NAFTNA INDUSTRIJA SRBIJE A.D., Novi Sad

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 AND INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Naftna Industrija Srbije a.d., Novi Sad (the "Parent") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2012 and the consolidated income statement, consolidated statement of changes in shareholder's equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes and the statistical annex.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the requirements of the Law on accounting and auditing of the Republic of Serbia and Note 2 to these consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia and Note 2 to these consolidated financial statements

Milivoje Nesovic
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 25 February 2013

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

NIS A.D. – Naftna industrija Srbije
Novi Sad

Consolidated Financial Statements

31 December 2012

Novi Sad,25 February 2013

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(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED BALANCE SHEET

ASSETS	Notes	31 December 2012	31 December 2011
Non-current assets			
Goodwill		968,940	-
Intangible assets	6	9,400,590	4,708,964
Property, plant and equipment	7	157,611,799	129,217,516
Investment property	8	1,367,378	1,338,269
Investments in equity instruments	9	177,680	225,232
Other long-term investments	10	1,290,057	1,087,147
		170,816,444	**136,577,128**
Current assets			
Inventories	11	44,741,588	35,403,205
Non-current assets held for sale		57,983	181,608
Trade and other receivables	12	40,010,284	20,345,343
Short-term financial investments	13	5,785,975	2,416,899
Cash and cash equivalents	14	12,069,897	25,832,354
VAT and prepaid expenses	15	9,598,891	4,922,034
Deferred tax assets	16	9,788,287	7,875,479
		122,052,905	**96,976,922**
Total assets		**292,869,349**	**233,554,050**
Off-balance sheet assets	17	84,582,742	79,279,565
EQUITY AND LIABILITIES			
Equity	18		
Share and other capital	18.1	87,148,630	87,148,630
Reserves		867,866	884,217
Unrealized gains from securities	18.2	6,918	29,582
Unrealized losses from securities	18.2	(81,446)	(64,090)
Accumulated gain (loss)		45,148,692	(386,999)
Total equity		**133,090,660**	**87,611,340**
Long-term provisions and liabilities			
Long-term provisions	19	13,690,890	13,371,651
Long-term borrowings	20	31,100,703	33,774,543
Other long-term liabilities	21	50,283,107	48,278,469
		95,074,700	**95,424,663**
Short-term liabilities			
Short-term financial liabilities	22	9,359,358	3,445,250
Trade and other payables	23	33,366,219	29,621,937
Other short-term liabilities	24	6,962,356	6,694,698
Liabilities for VAT, other taxes and deferred income	25	12,087,988	8,098,259
Income tax liabilities		505,827	1,493,849
		62,281,748	**49,353,993**
Deferred tax liabilities	16	2,422,241	1,164,054
Total equity and liabilities		**292,869,349**	**233,554,050**
Off-balance sheet liabilities	17	84,582,742	79,279,565

The accompanying notes on pages 9 to 77 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2012	2011
Operating income			
Sales	5	226,605,585	187,069,899
Work performed by the entity and capitalized		5,614,382	4,511,530
Increase in inventories of finished goods and work in progress		1,664,825	768,451
Other operating income	26	198,683	300,309
		234,083,475	192,650,189
Operating expenses			
Cost of goods sold		(26,621,606)	(12,711,852)
Raw material and consumables used	27	(91,646,458)	(95,575,854)
Employee benefits expense	29	(24,922,733)	(21,987,012)
Depreciation, amortisation and provision	28	(9,212,485)	(6,854,507)
Other operating expenses	30	(18,311,703)	(14,793,918)
		(170,714,985)	(151,923,143)
Operating profit		63,368,490	40,727,046
Finance income	31	9,964,434	7,014,939
Finance expenses	32	(15,974,288)	(8,838,821)
Other income	33	4,759,628	7,823,562
Other expenses	34	(14,648,732)	(7,009,260)
Profit before income tax		47,469,532	39,717,466
Income tax expense			
Current income tax expense	35	(2,591,542)	(2,466,758)
Deferred income tax benefit	16	654,621	3,365,056
Profit for the year		**45,532,611**	**40,615,764**
Net loss attributable to non-controlling interests	18	(19,734)	(22,006)
Net profit attributable to owners of parent	18	45,552,345	40,637,770
Earnings per share			
- Basic	36	0.279	0.249

The accompanying notes on pages 9 to 77 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2012	2011
Cash flows from operating activities		
Sales and advances received	312,802,874	282,619,560
Interest from operating activities	1,903,267	984,664
Other inflow from operating activities	192,320	300,309
Cash inflow from operating activities	314,898,461	283,904,533
Payments and prepayments to suppliers	(139,319,224)	(121,617,940)
Salaries, benefits and other personal expenses	(23,671,657)	(21,859,725)
Interest paid	(3,318,871)	(3,114,515)
Income tax paid	(3,572,576)	(1,591,951)
Payments for other public revenues	(107,726,495)	(101,229,604)
Cash outflow from operating activities	(277,608,823)	(249,413,735)
Net cash from operating activities	**37,289,638**	**34,490,798**
Cash flows from investing activities		
Sale of shares	228	17,103
Proceeds from sale of property, plant and equipment	155,088	592,285
Cash inflow from investing activities	155,316	609,388
Purchase of intangible assets, property, plant and equipment	(47,212,914)	(34,059,150)
Other financial investments	(3,759,084)	-
Cash outflow from investing activities	(50,971,998)	(34,059,150)
Net cash used in investing activities	**(50,816,682)**	**(33,449,762)**
Cash flows from financing activities		
Proceeds from long-term and short term borrowings	6,651,461	23,406,069
Proceeds from other long-term and short-term liabilities	3,818,459	26,002,087
Cash inflow from financing activities	10,469,920	49,408,156
Outflows from long-term, short-term and other liabilities	(11,360,516)	(35,177,068)
Cash outflow from financing activities	(11,360,516)	(35,177,068)
Net cash (used in) from by financing activities	**(890,596)**	**14,231,088**
(Decrease) Increase in cash and cash equivalents	**(14,417,640)**	**15,272,124**
Cash and cash equivalents at beginning of year	25,832,354	10,636,669
Currency translation gains on cash and cash equivalents	2,064,732	1,409,520
Currency translation losses on cash and cash equivalents	(1,409,549)	(1,485,959)
Cash and cash equivalents at the end of year	**12,069,897**	**25,832,354**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Other capital	Reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated gain (loss)	Total
Balance as at 1 January 2011	**81,550,757**	**5,597,873**	**889,672**	**48,417**	**(49,236)**	**(41,004,743)**	**47,032,740**
Total increase in previous period	-	-	-	-	(14,854)	40,615,764	40,578,600
Total decrease in previous period	-	-	(5,455)	(18,835)	-	1,980	-
Balance as at 31 December 2011	**81,550,757**	**5,597,873**	**884,217**	**29,582**	**(64,090)**	**(386,999)**	**87,611,340**
Balance as at 1 January 2012	**81,550,757**	**5,597,873**	**884,217**	**29,582**	**(64,090)**	**(386,999)**	**87,611,340**
Total increase in current period	-	-	-	-	(17,356)	45,532,611	45,479,320
Total decrease in current period	-	-	(16,351)	(22,664)	-	3,080	-
Balance as at 31 December 2012	**81,550,757**	**5,597,873**	**867,866**	**6,918**	**(81,446)**	**45,148,692**	**133,090,660**

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Consolidated Financial Statements for the year ended 31 December 2012

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED STATISTICAL ANNEX

For year ended 31 December 2012 and 2011

GENERAL INFORMATION ON COMPANY	**2012**	**2011**
1. Number of months of operations	12	12
2. Code identifying the company's size (1 to 3).	3	3
3. Code identifying the company's ownership structure (1 to 5).	4	4
4. Number of foreign persons, who may be natural persons or legal entities, holding a share in capital.	88	241
5. Average number of employees based on employee position as at each months end.	9,004	9,787

MOVEMENTS WITHIN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND BIOLOGICAL ASSETS	**Gross**	**Accumulated Depreciation**	**Net**
1. Intangible assets			
1.1 Balance as at beginning of the year	6,314,810	1,605,846	4,708,964
1.2. Additions (purchases) during the year	6,540,337	-	6,540,337
1.3. Disposals during the year	117,331	-	879,771
1.4. Revaluation	-	-	-
1.5. Balance as at year end	12,737,816	2,368,286	10,369,530
2. Property, Plant and Equipment, and Biological Assets			
2.1. Balance as at beginning of the year	193,882,078	63,326,293	130,555,785
2.2. Additions (purchases) during the year	52,999,784	-	52,999,784
2.3. Disposals during the year	(17,712,794)	-	(24,576,392)
2.4. Revaluation	-	-	-
2.5. Balance as at year end	229,169,068	70,189,891	158,979,177

INVENTORIES	**2012**	**2011**
1. Stock of material	23,677,683	18,439,853
2. Work in progress	7,941,977	5,807,718
3. Finished goods	8,079,365	8,548,192
4. Merchandise	4,195,276	2,222,540
5. Non-current assets available–for-sale	57,983	181,608
6. Prepayments	847,287	384,902
Total	44,799,571	35,584,813
EQUITY		
Share capital	81,530,200	81,530,200
- foreign capital	46,029,868	45,999,066
Stakes of a limited liability company	20,557	20,557
- foreign capital	120	120
Stakes of members of a partnership or limited partnership	-	-
- foreign capital	-	-
State owned capital	-	-
Socially owned capital	-	-
Stakes in cooperatives	-	-
Other equity	5,597,873	5,597,873
Total	87,148,630	87,148,630
SHARE CAPITAL		
1. Ordinary Shares		
1.1. Number of ordinary shares	163,060,400	163,060,400
1.2. Face value of ordinary shares – Total	81,530,200	81,530,200
2. Preference shares	-	-
2.1. Number of preference shares	-	-
2.2. Face value of preference shares – Total	-	-
TOTAL – Face value of shares	81,530,200	81,530,200

CONSOLIDATED STATISTICAL ANNEX (continued)

For year ended 31 December 2012 and 2011

	2012	2011
RECEIVABLES AND PAYABLES		
1. Receivables from sales (Balance at year end)	39,663,600	19,975,688
2. Payables from operations (Balance at year end)	33,071,998	29,294,014
3. Receivables from insurance companies for compensation for damage during the year (debit turnover less opening balance)	46,090	74,899
4. VAT – previous tax (annual amount as per tax declarations)	34,227,364	27,606,211
5. Payables from operations (credit turnover less opening balance)	557,941,446	496,661,215
6. Net salaries and fringe benefits payable (credit turnover less opening balance)	15,229,063	13,967,998
7. Tax on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	2,331,875	2,242,455
8. Contribution on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	2,657,829	2,501,661
9. Dividends, share in profit and personal earnings of the employer payable (credit turnover less opening balance)	-	-
10. Fees for services rended by natural persons payable (credit turnover less opening balance)	571,690	544,357
11. VAT liability (annual amount as per tax declarations)	50,494,207	40,098,228
Total	736,235,162	632,966,726
OTHER COSTS AND EXPENSES		
1. Cost of fuel and energy	2,783,467	1,945,595
2. Cost of salaries and fringe benefits (gross)	16,789,491	15,094,120
3. Cost of taxes and contributions on salaries and fringe benefits charged to employer	2,618,554	2,521,657
4. Cost of fees for services rendered by natural persons (gross)	530,364	409,123
5. Cost of fees for members of management and supervisory boards (gross)	35,216	28,545
6. Other personal fees and expenses	4,949,108	3,933,567
7. Production services cost	8,068,561	6,360,587
8. Rental costs	681,608	584,052
9. Rental costs/Land	1,002	506
10. Research and development costs	759,226	177,971
11. Cost of depreciation	6,858,262	6,677,901
12. Insurance premium costs	225,371	222,566
13. Bank fees	214,311	253,537
14. Membership fees	83,837	69,979
15. Taxes	2,262,103	2,835,259
16. Contributions	144	751
17. Interest payable	1,940,559	2,633,673
18. Interest payable and a portion of financial expenses	2,064,784	2,671,707
19. Interest payable on bank loans and loans from other financial organizations	1,753,977	2,472,117
20. Cost of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	32,374	57,150
Total	52,652,319	48,950,363

