigate the impact if the negative trends, outside the range of expectation, occur.

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***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 and cash flow interest rate risk), credit risk, liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses financial instruments to hedge certain risk exposures.

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

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

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

Foreign exchange risk

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

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

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

As at 31 December 2014, if the currency had strengthened /weakened by 15% against the EUR with all other variables held constant, pre-tax profit for the year would have been RSD 2,699,467 (2013: RSD 3,733,047) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2014, if the currency had strengthened /weakened by 15% against the USD with all other variables held constant, pre-tax profit for the year would have been RSD 10,971,164 (2013: RSD 9,042,186) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated borrowings and trade payables.

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***4. FINANCIAL RISK MANAGEMENT (continued)****4.1. Financial risk factors (continued)***Cash flow and fair value interest rate risk*

As at 31 December 2014, the Company approved to its majority-owned foreign subsidiaries subordinated loans as a means of financing business activities abroad. These loans were approved with the variable interest rate (Euribor). If the interest rates on approved loans had been 1% higher/lower with all other parameters unchanged, net result before tax for the year 2014 would have been RSD 274,817 (2013: RSD 221,636) higher/lower.

Borrowings withdrawn at variable interest rates expose the Company to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Company to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (Euribor or Libor) has a proportionate impact on the Company's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2014 would have been RSD 1,048,789 (2013: RSD 833,518) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Credit risk is managed on the Company's level basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, intercompany loans issued to overseas and to domestic subsidiaries, 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, if it is bank with who the Company has passive activities the second criterion is applied and if it is a bank with who Company doesn't have cooperation, credit limits are determined based on the defined methodology.

Liquidity risk

Cash flow forecasting is performed as aggregated at the Company's level. The Company's finance function monitors rolling forecasts of the Company's liquidity requirements to ensure It has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all 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.

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

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

Liquidity risk (continued)

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

| As at 31 December 2014 | Less than 1 year | 1 - 5 years | Over 5 years | Total |
|---|-----------------------------|------------------------|-------------------------|--------------------|
| Borrowings (short-term, current portion and long-term debt) | 17,143,534 | 74,506,758 | 26,112,192 | 117,762,484 |
| Trade payables | 38,433,183 | - | - | 38,433,183 |
| | 55,576,717 | 74,506,758 | 26,112,192 | 156,195,667 |
| As at 31 December 2013 | Less than 1 year | 1 - 5 years | Over 5 years | Total |
| Borrowings (short-term, current portion and long-term debt) | 30,165,075 | 36,445,238 | 31,056,498 | 97,666,811 |
| Trade payables | 50,314,868 | - | - | 50,314,868 |
| | 80,479,943 | 36,445,238 | 31,056,498 | 147,981,679 |

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, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

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

| | 31 December 2014 | 31 December 2013 |
|---|-----------------------------|-----------------------------|
| Total borrowings (notes 21 and 22) | 107,313,282 | 88,544,512 |
| Less: cash and cash equivalents (note 16) | (5,338,023) | (5,180,154) |
| Net debt | 101,975,259 | 83,364,358 |
| EBITDA | 64,391,138 | 69,417,881 |
| Net debt to EBITDA | 1.58 | 1.20 |

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Capital risk management (continued)

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

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

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 the years ended 31 December 2014 and 2013. Operating segments are components that engaged in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The 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 oil into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre expenses are presented within the Downstream segment.

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

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

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

5. SEGMENT INFORMATION (continued)

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

| | <u>Upstream</u> | <u>Downstream</u> | <u>Eliminations</u> | <u>Total</u> |
|--|-------------------|---------------------|---------------------|-------------------|
| Segment revenue | 80,403,331 | 244,940,926 | (77,723,675) | 247,620,582 |
| Intersegment | 76,539,271 | 1,184,404 | (77,723,675) | - |
| External | 3,864,060 | 243,756,522 | - | 247,620,582 |
| EBITDA (Segment results) | 66,929,689 | (2,538,551) | - | 64,391,138 |
| Depreciation, depletion and amortization | (3,028,837) | (7,688,341) | - | (10,717,178) |
| Impairment losses (reversal) (notes 36 and 37) | (25,798) | 611,902 | - | 586,104 |
| Finance expenses, net | (103,288) | (10,920,105) | - | (11,023,393) |
| Income tax | (501,736) | (5,395,911) | - | (5,897,647) |
| Segment profit (loss) | 62,621,462 | (32,062,225) | - | 30,559,237 |

Reportable segment results for the year ended 31 December 2013 are shown in the table below:

| | <u>Upstream</u> | <u>Downstream</u> | <u>Eliminations</u> | <u>Total</u> |
|--|-------------------|---------------------|---------------------|-------------------|
| Segment revenue | 88,394,589 | 248,759,012 | (84,800,015) | 252,353,586 |
| Intersegment | 84,664,912 | 135,103 | (84,800,015) | - |
| External | 3,729,677 | 248,623,909 | - | 252,353,586 |
| EBITDA (Segment results) | 77,164,720 | (7,746,839) | - | 69,417,881 |
| Depreciation, depletion and amortization | (2,354,684) | (7,067,766) | - | (9,422,450) |
| Impairment losses (notes 36 and 37) | (106,653) | (84,059) | - | (190,712) |
| Finance income (expenses), net | (416,245) | 5,562,810 | - | 5,146,565 |
| Income tax | - | (5,984,959) | - | (5,984,959) |
| Segment profit (loss) | 73,309,289 | (20,984,923) | - | 52,324,366 |

EBITDA for the year ended 31 December 2014 and 2013 is reconciled below:

| | <u>Year ended 31 December</u> | |
|---|-----------------------------------|-------------------|
| | <u>2014</u> | <u>2013</u> |
| Profit for the year | 30,559,237 | 52,324,366 |
| Income tax expenses | 5,897,647 | 5,984,959 |
| Other expenses | 2,623,125 | 2,739,681 |
| Other income | (4,243,334) | (3,001,972) |
| Loss from valuation of assets at fair value through profit and loss | 5,850,648 | 5,276,931 |
| Income from valuation of assets at fair value through profit and loss | (969,640) | (1,347,595) |
| Finance expense | 19,751,540 | 9,682,407 |
| Finance income | (8,728,147) | (14,828,972) |
| Depreciation, depletion and amortization | 10,717,178 | 9,422,450 |
| Other non-operating expenses | 2,932,884 | 3,165,626 |
| EBITDA | 64,391,138 | 69,417,881 |

*Other non-operating expense, net mainly relate to reversal of impairment, fines, penalties and other.

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

5. SEGMENT INFORMATION (continued)

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

| | Year ended 31 December 2014 | | |
|---------------------------------|-----------------------------|--------------------------------|--------------------|
| | Domestic market | Export and international sales | Total |
| Sale of crude oil | - | 3,605,885 | 3,605,885 |
| Sale of gas | 3,757,787 | - | 3,757,787 |
| <i>Through a retail network</i> | - | - | - |
| <i>Wholesale activities</i> | 3,757,787 | - | 3,757,787 |
| Sale of petroleum products | 195,001,420 | 39,842,087 | 234,843,507 |
| <i>Through a retail network</i> | 61,771,841 | - | 61,771,841 |
| <i>Wholesale activities</i> | 133,229,579 | 39,842,087 | 173,071,666 |
| Other sales | 5,197,704 | 215,699 | 5,413,403 |
| Total sales | 203,956,911 | 43,663,671 | 247,620,582 |

| | Year ended 31 December 2013 | | |
|---------------------------------|-----------------------------|--------------------------------|--------------------|
| | Domestic market | Export and international sales | Total |
| Sale of crude oil | - | 3,550,090 | 3,550,090 |
| Sale of gas | 3,918,192 | - | 3,918,192 |
| <i>Through a retail network</i> | - | - | - |
| <i>Wholesale activities</i> | 3,918,192 | - | 3,918,192 |
| Sale of petroleum products | 206,159,963 | 34,007,648 | 240,167,611 |
| <i>Through a retail network</i> | 65,049,672 | - | 65,049,672 |
| <i>Wholesale activities</i> | 141,110,291 | 34,007,648 | 175,117,939 |
| Other sales | 4,643,568 | 74,125 | 4,717,693 |
| Total sales | 214,721,723 | 37,631,863 | 252,353,586 |

Out of the amount of RSD 173,071,666 (2013: RSD 175,117,939) revenue from sale of petroleum products (wholesale), the amount of RSD 23,382,492 (2013: RSD 35,132,534) are derived from a single domestic customer, HIP Petrohemija (note 41). These revenues are attributable to wholesale activities within Downstream segment.