CONSOLIDATED STATISTICAL ANNEX (continued)

For year ended 31 December 2012 and 2011

	2012	2011
OTHER REVENUE		
1. Sales of merchandise	30,004,293	14,721,780
2. Revenues from premiums, subventions, grants, recourses, compensations and tax returns	15,496	14,875
3. Revenues from conditional donations	-	-
4. Revenues from land-rental fees	1,587	1,229
5. Membership fees	-	-
6. Interest receivable	3,051,045	1,356,264
7. Interest receivable incurring from accounts and deposits with banks and other financial organizations	1,196,010	685,453
8. Revenues from dividends and share in profit	-	-
Total	34,268,431	16,779,601
OTHER INFORMATION		
1. Excise duty liability (as per annual calculation of excise duty)	54,230,522	55,923,060
2. Customs and other import duties calculated (Annual Total as per calculation)	36,242,650	30,203,662
3. Capital subsidies and other government grants for the construction and purchase of fixed assets and intangible assets	-	-
4.Government grants as premiums, recourses and coverage of running operating costs	-	-
5. Other Government grants	15,497	-
6. Foreign donations and other non-returnable funds, received either in cash or in kind from foreign legal and/or natural persons	-	-
7. Personal earnings of the enterprener from net profit (To be completed only by enterpreneurs)	-	-
Total	90,488,669	86,126,722

The accompanying notes on pages 9 to 77 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

NIS a.d. – Naftna Industrija Srbije, Novi Sad (the Parent) and its subsidiaries (together "the Group") is a vertically integrated oil company operating predominantly in Serbia. The Group's principal activities include:

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

The Parent was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005 as the 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 Parent's Share Sale and Purchase Agreement, Gazprom Neft acquired an additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%.

The Parent is an open joint stock company, listed on the Belgrade Stock Exchange, Listing A (Prime Market).

The address of the Group's registered office is in Novi Sad, no.12 Narodnog fronta Street.

These consolidated financial statements have been approved and autorized 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 consolidated financial statements for the year ended 31 December 2011.

2.1. Basis of preparation and presentation of finacial statements

These consolidated financial statements for the year ended 31 December 2012 were prepared in accordance with the Law on Accounting and Auditing of the Republic of Serbia published in Official Gazette of the Republic of Serbia (no. 46/2006 and 111/2009), which requires full scope of International Finacial Reporting Standards (IFRS) to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia. Due to the difference between these two regulations, consolidated financial statements differ from IFRS in the following respects:

- The consolidated financial statements are prepared in format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 – "Presentation of Financial Statements" requirements.
- "Off-balance sheet assets and liabilities" are recorded on the face of the consolidated balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.
- Property, plant and equipment were measured at market value by independent appraisal and any revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006.

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

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

2.2. New accounting standards

The following new standards and interpretations became effective for the Group from 1 January 2012:

- Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these consolidated financial statements.

Certain new and amended standards and interpretations have been issued that are mandatory for the first time for the financial year beginning 1 January 2013 or later, and which the Group has not early adopted:

IFRS 9, Financial Instruments - I: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

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

2.2. New accounting standards (continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

- IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.
- Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two Companies, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group's Management expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.
- Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.
- Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of the Group's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

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

2.2. New accounting standards (continued)

- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement.
- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 “Borrowing costs”, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements.
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 “Consolidated Financial Statements”. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

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

2.2. New accounting standards (continued)

- Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

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 in accordance with new governance structure that the Parent has adopted during 2012 in compliance with the new Company law of the Republic of Serbia, are the Parent's Board of Directors and the General Manager Advisory Board.

2.4. Consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies in order to make profit from their activity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Inter-group transactions, balances and unrealized gains on transactions between Group companies are eliminated during the preparation of consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.4. Consolidation (continued)

b) Non-controlling interests

In consolidated financial statements, non-controlling interests in subisidiaries are presented separatly from Group equity as non-controlling interests (note 18).

c) Associates

Associates are all entities over which the Parent has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Associates are all entities where the Parent performs common control determined by contract, and where consensus decides on operating and financial policies.

Investments in associates are accounted for using the equity method.

2.5. Foreign currency translation

(a) *Functional and presentation currency*

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency'). The consolidated financial statements are presented in RSD, which is the Group's presentation currency.

(b) *Transactions and balances*

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

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and other monetary assets and liabilities are presented in the Consolidated Income Statement within "financial income or expenses".

(c) *Group Entities*

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

I. assets and liabilities are translated into the RSD using the exchange rate as at the date of that Consolidated Balance Sheet;
II. income and expenses are transleted at average exchange rates and all resulting foreign exchange differences are rocognized in reserves as separate items in equity.

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

2.6. Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

2.7. Goodwill

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in Consolidated Income Statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

2.8. Intangible assets

(a) *Licenses and rights*

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

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

(b) *Computer software*

These include primarily the costs of implementation the (SAP) computer software program. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

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

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

2.9. 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 amortization are charged during development.

(c) *Oil and gas production assets*

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

(d) *Depreciation/amortization*

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

(e) *Impairment – exploration and evaluation assets*

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

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

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

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

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

2.10. Property, plant and equipment

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

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

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

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

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 34).

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

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

2.12. Investment property

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

Investment property principally comprises petrol stations, business facilities and apartments rented out to current and former Group employees for a period exceeding one year.

Investment property is carried at fair value, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the Consolidated Income Statement as part of other income/expenses (note 33 and 34).

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

2.13. Construction contracts

A construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset. Contract costs are recognized as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the ‘percentage-of-completion method’ to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, pre-payments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within ‘trade and other receivables’.

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

2.13. Construction contracts (continued)

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.14. Financial assets

The Group 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. The Group's loans and receivables comprise 'trade and other receivables'.

(b) *Available for sale financial assets*

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

2.14.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group 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 Group 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 the Group specific inputs.

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

2.14. Financial assets (continued)

2.14.2. Recognition and measurement (continued)

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in Consolidated Income Statement for the year as finance income. Dividends on available-for-sale equity instruments are recognised in Consolidated Income Statement for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to finance income (expenses) in Consolidated Income Statement for the year (notes 31 and 32).

2.14.3. Impairment of financial assets

(a) Assets carried at amortised cost

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

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

2.14. Financial assets (continued)

2.14.3. Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

The Group 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 Consolidated 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 Group 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 Consolidated Income Statement.

(b) Assets classified as available for sale

The Group 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 Group 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 Consolidated Income Statement — is removed from equity and recognised in the Consolidated Income Statement. Impairment losses recognised in the Consolidated Income Statement on equity instruments are not reversed through the Consolidated 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 Consolidated Income Statement, the impairment loss is reversed through the Consolidated Income Statement.

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.

Spare parts for equipment used in production are stated at cost The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed once a year. Impairment losses are recognized as other expenses (note 34).

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

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

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (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 Consolidated Income Statement within 'other expenses' (note 34). 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 'other income' in the Consolidated Income Statement (note 33).

2.18. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, cash in banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Consolidated Balance Sheet.

2.19. Off-balance sheet assets and liabilities

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

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

2.20. Share capital

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

2.21. Other capital

Other capital refers to non-registered share capital of the Parent, arisen at the date of the foundation of the Parent.

2.22. Reserves

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

2.23. Earnings per share

The Group calculates and discloses the basic earnings per share. Basic earnings per share is calculated by dividing the net income that belongs to shareholders, the owners of ordinary shares of the Group, by the weighted average number of ordinary shares issued during the period (note 36).

2.24. Provisions

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

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

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

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

2.25. 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 Consolidated 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.26. 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.

2.27. Current and deferred income tax

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

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

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

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

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

2.27. 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.

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

2.28. Employee benefits

(a) *Pension obligations*

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

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

The Group provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period. The new Collective Labour Agreement has been applied as of 1 June 2011.

Jubilee awards

The amount of jubilee awards to be paid is determined as a number of monthly salaries based on the number of completed years of service within the Group, as presented in the table below:

Minimum years of service in the Group	Collective Labour Agreement Number of monthly salaries
10	1
20	1.5
30	2
35	2.5
40	2.5

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

2.28. Employee benefits (continued)

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

Retirement benefits

The Group shall pay to employees when they are retiring, retirement benefits equal to a maximum of three average Group's salaries paid in the months preceding the retirement.

The expected costs of these benefits are accrued over the period of employment.

The defined benefit obligation is 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 high-quality corporate 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 pension liability. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the related employees for pension obligations, and charged or credited to income in full amount for jubilee awards and termination benefits.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(c) *Bonus plans*

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

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

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

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

a) Sales - wholesale

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

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

b) Sales– retail

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

c) Sales of services

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

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

2.29. Revenue recognition (continued)

c) Sales of services (continued)

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

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

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

d) Interest income

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

e) Income from work performed by the Group and capitalized

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

f) Dividend income

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

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

2.30. Leases

a) Leases: Accounting by lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Income Statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the Consolidated Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment, acquired under finance leases, are depreciated over the shorter of the useful life of the asset and the lease term.

b) Leases: Accounting by lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

When assets are leased out under an operating lease, the asset is included in the Consolidated Balance Sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

2.31. Dividend distribution

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

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

2.32. Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and take a substantial time to get ready for their intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTIG POLICIES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1. Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

(a) *Income tax*

The Group is subject to income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities provisions in the period in which such determination is made.

(b) *Revenue recognition*

The Group uses the percentage-of-completion method in accounting for its sales of services. Use of the percentage-of-completion method requires management to estimate the services performed to date as a proportion of the total services to be performed.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTIG POLICIES (continued)

3.1. Critical accounting estimates and assumptions (continued)

(c) *Employee benefits*

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

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

If the discount rate used to calculate the present value of employee benefit obligations had been 7% (rather than 7.65%) per year, the past service liability (DBO) would have increased by approx. 9.7% for termination benefits and 5.9% for jubilee awards. If the employee salaries were to increase by 7% (rather than 6%) per year, the past service liability (DBO) would increase by approx. 15% for termination benefits and 8.8% for jubilee awards.

(d) *Decommissioning Obligations*

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

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

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

If the discount rate used to calculate the present value of decommissioning obligations had been 8.65% (rather than 7.65%) per year, the present liability would have increased by approx. RSD 357,251.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTIG POLICIES (continued)

3.2. Critical judgments in applying accounting policies

(a) *Impairment of available for sale financial assets*

The Group follows the guidance of IAS 39 to determine when an available for sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(b) *Financial crisis*

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

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

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

Impact on liquidity:

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

Impact on customers/ borrowers:

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

4. FINANCIAL RISK MANAGEMENT

4.1. Financial risk factors

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

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

(a) *Market risk*

a) Foreign exchange risk

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

The Group’s 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. The total amounts of carrying values of financial assets and liabilities denominated in foreign currencies are shown in the table below:

	Financial Assets		**Financial Liabilities**	
	31 December 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
EUR	9,162,749	13,938,466	66,177,922	58,537,300
USD	8,741,594	7,699,163	46,654,185	50,272,976
JPY	-	-	477,670	514,970
Other	946,740	184,669	712,125	98,823

As at 31 December 2012, if the currency had weakened/strengthened by 10% against the EUR, USD and JPY with all other variables held constant, post-tax profit for the year would have been RSD 975,131 (2011: RSD 809,993) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR and USD denominated intercompany loans, trade receivables, trade payables and foreign exchange losses/gains on translation of EUR, USD and JPY denominated borrowings.

b) Commodity Price risk

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

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

(a) *Market risk (continued)*

b) Commodity Price risk (continued)

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

c) Cash flow and fair value interest rate risk

As at 31 December 2012 the Group had significant amounts of cash and cash equivalents. The cash was deposited only in banks with which the Group has passive business relationships i.e. loans and credit/documentary lines. Also, RSD and foreign currency fixed term deposits are short term (up to 90 days) and bear fixed interest rates. Based on the above information, the Group's revenues and cash flows are to a great extent independent of changes in market interest rates on fixed term deposits, although the interest rates that the Group can achieve in the market to a great extent depend on the level of basic interest rates at the time when cash has been deposited (Belibor / NBS key policy rate).

Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR) has a proportionate impact on the Group's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2012 would have been RSD 820,669 (2011: RSD 640,891) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) *Credit risk*

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

Banks are rated only in the case of collateralised receivables on various grounds, as well as based on the banks total exposure to the Group. For domestic banks, if it is bank with who the Group has passive activities the second criterion is applied and if it is a bank with who Group doesn't have cooperation, credit limits are determined based on the defined methodology.

Sales to retail customers are settled in cash or using credit cards.

The Group has provided for receivables from customers who have exceeded their credit limits or are undergoing liquidity problems (note 12).

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

(c) *Liquidity risk*

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

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

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

As at 31 December 2012	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	4,281	1,413,061	7,943,224	45,780,957	35,601,645	90,743,168
Liabilities from business operations	15,859,713	17,279,162	227,334	-	10	33,366,219
Other short-term liabilities	6,051,982	75,277	835,097	-	-	6,962,356
Accrued expenses and deferred revenue	2,359,137	22,426	1,792,862	-	-	4,174,425
	24,275,113	**18,789,926**	**10,798,517**	**45,780,957**	**35,601,655**	**135,246,168**

As at 31 December 2011	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	760,201	157,555	3,098,980	45,258,966	36,222,560	85,498,262
Liabilities from business operations	11,087,784	9,484,179	9,049,974	-	-	29,621,937
Other short-term liabilities	6,690,255	1,402	3,041	-	-	6,694,698
Accrued expenses and deferred revenue	2,693,884	-	-	-	-	2,693,884
	21,232,124	**9,643,136**	**12,151,995**	**45,258,966**	**36,222,560**	**124,508,781**

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4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the Consolidated Balance Sheet) less cash and cash equivalents.

Total capital employed is calculated as 'equity' as shown in the Consolidated Balance Sheet plus net debt.

The gearing ratios at 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Total borrowings (notes 20, 21 and 22)	90,671,013	84,794,521
Less: cash and cash equivalents (note 14)	(12,069,897)	(25,832,354)
Net debt	78,601,116	58,962,167
Total capital employed	211,691,776	146,573,507
Gearing ratio	0.37	0.40

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 Group is the current bid price.

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

5. SEGMENT INFORMATION

Operating segments, are segments whose operating results are regularly reviewed by the Chief Operating Decision Maker („CODM") of the Parent. During 2012, the Parent has adopted new governance structure in compliance with the new Company law of the Republic of Serbia. The Parent's Board of Directors and the General Manager Advisory Board represent the CODM according to newly adopted structure.

As at 31 December 2012 business activities of the Group are organized into five operating segments:

1. Exploration and production of Oil and Natural gas,
2. Oil Field Services,
3. Refining,
4. Oil and Oil Products Trading,
5. Other – Administration and Energy.

The reportable segments derive their revenue from the following activities:

1. Exploration and Production of Oil and Natural Gas – production and sale of crude oil and natural gas,
2. Oil Field Services – drilling services, construction works and geophysical measurement and transportation services,
3. Refining – refining of crude oil and sale of petroleum products to NIS trade segment,
4. Trading Oil and Petroleum Products – retail and wholesale activities consistent with the policy.

Reportable segment results for the year ended 31 December 2012 are shown in the table below:

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Segment revenue	92,091,398	9,078,394	155,584,039	205,877,574	18,381,644	(246,929,571)	234,083,478
Intersegment	83,074,073	4,074,978	154,020,794	1,958,959	3,800,767	(246,929,571)	-
External	9,017,325	5,003,416	1,563,245	203,918,615	14,580,874	-	234,083,475
Depreciation and amortisation	(2,107,908)	(761,748)	(1,950,957)	(883,997)	(1,153,652)	-	(6,858,262)
Impairment losses	(113,062)	(18,331)	(64,127)	(427,966)	(1,339,322)	-	(1,962,808)
Segment profit (loss) from operating activities	83,736,516	(949,907)	(9,096,463)	(117,541)	(10,204,115)	-	63,368,490
Finance income (expenses)	(201,024)	4,126	(761,856)	277,555	(5,328,655)	-	(6,009,854)
Other income (expenses)	(3,289,756)	789,843	166,657	(567,351)	(6,988,497)	-	(9,889,104)
Segment profit (loss) before tax	**80,245,736**	**(155,938)**	**(9,691,662)**	**(407,337)**	**(22,521,267)**	**-**	**47,469,532**
Deferred income tax	(275)	(53,827)	-	-	708,723	-	654,621
Income tax expense	(6)	(8,124)	-	(377)	(2,583,035)	-	(2,591,542)
Segment profit (loss)	**80,245,455**	**(217,889)**	**(9,691,662)**	**(407,714)**	**(24,395,579)**	**-**	**45,532,611**

5. SEGMENT INFORMATION (continued)

Reportable segments results for the year ended 31 December 2011 are shown in the table below:

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Segment revenue	78,152,193	6,999,742	136,362,877	168,759,386	421,286	(198,045,295)	192,650,189
Intersegment	59,703,080	2,406,034	135,633,379	302,802	-	(198,045,295)	-
External	18,449,113	4,593,708	729,498	168,456,584	421,286	-	192,650,189
Depreciation and amortisation	(2,068,783)	(856,169)	(2,023,125)	(783,755)	(946,069)	-	(6,677,901)
Impairment losses	(379,934)	(11,233)	(26,397)	(126,253)	(32,458)	-	(576,275)
Segment profit (loss) from operating activities	65,042,473	(634,719)	(15,478,960)	(973,979)	(7,227,769)	-	40,727,046
Finance income (expenses)	(355,085)	10,510	(318,367)	400,497	(1,561,437)	-	(1,823,882)
Other income (expenses)	(25,105)	(1,263,299)	(1,728,714)	3,042,871	788,549	-	814,302
Segment profit (loss) before tax	**64,662,283**	**(1,887,508)**	**(17,526,041)**	**2,469,389**	**(8,000,657)**	**-**	**39,717,466**
Deferred income tax	-	-	-	-	3,365,056	-	3,365,056
Income tax expense	-	-	-	-	(2,466,758)	-	(2,466,758)
Segment profit (loss)	**64,662,283**	**(1,887,508)**	**(17,526,041)**	**2,469,389**	**(7,102,359)**	**-**	**40,615,764**

Intersegment revenues are performed in accordance with the transfer pricing policy.

The analysis of the Group's revenue from the main products and services (based on the country of customer incorporation and sales chanel) is presented in the table below:

	Year ended 31 December 2012		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	4,917,362	4,917,362
Sale of gas	17,814,542	-	17,814,542
Through a retail network	-	-	-
Wholesale activities	*17,814,542*	-	*17,814,542*
Sale od petroleum products	180,236,111	19,506,780	199,742,891
Through a retail network	*58,062,240*	-	*58,062,240*
Wholesale activities	*122,173,871*	*19,506,780*	*141,680,651*
Other sales	3,765,950	364,840	4,130,790
Total Sales	**201,816,603**	**24,788,982**	**226,605,585**
Work performed by the entity and capitalized			5,614,382
Increase in inventories of finished goods and work in progress			1,664,825
Other operating income			198,683
Total Operating Income			**234,083,475**

5. SEGMENT INFORMATION (continued)

	Year ended 31 December 2011		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	4,685,664	4,685,664
Sale of gas	13,288,107	-	13,288,107
Through a retail network	*-*	*-*	*-*
Wholesale activities	*13,288,107*	*-*	*13,288,107*
Sale od petroleum products	152,219,473	14,315,844	166,535,317
Through a retail network	*43,193,966*	*-*	*43,193,966*
Wholesale activities	*109,025,507*	*14,315,844*	*123,341,351*
Other sales	1,740,707	820,104	2,560,811
Total Sales	**167,248,287**	**19,821,612**	**187,069,899**
Work performed by the entity and capitalized			4,511,530
Increase in inventories of finished goods and work in progress			768,451
Other operating income			300,309
Total Operating Income			**192,650,189**

6. INTANGIBLE ASSETS

	Research and development	Concessions, patents, licenses and rights	Intangible assets under development	Other intangibles	Total
As at 1 January 2011					
Cost	-	878,120	1,843,860	4,732,177	7,454,157
Accumulated depreciation and impairment	-	(184,432)	(1,698,294)	(730,013)	(2,612,739)
Net book amount	**-**	**693,688**	**145,566**	**4,002,164**	**4,841,418**
Year ended 31 December 2011					
Opening net book amount	-	693,688	145,566	4,002,164	4,841,418
Additions	182,322	81,886	375,514	-	639,722
Transfer from IA under development	-	-	(246,938)	246,938	-
Transfer to PP&E (note 7)	-	-	-	(74,037)	(74,037)
Amortisation (note 28)	-	(15,702)	-	(661,754)	(677,456)
Impairment (note 34)	-	(1,625)	-	(37,866)	(39,491)
Disposals	-	24,911	(2,499)	(3,377)	19,035
Other transfers	-	(56,549)	30	56,292	(227)
Closing net book amount	**182,322**	**726,609**	**271,673**	**3,528,360**	**4,708,964**
As at 31 December 2011					
Cost	182,322	956,792	413,952	4,760,097	6,313,163
Accumulated depreciation and impairment	-	(230,183)	(142,279)	(1,231,737)	(1,604,199)
Net book amount	**182,322**	**726,609**	**271,673**	**3,528,360**	**4,708,964**
Year ended 31 December 2012					
Opening net book amount	182,322	726,609	271,673	3,528,360	4,708,964
Additions	2,297,802	-	1,227,969	-	3,525,771
Transfer from IA under development	-	943,983	(1,447,558)	503,575	-
Transfer from PP&E (note 7)	1,786,149	-	251,012	8,465	2,045,626
Amortisation (note 28)	-	(98,928)	-	(598,925)	(697,853)
Impairment (note 34)	-	-	(86,459)	(691)	(87,150)
Disposals	(107,758)	-	(212)	-	(107,970)
Other transfers	-	62,694	7,529	(81,882)	(11,659)
Translation reserves	16,004	8,839	-	18	24,861
Closing net book amount	**4,174,519**	**1,643,197**	**223,954**	**3,358,920**	**9,400,590**
As at 31 December 2012					
Cost	4,174,519	1,973,896	429,983	5,190,478	11,768,876
Accumulated depreciation and impairment	-	(330,699)	(206,029)	(1,831,558)	(2,368,286)
Net book amount	**4,174,519**	**1,643,197**	**223,954**	**3,358,920**	**9,400,590**

Research and development as at 31 December 2012 in the amount of RSD 4,174,519 mostly relate to investments in geological, 2D and 3D seismic explorations in the Balkan region and on the territory of the Republic of Serbia.