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

Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***5. SEGMENT INFORMATION (continued)**

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 203,956,911 (2013: RSD 214,721,723), and the total of revenue from external customer from other countries is RSD 43,663,671 (2013: RSD 37,631,863). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

| | Year ended 31 December | |
|---|--------------------------|--------------------------|
| | 2014 | 2013 |
| Sale of crude oil | 3,605,885 | 3,550,090 |
| Sale of petroleum products (retail and wholesale) | | |
| Bulgaria | 6,820,153 | 5,154,969 |
| Bosnia and Herzegovina | 5,142,090 | 4,449,974 |
| Romania | 4,562,293 | 2,860,204 |
| All other markets | 23,317,551 | 21,542,501 |
| | <u>39,842,087</u> | <u>34,007,648</u> |
| Other sales | 215,699 | 74,125 |
| | <u>43,663,671</u> | <u>37,631,863</u> |

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

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

6. INTANGIBLE ASSETS

| | Development investments | Concessions, patents, licenses, software and other rights | Other intangibles | Intangible assets under development | Total |
|---|-------------------------|---|-------------------|-------------------------------------|-------------------|
| At 1 January 2013 | | | | | |
| Cost | - | 5,662,500 | 326,313 | 4,583,997 | 10,572,810 |
| Accumulated amortisation and impairment | - | (1,987,343) | (47,001) | (313,788) | (2,348,132) |
| Net book amount | - | 3,675,157 | 279,312 | 4,270,209 | 8,224,678 |
| Year ended 31 December 2013 | | | | | |
| Additions | - | 341,044 | 7,999 | 3,396,889 | 3,745,932 |
| Impairment | - | - | - | (24,347) | (24,347) |
| Amortisation | - | (605,480) | (114,949) | - | (720,429) |
| Transfer from PP&E (note 7) | - | - | - | 149,366 | 149,366 |
| Disposals and write-off | - | - | - | (81,068) | (81,068) |
| Other transfer | - | (36,259) | 49,078 | - | 12,819 |
| Closing net book amount | - | 3,374,462 | 221,440 | 7,711,049 | 11,306,951 |
| As at 31 December 2013 | | | | | |
| Cost | - | 6,000,613 | 333,465 | 7,799,147 | 14,133,225 |
| Accumulated amortisation and impairment | - | (2,626,151) | (112,025) | (88,098) | (2,826,274) |
| Net book amount | - | 3,374,462 | 221,440 | 7,711,049 | 11,306,951 |
| At 1 January 2014 | | | | | |
| Cost | - | 6,000,613 | 333,465 | 7,799,147 | 14,133,225 |
| Accumulated amortisation and impairment | - | (2,626,151) | (112,025) | (88,098) | (2,826,274) |
| Net book amount | - | 3,374,462 | 221,440 | 7,711,049 | 11,306,951 |
| Year ended 31 December 2014 | | | | | |
| Additions | 3,873,220 | 542,491 | 637,828 | (1,238,552) | 3,814,987 |
| Amortisation | (40,079) | (798,078) | (36,530) | - | (874,687) |
| Transfer from PP&E (note 7) | - | - | - | 1,213,430 | 1,213,430 |
| Disposals and write-off | - | - | - | (59,334) | (59,334) |
| Other transfers | (1) | (52,495) | 52,496 | - | - |
| Closing net book amount | 3,833,140 | 3,066,380 | 875,234 | 7,626,593 | 15,401,347 |
| As at 31 December 2014 | | | | | |
| Cost | 3,873,219 | 6,494,640 | 971,770 | 7,714,691 | 19,054,320 |
| Accumulated amortisation and impairment | (40,079) | (3,428,260) | (96,536) | (88,098) | (3,652,973) |
| Net book amount | 3,833,140 | 3,066,380 | 875,234 | 7,626,593 | 15,401,347 |

Development investments as at 31 December 2014 in the amount of RSD 3,833,140 mostly relate to investments in geological, 2D and 3D seismic explorations on the territory of the Republic of Serbia (2013: RSD 0).

Concessions, patents, licenses, software and other rights as at 31 December 2014 amounting to RSD 3,066,380 mostly relate to investments in the SAP system of RSD 2,011,495 (2013: RSD 2,563,713).

Intangible assets under development as at 31 December 2014 amounting to RSD 7,626,593 (31 December 2013: RSD 7,711,049) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 6,009,662 (31 December 2013: RSD 6,557,429)

Amortisation amounting to RSD 874,687 (2013: RSD 720,429) is included in Operating expenses.

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

| | Land | Buildings | Machinery and equipment | Construction in Progress | Other PP&E | Investments in leased PP&E | Advances to suppliers | Total |
|--|-------------------|-------------------|-------------------------|--------------------------|---------------|----------------------------|-----------------------|--------------------|
| At 1 January 2013 | | | | | | | | |
| Cost | 11,239,442 | 87,204,602 | 83,980,139 | 22,573,044 | 76,173 | 110,630 | 2,426,047 | 207,610,077 |
| Accumulated depreciation and impairment | (692,797) | (26,142,357) | (31,184,643) | (4,938,057) | (1,135) | (110,630) | (21,418) | (63,091,037) |
| Net book amount | 10,546,645 | 61,062,245 | 52,795,496 | 17,634,987 | 75,038 | - | 2,404,629 | 144,519,040 |
| Year ended 31 December 2013 | | | | | | | | |
| Additions | 222,046 | 16,186,415 | 10,609,227 | 13,292,711 | - | 35,773 | 11,540,954 | 51,887,126 |
| Impairment charge (note 37) | - | (232,285) | (15,856) | (61,826) | (101) | - | (8,206) | (318,274) |
| Depreciation | - | (3,663,672) | (5,036,560) | - | - | (1,789) | - | (8,702,021) |
| Transfer to intangible assets (note 6) | - | - | - | (149,366) | - | - | - | (149,366) |
| Transfer from investment property | (3,696) | 17,689 | - | (11,248) | - | - | - | 2,745 |
| Transfer to non-current assets held for sale | (68,493) | (246,183) | (118,414) | (1,272,306) | - | - | - | (1,272,306) |
| Disposals and write-off | - | 4,450,270 | (4,463,076) | (996,247) | - | - | (9,806,266) | (11,235,603) |
| Other transfers | - | - | - | - | (14) | - | (79) | (12,899) |
| Closing net book amount | 10,696,502 | 77,574,479 | 53,770,817 | 28,436,705 | 74,923 | 33,984 | 4,131,032 | 174,718,442 |
| At 31 December 2013 | | | | | | | | |
| Cost | 11,000,724 | 110,567,629 | 84,882,738 | 32,480,853 | 76,135 | 56,038 | 4,160,931 | 243,225,048 |
| Accumulated depreciation and impairment | (304,222) | (32,993,150) | (31,111,921) | (4,044,148) | (1,212) | (22,054) | (29,899) | (68,506,606) |
| Net book amount | 10,696,502 | 77,574,479 | 53,770,817 | 28,436,705 | 74,923 | 33,984 | 4,131,032 | 174,718,442 |
| Year ended 31 December 2014 | | | | | | | | |
| Additions | 15,507 | 18,819,254 | 8,564,557 | 3,270,469 | - | 344,388 | 4,815,603 | 35,829,778 |
| Acquisitions through business combinations | - | - | - | 788,129 | - | - | - | 788,129 |
| Impairment charge (note 37) | (29,907) | 54,028 | (25,210) | (33,294) | (49) | - | - | (34,432) |
| Depreciation | - | (4,837,403) | (4,995,419) | - | - | (9,669) | - | (9,842,491) |
| Transfer to intangible assets (note 6) | (8,190) | 61,445 | - | (1,213,430) | - | - | - | (1,213,430) |
| Transfer from investment property | (39,494) | (129,794) | (74,954) | (170,922) | (32) | - | - | 53,255 |
| Disposals and write-off | 876 | 144,288 | (144,859) | - | 76 | - | (7,346,612) | (7,761,808) |
| Other transfers | - | - | - | - | - | - | - | 381 |
| Closing net book amount | 10,635,294 | 91,686,297 | 57,094,932 | 31,077,657 | 74,918 | 368,703 | 1,600,023 | 192,537,824 |
| At 31 December 2014 | | | | | | | | |
| Cost | 10,969,423 | 129,367,760 | 92,244,112 | 33,860,460 | 76,768 | 400,426 | 1,629,280 | 268,548,229 |
| Accumulated depreciation and impairment | (334,129) | (37,681,463) | (35,149,180) | (2,782,803) | (1,850) | (31,723) | (29,257) | (76,010,405) |
| Net book amount | 10,635,294 | 91,686,297 | 57,094,932 | 31,077,657 | 74,918 | 368,703 | 1,600,023 | 192,537,824 |

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

a) Property, plant and equipment carried at cost (continued)

In 2014, the Company capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 69,900 (2013: RSD 91,300).

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

| | <u>31 December 2014</u> | <u>31 December 2013</u> |
|-----------------------------------|-----------------------------|-----------------------------|
| Cost capitalised – finance leases | 149,696 | 149,696 |
| Accumulated depreciation | <u>(77,343)</u> | <u>(62,373)</u> |
| Net book amount | <u>72,353</u> | <u>87,323</u> |

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

As at 31 December 2014, the Company assessed impairment indicators of cash generating units (“CGU”) and concluded that general indications of impairment does not exist. In addition Company has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 34,432 (2013: RSD 318,274).

b) Investment property – carried at fair value

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

Movements on the account were as follows:

| | <u>2014</u> | <u>2013</u> |
|--|-------------------------|-------------------------|
| As at 1 January | 1,363,353 | 1,316,069 |
| Additions | 817 | 150 |
| Fair value gains (note 36) | 164,761 | 151,936 |
| Transfer to PP&E carried at cost | (53,255) | (2,745) |
| Transfer to non-current assets held for sale | - | 6,424 |
| Disposals | (93,463) | (108,481) |
| Other | (381) | - |
| As at 31 December | <u>1,381,832</u> | <u>1,363,353</u> |

As at 31 December 2014, investment properties amounting to RSD 1,381,832 (31 December 2013: RSD 1,363,353) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

b) Investment property – carried at fair value (continued)

Fair value of investment properties

Valuation of the Company's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2014 and 2013. The revaluation surplus was credited to other income (note 36).

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

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

Fair value measurements at 31 December 2014 using:

| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|--|---|---|--|
| <i>Recurring fair value measurements</i> | | | |
| <i>Land and buildings</i> | | | |
| – Shops and other facilities for rents | - | 812,023 | - |
| – Apartments | - | - | - |
| – Gas stations | - | - | 569,808 |
| Total | - | 812,023 | 569,808 |

Fair value measurements at 31 December 2013 using:

| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|--|---|---|--|
| <i>Recurring fair value measurements</i> | | | |
| <i>Land and buildings</i> | | | |
| – Shops and other facilities for rents | - | 772,952 | - |
| – Apartments | - | 131,513 | - |
| – Gas stations | - | - | 509,899 |
| Total | - | 904,465 | 509,899 |

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

b) Investment property – carried at fair value (continued)

Valuation techniques used to derive level 2 fair values

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

Fair value measurements using significant unobservable inputs (Level 3)

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

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

| | <u>2014</u> | <u>2013</u> |
|-----------------------|-------------|-------------|
| Long term growth rate | 0% | 0% |
| Discount rate | 12% | 12% |

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

| | <u>2014</u> | <u>2013</u> |
|--|-----------------------|-----------------------|
| Assets as at 1 January | 509,899 | 484,850 |
| Changes in fair value measurement: | | |
| Gains recognised in profit or loss, fair value measurement | 59,909 | 25,048 |
| Total increase in fair value measurement, assets | 59,909 | 25,048 |
| Assets as at 31 December | <u>569,808</u> | <u>509,899</u> |

c) Oil and gas production assets

Oil and gas production assets comprise of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.7.).

Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

c) Oil and gas production assets (continued)

| | 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 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 |
| Year ended 31 December 2013 | | | | | | |
| Additions | 5,907,334 | 19,037,854 | 24,945,188 | - | - | 24,945,188 |
| Transfer from asset under construction | (158,215) | (11,078,397) | (11,236,612) | 11,236,612 | - | - |
| Other transfers | 4,808 | (4,787) | 21 | (1,343,512) | (61) | (1,343,552) |
| Impairment | - | (29,547) | (29,547) | (77,107) | - | (106,654) |
| Depreciation and depletion | - | - | - | (2,343,846) | - | (2,343,846) |
| Disposals and write-off | (809,340) | (1,282,277) | (2,091,617) | 2,951 | - | (2,088,666) |
| | 10,248,631 | 11,436,370 | 21,685,001 | 35,592,279 | 1,975 | 57,279,255 |
| As at 31 December 2013 | | | | | | |
| Cost | 10,248,631 | 11,674,429 | 21,923,060 | 51,949,129 | 22,241 | 73,894,430 |
| Depreciation and impairment | - | (238,059) | (238,059) | (16,356,850) | (20,266) | (16,615,175) |
| Net book amount | 10,248,631 | 11,436,370 | 21,685,001 | 35,592,279 | 1,975 | 57,279,255 |
| As at 1 January 2014 | | | | | | |
| Cost | 10,248,631 | 11,674,429 | 21,923,060 | 51,949,129 | 22,241 | 73,894,430 |
| Depreciation and impairment | - | (238,059) | (238,059) | (16,356,850) | (20,266) | (16,615,175) |
| Net book amount | 10,248,631 | 11,436,370 | 21,685,001 | 35,592,279 | 1,975 | 57,279,255 |
| Year ended 31 December 2014 | | | | | | |
| Additions | 6,860,465 | 18,757,565 | 25,618,030 | - | - | 25,618,030 |
| Transfer from asset under construction | (3,923,922) | (18,528,311) | (22,452,233) | 22,452,233 | - | - |
| Other transfers | 2,013,886 | (312,733) | 1,701,153 | (805,588) | (81) | 895,484 |
| Impairment | - | (15,526) | (15,526) | (10,222) | (49) | (25,797) |
| Depreciation and depletion | - | - | - | (2,990,069) | - | (2,990,069) |
| Transfer from investment property | - | - | - | 35,121 | - | 35,121 |
| Disposals and write-off | (197,690) | (12,672) | (210,362) | (29,252) | - | (239,614) |
| | 15,001,370 | 11,324,693 | 26,326,063 | 54,244,502 | 1,845 | 80,572,410 |
| As at 31 December 2014 | | | | | | |
| Cost | 15,001,370 | 11,578,278 | 26,579,648 | 73,455,119 | 22,203 | 100,056,970 |
| Depreciation and impairment | - | (253,585) | (253,585) | (19,210,617) | (20,358) | (19,484,560) |
| Net book amount | 15,001,370 | 11,324,693 | 26,326,063 | 54,244,502 | 1,845 | 80,572,410 |

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

8. INVESTMENTS IN SUBSIDIARIES

| | <u>31 December 2014</u> | <u>31 December 2013</u> |
|------------------------------|-----------------------------|-----------------------------|
| Investments in subsidiaries: | | |
| - In shares | 3,457,576 | 3,457,576 |
| - In stakes | 5,271,612 | 5,272,134 |
| | <u>8,729,188</u> | <u>8,729,710</u> |
| Less: Provision | <u>(1,173,167)</u> | <u>(1,173,167)</u> |
| | <u>7,556,021</u> | <u>7,556,543</u> |

Investments in subsidiaries as at 31 December 2014 relate to the following companies:

| Company | Investment | Impairment | Net book value | Share % |
|--|-------------------------|---------------------------|-------------------------|---------|
| O Zone a.d. Belgrade, Serbia | 3,457,576 | (1,172,263) | 2,285,313 | 100% |
| NIS Petrol e.o.o.d., Sofija, Bulgaria | 28,938 | - | 28,938 | 100% |
| NIS Petrol SRL, Bucharest, Romania | 997 | - | 997 | 100% |
| NIS Petrol doo, Banja Luka, BiH | 1,030 | - | 1,030 | 100% |
| Pannon naftagas Kft, Budapest, Hungary | 184 | - | 184 | 100% |
| NTC NIS-Naftagas d.o.o., Novi Sad, Serbia | 321,500 | - | 321,500 | 100% |
| Naftagas-Tehnicki servisi d.o.o., Zrenjanin, Serbia | 983,353 | - | 983,353 | 100% |
| Naftagas-Naftni servisi d.o.o., Novi Sad, Serbia | 3,579,983 | - | 3,579,983 | 100% |
| Naftagas-Transport d.o.o., Novi Sad, Serbia | 327,751 | - | 327,751 | 100% |
| NIS Oversiz, Moscow, Russia | 9,856 | - | 9,856 | 100% |
| Jadran-Naftagas d.o.o. Banja Luka, BiH | 71 | - | 71 | 66% |
| Svetlost, Bujanovac, Serbia | 17,045 | - | 17,045 | 51% |
| Jubos, Bor, Serbia | 904 | (904) | - | 51% |
| | <u>8,729,188</u> | <u>(1,173,167)</u> | <u>7,556,021</u> | |

9. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES

| | <u>31 December 2014</u> | <u>31 December 2013</u> |
|------------------------------------|-----------------------------|-----------------------------|
| LT loans - Subsidiaries - Domestic | 2,842,520 | 2,694,089 |
| LT loans - Subsidiaries - Foregin | 31,674,870 | 26,258,655 |
| Less: Impairment | <u>(1,943,236)</u> | - |
| | <u>32,574,154</u> | <u>28,952,744</u> |

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***9. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES (continued)**

Long-term loans to subsidiaries denominated in RSD as at 31 December 2014 relate to:

| | Currency | 31 December 2014 | 31 December 2013 |
|---|----------|--------------------------|--------------------------|
| <i>Domestic</i> | | | |
| O Zone a.d., Belgrade, Serbia | EUR | 2,842,520 | 2,694,089 |
| | | <u>2,842,520</u> | <u>2,694,089</u> |
| <i>Foregin</i> | | | |
| NIS Petrol e.o.o.d., Sofija, Bulgaria | EUR | 11,348,122 | 8,635,174 |
| NIS Petrol SRL, Bucharest, Romania | EUR | 9,258,906 | 8,022,041 |
| NIS Petrol d.o.o., Banja Luka, BiH | EUR | 7,484,821 | 7,093,978 |
| Jadran - Naftagas d.o.o., Banja Luka, BiH | EUR | 1,852,285 | 1,708,521 |
| Pannon naftagas Kft, Budapest, Hungary | EUR | 1,730,736 | 798,941 |
| | | <u>31,674,870</u> | <u>26,258,655</u> |
| | | <u>34,517,390</u> | <u>28,952,744</u> |

As at 31 December 2014, the Company has assessed and recognised impairment loss for long-term loan provided to Pannon-naftagas Kft, Budapest, Hungary in amount of RSD 1,730,736 and portion of loan provided to Jadran-Naftagas d.o.o Banja Luka, BiH as some of the exploration activities financed through these loans in these regions were unsuccessful.