Other intangibles as at 31 December 2012 in the amount of RSD 3,358,920 mostly relate to investment in the SAP system in the amount of RSD 2,947,663 (2011: RSD 3,401,832).

Amortisation amounting to RSD 697,853 (2011: RSD 677,456) is included in Operating expenses within the Consolidated Income Statement (note 28).

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
As at 1 January 2011								
Cost	11,505,502	63,318,757	55,614,069	15,994,254	94,782	129,318	12,828,807	159,485,489
Accumulated depreciation and impairment	(737,373)	(24,278,791)	(29,939,778)	(3,366,233)	(1,356)	(120,887)	(116,387)	(58,560,805)
Net book amount	**10,768,129**	**39,039,966**	**25,674,291**	**12,628,021**	**93,426**	**8,431**	**12,712,420**	**100,924,684**
Year ended 31 December 2011								
Opening net book amount	10,768,129	39,039,966	25,674,291	12,628,021	93,426	8,431	12,712,420	100,924,684
Additions	1,001,309	4,898,941	2,495,520	31,513,740	6,986	-	14,627,610	54,544,106
Other transfers	(327)	(1,057,980)	726,471	306,070	84	2	-	(25,680)
Disposals and advances paid used	(232)	(77,761)	(56,067)	(67,635)	(4,707)	-	(18,591,128)	(18,797,532)
Depreciation (note 28)	-	(2,550,701)	(3,446,732)	-	-	(3,012)	-	(6,000,445)
Impairment charge (note 34)	(106)	(32,357)	(53,566)	(255,528)	(4,501)	-	-	(346,058)
Adjustment of assets value for estimated costs of the restoration of natural resources (note 19)	-	(1,035,326)	-	-	-	-	-	(1,035,326)
Transfer from intangible assets (note 6)	-	-	74,037	-	-	-	-	74,037
Transfer to investment property (note 8)	(47,205)	(73,065)	-	-	-	-	-	(120,270)
Closing net book amount	**11,721,568**	**39,111,715**	**25,413,954**	**44,124,668**	**91,288**	**5,421**	**8,748,902**	**129,217,516**
As at 31 December 2011								
Cost	12,417,133	63,546,775	60,477,344	47,106,611	96,308	129,318	8,770,320	192,543,809
Accumulated depreciation and impairment	(695,565)	(24,435,060)	(35,063,390)	(2,981,943)	(5,020)	(123,897)	(21,418)	(63,326,293)
Net book amount	**11,721,568**	**39,111,715**	**25,413,954**	**44,124,668**	**91,288**	**5,421**	**8,748,902**	**129,217,516**
Year ended 31 December 2012								
Opening net book amount	11,721,568	39,111,715	25,413,954	44,124,668	91,288	5,421	8,748,902	129,217,516
Additions	2,342,264	28,849,580	35,990,372	(22,712,907)	351	-	6,020,653	50,490,313
Acquisitions through business combinations (note 38)	-	-	-	2,503,391	-	-	-	2,503,391
Other transfers	67,107	(117,352)	56,325	-	-	-	-	6,080
Disposals and advances paid used	(1,631)	(361,368)	(40,369)	(1,670,441)	(722)	-	(12,314,738)	(14,389,269)
Depreciation (note 28)	-	(2,666,295)	(3,490,986)	-	-	(3,128)	-	(6,160,409)
Impairment charge (note 34)	-	(112,396)	(88,711)	(1,656,219)	(616)	-	-	(1,857,942)
Transfer to intangible assets (note 6)	-	-	-	(2,045,626)	-	-	-	(2,045,626)
Transfer to investment property (note 8)	(56,218)	(8,670)	-	(51,342)	-	-	-	(116,230)
Translation reserves	90,868	5,605	3,612	(126,217)	-	118	(10,011)	(36,025)
Closing net book amount	**14,163,958**	**64,700,819**	**57,844,197**	**18,365,307**	**90,301**	**2,411**	**2,444,806**	**157,647,824**
As at 31 December 2012								
Cost	14,856,754	91,713,066	95,863,682	22,681,199	91,447	129,318	2,466,224	227,801,690
Accumulated depreciation and impairment	(692,796)	(27,012,247)	(38,019,485)	(4,315,892)	(1,146)	(126,907)	(21,418)	(70,189,891)
Net book amount	**14,163,958**	**64,700,819**	**57,844,197**	**18,365,307**	**90,301**	**2,411**	**2,444,806**	**157,611,799**

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Additions to property, plant and equipment in 2012 amounting to RSD 50,490,313 (2011: RSD 54,544,106) mostly relate to investments in MHC/DHT project (investments in the construction of a Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery which was finalised and put in use by the end of 2012) amounting to RSD 19,636,311, construction of hydrogen generation plant of RSD 3,091,637, reconstruction of docks and filling terminals of RSD 2,384,539, exploration rigs of RSD 1,719,628, purchase of transport vehicles of RSD 1,071,985 and reconstruction of gas stations of RSD 835,854. Advances paid to suppliers for the MHC/DHT project as at 31 December 2012 amounted to RSD 559,386.

In 2012, in accordance with revised IAS 23 'Borrowing Costs', the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 1,879,931 (2011: RSD 1,141,090).

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

	31 December 2012	31 December 2011
Cost capitalised - finance leases	153,401	170,134
Accumulated depreciation	(48,947)	(46,014)
Net book amount	**104,454**	**124,120**

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

As at 31 December 2012 the Group assessed impairment indicators of cash generating units ("CGU") and concluded that no indications of additional impairment or reversals of previously recognized impairment losses had been identified.

In 2012, the Group made impairment of PP&E in the amount of RSD 1,857,942 (2011: RSD 346,058) which is mainly related to impairment of jointly controlled investment in tourist complex ''Crni Vrh'' in amount of RSD 1,616,295 and impairment of demolished or obsolete investments (note 34).

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

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Oil and gas production assets

	Total - asset under construction (exploration and development expenditure)	Production assets	Other bussines and corporate assets	Total
As at 1 January 2011				
Cost	2,133,743	43,991,660	129,620	46,255,023
Accumulated depreciation and impairment	(128,385)	(15,282,939)	(109,917)	(15,521,241)
Net book amount	**2,005,358**	**28,708,721**	**19,703**	**30,733,782**
Year ended 31 December 2011				
Opening net book amount	2,005,358	28,708,721	19,703	30,733,782
Additions	8,241,325	-	-	8,241,325
Transfer from assets other than O&G	-	74,037	-	74,037
Transfer from asset under construction	(4,628,094)	4,627,567	527	-
Other transfers	44,225	525,193	(1,128)	568,290
Impairment charge	(181,455)	(18,342)	(4,501)	(204,298)
Depreciation	(709)	(2,846,435)	(360)	(2,847,504)
Transfer to investment property	-	(308)	-	(308)
Adjustment of assets value for estimated costs of the restoration of natural resources (note 19)	-	(1,035,326)	-	(1,035,326)
Disposals	(4,702)	(114,470)	814	(118,358)
Closing net book amount	**5,475,948**	**29,920,637**	**15,055**	**35,411,640**
As at 31 December 2011				
Cost	5,776,676	48,208,255	129,810	54,114,741
Accumulated depreciation and impairment	(300,728)	(18,287,618)	(114,755)	(18,703,101)
Net book amount	**5,475,948**	**29,920,637**	**15,055**	**35,411,640**
Year ended 31 December 2012				
Opening net book amount	5,475,948	29,920,637	15,055	35,411,640
Additions	11,864,273	252	-	11,864,525
Transfer from assets other than O&G	794,081	-	-	794,081
Transfer from asset under construction	(6,082,728)	6,082,728	-	-
Other transfers	28,952	(216,715)	(1,374)	(189,137)
Impairment charge	(6,702)	(82,066)	(9)	(88,777)
Depreciation	(3,161)	(2,792,982)	(360)	(2,796,503)
Disposals	(733,702)	(2,499)	-	(736,201)
Translation reserves	24,837	249	-	25,086
Closing net book amount	**11,361,798**	**32,909,604**	**13,312**	**44,284,714**
As at 31 December 2012				
Cost	11,669,985	53,371,094	123,953	65,165,032
Accumulated depreciation and impairment	(308,187)	(20,461,490)	(110,641)	(20,880,318)
Net book amount	**11,361,798**	**32,909,604**	**13,312**	**44,284,714**

Oil and gas production assets comprise aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.9.).

8. INVESTMENT PROPERTY

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

Movements on the account were as follows:

	2012	2011
As at 1 January	**1,338,269**	**1,393,170**
Fair value losses (note 34)	(17,716)	(190,726)
Transfer from PP&E (note 7)	116,230	120,270
Transfer to non-current assets held for sale	(41,702)	-
Disposals	(27,670)	-
Other	(33)	15,555
As at 31 December	**1,367,378**	**1,338,269**

The following amounts relating to leasing activites have been recognized in the Consolidated Income Statement:

	Year ended 31 December	
	2012	2011
Rental income (note 26)	116,483	120,553

As at 31 December 2012 investment properties amounting to RSD 1,367,378 (31 December 2011: RSD 1,338,269) mainly relate to the petrol stations, business facilities and apartments that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

9. INVESTMENTS IN EQUITY INSTRUMENTS

	31 December 2012	31 December 2011
Financial assets available for sale	2,161,005	2,211,557
Less: Provision	(1,983,325)	(1,986,325)
	177,680	**225,232**

Financial assets available for sale

	31 December 2012	31 December 2011
In shares	2,132,741	2,172,998
In stakes	28,264	31,264
Other	-	7,295
	2,161,005	2,211,557
Less: Provision	(1,983,325)	(1,986,325)
	177,680	**225,232**

9. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

Financial assets available for sale (continued)

Investments in other legal entities as at 31 December 2012 relate to the following companies:

Company	Investment	Impairment	Net book value	Share %
HIP Petrohemija a.d., Pančevo, Serbia	1,682,522	(1,682,522)	-	12.72%
MSK a.d., Kikinda, Serbia	265,507	(265,507)	-	10.10%
Prokons, Subotica, Serbia	91,227	-	91,227	20.15%
Maco nafta, Skopje, Macedonia	47,185	-	47,185	49.00%
Linde Gas Serbia a.d. Bečej, Serbia	4,269	(4,269)	-	12.44%
SPC Pinki, Belgrade, Serbia	174	-	174	46.16%
Other legal entities	70,121	(31,027)	39,094	5.89%
	2,161,005	**(1,983,325)**	**177,680**	

Available for sale financial assets include the following:

	31 December 2012	31 December 2011
Listed securities, quoted on BELEX:		
- shares	170,550	218,101
Unlisted securities:		
- shares	7,130	7,131
	177,680	**225,232**

Movements on the available for sale financial assets:

	2012	2011
As at 1 January	225,232	186,154
Trasfer	-	61,878
Fair value adjustments	(40,020)	(22,800)
Disposal	(7,159)	-
Other	(373)	-
As at 31 December	**177,680**	**225,232**

Movement on the provision for available for sale financial assets:

	2012	2011
As at 1 January	(1,986,325)	(2,202,985)
Write-off of investment in:		
- Beogradska Banka - in bankruptcy a.d., Belgrade	-	200,057
- Jugobanka - in bankruptcy a.d., Belgrade	-	23,416
- Other	-	455
Transfers and other movements	3,000	(7,268)
As at 31 December	**(1,983,325)**	**(1,986,325)**

Fair value of other investments traded in an active market is determined based on the current market value at the close of business at the reporting date.