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

10. OTHER LONG-TERM FINANCIAL INVESTMENTS

| | 31 December 2014 | 31 December 2013 |
|-----------------------------|-------------------------|-------------------------|
| Other LT placements | 925,696 | 794,627 |
| LT loans given to employees | 1,155,943 | 1,083,093 |
| Less: Impairment | (919,728) | (782,311) |
| | <u>1,161,911</u> | <u>1,095,409</u> |

Loans to employees as at 31 December 2014 amounting to RSD 1,155,943 (31 December 2013: RSD 1,083,093) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly installments.

The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Company could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 4.99% for loans denominated in EUR, and 15.85% for loans denominated in RSD (2013: 5.62% p.a.).

The maximum exposure to credit risk at the reporting date is the nominal value of loans given to employees. This credit risk exposure is limited, as the monthly installments of these loans are withheld from employees' salaries.

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

11. DEFERRED TAX ASSETS AND LIABILITIES

| | <u>Provisions</u> | <u>Carrying value of PP&E vs Tax base</u> | <u>Total</u> |
|---|-------------------|---|--------------|
| <i>Deferred tax liabilities</i> | | | |
| As at 1 January 2013 | - | (2,364,591) | (2,364,591) |
| Origination and reversal of temporary differences (note 38) | - | 211,109 | 211,109 |
| As at 31 December 2013 | - | (2,153,482) | (2,153,482) |
| Origination and reversal of temporary differences | | | |
| - charged to the income statement (note 38) | - | (533,969) | (533,969) |
| - charged to other comprehensive income | (36,613) | - | (36,613) |
| As at 31 December 2014 | (36,613) | (2,687,451) | (2,724,064) |

| | <u>Provisions</u> | <u>Impairment loss</u> | <u>Investment credit</u> | <u>Total</u> |
|---|-------------------|----------------------------|------------------------------|--------------|
| <i>Deferred tax assets</i> | | | | |
| As at 1 January 2013 | 249,839 | 799,319 | 8,737,800 | 9,786,958 |
| Origination and reversal of temporary differences (note 38) | 58,450 | (36,441) | (32,258) | (10,249) |
| As at 31 December 2013 | 308,289 | 762,878 | 8,705,542 | 9,776,709 |
| Origination and reversal of temporary differences (note 38) | (282,758) | (82,219) | (1,577,577) | (1,942,554) |
| As at 31 December 2014 | 25,531 | 680,659 | 7,127,965 | 7,834,155 |

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

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

Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***12. INVENTORY**

| | 31 December 2014 | 31 December 2013 |
|----------------------------------|-----------------------------|-----------------------------|
| Materials, spare parts and tools | 25,741,314 | 30,082,947 |
| Work in progress | 5,755,021 | 4,782,796 |
| Finished goods | 7,121,091 | 8,130,379 |
| Goods for sale | 2,770,724 | 1,549,993 |
| Advances | 627,709 | 700,073 |
| Less:provision | (5,853,692) | (6,384,597) |
| | <u>36,162,167</u> | <u>38,861,591</u> |
| Non-current assets held for sale | - | 1,272,306 |
| | <u>36,162,167</u> | <u>40,133,897</u> |
| Total inventories, net | <u>36,162,167</u> | <u>40,133,897</u> |

Movement on inventory provision is as follows:

| | Impairment of inventories | Impairment of Advances | Total |
|---|--------------------------------------|-----------------------------------|-------------------------|
| Balance as of 1 January 2013 | <u>6,447,124</u> | <u>373,071</u> | <u>6,820,195</u> |
| Provision for inventories and advances (note 37) | 139,379 | 16,165 | 155,544 |
| Unused amounts reversed (note 36) | (450,253) | (9,659) | (459,912) |
| Receivables written off during the year as uncollectible | - | (131,230) | (131,230) |
| Balance as of 31 December 2013 | <u>6,136,250</u> | <u>248,347</u> | <u>6,384,597</u> |
| Provision for inventories and advances (note 37) | 9,025 | 5,688 | 14,713 |
| Unused amounts reversed (note 36) | (216,837) | (13,116) | (229,953) |
| Other | (314,592) | (1,073) | (315,665) |
| Balance as of 31 December 2014 | <u>5,613,846</u> | <u>239,846</u> | <u>5,853,692</u> |

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***13. TRADE RECEIVABLES**

| | 31 December 2014 | 31 December 2013 |
|--|-----------------------------|-----------------------------|
| Parents and subsidiaries - domestic | 4,199,731 | 1,666,029 |
| Parents and subsidiaries - foreign | 1,394,526 | 1,640,985 |
| Other related parties - domestic | 13,023,542 | 12,303,237 |
| Other related parties - foreign | 36,398 | 3,537 |
| Trade receivables domestic – third parties | 46,603,719 | 51,597,366 |
| Trade receivables foreign – third parties | 1,336,768 | 960,100 |
| Less: Impairment | (12,501,524) | (12,538,968) |
| | 54,093,160 | 55,632,286 |

The ageing of trade receivables is as follows:

| | 31 December 2014 | 31 December 2013 |
|-------------------------------|-----------------------------|-----------------------------|
| Neither impaired nor past due | 25,690,121 | 30,257,273 |
| Past due but not impaired: | | |
| within 30 days | 3,813,902 | 5,418,628 |
| 1 to 3 months | 2,052,271 | 4,493,744 |
| 3 months to 1 year | 10,978,994 | 6,122,023 |
| over 1 year | 11,557,872 | 9,340,618 |
| Total | 54,093,160 | 55,632,286 |

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

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

| | 31 December 2014 | 31 December 2013 |
|-------|-----------------------------|-----------------------------|
| RSD | 63,826,066 | 65,561,177 |
| EUR | 550,793 | 556,954 |
| USD | 2,217,804 | 2,053,102 |
| Other | 21 | 21 |
| | 66,594,684 | 68,171,254 |

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

13. TRADE RECEIVABLES (continued)

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

| | Trade receivables | | Total |
|--|--------------------------|-----------------------|-------------------|
| | Individually impaired | Collectively impaired | |
| As at 1 January 2013 | 8,904,176 | 4,237,782 | 13,141,958 |
| Provision for receivables impairment (note 35) | 237,257 | 273,725 | 510,982 |
| Unused amounts reversed (note 34) | (2,936) | (719,131) | (722,067) |
| Receivables written off during the year as uncollectible | - | (95,668) | (95,668) |
| Other | (901,457) | 605,220 | (296,237) |
| As at 31 December 2013 | 8,237,040 | 4,301,928 | 12,538,968 |
| Provision for receivables impairment (note 35) | 81,045 | 206,348 | 287,393 |
| Unused amounts reversed (note 34) | - | (287,868) | (287,868) |
| Receivables written off during the year as uncollectible | - | (264,395) | (264,395) |
| Other | - | 227,426 | 227,426 |
| As at 31 December 2014 | 8,318,085 | 4,183,439 | 12,501,524 |

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement (note 35). Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

14. OTHER RECEIVABLES

| | 31 December 2014 | 31 December 2013 |
|-------------------------------------|-------------------------|-------------------------|
| Interest receivables | 14,308,224 | 11,294,510 |
| Receivables from employees | 85,892 | 84,140 |
| Income tax prepayment | 2,627,622 | - |
| Other receivables | 7,514,100 | 7,462,878 |
| Less: Impairment | (20,751,217) | (17,699,214) |
| Total other receivables, net | 3,784,621 | 1,142,314 |

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Notes to financial statements for the year ended 31 December 2014

(All amounts are in RSD 000 unless otherwise stated)

14. OTHER RECEIVABLES (continued)

Movements on the provision for other receivables :

| | Interest receivables | Other receivables | Total |
|--|-------------------------|----------------------|-------------------|
| As at 1 January 2013 | 5,864,441 | 7,323,979 | 13,188,420 |
| Provision for other receivables impairment (note 35) | 4,737,697 | 7,569 | 4,745,266 |
| Unused amounts reversed (note 34) | (183,807) | (844) | (184,651) |
| Receivables written off during the year as uncollectible | (49,485) | (336) | (49,821) |
| As at 31 December 2013 | 10,368,846 | 7,330,368 | 17,699,214 |
| Provision for other receivables impairment (note 35) | 3,604,591 | 1,543 | 3,606,134 |
| Unused amounts reversed (note 34) | (391,242) | (2,258) | (393,500) |
| Receivables written off during the year as uncollectible | (159,538) | (1,093) | (160,631) |
| As at 31 December 2014 | 13,422,657 | 7,328,560 | 20,751,217 |

15. SHORT-TERM FINANCIAL INVESTMENTS

| | 31 December 2014 | 31 December 2013 |
|--|---------------------|---------------------|
| ST loans and placements - Parent and subsidiaries | 4,337,886 | 2,384,555 |
| ST loans and placements - Domestic | 2,019 | 2,019 |
| Other ST financial placements | 10,357,959 | 9,974,197 |
| Less: Impairment | (8,152,392) | (7,827,741) |
| Total short-term financial investments, net | 6,545,472 | 4,533,030 |

Other ST financial placements as at 31 December 2014 amounting to RSD 10,357,959 (31 December 2013: RSD 9,974,197) mainly relate to current portion of rescheduled receivables in amount of RSD 10,257,989 (31 December 2013: RSD 9,823,260). They are provided for in the amount of RSD 8,152,392 (2013: RSD 7,827,615).