10. OTHER LONG-TERM INVESTMENTS

	31 December 2012	31 December 2011
Rescheduled receivables	3,371,014	5,601,478
Long-term loans to employees	1,259,637	1,052,371
Finance lease receivables	78,190	148,043
Other long-term financial assets	818,933	769,934
	5,527,774	7,571,826
Less provision:		
- rescheduled receivables	(3,371,014)	(5,601,478)
- finance lease receivables	(57,743)	(120,668)
- other long-term financial assets	(808,960)	(762,533)
	(4,237,717)	(6,484,679)
Total – net	**1,290,057**	**1,087,147**

a) Rescheduled receivables

Rescheduled receivables as at 31 December 2012 fully relate to:

	Total	Long-term	Current portion
Rescheduled receivables			
- HIP Petrohemija	9,643,993	1,944,474	7,699,519
- RTB Bor	1,426,540	1,426,540	-
- JAT	100,110	-	100,110
	11,170,643	3,371,014	7,799,629
Less: provision	(9,191,079)	(3,371,014)	(5,820,065)
Total – net	**1,979,564**	**-**	**1,979,564**

Current portion of rescheduled receivables amounting to RSD 1,979,564 relates to HIP Petrohemija Pancevo current receivables that are secured by a mortgage right over debtor's fixed assets.

Movements on rescheduled receivables provision:

	2012	2011
As at 1 January	(5,601,478)	(8,040,906)
Foreign exchange gains /losses	108,503	317,467
Transfer to short-term financial investments (note 13)	2,121,961	2,121,961
As at 31 December	**(3,371,014)**	**(5,601,478)**

10. OTHER LONG-TERM INVESTMENTS (continued)

b) Long-term loans to employees

Loans to employees as at 31 December 2012 amounting to RSD 1,259,637 (31 December 2011: RSD 1,052,371) 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 Group could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 5.56% (2011: 5.46% 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. None of the loans are overdue or impaired.

11. INVENTORIES

	31 December 2012	31 December 2011
Raw materials	27,662,411	23,275,562
Spare parts	3,189,108	2,783,196
Tools	171,435	137,703
Work in progress	7,941,977	5,808,325
Finished goods	8,079,365	8,548,192
Merchandise	4,244,958	2,272,222
	51,289,254	42,825,200
Advances	1,220,357	764,590
Less provision:		
- for inventories	(7,394,952)	(7,806,896)
- for advances	(373,071)	(379,689)
	(7,768,023)	(8,186,585)
Total inventories – net	**44,741,588**	**35,403,205**

Movement on inventory provision is as follows:

	2012	2011
As at 1 January	(8,186,585)	(5,335,000)
Provision for impaired inventories and advances charged for the year (note 34)	(17,771)	(3,500,373)
Provision reversed (note 33)	332,274	57,603
Write-off	9,235	570,839
Other	94,824	20,346
As at 31 December	**(7,768,023)**	**(8,186,585)**

12. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011
Trade receivables		
- domestic	44,432,556	22,616,484
- foreign	1,071,568	1,055,870
- related parties	7,312,560	1,999,116
	52,816,684	25,671,470
Receivables from specific operations	8,234,410	7,787,863
Interest receivables	5,954,781	4,984,493
Receivables from employees	84,788	87,281
Other receivables	7,474,290	7,461,184
	13,513,859	12,532,958
	74,564,953	**45,992,291**
Less provision:		
- trade receivables	(13,153,084)	(5,695,782)
- receivables from specific operations	(8,207,674)	(7,767,667)
- intrest receivables	(5,865,999)	(4,856,030)
- other receivables	(7,327,912)	(7,327,469)
	(34,554,669)	**(25,646,948)**
Total receivables – net	**40,010,284**	**20,345,343**

Trade receivables as at 31 December 2012 amounting to RSD 22,720,559 that are more than 90 days overdue are considered as impaired, except for receivables of RSD 9,617,981 (31 December 2011: RSD 269,440) from a number of independent customers for whom there is no recent history of default or they were additionally secured in accordance with Group credit policy.

The ageing of trade receivables is as follows:

	31 December 2012	31 December 2011
Up to 3 months	30,096,125	19,780,737
Over 3 months	22,720,559	5,890,733
	52,816,684	**25,671,470**

As at 31 December 2012 trade receivables of RSD 13,153,084 (31 December 2011: RSD 5,695,782) were assessed as uncollectable and fully provided for. The ageing of receivables provided for is as follows:

	31 December 2012	31 December 2011
Up to 3 months	50,506	74,489
Over 3 months	13,102,578	5,621,293
	13,153,084	**5,695,782**

12. TRADE AND OTHER RECEIVABLES (continued)

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

	31 December 2012	31 December 2011
RSD	73,392,968	44,834,760
USD	1,035,605	916,156
EUR	99,483	241,141
Other	36,897	234
	74,564,953	**45,992,291**

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

	2012	2011
As at 1 January	(25,646,948)	(25,848,300)
Provision for impaired receivables (note 34)	(10,440,076)	(1,068,701)
Written off	568,939	469,338
Reversal of provision (note 33)	962,839	741,175
Other	577	59,540
As at 31 December	**(34,554,669)**	**(25,646,948)**

Expenses that have been provided for or written off are included in other expenses/other income within the Consolidated Income Statement (notes 33 and 34). The amounts charged to provision for impairment are written off when their collection is not expected.

13. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2012	31 December 2011
Short-term loans to employees	35,913	512,943
Current portion of long-term investments	7,898,604	4,895,659
Other short-term financial investments	3,672,397	3,420
	11,606,914	5,412,022
Less: provision	(5,820,939)	(2,995,123)
Total short-term financial investments – net	**5,785,975**	**2,416,899**

Other short-term financial investments as at 31 Decembar 2012 amounting to RSD 3,672,397, mainly relate to the part of consideration paid to VIVA International Marketing und Handles GMBH Austria in the amount of RSD 3,665,424 for acquisition of OMV BH. According to Share Purchase Agreement, signed on 30 November 2012, the Group will obtain control over OMV BH on 1 March 2013, when the Group will settle the remaining part of consideration.

13. SHORT-TERM FINANCIAL INVESTMENTS (continued)

Current portion of long-term investments as at 31 December 2012 amounting to RSD 7,898,604 (31 December 2011: RSD 4,895,659), mainly relate to current portion of rescheduled receivables of RSD 7,799,629. They are provided for in the amount of RSD 5,820,065 (31 December 2011: RSD 2,994,249) (note 10a).

Movements on the provision for short-term financial investments:

	2012	2011
As at 1 January	(2,995,123)	(707,033)
Provision for impairment (note 34)	-	(57,011)
Reversal of provision (note 33)	26,668	145,180
Transfer from other long-term investments (note 10a)	(2,121,961)	(2,121,961)
Foreign exchange diferences and other movements	(730,523)	(254,298)
As at 31 December	**(5,820,939)**	**(2,995,123)**

14. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash at bank	9,027,943	25,397,340
Cash on hand	288,987	391,963
Restricted cash	2,678,075	-
Other cash eqivalents	74,892	43,051
	12,069,897	**25,832,354**

As at 31 December 2012 short term bank deposits amounting to RSD 1,151,718 (31 December 2011: RSD 16,634,152) relate to cash deposits with commercial banks with maturity of up to 30 days and are presented in line Cash at bank.

Restiricted cash as of 31 December 2012 in amount RSD 2,678,075 relates to cash deposited on escrow account. Withdrawal of deposited funds are conditioned with covenants defined in joint venture agreement with Energowind LLC for construction wind park in Serbia.

15. VAT AND PREPAID EXPENSES

	31 December 2012	31 December 2011
Deferred input VAT	4,617,873	2,027,935
Prepaid expenses	100,557	56,682
Accrued revenue	2,272,918	484,112
Prepaid excise duty	1,319,866	1,119,985
Housing loans and other prepayments	1,287,677	1,233,320
	9,598,891	**4,922,034**

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15. VAT AND PREPAID EXPENSES (continued)

Deferred input VAT as at 31 December 2012 amounting to RSD 4,617,873 (31 December 2011: RSD 2,027,935) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 1,319,866 (31 December 2011: RSD 1,119,985) relates to the excise paid to the state for finished products stored in non-excise warehouse.

Accrued revenue as at 31 December 2012 amounting to RSD 2,272,918 (31 December 2011: RSD 484,112) mostly relates to receivables for current period sales of gasoline components in the of amount RSD 1,433,617 and for sales of crude oil in the amount RSD 836,904, that have not been invoiced by the year end.

16. DEFERRED TAX ASSETS AND LIABILITIES

	PPE - carrying value vs Tax base
Deferred tax liabilities	
As at 1 January 2011	**(1,458,535)**
Origination and reversal of temporary differences	294,481
As at 31 December 2011	**(1,164,054)**
Origination and reversal of temporary differences	(677,931)
Impact of change in the tax rate	(580,256)
As at 31 December 2012	**(2,422,241)**

	Provisions and other differences	**Impairment loss**	**Investment credit**	**Total**
Deferred tax assets				
As at 1 January 2011	-	-	4,804,904	4,804,904
Origination and reversal of temporary differences	103,534	668,654	2,298,387	3,070,575
As at 31 December 2011	103,534	668,654	7,103,291	7,875,479
Origination and reversal of temporary differences	95,820	(203,662)	1,634,556	1,526,714
Impact of change in the tax rate	51,767	334,327	-	386,094
As at 31 December 2012	**251,121**	**799,319**	**8,737,847**	**9,788,287**

The recognition of deferred tax assets was based on a five-year business plan 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 2012 in accordance with tax legislation of the Republic of Serbia.

In 2012 was adopted new income tax law. New income tax rate was introduced (15%), which shall be applied for calculation and payment of tax liabilities starting from 2013. In computation of deferred tax assets (liabilities) Group was applied new income tax rate.

16. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Tax Credit Origination	Tax Credit Reversal	31 December 2012	31 December 2011
2005	2015	-	43,053
2006	2016	425,226	444,137
2007	2017	2,164,224	2,184,630
2008	2018	702,349	710,607
2009	2019	1,228,886	1,311,823
2010	2020	1,294,489	1,308,064
2011	2021	937,507	1,100,934
2012	2022	1,985,166	-
		8,737,847	**7,103,248**

17. OFF BALANCE SHEET ASSET AND LIABILITIES

	31 December 2012	31 December 2011
Issued warranties and bills of exchange	44,671,748	49,650,326
Received warranties and bills of exchange	24,593,773	14,603,725
Properties in ex-Republics of Yugoslavia	5,424,642	5,463,077
Receivables from companies from ex-Yugoslavia	5,290,900	4,964,881
Third party merchandise in NIS warehouses	4,179,338	4,332,583
Assets for oil fields liquidation in Angola	422,341	264,973
	84,582,742	**79,279,565**

18. EQUITY

	Equity attributable to owners of the Group							
	Share capital	Other capital	Reserves	Unrealised gains (losses) from securities	Accumulated gain(loss)	Total	Non-controlling interest	Total equity
Balance as at 1 January 2011	**81,530,200**	**5,597,873**	**888,587**	**(819)**	**(41,009,046)**	**47,006,795**	**25,945**	**47,032,740**
Profit for the period	-	-	-	-	40,637,770	40,637,770	(22,006)	40,615,764
Losses from securities	-	-	-	(33,689)	-	(33,689)	-	(33,689)
Decrease in ownership	-	-	(1,789)	-	(7,619)	(9,408)	-	(9,408)
Other	-	-	(2,430)	-	8,811	6,381	(448)	5,933
Balance as at 31 December 2011	**81,530,200**	**5,597,873**	**884,368**	**(34,508)**	**(370,084)**	**87,607,849**	**3,491**	**87,611,340**
Profit for the period	-	-	-	-	45,552,345	45,552,345	(19,734)	45,532,611
Losses from securities	-	-	-	(40,020)	-	(40,020)	-	(40,020)
Other	-	-	(15,488)	-	3,080	(12,408)	(863)	(13,271)
Balance as at 31 December 2012	**81,530,200**	**5,597,873**	**868,880**	**(74,528)**	**45,185,341**	**133,107,766**	**(17,106)**	**133,090,660**

*Loss attributable to the minority shareholders for the year ended 31 December 2012 in the amount of RSD 19,734 (2011: RSD 22,006) isn't presented in the Consolidated Income Statement because of the limitation in the format of prescribed Consolidated Financial Statements.

18.1. SHARE CAPITAL

The structure of the share capital as at 31 December 2012 was:

Shareholders	Number of shares	Structure in %
Gazprom Neft	91,565,887	56,15%
Republic of Serbia	48,712,444	29,87%
Unicredit Bank Serbia a.d. - custody account	622,201	0,38%
Unicredit Bank Serbia a.d. - custody account	550,933	0,34%
Unicredit Bank Serbia a.d. - custody account	363,643	0,22%
Erste bank a.d., Novi Sad - custody account	323,669	0,20%
Awll communications d.o.o., Belgrade	155,285	0,10%
Raiffeisen Bank a.d., Belgrade - custody account	134,685	0,08%
Julius Baer Multipartner-Balkan	133,686	0,08%
Vojvodjanska banka a.d., Novi Sad -custody account	128,214	0,08%
Other	20,369,753	12,50%
	163,060,400	**100%**

18.2. UNREALISED GAINS (LOSSES) FROM SECURITIES

Unrealized gains/losses as at 31 December 2012 amounting to RSD 6,918 and RSD 81,446 (2011: RSD 29,582 and RSD 64,090), respectively, represent positive/negative effects of fair value changes of financial assets available for sale that are reflected in equity.

Structure of unrealized gains from securities:

	31 December 2012	31 December 2011
Linde Gas Serbia a.d. Bečej, Serbia	2,338	23,487
Komercijalna bank a.d. Belgrade, Serbia	2,769	4,511
Jubmes bank a.d. Belgrade, Serbia	1,811	1,584
Total	**6,918**	**29,582**

Structure of unrealized losses from securities:

	31 December 2012	31 December 2011
Politika a.d. Belgrade, Serbia	(27,733)	(26,997)
Bank Postanska Stedionica a.d. Belgrade, Serbia	-	(3,171)
Dunav osiguranje a.d.o., Belgrade, Serbia	(5,580)	(4,904)
Luka Dunav a.d. Pančevo, Serbia	(5,825)	(1,229)
SPC Pinki a.d. Zemun, Belgrade, Serbia	(42,308)	(27,789)
Total	**(81,446)**	**(64,090)**

19. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Asset retirement obligation	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2011	**8,275,608**	**962,968**	**4,746,001**	**-**	**4,590,075**	**18,574,652**
Charged to Consolidated Income Statement (note 28 and 32)	352,614	176,606	-	-	-	529,220
Adjustments on property, plant and equipment	(1,035,326)	-	-	-	-	(1,035,326)
Release of provision (note 33)	(326,083)	-	(1,155,212)	-	(2,556,637)	(4,037,932)
Settlement	-	(127,474)	(295,108)	-	(236,381)	(658,963)
As at 31 December 2011	**7,266,813**	**1,012,100**	**3,295,681**	**-**	**1,797,057**	**13,371,651**
Charged to Consolidated Income Statement (note 28 and 32)	836,334	24,000	787,369	1,042,855	-	2,690,558
Adjustments on property, plant and equipment	(82,397)	-	-	-	-	(82,397)
Release of provision (note 33)	(47,643)	-	(887,109)	-	(827,581)	(1,762,333)
Settlement	(1,021)	(174,717)	(195,421)	-	(155,430)	(526,589)
As at 31 December 2012	**7,972,086**	**861,383**	**3,000,520**	**1,042,855**	**814,046**	**13,690,890**

(a) *Asset retirement obligation*

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

(b) *Environmental protection*

In accordance with the applicable laws, the Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 861,383 (2011: RSD 1,012,100) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) *Long-term incentive program*

In 2011, the Group started setting-up a long-term incentive program for Group managers. Following the program's approval, cash incentives will be paid out based on the Key Performance Indicators ("KPI") reached over a three-year period. As at 31 December 2012 the management made an assement of present value of liabilities related to long-term employee incentives in amount of RSD 1,042,855 (note 28).

(d) *Legal claims provisions*

As at 31 December 2012, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses based on the information provided by the Legal Division. The Group reversed provision for litigation amounting to RSD 827,581 (2011: RSD 2,556,637) for proceedings which, upon legal consultations, were assessed to have positive outcome. The Group estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2012.

19. LONG – TERM PROVISIONS (continued)

(e) *Employee benefits provision*

Employee benefits:

	31 December 2012	31 December 2011
Retirement allowances	836,998	1,036,927
Jubilee awards	2,163,522	2,258,754
	3,000,520	**3,295,681**

The principal actuarial assumptions used were as follows:

	31 December 2012	31 December 2011
Discount rate	7.65%	7.75%
Future salary increases	6%	6%
Future average years of service	19.79	18.79

	Retirement allowances	Jubilee awards	Other benefits	Total
Balances as at 1 January 2011	992,900	3,657,173	95,928	4,746,001
Benefits paid directly and other	(63,544)	(227,562)	(4,002)	(295,108)
Total net income recognised in Consolidated Income Statement	107,571	(1,170,857)	(91,926)	(1,155,212)
Balances as at 31 December 2011	**1,036,927**	**2,258,754**	**-**	**3,295,681**
Benefits paid directly	(74,023)	(121,398)	-	(195,421)
Total net income recognised in Consolidated Income Statement	(125,906)	26,166	-	(99,740)
Balances as at 31 December 2012	**836,998**	**2,163,522**	**-**	**3,000,520**

Amounts recognized in Consolidated income statement:

	Year ended 31 December 2012	2011
Current service cost	247,621	263,841
Interest costs	235,246	241,609
Past service cost	488,948	-
Curtailment gain	(843,615)	-
Acturial gain	(227,940)	(1,660,662)
	(99,740)	**(1,155,212)**

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20. LONG-TERM BORROWINGS

	31 December 2012	31 December 2011
Domestic	14,627,940	17,997,065
Foreign	17,006,229	18,052,130
	31,634,169	36,049,195
Current portion of long-term borrowings (note 22)	(533,466)	(2,274,652)
Total	**31,100,703**	**33,774,543**

The maturity of non-current borrowings was as follows:

	31 December 2012	31 December 2011
Between 1 and 2 years	22,184,094	4,538,604
Between 2 and 5 years	2,405,694	22,487,295
Over 5 years	6,510,915	6,748,644
	31,100,703	**33,774,543**

	31 December 2012	31 December 2011
USD	19,607,409	25,352,982
EUR	9,269,068	8,900,998
RSD	2,281,108	1,281,436
JPY	476,584	513,779
	31,634,169	**36,049,195**

20. LONG-TERM BORROWINGS (continued)

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

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

Management expects that the Group will be able to fulfill its obligations within agreed timeframe.

The carrying amounts of long-term borrowings as at 31 December 2012 and 31 December 2011 are presented in the table below:

Creditor	Currency	31 December 2012	31 December 2011
Domestic long-term loans			
Erste bank, Novi Sad	USD	301,856	293,057
Erste bank, Novi Sad	EUR	469,403	446,569
Hypo Alpe Adria Bank, Belgrade	EUR	-	280,786
Piraeus bank, Belgrade	USD	-	4,043,310
Bank Postanska stedionica, Belgrade	EUR	236,111	227,822
Bank Postanska stedionica, Belgrade	USD	1,670,920	1,643,661
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,670,317	4,524,125
Government of Republic of Serbia, Agency for deposit assurance	USD	-	566,059
Vojvodjanska bank, Novi Sad	RSD	1,000,000	-
UniCredit bank, Belgrade	USD	4,998,225	4,690,240
UniCredit bank, Belgrade	RSD	1,278,900	1,278,900
Other loans	RSD	2,208	2,536
		14,627,940	**17,997,065**
Foreign long-term loans			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	565,419	553,813
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	476,584	513,779
Erste bank, Holland	EUR	3,411,549	3,139,227
VUB (Bank Intesa), Slovakia	USD	8,617,630	8,086,620
NBG bank, London	USD	6,307	1,432,912
NBG bank, London	EUR	102,324	282,469
Alpha bank, London	USD	1,723,526	4,043,310
Piraeus bank, Great Britain	USD	1,723,526	-
Neftegazovaja Inovacionnaja Korporacija, Rusija	EUR	379,364	-
		17,006,229	**18,052,130**
Less current portion of long-term borrowings		(533,466)	(2,274,652)
		31,100,703	**33,774,543**

20. LONG-TERM BORROWINGS (continued)

	Currency	Current portion 31 December 2012	Current portion 31 December 2011	Long-term 31 December 2012	Long-term 31 December 2011
Domestic long - term loans					
Erste bank, Novi Sad	USD	11,881	9,802	289,975	283,255
Erste bank, Novi Sad	EUR	18,169	14,635	451,234	431,934
Hypo Alpe Adria Bank, Belgrade	EUR	-	280,786	-	-
Piraeus bank, Belgrade	USD	-	-	-	4,043,310
Bank Postanska stedionica, Belgrade	EUR	12,586	10,558	223,525	217,264
Bank Postanska stedionica, Belgrade	USD	88,550	75,702	1,582,370	1,567,959
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	246,267	226,609	4,424,050	4,297,516
Government of Republic of Serbia, Agency for deposit assurance	USD	-	-	-	566,059
Vojvodjanska bank, Novi Sad	RSD	-	-	1,000,000	-
UniCredit bank, Belgrade	USD	-	-	4,998,225	4,690,240
UniCredit bank, Belgrade	RSD	-	-	1,278,900	1,278,900
Other loans	RSD	390	415	1,818	2,121
		377,843	**618,507**	**14,250,097**	**17,378,558**
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	27,790	23,234	537,629	530,579
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	19,202	17,603	457,382	496,176
Erste bank, Holland	EUR	-	-	3,411,549	3,139,227
VUB (Bank Intesa), Slovakia	USD	-	-	8,617,630	8,086,620
NBG bank, London	USD	6,307	1,426,995	-	5,917
NBG bank, London	EUR	102,324	188,313	-	94,156
Alpha bank, London	USD	-	-	1,723,526	4,043,310
Piraeus bank, Great Britain	USD	-	-	1,723,526	-
Neftegazovaja Inovacionnaja Korporacija, Rusija	EUR	-	-	379,364	-
		155,623	**1,656,145**	**16,850,606**	**16,395,985**
		533,466	**2,274,652**	**31,100,703**	**33,774,543**

21. OTHER LONG-TERM LIABILITIES

	31 December 2012	31 December 2011
Liabilities to Gazprom Neft	55,536,844	48,745,326
Finance lease liabilities	57,626	86,186
Other long-term liabilities	14,003	613,638
	55,608,473	49,445,150
Current portion of other long-term liabilities and financial lease (note 22)	(5,325,366)	(1,166,681)
	50,283,107	**48,278,469**

21. OTHER LONG-TERM LIABILITIES (continued)

a) Liabilities to Gazprom Neft

As at 31 December 2012, other long-term liabilities to Gazprom Neft amounting to RSD 55,536,844 (EUR 500,000,006) relate to borrowings from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares concluded on 24 December 2008. Under this agreement, Gazprom Neft shall grant loans for financing a EUR 500 million reconstruction and modernization of the technology complex programme by 31 December 2012. The stated liabilities shall be settled in quarterly installments starting from December 2012 until 15 May 2023.

b) Finance lease liabilities

As at 31 December 2012, long-term finance lease liabilities of RSD 21,482 (2011: RSD 53,117) are secured by the lessor's right on ownership over the leased asset until the finance lease has been settled.