Movements on the provision for short-term financial assets:

| | Short-term financial loans- Parent and subsidiaries | Other ST financial placement- Rescheduled receivables | Total |
|--|--|---|------------------|
| As at 1 January 2013 | 142 | 5,820,064 | 5,820,206 |
| Reclassification from non-current to current part | - | 1,591,471 | 1,591,471 |
| Exchange differences | (16) | 416,080 | 416,064 |
| As at 31 December 2013 | 126 | 7,827,615 | 7,827,741 |
| Unused amounts reversed (note 34) | - | (106,562) | (106,562) |
| Receivables written off during the year as uncollectible | (126) | - | (126) |
| Exchange differences | - | 431,339 | 431,339 |
| As at 31 December 2014 | - | 8,152,392 | 8,152,392 |

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 unless otherwise stated)***16. CASH AND CASH EQUIVALENTS**

| | 31 December 2014 | 31 December 2013 |
|---|-----------------------------|-----------------------------|
| Cash in bank and in hand | 4,338,300 | 4,958,692 |
| Deposits with original maturity of less than three months | 725,814 | 2,342 |
| Cash equivalents | 273,909 | 219,120 |
| | 5,338,023 | 5,180,154 |

17. PREPAYMENTS AND ACCRUED INCOME

| | 31 December 2014 | 31 December 2013 |
|-------------------------------------|-----------------------------|-----------------------------|
| Deferred input VAT | 1,086,612 | 2,055,272 |
| Prepaid expenses | 108,427 | 114,807 |
| Accrued revenue | 2,750 | 1,354,225 |
| Prepaid excise duty | 4,256,200 | 1,364,295 |
| Housing loans and other prepayments | 1,706,069 | 1,796,342 |
| | 7,160,058 | 6,684,941 |

Deferred input VAT as at 31 December 2014 amounting to RSD 1,086,612 (31 December 2013: RSD 2,055,272) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 4,256,200 (31 December 2013: RSD 1,364,295) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

18. OFF BALANCE SHEET ASSETS AND LIABILITIES

| | 31 December 2014 | 31 December 2013 |
|---|-----------------------------|-----------------------------|
| Issued warranties and bills of exchange | 74,389,497 | 43,781,876 |
| Received warranties and bills of exchange | 27,511,645 | 32,580,486 |
| Properties in ex-Republics of Yugoslavia | 5,357,690 | 5,357,690 |
| Receivables from companies from ex-Yugoslavia | 6,329,184 | 5,103,758 |
| Third party merchandise in NIS warehouses | 4,414,343 | 4,315,685 |
| Assets for oil fields liquidation in Angola | 771,785 | 638,286 |
| | 118,774,144 | 91,777,781 |

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Notes to financial statements for the year ended 31 December 2014

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

19. SHARE CAPITAL

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

Share capital as of 31 December 2014 and 31 December 2013 comprise of 163,060,400 of ordinary shares.

On June 30, 2014 the annual general shareholders meeting of the Company approved dividend for 2013 in the amount of RSD 80,22 per share.

20. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

| | Decommissioning | Environmental protection | Employees benefits provision | Long-term incentive program | Legal claims provisions | Total |
|--|------------------|--------------------------|------------------------------|-----------------------------|-------------------------|-------------------|
| As at 1 January 2013 | 7,972,086 | 861,383 | 2,244,566 | 1,042,854 | 809,445 | 12,930,334 |
| Charged to the income statement (note 30 and 33) | 589,424 | 195,000 | - | 521,427 | 319,786 | 1,625,637 |
| New obligation incurred and change in estimates | 962,855 | - | - | - | - | 962,855 |
| Release of provision (note 36) | (303,653) | (112,396) | (348,948) | - | - | (764,997) |
| Actuarial loss charged to other comprehensive income | - | - | 95,339 | - | - | 95,339 |
| Settlement | (157,674) | (253,893) | (90,200) | (42,202) | (37,856) | (581,825) |
| As at 31 December 2013 | 9,063,038 | 690,094 | 1,900,757 | 1,522,079 | 1,091,375 | 14,267,343 |
| As at 1 January 2014 | 9,063,038 | 690,094 | 1,900,757 | 1,522,079 | 1,091,375 | 14,267,343 |
| Charged to the income statement (note 30 and 33) | 52,371 | 20,000 | 253,786 | - | - | 326,157 |
| New obligation incurred and change in estimates | (14,377) | - | - | - | - | (14,377) |
| Release of provision (note 36) | - | - | (1,237,653) | (812,189) | (55,307) | (2,105,149) |
| Actuarial gain charged to other comprehensive income | - | - | (244,084) | - | - | (244,084) |
| Settlement | (75,420) | (152,437) | (74,938) | (608,044) | (167,523) | (1,078,362) |
| As at 31 December 2014 | 9,025,612 | 557,657 | 597,868 | 101,846 | 868,545 | 11,151,528 |

Analysis of total provisions:

| | 31 December 2014 | 31 December 2013 |
|-------------|-------------------|-------------------|
| Non-current | 8,690,515 | 11,527,435 |
| Current | 2,461,013 | 2,739,908 |
| | 11,151,528 | 14,267,343 |

(a) *Decommissioning*

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

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Notes to financial statements for the year ended 31 December 2014

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

20. LONG – TERM PROVISIONS (continued)

(b) Environmental protection

The Company has to comply with environmental protection regulations. At the reporting date Company recorded provision for environmental protection of RSD 557,657 (31 December 2013: RSD 690,094) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) Long-term incentive program

In 2011, the Company started setting-up a long-term incentive program for Company managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2014 the management made an assessment of present value of liabilities related to new one-year employee incentives in amount of RSD 101,846 (31 December 2013: RSD 1,522,079).

(d) Legal claims provisions

As at 31 December 2014, the Company assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Company released provision for litigation amounting to RSD 55,307 (2013: RSD 319,786, charge) for proceedings which were assessed that won't have negative outcome. The Company estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2014.

(e) Provision for employee benefits

Employee benefits:

| | 31 December 2014 | 31 December 2013 |
|-----------------------|-----------------------------|-----------------------------|
| Retirement allowances | 68,359 | 533,180 |
| Jubilee awards | 529,509 | 1,367,577 |
| | 597,868 | 1,900,757 |

The principal actuarial assumptions used were as follows:

| | 31 December 2014 | 31 December 2013 |
|---------------------------------|-----------------------------|-----------------------------|
| Discount rate | 6.75% | 6.30% |
| Future salary increases | 2.5% | 5.50% |
| Future average years of service | 12.4 | 14.84 |

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Notes to financial statements for the year ended 31 December 2014

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

20. LONG – TERM PROVISIONS (continued)

(e) Provision for employee benefits (continued)

| | Retirement allowances | Jubilee awards | Total |
|---|----------------------------------|---------------------------|------------------|
| Balances as at 1 January 2013 | 622,739 | 1,621,827 | 2,244,566 |
| Benefits paid directly | (18,081) | (72,119) | (90,200) |
| Actuarial loss recognised in other comprehensive income | 95,339 | - | 95,339 |
| Credited to the income statement | (166,817) | (182,131) | (348,948) |
| Balances as at 31 December 2013 | 533,180 | 1,367,577 | 1,900,757 |
| Benefits paid directly | (16,264) | (58,674) | (74,938) |
| Actuarial gain recognised in other comprehensive income | (244,084) | - | (244,084) |
| Credited to the income statement | (204,473) | (779,394) | (983,867) |
| Balances as at 31 December 2014 | 68,359 | 529,509 | 597,868 |

The amounts recognized in the Income Statement are as follows:

| | Year ended 31 December | |
|-----------------------------------|-----------------------------------|------------------|
| | 2014 | 2013 |
| Current service cost | 159,284 | 181,210 |
| Interest cost | 117,574 | 166,769 |
| Curtailment gain | (254,486) | - |
| Actuarial losses (jubilee awards) | (400,609) | (425,333) |
| Amortisation of past service cost | (605,630) | (271,594) |
| | (983,867) | (348,948) |

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Notes to financial statements for the year ended 31 December 2014