Minimum finance lease payments:

	31 December 2012	31 December 2011
Less than one year	38,584	37,894
1-5 years	21,974	56,300
Future finance charges on finance leases	(2,932)	(8,008)
Present value of finance lease liabilities	**57,626**	**86,186**

	31 December 2012	31 December 2011
Less than one year	36,144	33,069
1-5 years	21,482	53,117
Present value of finance lease liabilities	**57,626**	**86,186**

22. SHORT-TERM FINANCIAL LIABILITIES

	31 December 2012	31 December 2011
Short-term loans	3,500,000	-
Current portion of long-term loans (note 20)	533,466	2,274,652
Current portion of finance lease (note 21)	36,144	33,069
Current portion of other long-term liabilities (note 21)	5,289,222	1,133,612
Other short-term liabilities	526	3,917
	9,359,358	**3,445,250**

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23. TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011
Advances received	962,634	871,127
Trade payables:		
- domestic	3,182,614	2,702,845
- foreign	2,859,806	7,060,646
Trade payables – other related parties	25,995,092	18,587,440
Liabilities from other operations	71,852	71,956
Liabilities from specific operations	294,221	327,923
	33,366,219	**29,621,937**

As at 31 December 2012, payables to other related parties amounting to RSD 25,995,092 (31 December 2011: RSD 18,587,440) mainly relate to liabilities to the supplier Gazprom Neft Trading, Austria for crude oil in the amount of RSD 25,464,826 (31 December 2011: RSD 18,116,245).

24. OTHER SHORT-TERM LIABILITIES

	31 December 2012	31 December 2011
Liabilities for unpaid wages and salaries, gross	1,962,078	1,690,264
Liabilities for interest – domestic	350,859	354,633
Liabilities for dividends	3,772,308	3,772,308
Unused holiday accrual	813,329	714,425
Other liabilities	63,782	163,068
	6,962,356	**6,694,698**

25. LIABILITIES FOR VAT, OTHER TAXES AND DEFERRED INCOME

	31 December 2012	31 December 2011
Liabilities for VAT	580,897	1,161,428
Liabilities for excise	2,563,776	2,422,037
Liabilities for taxes and custom duties	4,548,742	1,772,130
Other liabilities for taxes and contributions	220,147	48,780
Accrued liabilities	1,590,555	1,149,958
Other accruals	2,583,871	1,543,926
	12,087,988	**8,098,259**

Accrued liabilities as at 31 December 2012 amounting to RSD 1,590,555 mainly relate to estimated costs of services rendered but not invoiced by suppliers in the year ended 31 December 2012 (31 December 2011: RSD 1,149,958).

Other accruals as at 31 December 2012 amounting to RSD 2,583,871 (31 December 2011: RSD 1,543,926) mainly relate to accrued employee bonuses of RSD 1,418,102 (31 December 2011: RSD 1,154,658).

26. OTHER OPERATING INCOME

	Year ended 31 December	
	2012	2011
Rental income (note 8)	116,483	120,553
Other operating income	82,200	179,756
	198,683	**300,309**

27. RAW MATERIAL AND CONSUMABLES USED

	Year ended 31 December	
	2012	2011
Costs of raw materials	88,092,425	92,737,629
Overheads and other costs	770,566	892,630
Other fuel and energy expenses	2,783,467	1,945,595
	91,646,458	**95,575,854**

28. DEPRECIATION, AMORTISATION AND PROVISION

	Year ended 31 December 2012	2011
Depreciation expenses	6,858,262	6,677,901
Provision for:		
- land recultivation and environmental protection (note 19)	523,999	176,606
- employees benefits (note 19)	787,369	-
- long-term incentive program (note 19)	1,042,855	-
	9,212,485	**6,854,507**

29. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December 2012	2011
Wages and salaries (gross)	16,789,491	15,094,120
Taxes and contributions on wages and salaries paid by employer	2,618,554	2,521,657
Costs of special service agreements	485,606	389,672
Cost of other temporary service agreements	44,758	19,071
Fees paid to board of directors and general assembly board	35,216	28,545
Cost for employee termination benefits	3,642,744	2,705,653
Other personal expenses and benefits	1,306,364	1,228,294
	24,922,733	**21,987,012**

Termination costs amounting to RSD 3,642,744 mainly relate to costs incurred in relation to voluntary leave programme. The total number of employees who accepted termination of employment in 2012 was 1,701 (2011: 1,192 employees).

	Year ended 31 December 2012	2011
Average number of employees	9,004	9,787

30. OTHER OPERATING EXPENSES

	Year ended 31 December	
	2012	**2011**
Cost of production services	1,971,608	1,545,572
Transportation services	1,711,607	1,550,334
Maintenance	1,442,374	1,209,111
Rental costs	662,895	570,132
Fairs	4,459	7,754
Advertising costs	550,570	392,337
Research costs	759,226	177,971
Cost of other services	965,822	907,376
Costs of non-production services	3,427,917	2,163,354
Representation costs	125,626	144,761
Insurance premium	225,371	222,566
Bank charges	214,311	253,537
Cost of custom duties, property taxes and other taxes	1,973,586	2,281,147
Fee for emergency situations	288,517	554,112
Mineral extraction tax	2,782,327	2,138,526
Cost of legal and consulting services	128,911	105,011
Administrative and other taxes	193,630	192,229
Other	882,946	378,088
	18,311,703	**14,793,918**

Cost of non-production services for year ended 31 December 2012 amounting to RSD 3,427,917 (2011: RSD 2,163,354) mainly relate to costs of service organizations of RSD 2,065,898, consulting service costs of RSD 453,601, project management costs of RSD 119,592 and certification and supervision costs of RSD 165,097.

31. FINANCE INCOME

	Year ended 31 December	
	2012	**2011**
Finance income – Gazprom Neft	-	18,266
Interest income	3,051,043	1,337,998
Foreign exchange gains	6,903,746	5,652,820
Other finance income	9,645	5,855
	9,964,434	**7,014,939**

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32. FINANCE EXPENSES

	Year ended 31 December 2012	2011
Finance expenses – Gazprom Neft	124,225	38,034
Interest expenses	1,604,224	2,281,059
Amortization of long-term liabilities	336,335	352,614
Foreign exchange losses	13,906,949	6,163,777
Other finance expenses	2,555	3,337
	15,974,288	**8,838,821**

33. OTHER INCOME

	Year ended 31 December 2012	2011
Gains on disposal:		
- property, plant and equipment	136,304	80,410
- materials	14,514	15,898
Surpluses from stock count	382,164	146,960
Payables written off	558,983	632,986
Release of long-term provisions (note 19)	1,762,333	4,037,932
Penalty interest	46,889	48,928
Recovered Elektroprivreda of Montenegro Receivables	-	463,036
Insurance claims received	-	14,404
Reversal of impairment of buildings	-	31,135
Change in bonuses accrual	-	23,093
Adjustment of investments in Angola	64,342	418,982
Reversal of impairment losses on:		
- property, plant and equipment	2,881	349,332
- inventories	322,555	-
- short-term financial investments (note 13)	26,668	145,180
- receivables (note 12)	962,839	741,175
- advances paid	9,719	57,603
- other properties	8,646	-
Other	460,791	616,508
	4,759,628	**7,823,562**

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34. OTHER EXPENSES

	Year ended 31 December	
	2012	**2011**
Losses on disposal of property, plant and equipment	386,882	25,427
Shortages	786,415	800,655
Write off of receivables	40,621	10,337
Write off of inventories	131,407	19,404
Fines, penalties and damages	22,529	49,471
Humanitarian services and sponsorships	162,704	173,169
Adjustment of investments in Angola	7,856	35,617
Bank charges for sales on debit cards	-	58,751
Service costs	-	36,382
Impairment:		
- intangible assets (note 6)	87,150	39,491
- property, plant and equipment (note 7)	1,857,942	346,058
- investment property (note 8)	17,716	190,726
- investments in associates	-	4,269
- other long-term investments	2,504	32,475
- inventories (note 11)	5,434	3,480,181
- advances paid (note 11)	12,337	20,192
- short term investments (note 13)	-	57,011
- receivables(note 12)	10,440,076	1,068,701
Other	687,159	560,943
	14,648,732	**7,009,260**

35. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2012	**2011**
Income tax for the year	2,591,542	2,466,758
Deferred income tax for the period (note 16)		
Origination and reversal of temporary differences	(848,783)	(3,365,056)
Impact of change in the tax rate	194,162	-
	(654,621)	(3,365,056)
	1,936,921	**(898,298)**

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

	Year ended 31 December	
	2012	**2011**
Profit before tax	47,469,532	39,717,466
Tax calculated at statutory tax rate – 10%	4,746,953	3,971,747
Tax effect on:		
Expenses not deductible for tax purposes	966,676	(499,186)
Deferred tax credits	(1,634,556)	(2,298,387)
Tax losses for which no deferred income tax asset was recognised	240,728	-
Utilized tax credits	(2,577,042)	(2,257,868)
Impact of change in the tax rate	194,162	-
Adjustment in respect of prior years	-	185,396
	1,936,921	**(898,298)**
Average income tax rate	4.08%	-2.26%

36. EARNING PER SHARE

	Year ended 31 December	
	2012	**2011**
Profit	45,552,345	40,637,770
Weighted average number of ordinary shares in issue	163,060,400	163,060,400
Basic Earnings per share	**0.279**	**0.249**

37. GROUP ENTITIES

The financial statements of below listed subsidiaries are consolidated as at 31 December 2012:

Subsidiary	*Country of incorporation*	Share % 31 December 2012	Share % 31 December 2011
O Zone a.d. Belgrade	Serbia	100	100
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	100	100
NIS Petrol SRL, Bucharest	Romania	100	100
Pannon naftagas Kft, Budapest	Hungary	100	100
NIS Oversiz, Moscow	Russia	100	100
Naftagas-naftni servisi d.o.o., Novi Sad	Serbia	100	100
NTC NIS-Naftagas d.o.o., Novi Sad	Serbia	100	100
Naftagas-tehnicki servisi d.o.o., Zrenjanin	Serbia	100	100
Naftagas-Transport d.o.o., Novi Sad	Serbia	100	100
Jadran - Naftagas d.o.o., Banja Luka	Bosnia and Herzegovina	66	66
Ranis, Moscow region	Russia	51	51
Jubos, Bor	Serbia	51	51
Svetlost, Bujanovac, Serbia	Serbia	51	51

In 2012, the Parent established following companies:

- Naftagas-Naftni servisi d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 3,579,983 (non-cash contribution RSD 3,579,930).
- NTC NIS-Naftagas d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 321,500 (non-cash contribution RSD 321,447).
- Naftagas-Tehnicki servisi d.o.o., Zrenjanin. As at 31 December 2012 the total registered equity of the new company amounts to RSD 1,044,554 (non-cash contribution RSD 1,044,501).
- Naftagas-Transport d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 327,751 (non-cash contribution RSD 327,695).

38. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The majority owner of the Group is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Parent.The total of 29.87% shares of the Parent (from the remaining 43.85%) are owned by the Republic of Serbia, while 13.98% are owned by non-controling shareholders and are quoted on the Belgrade Stock Exchange. Gazprom, Russian Federation is the ultimate owner of the Group.

38. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

During 2012 and 2011, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to the supply/delivery of crude oil, geophysical research and interpretation services.

As of 31 December 2012 and 31 December 2011 the outstanding balances with related parties were as follows:

	Gazprom Neft	Other related parties	Total
As at 31 December 2012			
Inventories	-	22,174,560	22,174,560
Trade and other receivables	-	4,960	4,960
VAT and prepaid expenses	-	20	20
Other long-term liabilities	(50,247,622)	-	(50,247,622)
Short-term financial liabilities	(5,289,222)	-	(5,289,222)
Trade and other payables	-	(25,475,054)	(25,475,054)
Other short-term liabilities	(115,203)	-	(115,203)
	(55,652,047)	**(3,295,514)**	**(58,947,561)**
As at 31 December 2011			
Inventories	-	17,299,127	17,299,127
Trade and other receivables	-	3,717	3,717
Other long-term liabilities	(47,611,714)	-	(47,611,714)
Short-term financial liabilities	(1,133,612)	-	(1,133,612)
Trade and other payables	-	(18,121,839)	(18,121,839)
Other short-term liabilities	(142,620)	-	(142,620)
	(48,887,946)	**(818,995)**	**(49,706,941)**

38. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

For the year ended 31 December 2012 and 2011 the following transaction occured with related parties:

	Gazprom Neft	Other related parties	Total
Year ended 31 December 2012			
Sales	-	124,793	124,793
Cost of goods sold	-	(12,625)	(12,625)
Raw material and consumables used	-	(67,725,252)	(67,725,252)
Other operating expenses	(52,068)	-	(52,068)
Finance expenses	(124,225)	-	(124,225)
Other income	-	119,192	119,192
Other expenses	(4,664)	(264,904)	(269,568)
	(180,957)	**(67,758,796)**	**(68,473,526)**
Year ended 31 December 2011			
Sales	-	4,788,484	4,788,484
Raw material and consumables used	-	(64,176,762)	(64,176,762)
Other operating expenses	(139,306)	(3,000)	(142,306)
Finance income	-	18,266	18,266
Finance expenses	(38,034)	-	(38,034)
Other income	-	45,956	45,956
Other expenses	(21,250)	(184,029)	(205,279)
	(198,590)	**(59,511,085)**	**(59,709,675)**

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38. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

Key management compensation

Management compensation paid in 2012 and 2011 is shown in the table below:

	Year ended 31 December 2012	Year ended 31 December 2011
Salaries and other short-term benefits	316,118	156,908
	316,118	156,908

Main transactions with state owned companies

	31 December 2012	31 December 2011
Receivables		
HIP Petrohemija	7,307,595	1,995,294
Srbijagas	23,573,467	7,414,404
	30,881,062	**9,409,698**
Liabilities		
HIP Petrohemija	(523,563)	(471,195)
Srbijagas	(85,682)	(272,661)
	(609,245)	**(743,856)**
Advances received		
HIP Petrohemija	(7,743)	(5,386)
Srbijagas	(12,806)	(12,796)
	(20,549)	**(18,182)**

	Year ended 31 December 2012	Year ended 31 December 2011
Income		
HIP Petrohemija	9,258,368	11,849,584
Srbijagas	17,902,669	9,402,233
	27,161,037	**21,251,817**
Expenses		
HIP Petrohemija	(146,097)	(155,513)
Srbijagas	(1,675,633)	(249,550)
	(1,821,730)	**(405,063)**

39. BUSINESS COMBINATIONS

In 2012, as a part of regional expansion the Group has acquired 20 petrol and gas stations (P&G station): 11 in Bulgaria, 5 in Romania and 4 in Bosnia and Herzegovina. As a result of the aquisitions, the Group is expected to further increase its presence in these markets.

Name of acquiree	Date of acquisition	Percentage of equity interests acquired
Bulgaria		
P&G station Tsvetan Lazarov	25/01/2012	100%
P&G station Blagoevgrad	17/02/2012	100%
P&G station Priseltsi	14/03/2012	100%
P&G station Kardjali	17/05/2012	100%
P&G station Veliko Tarnovo	21/05/2012	100%
P&G station Smolian	22/06/2012	100%
P&G station Pazardjik	26/06/2012	100%
P&G station Plovdiv	29/06/2012	100%
P&G station Asenovgrad	21/09/2012	100%
P&G station Bourgas	15/10/2012	100%
P&G Station Meden Rudnik (Burgas)	18/12/2012	100%
Romania		
P&G station Petroliv	18/06/2012	100%
P&G station Alpha	05/07/2012	100%
P&G station XXL Oil	31/07/2012	100%
P&G station D&C Oil	31/07/2012	100%
P&G station Eso Oil	31/07/2012	100%
Bosnia and Herzegovina		
P&G station Bijeljina	17/09/2012	100%
P&G station Foča	17/09/2012	100%
P&G station Janja	17/09/2012	100%
P&G station Rogatica	17/09/2012	100%

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39. BUSINESS COMBINATIONS (continued)

The following table summarises the consideration paid for acquired P&G stations, the fair value of assets acquired and liabilities assumed,

	Bulgaria	Romania	BIH	Total
Purchase consideration:				
Cash paid	1,618,147	980,836	338,607	2,937,590
Additional consideration	42,660	-	958	43,618
Total purchase consideration	1,660,807	980,836	339,565	2,981,208
Fair value of net identifiable assets acquired (see below)	1,174,892	980,836	348,456	2,504,184
Goodwill	**485,915**	**-**	**-**	**485,915**
Gain on bargain purchase	**-**	**-**	**(8,891)**	**(8,891)**
Amounts recognized as at acquisition date for each major class of assets acquired and liabilities assumed				
Inventories	-	793	-	793
Property, plant and equipment	1,174,892	980,043	348,456	2,503,391
Net identifiable assets acquired	**1,174,892**	**980,836**	**348,456**	**2,504,184**

Aquisition related costs of RSD 51,194 have been charged to expenses in the Consolidated Income Statement for year ended 31 December 2012.

The gain on bargain purchase of RSD 8,891 is included in other income within Consolidated Income Statement.

The aquisition agreements include only acquisition of properties of P&G stations and do not contain any contingent consideration.

As of 31 December 2012 Group has obtain all information about facts and circumstances that existed as of P&G acquisition date which allowed to finalise provisonal amounts previously recognised for business combination. Above has resulted in additional goodwill recognition in balance sheet in amount of RSD 483,025.

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40. CONTINGENT LIABILITIES

Transfer of property ownership

As at 31 December 2012, the Parent had ownership of 6,066 and the right to use and possess 1,725 properties, which make up 71% and 20% of the total Parent properties (buildings and land), respectively.

The Republic of Serbia being the seller shall be obliged, under the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., to provide a written consent to make the transfer of the Parent's total immovable property registered with the NIS Registry of Fixed Assets as at 31 December 2007.

Finance Guarantees

As at 31 December 2012 the total amount of outstanding finance guarantees given by the Group amounted to RSD 3,770,880 mostly related to customs duties in the amount of RSD 2,403,960 (2011: RSD 3,200,000).

Environmental protection

As at the reporting date, the Group's management made an environmental provison amounting to RSD 861,383 (2011: RSD 1,012,100), based on an internal assestment of compliance with the Republic of Serbia environmental legislation.

The Group's Management believes that based on current environmental legislation costs associated with environmental issues will not be significantly higher than the ones already provided for. However, it is possible that these costs will increase significantly in the future, should the legislation become more restrictive.

Other contingent liabilities

As at 31 December 2012, the Group did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Parent has to pay the difference in tax calculation including interest of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Group's Management believes that, based on the concession agreements signed with Angola and an the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit Oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Group's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed three years ago. Taking all of the above into consideration, the Group's Management is of the view that as at 31 December 2012 there was a significant 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 if any.

41. 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 Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. 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 2012, Management assessed that the Group had paid all tax liabilities.

42. COMMITMENTS

Leases

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

	31 December 2012	31 December 2011
Up to one year	186,118	158,321
Between one and five years	247,826	252,559
Over five year	944	1,010
	434,888	**411,890**

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

	31 December 2012	31 December 2011
Up to one year	460,388	188,159
Between one and five years	387,249	64,361
Over five year	-	-
	847,637	**252,520**

Farm-out agreement with East West Petroleum Corporation, Canada

In October 2011, the Group entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in the Timisoara region in Romania. Under the Contract, the Group shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Group will be entitled to 85% of the total production volume of hydrocarbons. Moreover, under the Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Group will act as the Operator and will be in charge of and shall conduct all Joint Operations. In December 2013 exploration licence for Block 2 was ratified by Romania Government. Preparation for exploration activities is underway. On 31 December 2012 drilling and exploration works for Block 2 were estimated to USD 14.3 million.

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42. COMMITMENTS (continued)

Farm-in agreement with RAG Hungary limited

In December 2011, the Group entered into a Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kiskunhalas area in Hungary. Under the contract, the Group committed to finance 50% of total exploration costs on at least three oil wells in the area covered by the exploration license. Depending on success of the exploration, the Group will be entitled to 50% of total production volume of hydrocarbons. Under the Joint Operation Agreement signed with RAG Hungary Limited, RAG will act as the Operator and will be in charge of and shall conduct all Joint Operations. On 31 December 2012 drilling and exploration works were estimated to USD 2.3 million.

Farm-out agreement with Zeta Petroleum S.R.L. Romania

In August 2012, the Group has entered into Farm-out agreement with Zeta Petroleum S.R.L Romania for exploration and production of hydrocarbons in Timis region in Romania. According to the Contract, the Group is committed to finance 51% of total exploration costs in the area covered by the exploration license. Depending on the success of exploration, the Group will be entitled to 51% of total production volume of hydrocarbons. By 31 December 2012, there were no exploration activities with respect to the Agreement. Preparatory works are underway.

Farm-out agreement with Moesia Oil and Gas PLC Ireland

In June 2012, the Group has entered into a Farm-out agreement with Moesia Oil and Gas PLC Ireland for exploration and production of hydrocarbons in Romania. According to the Contract, the Group is committed to finance sunc costs and 75% of total exploration costs of Phase 1 of the Programme. Depending on the success of exploration, the Group will be entitled to 50% of total production volume of hydrocarbons and committed to finance 50% of further exploration and production costs. Exploration activities were started in November 2012. On 31 December 2012 drilling and exploration works were estimated to a USD 4.7 million.

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43. EVENTS AFTER THE REPORTING PERIOD

Oil field service contract with Falcon Oil & Gas LTD

In January 2013, the Group entered into a Multi-well drilling exploration program with Falcon Oil & Gas Ltd. to target the shallower Algyö Formation in Hungary. Under the contract, the Group committed to drill three exploration wells targeting the shallow "Algyö Play" reservoir covered by the Mako Trough production license in the Pannonian Basin held by Falcon Oil & Gas limited, Hungary. Cost of drilling and exploration were estimated to USD 20 million. Depending on success of the exploration, the Group will be entitled to 50% of any net production revenue from the three wells. Drilling preparation is underway and Group's expectation is to commence first drilling by the end of March 2013 and by the end of September 2013 for second and third wells.

Novi Sad, 25 February 2013

M.P.

The person responsible for the preparation of financial statements

Legal representative

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