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

21. LONG-TERM LIABILITIES

| | 31 December 2014 | 31 December 2013 |
|-------------------------------|-----------------------------|-----------------------------|
| Long-term loan - Gazprom Neft | 47,820,723 | 50,655,812 |
| Bank loans | 50,891,269 | 37,565,857 |
| Finance lease liabilities | - | 21,634 |
| Other long-term borrowings | 1,208 | 1,209 |
| Less Current portion | (6,100,504) | (27,617,966) |
| | 92,612,696 | 60,626,546 |

a) Long-term loan - Gazprom Neft

As at 31 December 2014 long-term loan - Gazprom Neft amounting to RSD 47,820,723 (EUR 395,348,842) (2013: RSD 50,655,813), with current portion of RSD 5,625,967 (2013: RSD 5,332,191), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

b) Bank loans

| | 31 December 2014 | 31 December 2013 |
|--|-----------------------------|-----------------------------|
| Domestic | 7,175,319 | 12,048,569 |
| Foreign | 43,715,950 | 25,517,288 |
| | 50,891,269 | 37,565,857 |
| Current portion of long-term loans (note 22) | (474,537) | (22,264,141) |
| | 50,416,732 | 15,301,716 |

The maturity of non-current loans was as follows:

| | 31 December 2014 | 31 December 2013 |
|-----------------------|-----------------------------|-----------------------------|
| Between 1 and 2 years | 6,969,316 | 2,926,308 |
| Between 2 and 5 years | 38,044,029 | 6,871,962 |
| Over 5 years | 5,403,387 | 5,503,446 |
| | 50,416,732 | 15,301,716 |

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

| | 31 December 2014 | 31 December 2013 |
|-----|-----------------------------|-----------------------------|
| USD | 45,401,219 | 28,343,857 |
| EUR | 5,126,540 | 8,579,494 |
| RSD | 1,520 | 280,783 |
| JPY | 361,990 | 361,723 |
| | 50,891,269 | 37,565,857 |

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 , unless otherwise stated)***21. LONG-TERM LIABILITIES (continued)***b) Bank loans (continued)*

The fair value of non-current loans and their carrying amounts are equal.

The Company repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Company agreed 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 bank loans as at 31 December 2014 and 31 December 2013 are presented in the table below:

| <u>Creditor</u> | <u>Currency</u> | <u>31 December 2014</u> | <u>31 December 2013</u> |
|--|-----------------|-----------------------------|-----------------------------|
| <i>Domestic long-term loans</i> | | | |
| Erste bank, Novi Sad | USD | 319,049 | 279,719 |
| Erste bank, Novi Sad | EUR | 457,835 | 454,900 |
| Bank Postanska stedionica, Belgrade | EUR | 224,938 | 225,341 |
| Bank Postanska stedionica, Belgrade | USD | 1,728,210 | 1,526,400 |
| Government of Republic of Serbia, Agency for deposit assurance (IBRD) | EUR | 4,443,767 | 4,459,990 |
| UniCredit bank, Belgrade | USD | - | 4,821,436 |
| UniCredit bank, Belgrade | RSD | - | 278,900 |
| Other loans | RSD | 1,520 | 1,883 |
| | | 7,175,319 | 12,048,569 |
| <i>Foreign long-term loans</i> | | | |
| NLB Nova Ljubljanska bank d.d., Slovenia | USD | 584,396 | 518,612 |
| NLB Nova Ljubljanska bank d.d., Slovenia | JPY | 361,990 | 361,723 |
| Erste bank, Holland | EUR | - | 3,439,263 |
| Erste bank, Holland | USD | 6,465,167 | 5,403,333 |
| VUB (Bank Intesa), Slovakia | USD | 14,919,615 | 8,312,820 |
| NBG bank, Great Britain | USD | 4,973,205 | 2,493,846 |
| Alpha bank, Great Britain | USD | - | 3,325,128 |
| Piraeus bank, Great Britain | USD | - | 1,662,563 |
| Sberbank Europe AG, Wien, Austria | USD | 16,411,577 | - |
| | | 43,715,950 | 25,517,288 |
| | | (474,537) | (22,264,141) |
| <i>Less current portion of long-term loans</i> | | 50,416,732 | 15,301,716 |

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000, unless otherwise stated)***21. LONG-TERM LIABILITIES (continued)***b) Bank loans (continued)*

| | Currency | Current portion | | Long-term | |
|---|----------|-----------------------|--------------------------|--------------------------|--------------------------|
| | | 31 December 2014 | 31 December 2013 | 31 December 2014 | 31 December 2013 |
| Domestic long - term loans | | | | | |
| Erste bank, Novi Sad | USD | 17,872 | 13,070 | 301,177 | 266,649 |
| Erste bank, Novi Sad | EUR | 25,376 | 20,972 | 432,459 | 433,928 |
| Bank Postanska stedionica, Belgrade | EUR | 12,468 | 12,148 | 212,470 | 213,193 |
| Bank Postanska stedionica, Belgrade Government of Republic of Serbia, Agency for deposit assurance (IBRD) | USD | 95,789 | 82,030 | 1,632,421 | 1,444,370 |
| UniCredit bank, Belgrade | EUR | 261,946 | 248,267 | 4,181,821 | 4,211,723 |
| UniCredit bank, Belgrade | USD | - | 4,821,436 | - | - |
| UniCredit bank, Belgrade | RSD | - | 278,900 | - | - |
| Other loans | RSD | 345 | 369 | 1,175 | 1,514 |
| | | <u>413,796</u> | <u>5,477,192</u> | <u>6,761,523</u> | <u>6,571,377</u> |
| Foreign long-term loans | | | | | |
| NLB Nova Ljubljanska bank d.d., Slovenia | USD | 40,677 | 30,197 | 543,719 | 488,415 |
| NLB Nova Ljubljanska bank d.d., Slovenia | JPY | 20,064 | 16,978 | 341,926 | 344,745 |
| Erste bank, Holland | EUR | - | 3,439,263 | - | - |
| Erste bank, Holland | USD | - | - | 6,465,167 | 5,403,333 |
| VUB (Bank Intesa), Slovakia | USD | - | 8,312,820 | 14,919,615 | - |
| NBG bank, Great Britain | USD | - | - | 4,973,205 | 2,493,846 |
| Alpha bank, Great Britain | USD | - | 3,325,128 | - | - |
| Piraeus bank, Great Britain | USD | - | 1,662,563 | - | - |
| Sberbank Europe AG, Беч, Аустрија | USD | - | - | 16,411,577 | - |
| | | <u>60,741</u> | <u>16,786,949</u> | <u>43,655,209</u> | <u>8,730,339</u> |
| | | <u>474,537</u> | <u>22,264,141</u> | <u>50,416,732</u> | <u>15,301,716</u> |

The loan agreements contain financial covenants that require the Company's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Company is in compliance with these covenants as of 31 December 2014 and 31 December 2013, respectively.

22. SHORT-TERM FINANCIAL LIABILITIES

| | 31 December 2014 | 31 December 2013 |
|--|--------------------------|--------------------------|
| Short-term loans | 8,600,082 | 300,000 |
| Current portion of long-term loans (note 21) | 6,100,504 | 27,596,332 |
| Current portion of finance lease liabilities (note 21) | - | 21,634 |
| | <u>14,700,586</u> | <u>27,917,966</u> |

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 , unless otherwise stated)***23. TRADE PAYABLES**

| | 31 December 2014 | 31 December 2013 |
|---|-----------------------------|-----------------------------|
| Parents and subsidiaries - domestic | 2,845,130 | 1,022,184 |
| Parents and subsidiaries - foreign | 20,144,858 | 9,338,240 |
| Other related parties - domestic | 830,355 | 1,534,730 |
| Other related parties - foreign | 50,923 | 28,586,819 |
| Trade payables domestic – third parties | 5,654,892 | 7,664,202 |
| Trade payables foreign – third parties | 8,837,079 | 2,099,059 |
| Other trade payables | 69,946 | 69,634 |
| | 38,433,183 | 50,314,868 |

As at 31 December 2014 payables to parents and subsidiaries-foreign amounting to RSD 20,144,858 (31 December 2013: RSD 9,338,240) mostly relate to payables to the supplier Gazprom Neft, St Petersburg, Russian Federation in the amount of 20,122,243 RSD for the purchase of crude oil.

24. OTHER SHORT-TERM LIABILITIES

| | 31 December 2014 | 31 December 2013 |
|--|-----------------------------|-----------------------------|
| Specific liabilities | 493,913 | 307,236 |
| Liabilities for unpaid wages and salaries, gross | 821,286 | 2,552 |
| Interest liabilities | 657,526 | 520,438 |
| Dividends payable | 3,772,308 | 3,772,308 |
| Payables to employees | 446,262 | 504,425 |
| Decommissioning and site restoration costs | 1,638,178 | 1,694,023 |
| Environmental provision | 490,586 | 584,494 |
| Litigation and claims | 272,252 | 364,611 |
| Other current liabilities | 108,172 | 6,530 |
| | 8,700,483 | 7,756,617 |

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Notes to financial statements for the year ended 31 December 2014

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

25. LIABILITIES FOR OTHER TAXES

| | 31 December 2014 | 31 December 2013 |
|---|-----------------------------|-----------------------------|
| Excise tax | 5,294,046 | 4,294,766 |
| Income tax | - | 2,626,080 |
| Liabilities for taxes and custom duties | 1,688,669 | 3,009,684 |
| Other taxes payables | 131,283 | 117,033 |
| | 7,113,998 | 10,047,563 |

26. ACCRUED EXPENSES

Accrued expenses as at 31 December 2014 amounting to RSD 3,045,933 (31 December 2013: RSD 2,409,088) mainly relate to accrued employee bonuses of RSD 1,548,802 (31 December 2013: RSD 1,507,805).

27. COST OF MATERIAL

| | Year ended 31 December | |
|---------------------------|-------------------------------|--------------------|
| | 2014 | 2013 |
| Costs of raw materials | 136,850,946 | 129,663,178 |
| Overheads and other costs | 155,109 | 91,815 |
| Other | 504,621 | 521,007 |
| | 137,510,676 | 130,276,000 |

28. EMPLOYEE BENEFITS EXPENSE

| | Year ended 31 December | |
|--|-------------------------------|-------------------|
| | 2014 | 2013 |
| Wages and salaries (gross) | 10,995,544 | 11,300,671 |
| Taxes and contributions on wages and salaries paid by employer | 1,541,382 | 1,647,437 |
| Cost of service agreement | 540,286 | 608,161 |
| Cost of other personal wages | 59,568 | 63,420 |
| Fees paid to board of directors and general assembly board | 126,569 | 72,106 |
| Termination costs | 303,545 | 2,421,545 |
| Other personal expenses | 516,725 | 1,378,695 |
| | 14,083,619 | 17,492,035 |

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 , unless otherwise stated)***29. COST OF PRODUCTION SERVICES**

| | Year ended 31 December | |
|-----------------------------|------------------------|-------------------|
| | 2014 | 2013 |
| Cost of production services | 3,295,560 | 2,006,984 |
| Transportation services | 3,077,529 | 3,230,895 |
| Maintenance | 4,073,119 | 3,082,595 |
| Rental costs | 1,266,705 | 875,026 |
| Fairs | 11,148 | 5,909 |
| Advertising costs | 905,831 | 655,583 |
| Exploration expenses | 542,985 | 1,322,014 |
| Cost of other services | 694,420 | 933,146 |
| | 13,867,297 | 12,112,152 |

30. LONG-TERM PROVISION EXPENSES

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2014 | 2013 |
| Decommissioning and site restoration costs | 24,000 | 429,781 |
| Employee benefits costs | 253,786 | 521,427 |
| Other provision expense (litigation and claims) | - | 319,786 |
| | 277,786 | 1,270,994 |

31. NON-MATERIAL EXPENSES

| | Year ended 31 December | |
|----------------------------------|------------------------|-------------------|
| | 2014 | 2013 |
| Costs of non-production services | 6,357,806 | 4,822,203 |
| Representation costs | 110,283 | 143,157 |
| Insurance premium | 493,047 | 298,055 |
| Bank charges | 202,766 | 209,917 |
| Cost of taxes | 945,242 | 1,662,621 |
| Mineral extraction tax | 2,234,572 | 2,472,792 |
| Other non-production expenses | 792,780 | 780,710 |
| | 11,136,496 | 10,389,455 |

Cost of non-production services for the year ended 31 December 2014 amounting to RSD 6,357,806 (2013: RSD 4,822,203) mainly relate to costs of service organizations of RSD 3,684,698, consulting service costs of RSD 1,044,525, project management costs of RSD 669,907 and certification and supervision costs of RSD 170,308.

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Notes to financial statements for the year ended 31 December 2014

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

32. FINANCE INCOME

| | Year ended 31 December | |
|----------------------------------|------------------------|-------------------|
| | 2014 | 2013 |
| Finance income - related parties | | |
| - foreign exchange differences | 2,175,510 | 1,960,423 |
| - other finance income | 1,086,526 | 1,340,193 |
| Interest income | 4,196,347 | 5,451,340 |
| Foreign exchange gains | 1,253,608 | 6,064,610 |
| Other finance income | 16,156 | 12,406 |
| | 8,728,147 | 14,828,972 |

33. FINANCE EXPENSE

| | Year ended 31 December | |
|---------------------------------------|------------------------|------------------|
| | 2014 | 2013 |
| Finance expenses – related parties | | |
| - foreign exchange differences | 1,153,455 | 1,224,655 |
| - other finance expense | 6,142,110 | 993,137 |
| Interest expenses | 2,278,640 | 2,017,309 |
| Amortization of long-term liabilities | 48,371 | 354,643 |
| Foreign exchange losses | 10,128,617 | 5,092,619 |
| Other finance expenses | 347 | 44 |
| | 19,751,540 | 9,682,407 |

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

| | Year ended 31 December | |
|--|------------------------|------------------|
| | 2014 | 2013 |
| Reversal of impairment of LT financial investments | 17,263 | 190,629 |
| Income from valuation: | | |
| - trade and specific receivables | 452,315 | 972,315 |
| - short-term investments | 106,562 | - |
| - other receivables | 393,500 | 184,651 |
| | 969,640 | 1,347,595 |

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

| | Year ended 31 December | |
|----------------------------------|------------------------|------------------|
| | 2014 | 2013 |
| Loss from valuation: | | |
| - LT financial investments | 1,943,262 | 6,524 |
| - trade and specific receivables | 298,084 | 525,141 |
| - other receivables | 3,606,134 | 4,745,266 |
| - other | 3,168 | - |
| | 5,850,648 | 5,276,931 |

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Notes to financial statements for the year ended 31 December 2014

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

36. OTHER INCOME

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2014 | 2013 |
| Gains on disposal - Intangible assets and PPE | 164,180 | 87,604 |
| Gains on disposal - materials | 41,619 | 20,118 |
| Surpluses from stock count | 346,806 | 350,100 |
| Payables written off | 33,661 | 226,727 |
| Release of long-term provisions | 2,105,148 | 764,997 |
| Gain on bargain purchase | 455,776 | - |
| <i>Release of impairment:</i> | | |
| - PPE | 79,589 | 143 |
| - investment property | 164,761 | 151,936 |
| - inventory | 216,837 | 450,253 |
| - other property | 13,115 | 9,659 |
| Penalty interest | 98,858 | 517,978 |
| Other income | 522,984 | 422,457 |
| | 4,243,334 | 3,001,972 |

37. OTHER EXPENSE

| | Year ended 31 December | |
|--|------------------------|------------------|
| | 2014 | 2013 |
| Loss on disposal - Intangible assets and PPE | 159,401 | 437,232 |
| Shortages from stock count | 766,429 | 1,008,424 |
| Write-off receivables | 2,081 | 11,692 |
| Write-off inventories | 41,642 | 73,725 |
| <i>Impairment:</i> | | |
| - IA | - | 24,374 |
| - PPE | 114,021 | 318,417 |
| - inventory | 9,025 | 139,379 |
| - other property | 5,687 | 16,244 |
| Other expenses | 1,524,839 | 710,194 |
| | 2,623,125 | 2,739,681 |

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Notes to financial statements for the year ended 31 December 2014

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

38. INCOME TAXES

Components of income tax expense:

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2014 | 2013 |
| Income tax for the year | 3,421,124 | 6,185,819 |
| Deferred income tax for the period (note 11) | | |
| Origination and reversal of temporary differences | 2,476,523 | (200,860) |
| | 5,897,647 | 5,984,959 |

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

| | Year ended 31 December | |
|--|------------------------|------------------|
| | 2014 | 2013 |
| Profit before tax | 36,456,884 | 58,309,328 |
| Tax calculated at statutory tax rate – 15% | 5,468,533 | 8,746,399 |
| <i>Tax effect on:</i> | | |
| Revenues exempt from taxation | (277,761) | - |
| Expenses not deductible for tax purposes | 1,339,758 | 139,421 |
| Tax losses for which no deferred income tax asset was recognised | 1,577,576 | - |
| Utilized tax credits | (1,858,423) | (2,998,604) |
| Other | (285,250) | - |
| | 5,964,433 | 5,887,216 |
| Tax reassessment | (66,786) | 97,743 |
| | 5,897,647 | 5,984,959 |
| Effective income tax rate | 16.18% | 10.26% |

39. EARNINGS PER SHARE

| | Year ended 31 December | |
|---|------------------------|--------------|
| | 2014 | 2013 |
| Profit | 30,559,237 | 52,324,366 |
| Weighted average number of ordinary shares issued | 163,060,400 | 163,060,400 |
| Basic Earnings per share | 0.187 | 0.321 |

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Notes to financial statements for the year ended 31 December 2014

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

40. BUSINESS COMBINATIONS

Acquisition of petrol stations

In 2014 the Company has acquired one petrol station.

| Name of acquiree | Date of acquisition | Percentage of equity interests acquired |
|----------------------------------|---------------------|---|
| <i>Serbia</i> SSG Sava Centar | 21 July 2014 | 100% |

The following table summarises the consideration paid for acquired PS in the year ended 31 December 2014, the fair value of assets acquired and liabilities assumed.

Year ended 31 December 2014

| | Serbia | Total |
|--|------------------|------------------|
| <i>Purchase consideration:</i> | | |
| Cash paid | 332,353 | 332,353 |
| Total purchase consideration | 332,353 | 332,353 |
| Fair value of net identifiable assets acquired | 788,129 | 788,129 |
| Gain on bargain purchase | (455,776) | (455,776) |

Amounts recognized as at acquisition date for each major class of assets acquired and liabilities assumed:

| | Serbia | Total |
|--|----------------|----------------|
| Licenses, other than related to O&G activity – land rights | 626,451 | 626,451 |
| Property, plant and equipment | 161,678 | 161,678 |
| Net identifiable assets acquired | 788,129 | 788,129 |

The acquisition agreements include only acquisition of PS and do not contain any contingent consideration.

Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 , unless otherwise stated)***41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

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

During 2014 and 2013, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

As of 31 December 2014 and 31 December 2013 the outstanding balances with related parties were as follows:

| | Subsidiary | Parent | Entities under common control | Total |
|------------------------------------|-------------------|---------------------|-------------------------------------|---------------------|
| As at 31 December 2014 | | | | |
| Advances for PPE | 35,055 | - | - | 35,055 |
| Investments in subsidiaries | 7,556,021 | - | - | 7,556,021 |
| Long-term loans to related parties | 32,574,154 | - | - | 32,574,154 |
| Trade receivables | 5,590,651 | - | 36,398 | 5,627,049 |
| Other receivables | 1,068,527 | - | - | 1,068,527 |
| Short-term investments | 4,337,886 | - | - | 4,337,886 |
| Other current assets | 53,933 | - | - | 53,933 |
| Long-term liabilities | - | (42,194,756) | - | (42,194,756) |
| Short-term financial liabilities | - | (5,625,967) | - | (5,625,967) |
| Advances received | (142) | - | (12,831) | (12,973) |
| Trade payables | (2,867,745) | (20,122,243) | (50,923) | (23,040,911) |
| Other short-term liabilities | (197,786) | - | - | (197,786) |
| Other current liabilities | (6,006) | - | - | (6,006) |
| | 48,144,548 | (67,942,966) | (27,356) | (19,825,774) |
| As at 31 December 2013 | | | | |
| Advances for PPE | 159,524 | - | - | 159,524 |
| Investments in subsidiaries | 7,556,543 | - | - | 7,556,543 |
| Long-term loans to related parties | 28,952,744 | - | - | 28,952,744 |
| Long-term receivables | 1,199,807 | - | - | 1,199,807 |
| Trade receivables | 3,303,408 | - | 3,537 | 3,306,945 |
| Other receivables | 1,125,205 | - | - | 1,125,205 |
| Short-term investments | 2,384,428 | - | - | 2,384,428 |
| Other current assets | 84,009 | - | - | 84,009 |
| Long-term liabilities | - | (45,323,621) | - | (45,323,621) |
| Short-term financial liabilities | - | (5,332,191) | - | (5,332,191) |
| Advances received | (163) | - | - | (163) |
| Trade payables | (1,022,184) | (9,338,240) | (28,586,819) | (38,947,243) |
| Other short-term liabilities | (41,371) | - | - | (41,371) |
| Other current liabilities | (9,249) | - | - | (9,249) |
| | 43,692,701 | (59,994,052) | (28,583,282) | (44,884,633) |

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 , unless otherwise stated)***41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)**

For the year ended 31 December 2014 and 2013 the following transaction occurred with related parties:

| | Subsidiary | Parent | Entities under common control | Total |
|--|--------------------|--------------------|--------------------------------------|----------------------|
| Year ended 31 December 2014 | | | | |
| Sales revenue | 10,342,966 | - | 2,208,538 | 12,551,504 |
| Other operating income | 34,501 | - | - | 34,501 |
| Cost of goods sold | (127,787) | - | (65,868) | (193,655) |
| Decrease in inventories of finished goods and work in progress | (9,800,339) | - | (1,627,639) | (11,427,978) |
| Cost of material | (13,003) | (109,522) | (94,590,847) | (94,713,372) |
| Fuel and energy expenses | (437) | - | - | (437) |
| Employee benefits expenses | (27,215) | - | - | (27,215) |
| Production services | (3,877,420) | - | - | (3,877,420) |
| Non-material expense | (550,441) | (51,132) | (12,974) | (614,547) |
| Finance income | 1,086,526 | - | - | 1,086,526 |
| Finance expense | (3,384) | (1,150,071) | - | (1,153,455) |
| Fair value measurement losses | (1,943,236) | - | - | (1,943,236) |
| Other income | - | 52,602 | 202,046 | 254,648 |
| Other expenses | (5,205) | (68,318) | (410,518) | (484,041) |
| | (4,884,474) | (1,326,441) | (94,297,262) | (100,508,177) |
| Year ended 31 December 2013 | | | | |
| Sales revenue | 5,932,498 | - | 92,553 | 6,025,051 |
| Other operating income | 32,789 | - | - | 32,789 |
| Cost of goods sold | (145,451) | - | (17,245) | (162,696) |
| Decrease in inventories of finished goods and work in progress | (5,319,630) | - | - | (5,319,630) |
| Cost of material | - | - | (114,209,629) | (114,209,629) |
| Employee benefits expenses | (79,384) | - | - | (79,384) |
| Production services | (3,421,275) | - | - | (3,421,275) |
| Non-material expense | (196,479) | (45,889) | - | (242,368) |
| Finance income | 1,338,481 | - | - | 1,338,481 |
| Finance expense | - | (1,224,655) | - | (1,224,655) |
| Other income | 10 | - | 297,244 | 297,254 |
| Other expenses | (2,484) | (4,437) | (634,721) | (641,642) |
| | (1,860,925) | (1,274,981) | (114,471,798) | (117,607,704) |

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Notes to financial statements for the year ended 31 December 2014

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

41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

Key management compensation

Management compensation paid in 2014 and 2013 is shown in the table below:

| | Year ended 31 December | |
|--|-------------------------------|----------------|
| | 2014 | 2013 |
| Salaries and other short-term benefits | <u>685,322</u> | <u>404,298</u> |
| | 685,322 | 404,298 |

Main balances and transactions with mayor state owned companies are shown below:

| | 31 December 2014 | 31 December 2013 |
|----------------------------|-----------------------------------|-----------------------------|
| <i>Receivables – gross</i> | | |
| HIP Petrohemija | 13,004,338 | 12,284,032 |
| Srbijagas | <u>29,289,917</u> | <u>27,124,438</u> |
| | 42,294,255 | 39,408,470 |
| <i>Liabilities</i> | | |
| HIP Petrohemija | (830,355) | (1,534,730) |
| Srbijagas | <u>(226,896)</u> | <u>(230,099)</u> |
| | (1,057,251) | (1,764,829) |
| <i>Advances received</i> | | |
| HIP Petrohemija | (7,109) | (7,112) |
| Srbijagas | <u>(12,806)</u> | <u>(12,806)</u> |
| | (19,915) | (19,918) |
| | Year ended 31 December | |
| | 2014 | 2013 |
| <i>Operating income</i> | | |
| HIP Petrohemija | 23,382,492 | 35,132,534 |
| Srbijagas | <u>2,926,879</u> | <u>2,176,974</u> |
| | 26,309,371 | 37,309,508 |
| <i>Operating expenses</i> | | |
| HIP Petrohemija | (174,117) | (30,266) |
| Srbijagas | <u>(751,452)</u> | <u>(1,080,394)</u> |
| | (925,569) | (1,110,660) |

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

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Notes to financial statements for the year ended 31 December 2014*(All amounts are in RSD 000 , unless otherwise stated)***42. CONTINGENT LIABILITIES***Transfer of property ownership*

As at 31 December 2014, the Company had ownership and the right to use and possess of 7,915 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

Finance Guarantees

As at 31 December 2014 the total amount of outstanding finance guarantees given by the Company amounted to RSD 6,434,369 mostly related to customs duties in the amount of RSD 3,145,363 (2013: RSD 2,192,400).

Other contingent liabilities

As at 31 December 2014, 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 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 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 four years ago. Taking all of the above into consideration, the Company's Management is of the view that as at 31 December 2014 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.

43. TAX RISKS

Tax laws of Republic of Serbia 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. The tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years from the transaction date. As at 31 December 2014, Management assessed that the Company had paid all tax liabilities.

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Notes to financial statements for the year ended 31 December 2014

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

44. COMMITMENTS

Leases

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

| | 31 December 2014 | 31 December 2013 |
|--------------------|-----------------------------|-----------------------------|
| Less than one year | 168,359 | 199,402 |
| 1-5 years | 206,160 | 239,269 |
| Over five years | 139,743 | 138,591 |
| | 514,262 | 577,262 |

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

| | 31 December 2014 | 31 December 2013 |
|--------------------|-----------------------------|-----------------------------|
| Less than one year | 817,691 | 418,361 |
| 1-5 years | 1,534,726 | 7,945 |
| | 2,352,417 | 426,306 |

There were no other material commitments of the Company.

45. EVENTS AFTER THE REPORTING PERIOD

No significant events which required disclosure in these Financial Statements, occurred after the reporting date.

Subsequent events occurring after 31 December 2014 were evaluated through 4 March 2015, the date these Financial Statements were authorised for issue.